Zacks Small-Cap Research

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ADMA Biologics, Inc. (ADMA - NASDAQ)

Updating EPS Estimates and Timeline

Based on our DCF model and a 20% discount rate, ADMA is valued at approximately $9.00 per share. We apply an 80% blended probability of FDA approval for ADMA's suite of immunoglobulin products.

Current Price (6/28/2017)	$3.85
Valuation	**$9.00**

In June 2017, ADMA closed its transformational Biotest acquisition and is currently addressing issues raised in the FDA-issued warning letter for the facility so it may resume processing of plasma. Currently the facility produces several IG products and is expected to resume production of Bivigam following the resolution of issues highlighted in the warning letter. Addressing these issues will also allow ADMA to resubmit the BLA for RI-002. Eventually, other IG products may be produced from these 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 and other IG products. Currently ADMA is developing a third collection center which is expected to begin generating revenues in 2018.

OUTLOOK

SUMMARY DATA

52-Week High	**$8.00**
52-Week Low	**$2.93**
One-Year Return (%)	**-39.0**
Beta	**2.57**
Average Daily Volume (sh)	**39,798**
Shares Outstanding (mil)	**25.8**
Market Capitalization ($mil)	**99.3**
Short Interest Ratio (days)	**2.26**
Institutional Ownership (%)	**66**
Insider Ownership (%)	**38**
***Insider Ownership is post-transaction**	
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)
2016	$2.1 A	$2.3 A	$2.9 A	$3.3 A	$10.7 A
2017	$2.6 A	$3.1 E	$7.1 E	$7.2 E	$20.1 E
2018					$49.1 E
2019					$118.6 E

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-$0.43 A	-$0.50 A	-$0.34 A	-$0.35 A	-$1.61 A
2017	-$0.51 A	-$0.54 E	-$0.56 E	-$0.56 E	-$2.16 E
2018					-$2.06 E
2019					-$0.05 E

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WHAT'S NEW

Updating Revenue and Earnings Estimates to Reflect Close of Biotest Asset Deal

ADMA Biologics, Inc. (NASDAQ: ADMA) announced the close of the Biotest Therapy Business Unit (BTBU) on June 6, 2017 and provided additional details on its corporate timeline in a June 27 release. We update financial statement estimates and our valuation to reflect the combined entity as of June 6, 2017 and additional information provided in the new timeline.

Our updated forecasts present the anticipated gross margin for both the plasma centers and the immunoglobulin products, contract manufacturing and intermediates sold (previously transferred internally) to Biotest. The acquisition included rights to two FDA licensed products, Nabi-HB and BIVIGAM, the latter of which has been temporarily halted pending the near term FDA re-inspection and resolution of the November 2014 warning letter. The transaction also included the 126,000 square foot manufacturing and testing facility on 15 acres of land in Boca Raton, Florida.

The close also includes the transfer of $12.5 million in cash and $15.0 million in a subordinated loan to ADMA's balance sheet. Based on end of 1Q:17 cash levels, we anticipate just under $30 million of cash to be reported at the end of 2Q:17 and a cash burn rate of about $5 million per month in 2H:17, which will improve as ADMA grows its revenues from current sources and adds BIVIGAM and RI-002 to the sales mix. Outstanding share balance is forecast to be 25.8 million, which reflects the addition of approximately 12.9 million shares issued to Biotest.

We anticipate revenues of $7.1 million in 3Q:17 and $7.2 million in 4Q:17. Loss per share is forecast to be ($0.56) for both the third and fourth quarters. We note that ADMA may not sell all the plasma generated from the facilities and may retain some for higher margin sales when it relaunches Bivigam, which may result in actual revenues coming in below our estimates.

