

## Emergent BioSolutions (EBS)

**\$62.02** (As of 02/06/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/05/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: C

### Summary

Emergent BioSolutions' recent acquisitions of PaxVax and Adapt Pharma expanded its presence in the public health threats market. Meanwhile, delivery of its next-generation anthrax vaccine AV7909 began in September 2019, which is expected to drive revenues in the future quarters. We are positive about the company's spin-off of its biosciences business into a separate publicly traded company as it resulted in substantial cost reduction. However, Emergent's main product BioThrax vaccine is seeing a slowdown in sales of late as fewer doses are getting shipped to the stockpile in the United States. Hence, its sole dependence on BioThrax for revenues remains a concern. Shares have outperformed the industry year to date. Estimates have declined ahead of Q4 earnings. Emergent has a mixed record of earnings surprises in recent quarters.

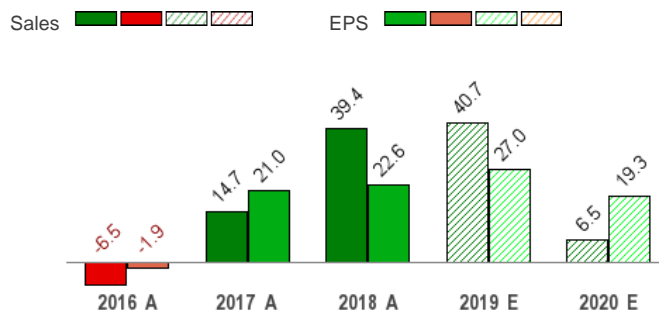
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$67.45 - \$39.11
20 Day Average Volume (sh)	276,459
Market Cap	\$3.2 B
YTD Price Change	15.0%
Beta	1.53
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Medical - Biomedical and Genetics</a>
Zacks Industry Rank	Top 29% (74 out of 255)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	92.1%
Last Sales Surprise	14.5%
EPS F1 Est- 4 week change	-1.6%
Expected Report Date	02/20/2020
Earnings ESP	0.9%
P/E TTM	31.8
P/E F1	17.6
PEG F1	0.9
P/S TTM	3.2

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					1,171 E
2019	191 A	243 A	312 A	347 E	1,100 E
2018	118 A	220 A	174 A	271 A	782 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$3.53 E
2019	-\$0.13 A	\$0.12 A	\$1.21 A	\$1.71 E	\$2.96 E
2018	-\$0.03 A	\$1.07 A	\$0.55 A	\$0.75 A	\$2.33 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/06/2020. The reports text is as of 02/07/2020.

## Overview

Headquartered in Gaithersburg, MD, Emergent BioSolutions, Inc. is a global specialty biopharmaceutical company that aims to offer specialized products to health care providers and governments to fulfil unmet medical needs and combat emerging public health threats.

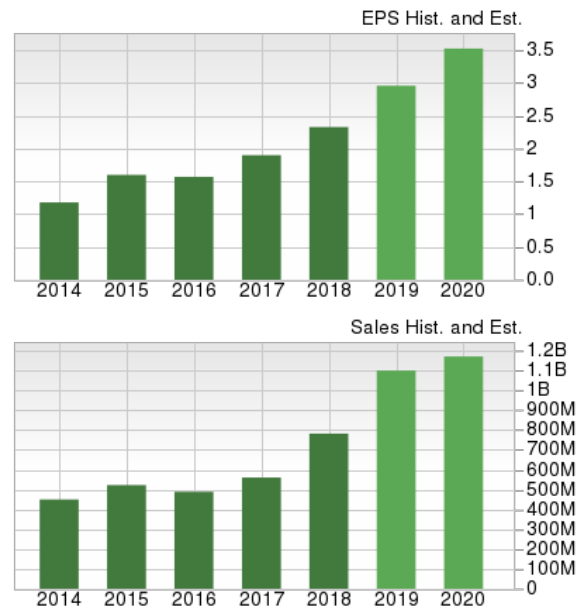
BioThrax is the company's key Biodefense product and is the sole vaccine to be marketed for the general use for both pre-exposure prophylaxis and post-exposure prophylaxis of anthrax disease. The U.S. government is the primary purchaser of the company's Biodefense products. BioThrax recorded sales of \$278 million in 2018.

