Zacks Small-Cap Research

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ADMA Biologics, Inc. (ADMA - NASDAQ)

Acquisition of Biotest Assets and Cash Infusion for 50% Equity Interest.

Based on our DCF model and a 15% discount rate, ADMA is valued at approximately $14.00 per share. We apply a 60% probability of FDA approval for RI-002.

Current Price (1/24/2017)	$5.10
Valuation	**$14.00**

OUTLOOK

ADMA has developed an IVIG product, RI-002, with high levels of RSV antibodies that can treat immune compromised patients and address a host of other evidence-based uses. Currently ADMA is addressing deficiencies cited in a CRL issued in July 2016 for RI-002. In January 2017, ADMA announced its intent to acquire Biotest's out of compliance manufacturing facility in return for a 50% interest in ADMA and their two plasma collection facilities.

The success of the transaction will hinge on ADMAs ability to address the problems at the facility and obtain FDA approval to manufacture and commercialize additional IG products.

ADMA's two plasma collection centers will continue to generate cash flow and plasma inventories until transferred to Biotest. When up to full capacity, the two Atlanta-based centers are anticipated to produce up to 60k liters of plasma annually, providing the source material for RI-002.

SUMMARY DATA

52-Week High	**$8.85**
52-Week Low	**$4.15**
One-Year Return (%)	**-17.1**
Beta	**2.44**
Average Daily Volume (sh)	**32,780**
Shares Outstanding (mil)	**12.9**
Market Capitalization ($mil)	**$66.6**
Short Interest Ratio (days)	**2.17**
Institutional Ownership (%)	**66**
Insider Ownership (%)	**25**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2016 Estimate	**N/A**
P/E using 2017 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Biologics**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	$1.5 A	$1.3 A	$1.9 A	$2.5 A	$7.2 A
2016	$2.1 A	$2.3 A	$2.9 A	$2.6 E	$10.0 E
2017					$18.8 E
2018					$77.0 E

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	-$0.34 A	-$0.44 A	-$0.48 A	-$0.48 A	-$1.73 A
2016	-$0.43 A	-$0.50 A	-$0.34 A	-$0.35 E	-$1.60 E
2017					-$1.42 E
2018					$0.92 E

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WHAT'S NEW

ADMA Announces Acquisition of Biotest Assets

ADMA Biologics, Inc. (NASDAQ:ADMA) announced the acquisition of certain Biotest assets related to the manufacture of RI-002 and other plasma and immunoglobulin products. The deal also includes additional financing for ADMA from Biotest in return for a 50% stake in the company and an eventual transfer of ADMA's two plasma facilities in Atlanta, Georgia. Key details of the transaction include:

ADMA Receives:

- Boca Raton Manufacturing Facility, including two buildings with plasma fractionation and purification plant
- FDA licensed products including Nabi-HB
- Cash consideration of $40 million
  - $12.5 million in cash
  - $15 million unsecured term interest-only term loan
  - $12.5 million future equity commitment

Biotest Receives:

- 50% of ADMA capital stock, less one share
- Voting common stock equal to 25% of issued and outstanding stock
- Appointment of director and observer to ADMA board
- Transfer of both plasma centers to Biotest January 1, 2019
- Right to market new, plasma-based products in Biotest territories

The Boca Raton facilities were manufacturing three products prior to the transaction: BIVIGAM, an immune globulin indicated for the treatment of primary humoral immunodeficiency, Nabi-HB, a hyperimmune globulin that is rich in antibodies to the hepatitis B virus and plasma for further manufacturing. In conjunction with the announcement of the transaction, Biotest and Kedrion decided to halt production of BIVIGAM until the issues at the facility can be remedied.

ADMA plans to release additional information in an upcoming proxy filing that will provide revenue and cost information that will guide our new discounted cash flow model. At this point, we will perform an asset valuation to gauge the attractiveness of the deal based on the details that we do know. We will defer the results of our DCF model until the additional information is available.

Biotest originally bought these biologic manufacturing facilities from Nabi Pharmaceuticals in 2007 for $185 million in cash. The deal included the plasma protein production plant, the Boca Raton headquarters, and nine plasma collection centers. Based on management commentary, from $50 to $80 million was invested in the plant to upgrade the facilities and another $70 to $80 million was invested to build a monoclonal antibody production facilities. Below, we outline our rough estimates for the components that drive our post deal asset value.

