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CUBEWEALTH

ADMA BIOLOGICS EQUITY REPORT

JULY 21ST, 2020

ADMA BIO

BY THE NUMBERS

TICKER: ADMA
PRICE: $3.29

ADMA Biologics, Inc. is a biopharmaceutical and specialty immunoglobulin company that develops, manufactures, and markets specialty plasma-derived biologics for the treatment of immune deficiencies and infectious diseases.

The company distributes its products through independent distributors, sales agents, specialty pharmacies, and other alternate site providers.

ADMA Biologics, Inc. was founded in 2004 and is headquartered in Ramsey, New Jersey.

N/A	-18%	$284M
DIVIDEND YIELD	YTD RETURN	MARKET CAP

ADMA

SHARE PRICE PERFORMANCE

1-YEAR

ALL-TIME

ANALYSIS

When diving into small cap bio companies, it's important that we cover what field the company operates in, their pipeline, their competition, their cash on hand alongside cash burn, and the overall addressable market size.

To begin, let's break down the market ADMA is tackling.

ADMA is an end-to-end commercial biopharmaceutical company dedicated to manufacturing, marketing and developing specialty plasma-derived biologics for the treatment of immunodeficient patients at risk for infection and others at risk for certain infectious diseases. Their targeted patient populations include immune-compromised individuals who suffer from an underlying immune deficiency disorder or who may be immune-suppressed for medical reasons.

ADMA is one of the few plasma fractionation facilities in the U.S. that develops and commercializes plasma-derived products for the prevention and treatment of infectious diseases in the immune compromised and other patients at risk for infection.

In an impressive fashion, the company currently has 3 FDA approved plasma-derived products that have passed Phase 3 FDA approval:

1. BIVIGAM
2. ASCENIV
3. Nabi-HB

Immune globulin products from human plasma were first used in 1952 to treat primary immune deficiency. Intravenous immunoglobulin (IVIG) contains the pooled immunoglobulin G (Ig) immunoglobulins from the plasma of approximately a thousand or more blood donors.

Immunoglobulin is part of your blood's plasma. It has antibodies in it to fight germs or disease. When people donate blood, this part can be separated out. If you get IVIg, it can help strengthen your immune system so you can fight infections and stay healthy. Liquid immunoglobulin is taken from the blood plasma of donors who are screened to make sure they are healthy.

Today, there are just 6 companies approved to produce IGs, with CSL and Grifols leading the market and AMDA being one of the six.

IG IS USED TO TREAT A WIDE VARIETY OF DISORDERS

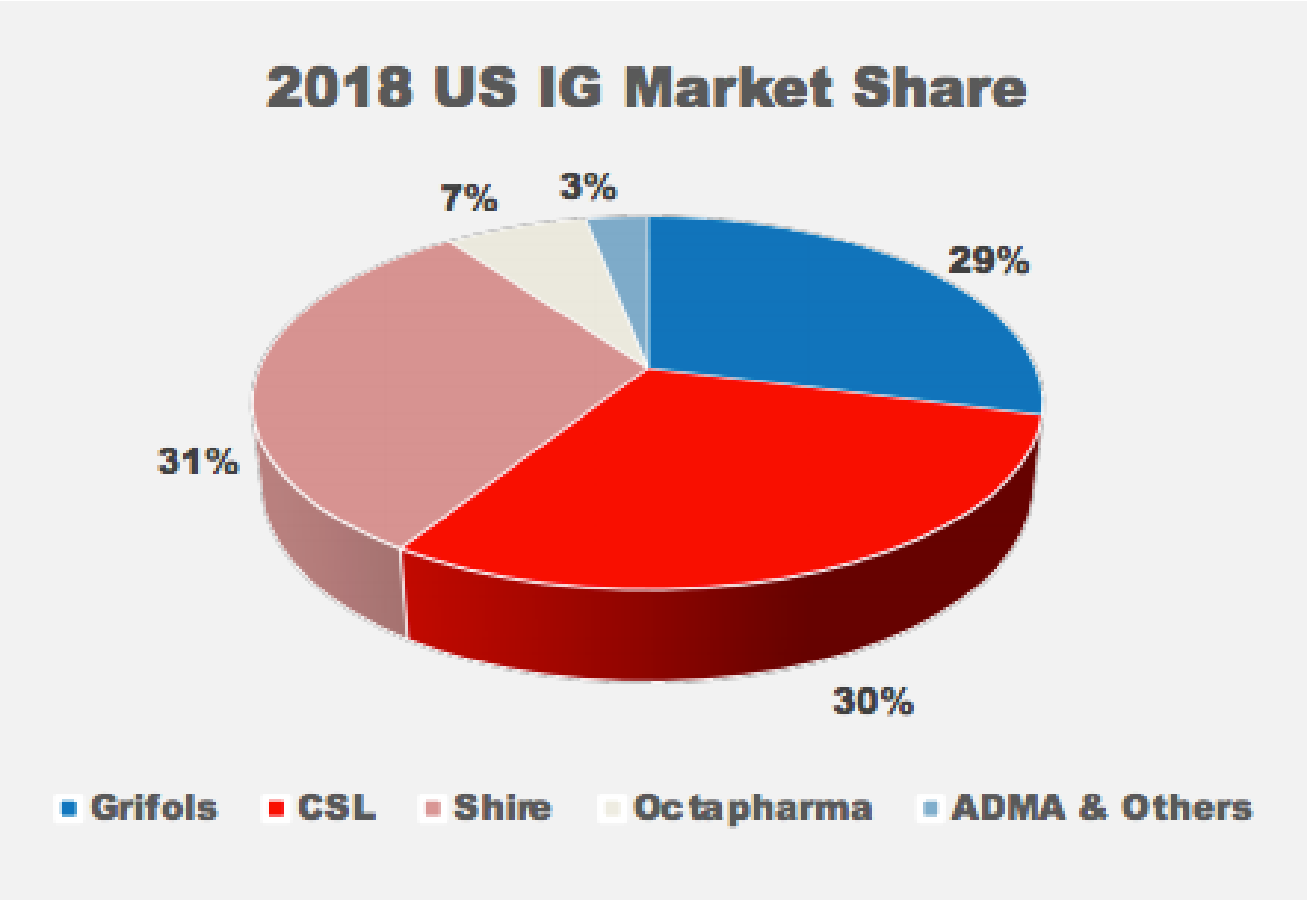
- Primary immune deficiencies
- Autoimmune diseases
- Immune-compromised patients
- Neuropathic diseases