Emergent BioSolutions also markets smallpox vaccine ACAM2000 and anthrax monoclonal antibody raxibacumab, both of which, were acquired in 2017 from Sanofi and GlaxoSmithKline, respectively. ACAM2000 recorded sales of \$116.7 million in 2018.

The company is developing a next-generation anthrax vaccine candidate, AV7909, for post-exposure prophylaxis of anthrax disease.

In August 2016, Emergent completed the spin-off of certain assets and liabilities of its Biosciences business into a separate publicly traded company, Aptevo Therapeutics Inc.

In 2018, the company reported revenues of \$782.4 million, up 39% year over year



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## Reasons To Buy:

- ▲ **Shares Outperforming Industry:** Shares of Emergent have rallied 14.9% in the year so far compared to the industry's increase of 0.6%.
- ▲ **Pursuing M&A Deals:** Emergent has also been active in pursuing deals and acquisitions. In October 2017, Emergent acquired Sanofi's ACAM2000, the only smallpox vaccine approved by the FDA and Glaxo's raxibacumab, an anthrax monoclonal antibody.

We are positive on Emergent's 2020 outlook and its vaccine portfolio looks promising at this juncture. Its recent acquisitions also bodes well.

In October 2018, Emergent completed the acquisition of specialty vaccine company, PaxVax. Upon closing, Emergent acquired two marketed vaccines, namely Vivotif (Typhoid Vaccine Live Oral Ty21a) and Vaxchora (Cholera Vaccine, Live, Oral).

In the same month, Emergent closed the acquisition of Adapt Pharma, which added the latter's Narcan nasal spray to its portfolio, thereby expanding the company's presence in the public health threats market. The product contributed significantly to Emergent's top-line during the first nine months of 2019.

- ▲ **AV7909 Represents Upside Potential:** Emergent is developing a next generation anthrax vaccine candidate, AV7909 for post-exposure prophylaxis of anthrax disease, which is in advanced stages of development. It is intended to be a two-dose regimen which will give increased speed to protection, implying fewer doses accompanied by more rapid protection. Therefore, AV7909 is addressing a number of the improvements that the U.S. government is looking for in terms of protecting civilians who might be exposed in a post-exposure setting.

In September 2016, Emergent inked a multi-year deal worth about \$1.6 billion with the BARDA for advanced development and delivery of AV7909. The United States government signaled its intent to procure AV7909. Deliveries of AV7909 to the U.S. government began in September of 2019. Subject to certain regulatory actions, Emergent anticipates recording substantial future revenues from sales of AV7909 to the U.S. government.

- ▲ **Vaccines Pipeline Progressing Well:** The company is conducting a phase I study in the United States to evaluate the safety and immunogenicity of VLA1601 (Zika virus vaccine) in partnership with Valneva. In November 2018, Emergent and Valneva announced positive interim data from the study.

During the second quarter of 2019, Emergent completed enrollment in the phase II study on IGIV therapeutic for treating severe illness caused by influenza A infection in hospitalized patients. Data from the study is expected in the first half of 2020.

Emergent is also evaluating the safety and immunogenicity of its chikungunya vaccine candidate CHIKV-VLP in a phase II study across a series of dosing regimens. In April 2019, the company announced positive interim results from the study.

- ▲ **The Biosciences Spin-off, a Positive:** We are positive on Emergent's spin-off of its Biosciences business into a separate publicly traded company, Aptevo. While Aptevo focuses on oncology and hematology, Emergent continues to work on public health threats specifically chemical, biological, radiological, nuclear and explosive threats as well as the emerging infectious diseases. The spin-off resulted in a reduced cost structure with enhanced profitability. Cash flow and operating margins are improving due to the elimination of Aptevo-related R&D, sales, marketing and G&A costs within the Biosciences business.
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## Reasons To Sell:

