

ADMA Biologics (ADMA - \$4.26)

1Q17: Biotest Post-Transaction Integration Should Occur Near Term Once the Transaction Is Closed

ADMA recently reported 1Q17 results with a net loss of (\$6.5MM) vs. Laidlaw (\$3.8MM) and the Street (\$4.3MM) estimates. The main discrepancy, we believe, is due to a one time non-cash loss associated with a proposed acquisition fee and others under the general and administrative line. Net loss/share was (\$0.51) vs. (\$0.30) and (\$0.28) for Laidlaw and the Street, respectively. ADMA ended 1Q17 with cash of ~\$8.8MM, plus recent financial transactions could support operations into 2H17, in our opinion.

- **Biotest transaction expected to close mid-year.** Our discussions with management suggested ADMA is already in active discussions with management of the Biotest U.S. operation. The objective is to improve the processes and lift some of the outstanding inspection issues and deficiencies cited by the FDA. We anticipate some implementation could start to take place once ADMA closes on the Biotest transaction, possibly in mid-year. The success of this not only could help ADMA to resubmit a BLA to address the issues from the CRL for the RI-002 BLA application, but also potentially help for the manufacturing issues associated with Biotest's other legacy products.
- **A vertically integrated ADMA.** Going forward, we view the investment thesis for ADMA will be changed from a single product company to one with a vertically integrated operation offering several products if the current renovation is successful. We anticipate ADMA in the near-term, could start generating revenues from Biotest's legacy product, Nabi-HB and contract manufacturing services. Once ADMA has resolved the CMC issues, and then potentially files a BLA in early 2018, we believe it is possible that the initial RI-002 in PIDD sales could start in the latter part of the year. We anticipate the agency could re-inspect the plant before making an approval decision. As such, under the Class II resubmission route, it would be six months for the FDA to respond.
- **Action.** We reiterate our Buy rating and \$15 target price, reflecting ADMA's resolution of the CRL issues, resulting in a potential RI-002 approval and launch. Our target price is supported by P/E, peer comparable and risk-adjusted cash flow sum-of-the-parts analyses.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-17E	-0.51A	-0.17	-0.27	-0.20	-1.02	NM
FY-16A	-0.43	-0.50	-0.34	-0.35	-1.61	NM
FY-15A	-0.37	-0.44	-0.48	-0.44	-1.73	NM
FY-14A	-0.64	-0.43	-0.36	-0.38	-1.93	NM

Source: Laidlaw & Company estimates

Healthcare/Biotechnology

Ticker:	ADMA
Rating:	Buy
Price Target:	\$15.00

Trading Data:

Last Price (5/15/2017)	\$4.26
52-Week High (7/29/2016)	\$8.00
52-Week Low (5/3/2017)	\$4.00
Market Cap. (MM)	\$55
Shares Out. (MM)	12.153

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Anticipated milestones in 2017 and beyond

Program	Indication	Event	Timing	Importance
RI-002	RSV infection prevention in PIDD	Potential resubmit BLA	2018	*****
		Potential U.S. approval	2018	*****
		Potential U.S. product launch	2H18	*****
VZIG (Varitect)	Vicella Zoster virus infection	Potential commence Phase II/III study	2017	***
BioCenters		FDA approval of 3rd BioCenter	2018	***

**** / ***** Major catalyst event that could impact share price very significantly while *** event is more informative

Source: Laidlaw & Company estimates and company presentation.

Major Risks

Risks of clinical study failure could have a major impact on ADMA share value. Despite a well-established path for IVIG approval, risks still exist as RI-002 might not be approved by the FDA if the pivotal study does not meet its endpoints. Given that the majority of upside for ADMA shares is currently based on the assumption that the product can be approved before its commercial potential can be realized, an unsuccessful approval application would have a significant negative impact on ADMA share value.

Commercial success of the RI-002 in PIDD and potentially in transplantation is less predictable. We believe that the potential product label for RI-002, if approved, would likely to indicate as a regular IVIG; and higher titer of anti-RSV antibodies could appear on the label if the pivotal study met the relevant secondary endpoint. As such, the company may not promote the product directly for the prevention or treatment of RSV infection. Instead it may be based on the understanding that receiving high titer RSV antibodies should reduce probability of RSV infection. With more limited sales and marketing tactics available, the sales ramp up could be slower than projected. There is also risk that more rapid sales expansion might only occur after the company conducts more clinical studies and demonstrates positive clinical outcomes.

Developments by competitors may render RI-002 or relevant technologies obsolete or un-competitive. Although the manufacturing processes of RI-002 are protected by proprietary technology, trade secrets and know-how, it is possible that other competitors develop similar processes to produce similar or even better anti-RSV IVIG. As such, the company might not enjoy the competitive edge and potentially damage RI-002's commercial outlook

Plasma collection center operations might not perform as expected. The company currently operates one and expects to expand into three plasma collection centers over the next 12 months. Although the plasma collection operation is a business with relatively sustainable positive cash flows, and ADMA management appears to have substantial experience; risks of mismanagement or other factors could result in sub-par business performance. Less successful performance in this area could negatively impact the expected cash flow and strategic objective of diversifying plasma sources for RI-002 production.