IG WIDELY MARKETED IN THE US

6 companies are currently producing IG for the US, including CSL Behring, Grifols, Takeda, Octapharma, BPL and ADMA

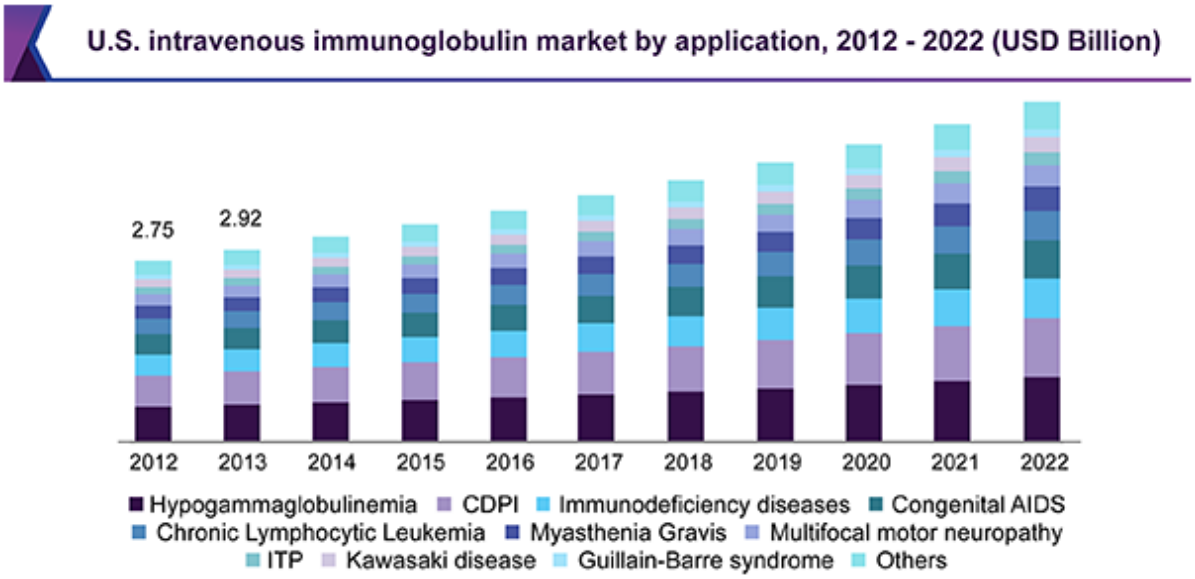
IG UTILIZATION INCREASING DUE TO

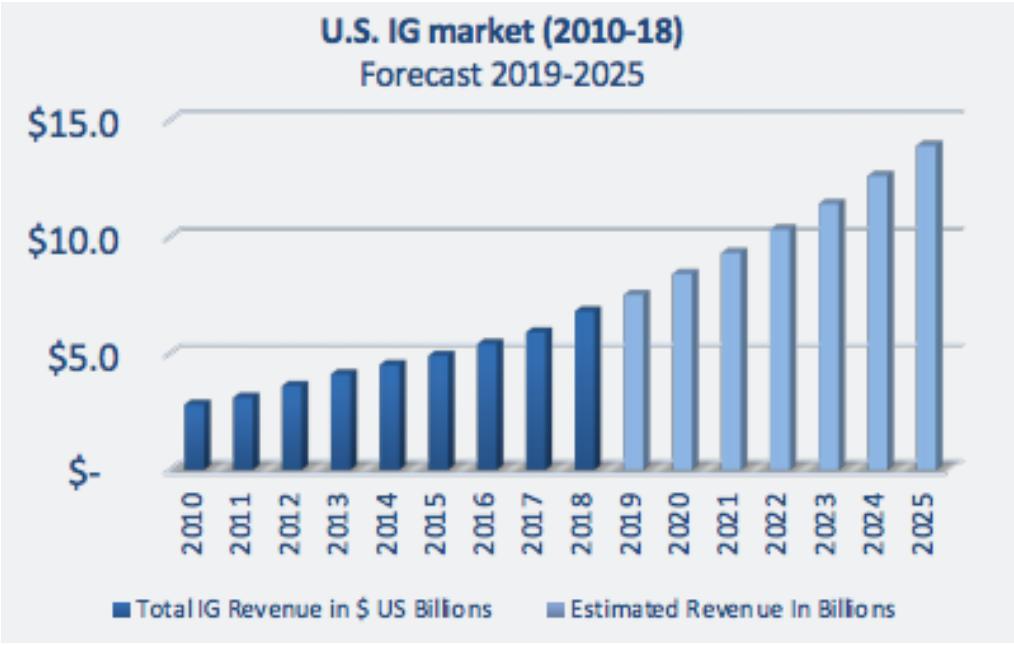
- New research and data
- New markets (emerging countries)
- Aging population
- Utilization of new pharmaceuticals leading to increase in secondary immune deficiency



The global intravenous immunoglobulin (IVIG) market size was estimated at $9.09B in 2016 and is anticipated to grow at a CAGR of 7.1% through 2022. Growing geriatric population, rising prevalence of immunodeficiency diseases, increasing adoption of IVIG treatments, and rising use of off-label indications are the key drivers of the market. Rising number of patients with immunodeficiency disorders is the primary cause for the development of IVIG preparations.

