

# Revance Therapeutics, Inc. (RVNC)

Overweight

Tidbits From the Road With Management; Attractive Risk/Reward

## CONCLUSION

We recently spent time traveling with Revance senior management in meetings with investors. We came away with additional insights into the recent developments surrounding the RT001 (i.e., needle-free botulinum toxin) clinical program for lateral canthal lines (LCL). Even with RT001 for LCL in limbo, we continue to believe the depth of RVNC's pipeline (i.e., RT001 in axillary hyperhidrosis (HH) and RT002 in multiple indications) translates into a favorable risk/reward profile for RVNC shares in the context of a market cap of under \$400M. We reiterate our Overweight rating and \$31 price target.

- **More color on RT001 for LCL.** Recall that RVNC has been running an open-label study using RT001 drug product produced in its own commercial facility (as opposed to batches from a contract manufacturer, List Laboratories, that were tested in earlier studies) to confirm equivalence to the prior batches before advancing the product into a Phase III program for LCL. Management was clear in its assertion that early data collected from the open-label study does show an efficacy signal, with 1-point improvements in wrinkles on both investigator and patient assessments. However, RT001 treatment has not been showing a 2-point improvement, as was the case in earlier studies. RVNC also noted that stronger efficacy per patient assessment relative to investigator assessment has been observed (a curious result since we saw the opposite results in the earlier Phase II studies). RVNC will further assess its in-house manufacturing processes in order to optimize its product. Management's intention is to conduct a second open-label study in up to 60 patients, and this study could be complete by the end of 1Q15. Assuming clean results that are in keeping with the prior studies (certainly a big question mark here), RVNC would then advance RT001 into a Phase III program.
- **Additional color on the RT002 head-to-head study versus Botox.** The Phase IIb study evaluating three doses of RT002 head-to-head versus Botox Cosmetic in up to 250 patients for glabellar lines is set to begin before year-end, with interim results in 2H15. Recall that the key to advancement for RT002 is replicating or even improving upon the duration of effect that was seen in the prior study (i.e., just over 7 months). Though it has been suggested that the duration of efficacy for Botox in practice may be slightly longer than 3-4 months, we believe that a duration of effect for RT002 of around two months longer than that of Botox Cosmetic would still point to an attractive commercial opportunity. RT002 procedure frequency would sync up well with dermal filler procedure frequency (and many aesthetic patients are consumers of both products). From a therapeutic perspective (e.g., migraine), the reduced frequency of office visits would in our view be attractive for patients and physician practices.

## RISKS TO ACHIEVEMENT OF PRICE TARGET

Risks include clinical and regulatory setbacks for RT001 and RT002.

## COMPANY DESCRIPTION

Revance is focused on next-generation neuromodulator treatments.

PRICE: US\$16.89

Note: priced as of the close 11/24/14.

TARGET: US\$31.00

30x 2020E non-GAAP EPS of \$3.35, disc. by 30%

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$31.00
FY15E Rev (mil)	—	US\$0.5
FY16E Rev (mil)	—	US\$0.5
FY15E EPS	—	US\$ (3.31)
FY16E EPS	—	US\$ (3.10)
52-Week High / Low	US\$39.86 / US\$14.02	
Shares Out (mil)	23.3	
Market Cap. (mil)	US\$393.5	
Avg Daily Vol (000)	202	
Book Value/Share	US\$7.67	
Net Cash Per Share	US\$8.07	
Debt to Total Capital	4%	
Div (ann)	US\$0.00	
Fiscal Year End	Dec	

## Price Performance - 1 Year



Source: Bloomberg

YEAR	REVENUE (US\$ m)						EARNINGS PER SHARE (US\$)					
	Mar	Jun	Sep	Dec	FY	FY RM	Mar	Jun	Sep	Dec	FY	FY P/E
2014E	0.2A	0.1A	0.1A	0.1	0.4	983.8x	(1.08)A	(0.69)A	(0.60)A	(0.69)	(2.87)	NM
2015E	0.1	0.1	0.1	0.1	0.5	787.1x	(0.75)	(0.82)	(0.86)	(0.88)	(3.31)	NM
2016E	—	—	—	—	0.5	787.1x	—	—	—	—	(3.10)	NM

