# WBB Securities, LLC

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## Paratek Pharmaceuticals, Inc. (NASDAQ GS: PRTK) — Updating Coverage

Updating Coverage with an Upgraded Rating of Buy from Speculative Buy and an Increased 12-Month Price Target of $10.00

April 23, 2021

### Paratek Pharma – Advancing New Antibiotics to Combat Antibiotic Resistance

| | |
|---|---|
| **Current Price** | **$7.87** |
| **12 Month Target Price** | **$10.00** |
| **12 Month Trading Range** | $3.81-$8.75 |
| **Market Capitalization (Mil)** | $358.22 |
| **Shares Outstanding (Mil)** | *45,516,567 |
| **Avg. Daily Volume** | 487,780 |
| **L. T. Debt (Mil)** | **250.5 |
| **Dividend/Yield** | N/A |
| **Book Value P/S** | ($2.20) |
| **NASDAQ Composite** | 13,818.41 |
| **S&P 500** | 4,134.98 |

*As of December 31, 2020
**Includes convertible debt


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Paratek Pharmaceuticals, Inc. (NASDAQ: PRTK) is a commercial-stage company with two FDA-approved products, NUZYRA® (omadacycline) and SEYSARA® (sarecycline tablets). NUZYRA is a once-daily intravenous antibiotic for the treatment of adult patients with Community Acquired Bacterial Pneumonia (CABP) and an intravenous and oral antibiotic for treatment of Acute Bacterial Skin and Skin Structure Infections (ABSSSI). For the full-year 2020, NUZYRA generated $38.8 million in product net revenue. In 4Q, NUZYRA generated net revenue of $12.4 million, a 14% increase over the third quarter. 4Q-2020 government contracts service and grant revenue were $2.8 million versus $2.7 million in the Q3-2020.

**PRTK appears to be defying the norm for a development-stage company that focuses on antibiotics. The company is approaching break-even status and profitability may soon be within the company's reach. This is unusual because investment in antibiotic development has lagged compared to other drug classes. Attempts have been made to encourage antibiotic development by private and public entities, among them the Generating Antibiotics Incentives Now (GAIN) Act from the U.S. federal government, which provides for accelerated FDA review of anti-bacterial and anti-fungal Qualified Infectious Disease Products (QIDP) and an additional five years of exclusivity if approved by FDA. The prospects for antibiotic development are improving and the accomplishments of PRTK are beginning to bear fruit. We are therefore upgrading PRTK from Speculative Buy to a Buy Rating and increasing our 12-month price target to $10.00.**

PRTK is expanding commercial promotion into the primary care setting, focusing on serious skin infections, which PRTK estimates as a $2.2 billion addressable market opportunity. The sales force will be staffed with 45 in the hospital, 40 in primary care. PRTK estimates 2021 total revenue of $166-$177 million. Of the total, NUZYRA U.S. net product sales, are expected to range $138-$144 million. Sales sources are: Commercial Sales $62-$68 million, BARDA procurement $76 million, BARDA contract service and grant revenue $20-$25 million, collaboration and royalty revenue $8 million.

In 4Q-2020, PRTK repaid the Hercules Capital loan and entered into a $60 million loan agreement with an affiliate of R-Bridge Healthcare Investment Advisory. This loan will be repaid using 100% of the royalty proceeds from the license and collaboration agreement with Zai Lab plus an initial 2.5% revenue interest from U.S. net sales of NUZYRA, limited to 5%. The annual cap on revenue interest, initially $10 million per year, rises to no more than $12 million per year. The R-Bridge

loan extends the loan maturity and amortization period to as late as 2032, nine years beyond that of the Hercules facility.