Based on ADMA's updated timeline, we forecast a resumption of production of Nabi-HB, contract manufacturing and intermediates during 3Q:17. We note that the FDA's inspection schedule is unpredictable; however, the filing of a BLA or other change submission may precipitate a visit by FDA inspectors. At the latest, we see the FDA inspection occurring in 1Q:18. Bivigam should begin production following this event and with a mid-2018 resubmission of the BLA for RI-002, we anticipate first production of the high titer IG in 1Q:18. We also adjust our capital and research and development expenditure forecasts to reflect management's updated guidance. The net result of our adjustments reduce our target price to $9.00 per share. Below, we outline our expected timeline for ADMA's milestones:

- Resumption of production at Boca Raton (Biotest) Facilities 3Q:17
- Address issues in warning letter and complete response letter (CRL) – 3Q:17 to 4Q:17
- Re-inspection by FDA – 4Q:17 to 1Q:18
- Submit BLA for 3rd Plasma Collection Center 4Q:17
- Favorable response from the FDA regarding warning letter and CRL – 4Q:17
- Refinancing and capital raise – 3Q:17 to 1Q:18
- Resume production of Bivigam – 1Q:18
- Resubmit BLA for RI-002 – Mid-2018
- Favorable response from FDA regarding RI-002 – year-end 2018
- Begin production of RI-002 – 2019

While there are execution risks related to management solving the outstanding issues raised by the FDA, we believe management has sufficient incentive and ability to fix the problems. Prior to achieving the milestones listed above, there may be an attractive buying opportunity for investors that have confidence in ADMA's plan and the fortitude to withstand share price volatility. Our analysis has risk-adjusted our DCF valuation and we have also performed an asset valuation in a previous report which estimated a liquidation value of $6.40 per share, which is substantially higher than current levels. Based on our analysis, we see an attractive opportunity for investors who can withstand the risk and have the patience required to see ADMA through the FDA review process.

Transaction Trends in Plasma Protein Products

- In April, the Chinese venture capital firm Creat Group made an all-cash takeover offer to Biotest shareholders, bidding €28.50 per ordinary share and €19.00 per preference share or $1.3 billion in total. Creat had previously acquired China's largest listed blood products company Shanghai RAAS and the UK plasma supplier, Bio Products Laboratory.
- The Australian CSL Limited (ASX: CSL) reported last week a transaction to acquire an 80% stake in Chinese plasma fractionator Wuhan Zhong Yuan Rui De Biolgicals Products. The US$352 million deal includes four plasma collection stations and approximately 400 tonnes of processing capacity.

We highlight these deals that show interest in the plasma space exists and is expanding. Based on our analysis, both liquidation value our DCF valuation are well ahead of the current valuation based on our assumptions. This is supportive of ADMA being considered as an acquisition candidate even at levels well above where the stock trades today.

Biotest Therapy Business Unit (BTBU) Transaction Review

ADMA announced the acquisition of certain Biotest assets related to the manufacture of RI-002 and other plasma and immunoglobulin products on January 23, 2017. The deal also includes cash and 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 currently operating plasma centers to Biotest January 1, 2019
- Right to market new, plasma-based products in Biotest territories

The Boca Raton facilities manufactured three products in 2016: 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 January announcement of the BTBU deal, Biotest and Kedrion chose to halt production of BIVIGAM until the issues at the facility are remedied.

Our Forecasts

ADMA achieved a June 6th close to the acquisition. We anticipate an immediate effort to bring in the necessary experts to address the issues outlined in the warning letter and CRL. This is expected to be followed by an FDA re-inspection and lifting of the warning letter. Following a positive nod by the FDA, ADMA will resubmit its BLA for RI-002 and resume production of Bivigam. It remains unclear whether or not the resubmission of the BLA will require a two or six month review, and our conservative estimates assume the six month period suggesting a response by the agency before year-end 2018 and ultimate production shortly after.

Sales of RI-002 are forecast to be near $50 million in 2019 and reach over $100 million by 2020. Previous sales levels achieved under Biotest management for Bivigam were approximately $50 million, and we anticipate a slow ramp up back to this level beginning in 2018. Nabi-HB sales were just under $8 million in 2015 and 2016 and we anticipate similar levels of sales in 2017, rising at modest rates in future years. Contract manufacturing was just under $8 million in 2016, and we anticipate a reset slightly lower at $7.0 million in 2017, increasing modestly over the next several years.

