

Adamis Pharmaceuticals (ADMP-NASDAQ)

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Jason H. Kolbert
Head of Healthcare Research
646-465-6891
jkolbert@dawsonjames.com

BUY Symjepi is Coming, Naloxone too.

Adamis reported 2Q19 in a positive and upbeat call. Revenues of \$5.8M showed the turn-around in the compounding business. Adamis closed the period with \$4.1M in cash but adding in the proceeds of the recent raise of \$12.7M bring the company close to \$17M in cash. The impact of Symjepi should start to show up in the second half of the year. We have adjusted our share count and product estimates. The net effect is our price target is adjusted slightly from \$5.00 to \$4.00.

Investment Highlights

Adamis reported 2Q19 with a positive call. CEO Dennis DeCarlo discussed that the prospects for the company have never looked more positive. We believe his comments were driven by a number of factors which include the turnaround in the compounding business, the outlook for Symjepi as Novartis (NS-Not Rated) begins to launch the product, the cash balance (post raise now at \$17M), and the pipeline opportunities, and specifically Naloxone.

The full launch of Symjepi is now underway. SYMJEPi (epinephrine injection) is now available in the U.S. in both doses (the 0.3mg and 0.15mg) in local pharmacies across the nation. “The company is hopeful that Sandoz’s marketing efforts, combined with the ongoing shortage of epinephrine injection products in the market will begin to increase sales of SYMJEPi and cash to Adamis by the end of 2019”. If we assume Pharma giant Novartis can achieve just 10% of the \$1B EpiPen marketplace, it would equate to \$121M in revenues. There are certain adjustments we make related to manufacturing revenue and supply costs so that the net revenue to Adamis is close to 40% of the gross reported sales.

Naloxone coming too. Why is an easy to inject version of Naloxone needed? One answer: Fentanyl. Evidence is showing that many of the over-doses reported by first responders require multiple doses. Naloxone could be part of the answer as first responders seek to rescue the 72,000 annual overdose deaths in the United States. We could see high dose Naloxone enter the market by Q120. We view this as a less competitive space with potential equal to, or even greater than Symjepi.

Patent litigation is settled. Following the initial NDA filing for Naloxone, the process hit a speedbump when an infringement patent was filed by Kaleo against Adamis for using their drug as the reference listed compound. Upon meeting with the FDA, Adamis decided to eliminate EVZIO as the reference drug, eliminating the issue. Naloxone remains on track for an approval (October 31, 2019) this year.

Updating Asthma and Respiratory Practices: Adamis is pursuing two inhalable oral steroid treatments for asthma with the hope of delivering equivalent efficacy at lower doses. APC-1000 is a hydrofluoroalkane inhalable steroid in Phase 3 and APC-4000 is a dry powder inhaler (DPI) in phase 2.

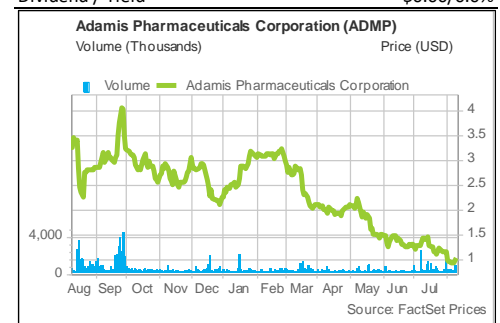
Current Price	\$1.04
Price Target	\$4.00

Estimates	F2019E	F2020E	F2021E
Expenses (\$000s)	\$ 43,843	\$ 41,813	\$ 44,622
1Q March	\$ 13,843	\$ 9,663	\$ 10,263
2Q June	\$ 13,512	\$ 10,067	\$ 10,709
3Q September	\$ 8,900	\$ 10,838	\$ 11,602
4Q December	\$ 7,588	\$ 11,244	\$ 12,048