## Valuation and Risks

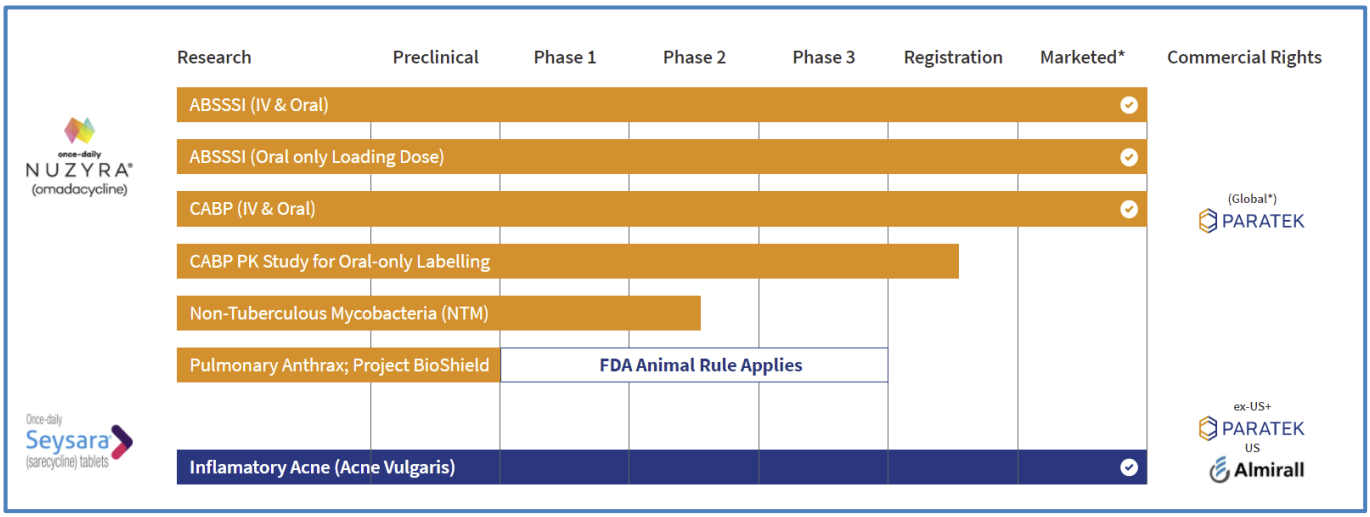
**Rating Legend:**

**Strong Buy** – Should be aggressively purchased.
**Buy** – Should be purchased on market weakness.
**Hold** – Fairly valued.
**Sell** – Stock should be sold on market strength.
**Sell Short** – Should be aggressively sold.
**Speculative Buy** – For aggressive accounts only.
**Core Holding** - Essential holding of a long-term account.

We are updating our assessment of PRTK based on the strength of continuous sales of NUZYRA and the prospect of sustained sales growth. While the commercial antibiotic space has not improved to the degree we would have hoped for, PRTK has been an outlier in delivering in this sector in its stated goals. With direct US Government financial support and a separate growing sales trajectory, we are now comfortable in using a multiple of sales model.

We are satisfied in assessing a simple 3 times multiple for 2021 NUZYRA sales while using a $166 million sales estimate and a 45.5 undiluted million share count. Adding back discounted cash and subtracting debt results in our new 12-month price target of $10.00 and as a result we also upgrade our rating of PRTK from a Speculative Buy rating to a Buy rating.

## Pipeline




Source: Paratek Q4-2020 Earnings Report 04-24-21

The Biotechnology Advanced Research and Development Authority (BARDA) contract for NUZRYA is a significant source of revenue for PRTK. It is a five-year contract potentially worth $285 million that was closed on December 18, 2019. Initial funding is $59 million. BARDA has an option to extend the agreement to ten years, to support the development of NUZYRA for: treatment of pulmonary anthrax; completion of FDA post-marketing requirements associated with the initial NUZYRA approval; and a procurement option for up to 10,000 treatment courses for

the Strategic National Stockpile (SNS) with two procurements of 2,500 treatment courses of NUZYRA in 2021.

Under a research agreement with the U.S. Department of Defense, NUZYRA is being studied against pathogenic agents causing infectious diseases of public health and biodefense importance, including plague and anthrax. PRTK evaluated NUZYRA against 100 additional anthrax strains, which continued to demonstrate potent minimum inhibitory concentrations (MIC)s and was considered effective against all bacteria tested. Of note, the collection of isolates had a strain resistant to doxycycline and a strain resistant to ciprofloxacin, the two antibiotics currently in the SNS due to their approval against anthrax many years ago.

