Revance Therapeutics

(RVNC-NASDAQ)

Stock Rating: **Outperform**
Industry Rating: **Outperform**

August 13, 2014

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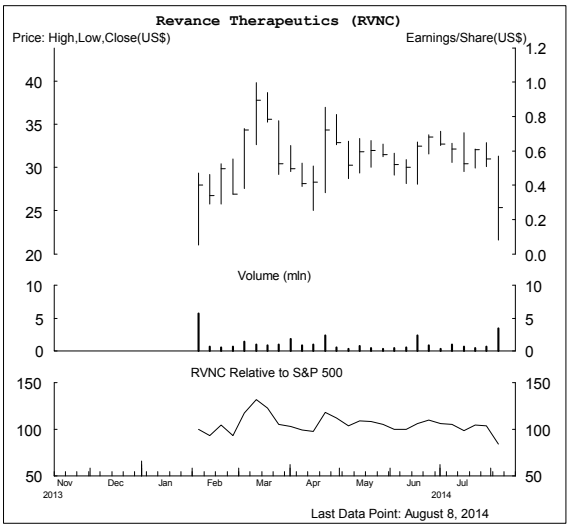
2Q Results Call More About New Draft Guidance

Price (12-Aug)	$25.54	**52-Week High**	$39.86
Target Price	$37.00	**52-Week Low**	$21.00



Event

Revance, a development-stage company working on a topical Botox-like product as well as a long-acting injectable neurotoxin, reported a slightly smaller loss of $12.9 million vs. our expectation of a loss of $13.7 million and consensus of a loss of $14.4 million. The company reported a loss per share of $0.69, beating our $0.73 loss per share estimate and consensus $0.68 loss per share. Revance reaffirmed its 2014 full-year guidance of operating expenses excluding amortization, depreciation, and stock-based compensation to be in the range of $55-60 million and 2014 cash burn to be in the range of $75-85 million. The conference call focused on the draft FDA guidelines last week, underscoring Revance's belief that 'at rest" is the more appropriate endpoint than the draft guidelines' "maximum contraction."

Impact & Analysis

Revance has done a good job in 2Q in keeping spending in line and maintaining spending guidance to a reasonable level. Timelines remain on track as well. We like that Revance addressed very clearly its position following the issuance of the draft guidelines last week. We will eventually see if the final guidance will incorporate the Revance position, or whether this will have to be something that will be demonstrated at a panel session.

Valuation & Recommendation

As we said last week, we believe the new draft guidelines do represent an incremental negative risk for investors, but are encouraged by the company's upfront discussion of the matter on the call, that it was not a surprise to them, and that it changes nothing in the Revance clinical plan. We underscore that draft guidance is not final guidance. We maintain our Outperform rating on Revance and our $37 price target.

(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	na	na	- $2.54	- $3.33
P/E			na	na
CFPS	na	na	- $2.83	- $3.53
P/CFPS			na	na
Rev. ($mm)	na	$0	$0	$0
EV	na	$512	$512	$512
EBITDA ($mm)	na	na	na	na
EV/EBITDA	na	na	na	na

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	na	na	na	na
2013A	na	na	na	na
2014E	-$1.93a	-$0.69a	-$0.74	-$0.74

Dividend	$0.00	**Yield**	0.0%
Book Value	-$14.16	**Price/Book**	-1.8x
Shares O/S (mm)	18.6	**Mkt. Cap (mm)**	$475
Float O/S (mm)	6.7	**Float Cap (mm)**	$171
Wkly Vol (000s)	1,146	**Wkly $ Vol (mm)**	$34.5
Net Debt ($mm)	$11	**Next Rep. Date**	na

Notes: All values in US$
First Call Mean Estimates: REVANCE THERAPEUTICS INC (US$) 2014E: -$2.84; 2015E: -$3.42

Please refer to pages 3 to 6 for Important Disclosures, including the Analyst's Certification.

