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Adma Biologics (NASDAQ/ADMA)

HOLD Rating Lowered to Neutral Based on Dilution

Adma had a busy quarter with FDA approvals for BIVIGAM and ASCENIV. (and FDA product licenses for BIVIGAM and Nabi-HB. In addition, the company raised \$51.7M in the quarter, closing the period with \$73M in cash and \$82M in debt. Adjusting for the raise lowers our price target from \$6.00 to \$4.00 which means our rating is revised from Buy to Neutral.

Investment Highlights

Lowering from Buy to Hold. Adjusting our model for the additional shares associated with the recent raise has the effect to lower our projected valuation from \$6.00 to \$4.00 per share. As this represents less than 20% upside to the stock, we are compelled to lower our rating from Buy to Neutral. We do believe in the fundamentals of the ADMA story, but we are concerned with a high debt level and the company's ability to monetize recently approved products.

ADMA reported 2Q19 results. In the period the company generated \$6.5M in revenues against \$18M in expenses. The quarter closed with \$73M in cash (which includes a \$52M raise) and \$82M in debt. Regulatory approvals for BIVIGAM and ASCENIV are now in place (including manufacturing which includes NABI-HB), so the stage is set for the company to start manufacturing and selling product. We took note that ADMA reported \$23.5M in inventory on hand.

Manufacturing Math. ADMA now owns and operates its manufacturing plant, located in Boca Raton, Fla. The facility can produce three products: (1) BIVIGAM; (2) Nabi-HB; and (3) RI-002. We have worked out the manufacturing math associated with the plant and conclude that the plant at full capacity can make \$118M annually of BIVIGAM at 10% margins or \$693M of RI-002 at 70% gross margin. The challenge for ADMA we see is to optimize sales of RI-002 and use the remaining capacity to manufacture the other products, BIVIGAM and higher margin Nabi-HB. NABI-HB addresses a smaller market with (by our estimates) peak sales of \$10M but like RI-002 with margins at 70%. We estimate that by 2020, ADMA should be producing and selling \$33M of RI-002, \$43M of BIVIGAM, and \$10M of Nabi-HB, which if realized means that ADMA is a cash flow positive company.

What's Next For ADMA? We will be waiting and watching as management works to monetize the investment in manufacturing. If ADMA can assure the investment community that it can essentially sell-out its manufacturing capacity, we would expect the stock would react favorably to such news.

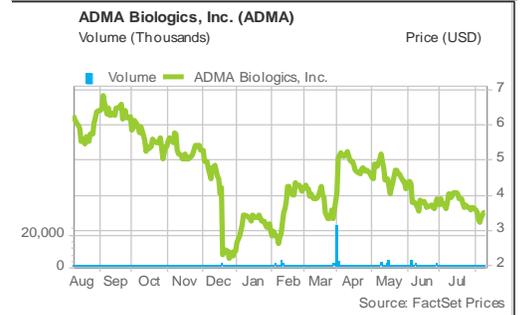
August 12, 2019

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Current Price \$3.48
Price Target \$4.00

Estimates	F2017A	F2018E	F2019E
Revenues (\$000s)	\$ 22,761	\$ 16,985	\$ 42,662
1Q March	\$ 2,629	\$ 4,043	\$ 3,528
2Q June	\$ 3,399	\$ 4,656	\$ 9,214
3Q September	\$ 4,729	\$ 4,230	\$ 12,940
4Q December	\$ 12,003	\$ 4,056	\$ 16,980
	F2017A	F2018E	F2019E
EPS (diluted)	\$ (2.00)	\$ (1.45)	\$ (0.81)
1Q March	\$ (0.51)	\$ (0.39)	\$ (0.28)
2Q June	\$ (0.55)	\$ (0.35)	\$ (0.22)
3Q September	\$ (0.59)	\$ (0.33)	\$ (0.17)
4Q December	\$ (0.36)	\$ (0.39)	\$ (0.13)

