Zacks Small-Cap Research

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ADMA Biologics, Inc. (ADMA - NASDAQ)

Nabi-HB Resumes; Remediation Process Ongoing

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 (11/3/2017)	$2.24
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. The facility is approved to produce 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 manufactured.

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	**$6.88**
52-Week Low	**$2.16**
One-Year Return (%)	**-55.8**
Beta	**2.56**
Average Daily Volume (sh)	**32,755**
Shares Outstanding (mil)	**25.8**
Market Capitalization ($mil)	**57.8**
Short Interest Ratio (days)	**0.47**
Institutional Ownership (%)	**35**
Insider Ownership (%)	**54**
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	$3.4 A	$4.7 A	$5.5 E	$16.3 E
2018					$48.0 E
2019					$118.5 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	-$0.55 A	-$0.59 A	-$0.70 E	-$2.35 E
2018					-$2.08 E
2019					-$0.05 E

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WHAT'S NEW

Third Quarter 2017 Financial Results and Corporate Update

ADMA Biologics, Inc. (NASDAQ: ADMA) experienced its first full quarter merged with the Biotest Therapy Business Unit (BTBU) and reported 3Q:17 results on November 3, 2017. ADMA filed its 10-Q and distributed its press release highlighting progress in the quarter. Total revenues increased 61%, however this included additional revenues from the BTBU acquisition. Legacy revenues from the company's two plasma centers declined 3%. The main goal and achievement in the quarter was to resume production of Nabi-HB and to address the discrepancies in the FDA warning letter.

Third quarter revenues were $4.7 million, behind our $7.1 million estimate. Our forecasts included contributions from Nabi-HB, contract manufacturing and intermediates. However, due to delays in contracting with customers and partners, sales of contract manufacturing and intermediates did not occur. Sales of Nabi-HB were as expected. The growth in revenues on a GAAP basis was attributable to the recognition of new revenues from the BTBU assets. Net loss of ($15.2) million was better than our estimates of ($16.5) million due to lower than expected levels of product cost and lower general and administrative expense.

3Q:17 blood plasma sales of $2.8 million were essentially flat with the prior quarter and down slightly from the prior year's third quarter. Sales from ADMA BioManufacturing on a pro forma basis fell 88% due to Biotest's halt of production for Bivigam and lower volumes of Nabi-HB sales. Gross margin on plasma center sales fell 200 basis points compared to 3Q:16 to 38.2%, but rose sequentially by 320 basis points. Product costs of $9.6 million for BioManufacturing exceed revenues of $1.9 million in this segment due to market values used for Nabi-HB inventory inputs, unabsorbed manufacturing costs related to the Boca facility and $2.0 million in consulting fees to address the issues raised in the outstanding warning letter.[1] License revenues were again $36,000, consistent with prior periods, and related to services and financial payments provided by Biotest.

R&D increased by 8% to $1.8 million vs. 3Q:16 levels due to the addition of $0.6 million in R&D costs related to the manufacturing facilities and offset by lower validation, testing and production costs for RI-002. Plasma center expenses rose by $0.1 million due to greater center operating hours. G&A moved up sharply over the prior year to $4.2 million, but was down sequentially as transaction costs related to BTBU dissipated but still added $2.4 million over the prior year period.

Operations and capital expenditures (cash burn) consumed ($10.3) million in the quarter, up from ($4.7) million in the same period last year. Better than expected earnings contributed to a lower cash burn rate than we forecasted. ADMA also paid down $1.7 million in principal related to its loan with Oxford Finance in 3Q:17. At the end of the third quarter, the cash balance was $13.6 million.

Our forecasts present the combined gross margin for both the plasma centers and the immunoglobulin products, contract manufacturing and intermediates sold (previously transferred internally) to Biotest. For the remainder of 2017, cost of goods sold includes expenses related to the remediation of the warning letter and unabsorbed manufacturing costs, which will result in substantially negative gross margins. The costs related to the experts on hand to address the warning letter will abate following the withdrawal of the warning letter by the FDA. We note that the core cash margins will be close to 100% for Nabi-HB, as material costs will be zero due to existing inventories of the product. However, GAAP core gross margins will be close to zero percent, as inventory ready for sale was written up to market price, as per acquisition accounting rules.

We anticipate revenues of $5.5 million in 4Q:17. Loss per share is forecast to be ($0.70) for the fourth quarter. We adjusted our forecasts to reflect a slower ramp up in revenues due to the delay in contract manufacturing revenues and intermediates in both the fourth quarter and for 2018. Despite the lower than expected revenues, cash burn was lower than expected in 3Q:17 and is anticipated to at a similar level in 4Q:17, which improves the company's net debt position compared to our previous forecast.

[1] Based on accounting rules, when a product is approved (but production halted due to a warning letter), costs related to preparing the product for manufacturing are considered as part of cost of goods sold. If a product is not yet approved, these costs are allocated to R&D.