	F2019E	F2020E	F2021E
EPS (diluted)	\$ (0.41)	\$ (0.07)	\$ 0.14
1Q March	\$ (0.19)	\$ (0.03)	\$ 0.02
2Q June	\$ (0.17)	\$ (0.04)	\$ 0.02
3Q September	\$ (0.05)	\$ 0.04	\$ 0.09
4Q December	\$ (0.01)	\$ (0.04)	\$ 0.02

EBITDA/Share	(\$0.37)	(\$0.07)	\$0.14
EV/EBITDA (x)	0.0	0.0	0.0

Stock Data			
52-Week Range	\$0.93	-	\$4.25
Shares Outstanding (mil.)	60.9		
Market Capitalization (mil.)	\$63		
Enterprise Value (mil.)	\$57		
Debt to Capital	4%		
Book Value/Share	\$1.18		
Price/Book	0.9		
Average Three Months Trading Volume (K)	380		
Insider Ownership	6.2%		
Institutional Ownership	18.8%		
Short interest (mil.)	7.0%		
Dividend / Yield	\$0.00/0.0%		



Valuation: Our product models run out to the year 2030. For Symjepi, an approved product, we do not apply a discount (a risk cut), versus Naloxone where we do use a 30% discount on the model itself. Our price target is derived from an equal-weighted average of free cash flow (FCFF), discounted EPS (EPS), and sum-of-the-parts (SOP) models, all discounted at a rate of 15% as Symjepi is an approved product and we see minimal risk in Naloxone. Our share count is adjusted for the recent raise and assumes additional dilution. We are currently modeling that the company can reach break-even by 2020. These metrics suggest a 12-month price target of \$4.00.

Risks: Partnership risks, Commercialization risks, Financial risks, Clinical and regulatory risks, and Legal and intellectual property risk.

Valuation. We value ADMP based on the revenues in our product models. We apply assumptions for FDA product approvals, launch dates, and product attributes to estimate revenues. These estimates feed into our income statement through the year 2030. Our Symjepi estimates are based on royalties from Novartis – Sandoz, of 50% of net sales payable to Adamis. For conservatism, we apply risk cuts to our pipeline product sales projections to allow for the development risk in pipeline products. Our price target is derived from an equal-weighted average of free cash flow (FCFF), discounted EPS (EPS), and sum-of-the-parts (SOP) models. For companies that are well established with mature products and revenues, we typically discount at a 10% rate, for companies in the early stages of product commercialization we typically use a higher rate, 15%, which is now the case for Adamis.

Exhibit 1. Discounted Free Cash Flow Model

Average	\$	4
Price Target	\$	6
Year		2019

DCF Valuation Using FCF (mln):												
units ('000)	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(20,704)	(4,773)	10,426	31,633	66,654	99,025	135,777	151,204	163,110	168,867	177,000	185,227
Tax Rate	0%	0%	10%	12%	18%	20%	24%	24%	24%	28%	30%	34%
EBIT(1-t)	(20,704)	(4,773)	9,384	27,837	54,657	79,220	103,191	114,915	123,964	121,584	123,900	122,250
CapEx												
Depreciation	1,454	-	-	-	-	-	-	-	-	-	-	-
Change in NWC												
FCF	(19,251)	(4,773)	9,384	27,837	54,657	79,220	103,191	114,915	123,964	121,584	123,900	122,250
PV of FCF	(19,251)	(4,151)	7,095	18,303	31,250	39,386	44,612	43,201	40,524	34,562	30,626	26,276.72
Discount Rate	15%											
Long Term Growth Rate	1%											
Terminal Cash Flow	881,944											
Terminal Value YE2030	189,568											
NPV	482,003											
NPV-Debt												
Shares out (thousands)	87,079	2030E										
NPV Per Share	\$	6										

Source: Dawson James

Exhibit 2. EPS Model

Current Year	2019
Year of EPS	2030
Earnings Multiple	15
Discount Factor	15%
Selected Year EPS	\$ 1.40
NPV	\$ 5.00

Source: Dawson James estimates.