EBITDA/Share	
EV/EBITDA (x)	
Stock Data	
52-Week Range	\$2.08 - \$6.96
Shares Outstanding (mil.)	59.3
Market Capitalization (mil.)	\$206
Enterprise Value (mil.)	\$179
Debt to Capital	7%
Book Value/Share	\$0.89
Price/Book	5.6
Average Three Months Trading Volume (K)	837
Insider Ownership	23.5%
Institutional Ownership	40.5%
Short interest (mil.)	7.9%
Dividend / Yield	\$0.00/0.0%



Update - August 12, 2019 - Buy - Price Target \$4

Valuation. ADMA as a company has gone through a significant transition from a drug developer to a company that now will be manufacturing multiple products and soon, with the approval of RI-002 now in hand, ADMA expects to be commercializing this and other products soon. We see RI-002 as a unique high-value, high margin product. In our opinion RI-002 remains the key driver for the company. How successful can ADMA be in commercializing RI-002? We estimate the product could price at \$500 per gram versus BIVIGAM at \$85 per gram versus the cost to produce each, RI-002 at \$150 per gram and BIVIGAM at \$75 per gram. BIVIGAM is a low margin product, but ADMA should be able to sell as much as it can manufacture in the U.S. as the market size is large, and there are reports of supply shortages. As such, we see the combination of BIVIGAM and ADMA's other product Nabi-HB as creating an operational base for ADMA. RI-002 as a high margin product becomes the performance driver to turn the company cash flow positive. In addition to our models, which reflect how the product mix may develop, we must also be aware of the facility value or the value of ADMA's manufacturing operations. We should also factor into our thinking the fact that the Boca Raton facility has now under-gone a top to bottom FDA review, and we believe the facility is now in full compliance. We know that acquisitions of similar facilities have been in the \$300 million to \$400 million range.

Our models for BIVIGAM and RI-002 are patient based. These then feed into our income statement and allow us to apply valuation metrics based on our projected regulatory timelines, pricing and costs, expected cost of goods sold, and other factors. We assume that BIVIGAM is re-launched by the middle of 2019 and is RI-002. For new RI-002 indications in development, we apply a probability of success of just 30%. These indications include HSCT, SOT, and chemotherapy patients. The development of these indications is partially dependent on the demand for RI-002 in the primary indication, PIDD. If the demand is high, the need to develop RI-002 is lower in these other indications, as ADMA's capacity is limited. See our product modeling assumptions for more detail.

Our valuation conclusion is an equally weighted average of our free cash flow to the firm (FCFF), earnings per share (EPS), and sum-of-the-parts analysis discounted at a rate of 30% to account for the risks of development and commercialization and rounded to the nearest whole number. We typically use 30% for companies with only pipeline products that are not yet cash flow positive as is the case for ADMA. We assume a P/E multiple of just 15x, (which is based on a comparative analysis), which we feel is conservative versus the few comparisons, none of which are ideal, but suggest a higher multiple. We adjusted our model for the recent raise (dilution), and the effect is to lower our price target from \$6.00 to \$4.00 and lower our rating from Buy to Neutral.

Exhibit 1. Free Cash Flow Model

Average	\$	4
Price Target	\$	4
Year		2019

DCF Valuation Using FCFF:

units ('000)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
EBIT	(25,757)	(1,631)	12,540	56,810	101,329	155,036	185,640	205,683	228,460	255,627
Tax Rate	0%	0%	5%	7%	9%	10%	12%	12%	15%	18%
EBIT(1-t)	(25,757)	(1,631)	11,913	52,834	92,209	139,532	163,363	181,001	194,191	209,614
CapEx	(300)	(330)	(363)	(399)	(439)	(483)	(531)	(585)	(643)	(707)
Depreciation	4,282	5,139	6,167	7,400	8,880	10,656	12,787	15,344	18,413	22,096
Change in NWC										
FCF	(21,775)	3,178	17,717	59,834	100,650	149,705	175,619	195,761	211,961	231,002
PV of FCF	(21,775)	2,445	10,483	27,234	35,240	40,320	36,384	31,198	25,984	21,783
Discount Rate	30%									
Long Term Growth Rate	1%									
Terminal Cash Flow	681,787									
Terminal Value YE2023	108,654									
NPV	326,798									
NPV-Debt	43,496									
Shares out (thousands)	69,245									
NPV Per Share	\$ 4									

Source: Dawson James.