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**Revance Therapeutics - Quarterly and Annual Income Statement**

Fiscal Year Ends December 31  
(\$ In millions, except for EPS)

	2014E							2015E									
Fiscal Year Ends December 31 (\$ in millions, except for EPS)	2012A	2013A	1QA	2QA	3QA	4QE	2014E	1QE	2QE	3QE	4QE	2015E	2016E	2017E	2018E	2019E	2020E
Product sales																	
RT001 (U.S. only)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$41.2	\$108.7	\$185.9	\$267.6
RT002 (U.S. only)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	32.2	63.2
Total Product Sales	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$41.2	\$108.7	\$218.1	\$330.8
Ex-U.S. royalties and other revenues <sup>(1)</sup>	0.7	0.6	0.2	0.1	0.1	0.1	0.4	0.1	0.1	0.1	0.1	0.5	0.5	0.5	11.4	22.3	33.6
Total Revenue	\$0.7	\$0.6	\$0.2	\$0.1	\$0.1	\$0.1	\$0.4	\$0.1	\$0.1	\$0.1	\$0.1	\$0.5	\$0.5	\$41.7	\$120.1	\$240.4	\$364.4
Cost of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.8	22.8	43.3	61.9
Gross Profit	\$0.7	\$0.6	\$0.2	\$0.1	\$0.1	\$0.1	\$0.4	\$0.1	\$0.1	\$0.1	\$0.1	\$0.5	\$0.5	\$20.8	\$97.3	\$197.1	\$302.4
Research & development	32.7	27.8	7.6	8.1	8.6	11.0	35.3	12.5	13.5	14.5	15.0	55.5	52.5	45.0	45.0	45.0	45.0
Selling, general and administrative	11.2	11.0	4.1	4.9	5.3	5.3	19.6	5.4	5.4	5.5	5.5	21.8	23.0	52.9	76.7	111.2	144.6
Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenses	\$43.9	\$38.8	\$11.6	\$13.0	\$13.9	\$16.3	\$54.8	\$17.9	\$18.9	\$20.0	\$20.5	\$77.3	\$75.5	\$97.9	\$121.7	\$156.2	\$189.6
Operating Income	(\$43.2)	(\$38.2)	(\$11.5)	(\$12.9)	(\$13.8)	(\$16.2)	(\$54.4)	(\$17.8)	(\$18.8)	(\$19.9)	(\$20.4)	(\$76.8)	(\$75.0)	(\$77.1)	(\$24.4)	\$40.9	\$112.8
Other income (expense), net	(15.1)	(14.2)	(0.5)	(0.4)	(0.2)	(0.2)	(1.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.8)	(0.8)	(0.5)	(0.5)	0.0	1.0
Income (loss) before taxes	(\$58.3)	(\$52.4)	(\$12.0)	(\$13.3)	(\$14.0)	(\$16.4)	(\$55.6)	(\$18.0)	(\$19.0)	(\$20.1)	(\$20.6)	(\$77.6)	(\$75.8)	(\$77.6)	(\$24.9)	\$40.9	\$113.8
Income tax provision	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (loss)	(\$58.3)	(\$52.4)	(\$12.0)	(\$13.3)	(\$14.0)	(\$16.4)	(\$55.6)	(\$18.0)	(\$19.0)	(\$20.1)	(\$20.6)	(\$77.6)	(\$75.8)	(\$77.6)	(\$24.9)	\$40.9	\$113.8
Non-GAAP EPS, basic	(\$27.14)	(\$7.31)	(\$1.08)	(\$0.69)	(\$0.60)	(\$0.69)	(\$2.87)	(\$0.75)	(\$0.82)	(\$0.86)	(\$0.88)	(\$3.31)	(\$3.10)	(\$3.05)	(\$0.96)	\$1.52	\$4.14
Non-GAAP EPS, diluted	(\$27.14)	(\$7.31)	(\$1.08)	(\$0.69)	(\$0.60)	(\$0.69)	(\$2.87)	(\$0.75)	(\$0.82)	(\$0.86)	(\$0.88)	(\$3.31)	(\$3.10)	(\$3.05)	(\$0.96)	\$1.28	\$3.35
Shares outstanding, basic <sup>(3)</sup>	2.1	7.2	11.1	19.4	23.3	23.6	19.3	23.8	23.3	23.4	23.5	23.5	24.5	25.5	26.0	27.0	27.5
Shares outstanding, diluted <sup>(3)</sup>	2.1	7.2	11.1	19.4	23.3	23.6	19.3	23.8	23.3	23.4	23.5	23.5	24.5	25.5	26.0	32.0	34.0
Expenses as % of total sales:																	
COGS														50.0%	19.0%	18.0%	17.0%
R&D														108.0%	37.5%	18.7%	12.3%
Selling, general and administrative														127.0%	63.9%	46.3%	39.7%
Margins:																	
Gross margin														50.0%	81.0%	82.0%	83.0%
Operating margin																17.0%	31.0%
Net income																17.0%	31.2%
Income Tax														0.0%	0.0%	0.0%	0.0%
Y-O-Y Growth rates:																	
Total revenue															188.4%	100.2%	51.6%
R&D												57.4%	-5.4%	-14.3%	0.0%	0.0%	0.0%
Selling, general and administrative												11.5%	5.5%	130.0%	45.0%	45.0%	30.0%
Operating profit																	175.7%
Net income																	178.2%

