Revance Therapeutics

(RVNC-NASDAQ)

Stock Rating: **Outperform**
Stock Price: **US$21.00**
Target Price: **US$31.00**

November 13, 2014
Specialty Pharmaceuticals

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Further Delay of RT001 Timeline, 3Q Results in Line

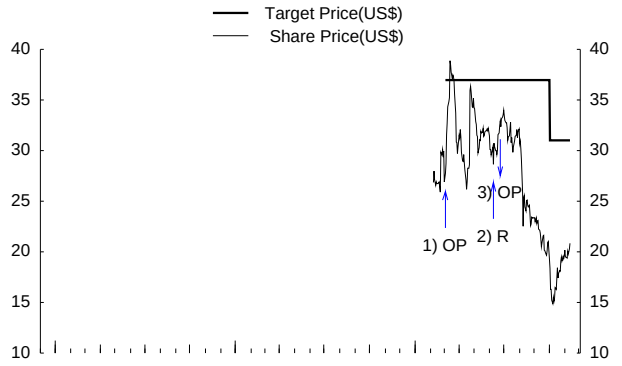
Revance, a development-stage company working on a topical Botox-like product (RT001), as well as a long-acting injectable neurotoxin (RT002), announced alongside its 3Q14 financial results that the development timeline for RT001 has been further delayed due to inadequate preliminary results from the company's ongoing open-label study to confirm successful transfer of production of the topical RT001 drug product to its U.S. commercial manufacturing facility.

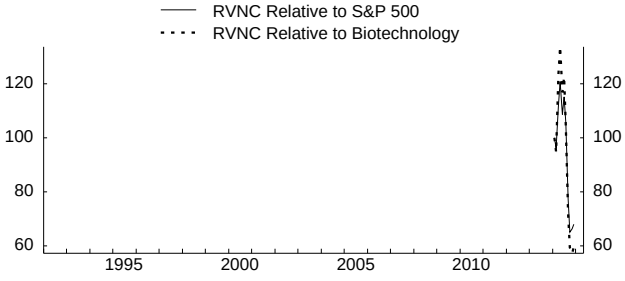
Our View:

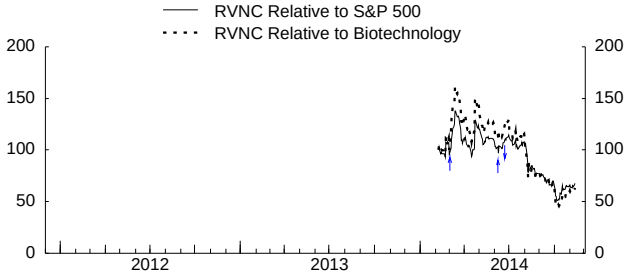
- **This is negative news and introduces further risk.** Revance initially announced it would be delaying its RT001 Phase III trial for lateral canthal (crow's feet) lines in early October, and indicated the four-week, 60-subject trial was standard procedure. However, the initial results did not go as planned, and the company will be closing the study at the 43 patients currently enrolled. The initial results (from 32 of the 43 enrolled) show there were no SAEs and the drug was well tolerated, but did not result in two-point responses like the company saw in its Phase II trial of RT001. The results do show a measurable signal in physician and patient assessments, but the aggregate scores were not high enough for Revance to feel confident moving this formulation into a pivotal Phase III trial. Revance plans to complete the remaining follow ups, analyze the data and begin a subsequent study in early 2015. The trial will be similar to the size and design initially described for the current study (four week, open-label multi-center study of up to 60 patients).
- **3Q results in line.** RVNC reported a loss of $13.8 million vs. our expectation of a loss of $13.7 million and consensus of a loss of $15.4 million. The company reported a loss per share of $0.60, beating our $0.71 loss per share estimate and consensus $0.69 loss per share. Revance adjusted its 2014 full-year guidance of operating expenses excluding amortization, depreciation, and stock-based compensation to be in the range of $45-50 million (from $55-60 million) and 2014 cash burn to be in the range of $65-75 million (from $75-85 million).
- **Other programs on track.** On the conference call, Revance emphasized its development programs for RT001 for hyperhidrosis (excessive sweating) and RT002 for glabellar (frown) lines remain on track, and are unaffected by the delay to RT001 for crow's feet lines. The company expects to initiate a Phase II open label study for RT001 to treat hyperhidrosis in early 2015. Revance will be using the same RT001 product it is currently using in the ongoing RT001 for CFL trial for its hyperhidrosis Phase II study, and made sure to point out the difference in anatomy and end points in these indications. Revance expects to begin a Phase II active comparator trial of RT002 before the end of the year. The five-arm, dose-ranging study will have three active arms, a placebo arm and a Botox arm, and will include 300 subjects. Revance expects interim results in late 2015.

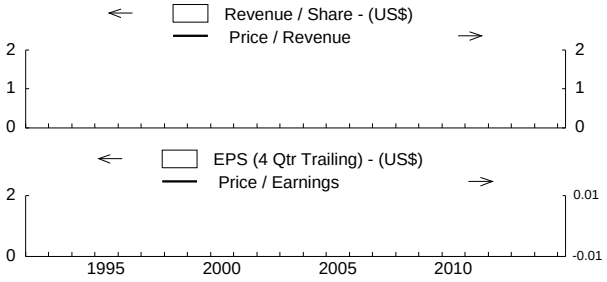
Please refer to pages 2 to 5 for Important Disclosures, including the Analyst's Certification.

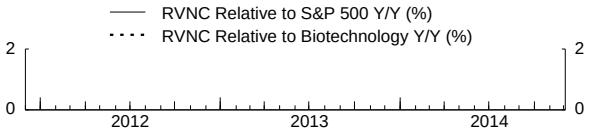
Revance Therapeutics (RVNC)











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	-1.4	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 Q2/2014.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (November 11, 2014): $20.86
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 (September 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	52.5%	9.7%	38.5%	51.6%	42.1%	39.1%
Sell	Underperform	3.2%	5.3%	1.3%	4.5%	1.4%	4.9%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.
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