

ANALYST BRIEF:

July 15, 2015

Summary

Arena Pharmaceuticals Incorporation (NSD: ARNA) is a biopharmaceutical company focuses on discovering, developing, and commercializing novel drugs that target G protein-coupled receptors, or GPCRs, to address unmet medical needs. It conducts business under Healthcare sector and is part of Biotechnology industry. The company was founded in 1997 with its US operations located in San Diego, California. Its operations outside of the United States, including its commercial manufacturing facility, are located in Zofingen, Switzerland.

The company's internally discovered drug, lorcaserin, is approved by the US Food and Drug Administration (FDA) for chronic weight management in adults. Lorcaserin was available by prescription in June 2013 to adults who are overweight with comorbidity or obese, under the brand name BELVIQ.

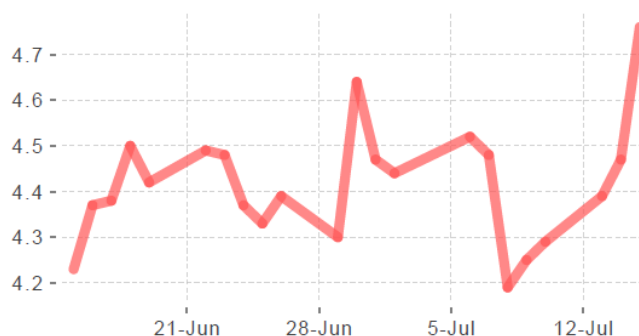
The company also has some products under development including Ralinepag, an agonist of the prostacyclin receptor intended for the treatment of vascular diseases; APD334, an modulator of the sphingosine 1-phosphate subtype 1 receptor for the treatment of a various autoimmune diseases; APD371, an agonist of the cannabinoid receptor 2 for the treatment of pain and fibrotic diseases; and Temanogrel, an inverse agonist of the serotonin 2A receptor for the treatment of thrombotic diseases. In addition, Arena Pharmaceuticals manufactures drug products under a toll manufacturing agreement for Siegfried AG.

The company currently falls under 'Mid-Cap' category with current market capitalization of 1.15 B and has 242.04 M outstanding shares of which 30.94 M shares are presently shorted by private and institutional investors with about 12.9 trading days to cover.

Key Indicators

Current Valuation	913.74 M
Shares Outstanding	242.04 M
Number of Shares Shorted	13.90 M
Revenue	12.25 M
Gross Profit	9.06 M
Net Loss (basic/diluted)	24.30 M
Cash and Equivalents	240.98 M
Total Debt Obligations	2.61 M

Performance



Recent News

On July 15, 2015, Mega-cap biopharma Celgene (CELG) is up more than 9.4%, following the news that the company is acquiring Receptos (RCPT) for \$6.7 billion in cash. Arena Pharmaceuticals is getting a 7% shot in the arm thanks to the Receptos acquisition as investors hope that this billion-dollar drug maker could be next in line for an acquisition offer. Arena has some drug development overlaps with Receptos, and an analyst note from Pipe Jaffray on Wednesday morning points out that the Receptos deal could provide more willingness for investors to pay a higher premium for Arena.

Pros

- Arena Pharmaceuticals intends to utilize its discovery and development approach focused on GPCRs to advance other of its internally discovered drug candidates, which include Ralinepag, APD334, APD371, and Temanogrel. All of these drug candidates have passed phase 1 clinical trial and initiated for phase 2 trials.
- The company recognized revenues of \$12.3 million for the three months ended March 31, 2015, compared to \$6.8 million for the three months ended March 31, 2014. This increase was primarily due to an increase of \$3.7 million in net product sales of BELVIQ and the \$3.0 million milestone payment from Ildong that we earned in February 2015 for the approval of BELVIQ in South Korea. The increase in net product sales of BELVIQ was due to sales of BELVIQ in South Korea commencing during the three months ended March 31, 2015, and an increase in the volume of bottles sold to distributors in the United States.

Cons

- The biotechnology and pharmaceutical industries are highly competitive and are subject to rapid and significant change. The company faces significant competition from organizations with drugs or drug candidates that do or may compete with BELVIQ or drug candidates it is developing. Many of existing and potential competitors have substantially greater drug development capabilities and financial, scientific and marketing resources.
- Developing drugs and obtaining marketing approval is a long, uncertain and expensive process, and the company's ability to achieve its goals depends on numerous factors, many of which the company does not control. It will require substantial cash to achieve the goals. To date, the company has generated limited revenues from sales of BELVIQ, which is its first and only drug approved by any regulatory authority. In the long term, the company will need to receive additional funds through equity or debt.

Verdict

Arena's technicals looked pretty ugly long term until Wednesday morning. The shares had been forming a bearish descending triangle pattern for nearly all of 2015, but that pattern broke to the upside with the acquisition news. When the news of the Celgene and Receptos deal wears off, we will still have a long way to go in clinical trials and will need to understand how these things get funded. I think the Arena pipeline

needs a bit more time to mature and there is a possibility of a capital need in the next 12 months or so to get there. That's a reason to keep an eye on Arena's upside in the next couple of weeks.

Sources:

1. ARNA Quarterly Report, 11 May 2015
2. <http://invest.arenapharm.com/annuals.cfm>
3. <http://ca.finance.yahoo.com/ARNA>

Risk Factors

An investment in the common stock of the company is subject to a number of risks. The information below contains excerpts of some of the risk factors included in the company's Form 10-K for the fiscal year ended December 31, 2014, and should be considered by all investors. Investors should carefully consider the risk factors set out below and consider all other information contained herein, and in the company's SEC filings, before making an investment decision. We assume no obligation to update or revise any such forward-looking statements to reflect events or circumstances that occur after such statements are made. A more complete list of risk factors for the company can be found beginning on page 7 of its Form 10-K filing, dated December 31, 2014, which is available on the SEC's Edgar website: http://www.sec.gov/Archives/edgar/data/1591165/000141588915001161/mdvx10k_dec312014.htm.

Our Rating System

We rate enrolled companies based on the appreciation potential we believe their shares represent, and the "riskiness" we perceive in our ratings. The business results of those companies "NOT RATED" are often highly dependent on some future event, such as FDA drug approval or the option of a new key technology.

Explanation of Ratings

OVERWEIGHT/BUY

Overweight (O or Over) - The stock's total return is expected to exceed the total return of the relevant country Index average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

EQUAL WEIGHT/HOLD

Equal-weight (E or Equal) - The stock's total return is expected to be in line with the total return of the relevant country Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis over the next 12-18 months.

NOT RATED

Not-Rated (NR) - Currently the analyst does not have adequate conviction about the stock's total return relative to the relevant country Index or the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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UNDERWEIGHT/SELL

Underweight (U or Under) - The stock's total return is expected to be below the total return of the relevant country's equity indices and/or the total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Disclosure: I, Houman Farahani have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions and I have no business relationship with any company whose stock is mentioned in the article.

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