Discount Rate and Earnings Multiple Varies, Year is Constant								
		2030 EPS						
		5.0	5%	10%	15%	20%	25%	30%
Earnings Multiple	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$ -
	5	\$4.00	\$2.00	\$2.00	\$1.00	\$1.00	\$1.00	\$ -
	10	\$8.00	\$5.00	\$3.00	\$2.00	\$1.00	\$1.00	\$ 1.00
	15	\$12.00	\$7.00	\$5.00	\$3.00	\$2.00	\$2.00	\$ 1.00
	20	\$16.00	\$10.00	\$6.00	\$4.00	\$2.00	\$2.00	\$ 2.00
	25	\$21.00	\$12.00	\$8.00	\$5.00	\$3.00	\$3.00	\$ 2.00
	30	\$25.00	\$15.00	\$9.00	\$6.00	\$4.00	\$4.00	\$ 2.00
	35	\$29.00	\$17.00	\$11.00	\$7.00	\$4.00	\$4.00	\$ 3.00

Source: Dawson James

Exhibit 3. Sum-of-the-Parts Model

Adamis Pharmaceuticals	LT Gr	Discount Rate	Yrs. to Mkt	% Success	Peak Sales MMs	Term Val
Symjepi	1%	15%	0	100%	\$135	\$964
NPV						\$2.21
Naloxone	1%	15%	1	90%	\$25	\$175
NPV						\$0.32
APC-1000 HFA Inhaled Oral Steroid (maintenance therapy)	1%	30%	3	50%	\$93	\$321
NPV						\$0.17
APC-4000 Fluticasone - Taper Dry Powder Inhaler (DPI)	1%	30%	3	50%	\$48	\$166
NPV						\$0.09
APC-8000 Tadalafil (Erectile Dysfunction)	1%	30%	3	50%	\$0	\$0
NPV						\$0.00
Compounding business	1%	30%	0	75%	\$61	\$209
NPV						\$0.36
Net Margin						20%
MM Shrs OS (2030E)						87
Total						\$3

Source: Dawson James

Risk Analysis

In addition to the typical risks associated with development stage specialty pharmaceutical companies, potential risks specific to Adamis are as follows:

Partnership risk. While Adamis has a partnership agreement with Sandoz to market Symjepi, such agreements are subject to disagreements and disputes. Revenue results may not materialize. The company is also expected to make agreements with partners for additional products, but there can be no assurances that the company will be able to secure favorable partnerships.

Commercial risk. There are no assurances that the company will be able to achieve significant sales, market share, or become profitable.

Clinical and regulatory risk. Lead products need to complete clinical trials. Trials may not produce the results expected from previous research or be sufficient for regulatory approval.

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 or do so, at favorable terms.

Legal and intellectual property risk. The company may have to defend its patents and technical know-how, and there can be no assurances that the patents will not be infringed or will be held as valid if challenged, and or that the company may infringe on third parties patents.