- ▼ **Overdependence on BioThrax Sales:** Emergent derives the majority of revenues from sales of BioThrax to its principal purchaser, the U.S. government. The company's growth prospects depend heavily on the funding for the procurement of BioThrax and the terms of BioThrax sales to the U.S. government, including the price per dose, the number of doses and the timing of deliveries. Both BioThrax and AV7909 make up for Emergent's total sales of anthrax vaccines. In the first nine months of 2019, anthrax vaccines sales plunged 44% year over year due to lower number of BioThrax deliveries to the SNS in the period and also because the U.S. government purchased fewer units of BioThrax in anticipation of the transition to AV7909. If the procurement of BioThrax or AV7909 is substantially reduced further, the company's sales and profits would be materially harmed then.
- ▼ **Production Hiccups May Hurt the Company:** Emergent is heavily dependent on BioThrax for revenues, any hiccup in the production of BioThrax could severely hamper the company's future growth prospects. For instance, the company suspended shipments of BioThrax to the CDC in the first quarter of 2015 following the discovery of foreign particles in a limited number of vials in two manufactured lots of BioThrax. As a result, there were no revenues for BioThrax product sales to the CDC for the three months ended Mar 31, 2015. Although Emergent eventually resumed and increased full manufacturing operations of BioThrax after that, similar setbacks could have a significant negative impact on the company's top line and could pull down the stock significantly.
- ▼ **Stiff Competition:** Emergent faces competition from a number of companies with Biodefense products or candidates under development for both the U.S. government procurement and development resources. For instance, in terms of additional procurement of anthrax countermeasures, HHS awarded an SNS procurement contract to GlaxoSmithKline for ABThrax, and also awarded an SNS procurement contract to Elusys Therapeutics for Anthim. Both are FDA-approved anthrax monoclonal antibody therapeutics. Competition could lead to reduced demand for the company's products thereby leading to reduction in revenues, margins, levels of profitability and loss of market share. These competitive pressures could adversely affect Emergent's operating results.

Emergent's overdependence on BioThrax for revenues is concerning. Any hiccup in the production of BioThrax could hurt the company's top line significantly.

## Last Earnings Report

### Emergent Earnings Beat in Q3, Vaccines Drive Sales

Emergent BioSolutions reported third-quarter 2019 earnings of \$1.21 cents per share, comprehensively beating the Zacks Consensus Estimate of 63 cents and also the year-ago quarter's 55 cents.

Revenues in the reported quarter soared 80% from the prior-year period to \$311.8 million, primarily backed by high product sales owing to the company's recent acquisitions and better contracts plus grants revenues. The top line substantially beat the Zacks Consensus Estimate of \$281 million.

#### Quarter in Detail

Total product sales surged 92% to \$256.2 million from the year-earlier quarter. This uptick was mainly on the back of contribution from Narcan nasal spray, acquired from Adapt Pharma and higher sales of small pox vaccine ACAM2000. Newly acquired product Narcan (naloxone HCl) nasal spray added \$75 million to product sales.

ACAM2000, which was acquired from Sanofi added \$112.1 million to product sales in the reported quarter, reflecting a significant increase year over year.

However, anthrax vaccines (BioThrax and AV7909) sales declined 12% to \$40.3 million in the reported quarter. Other product sales also plunged 41% on a year-over-year basis to \$28.8 million.

Revenues from contracts and grants skyrocketed 95.6% year over year to \$35.6 million, primarily owing to greater R&D activities associated with certain development funding programs, most notably, the anthrax vaccine AV7909.

Contract manufacturing revenues decreased 10% to \$20 million from the year-ago figure. This downside was primarily due to the contracted service work that took place in third-quarter 2018 but did not recur in the same period this year.

The company recorded adjusted EBITDA of \$106.4 million in the reported quarter compared with \$39.1 million in 2018, reflecting an increase of 172.1%.

#### 2019 Outlook

Emergent retained its previously issued guidance for earnings and sales. It expects revenues in the range of \$1.06-\$1.14 billion for 2019.

The company anticipates adjusted net income in the band of \$150-\$180 million and adjusted EBITDA in the bracket of \$280-\$310 million.

Quarter Ending **09/2019**

Report Date	Nov 06, 2019
Sales Surprise	14.49%
EPS Surprise	92.06%
Quarterly EPS	1.21
Annual EPS (TTM)	1.95

## Recent News

### Gets Positive CHMP Opinion for Vaxchora — Jan 31

Emergent BioSolutions announced that the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) has rendered a positive opinion recommending approval of its single-dose oral cholera vaccine, Vaxchora. A decision from the regulatory body in Europe is expected within three months.

