

Seattle Genetics, Inc. (SGEN)

\$163.26 (As of 05/07/20)

Price Target (6-12 Months): **\$172.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: C

Summary

Seattle Genetics' earnings and revenues beat estimates in Q1. The company's lead drug Adcetris has been performing well since its launch. The drug's label expansion in additional indications is generating incremental revenues. Collaboration with Japans' Takeda for the global development and commercialization of Adcetris looks encouraging as well. The company's ADC pipeline candidates are also progressing well. Among these, Padcev and Tukysa got the FDA nod for a cancer indication, which should reduce heavy dependence on Adcetris in the future. However, high reliance on Adcetris for growth remains a woe. Hence, any regulatory setback for the drug could hurt sales significantly. Stiff competition is another matter of concern. Shares have outperformed the industry year to date.

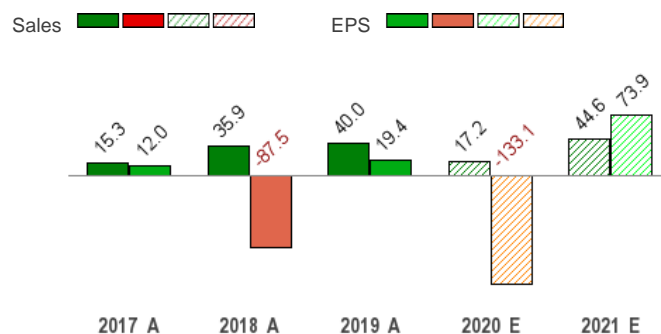
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$168.10 - \$62.90
20 Day Average Volume (sh)	1,197,842
Market Cap	\$28.3 B
YTD Price Change	42.9%
Beta	1.41
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Biomedical and Genetics
Zacks Industry Rank	Top 5% (13 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	21.0%
Last Sales Surprise	10.6%
EPS F1 Est- 4 week change	14.8%
Expected Report Date	07/21/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	29.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	329 E	358 E	389 E	421 E	1,554 E
2020	235 A	254 E	276 E	311 E	1,075 E
2019	195 A	218 A	213 A	290 A	917 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.63 E	-\$0.54 E	-\$0.43 E	-\$0.33 E	-\$0.81 E
2020	-\$0.64 A	-\$0.64 E	-\$0.75 E	-\$0.70 E	-\$3.10 E
2019	-\$0.32 A	-\$0.24 A	-\$0.54 A	-\$0.22 A	-\$1.33 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 05/07/2020. The reports text is as of 05/08/2020.

Overview

Bothell, WA-based Seattle Genetics, Inc. is a biotechnology company, which primarily focuses on developing and commercializing therapies targeted for the treatment of cancer.

Adcetris is the lead marketed product at Seattle Genetics. The drug is approved for relapsed Hodgkin lymphoma and relapsed systemic anaplastic large cell lymphoma (sALCL) in the United States, EU and Japan. Adcetris is approved by the FDA for six indications. The drug recorded sales of \$627.7 million in 2019.

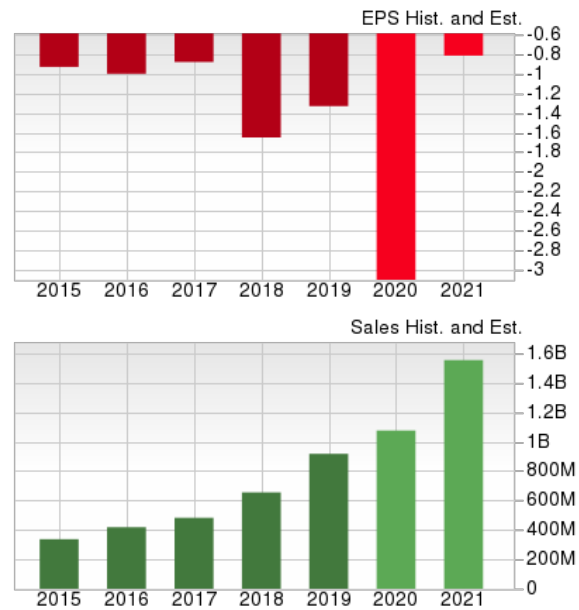
Seattle Genetics has an agreement with Takeda Pharmaceutical Company Ltd. for the further development and commercialization of Adcetris. Seattle Genetics retains all rights to sell Adcetris in the United States and Canada, while Takeda has commercial rights to the drug in the rest of the world.

