

Emergent BioSolutions (EBS)

\$68.76 (As of 03/13/20)

Price Target (6-12 Months): **\$73.00**

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:B

Value: C

Growth: A

Momentum: D

Summary

Emergent BioSolutions missed on earnings in fourth-quarter 2019 while beat on revenues. The acquisitions of PaxVax and Adapt Pharma expanded the company's presence in the public health threats market. Narcan contributed significantly to Emergent's top line in 2019. Meanwhile, delivery of anthrax vaccine, AV7909, began in September 2019, which is expected to drive revenues in the future. We are positive about the company's spin-off of its biosciences business into a separate publicly traded company as the move led to 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 high dependence on BioThrax for revenues remains a woe. Shares have outperformed the industry in the past year.

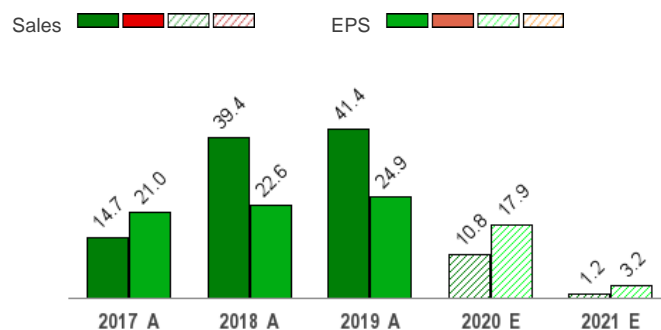
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$71.19 - \$39.11
20 Day Average Volume (sh)	503,110
Market Cap	\$3.6 B
YTD Price Change	27.5%
Beta	1.32
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Biomedical and Genetics
Zacks Industry Rank	Top 35% (88 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-6.0%
Last Sales Surprise	2.6%
EPS F1 Est- 4 week change	-3.1%
Expected Report Date	05/07/2020
Earnings ESP	0.0%
P/E TTM	24.8
P/E F1	20.1
PEG F1	1.0
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					1,240 E
2020	190 E	254 E	354 E	426 E	1,225 E
2019	191 A	243 A	312 A	360 A	1,106 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.54 E
2020	-\$0.02 E	\$0.12 E	\$1.37 E	\$1.99 E	\$3.43 E
2019	-\$0.13 A	\$0.12 A	\$1.21 A	\$1.57 A	\$2.91 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 03/13/2020. The reports text is as of 03/16/2020.

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.

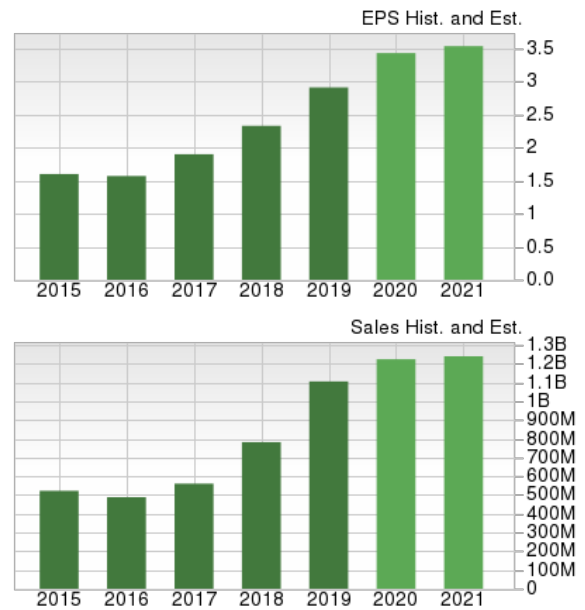
BioThrax is the company's key Biodefense product and is the sole vaccine to be marketed for the general use for both pre-exposure prophylaxis and post-exposure prophylaxis of anthrax disease. The U.S. government is the primary purchaser of the company's Biodefense products.

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 worth \$242.6 million in 2019 while the newly-acquired Narcan nasal spray registered \$280.4 million sales in 2019, both reflecting a significant rise year over year.

The company is developing a next-generation anthrax vaccine candidate, AV7909, for post-exposure prophylaxis of anthrax disease. In 2019, Emergent began the transition from BioThrax to AV7909.

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

In 2019, the company reported revenues of \$1.11billion, up 41% year over year



Reasons To Buy:

- ▲ **Shares Outperforming Industry:** Shares of Emergent have increased 38.8% in the past year against to the industry's decline of 18.3%.
- ▲ **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 sales growth in 2019.

