



November 8, 2016

## Key Metrics

NKTR - NASDAQ	\$12.80
Pricing Date	Nov 7 2016
Price Target	\$21.00
52-Week Range	\$19.98 - \$10.52
Shares Outstanding (mm)	136.7
Market Capitalization (mm)	\$1,749.8
3-Mo Average Daily Volume	1,570,530
Book Value/Share	NM

## EPS FY: December

	2015A	Prior 2016E	Curr. 2016E	Prior 2017E	Curr. 2017E
1Q-Mar	0.26	--	(0.14)A	--	(0.28)E
2Q-Jun	(0.40)	--	(0.36)A	--	(0.07)E
3Q-Sep	(0.06)	--	(0.32)A	--	(0.27)E
4Q-Dec	(0.40)	--	(0.31)E	--	(0.30)E
FY	(0.61)	--	(1.13)E	--	(0.92)E
P/E	NM		NM		NM

## REVENUE

	2015A	Prior 2016E	Curr. 2016E	Prior 2017E	Curr. 2017E
1Q-Mar	108.8	--	58.9A	--	40.1E
2Q-Jun	22.7	--	32.8A	--	75.7E
3Q-Sep	60.0	--	36.3A	--	41.0E
4Q-Dec	39.4	--	36.7E	--	41.4E
FY	230.8	--	164.7E	--	199.1E

## Company Description:

Nektar Therapeutics is a biopharmaceutical company with marketed products geared towards treating opioid-induced constipation and Hemophilia A, and a proprietary pipeline comprised of drug candidates across a number of therapeutic areas including oncology, pain, anti-infectives, and immunology. The company develops drug candidates utilizing their PEGylation and advanced polymer conjugate technology platforms, which are designed to enable the development of new molecular entities that target known mechanisms of action.

## Nektar Therapeutics

## Rating: Buy

Growing royalty income and strong pipeline in immuno-oncology , Initiate with a BUY and \$21 TP

## Investment Highlights:

- **Movantik partnership with Astrazeneca.** Movantik, is indicated for the treatment of opioid induced constipation (OIC) in adults with chronic, non-cancer related pain, and has been approved for sale in the US and Europe since late 2014. A 2009 partnership providing Astrazeneca with exclusive worldwide rights to develop, market, and sell Movantik, provides Nektar with rising double-digit sales milestone and royalty payments based on worldwide sales of Movantik.
- **Shire partnership for Adynovate.** Adynovate, indicated for use in hemophilia A patients aged 12 and up, was approved for sale in the US (launched in December 2015) and Japan. Additional filings for approval have been made in Canada, Switzerland, and the EU. A partnership with Baxalta (now Shire) provides Nektar with up to an additional \$55 mil in sales milestones, in addition to royalties on Adynovate sales of mid single digit up to \$1.2 billion with a 13% royalty on sales beyond \$1.2 billion.
- **Onzeald partnership with Daiichi Sankyo.** Onzeald is indicated for metastatic breast cancer with brain metastases. Positive subgroup data from the BEACON trial has served as the basis for the company's June MAA filing with the EMA. The June 1, 2016 license agreement gives Daiichi exclusive commercialization rights in the European Economic Area, Turkey, and Switzerland, while leaving all rights to Onzeald in all countries outside Europe with Nektar. In addition, Nektar is eligible to receive up to a total of \$60 mil in commercial and regulatory milestones, and a 20% royalty on net sales in Europe. A decision on the conditional approval by the CHMP should be reached by March 2017.
- **Oncology clinical collaboration with BMS for evaluating combination of Opdivo and NKTR-214.** The goal of the collaboration is to evaluate the Opdivo and NKTR-214 as a potential combination treatment in 5 tumor types and across up to 7 indications.
- **Valuation.** We derive our target price of \$21 using EV/Sales multiple of 8x, which is applied to projected 2020 Sales of \$378 million. Our sales projections are based on company guided royalty and milestone payments.
- **Risks.** Investing in companies in the pharmaceutical industry is speculative in nature and is only appropriate for those that have high tolerance for price volatility. In addition to the regular risks involved with investing in equities, holders of Nektar accept risks including, but not limited to financing, clinical, regulatory, and commercialization risks.