Proprietary to Piper Jaffray. November 12, 2014

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(1) Reflects the signing of an ex-U.S. partnership on both RT001 and RT002, with estimated royalties of 20% on ex-U.S. sales (and assumes a European launch of RT001 in 2018 and a European launch of RT002 in 2019)

(2) Cash paid for interest; excludes non-cash interest expense

(3) Reflects post-IPO split adjusted share count and June 2014 common stock offering of 4,600,000 shares; Assumes follow-on equity capital raise in 2016

Current disclosure information for this company can be found at

<http://www.piperjaffray.com/researchdisclosures>

# **Revance - Annual Cash Flow Statement**

(\$ in millions)

	2011A	2012A	2013A	2014E	2015E	2016E	2017E	2018E
<b>Beginning Cash &amp; Equivalents</b>	<b>\$4.0</b>	<b>\$29.6</b>	<b>\$4.1</b>	<b>\$3.9</b>	<b>\$164.9</b>	<b>\$94.1</b>	<b>\$162.1</b>	<b>\$85.6</b>
<b>Operating Activities</b>								
Net Income (loss)	(\$30.2)	(\$58.3)	(\$52.4)	(\$55.6)	(\$77.6)	(\$75.8)	(\$77.6)	(\$24.9)
Depreciation	\$2.0	\$1.8	\$1.6	\$2.0	\$2.5	\$3.0	\$3.5	\$4.0
Other	(\$0.4)	(\$2.0)	\$16.5	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)
Stock-based Compensation	\$0.3	\$0.1	\$0.5	\$2.0	\$3.0	\$4.0	\$6.0	\$12.0
Net Change in Assets and Liabilities	(\$0.1)	(\$7.1)	(\$6.2)	\$1.2	\$1.3	\$1.4	(\$9.4)	(\$5.4)
<b>Cash From Operations</b>	<b>(\$28.4)</b>	<b>(\$65.6)</b>	<b>(\$40.1)</b>	<b>(\$51.4)</b>	<b>(\$71.8)</b>	<b>(\$68.4)</b>	<b>(\$78.5)</b>	<b>(\$15.4)</b>
<b>Investing Activities</b>								
Capital Expenditures	(\$0.2)	(\$0.3)	(\$3.0)	(\$3.0)	(\$2.0)	(\$1.5)	(\$1.0)	(\$1.0)