Exhibit 2. Discounted-EPS Model

Current Year	2019
Year of EPS	2028
Earnings Multiple	15
Discount Factor	30%
Selected Year EPS	\$ 3.03
NPV	\$ 4

		Discount Rate and Earnings Multiple Varies, Year is Constant					
		2028 EPS					
PE Multiple		5%	10%	15%	20%	25%	30%
			1	\$1.95	\$1.28	\$0.86	\$0.59
	5	\$9.76	\$6.42	\$4.30	\$2.93	\$2.03	\$ 1.43
	10	\$19.51	\$12.84	\$8.60	\$5.87	\$4.06	\$ 2.85
	15	\$29.27	\$19.26	\$12.91	\$8.80	\$6.09	\$ 4.28
	20	\$39.02	\$26.67	\$17.21	\$11.73	\$8.13	\$ 5.71
	25	\$48.78	\$32.09	\$21.51	\$14.67	\$10.16	\$ 7.14
	30	\$58.53	\$38.51	\$25.81	\$17.60	\$12.19	\$ 8.56
	35	\$68.29	\$44.93	\$30.12	\$20.53	\$14.22	\$ 9.99

Source: Dawson James.

Exhibit 3. Sum-of-the-Parts Model

ADMA Biologics Sum-of-the-Parts	LT Gr	Discount Rate	Yrs. to Mkt	% Success	Peak Sales MMs	NPV
RI-002 (PDD)	1%	30%	1	100%	\$229	\$789
NPV						\$2.63
Hematopoietic Stem Cell Transplant (HSCT)	1%	30%	4	30%	\$50	\$174
NPV						\$0.08
Solid Organ Transplant (SOT)	1%	30%	4	30%	\$22	\$77
NPV						\$0.03
Cancer patients (receiving chemotherapy)	1%	30%	4	30%	\$76	\$261
NPV						\$0.12
Contract manufacturing and other products	1%	30%	1	100%	\$13	\$46
NPV						\$0.15
BIVIGAM	1%	30%	1	100%	\$78	\$268
NPV						\$0.89
Nabi-HB	1%	30%	0	100%	\$3	\$10
NPV						\$0.04
Plasma Centers (Plasma Sold)- one left	1%	15%	10	30%	\$13	\$93
NPV						\$0.03
Net Margin						30%
MM Shrs OS (2028E)						69
Total						\$4

Source: Dawson James.

Risk Analysis

Clinical and regulatory risk. The products may not receive regulatory approval in the products' respective jurisdictions. For ADMA, this is approval in the U.S. by the FDA. There are no assurances ADMA's products will be approved and even if approved, will be reimbursed by insurance.

Manufacturing risk. Manufacturing, packaging, labeling, storage, and distribution procedures must all conform to good manufacturing practices. ADMA acquired its contract manufacturer's facility in an effort to ensure product compliance. There can be no assurances that the facility will be certified, and once certified will remain in compliance with regulators' standards. We note that while it rarely happens regulatory authorities may withdraw product approvals, request product recalls, or impose marketing restrictions through labeling changes or product removals if a company fails to comply with regulatory standards, if regulators encounter problems following initial marketing, or if previously unrecognized problems are subsequently discovered.

Commercial risk. There are no assurances that the company will be able to achieve a critical level of market share to become profitable. ADMA is working to drive a product mix towards its higher margin product RI-002 versus lower margin products such as BIVIGAM. There are no assurances that ADMA will be successful in achieving a product mix that can support the company to become cash flow positive.

Competition risk. The IVIG marketplace is oligopolistic with three well-capitalized large companies (Shire, CSL Behring, and Grifols) which control as much as 80% of the marketplace. Competing with these companies is likely to be a challenge for ADMA.

Financial risk. The company may need to raise capital in the marketplace, and there can be no assurances that the company will be able to successfully raise capital and do so on favorable terms.

Intellectual property risk. The company may have to defend its positions against possible infringement of others' patents and avoid infringing the proprietary rights of third parties.