- ▲ **AV7909 Represents Upside Potential:** Emergent's a next generation anthrax vaccine AV7909, is indicated for treating post-exposure prophylaxis of anthrax disease. AV7909 should be able to address 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 2019. Subject to certain regulatory actions, Emergent anticipates drawing substantial future revenues from the 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. CHIKV VLP was granted a Fast Track tag by the FDA in May 2019 while the EMA's CHMP granted PRiority Medicines (PRIME) designation to CHIKV VLP in September 2019.

- ▲ **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. BioThrax and AV7909 accounts for the total sales of anthrax vaccines. In 2019, anthrax vaccines sales plunged 38% year over year as 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.

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

▼ **Production Hiccups May Hurt the Company:** Any hiccup in the production of BioThrax might severely hamper the company's 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.

Last Earnings Report

Emergent Earnings Miss in Q4, Revenues Beat Estimates

Emergent BioSolutions reported fourth-quarter 2019 earnings of \$1.57 per share, which missed the Zacks Consensus Estimate of \$1.67. However, the bottom line increased significantly from the year-ago earnings of 78 cents.

Revenues in the reported quarter surged 33.1% from the prior-year period to \$360.4 million, primarily backed by high product sales owing to the company's recent acquisitions and other product sales. The top line also beat the Zacks Consensus Estimate of \$351 million.

Quarter Ending **12/2019**

Report Date	Feb 20, 2020
Sales Surprise	2.59%
EPS Surprise	-5.99%
Quarterly EPS	1.57
Annual EPS (TTM)	2.77

Quarter in Detail

Total product sales jumped 43% to \$310.8 million from the year-earlier quarter. This revenue rise was mainly on the back of contribution from Narcan nasal spray and higher sales of small pox vaccine ACAM2000. Newly-acquired product, Narcan (naloxone HCl) nasal spray added \$66.9 million to product sales, jumping 60% year over year.

ACAM2000 added \$78.5 million to product sales in the reported quarter. Other product sales also soared 75% on a year-over-year basis to \$72.5 million.

However, anthrax vaccines (BioThrax and AV7909) sales declined 31% to \$92.9 million in the reported quarter.

Revenues from contracts and grants decreased 9% year over year to \$24.1 million, primarily due to reduced activities associated with certain funding programs.

Contract manufacturing revenues fell 5% to \$25.5 million from the year-ago figure. This downside was primarily due to the contracted service work that took place in fourth-quarter 2018 but did not recur in the same period last year.

The company recorded adjusted EBITDA of \$134.3 million in the reported quarter compared with \$76.2 million in the year-ago period.

2020 Outlook

Emergent anticipates revenues of \$1.18-\$1.27 billion for 2020. The company expects adjusted net income within \$160-\$210 million while adjusted EBITDA is anticipated in the band of \$300-\$360 million.

In the first quarter of 2020, the company expects total revenues within \$190-\$215 million.

Recent News

Begins Development of Treatments for COVID-19 — Mar 11

Emergent BioSolutions announced that it has initiated the development of two product candidates for the treatment and prevention of the novel coronavirus disease, COVID-19. The company is developing the two candidates, leveraging its hyperimmune platforms, which have a well-established safety database.

The hyperimmunes are polyclonal antibody therapies derived from plasma that leverage the immune response in humans or animals and can provide immediate protection from infection.

Emergent has already started collecting plasma for both human and equine platforms and has set a target of manufacturing clinical material within the next four-five months. The company plans to begin a clinical study in the third quarter of 2020.

Collaborates for Coronavirus Vaccine — Mar 10

Emergent BioSolutions announced that it has entered into a collaboration agreement with Novavax to support the latter's development of a vaccine candidate to protect against coronavirus disease (COVID-19). Per the terms of the agreement, Emergent BioSolutions will use its contract development and manufacturing ("CDMO") services to advance Novavax's COVID-19 vaccine candidate into clinical stage.

Emergent BioSolutions is responsible for production of the vaccine candidate, which was developed using Novavax's proprietary technology platform. Emergent BioSolutions has started preparations for this program and anticipates that the COVID-19 vaccine candidate can be used in a phase I study within next four months. Financial terms of the deal are yet to be disclose.

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.

Valuation

Emergent BioSolutions' shares are up 27.5% in the year-to-date period and 38.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are down 11.9% and 12.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 18.3% and the sector is down 13.8%.

The S&P 500 index is down 15.8% in the year-to-date period and down 5.3% in the past year.

