

ADMA Biologics (ADMA - \$5.06)

Acquisition of Biotest U.S. Manufacturing Facilities and Selected Products

ADMA announced this morning that they are in the process of acquiring the U.S. immune globulin manufacturing facility, two marketed products and \$40MM financing from Biotest Pharmaceuticals in exchange for nearly 50% of ADMA shares and two plasma collection centers.

- Details.** The immune globulin manufacturing facility is located in Boca Raton, FL with fully equipped plasma fractionation and purification plant and a commercial scale monoclonal antibody production facility, which is decommissioned currently. The immune globulin plant processes RI-002. The two marketed products are Nabi-HB, a human Hepatitis B immune globulin, and BIVIGAM, a regular IVIG as prophylactic for PIDD. The deal also includes contract manufacturing and services agreement for a third party's licensed hyperimmune globulin product. The financing includes: 1) \$12.5MM cash paid upon closing; 2) \$15MM unsecured subordinated loan (6% annual interest with full principal re-payment by the end of the five years or 2022); and 3) \$12.5MM future equity financings. In exchange, Biotest will receive 50% of ADMA capital stock less one share, consisting of 25% voting common stock; one director and one observer seat of the Board of Directors; and two plasma collection centers (starting 2019). The deal is expected to close in 1H17. By entering into a standstill with ADMA, Biotest will have limited ability controlling ADMA, like conducting a proxy contest. Biotest also has a 6 month lock up before becoming eligible for selling ADMA securities.
- Implications.** We view this transaction positively as it enables ADMA to become a vertically integrated plasma producer pure play with a broader product offering. More importantly, it could accelerate the resolution of issues related to the RI-002 CRL given ADMA will have full control of the processes and Biotest now has an even more increased incentive due to significant ownership. We believe the problems could be resolved, possibly later in 2017. ADMA believed CRL issues related to the other two vendors have been resolved; and the plant only needs limited CAPEX with under-utilized capacity currently.
- Action.** We are reiterating our Buy rating and \$15 target price to reflect that ADMA should resolve issues of the CRL, resulting in 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.

Healthcare/Biotechnology

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

Trading Data:

Last Price (1/20/2017)	\$5.06
52-Week High (4/4/2016)	\$8.85
52-Week Low (2/26/2016)	\$4.15
Market Cap. (MM)	\$65
Shares Out. (MM)	10.412

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-17E	-0.29	-0.28	-0.24	-0.45	-1.28	NM
FY-16E	-0.43A	-0.50A	-0.34A	-0.29	-1.53	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

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Source: Laidlaw & Company estimates

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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	2017	*****
		Potential U.S. approval	2017	*****
		Potential U.S. product launch	2017	*****
VZIG (Varitect)	Vicella Zoster virus infection	Potential commence Phase II/III study	2017	***
BioCenters		FDA approval of 3rd BioCenter	2017	****