- **Revenue Beat in 3Q16.** While the loss per share of Nektar for 3Q16 came in (\$0.32) which is narrower than the (\$0.34) street consensus, reported revenues came in at \$36.3 mil, \$6.5 mil higher than the street's \$29.8 mil estimate. Reported revenues were higher than expected for 3Q16 primarily because of higher Ophthotech product sales in accordance with an agreement to manufacture and supply validation batches for commercial readiness activities in addition to ongoing fovista trials.
- **Sources of Revenue.** Nektar claims most of its revenue from licensing and partnership deals and has built an extensive pipeline over the years, even shifting into more favorable areas of the drug market. The company's other partnerships include Adynovate with Shire, more recently announced agreements for Onzeald with Daiichi and NKTR-214 with Bristol-Myers Squibb (BMS), and five other mid to late stage clinical candidates.
- **Movantik partnership with Prostrakan and Astrazeneca.** Movantik (Moventig in the EU), is indicated for the treatment of opioid induced constipation (OIC) in adults with chronic, non-cancer related pain, and has been approved for sale in the US and Europe since late 2014. In 2009 a partnership providing Astrazeneca with exclusive worldwide rights to develop, market, and sell Movantik, for which Nektar is entitled to rising double-digit sales milestone and royalty payments based on worldwide sales of Movantik. Subsequently, a sublicense agreement was announced in March of 2016 by Astrazeneca, granting exclusive marketing rights to Prostrakan in the EU, Iceland, Switzerland, Norway, and Liechtenstein. \$28 mil was recognized by Nektar from Astrazeneca in April 2016 in accordance with the sublicense. 40% of royalty payments made by Prostrakan to Astrazeneca are entitled to Nektar and Prostrakan's Moventig net sales are to be wrapped into annual global sales milestones applied to all ex-us sales.
- **Shire partnership for Adynovate.** Adynovate, indicated for use in hemophilia A patients aged 12 and up, was approved for sale in the US (launched in December 2015) and Japan. Subsequent filings for approval have been made in the EU, Canada, and Switzerland. Pursuant to a partnership agreement with Baxalta (recently acquired by Shire), signed in September 2005, Nektar will receive up to an additional \$55 mil in sales milestones, as well as royalties on Adynovate sales of up to \$1.2 billion with a 13% royalty on Sales past the \$1.2 billion marker. Shire is fully committed and will continue to invest in Adynovate and the hemophilia franchise.
- **Onzeald partnership with Daiichi Sankyo.** Onzeald is a topoisomerase-I inhibitor, indicated for metastatic breast cancer with brain metastases, that targets the DNA replication process. In the phase III (BEACON) trial, Onzeald demonstrated improvement in overall survival (OS) in a subgroup of 67 patients with a record of brain metastasis of 5.2 months vs. physician's preference of single-agent treatment chemotherapy (10 months OS vs. 4.8 months OS,  $P < 0.01$ ). This subgroup data served as the basis for the company's June MAA filing with the EMA. The June 1, 2016 license agreement gives Daiichi exclusive commercialization rights in the European Economic Area, Turkey, and Switzerland, while leaving all rights to Onzeald in all countries outside Europe with Nektar. In addition, Nektar is eligible to receive up to a total of \$60 mil in commercial and regulatory milestones, and a 20% royalty (15% for turkey) on net sales in Europe. A decision on the conditional approval by the CHMP should be reached by March 2017.
- **Oncology clinical collaboration with BMS for evaluating combination of Opdivo and NKTR-214.** The goal of the collaboration evaluate the Opdivo and NKTR-214 as a potential combination treatment in 5 tumor types and across up to 7 indications. in accordance with the agreement, the two companies will evenly split the third-party costs of the trials with Nektar retaining full commercial rights to NKTR-214 and no obligation to enter into a license deal or partnership. In the event that Nektar does choose to license NKTR-214, BMS holds a two year exclusive right to first negotiations that expires on September 27, 2018.