Other studies going out a bit further found the market was valued at $9B in 2017 and is projected to reach $15.9B by 2025, registering a CAGR of 7.5% from 2018 to 2025.





BIVIGAM®

BIVIGAM (immune globulin intravenous, human – 10% liquid) is a plasma-derived, polyclonal, intravenous immune globulin (IVIG). BIVIGAM was approved by the FDA in May 2019 and is indicated for the treatment of primary humoral immunodeficiency (PI). BIVIGAM contains a broad range of antibodies similar to those found in normal human plasma. These antibodies are directed against bacteria and viruses and help to protect PI patients against serious infections. BIVIGAM is a purified, sterile, ready-to-use preparation of concentrated human Immunoglobulin (IgG) antibodies.

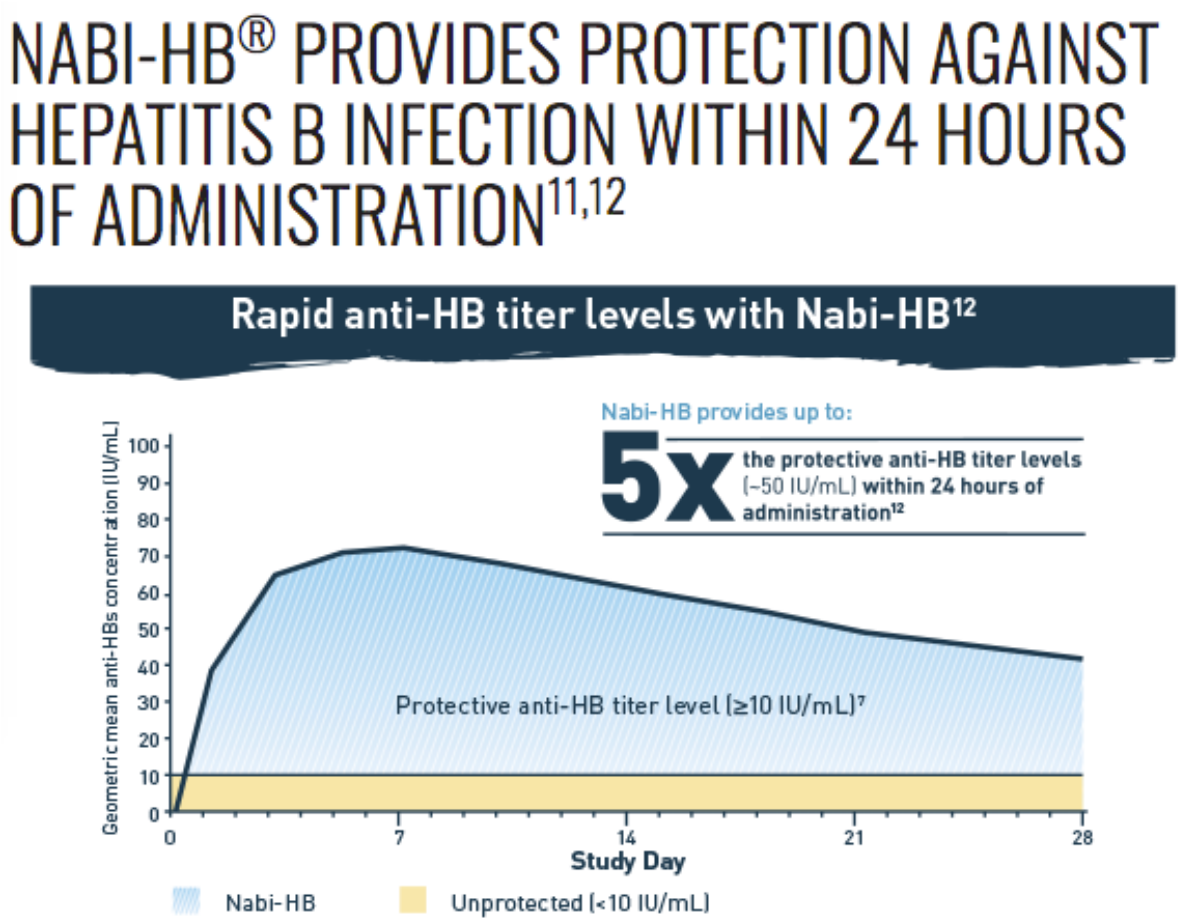
PI includes, but is not limited to, the humoral immune defect in congenital agammaglobulinemia, common variable immunodeficiency (CVID), X linked agammaglobulinemia, Wiskott-Aldrich syndrome, and severe combined immunodeficiencies (SCID).

ASCENIV (immune globulin intravenous, human) is a 10% immune globulin liquid for intravenous injection, indicated for the treatment of primary humoral immunodeficiency (PI) in adults and adolescents (12 to 17 years of age). ASCENIV is a plasma-derived IVIG that contains naturally occurring polyclonal antibodies, which are proteins that are used by the body's immune system to neutralize microbes, such as bacteria and viruses and prevent against infection and disease.

The sole difference in production of these two IVIG drug substances is that ASCENIV is produced from using unselected source plasma pooled with plasma from donors identified and selected as having sufficient RSV neutralizing antibody titers, while BIVIGAM is produced from only unselected source plasma. While the plasma pool requirements differ for BIVIGAM and ASCENIV, the IVIG manufacturing process used by ADMA to produce ASCENIV and BIVIGAM is identical.