Under the five-year base period, the company will conduct activities necessary to (1) allow NUZYRA to be used under an Emergency Use Authorization, (2) obtain a supplemental NDA for anthrax, and (3) provide up to 2,500 treatment courses of the drug annually for four years.

**NUZYRA** is the company's lead commercial product. It has been approved and is currently marketed to treat CABP and ABSSSI.

An sNDA for an oral loading dose regimen for CABP was submitted in July-2020. The FDA set an action date of May of 2021. The company also is pursuing a program for rare non-tuberculous mycobacteria pulmonary disease caused by *C Mycobacterium abscessus* or NTM. This indication has a potential $1 billion addressable U.S. market. A Phase 2b study for this disease will commence in1H-2021. This study is a placebo-controlled randomized monotherapy study of NTM abscessus pulmonary disease in patients who are not receiving other treatments. The goal of this study is to have future discussions with FDA to support label changes.

The Phase 2b study size will be approximately 75 subjects randomized in a 1.5 to 1 ratio. Therapy will be for 12 weeks with an efficacy endpoint assessment at that time. Because this is a rare disease with small numbers of patients, it is expected this study will take about two years to complete enrollment. More information on the study is promised to be forthcoming.

*Mycobacterium abscessus* infection is an orphan disease with no FDA approved therapies that accounts for approximately 5,000 to 7,000 NTM cases annually in the U.S. There are currently no FDA approved therapies for NTM caused by *mycobacterium abscessus*. Patients are treated with complex daily IV infusions that can last for months, making an oral option a desirable addition to the limited therapeutic options available today.

PRTK completed two Phase 2 studies of NUZYRA for treatment of acute pyelonephritis and uncomplicated urinary tract infections. Top line results from both studies demonstrated that NUZYRA was generally safe and well-tolerated and clinical success was generally equivalent to the comparator drug. Further analysis is ongoing.

PRTK has entered into a collaboration agreement with Zai Lab for the development and commercialization of NUZYRA in the greater China region and retains all remaining global rights.

**SEYSARA** (sarecycline) was approved by the FDA in October 2018 for the treatment of inflammatory lesions of non-nodular, moderate to severe acne vulgaris, in patients 9 years of age

and older. SEYSARA is marketed by Almirall, LLC in the U.S. PRTK retains development and commercialization rights to sarecycline in the rest of the world.

PRTK exclusively licensed U.S. development and commercialization rights to SEYSARA for the treatment of acne to Allergan plc, which assigned such rights to Almirall in August 2018. Almirall launched SEYSARA in the United States in January 2019. PRTK retains development and commercialization rights for sarecycline in the rest of the world.

## Risks

PRTK has incurred significant losses since inception and anticipates losses for the foreseeable future.

PRTK's level of indebtedness and debt service obligations could adversely affect the company's financial condition.

NUZYRA and SEYSARA face post-approval development and regulatory requirements from the FDA, which may limit how they are manufactured and marketed, impacting the company's ability to generate revenue.

## Management

**Evan Loh, M.D., Chief Executive Officer and Member of the Board of Directors** since June 2019. Prior to becoming CEO, Dr. Loh served as Chief Operating Officer and as President and Chief Medical Officer from July 2014. Prior to the merger with Transcept Pharmaceuticals, Dr. Loh served as President, Chief Medical Officer and Chairman of the Board of Directors. Prior to joining Paratek, Dr. Loh served as Senior Vice President, Development and Strategic Operations, Worldwide Research and Development, at Pfizer. At Wyeth Pharmaceuticals, he was Vice President, Multiple Therapeutic Areas. He currently serves on the Board of Directors of Eiger Biopharmaceuticals, Inc. and as Chair of the Antimicrobials Working Group. Dr. Loh previously served as a director on the Board of Nivalis and as a faculty member at both Harvard Medical School and the University of Pennsylvania School of Medicine.

Dr. Loh received his A.B. from Harvard College and his M.D. from Harvard Medical School. He completed his Internal Medicine and Cardiovascular fellowship training at Brigham and Women's Hospital.