Details & Analysis

Revance reported a net loss of $12.9 million in 2Q14, a smaller loss than our $13.7 million estimate and consensus of a $14.4 million loss. The company reported a loss per share of -$0.69, beating our $0.73 loss per share estimate and consensus $0.68 loss per share. Revance reaffirmed its 2014 full-year guidance of operating expenses excluding amortization, depreciation, and stock-based compensation to be in the range of $55-60 million and 2014 cash burn to be in the range of $75-85 million.

Revance's R&D expense for the second quarter of $8.1 million was roughly $1 million below our estimate of $9.1 million, while SG&A was $4.9 million, slightly above our forecast of $4.8 million. RVNC had $203.3 million in cash and cash equivalents at June 30, 2014, up from $87.9 million as of March 31, 2014, due to a $131.3 million contribution from the follow-on offering that closed in June 2014. The company believes this cash will cover expenses for more than two years.

Revance's R&D and SG&A spending coming in relatively in line with our expectations indicates to us that the clinical development of RT001 and RT002 are on track.

Revance updated investors on the RT002 head-to-head active and placebo comparator clinical trial it plans to commence at the end of this year. The trial will test three doses of RT002 against Botox, one dose higher than the approved Botox dose and one lower, will include 250-300 subjects, and produce results in 2H2015.

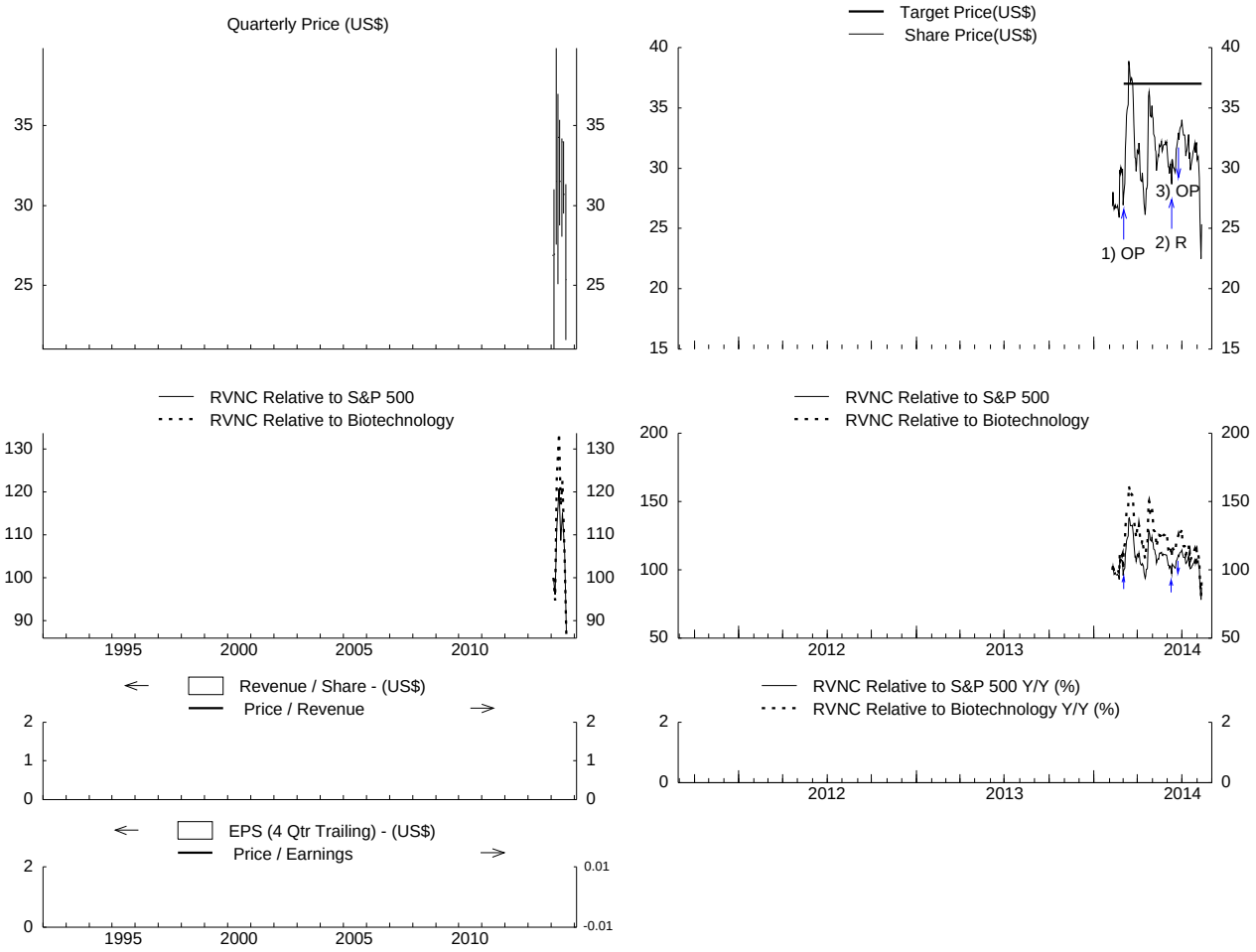
Much of the call focused the draft guidelines on upper facial lines that the FDA issued last week. The guidelines caught investors by surprise and, coupled with the expiry of the IPO lock-up period, put pressure on RVNC shares last week, which fell 16% last week versus a 0.4% loss in the S&P 500. (For more of our thoughts on the events that impacted RVNC shares last week, see our note published August 7, 2014, titled "Shares Under Pressure.")