Nabi-HB®
Hepatitis B
Immune Globulin (Human)

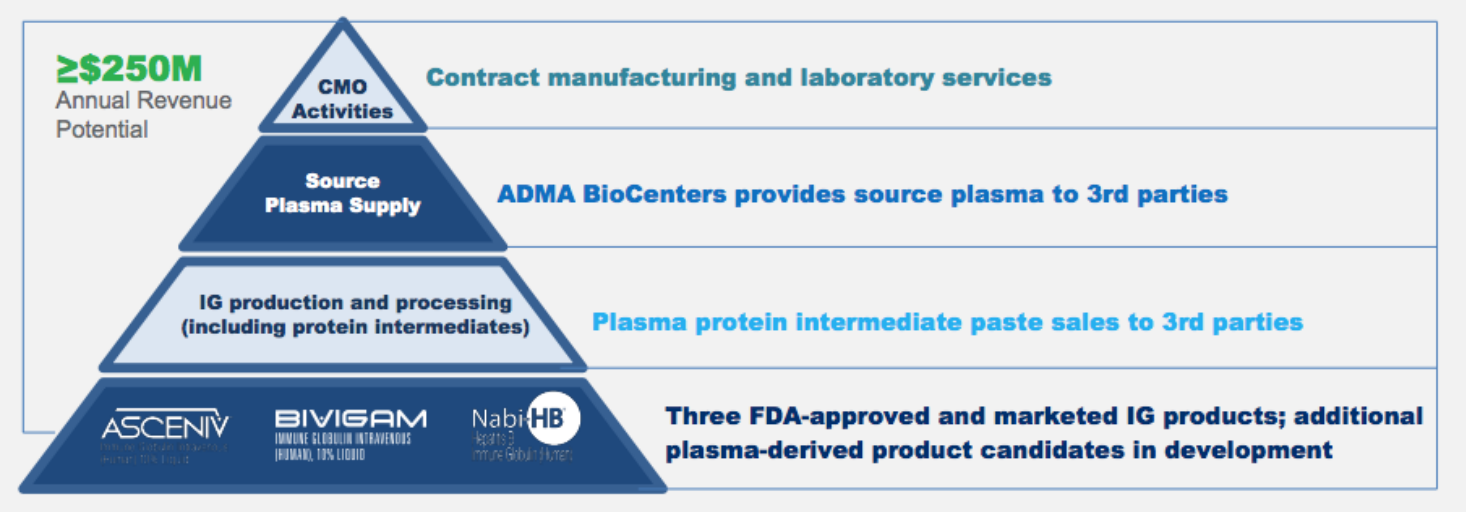
Nabi-HB is a hyperimmune globulin that is rich in antibodies to the Hepatitis B virus. Nabi-HB is a purified human polyclonal antibody product collected from plasma donors who have been previously vaccinated with a Hepatitis B vaccine. Nabi-HB is indicated for the treatment of acute exposure to blood containing HBsAg, prenatal exposure of infants born to HBsAg-positive mothers, sexual exposure to HBsAg-positive persons and household exposure to persons with acute Hepatitis B virus infection in specific, listed settings. Hepatitis B is a potentially life-threatening liver infection caused by the Hepatitis B virus.



In an effort to bolster these sales, ADMA is also committed to growing and developing their plasma biocenters. Over the next three to five years, they plan on expanding their plasma collection network by opening an additional five to 10 plasma collection facilities throughout the U.S.. The goal here is to maximize the supply and prepare for production ramp-up and growth to capitalize on the global growing IVIG and source plasma markets, including obtaining FDA licenses for each new plasma collection center and regulatory approval in additional jurisdictions.

At this point in time, ADMA only operates 1 plasma collection center, which usually generates 30-50k L of source plasma annually. Since ADMA's Boca Raton plant can process 400k L in plasma annually, this indicates that the current capacity for the plant is likely just 10%.

This indicates that there is lot of growth on the table for ADMA. In fact, the company believes they can generate $250M in revenue once everything is up and running in the next 3-5 years from IG.



Lastly, as a potential ace up ADMA's sleeve. There is a potential that ADMA plays a role in helping fight COVID-19. On May 21st, they announced they have commenced the collection of convalescent plasma from individuals who have recovered from COVID-19

ADMA is seeking US citizens who have recovered from coronavirus (SARS-CoV-2) or COVID-19, to donate plasma, which can be used to produce an immune globulin to potentially help infected patients with COVID-19. People who have recovered from COVID-19 can have antibodies in their plasma that may be helpful in treating the virus.

“During this unprecedented time, ADMA has risen to the challenge of helping confront the growing coronavirus pandemic, while fulfilling our mission to help patients battle infectious diseases,” stated Adam Grossman, President and Chief Executive Officer. “Immune globulin and hyperimmune globulin therapy have the potential to be one of the earliest and best treatment options for patients with COVID-19 infections. The key to developing an immune globulin with high antibody levels to COVID-19 is the collection of plasma from patients that have recovered from COVID-19 infection. We encourage anyone who has recovered from COVID-19 without symptoms for 14 days to come forward and donate plasma to this worthy cause.”

The company is now also a member of the CoVIg-19 Plasma Alliance, a plasma industry alliance established to accelerate the development of a plasma-derived hyperimmune globulin therapy for COVID-19.