**Adam Woodrow President and Chief Commercial Officer** since June 2019. Prior to his current role, Mr. Woodrow served as Chief Commercial Officer. Mr. Woodrow previously worked for Pfizer where he led the commercial development group in Pfizer's Specialty Care Business Unit. At Wyeth Pharmaceuticals, he was Vice President and Global Business Manager for Enbrel. Before joining Wyeth, he held sales and marketing positions with Bayer Pharmaceuticals.

Mr. Woodrow has a Bachelor of Science degree in Industrial Chemistry from the University of Wales College of Cardiff.

**William Haskel, General Counsel and Corporate Secretary.** Mr. Haskel previously served Paratek as Senior Vice President, General Counsel and Corporate Secretary. Prior to joining

Paratek Mr. Haskel served as the Senior Vice President, General Counsel, Chief Compliance Officer and Corporate Secretary at Cambrex Corporation. At Wyeth, he served as Vice President and Associate General Counsel-Corporate He also served as Vice President, Global Administration, Assistant Vice President, Planning, Assistant to the Chairman, President and CEO, and Secretary of Wyeth Management Committee. Earlier in his career, Mr. Haskell was a corporate associate at the law firms Hale & Dorr (now WilmerHale) in Boston, and Olwine, Connelly, Chase, O'Donnell & Weyher in New York City.

Mr. Haskel received his J.D. from George Washington University Law School, his B.A. from Franklin and Marshall College, and has Bar Admissions in New York State, Commonwealth of Massachusetts, New Jersey (Limited In-House License), and the United States District Court (District of Massachusetts).

**Randy Brenner, Chief Development & Regulatory Officer** since June 2019 and part of the executive team leading the regulatory, quality and manufacturing activities for NUZYRA's development and approval. Prior to Paratek, Mr. Brenner was the Global Head of Regulatory Affairs at Shire Pharmaceuticals and Head of Regulatory Affairs for the Emerging Markets and Established Products Business Units at Pfizer. Prior to Pfizer, he spent 14 years at Wyeth Pharmaceuticals, where he held multiple senior regulatory positions.

Mr. Brenner holds a BS in Chemistry from Muhlenberg College and an MS in Pharmaceutical Sciences from Temple University.

**Karen McGrath, Senior Vice President, Human Resources** since July 2019. Prior to joining Paratek, Ms. McGrath was Senior Vice President, Human Resources at Endo Pharmaceuticals. Prior to Endo, she held positions of increasing responsibility at Centocor, Inc, (Janssen Biotech, Inc., a Johnson & Johnson Pharmaceutical Company) and Wyeth.
Ms. McGrath earned a Bachelor of Arts degree in History from Widener University.

## Historical & Future EPS Performance

| EPS | 2019 | 2020 | 2021 |
|---|---|---|---|
| Q1 | (1.10)A | (0.66)A | (0.65)E |
| Q2 | (1.02)A | (0.53)A | (0.30)E |
| Q3 | (1.00)A | (0.46)A | 0.01E |
| Q4 | (0.81)A | (0.54)A | 0.19E |
| Year | (3.93)A | (2.19)A | (0.75)E |
| | | | |
| P/E | NM | NM | NM |
| EPS Growth | NM | NM | NM |
| FY Rev. (Mil) | 16.54A | *46.92A | 166.00E |
| **FY:DEC** | | | |

*Includes product revenue, Govt. contract service and grant revenue and collaboration royalty revenue

**Other Companies mentioned in this report:**
Almirall, LLC-acquired by Almirall S.A. (ALM.MC)
Zai Lab Limited (ZLAB)

## Price and Volume

**Initiated Coverage of PRTK on 01/08/20 at $4.15**


| | |
|---|---|
| 1 | Initiated coverage of PRTK on 01/08/20 at $4.15 with a Speculative Buy rating and a 12-month price target of $6.00 |

Distribution of Ratings and Disclosure of Banking Relationships: The following table shows WBB's ratings distribution expressed as a percentage of all securities rated as of the end of the most recent calendar quarter, as well as the percentage of subject companies within each rating category for whom WBB has provided investment banking services within the previous 12 months.

| | Percentage of Covered Securities | Percentage of Banking Clients |
|---|---|---|
| Buy | 78.3% | 17.4% |
| Hold | 17.4% | 0% |
| Sell | 04.3% | 0% |

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