Revance addressed the guidelines early on during the call, pointing out the guidelines are not binding for either the agency or the sponsor. Revance explained the company is measuring its primary endpoint of reduction of wrinkles at rest, rather than at smile as the guidelines suggest, but are measuring paralytic effect as an additional endpoint and will supply the FDA with the data it requested. Revance has spoken with its KOLs and other clinicians who have all reassured the company that testing at rest is the appropriate way to study the RT001, as it is how clinicians are currently treating patients with approved botulinum toxin treatments. The company repeated it does not plan on changing its developmental program for RT001, which it noted is on track to deliver results in the second half of 2014, near the end of the year.

We believe the new draft guidelines do represent an incremental negative risk for investors, but are impressed with the way Revance has handled the resulting investor concern. We are refraining from an immediate reaction given the final guidance can change dramatically from the draft guidelines.

We maintain our Outperform rating on Revance and our $37 price target.

Revance Therapeutics (RVNC)



FYE (Dec.)	EPS US$	P/E Hi - Lo	DPS US$	Yield% Hi - Lo	Payout %	BV US$	P/B Hi - Lo	ROE %
Range*:		na na		NC			>15 >15	
Current*	ND	na	0.00	0.0	na	-14.2	-2.2	na

RVNC - Rating as of 5-Feb-14 = NR

	Date	Rating Change	Share Price
1	3-Mar-14	NR to OP	$27.78
2	9-Jun-14	OP to R	$28.65
3	23-Jun-14	R to OP	$32.93

* Current EPS is the 4 Quarter Trailing to Q1/2014.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (August 8, 2014): $25.36
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology: We arrive at our target price using a discounted cash flow analysis, as well as a sector multiple applied to discounted earnings.
Risks: In addition to the normal risks inherent in pharmaceutical companies, such as regulatory, reimbursement, and competitive risks, our valuation of RVNC carries several other risks. Among the risks to our valuation is RVNC's dependence on approval of their lead product and anticipated sales and profitability to drive the value of RVNC.
Unseen side effects, safety issues, and competitive threats have not been taken into account in our valuation and if any of these were to emerge, it is likely RVNC shares would be significantly and negatively impacted. RVNC is currently running at a substantial loss, and with this fact comes several other risks, including the potential need for financing. One cannot be certain that RVNC would be able to secure additional financing and at what cost. Our valuation includes a value for the current pipeline of additional products RVNC is investigating. We have estimated a public market value for these assets based on what a similar company might be valued in a public market. Less is known about these programs relative to RVNC's lead program and given their early nature, they carry substantial development risk.

Distribution of Ratings (June 30, 2014)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
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Hold	Market Perform	50.9%	8.4%	31.3%	51.2%	39.9%	39.5%
Sell	Underperform	5.0%	3.4%	1.3%	5.5%	1.5%	5.1%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
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(S) = speculative investment;

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