Intermediates/Biotest Revenues are byproducts of immunoglobulin fractionation. Based on historical relationships, from 15% to 20% of specialty plasmas yield Intermediates revenues, therefore we maintain this proportion in our forecast model. Both plasma centers should be fully mature by 2018 and generate revenues between $6 and $7 million per year. We take a conservative view and forecast at the low end of this range for the company's two existing plasma centers. As part of the agreement to acquire BTBU, the two currently operational plasma centers will be transferred to Biotest in 2019. In early 2017, ADMA announced a lease to begin improvements on a space in Marietta, Georgia for a third plasma center which we anticipate will be online by the end of 2017 and begin to generate revenues by late 2018. We anticipate a slow ramp-up over the next few years to annual revenue of between $6 and $7 million.

Summary

The close of the BTBU deal is an important milestone which we anticipate will be rapidly followed by integration with ADMA operations and close work with the FDA to resolve the outstanding warning letter and CRL issues. We update our model to reflect quarterly estimates based on the June 9th closing date. Despite the share price volatility, we remain positive regarding the company's prospects. Even on a liquidation basis, we see substantial upside from current levels and we believe that investors who have a two to three year time horizon will be rewarded for their patience. The BTBU deal provides substantial value in assets that will transform ADMA into a vertically integrated plasma products company. 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 they will rapidly address them followed by a timely review. We adjust our target price to $9 per share.