Exhibit I – Asset Valuation

Asset Valuation	Value	Note
Biotest Facilities (2007 Purchase)	$185,000	Including 9 Collection Facilities
Less: 9 Collection Facilities	$81,000	Using low end of Grifols valuation in 2016 deal
Boca Raton Assets to ADMA	$104,000	
Depreciation on Plant over 9 years:	-20%	Net of inflation 2% depreciation rate
Depreciation	($20,290)	
Plus: Upgrades	$50,000	Low end according to ADMA mgmt
Plus: Monoclonal plant	$70,000	Low end according to ADMA mgmt
Less: Valuation Adj for Monoclonal Plant	($60,000)	Not currently being used
Value Estimate	**$143,710**	
Biotest Inventory	$5,000	Outlined in 8K
ADMA Plasma Inventory	$5,000	Detailed in Zack's 3Q:16 report
Plus: Cash from Biotest	$12,500	As listed in deal terms
Equity Value	$166,210	Excludes nominal amount of net debt on ADMA BS
Shares Outstanding	26,000	Assumes current 12.9 MM shares x 2
Price Per share	**$6.39**	**Asset Value**

Biotest originally purchased the facilities for $185 million in a deal that included nine plasma collection centers, which will not be transferred to ADMA as part of the transaction. We subtract $81 million from this amount to reflect these nine centers based on last year's transaction between Grifols SA (NASDAQ: GRFS) and Interstate Blood Bank where plasma collections centers were valued between $8 and $9 million.[1] While asset values have increased over the last decade, we do not inflate the Biotest purchase price, but do use a recent value for the collection centers in order to maintain a conservative approach. We reduce the value of the assets by 2% per annum to reflect our estimate of the net depreciation (partially offset by asset and land appreciation). Biotest made substantial investments of $70 to $80 million in a monoclonal plant. Continuing our conservative approach, we use the low end of these ranges to estimate the value of the upgrades undertaken since the asset was purchased by Biotest. Currently, the monoclonal plant is not operational, and we apply a severe discount to the investment value to account for this and assume a current value is approximately $10 million. To these values, we add $10 million in inventories, half of which are included as part of the asset acquisition and the other half related to plasma that ADMA is currently carrying on the books as well as the $12.5 million in cash that Biotest will contribute to ADMA. We divide the sum of the figures by the estimated 25.8 million shares that will be outstanding following the consummation of the deal.

Net cash on the balance sheet as of September 30, 2016, was immaterial to this valuation and we do not include here. This yields an asset value of just over $6 per share. While we recognize that the adjustments for depreciation of fixed life assets, appreciation of the manufacturing facilities as a whole, appreciation of the land value, and the value of the collection facilities at the time of the deal *et alia* are not precise, our approach in each case was conservative. Asset valuations are frequently used to generate a floor value for a business, and we believe that our result satisfies this goal.

Furthermore, we do not include any value for the two collection centers that will continue to be owned until January 2019, as per the purchase agreement. Currently, these assets are generating a slight positive cash flow, but more importantly are generating plasma inventories that will eventually be used in the production of RI-002. These plasma inventories yet to be produced are excluded from the sum of the parts analysis.

Addressing the Discrepancies; The Key to Value

In discussions with management and review of available materials, we believe that Biotest's reluctance to change ineffective management at the facility and include outside experts to assist in the correction of deficiencies is behind their inability to address the warning letter issued in November 2014. Biotest's physically distant German management is also less experienced in US regulatory procedures, further contributing to the failure.

The issues that require attention are not infrastructure related, as the facilities have received substantial upgrades over the last nine years, reducing the risk of required capital investments. The issues are related to management providing clear operating procedures and proper training of staff to follow these operating procedures. Based on ADMA's assessment, successful management will need to be very critical of operational and manufacturing processes that are out of specification and develop procedures that are less cumbersome and easier to follow. Streamlining of document flow is also necessary as is involving experts with FDA experience to critically asses the existing problems and develop approaches to address them. Since the issuance of the CRL in July 2016, ADMA management has been working closely with Biotest to address the problems and has developed a thorough understanding of them over this period. This understanding led to the development of the purchase agreement as ADMA was more motivated and more experienced in addressing the problems than Biotest.

Based on updated commentary by ADMA's management, we believe that the issues at the facilities can be resolved by year-end by installing experienced and motivated management, implementing new standard operating procedures, conducting training for management and employees and obtaining FDA approval to use the facility to develop biologic products.