Exhibit 4. Income Statement

Adamis Pharmaceuticals Corporation: Income Statement (\$000)																									
ADMP: YE December	2018A	1Q19A	2Q19A	3Q19E	4Q19E	2019E	1Q20E	2Q20E	3Q20E	4Q20E	2020E	1Q21E	2Q21E	3Q21E	4Q21E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Symjepi Gross revenues (not included in total product sales)*			1,265	2,500	4,000	7,765	4,600	4,800	5,200	5,400	20,000	6,900	7,200	7,800	8,100	30,000	45,000	65,000	75,000	100,000	111,000	125,000	125,000	130,000	135,000
Naloxone Gross revenues (not included in total product sales)*							723	754	817	848	3,142	1,469	1,532	1,660	1,724	6,385	9,751	13,265	16,959	20,863	21,442	22,094	22,826	23,647	24,564
APC-1000 HFA Inhaled Oral Steroid (maintenance therapy)							0	0	0	0	0	1,913	1,996	2,163	2,246	8,318	26,292	46,171	58,378	71,763	75,614	79,671	83,946	88,451	93,197
APC-4000 Fluticasone - Taper Dry Powder Inhaler (DPI)							0	0	0	0	-	0	0	0	0	-	-	4,779	20,141	31,832	39,130	41,230	43,442	45,773	48,230
APC-8000 Tadalafil (Erectile Dysfunction)							0	0	0	0	-	0	0	0	0	-	-	-	-	-	-	-	-	-	-
Pharmaceutical Compounding business	15,087	4,906	4,500	4,600	4,750	24,000	4,893	5,039	5,190	5,346	20,468	5,414	5,649	6,120	6,355	23,539	27,069	31,130	34,243	37,667	41,434	45,577	50,135	55,148	60,663
Total Product Sales *	15,087	4,906	5,765	7,100	8,750	26,521	10,215	10,593	11,207	11,595	43,611	15,695	16,378	17,743	18,425	68,241	108,112	160,345	204,720	262,125	288,620	313,572	325,350	343,019	361,654
Royalty Revenue on Symjepi & Naloxone*	-		633	1,250	2,000	3,883	2,661	2,777	3,009	3,124	11,571	4,184	4,366	4,730	4,912	18,192	27,375	39,133	45,979	60,431	66,221	73,547	73,913	76,823	79,782
% Royalty (slides on Commercial levels)	#DIV/0!	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Symjepi /Naloxone Milestones	-								5,000		5,000			5,000		5,000									
Product Sales & Royalties & Milestones	15,087	4,906	5,133	5,850	6,750	22,638	7,554	7,816	13,199	8,470	37,040	11,511	12,012	18,013	13,513	55,049	80,737	121,213	158,741	201,694	222,399	240,025	251,437	266,196	281,872
Expenses																									
Cost of Goods Sold	9,798	3,625	3,666	1,400	1,588	10,279	1,591	1,644	1,714	1,769	6,717	1,794	1,872	2,028	2,106	7,801	10,332	13,580	16,237	19,597	21,646	23,689	25,153	26,998	28,987
%COGS	65%	74%	64%	20%	18%	39%	16%	16%	15%	15%	15%	11%	11%	11%	11%	11%	10%	8%	8%	7%	7%	8%	8%	8%	8%
Research and Development	18,804	2,197	2,846	2,000	1,500	8,542	2,259	2,358	2,554	2,652	9,824	2,598	2,711	2,937	3,050	11,297	12,992	14,940	17,182	19,759	22,723	26,131	30,051	34,558	39,742
%R&D	125%	45%	49%	28%	17%	32%	22%	22%	23%	23%	23%	17%	17%	17%	17%	17%	12%	9%	8%	8%	8%	8%	9%	10%	11%
General and Administrative	25,948	8,021	7,000	5,500	4,500	25,022	5,813	6,065	6,571	6,823	25,272	5,871	6,126	6,636	6,892	25,525	25,780	26,038	26,298	26,561	26,827	27,095	27,366	27,640	27,916
%SG&A	48%	58%	52%	62%	59%	57%	60%	60%	61%	61%	60%	57%	57%	57%	57%	57%	53%	48%	44%	40%	38%	35%	33%	31%	29%
Total expenses	54,550	13,843	13,512	8,900	7,588	43,843	9,663	10,067	10,838	11,244	41,813	10,263	10,709	11,602	12,048	44,622	49,104	54,558	59,716	65,916	71,195	76,915	82,570	89,196	96,645
Operating income (Loss)	(39,464)	(8,938)	(8,379)	(3,050)	(838)	(21,204)	(2,109)	(2,250)	2,360	(2,774)	(4,773)	1,248	1,302	6,411	1,465	10,426	31,633	66,654	99,025	135,777	151,204	163,110	168,867	177,000	185,227
Interest expense	(158)	(24)	(23)																						
Interest Income	245	74	34																						
Gain/Loss on extinguishment of debt																									
Change in fair value of derivative liabilities																									
Change in fair value of conversion feature liability																									
Change in fair value of warrants																									
Change in fair value of warrants liability																									
Total other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pretax Income	(39,376)	(8,887)	(8,368)	(3,050)	(838)	(21,204)	(2,109)	(2,250)	2,360	(2,774)	(4,773)	1,248	1,302	6,411	1,465	10,426	31,633	66,654	99,025	135,777	151,204	163,110	168,867	177,000	185,227
Discontinued operations																									
Write down of discontinued operations receivable																									
Loss from continued operations																									
Income Tax Benefit (Provision)	369	-	-	-	-	-	-	-	-	-	-	125	130	641	147	1,043	3,796	11,998	19,805	32,586	36,289	39,146	47,283	53,100	62,977
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	10%	10%	10%	10%	10%	12%	18%	20%	24%	24%	24%	28%	30%	34%
GAAP Net Income (loss)	(39,007)	(8,887)	(8,368)	(3,050)	(838)	(21,204)	(2,109)	(2,250)	2,360	(2,774)	(4,773)	1,123	1,172	5,770	1,319	9,384	27,837	54,657	79,220	103,191	114,915	123,964	121,584	123,900	122,250
Deemed Dividend on Preferred Stock																									
GAAP-EPS	(1.00)	(0.19)	(0.18)	(0.05)	(0.01)	(0.40)	(0.04)	(0.04)	0.04	(0.05)	(0.08)	0.02	0.02	0.10	0.02	0.16	0.48	0.93	1.35	1.75	1.94	2.09	2.04	2.07	2.03
GAAP EPS (dil)	(1.00)	(0.19)	(0.18)	(0.05)	(0.01)	(0.38)	(0.03)	(0.04)	0.04	(0.04)	(0.07)	0.02	0.02	0.09	0.02	0.14	0.41	0.77	1.09	1.38	1.49	1.56	1.48	1.47	1.40
Wgt'd Avg Shrs (Bas) - '000s	39,085	47,311	47,539	57,587	57,644	52,520	57,702	57,760	57,817	57,875	57,789	57,933	57,991	58,049	58,107	58,020	58,252	58,486	58,720	58,955	59,192	59,429	59,667	59,906	60,146
Wgt'd Avg Shrs (Dil) - '000s	39,085	47,475	47,539	63,015	63,645	55,418	63,645	64,281	64,924	65,573	64,606	65,573	66,229	66,891	67,560	66,563	68,580	70,658	72,799	75,005	77,278	79,620	82,032	84,518	87,079