In December 2019, the FDA granted accelerated approval to Seattle Genetics' second drug Padcev for the treatment of patients with advanced/metastatic urothelial cancer, who had received treatment with both a checkpoint inhibitor (PD-1/PD-L1) and platinum-based chemotherapy.

In April 2020, the FDA approved Seattle Genetics' third drug Tukysa in combination with Roche's Herceptin and Xeloda for treating adult patients with locally advanced/metastatic HER2-positive breast cancer including those with brain metastases, having received one or more prior anti-HER2-based regimens in the metastatic setting.

The company also has license agreements with several companies for the development of its pipeline candidates. Partners include Merck, Roche, Progenics, GlaxoSmithKline, Astellas, AbbVie, Bristol-Myers and Genmab.

Seattle Genetics generated net revenues of \$916.7 million in 2019, up 40% year over year.



Reasons To Buy:

▲ **Shares Outperforming Industry:** Shares of Seattle Genetics have outperformed the industry year to date.

▲ **Adcetris Driving Growth:** Adcetris has been doing well since its launch in the United States. The drug's label was further expanded to include cHL in patients at a high risk of relapse or progression as post auto-HSCT consolidation or failure of two or more multi-agent chemotherapies in non-auto-HSCT candidates. The drug is also approved for sALCL in second or later-line setting, pcALCL and CD30-expressing MF. In February 2019, Adcetris was approved for frontline Hodgkin lymphoma in Europe and also won the nod for CD30-positive cutaneous T-cell lymphoma in the region. The drug is approved in Japan for the first-line treatment of patients with CD30-positive Hodgkin lymphoma. Adcetris generated \$627.7 million sales in the United States and Canada in 2019, constituting almost 68.5% of the company's total revenues. Net sales of Adcetris in 2020 are expected in the range of \$675-\$700 million.

Impressive performance by Adcetris is expected to maintain Seattle Genetics' revenue growth trajectory. Further label expansions of the drug should continue to boost its top line.

Adcetris is approved in combination with chemotherapy for treating stage III or IV classical Hodgkin's lymphoma (cHL) in patients with no previous treatment history. The FDA also approved Adcetris for the frontline treatment of peripheral T-cell lymphomas (PTCL). The drug is approved to treat patients with previously untreated systemic anaplastic large cell lymphoma or other CD30-expressing PTCL including angioimmunoblastic T-cell lymphoma and PTCL not otherwise specified in combination with CHP (cyclophosphamide, doxorubicin and prednisone). Adcetris is approved by the FDA for six indications. Label expansion of the drug for additional indications will further boost sales.

Meanwhile, Seattle Genetics is evaluating Adcetris in combination with Bristol-Myers' Opdivo for treating Hodgkin and non-Hodgkin lymphoma. A successful development and a potential approval will be a major boost to the company.

▲ **Positive on Collaborations:** We are encouraged by Seattle Genetics' deal with Takeda in December 2009 for global development and commercialization of Adcetris. As per the terms of the agreement, the company retains all rights to sell Adcetris in the United States and Canada, while Takeda has commercial rights to the drug in the rest of the world. The companies fund development costs equally, except in Japan where Takeda is solely responsible. The company earns royalty revenues mostly from this collaboration.

Moreover, Seattle Genetics has collaborations for its antibody-drug conjugate (ADC) technology with a number of biotechnology and pharmaceutical companies. The company is developing tisotumab vedotin (TV) in collaboration with Genmab. Moreover, Seattle Genetics has collaborations with several pharma and biotech companies for its ADC technology.

▲ **Pipeline Progress:** Seattle Genetics is working toward the advancement of its ADC pipeline. It has several ADC candidates and one novel immuno-oncology agent (based on its SEA technology) in early- and mid-stage development. These include TV and ladiratuzumab vedotin. The company is developing TV in collaboration with other companies.

In December 2019, the FDA granted accelerated approval to Padcev (enfortumab vedotin-ejfv) for the treatment of patients with advanced/metastatic urothelial cancer, who were previously treated with both a checkpoint inhibitor (PD-1/PD-L1) and platinum-based chemotherapy. Padcev is being developed along with Japanese partner Astellas Pharma, Inc.

Another phase I EV-103 study is investigating EV for treating patients with locally advanced/metastatic urothelial cancer in earlier-line settings including a combination study with Merck's PD-1/L1 inhibitor Keytruda and platinum chemotherapy in newly diagnosed patients besides those cancer patients, who progressed from the initial stage of the disease. In April 2020, Seattle Genetics announced an update on the phase Ib/II EV-103 study evaluating Padcev in combination with Keytruda for addressing patients with unresectable locally advanced/metastatic urothelial cancer who are unable to receive cisplatin-based chemotherapy in the first-line setting. The combo is granted a Breakthrough Therapy designation by the FDA in the first-line setting.