Limited product diversity could increase overall risk. Given the nascent stage of the corporate development, the majority of the product pipeline value mainly resides on RI-002. The second potential pipeline product, an anti-Vicella Zoster virus immunoglobulin, is in very early development stage with market potential possibly much smaller. As such, we believe the company at the current stage has very limited diversification potential in its product pipeline.

Lack of cash could impede corporate development. Despite the company's recent successful IPO, which raised \$26.5MM of cash, ADMA could potentially

need more financial resources going forward if they want to expand and further develop its pipeline. Should the product not receive FDA approval or product revenue does not reach expectations, the company might have to issue new equity to raise additional cash. Under such a scenario, the share value of existing shareholders could be diluted.

Limited trading liquidity limits shareholder options. Given that ADMA shares only entered the public market recently; daily trading volume and name recognition are relatively low. With relatively illiquid trading volume, shareholders wanting to increase or reduce their positions in a volatile stock market may face constraints.

Income Statement

ADMA Biologics – Income Statement

(\$ '000)	2013	2014	2015	2016	1Q17	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E
Revenue												
Product revenue	3,024	5,840	7,050	10,518	2,593	2,386	2,314	2,337	9,630	10,401	10,921	11,543
RI-002 revenue	-	-	-	-	-	-	-	-	-	20,218	61,829	96,269
Legacy products	-	-	-	-	-	-	1,900	3,500	5,400	15,000	16,500	17,490
License revenue	44	76	127	143	36	36	36	36	144	144	144	144
Total Revenue	3,068	5,916	7,178	10,661	2,629	2,422	4,250	5,873	15,174	30,762	72,894	107,956
Cost of product revenue	2,023	3,742	4,311	6,361	1,616	1,431	1,388	1,402	5,839	6,240	6,552	6,926
Cost of RI-002	-	-	-	-	-	-	-	-	-	10,109	30,915	48,135
Gross revenue (RI-002)	-	-	-	-	-	-	-	-	-	10,109	30,915	48,135
Gross revenue (Biocenter)	1,000	2,076	2,739	4,157	977	954	926	935	3,792	4,160	4,368	4,617
Total gross revenue	1,000	2,076	2,739	4,157	977	954	2,826	4,435	9,192	29,269	51,783	70,242
Research and development	9,303	9,517	7,016	7,688	1,193	1,252	2,490	2,540	7,476	7,849	8,242	8,654
Plasma center operating expenses	2,418	3,851	4,618	5,448	1,479	1,193	1,157	1,169	4,998	5,198	5,354	5,461
General and administrative	4,365	4,824	6,746	8,495	4,277	2,353	3,676	3,705	14,012	14,768	15,359	15,973
Marketing and sales	-	-	-	-	-	-	-	-	-	9,321	9,825	10,316
Total Operating Expenses	16,087	18,192	18,380	21,631	6,950	4,798	7,323	7,414	26,485	37,137	38,779	40,404
Operating Income (loss)	(15,042)	(16,019)	(15,514)	(17,330)	(5,937)	(3,807)	(4,462)	(2,943)	(17,150)	(7,724)	13,147	29,982
Interest income	8	14	38	50	19	12	12	12	55	65	79	86
Interest expense	(618)	(1,286)	(1,843)	(2,240)	(619)	(520)	(746)	(750)	(2,635)	(2,635)	(2,635)	(2,635)
Change in fair value of stock warrants	43	(74)	68	-	-	-	-	-	-	-	-	-
Other income	82	-	(719)	4	-	-	(1,900)	(1,900)	(3,800)	(7,600)	(7,600)	(3,800)
Total other expenses	(485)	(1,346)	(2,456)	(2,185)	(600)	(508)	(2,634)	(2,638)	(6,380)	(10,169)	(10,156)	(6,348)
Income (loss) before tax expense	(15,527)	(17,365)	(17,975)	(19,515)	(6,537)	(4,315)	(7,096)	(5,581)	(23,530)	(17,893)	2,991	23,633
Income tax expense-State income tax benefit	-	552	-	-	-	-	-	-	-	-	(1,107)	(8,744)
Net Incomes (Losses)	(15,527)	(17,917)	(17,975)	(19,515)	(6,537)	(4,315)	(7,096)	(5,581)	(23,530)	(17,893)	1,885	14,889
Net Earnings (Losses) Per Share—Basic	(\$2.38)	(\$1.93)	(\$1.73)	(\$1.61)	(\$0.51)	(\$0.17)	(\$0.27)	(\$0.20)	(\$1.02)	(\$0.60)	\$0.06	\$0.48
Net Earnings (Losses) Per Share—Diluted	(\$2.38)	(\$1.93)	(\$1.73)	(\$1.61)	(\$0.51)	(\$0.17)	(\$0.27)	(\$0.20)	(\$1.02)	(\$0.60)	\$0.06	\$0.48
Shares outstanding—basic	6,531	9,292	10,412	12,153	12,887	25,773	25,973	27,973	23,152	29,973	30,373	30,773
Shares outstanding—diluted	6,531	9,292	10,412	12,153	12,887	25,773	25,973	27,973	23,152	29,973	30,373	30,773
Margin Analysis (% of Revenue)												
Gross (Biocenter)	33%	36%	39%	40%	40%	40%	40%	40%	40%	40%	40%	40%
Cost of RI-002	-	-	-	0%	-	-	-	50%	50%	50%	50%	50%
R&D	303%	161%	98%	72%	45%	52%	59%	43%	49%	26%	11%	8%
Plasma operation	80%	66%	66%	52%	51%	50%	50%	50%	52%	50%	49%	47%
G&A	142%	82%	94%	80%	163%	97%	86%	63%	92%	48%	21%	15%
M&S	-	-	-	-	-	-	-	-	0%	30%	13%	10%
Operating Income (loss)	-490%	-271%	-216%	-163%	-226%	-157%	-105%	-50%	-113%	-25%	18%	28%
Net Income	-506%	-303%	-250%	-183%	-249%	-178%	-167%	-95%	-155%	-58%	3%	14%
Financial Indicator Growth Analysis (Y/Y)												
Product (Biocenter) revenue	170%	93%	21%	49%	24%	7%	-20%	-29%	-8%	8%	5%	6%
RI-002 revenue (projected)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	206%	56%
Total Revenue	174%	93%	21%	49%	24%	7%	45%	77%	42%	103%	137%	48%
Research and development	168%	2%	-26%	10%	-41%	-63%	48%	335%	-3%	5%	5%	5%
Plasma center operating expenses	38%	59%	20%	18%	16%	-8%	-22%	-16%	-8%	4%	3%	2%
General and administrative	39%	11%	40%	26%	150%	36%	107%	13%	65%	5%	4%	4%
Marketing and sales	-	-	-	-	-	-	-	-	-	26%	5%	5%
Operating incomes	90%	6%	-3%	12%	43%	-31%	19%	-25%	-1%	-55%	-270%	128%
Pretax Income	96%	12%	4%	9%	42%	-28%	64%	22%	21%	-24%	-117%	690%
Net Income	113%	15%	0%	9%	42%	-28%	64%	22%	21%	-24%	-111%	690%
EPS - Basic	35%	-19%	-10%	-7%	18%	-66%	-19%	-44%	-37%	-41%	-110%	680%
EPS - Diluted	35%	-19%	-10%	-7%	18%	-66%	-19%	-44%	-37%	-41%	-110%	680%
Shares outstanding—basic	58%	42%	12%	17%	20%	113%	102%	117%	90%	29%	1%	1%
Shares outstanding—diluted	58%	42%	12%	17%	20%	113%	102%	117%	90%	29%	1%	1%