Nektar Therapeutics, Inc. Income Statement Fiscal Year ends December (in 000, except per share items)																			
	2014A	1Q15	2Q15	3Q15	4Q15	2015A	1Q16A	2Q16A	3Q16A	4Q16E	2016E	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E
Product sales and royalty revenue	47,418	12,061	16,453	13,477	23,189	65,180	24,695	24,498	27,963	23,712	100,868	27,811	28,630	33,262	33,272	122,974	152,177	179,716	202,531
Product sales	25,152	7,974	10,968	7,240	13,973	40,155	14,099	12,867	14,698	12,200	53,864	15,066	13,690	15,163	13,715	57,634	61,668	65,985	70,604
Royalty Revenue	329	125	745	187	1,910	2,967	4,061	3,516	5,573	6,312	19,462	7,745	10,440	12,499	14,657	45,340	70,508	103,731	121,927
Non-cash Royalty Revenue	21,937	3,962	4,740	6,050	7,306	22,058	6,535	8,115	7,692	5,200	27,542	5,000	4,500	5,600	4,900	20,000	20,000	10,000	10,000
Movantik	0	0	0	0	0	0	0	0	4,675	5,263	9,938	6,421	7,769	9,148	10,430	33,767	47,949	70,612	85,705
ADYNOVATE	0	0	0	0	0	0	0	0	898	1,050	1,947	1,324	2,671	3,351	4,227	11,573	22,559	33,119	36,222
Amikacin inhale	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	13,603	41,547	76,371
Ciprofloxacin inhale	0	0	0	0	0	0	0	0	0	0	0	0	0	0	907	907	7,528	19,511	26,972
Milestones	105,000	90,000	0	40,000	10,000	140,000	28,000	0	0	5,000	33,000	6,000	40,000	0	0	46,000	20,000	50,000	50,000
Collaboration and other	48,288	6,740	6,208	6,475	6,181	25,604	6,187	8,270	8,373	7,954	30,784	7,187	7,070	7,773	7,215	29,245	26,321	22,257	22,257
<b>Total Revenue</b>	<b>200,706</b>	<b>108,801</b>	<b>22,661</b>	<b>59,952</b>	<b>39,370</b>	<b>230,784</b>	<b>58,882</b>	<b>32,768</b>	<b>36,336</b>	<b>36,667</b>	<b>164,653</b>	<b>40,998</b>	<b>75,700</b>	<b>41,035</b>	<b>41,394</b>	<b>199,126</b>	<b>219,628</b>	<b>313,031</b>	<b>378,131</b>
COGS	28,533	8,444	10,534	6,760	8,364	34,102	8,870	7,708	7,033	10,671	34,282	12,680	11,915	11,613	12,982	49,190	57,827	64,698	72,911
R&D	147,734	47,011	45,412	43,229	47,135	182,787	49,268	52,350	51,951	52,211	205,780	51,768	53,650	51,951	55,613	212,982	219,371	225,953	232,731
G&A	40,924	10,303	10,184	9,544	13,235	43,266	10,228	11,035	10,253	9,945	41,461	10,228	11,035	10,253	11,189	42,705	43,986	45,306	46,665
Litigation, impairment, IPR&D, amort	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>217,191</b>	<b>65,758</b>	<b>66,130</b>	<b>59,533</b>	<b>68,734</b>	<b>260,155</b>	<b>68,366</b>	<b>71,093</b>	<b>69,237</b>	<b>72,827</b>	<b>281,523</b>	<b>74,676</b>	<b>76,600</b>	<b>73,817</b>	<b>79,784</b>	<b>304,877</b>	<b>321,185</b>	<b>335,956</b>	<b>352,308</b>
<b>Operating Income</b>	<b>(16,485)</b>	<b>43,043</b>	<b>(43,469)</b>	<b>419</b>	<b>(29,364)</b>	<b>(29,371)</b>	<b>(9,484)</b>	<b>(38,325)</b>	<b>(32,901)</b>	<b>(36,160)</b>	<b>(116,870)</b>	<b>(33,678)</b>	<b>(900)</b>	<b>(32,782)</b>	<b>(38,390)</b>	<b>(105,751)</b>	<b>(101,557)</b>	<b>(22,925)</b>	<b>25,823</b>
Interest income	677	211	246	898	325	1,680	875	458	332	580	2,245	875	458	432	580	2,345	2,462	2,585	2,715
Interest expense	(17,868)	(4,171)	(4,118)	(4,202)	(5,791)	(18,282)	(5,677)	(5,627)	(5,614)	(5,750)	(22,668)	(5,237)	(5,174)	(4,514)	(4,450)	(19,375)	(19,375)	(19,375)	(19,375)
Other income (expense), net	135	0	0	0	(14,079)	(14,079)	0	0	0	0	0	0	0	0	0	0	0	0	0
Non\$ int exp on liab on future royty sale	(20,887)	(5,050)	(5,152)	(5,226)	(5,191)	(20,619)	(5,045)	(4,982)	(4,902)	(5,000)	(19,929)	(4,761)	(4,444)	(4,313)	(4,418)	(17,936)	(16,142)	(14,528)	(13,075)
<b>Pretax income</b>	<b>(54,428)</b>	<b>34,033</b>	<b>(52,493)</b>	<b>(8,111)</b>	<b>(54,100)</b>	<b>(80,671)</b>	<b>(19,331)</b>	<b>(48,476)</b>	<b>(43,085)</b>	<b>(46,330)</b>	<b>(157,222)</b>	<b>(42,801)</b>	<b>(10,060)</b>	<b>(41,177)</b>	<b>(46,678)</b>	<b>(140,717)</b>	<b>(134,612)</b>	<b>(54,243)</b>	<b>(3,913)</b>
Provision (benefit) for income tax	(512)	213	164	92	37	506	167	127	139	0	0	0	0	0	0	0	0	0	0
<b>Net Income</b>	<b>(53,916)</b>	<b>33,820</b>	<b>(52,657)</b>	<b>(8,203)</b>	<b>(54,137)</b>	<b>(81,177)</b>	<b>(19,498)</b>	<b>(48,603)</b>	<b>(43,224)</b>	<b>(46,330)</b>	<b>(157,222)</b>	<b>(42,801)</b>	<b>(10,060)</b>	<b>(41,177)</b>	<b>(46,678)</b>	<b>(140,717)</b>	<b>(134,612)</b>	<b>(54,243)</b>	<b>(3,913)</b>
<b>EPS basic</b>	<b>(0.42)</b>	<b>0.26</b>	<b>(0.40)</b>	<b>(0.06)</b>	<b>(0.40)</b>	<b>(0.61)</b>	<b>(0.14)</b>	<b>(0.36)</b>	<b>(0.32)</b>	<b>(0.31)</b>	<b>(1.13)</b>	<b>(0.28)</b>	<b>(0.07)</b>	<b>(0.27)</b>	<b>(0.30)</b>	<b>(0.92)</b>	<b>(0.87)</b>	<b>(0.35)</b>	<b>(0.02)</b>
<b>EPS diluted, GAAP</b>	<b>(0.42)</b>	<b>0.25</b>	<b>(0.40)</b>	<b>(0.06)</b>	<b>(0.40)</b>	<b>(0.61)</b>	<b>(0.14)</b>	<b>(0.36)</b>	<b>(0.32)</b>	<b>(0.31)</b>	<b>(1.13)</b>	<b>(0.28)</b>	<b>(0.07)</b>	<b>(0.27)</b>	<b>(0.30)</b>	<b>(0.92)</b>	<b>(0.87)</b>	<b>(0.35)</b>	<b>(0.02)</b>
Basic shares outstanding	126,873	131,359	131,643	132,631	134,166	132,450	135,793	136,350	137,094	148,000	139,309	150,220	152,473	154,760	157,082	153,634	155,170	156,722	156,722
Diluted shares outstanding	129,209	135,667	135,951	136,939	138,474	136,758	139,031	139,601	137,094	148,000	140,932	150,220	152,473	154,760	157,082	153,634	155,170	156,722	156,722