The stock is currently trading at 3.27X trailing 12-month sales per share, which compares to 2.49X for the Zacks sub-industry, 2.88X for the Zacks sector and 2.93 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 3.41X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$73.00 price target reflects 3.47X 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	3.27	2.49	2.88	2.93
	5-Year High	5.35	5.04	4.17	3.68
	5-Year Low	2.15	2.13	2.71	2.5
	5-Year Median	3.41	2.66	3.29	3.19
P/B TTM	Current	3.26	3.4	4	3.64
	5-Year High	3.86	5.8	5.05	4.55
	5-Year Low	1.57	2.44	3.45	2.85
	5-Year Median	2.41	3.28	4.32	3.63
P/E F12M	Current	19.92	151.32	17.95	15.72
	5-Year High	32.88	158.24	21.08	19.34

5-Year Low	11.71	20.59	15.81	15.18
5-Year Median	19.24	40.26	18.73	17.42

As of 03/13/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 253)



Top Peers

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

Industry Comparison Industry: Medical - Biomedical And Genetics				Industry Peers		
	EBS Neutral	X Industry	S&P 500	AMPH Neutral	GILD Underperform	PFNX Neutral
VGM Score	B	-	-	F	F	A
Market Cap	3.58 B	144.77 M	19.05 B	666.05 M	89.40 B	239.47 M
# of Analysts	3	2	13	3	12	2
Dividend Yield	0.00%	0.00%	2.31%	0.00%	3.84%	0.00%
Value Score	C	-	-	C	C	D
Cash/Price	0.06	0.22	0.05	0.14	0.24	0.09
EV/EBITDA	18.33	-2.04	11.57	90.54	11.66	-5.53
PEG Ratio	0.97	1.56	1.68	NA	4.99	NA
Price/Book (P/B)	3.26	2.94	2.56	1.55	3.95	4.28
Price/Cash Flow (P/CF)	13.34	13.04	10.18	24.30	9.70	83.53
P/E (F1)	19.31	26.99	14.94	26.44	10.94	15.92
Price/Sales (P/S)	3.23	11.37	2.02	2.07	3.98	4.76
Earnings Yield	4.99%	-21.64%	6.67%	3.81%	9.14%	6.22%
Debt/Equity	0.73	0.02	0.70	0.13	1.02	0.04
Cash Flow (\$/share)	5.15	-1.09	7.01	0.58	7.30	0.09
Growth Score	A	-	-	F	F	A
Hist. EPS Growth (3-5 yrs)	12.19%	18.12%	10.85%	49.73%	-14.87%	NA
Proj. EPS Growth (F1/F0)	17.87%	5.76%	5.99%	49.08%	-2.41%	1,483.33%
Curr. Cash Flow Growth	45.59%	15.46%	6.15%	-20.85%	-2.57%	-107.56%
Hist. Cash Flow Growth (3-5 yrs)	25.14%	7.56%	8.52%	1.54%	-8.08%	NA
Current Ratio	3.17	4.83	1.24	3.11	3.10	6.60
Debt/Capital	42.31%	4.09%	42.57%	11.26%	50.49%	3.85%
Net Margin	4.94%	-226.92%	11.64%	15.18%	23.99%	2.10%
Return on Equity	14.19%	-66.96%	16.74%	4.29%	35.49%	1.78%
Sales/Assets	0.48	0.21	0.54	0.56	0.36	0.69
Proj. Sales Growth (F1/F0)	8.32%	13.44%	3.54%	9.45%	-0.81%	27.36%
Momentum Score	D	-	-	D	D	A
Daily Price Chg	22.17%	2.88%	8.21%	2.31%	3.16%	-2.70%
1 Week Price Chg	-0.05%	0.00%	-0.67%	-0.39%	15.66%	-0.26%
4 Week Price Chg	9.14%	-26.63%	-22.67%	-26.44%	5.91%	-42.29%
12 Week Price Chg	27.52%	-21.37%	-20.46%	-27.68%	8.36%	-38.64%
52 Week Price Chg	35.97%	-34.66%	-10.79%	-30.78%	9.20%	52.42%
20 Day Average Volume	503,110	235,010	3,061,271	276,159	25,674,748	238,921
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.20%	79.27%
(F1) EPS Est 4 week change	-3.11%	0.00%	-0.32%	0.00%	-0.59%	75.00%
(F1) EPS Est 12 week change	-4.28%	0.00%	-0.65%	0.00%	-10.52%	-37.58%
(Q1) EPS Est Mthly Chg	NA%	0.00%	-0.62%	0.00%	0.00%	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	C
Growth Score	A
Momentum Score	D
VGM Score	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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