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Source: Bloomberg LP; Company reports; Laidlaw & Company estimates.

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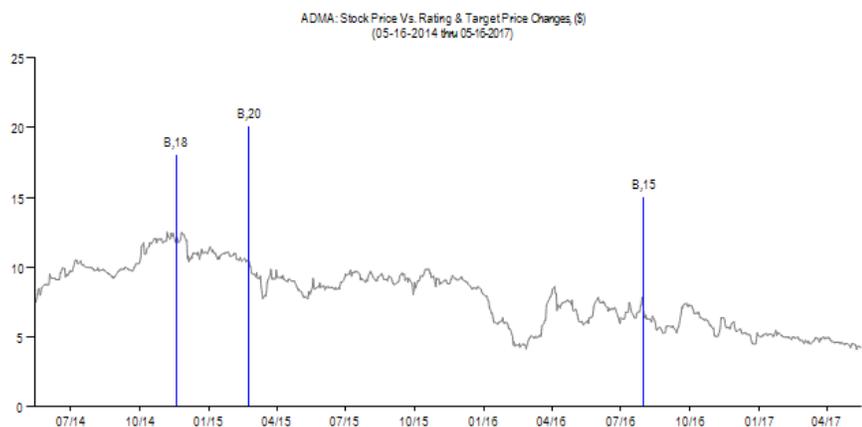
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Rating and Price Target Change History



3 Year Rating Change History

Date	Rating	Closing Price (\$)
11/18/2...	Buy (B)	12.05

3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
11/18/2...	18.00	12.05
02/23/2...	20.00	10.40
08/01/2...	15.00	6.49

Source: Laidlaw & Company

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			Investment Banking	Brokerage
Strong Buy (SB)	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	63.64%	29.55%	2.27%
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Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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