CUBE'S TOP PROS FOR ADMA

FDA APPROVALS

LARGE MARKET, FEW PLAYERS

POTENTIAL COVID19 PLAY

CUBE'S TOP CONS FOR ADMA

LOWER MARGINS THAN USUAL PHARMA CO'S

MAJORITY OF REVS FROM FEW CUSTOMERS

NON-DIVERSIFIED PIPELINE

FINANCIAL STATEMENTS

BALANCE SHEET

	March 31, 2020 (Unaudited)	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 101,235,699	$ 26,752,135
Accounts receivable, net	7,107,834	3,469,919
Inventories	52,288,803	53,064,734
Prepaid expenses and other current assets	4,855,344	2,533,593
Total current assets	165,487,680	85,820,381
Property and equipment, net	35,060,795	31,741,317
Intangible assets, net	2,980,636	3,159,474
Goodwill	3,529,509	3,529,509
Deposits and other assets	3,465,207	2,840,044
TOTAL ASSETS	$ 210,523,827	$ 127,090,725
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,152,239	$ 9,174,591
Accrued expenses and other current liabilities	4,419,043	4,481,395
Current portion of deferred revenue	142,834	142,834
Current portion of lease obligations	193,987	229,073
Total current liabilities	13,908,103	14,027,893
Senior notes payable, net of discount	81,212,090	68,291,163
Deferred revenue, net of current portion	2,225,823	2,261,532
Subordinated note payable, net of discount	14,916,837	14,908,053
Lease obligations, net of current portion	1,831,639	1,302,361
Other non-current liabilities	93,652	106,574
TOTAL LIABILITIES	114,188,144	100,897,576
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred Stock, $0.0001 par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common Stock - voting, $0.0001 par value, 150,000,000 shares authorized, 86,345,313 and 59,318,355 shares issued and outstanding	8,635	5,932
Additional paid-in capital	380,288,833	290,903,772
Accumulated deficit	(283,961,785)	(264,716,555)
TOTAL STOCKHOLDERS' EQUITY	96,335,683	26,193,149

At March 31, 2020, ADMA had cash and cash equivalents of $101.2M and accounts receivable of $7.1M, compared to cash and cash equivalents and accounts receivable of $26.8M and $3.5M, respectively, at December 31, 2019.

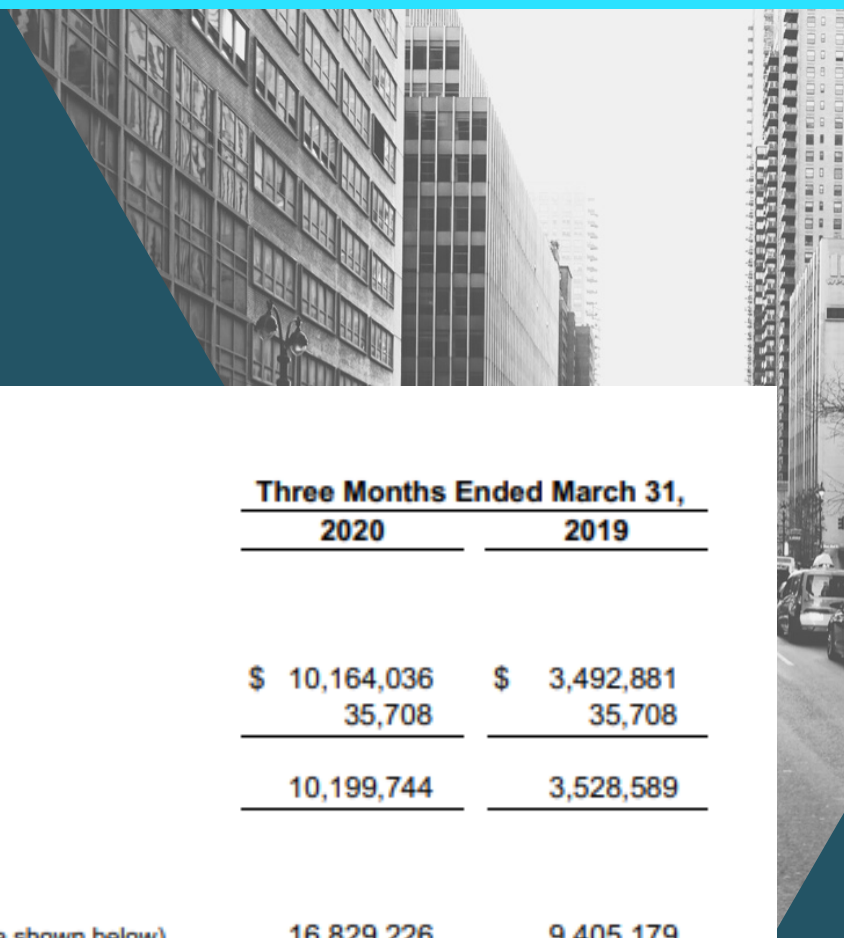
ADMA's net working capital as of March 31, 2020 was $151.6M, compared to $71.8M as of December 31, 2019.

This increase came in February 2020 when ADMA completed an underwritten public offering of 27,025,000 shares of its common stock at a public offering price of $3.50 per share, resulting in net proceeds of $88.7M.

While ADMA does have sufficient cash on hand for the next several months they are most likely going to have to do another equity offering in the next 6-12 months. We say this based on their current cash burn (more below), capex needed to build out the plasma centers, and money needed to bolster their sales and marketing for their three drugs.

One more area that is concerning is how much debt ADMA has on their balance sheet at nearly $100M bearing interest around 11%. This is a drag on the company and results in over $10M in interest expenses per year.

Put simply, AMDA is healthy in the very short-term but will need additional financing in the medium to long term as the $89M raised in February will not be the end of it.