Source: Company documents and Aegis Capital, LLC estimates

## **Required Disclosures**

### **Price Target**

\$21

### **Valuation Methodology**

We derive our target price of \$21 using EV/Sales multiple of 8x, which is applied to projected 2020 Sales of \$378 million. Our sales figures are based on a sum-of-parts valuation and company guided royalty and milestone payments.

### **Risk Factors**

Investing in companies in pharmaceuticals industry is speculative in nature and is only appropriate for those that have high tolerance for price volatility. In addition to the regular risks involved with investing in equities, holders of Nektar accept risks including, but not limited to financing, clinical, regulatory, and commercialization risks.

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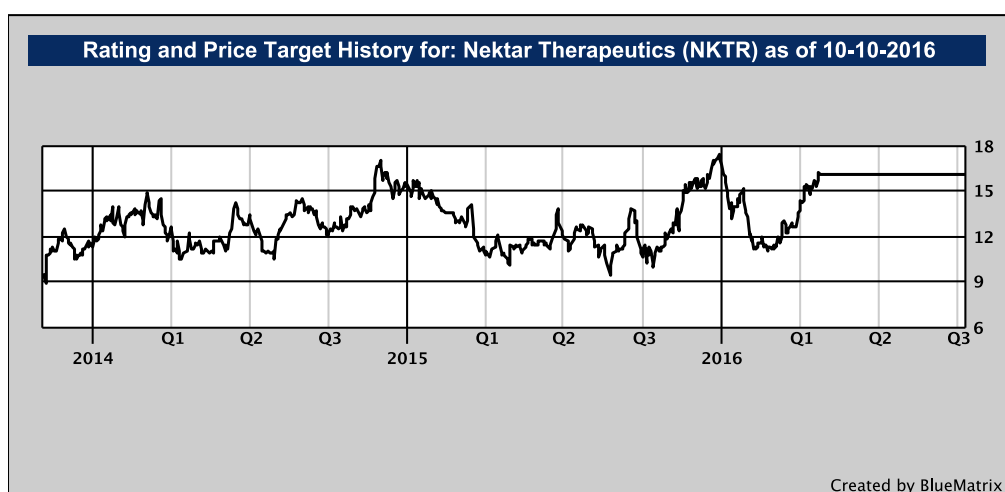
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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [BUY]	87.36	43.42
HOLD [HOLD]	12.64	36.36
SELL [SELL]	0.00	0.00

#### Meaning of Ratings

- A) A Buy rating is assigned when we do not believe the stock price adequately reflects a company's prospects over 12-18 months.
- B) A Hold rating is assigned when we believe the stock price adequately reflects a company's prospects over 12-18 months.
- C) A Sell rating is assigned when we believe the stock price more than adequately reflects a company's prospects over 12-18 months.

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