### Receives Agreement from EMA to Develop CHIKV VLP — Jan 13

Emergent BioSolutions announced that it has received agreement from the European Medicines Agency (EMA) to develop its chikungunya vaccine candidate CHIKV VLP. The company is looking to conduct a phase III safety and immunogenicity study using serum neutralizing antibodies (SNA) as an immune correlate of protection to predict the clinical benefit of the vaccine candidate.

### Posts Preliminary '19 Results, Gives 2020 View — Jan 13

Emergent BioSolutions reported preliminary results for 2019, in line with its previous expectation. The company also issued guidance for 2020. Emergent anticipates total revenues for 2019 in the band of \$1.10-\$1.11 billion, tightened from the previous guidance of \$1.06-\$1.14 billion. The mid-point of the range represents year-over-year growth of 41% from 2018 levels. Emergent tightened its view of adjusted net income to \$150-\$160 million from the previous projection of \$150-\$180 million.

Emergent predicts revenues of \$1.75-\$1.27 billion for 2020. The company envisions adjusted net income within \$160-\$210 million.

### Chikungunya Vaccine Candidate Gets EMA's PRIME Tag — Oct 10

Emergent BioSolutions announced that the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) has granted PRiority Medicines (PRIME) designation to its chikungunya vaccine candidate CHIKV VLP. The candidate is being developed for the prevention of disease caused by chikungunya virus infection, which has a significant unmet medical need with no vaccines presently available. Emergent plans to initiate a pivotal study on CHIKV VLP in 2020.

### Receives NIH Research Grant to Develop AP007 — Sep 27

Emergent BioSolutions announced that it has received a grant award from the National Institute on Drug Abuse, a component of the National Institutes of Health (NIH), U.S. Department of Health and Human Services, of approximately \$6.3 million spread over two years. This reward is for the development of AP007 for the treatment of addiction in opioid use disorder (OUD).

### Gets Award to Develop Auto-Injector Containing Diazepam — Sep 25

Emergent BioSolutions announced that it has received an award of approximately \$20 million to develop/manufacture an auto-injector containing diazepam (5 mg/mL) to treat nerve agent-induced seizures. The company's device is being designed for intramuscular buddy-administration to be used in military environments and for civilian emergencies.

### Wins HHS Contract to Supply ACAM2000 – Sep 3

Emergent BioSolutions announced that it has received a contract award of approximately \$2 billion spread over a 10-year period for the continued delivery of smallpox vaccine ACAM2000 to the United States, Strategic National Stockpile (SNS) as a preparedness stance against the threat of smallpox. The contract was awarded by the Office of the Assistant Secretary for Preparedness and Response (ASPR) in the United States Department of Health and Human Services (HHS).

## Valuation

Emergent BioSolutions' shares are up 14.9% in the year-to-date period but down 1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are up 0.6% and 2.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 0.8% while the sector is up 5.3%.

The S&P 500 index is up 3.3% in the year-to-date period and up 22.1% in the past year.

The stock is currently trading at 3.19X trailing 12-month sales per share, which compares to 2.83X for the Zacks sub-industry, 3.21X for the Zacks sector and 3.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.35X and as low as 2.15X, with a 5-year median of 3.42X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$66.00 price target reflects 3.39X trailing 12-month sales per share.

The table below shows summary valuation data for EBS

Valuation Multiples - EBS					
		Stock	Sub-Industry	Sector	S&P 500
P/S TTM	Current	3.19	2.83	3.21	3.62
	5-Year High	5.35	5.03	4.16	3.63
	5-Year Low	2.15	2.12	2.7	2.48
	5-Year Median	3.42	2.65	3.26	3.16
P/B TTM	Current	3.09	3.89	4.64	4.54
	5-Year High	3.86	5.79	5.03	4.54
	5-Year Low	1.57	2.43	3.43	2.85
	5-Year Median	2.38	3.27	4.3	3.62

	5-Year Median	2.39	3.21	4.3	3.02
P/E F12M	Current	17.55	132.75	21.56	19.09
	5-Year High	32.88	132.83	21.56	19.34
	5-Year Low	11.71	20.37	15.84	15.18
	5-Year Median	19.35	38.49	18.9	17.46