FINANCIAL STATEMENTS

INCOME STATEMENT

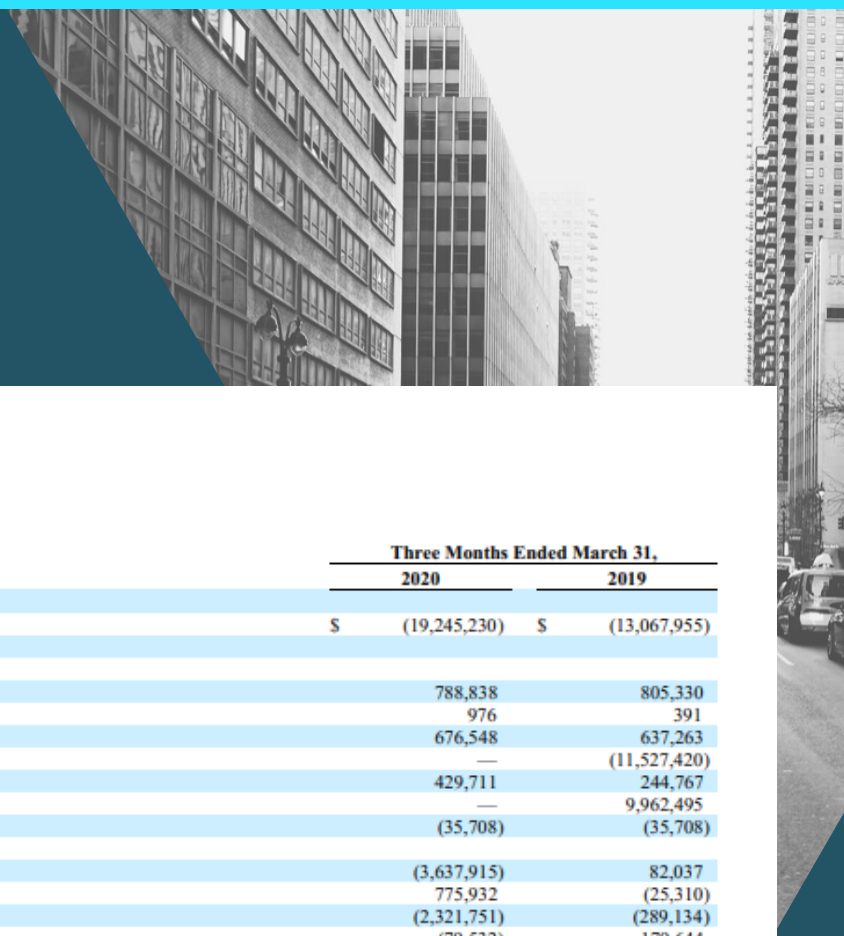
	Three Months Ended March 31,	
	2020	2019
REVENUES:		
Product revenue	$ 10,164,036	$ 3,492,881
License revenue	35,708	35,708
Total Revenues	10,199,744	3,528,589
OPERATING EXPENSES:		
Cost of product revenue (exclusive of amortization expense shown below)	16,829,226	9,405,179
Research and development	1,528,738	870,635
Plasma center operating expenses	500,644	654,486
Amortization of intangible assets	178,838	211,235
Selling, general and administrative	7,932,084	5,595,470
Total operating expenses	26,969,530	16,737,005
LOSS FROM OPERATIONS	(16,769,786)	(13,208,416)
OTHER INCOME (EXPENSE):		
Interest and other income	248,068	127,399
Interest expense	(2,717,091)	(1,540,507)
Loss on extinguishment of debt	-	(9,962,495)
Gain on transfer of plasma center assets	-	11,527,421
Other expense, net	(6,421)	(11,357)
Other (expense) income, net	(2,475,444)	140,461
NET LOSS	$ (19,245,230)	$ (13,067,955)
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (0.26)	$ (0.28)

Revenues are comprised of (i) revenues from the sale of three FDA-approved immunoglobulin products, (ii) product revenues from the sale of human plasma collected from Plasma Collection Centers business segment, (iii) product revenues from the sale of intermediate fractions, (iv) contract manufacturing revenue from a contract assumed from BPC in the Biotest Transaction; and (v) license revenues attributable to the out-licensing of ASCENIV in December 2012 to Biotest to market and sell the product in Europe and selected countries in North Africa and the Middle East.

Recorded total revenues came in at $10.2M in Q1, as compared to $3.5M during the three months ended March 31, 2019, an increase of $6.7M, or 189%. The impressive increase was mainly due to increased sales and production of immunoglobulin products generated by their Boca Facility manufacturing operations in 2020 totaling $6.4M. Another $0.3M increase came from plasma revenues generated by their plasma collection facility in 2020 as compared to the same period of a year ago.

Cost of goods sold are pretty steep and the company is not yet able to generate gross profit. On top of this, the $2.7M in interest expenses per quarter is a real drain on EPS and cash.

While growth is great, a big risk we want to highlight is that three customers accounted for an aggregate of 84% of the company’s total accounts receivable. This is compared to the end of Q4 when two customers accounted for 89% of the company’s total accounts receivable. It's better but still hefty.