**** / ***** 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	1Q16	2Q16	3Q16	4Q16E	2016E	2017E	2018E	2019E	2020E
Revenue												
Product revenue	3,024	5,840	7,050	2,088	2,236	2,902	3,131	10,358	13,029	14,071	14,775	15,617
RI-002 revenue	-	-	-	-	-	-	-	-	7,044	70,955	130,491	170,129
License revenue	44	76	127	36	36	36	36	143	144	144	144	144
Total Revenue	3,068	5,916	7,178	2,124	2,272	2,938	3,167	10,501	20,217	85,170	145,410	185,889
Cost of product revenue	2,023	3,742	4,311	1,266	1,344	1,736	1,879	6,225	7,817	8,443	8,865	9,370
Cost of RI-002	-	-	-	-	-	-	-	-	3,522	35,477	65,246	85,064
Gross revenue (RI-002)	-	-	-	-	-	-	-	-	3,522	35,477	65,246	85,064
Gross revenue (Biocenter)	1,000	2,076	2,739	822	892	1,166	1,253	4,133	5,211	5,628	5,910	6,247
Total gross revenue	1,000	2,076	2,739	822	892	1,166	1,253	4,133	8,733	41,106	71,155	91,311
Research and development	9,303	9,517	7,016	2,028	3,400	1,677	1,493	8,598	5,926	6,222	6,533	6,860
Plasma center operating expenses	2,418	3,851	4,618	1,280	1,294	1,483	1,379	5,436	6,546	6,808	7,012	7,152
General and administrative	4,365	4,824	6,746	1,708	1,724	1,779	1,655	6,866	6,785	7,152	7,438	7,735
Marketing and sales	-	-	-	-	-	-	-	-	7,398	9,321	9,825	10,316
Total Operating Expenses	16,087	18,192	18,380	5,016	6,418	4,939	4,526	20,899	26,655	29,503	30,808	32,064
Operating Income (loss)	(15,042)	(16,019)	(15,514)	(4,159)	(5,491)	(3,737)	(3,238)	(16,624)	(17,778)	11,746	40,491	59,391
Interest income	8	14	38	14	12	12	10	47	48	58	69	76
Interest expense	(618)	(1,286)	(1,843)	(467)	(538)	(606)	(483)	(2,094)	(2,076)	(2,076)	(2,076)	(2,076)
Change in fair value of stock warrants	43	(74)	68	-	-	-	-	-	-	-	-	-
Other income	82	-	(719)	-	4	-	-	4	-	-	-	-
Total other expenses	(485)	(1,346)	(2,456)	(454)	(521)	(594)	(473)	(2,043)	(2,028)	(2,018)	(2,007)	(2,000)
Income (loss) before tax expense	(15,527)	(17,365)	(17,975)	(4,612)	(6,012)	(4,331)	(3,711)	(18,667)	(19,806)	9,728	38,484	57,391
Income tax expense-State income tax benefit	-	552	-	-	-	-	-	-	-	(3,599)	(14,239)	(21,235)
Net Incomes (Losses)	(15,527)	(17,917)	(17,975)	(4,612)	(6,012)	(4,331)	(3,711)	(18,667)	(19,806)	6,129	24,245	36,156
Net Earnings (Losses) Per Share—Basic	(\$2.38)	(\$1.93)	(\$1.73)	(\$0.43)	(\$0.50)	(\$0.34)	(\$0.29)	(\$1.53)	(\$1.28)	\$0.35	\$1.36	\$1.98
Net Earnings (Losses) Per Share—Diluted	(\$2.38)	(\$1.93)	(\$1.73)	(\$0.43)	(\$0.50)	(\$0.34)	(\$0.29)	(\$1.53)	(\$1.28)	\$0.35	\$1.36	\$1.98
Shares outstanding—basic	6,531	9,292	10,412	10,711	12,122	12,887	12,937	12,164	15,437	17,437	17,837	18,237
Shares outstanding—diluted	6,531	9,292	10,412	10,711	12,122	12,887	12,937	12,164	15,437	17,437	17,837	18,237
Margin Analysis (% of Revenue)												
Gross (Biocenter)	33%	36%	39%	39%	40%	40%	40%	40%	40%	40%	40%	40%
Cost of RI-002	-	-	-	-	-	-	0%	0%	50%	50%	50%	50%
R&D	303%	161%	98%	95%	150%	57%	47%	82%	29%	7%	4%	4%
Plasma operation	80%	66%	66%	61%	58%	51%	44%	52%	50%	48%	47%	46%
G&A	142%	82%	94%	80%	76%	61%	52%	65%	34%	8%	5%	4%
M&S	-	-	-	-	-	-	-	-	37%	11%	7%	6%
Operating Income (loss)	-490%	-271%	-216%	-196%	-242%	-127%	-102%	-158%	-88%	14%	28%	32%
Net Income	-506%	-303%	-250%	-217%	-265%	-147%	-117%	-178%	-98%	7%	17%	19%
Financial Indicator Growth Analysis (Y/Y)												
Product (Biocenter) revenue	170%	93%	21%	41%	73%	59%	28%	47%	26%	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.	907%	84%	30%
Total Revenue	174%	93%	21%	41%	73%	59%	26%	46%	93%	321%	71%	28%
Research and development	168%	2%	-26%	45%	126%	-21%	-25%	23%	-31%	5%	5%	5%
Plasma center operating expenses	38%	59%	20%	22%	18%	22%	10%	18%	20%	4%	3%	2%
General and administrative	39%	11%	40%	27%	20%	-14%	-12%	2%	-1%	5%	4%	4%
Marketing and sales	-	-	-	-	-	-	-	-	-	26%	5%	5%
Operating incomes	90%	6%	-3%	30%	56%	-20%	-22%	7%	7%	-166%	245%	47%
Pretax Income	96%	12%	4%	28%	28%	-15%	-19%	4%	6%	-149%	296%	49%
Net Income	113%	15%	0%	28%	28%	-15%	-19%	4%	6%	-131%	296%	49%
EPS - Basic	35%	-19%	-10%	18%	13%	-29%	-35%	-11%	-16%	-127%	287%	46%
EPS - Diluted	35%	-19%	-10%	18%	13%	-29%	-35%	-11%	-16%	-127%	287%	46%
Shares outstanding—basic	58%	42%	12%	9%	13%	20%	25%	17%	27%	13%	2%	2%
Shares outstanding—diluted	58%	42%	12%	9%	13%	20%	25%	17%	27%	13%	2%	2%

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

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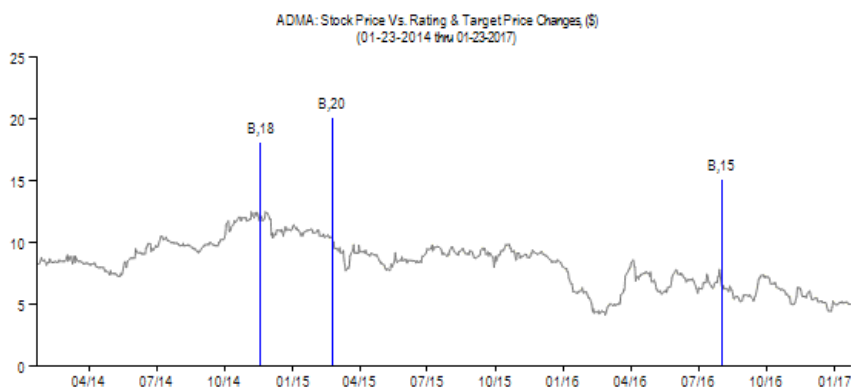
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RATINGS INFORMATION

Rating and Price Target Change History



Source: Laidlaw & Company

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3 Year Rating Change History

Date	Rating	Closing Price (\$)
11/18/2014	Buy (B)	12.05

3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
11/18/2014	18.00	12.05
02/23/2015	20.00	10.40
08/01/2016	15.00	6.49

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			Investment Banking	Brokerage
Strong Buy (SB)	Expected to significantly outperform the sector over 12 months.	2.44%	2.44%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	58.54%	26.83%	2.44%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	4.88%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	4.88%	0.00%	0.00%

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