Credit Agreement

Following the end of the quarter, on October 10, 2017, ADMA entered into a credit agreement with Marathon and Wilmington Trust which provided access to a term loan of up to $40 million. ADMA drew $30 million of this total with the remaining $10 million available following approval of RI-002. The initial $30 million drawn from the agreement was used to pay down $17.0 million of the credit facility with Oxford. An additional $5.5 million was placed in reserve to fund debt repayment and $1.5 million was allocated to transaction costs. Remaining funds of approximately $6 million are available for key priorities and general corporate purposes.

S-1

ADMA has filed an S-1 and intends to issue 10.2 million shares with a 15% over-allotment option. At current share prices this could raise from $23 to $26 million in additional funds supporting remediation efforts and ramping up the manufacturing efforts at the BioManufacturing facilities. We note that Biotest has committed to making an additional equity investment of $12.5 million, which is approximately half of the estimated offering value. Total shares following the transaction will be 36 to 37.5 million depending on whether or not the over-allotment is exercised. While the calculation of our DCF based target price includes the impact of additional financing, our share balance estimates in our projected financials will be updated following the closure of the transaction.

Milestones Achieved Year to Date

- Completed BTBU acquisition on June 6, 2017
- Company received $12.5 million in cash and $15 million in loan proceeds in conjunction with acquisition
- Refinancing of Oxford loan with $40 million from Marathon Asset Management
- Received US patent for methods to provide immunotherapy to patients using immune globulin compositions proprietary to ADMA

Upcoming Milestones

Based on the reiteration of ADMA's timeline, we anticipate that the BioManufacturing facilities will be inspection ready by year end 2017. Nabi-HB resumed production in the third quarter, however contract manufacturing and intermediate product sales are expected to resume in 4Q: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. Below, we outline our expected timeline for ADMA's milestones:

- Completion of build out of new plasma draw facility in Marietta, Georgia
  - Submit BLA for center 4Q:17
  - First draw expected before end of year
- Address issues in warning letter and complete response letter (CRL)
- Re-inspection by FDA – 1Q:18
- Favorable response from the FDA regarding warning letter and CRL – 1H:18
- Refinancing and capital raise – 2018
- 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 they have 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 above 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.

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 3Q:17 revenue trends. Despite the share price volatility, we remain positive regarding the company's prospects. Even on a liquidation basis, we see valuation above 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 maintain our target price at $9 per share.

PROJECTED FINANCIALS

ADMA Biologics, Inc. - Income Statement

ADMA Biologics, Inc.	2016 A	Q1 A	Q2 A	Q3 A	Q4 E	2017 E	2018 E	2019 E
Total Revenues	**$10.7**	**$2.6**	**$3.4**	**$4.7**	**$5.5**	**$16.3**	**$48.0**	**$118.5**
YOY Growth	*49%*	*24%*	*50%*	*61%*	*66%*	*53%*	*195%*	*147%*
Cost of Product Revenue	$6.4	$1.6	$4.3	$11.3	$4.8	$22.0	$24.4	$44.9
Product Gross Margin	*39.5%*	*37.7%*	*-28.8%*	*-140.6%*	*12.7%*	*-36.5%*	*50.9%*	*37.9%*
Research and development	$7.7	$1.2	$1.4	$1.8	$2.2	$6.6	$6.0	$6.1
Plasma centers	$5.4	$1.5	$1.6	$1.6	$1.4	$6.1	$6.6	$0.8
Manufacturing costs	$0.0	$0.0	$0.0	$0.0	$8.8	$8.8	$35.4	$35.6
Selling Costs	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$5.0	$7.5
Amortization of Intangibles	$0.0	$0.0	$0.1	$0.3	$0.0	$0.3	$0.0	$0.0
General and administrative	$8.5	$4.3	$4.4	$4.2	$5.6	$18.5	$21.4	$21.6
Income from operations	($17.3)	($5.9)	($8.4)	($14.4)	($17.2)	($46.0)	($50.8)	$2.0
Operating Margin	*-163%*	*-226%*	*-247%*	*-305%*	*-311%*	*-282%*	*-106%*	*2%*
Other income (expense)	($2.2)	($0.6)	($0.6)	($0.8)	($0.8)	($2.8)	($3.4)	($3.4)
Pre-Tax Income	($19.5)	($6.5)	($9.0)	($15.2)	($18.0)	($48.8)	($54.2)	($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)**	**($9.0)**	**($15.2)**	**($18.0)**	**($48.8)**	**($54.2)**	**($1.4)**
Net Margin	*-183%*	*-249%*	*-266%*	*-321%*	*-326%*	*-300%*	*-113%*	*-1%*
Reported EPS	**($1.61)**	**($0.51)**	**($0.55)**	**($0.59)**	**($0.70)**	**($2.35)**	**($2.08)**	**($0.05)**
YOY Growth	*-11.3%*	*17.8%*	*10.9%*	*75.4%*	*97.5%*	*46.1%*	*-11%*	*-97%*
Basic Shares Outstanding	12.15	12.89	16.43	25.79	25.82	20.81	26.00	26.50

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

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