Source: Dawson James estimates.

Companies mentioned in this report:

Kaleo (private)

Novartis (NVS)

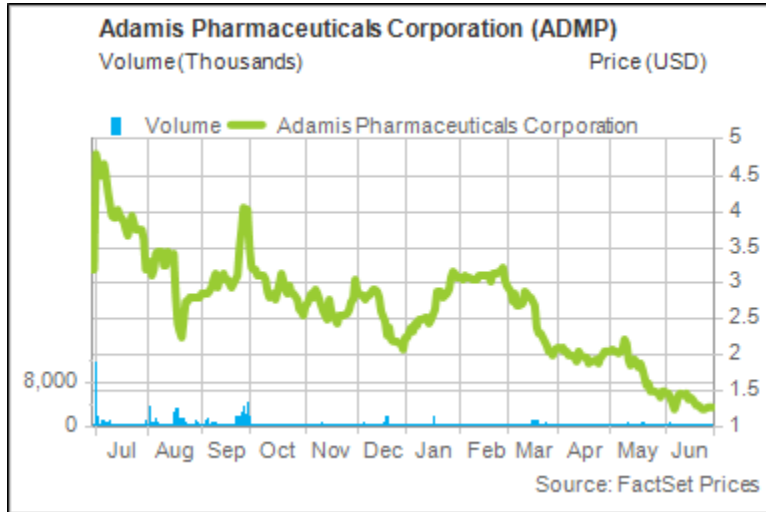
Mylan (MYL)

The 3M Company (MMM)

Teva (Teva)

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

Initiated – Buy – July 2, 2019 – Price Target \$5.00
Update – Buy – August 13, 2019 – Price Target \$4.00

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

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