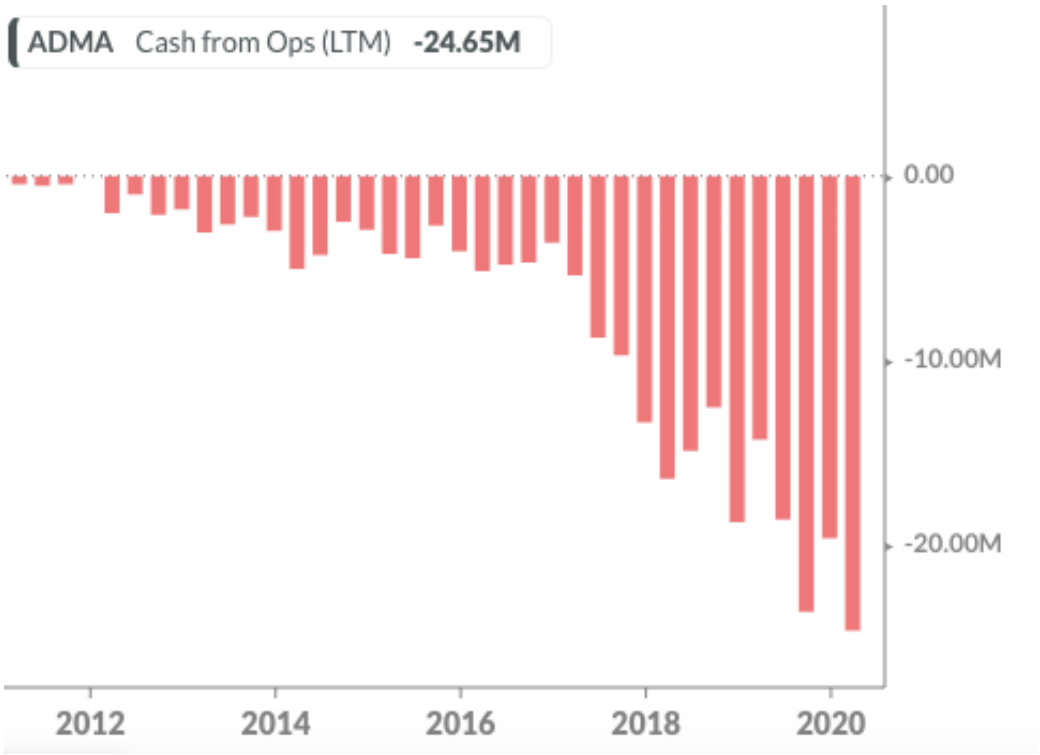
FINANCIAL STATEMENTS

CASH FLOW

	Three Months Ended March 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (19,245,230)	$ (13,067,955)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	788,838	805,330
Loss on disposal of fixed assets	976	391
Stock-based compensation	676,548	637,263
Gain on transfer of plasma center assets	—	(11,527,420)
Amortization of debt discount	429,711	244,767
Loss on extinguishment of debt	—	9,962,495
Amortization of license revenue	(35,708)	(35,708)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(3,637,915)	82,037
Inventories	775,932	(25,310)
Prepaid expenses and other current assets	(2,321,751)	(289,134)
Deposits and other assets	(79,532)	179,644
Accounts payable	(22,356)	(420,601)
Accrued expenses	(1,930,591)	(762,541)
Other current and non-current liabilities	(45,882)	(70,442)
Net cash used in operating activities	(24,646,960)	(14,287,184)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(2,074,876)	(110,453)
Proceeds from the sale of property and equipment	2,000	
Net cash used in investing activities	(2,072,876)	(110,453)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	—	(30,000,000)
Payment of end of term fee	—	(2,760,000)
Payment of debt refinancing fees	—	(6,499,867)
Proceeds from issuance of note payable	12,500,000	45,000,000
Payment of debt issuance costs	—	(1,555,762)
Proceeds from the issuance of common stock, net of offering expenses	88,704,039	—
Proceeds from the exercise of stock options	7,177	—
Payments on finance lease obligations	(7,816)	(7,308)
Net cash provided by financing activities	101,203,400	4,177,063
Net increase (decrease) in cash and cash equivalents	74,483,564	(10,220,574)
Cash and cash equivalents, including restricted cash - beginning of period	26,752,135	26,754,852
Cash and cash equivalents - end of period	$ 101,235,699	$ 16,534,278

Operating cash flow came in a massive burn of -$24.6M while capex came in at $2M thus placing free cash flow burn at approx. $26.6M in Q1 alone.

With the $100M on hand, the company has less than 12 months of cash at this current burn rate. CUBE anticipates another debt/equity offering sometime in mid/late Q4 as the company will need the cash to pay down debts and fund their expansion of plasma centers alongside continued marketing efforts for their products.