Padcev is also being evaluated as a monotherapy in the phase II EV-202 study for treating a range of solid tumors. A potential label expansion of the drug will boost its sales in future quarters.

In March 2018, Seattle Genetics added a late stage breast cancer candidate, Tukysa (tucatinib), with the acquisition of Cascadian Therapeutics. In September 2019, Seattle Genetics presented initial data from the single arm phase II MOUNTAINEER study Tukysa in combination with Roche's Herceptin for treating patients with HER2-positive RAS wild-type metastatic colorectal cancer, having already received treatment with the first and second-line standard-of-care therapies.

In April 2020, the FDA approved oral tyrosine kinase inhibitor (TKI) Tukysa (tucatinib) in combination with Roche's Herceptin (trastuzumab) and Xeloda (capecitabine). The drug combo is now approved to treat adult patients with locally advanced/metastatic HER2-positive breast cancer including those with brain metastases, having received one or more prior anti-HER2-based regimens in the metastatic setting. In February 2020, the FDA accepted and granted a priority review to the NDA.

Also, in October 2019, Seattle Genetics dosed the first subject in a phase III HER2CLIMB-02 study on Tukysa in combination with Kadcyla (ado-trastuzumab emtansine) versus placebo for the treatment of patients with locally advanced/metastatic HER2-positive breast cancer including those with brain metastases, having received prior treatment with taxane and trastuzumab.

Seattle Genetics is evaluating TV in the pivotal phase II innovaTV 204 study for the treatment of patients with recurrent/metastatic cervical cancer, whose disease relapsed or progressed after the standard-of-care treatment. Top-line results from the study are expected late in the second or into the third quarter of 2020.

Reasons To Sell:

▼ **Heavily Dependent on Adcetris:** Seattle Genetics' top line mainly comprises contribution from its lead marketed product Adcetris. The drug contributes majority of the company's top line. Although the product has been performing well since its launch, Seattle Genetics' dependence on the drug remains a matter of concern as Padcev and Tukysa has just been approved and is yet to generate incremental sales. Hence, a decline in Adcetris sales will adversely impact the company's top line. Moreover, although the company is working on various label expansion of the drug, any unfavorable response from the FDA could materially hurt the stock.

Since Seattle Genetics is highly dependent on Adcetris for revenue growth. Potential competition in the near future put up tough challenges for the company.

▼ **Development Setbacks:** Although Seattle Genetics has a couple of approved drugs in its portfolio, most got the nod very recently and will take time to be a key revenue driver. Moreover, the company's pipeline candidates are in the early stage of development. Since it is heavily dependent on Adcetris for growth, failure to successfully commercialize new products will intensify this reliance. Unfavorable results may induce the company to postpone or discontinue its studies. They might also leave an adverse impact on the stock in the future.

▼ **Competition from Other Products:** Adcetris is not the only FDA-approved drug for the treatment of relapsed Hodgkin lymphoma or specifically indicated for relapsed sALCL. Moreover, several other companies, such as Pfizer, Takeda, AbbVie and Johnson & Johnson are evaluating therapies for relapsed Hodgkin lymphoma. Additionally, Bristol-Myers' Opdivo is also approved for classical Hodgkin lymphoma in the United States and in the EU. Merck's Keytruda too is approved for relapsed Hodgkin lymphoma in the United States. This is likely to increase competition for Adcetris.

Last Earnings Report

Seattle Genetics Q1 Earnings Beat, Adcetris Aids Sales

Seattle Genetics incurred an adjusted loss of 64 cents per share for the first quarter of 2020, narrower than the Zacks Consensus Estimate of 81 cents but wider than the year-ago loss of 32 cents.

Adjusted loss in the quarter excluded a market-to-market net investment income related to Seattle Genetics' common stock holdings in Immunomedics, Inc.

Revenues of \$234.5 million were up 20.1% year over year, primarily driven by higher royalty revenues in the reported quarter and sales from the lead drug, Adcetris. The top line also comprehensively beat the Zacks Consensus Estimate of \$212 million.

Quarter in Detail

Seattle Genetics' top line mainly comprises product revenues, collaboration and license agreement revenues plus royalties.

Adcetris generated net sales of \$164.1 million in the United States and Canada, up 22% year over year.