August 12, 2019

Exhibit 4. Income Statement

ADMA Biologics Income Statement (\$000)																		
ADMA Biologics	1Q19A	2Q19A	3Q19E	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Revenue (\$000)																		
RI-002 Indications																		
PIDD			-	22,515	22,515	7,660	8,326	7,993	9,325	33,303	46,858	95,600	134,092	174,093	190,277	200,572	217,803	228,914
Hematopoietic Stem Cell Transplant (HSCT)	-	-	-	-	-	-	-	-	-	-	-	7,170	12,800	20,518	32,347	36,879	43,561	50,496
Solid Organ Transplant (SOT)	-	-	-	-	-	-	-	-	-	-	-	1,314	5,364	12,311	15,349	17,081	18,876	22,218
Cancer patients (receiving chemotherapy)	-	-	-	-	-	-	-	-	-	-	-	4,481	13,714	32,642	42,812	53,378	59,401	75,744
Other immune compromised groups, elderly																		
Other Revenue																		
Plasma Centers (Plasma Sold)- one left		250	300	350	900	525	550	575	850	2,500	2,625	2,756	2,894	3,039	3,191	3,350	3,518	3,694
License Revenues	36	5	5	5	51	19	19	19	19	76	76	76	76	76	76	76	76	76
Nabi-HB	609	615	621	627	2,473	634	640	646	653	2,573	2,599	2,625	2,651	2,678	2,704	2,731	2,759	2,786
BIVIGAM	2,700	5,502	4,134	4,823	17,224	9,878	10,737	10,308	12,026	42,949	59,744	65,008	70,459	71,875	77,633	74,794	76,297	77,831
Contract and other products	184	188	180	210	750	181	197	189	221	788	4,000	5,000	7,000	7,350	9,000	11,000	12,000	13,200
Total Product Sales	3,528	6,560	5,240	28,530	43,912	18,897	20,469	19,730	23,093	82,188	115,902	184,031	249,050	324,582	373,390	399,862	434,291	474,958
Expenses																		
Cost of Goods Sold (BIVIGAM)	9,205	10,051	3,638	4,244	27,138	8,693	9,449	9,071	10,583	37,795	52,575	57,207	62,004	63,250	68,317	65,819	67,142	68,491
% COGS (high)	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%	88%
Cost of Goods Sold (RI-002)	-	-	-	6,754	6,754	2,298	2,498	2,398	2,797	9,991	14,057	32,570	49,791	71,869	84,236	92,373	101,892	113,211
% COGS (low)	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Cost of Goods Sold (Nabi-HB)	200	185	186	188	759	190	192	194	196	772	780	787	795	803	811	819	828	836
% COGS (high)	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Cost of Goods Sold (all other bus. Areas)		255	305	355	915	544	569	594	869	2,576	2,701	2,832	2,970	3,115	3,267	3,426	3,594	3,770
% COGS	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
Total COGS	9,405	10,491	4,129	11,542	35,566	11,725	12,708	12,257	14,445	51,134	70,113	93,396	115,560	139,038	156,631	162,437	173,455	186,308
% COGS	267%	160%	79%	40%	40%	62%	62%	62%	63%	63%	60%	51%	46%	43%	42%	41%	40%	39%
General and Administrative	5,595	6,086	5,973	5,973	23,628	6,025	6,025	6,025	6,025	24,101	24,583	25,074	25,576	26,087	26,609	27,141	27,684	28,238
Research and Development	871	517	517	517	4,005	1,021	1,021	1,021	1,021	4,085	4,166	4,250	4,335	4,421	4,510	4,600	4,692	4,786
Plasma Center Cost to Operate	654	594																
Amortization of Intangibles	211	211																
Total expenses	16,737	17,899	10,619	18,032	63,287	18,771	19,754	19,303	21,491	79,319	98,862	122,720	145,471	169,546	187,750	194,179	205,832	219,332
Oper. Inc. (Loss)	(13,209)	(11,339)	(5,379)	10,498	(19,429)	126	715	427	1,602	2,869	17,040	61,310	103,579	155,036	185,640	205,683	228,460	255,627
Interest Income	127	(10)			117													
Interest Expense Biotest	(1,541)	210	(225)	(225)	(1,781)	(225)	(225)	(225)	(225)	(900)	(900)	(900)	(450)	-	-	-	-	-
Interest Expense Marathon	(9,974)	(2,073)	(2,073)	(2,073)	(3,600)	(900)	(900)	(900)	(900)	(3,600)	(3,600)	(3,600)	(1,800)	-	-	-	-	-
Change in Fair Value of Warrants																		
Plasma Centers (gain)	11,527																	
Loss on extinguishment of debt																		
Total Other Expenses	140	(1,873)	(2,298)	(2,298)	(6,328)	(1,125)	(1,125)	(1,125)	(1,125)	(4,500)	(4,500)	(4,500)	(2,250)	-	-	-	-	-
Pretax Income	(13,068)	(13,212)	(7,677)	8,200	(25,757)	(999)	(410)	(698)	477	(1,631)	12,540	56,810	101,329	155,036	185,640	205,683	228,460	255,627
Income Tax Benefit (Provision)	-	-	-	-	-	-	-	-	-	-	627	3,977	9,120	15,504	22,277	24,682	34,289	46,013
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	5%	7%	9%	10%	12%	12%	15%	18%
GAAP Net Income (loss)	(13,068)	(13,212)	(7,677)	8,200	(25,757)	(999)	(410)	(698)	477	(1,631)	11,913	52,834	92,209	139,532	163,363	181,001	194,191	209,614
GAAP-EPS	(0.28)	(0.25)	(0.11)	0.12	(0.53)	(0.01)	(0.01)	(0.01)	0.01	(0.02)	0.18	0.78	1.36	2.05	2.39	2.63	2.82	3.03
Non GAAP EPS (dil)	(0.28)	(0.25)	(0.11)	0.12	(0.53)	(0.01)	(0.01)	(0.01)	0.01	(0.02)	0.18	0.78	1.36	2.05	2.39	2.63	2.82	3.03
Wgtd Avg Shrs (Bas) - '000s	46,353	52,206	66,831	66,898	58,072	66,965	67,032	67,099	67,166	67,065	67,334	67,604	67,875	68,147	68,420	68,694	68,969	69,245
Wgtd Avg Shrs (Dil) - '000s	46,353	52,206	66,831	66,898	58,072	66,965	67,032	67,099	67,166	67,065	67,334	67,604	67,875	68,147	68,420	68,694	68,969	69,245