PROJECTED FINANCIALS

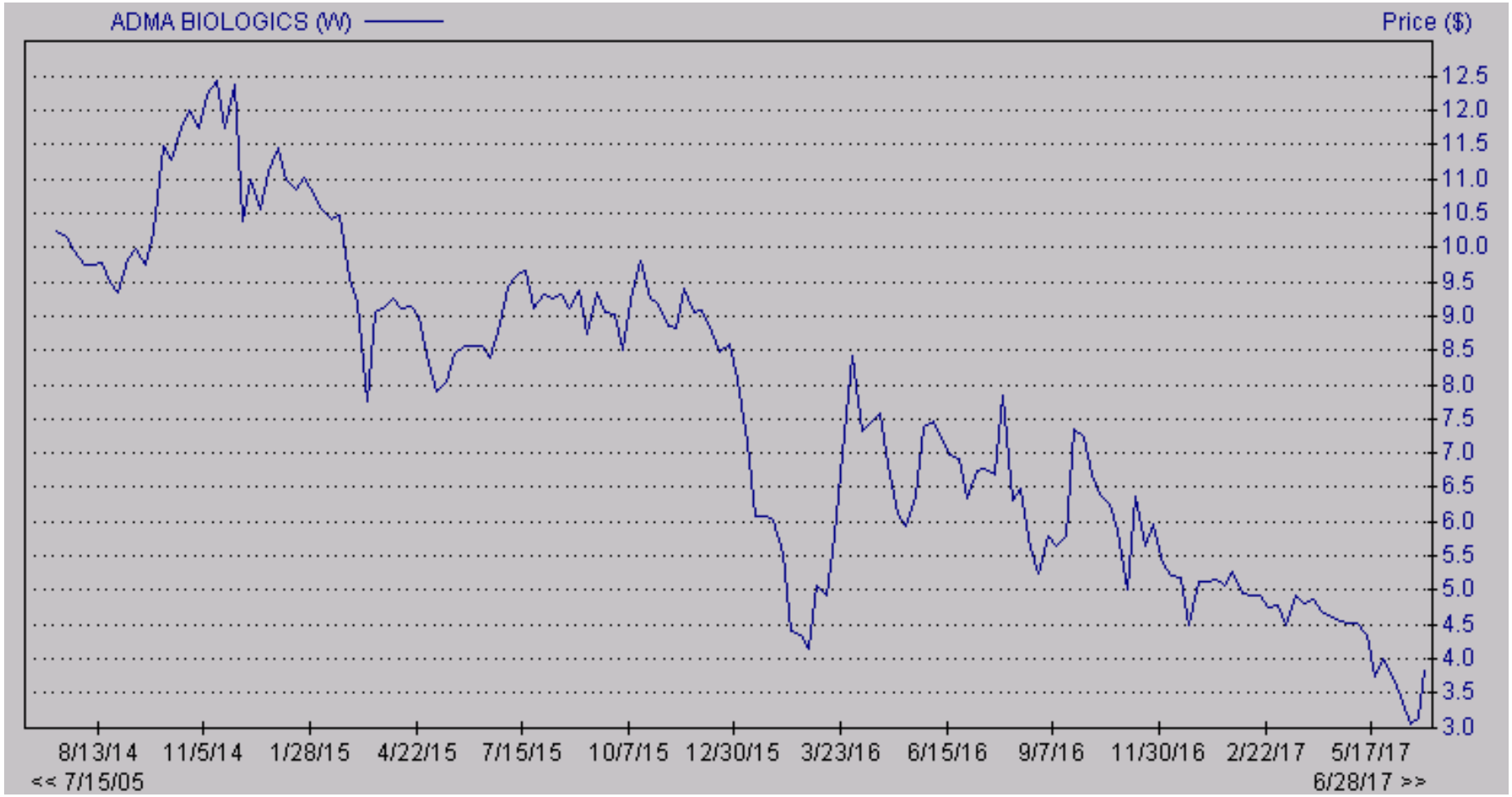
ADMA Biologics, Inc. - Income Statement

ADMA Biologics, Inc.	2016 A	Q1 A	Q2 E	Q3 E	Q4 E	2017 E	2018 E	2019 E
Total Revenues	**$10.7**	**$2.6**	**$3.1**	**$7.1**	**$7.2**	**$20.1**	**$49.1**	**$118.6**
YOY Growth	*49%*	*24%*	*38%*	*142%*	*116%*	*88%*	*145%*	*141%*
Cost of Product Revenue	$6.4	$1.6	$1.6	$2.8	$2.8	$8.9	$25.0	$44.9
Product Gross Margin	*39.5%*	*37.7%*	*40%*	*60%*	*61%*	*55%*	*51%*	*38%*
Research and development	$7.7	$1.2	$1.0	$2.2	$2.2	$6.6	$6.0	$6.1
Plasma centers	$5.4	$1.5	$1.4	$1.4	$1.4	$5.7	$6.6	$0.8
Manufacturing costs	$0.0	$0.0	$1.7	$8.8	$8.8	$19.2	$35.4	$35.6
Selling Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$5.0	$7.5
General and administrative	$8.5	$4.3	$5.6	$5.6	$5.6	$21.1	$21.4	$21.6
Income from operations	($17.3)	($5.9)	($8.2)	($13.7)	($13.6)	($41.4)	($50.2)	$2.0
Operating Margin	*-163%*	*-226%*	*-262%*	*-193%*	*-189%*	*-207%*	*-102%*	*2%*
Other income (expense)	($2.2)	($0.6)	($0.6)	($0.8)	($0.8)	($2.7)	($3.4)	($3.4)
Pre-Tax Income	($19.5)	($6.5)	($8.8)	($14.5)	($14.4)	($44.2)	($53.6)	($1.4)
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	**($19.5)**	**($6.5)**	**($8.8)**	**($14.5)**	**($14.4)**	**($44.2)**	**($53.6)**	**($1.4)**
Net Margin	*-183%*	*-249%*	*-279%*	*-204%*	*-200%*	*-220%*	*-109%*	*-1%*
Reported EPS	**($1.61)**	**($0.51)**	**($0.54)**	**($0.56)**	**($0.56)**	**($2.16)**	**($2.06)**	**($0.05)**
YOY Growth	*-11.3%*	*17.8%*	*8.2%*	*67.2%*	*57.6%*	*34.7%*	*-5%*	*-97%*
Basic Shares Outstanding	12.15	12.89	16.33	25.80	25.82	20.43	26.00	26.50

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

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