Newly-launched Padcev in its first full quarter since its launch generated sales worth \$34.5 million. On the first-quarter conference call, management seemed pleased with the uptake of Padcev so far, which exceeded its internal predictions.

Collaboration and license agreement revenues of \$15.6 million tanked 65% year over year.

Royalty revenues of \$20.4 million soared from the year-ago quarter's \$15.6 million. The company records royalty revenues on the sales of Adcetris from Takeda in the ex-U.S. markets and outside and to a lesser extent, on the sales of Polivy under its collaboration with Roche.

Research and development (R&D) expenses of \$195.2 million escalated 23.3% year over year, primarily due to higher investment in developing the late-stage pipeline candidates.

Selling, general and administrative (SG&A) expenses shot up 52.1% year over year to \$122.2 million, mainly on account of higher costs related to the launch preparations of Padcev and Tukysa.

2020 Outlook

Seattle Genetics reiterated its guidance for 2020. The company projects Adcetris' full-year net sales in the range of \$675-\$700 million, unchanged from its last projection.

The company expects collaboration and license revenues in the band of \$30-\$50 million while royalty revenues are anticipated within \$105-\$115 million, both unchanged from the earlier provided guidance.

Seattle Genetics expects SG&A expenses within \$475-\$525 million. R&D is estimated in the bracket of \$860-\$950 million, which too is intact with the last expectation.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	10.59%
EPS Surprise	20.99%
Quarterly EPS	-0.64
Annual EPS (TTM)	-1.64

Recent News

Gets Early FDA Nod for Tukysa — Apr 17

Seattle Genetics announced the FDA has approved its oral tyrosine kinase inhibitor Tukysa (tucatinib) in combination with Roche's Herceptin (trastuzumab) and Xeloda (capecitabine) four months before the scheduled action date of Aug 20, 2020.

The drug combo is now approved to treat adult patients with locally advanced/metastatic HER2-positive breast cancer including those with brain metastases, having received one or more prior anti-HER2-based regimens in the metastatic setting.

Issues Update on Padcev Label Expansion Study — Apr 2

Seattle Genetics announced an update on the phase Ib/II EV-103 study evaluating Padcev in combination with Merck's Keytruda (pembrolizumab) for addressing patients with unresectable locally advanced/metastatic urothelial cancer who are not able to receive cisplatin-based chemotherapy in the first-line setting.

Following discussion with the FDA authorities, management said that data from the cohort K as well as other outcomes from the EV-103 study on the Padcev combo could potentially support registration under accelerated approval regulations in the United States.

Padcev Combo Gets Breakthrough Therapy Designation — Feb 19

Seattle Genetics and Astellas announced that the FDA has granted Breakthrough Therapy designation to Padcev in combination with Keytruda for the treatment of patients with unresectable locally advanced/metastatic urothelial cancer who are unable to receive cisplatin-based chemotherapy in the first-line setting.

Tucatinib NDA Gets Priority Review From FDA — Feb 13

Seattle Genetics announced that the FDA has accepted the new drug application (NDA) for tucatinib. The NDA is seeking approval of tucatinib in combination with Roche's Herceptin (trastuzumab) and Xeloda (capecitabine) to treat patients with locally advanced/metastatic HER2-positive breast cancer including those with brain metastases, having received at least three prior HER2-directed agents separately or in combination in the neoadjuvant, adjuvant or metastatic setting.

With the FDA granting a priority review to the NDA, a decision from the regulatory body is expected on Aug 20, 2020.

Posts Updated Results From Phase Ib/II Study on Padcev — Feb 11

Seattle Genetics and Astellas provided an encouraging update on initial results from the phase Ib/II EV-103 study on Padcev. The candidate is being evaluated in combination with Keytruda for addressing previously untreated patients with locally advanced/metastatic urothelial cancer, who are not eligible for cisplatin-based chemotherapy.

The platinum-free combination of Padcev plus Keytruda continues to meet the outcome measures for safety and demonstrated a favorable clinical activity in first-line setting.

EMA Validates Marketing Application for Tucatinib Combo — Jan 31

Seattle Genetics announced that European Medicines Agency (EMA) has validated its marketing authorization application (MAA) for tucatinib combo. The MAA is seeking approval of tucatinib in combination with Roche's Herceptin (trastuzumab) and Xeloda (capecitabine) for treating patients with locally advanced/metastatic HER2-positive breast cancer, including those with brain metastases who have received at least two prior anti-HER2 treatment regimens.

Valuation

Seattle Genetics' shares are up 42.8% in the year-to-date period and 140.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are up 3.7% and down 4.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 7.9% and the sector is up 1.1%.