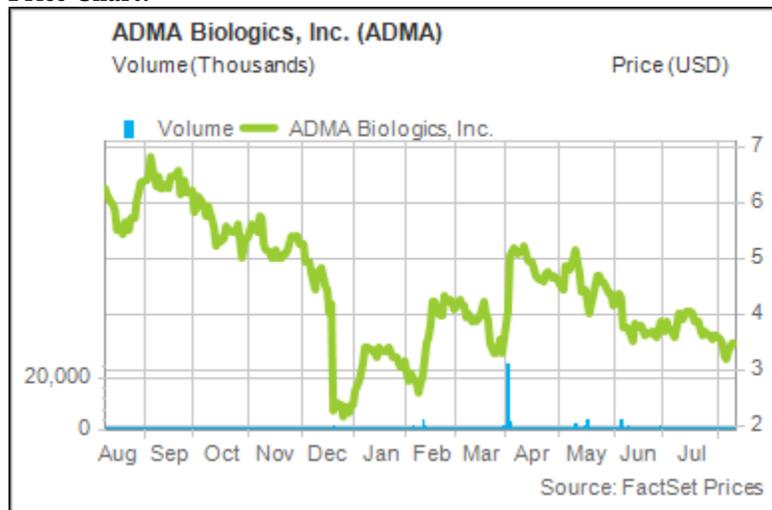
Source: Dawson James.

Companies mentioned in this report:

Biotest (BIO3: Not Rated)

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

- Initiated – Buy – December 28, 2018 – Price Target \$7.0
- Update – Buy – April 3, 2019 – Price Target \$7.0
- Update – Buy – May 30, 2019 – Price Target lowered from \$7.0 to \$6.0
- Update – Buy – July 10, 2019 – Price Target \$6.0
- Update – Hold – August 12, 2019 – Price Target lowered from \$6.00 to \$4.00

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- 1) **Buy:** the analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** the analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	42	84%	13	31%
Market Perform (Neutral)	8	16%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	50	100%	13	26%

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