Short-Term Investments	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Acquisition of Tangible Assets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Acquisition of Intangibles	\$0.0	\$0.0	\$0.0	(\$7.0)	\$0.0	\$0.0	\$0.0	\$0.0
Other Investment <sup>(1)</sup>	\$0.1	\$0.1	\$2.8	\$0.0	\$0.0	\$100.0	\$0.0	\$0.0
<b>Cash From Investing Activities</b>	<b>(\$0.1)</b>	<b>(\$0.2)</b>	<b>(\$0.2)</b>	<b>(\$10.0)</b>	<b>(\$2.0)</b>	<b>\$98.5</b>	<b>(\$1.0)</b>	<b>(\$1.0)</b>
<b>Financing Activities</b>								
Debt Issuance	\$67.2	\$18.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Debt Repayments	(\$12.1)	(\$3.4)	(\$5.6)	(\$11.7)	(\$2.0)	(\$2.0)	(\$2.0)	(\$2.0)
Share Repurchases	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Stock and Option Issuances <sup>(2)</sup>	\$0.0	\$0.0	\$45.6	\$234.0	\$5.0	\$40.0	\$5.0	\$5.0
Other, Net	(\$1.0)	(\$1.2)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<b>Cash From Financing Activities</b>	<b>\$54.1</b>	<b>\$13.6</b>	<b>\$40.1</b>	<b>\$222.3</b>	<b>\$3.0</b>	<b>\$38.0</b>	<b>\$3.0</b>	<b>\$3.0</b>
Currency Translation Differences	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Change In Cash	\$25.6	(\$52.2)	(\$0.2)	\$160.9	(\$70.8)	\$68.1	(\$76.5)	(\$13.4)
<b>Year End Cash</b>	<b>\$29.6</b>	<b>(\$22.6)</b>	<b>\$3.9</b>	<b>\$164.9</b>	<b>\$94.1</b>	<b>\$162.1</b>	<b>\$85.6</b>	<b>\$72.3</b>

(1) Reflects the payment of \$7M

(1) Reflects the signing of ex-U.S. partnerships on RT001 and RT002 (and associated upfront payments)

(2) Reflects additional equity capital raise in 2016

Proprietary to Piper Jaffray. November 12, 2014

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# **Revance - Annual Balance Sheet**

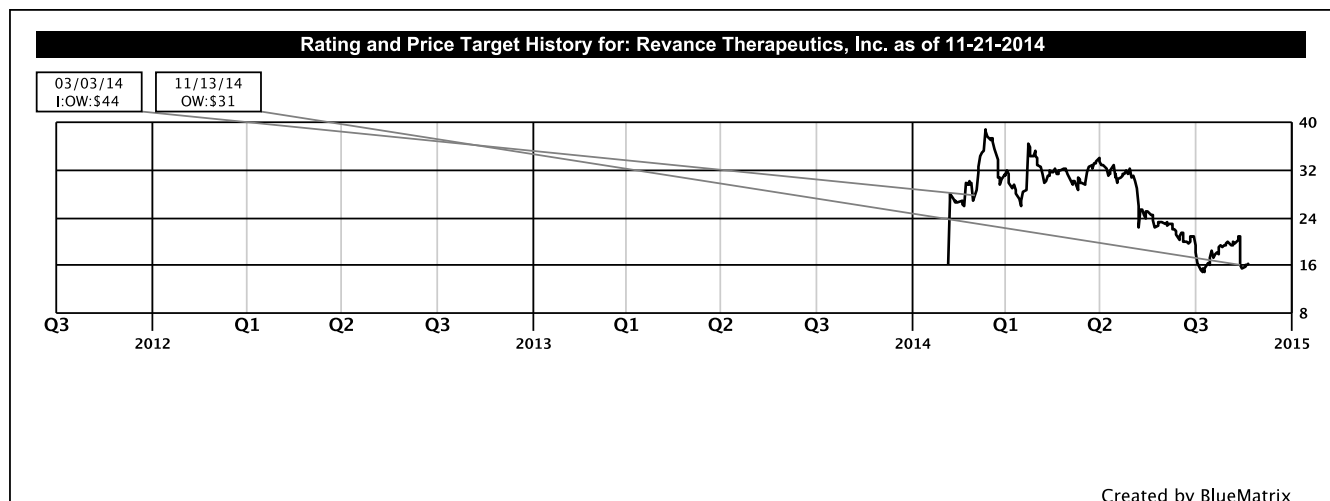
(\$ in millions)