As of 02/06/2020

## Industry Analysis Zacks Industry Rank: Top 29% (74 out of 255)



## Top Peers

Amphastar Pharmaceuticals, Inc. (AMPH)	Neutral
ChemoCentryx, Inc. (CCXI)	Neutral
Chimerix, Inc. (CMRX)	Neutral
Gilead Sciences, Inc. (GILD)	Neutral
IMV INC (IMV)	Neutral
Inovio Pharmaceuticals, Inc. (INO)	Neutral
Teva Pharmaceutical Industries Ltd. (TEVA)	Neutral
Pfizer Inc. (PFI)	Underperform

Industry Comparison Industry: Medical - Biomedical And Genetics				Industry Peers		
	EBS Neutral	X Industry	S&P 500	AMPH Neutral	GILD Neutral	PFNX Underperform
<b>VGM Score</b>	<b>A</b>	-	-	<b>F</b>	<b>C</b>	<b>F</b>
Market Cap	3.20 B	206.51 M	24.40 B	936.41 M	86.30 B	396.27 M
# of Analysts	2	3	13	3	13	2
Dividend Yield	0.00%	0.00%	1.75%	0.00%	3.69%	0.00%
<b>Value Score</b>	<b>B</b>	-	-	<b>C</b>	<b>B</b>	<b>F</b>
Cash/Price	0.05	0.23	0.04	0.12	0.29	0.10
EV/EBITDA	25.23	-3.58	14.17	130.10	8.39	-9.59
PEG Ratio	0.88	1.76	2.05	NA	4.30	NA
Price/Book (P/B)	3.09	3.92	3.31	2.17	3.81	7.08
Price/Cash Flow (P/CF)	17.38	12.96	13.63	34.17	9.31	NA
P/E (F1)	17.51	31.18	19.08	37.17	9.85	44.68
Price/Sales (P/S)	3.15	14.10	2.67	2.85	3.84	12.47
Earnings Yield	5.69%	-15.23%	5.24%	2.71%	10.15%	2.24%
Debt/Equity	0.79	0.02	0.71	0.13	1.02	0.00
Cash Flow (\$/share)	3.57	-1.08	6.89	0.58	7.33	-1.21
<b>Growth Score</b>	<b>B</b>	-	-	<b>F</b>	<b>D</b>	<b>D</b>
Hist. EPS Growth (3-5 yrs)	10.87%	16.51%	10.80%	49.73%	-12.33%	NA
Proj. EPS Growth (F1/F0)	19.15%	7.26%	7.23%	75.00%	4.43%	203.70%
Curr. Cash Flow Growth	31.46%	19.71%	9.51%	-20.85%	-24.62%	56.16%
Hist. Cash Flow Growth (3-5 yrs)	26.93%	7.72%	8.55%	1.54%	21.29%	NA
Current Ratio	2.54	5.10	1.20	3.11	3.23	4.68
Debt/Capital	44.00%	3.95%	42.90%	11.26%	52.58%	0.05%
Net Margin	0.42%	-200.17%	11.76%	15.77%	23.99%	-47.31%
Return on Equity	10.05%	-64.16%	16.98%	5.07%	35.49%	-26.46%
Sales/Assets	0.45	0.20	0.54	0.59	0.36	0.44
Proj. Sales Growth (F1/F0)	4.95%	17.19%	4.15%	10.52%	-0.66%	58.07%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>C</b>	<b>F</b>	<b>F</b>
Daily Price Chg	0.34%	0.00%	-0.11%	1.79%	3.55%	3.90%
1 Week Price Chg	-1.66%	-3.24%	-2.60%	-3.72%	0.08%	-3.77%
4 Week Price Chg	9.42%	0.00%	1.51%	6.63%	3.60%	-1.18%
12 Week Price Chg	14.11%	15.33%	5.63%	16.87%	6.90%	38.54%
52 Week Price Chg	0.44%	-5.23%	17.01%	-12.77%	1.38%	246.54%
20 Day Average Volume	276,459	210,526	1,961,054	190,992	12,799,159	354,959
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.65%	0.00%
(F1) EPS Est 4 week change	-1.58%	0.00%	-0.00%	0.00%	-0.56%	-64.33%
(F1) EPS Est 12 week change	4.03%	0.00%	-0.16%	0.00%	-1.40%	-64.33%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	0.00%	-3.32%	NA



## Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	<b>B</b>
Growth Score	<b>B</b>
Momentum Score	<b>C</b>
VGM Score	<b>A</b>

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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