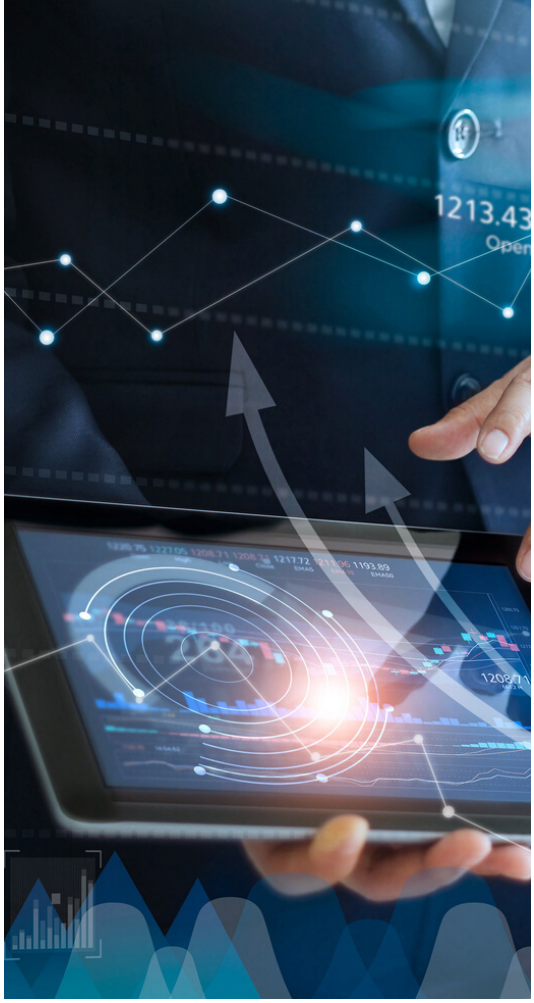
ADMA FUNDAMENTALS

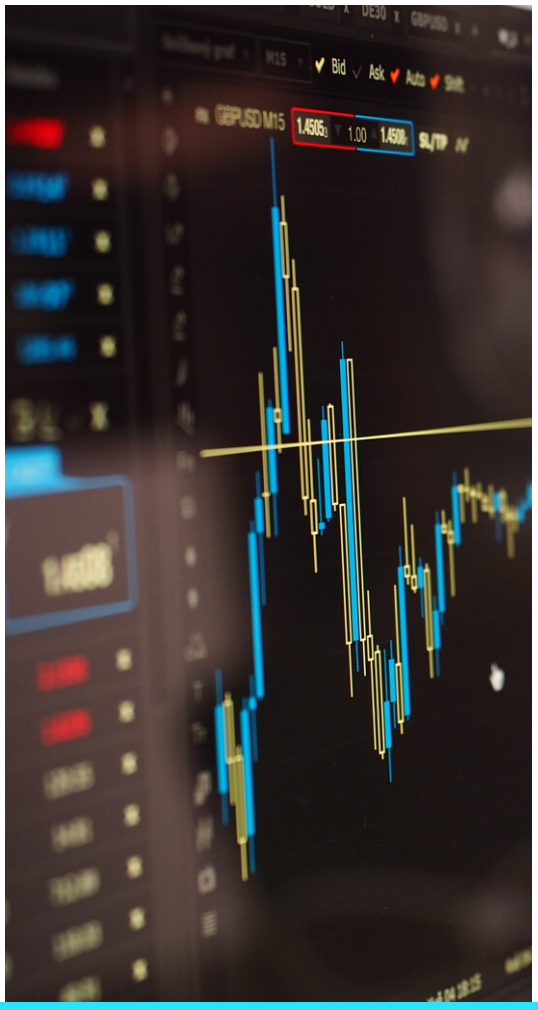
There is not much fundamental analysis that can be done on a small cap pharma company like ADMA as they do not drive any EBITDA, cash flow, or earnings. In addition, many of their competitors are private and/or have many other drugs in their pipeline that does not make for a sound comparison.

One thing CUBE did find is that plasma centers have traded in recent acquisitions for $10M-$15M per center when operating at peak collection capacity so if ADMA can get all 10 operating over the next few years, that alone would imply a $200-250M valuation on just the plasma centers excluding their 3 approved drugs.

At this time, a majority of revs come from their drug sales and we feel 5x forward sales with triple digit revenue growth and massive investments for continued growth is justifiable.

ADMA
TECH ANALYSIS





TECH ANALYSIS SUMMARY

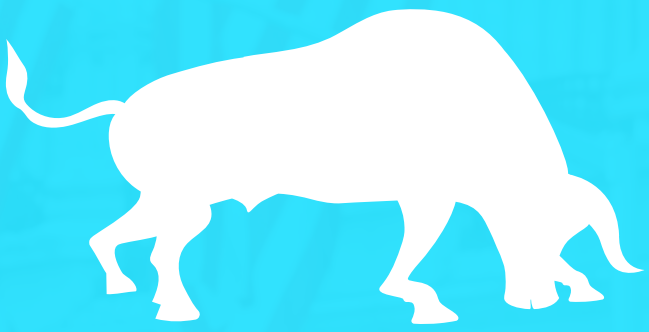
Based on the technicals, the chart looks very bullish.

CUBE likes that ADMA has now broken passed its 20DMA, 50DMA, and 100DMA on top of its R1 fibbonaci level.

As long as $3.26 holds, CUBE believes shares are heading to $3.58 in the near-term and possibly $4.22 in the coming weeks if $3.58 is broken.

If $3.26 does not hold, there is good support at $2.99 (pivot point) and $2.89 (50DMA).

BULLISH OR BEARISH?



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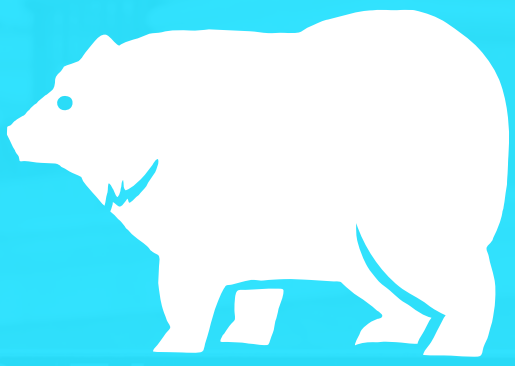

MORE BULLISH (POSITIVE)

MORE BEARISH (NEGATIVE)

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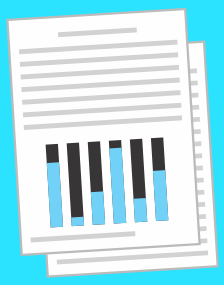

ADMA CONCLUSION

All in all, CUBE is neutral but slightly bullish on ADMA. If there were another notch in-between bullish and neutral we would place it there. This was a tough conclusion to arrive at because we are a big fan of the revenue growth and valuation at 5x forward sales with a $284M market cap but the cash burn and debt load makes us worried that much of the upside could be diminished from continued dilution. For example, shares outstanding has grown from 12M in 2017 to 74M today with 30M shares added Y/Y alone.

We still think there is upside here but believe much of the hyper growth return will be dampened due to continued capital raises. On the flipside, it is rare to find a company with 3 FDA approved products with a market cap below $300M and also see this as being a potential M&A candidate for some of the larger competitors in this space.

All in all, ADMA looks to have upside to us, especially on the technicals, and we also think COVID19 plasma testing could be an X factor for them. It is our worries surrounding the balance sheet and capital structure that place our rating at Neutral.

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