

Emergent BioSolutions (EBS - \$32.25)

USG Solicitations Shows Pivot to Next-gen NuThrax

EBS stock is lower today on news that the next US Government (USG) BioThrax procurement contract is likely in the 29.4M dose range, far lower than the current 44.8M dose contract, and well below what we (and investors) had believed would be the award size. Importantly, the USG also requested a proposal for development of a next generation BioThrax, one that could be administered in 1 or 2 doses and has already completed Phase 2 testing. EBS's NuThrax fits this description, and we believe the small BioThrax contract reflects the USG desire to transition over to a next-gen vaccine over the coming years. Also importantly we no longer expect EBS to reduce price from the ~\$28/dose range with the current contract, and in fact EBS could premium price the NuThrax product should it be approved in 2H18/1H19. We reiterate our Buy rating, \$45 price target.

- **U.S. Government Solicitations, anthrax still a priority.** HHS issued two solicitation notes for anthrax vaccines for the Strategic National Stockpile (SNS) that would protect 25M people by the continued purchase of 29.4M doses of BioThrax by 9/23/16 with a period performance of five years as well as 27M dose regimens of a next generation anthrax vaccine. Management believes NuThrax will satisfy HHS' solicitation and intends to respond by 8/5/16.
- **Pricing on next contract likely remains high.** We had previously modeled in a drop in the ~\$17/dose range on what we had anticipated would be a larger procurement contract. At the current 29.4M level we believe EBS will likely maintain the current ~\$28/dose price for BioThrax, and EBS could potentially raise that price should NuThrax be approved in 2H18/1H19.
- **Outer year modeling assumptions need adjusting.** EBS expects the 29.4M BioThrax contract to front loaded, with NuThrax coming in over 2018-2019 timeframe, with the SNS number now expected to be 50M total doses (from 75 previously). At the lower capacity run rate to the USG EBS has the opportunity to manufacture ex-US BioThrax now as well, at a potentially big premium.
- **Reiterate Buy rating \$45 price target.** Our price target is based on a sum-of-the-parts analysis, with a base business DCF value of \$40/share, cash (net of debt) and tech value of \$5/share.

Healthcare / Biotechnology

Ticker: **EBS**
Rating: **Buy**
Price Target: **\$45.00**

Trading Data:

Last Price (06/22/2016)	\$32.25
52-Week High (06/07/2016)	\$44.38
52-Week Low (10/07/2015)	\$27.68
Market Cap. (MM)	\$1,290
Shares Out. (MM)	40.06

Adj-Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY17E	0.22	0.61	0.89	0.93	2.65	14.9x
FY16E	0.16A	0.03	0.50	1.25	1.94	20.3x
FY15A	(0.50)	0.36	0.83	0.78	1.60	24.6x
FY14A	(0.40)	0.25	0.54	0.75	1.19	33.1x

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Source: Laidlaw & Company estimates

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Figure 1: Valuation

Sum-of-the-parts valuation: EBS		
Segment	Valuation (000's)	Per share value
DCF of base business	\$1,932,416	\$40
Net Cash, end '16E	\$185,258	\$4
Technology value	\$50,000	\$1
SUM	\$2,167,674	\$45
Fully diluted shares out '16E (000)		48,885

Source: Company reports; Laidlaw & Company estimates

Major Risks

Exogenous events could impact our outlook. We believe pharmaceutical companies have the least control over competitive, political, and regulatory risks. Although we have incorporated competitive assumptions into our forecasts, there may be other risks beyond the scope of our analysis. Changes in the drug reimbursement system, as well as any political or regulatory amendments, may significantly influence the earnings power of these companies.

Actual clinical results and the FDA's conclusions may deviate from expectations. Many of our assumptions are based on a review of incomplete clinical trial data available in the public domain. Often, our conclusions are drawn from early stage data, which may not be reflected by pivotal studies. Furthermore, the FDA's conclusions may not coincide with our own, materially changing our revenue and earnings assumptions.

Compliance issues, product recalls, and other mandates by regulatory authorities could materially change our expectations. Regulatory compliance issues, ranging from accounting irregularities to defective manufacturing practices, could materially change our assumptions and earnings outlook. Unanticipated product recalls and labeling changes could also have adverse consequences on our earnings assumptions.

Legal risks could lead to additional liabilities and revenue loss. In addition to the expenses incurred by patent challenges, product liability and other legal suits could occur and lead to additional liabilities and revenue loss, which could substantially change our financial assumptions.

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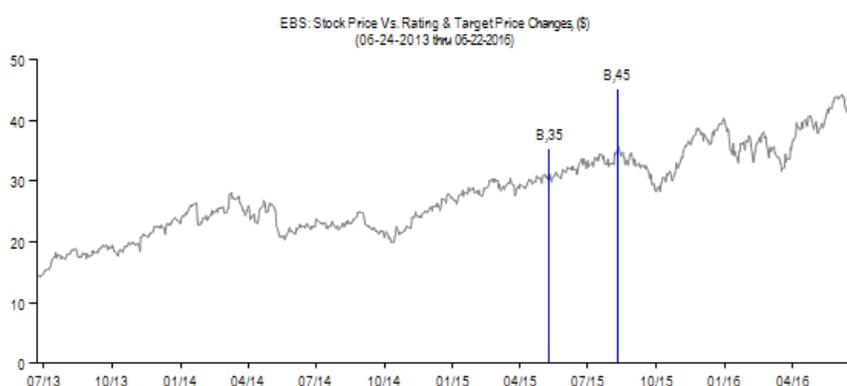
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Rating and Price Target Change History



3 Year Rating Change History

Date	Rating	Closing Price (\$)
05/11/2015	Buy (B)	31.11

3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
05/11/2015	35.00	31.11
08/10/2015	45.00	35.29

Source: Laidlaw & Company

Created by: Blue-Compass.net

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			Investment Banking	Brokerage
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Buy (B)	Expected to outperform the sector average over 12 months.	67.57%	27.03%	2.70%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	0.00%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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