	2011A	2012A	2013A	2014E	2015E	2016E	2017E	2018E
<b>Current Assets</b>								
Cash & Equivalents	\$29.6	\$4.1	\$3.9	\$164.9	\$94.1	\$162.1	\$85.6	\$72.3
Restricted Cash	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Accounts Receivable, net	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$3.2	\$6.6
Inventories	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$7.7	\$11.3
Other Current Assets	\$0.4	\$1.2	\$0.8	\$0.9	\$0.9	\$1.0	\$1.0	\$1.1
<b>Total Current Assets</b>	<b>\$30.1</b>	<b>\$5.4</b>	<b>\$4.8</b>	<b>\$165.8</b>	<b>\$95.0</b>	<b>\$163.2</b>	<b>\$97.6</b>	<b>\$91.2</b>
Property, Plant & Equipment, Net	\$8.4	\$7.0	\$14.3	\$15.3	\$14.8	\$13.3	\$10.8	\$7.8
Goodwill & other intangible assets	\$0.0	\$0.0	\$0.0	\$7.0	\$7.0	\$7.0	\$7.0	\$7.0
Other Assets	\$1.4	\$1.0	\$3.5	\$3.5	\$3.5	\$3.5	\$3.5	\$3.5
<b>Total Assets</b>	<b>\$39.9</b>	<b>\$13.4</b>	<b>\$22.6</b>	<b>\$191.6</b>	<b>\$120.4</b>	<b>\$187.0</b>	<b>\$118.9</b>	<b>\$109.5</b>
<b>Liabilities &amp; Equity</b>								
Current Liabilities	\$8.9	\$31.0	\$24.7	\$25.9	\$27.2	\$28.6	\$30.0	\$31.5
Long-Term Debt	\$63.5	\$98.0	\$25.5	\$13.8	\$11.8	\$9.8	\$7.8	\$5.8
Other Liabilities	\$27.6	\$5.8	\$6.0	\$6.0	\$6.0	\$6.0	\$6.0	\$6.0
Equity	(\$60.0)	(\$121.3)	(\$33.6)	\$145.9	\$75.3	\$142.6	\$75.1	\$66.2
<b>Total Liabilities &amp; Equity</b>	<b>\$39.9</b>	<b>\$13.4</b>	<b>\$22.6</b>	<b>\$191.6</b>	<b>\$120.4</b>	<b>\$187.0</b>	<b>\$118.9</b>	<b>\$109.5</b>

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I: Initiating Coverage  
R: Resuming Coverage  
T: Transferring Coverage  
D: Discontinuing Coverage  
S: Suspending Coverage  
OW: Overweight  
N: Neutral  
UW: Underweight  
NA: Not Available  
UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
<b>BUY [OW]</b>	375	61.68	98	26.13
<b>HOLD [N]</b>	221	36.35	22	9.95
<b>SELL [UW]</b>	12	1.97	0	0.00

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

**Analyst Certification — David Amsellem, Sr. Research Analyst**  
**— Traver A. Davis, Research Analyst**  
**— Michael C. Chang, Research Analyst**

The views expressed in this report accurately reflect my personal views about the subject company and the subject security. In addition, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

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- **Overweight (OW):** Anticipated to outperform relative to the median of the group of stocks covered by the analyst.
- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

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