The success of the asset deal and its ability to add incremental value to our target price are directly dependent on ADMA management's ability to address the problems at the manufacturing plant. Management understands and has outlined many of the areas where Biotest failed to make progress in addressing the problems and has a high-level plan to provide a remedy. Based on our asset valuation, the transaction appears to be a favorable one, with our conservative approach providing a value over 20% above the company's current equity valuation. Of course,

[1] Grifols acquired a 49% stake in Interstate Blood Bank, a US based plasma and blood center operator in early 2016. Grifols paid $100 million for the interest, which consisted of 23 plasma collection centers, equating to an average center value between $8 and $9 million. The deal also included an option to purchase a full interest at a later date.

the true value in any asset is its ability to generate long term revenues and cash flows. As more information becomes available through the upcoming proxy filing and continued interaction with management, we will update our DCF model to reflect these opportunities.

At current, we have not changed our income statement forecasts. We believe that this transaction will not change our estimates for plasma center revenues for 2017 and 2018. We will update share balances and other balance sheet items following the consummation of the transaction.

Summary

On January 23rd, ADMA announced a transformative transaction to buy Biotest's plasma manufacturing facilities which have suffered from FDA violations and a warning letter in recent years. Furthermore, the company will divest their currently owned plasma collection facilities in 2019 and also receive financing of up to $40 million as part of the deal. While our estimates for eventual approval and launch of RI-002 are delayed as ADMA begins to address the deficiencies that exist at the facility, the deal provides substantial value in assets that will transform ADMA into a vertically integrated plasma products company. Our conservative asset approach generates a number that is above the current trading value of the company, lending credence to the merits of the deal. While the ultimate value of the transaction will depend on ADMA management's ability to address the deficiencies at the facility and obtain FDA approval to launch new products, we believe ADMA will rapidly address them followed by a timely review by the FDA. As we believe the net of this transaction is an incremental positive, despite the further delay in RI-002 approval, we maintain our target price of $14 per share.

PROJECTED FINANCIALS

ADMA Biologics, Inc. - Income Statement

ADMA Biologics, Inc.	2015 A	Q1 A	Q2 A	Q3 A	Q4 E	2016 E	2017 E	2018 E
Total Revenues	**$7.2**	**$2.1**	**$2.3**	**$2.9**	**$2.6**	**$10.0**	**$18.8**	**$77.0**
YOY Growth	*21%*	*41%*	*73%*	*59%*	*5%*	*39%*	*89%*	*309%*
Cost of Product Revenue	$4.3	$1.3	$1.3	$1.7	$1.6	$5.9	$9.6	$32.6
Product Gross Margin	*40%*	*40%*	*41%*	*41%*	*41%*	*41%*	*49%*	*58%*
Research and development	$7.0	$2.0	$3.4	$1.7	$2.0	$9.1	$9.0	$9.5
Plasma centers	$4.6	$1.3	$1.3	$1.5	$1.4	$5.4	$5.3	$6.4
General and administrative	$6.7	$1.7	$1.7	$1.8	$1.8	$7.0	$12.0	$13.0
Income from operations	($15.5)	($4.2)	($5.5)	($3.7)	($4.1)	($17.4)	($17.1)	$15.5
Operating Margin	*-216%*	*-196%*	*-242%*	*-127%*	*-155%*	*-175%*	*-91%*	*20%*
Other income (expense)	($2.5)	($0.5)	($0.5)	($0.6)	($0.5)	($2.0)	($2.0)	($2.0)
Pre-Tax Income	($18.0)	($4.6)	($6.0)	($4.3)	($4.5)	($19.5)	($19.1)	$13.5
Income Taxes Paid	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	**($18.0)**	**($4.6)**	**($6.0)**	**($4.3)**	**($4.5)**	**($19.5)**	**($19.1)**	**$13.5**
Net Margin	*-250%*	*-217%*	*-265%*	*-147%*	*-172%*	*-195%*	*-101%*	*18%*
Reported EPS	**($1.73)**	**($0.43)**	**($0.50)**	**($0.34)**	**($0.35)**	**($1.60)**	**($1.42)**	**$0.92**
YOY Growth	*-4.6%*	*27.9%*	*13.5%*	*-29.5%*	*-26.8%*	*-11.7%*	*-11.4%*	*-165%*
Basic Shares Outstanding	10.41	10.71	12.12	12.89	13.00	12.18	13.50	14.60

Source: Company Filing // Zacks Investment Research, Inc. Estimates

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