The S&P 500 index is down 11.5% in the year-to-date period and down 0.9% in the past year.

The stock is currently trading at 29.43X trailing 12-month sales per share, which compares to 3.31X for the Zacks sub-industry, 3.00X for the Zacks sector and 3.06X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.82X and as low as 11.13X, with a 5-year median of 17.68X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$172.00 price target reflects 31.00X trailing 12-month sales per share.

The table below shows summary valuation data for SGEN

Valuation Multiples - SGEN					
		Stock	Sub-Industry	Sector	S&P 500
P/S TTM	Current	29.43	3.31	3	3.06
	5-Year High	29.82	4.69	4.16	3.63
	5-Year Low	11.13	2.16	2.3	2.41
	5-Year Median	17.68	2.68	3.25	3.15

	P/B TTM	Price	Low	High	High
P/B TTM	Current	16.01	4.06	3.72	3.78
	5-Year High	35.89	5.46	5.05	4.55
	5-Year Low	5.46	2.45	2.92	2.84
	5-Year Median	9.84	3.33	4.28	3.64

As of 05/07/2020

Industry Analysis Zacks Industry Rank: Top 5% (13 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Eli Lilly and Company (LLY)	Outperform	1
Spectrum Pharmaceuticals Inc (SPPI)	Outperform	1
BristolMyers Squibb Company (BMY)	Neutral	2
JohnsonJohnson (JNJ)	Neutral	3
MerckCo Inc (MRK)	Neutral	3
Novartis AG (NVS)	Neutral	3
Pfizer Inc (PFE)	Neutral	3
Roche Holding AG (RHHBY)	Neutral	3

Industry Comparison Industry: Medical - Biomedical And Genetics				Industry Peers		
	SGEN	X Industry	S&P 500	BMY	MRK	SPPI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	2	-	-	2	3	1
VGM Score	D	-	-	A	A	F
Market Cap	28.26 B	193.48 M	19.51 B	137.80 B	190.82 B	336.59 M
# of Analysts	4	3	14	5	7	3
Dividend Yield	0.00%	0.00%	2.15%	2.95%	3.23%	0.00%
Value Score	D	-	-	B	B	D
Cash/Price	0.03	0.25	0.06	0.11	0.05	0.72
EV/EBITDA	-211.16	-3.26	11.77	24.67	13.36	-0.77
PEG Ratio	NA	1.99	2.54	1.17	2.08	NA
Price/Book (P/B)	16.01	3.67	2.67	2.63	7.29	1.71
Price/Cash Flow (P/CF)	NA	15.69	10.44	13.90	11.30	NA
P/E (F1)	NA	30.68	19.30	10.00	14.12	NA
Price/Sales (P/S)	29.56	14.71	1.99	4.44	3.97	NA
Earnings Yield	-1.90%	-16.16%	4.91%	9.99%	7.09%	-52.94%
Debt/Equity	0.00	0.02	0.75	0.84	0.82	0.00
Cash Flow (\$/share)	-1.12	-1.04	7.01	4.39	6.69	-1.09
Growth Score	D	-	-	B	A	F
Hist. EPS Growth (3-5 yrs)	NA%	18.12%	10.87%	20.53%	9.00%	NA
Proj. EPS Growth (F1/F0)	-133.27%	4.30%	-9.87%	30.15%	3.19%	-51.49%
Curr. Cash Flow Growth	-18.87%	13.58%	5.88%	36.74%	5.54%	67.29%
Hist. Cash Flow Growth (3-5 yrs)	NA%	7.77%	8.55%	22.46%	0.15%	NA
Current Ratio	4.51	4.71	1.24	1.60	1.11	3.94
Debt/Capital	0.00%	4.36%	44.23%	45.63%	45.14%	0.00%
Net Margin	-32.82%	-208.78%	10.68%	3.08%	21.10%	NA
Return on Equity	-16.51%	-67.24%	16.36%	35.70%	52.46%	-57.92%
Sales/Assets	0.48	0.20	0.55	0.38	0.57	NA
Proj. Sales Growth (F1/F0)	17.33%	5.20%	-2.26%	58.09%	2.59%	570.00%
Momentum Score	C	-	-	C	B	F
Daily Price Chg	-0.84%	0.00%	1.52%	-0.15%	-1.97%	0.35%
1 Week Price Chg	-0.27%	-2.40%	0.53%	-3.20%	-4.62%	-7.27%
4 Week Price Chg	35.69%	12.65%	0.73%	3.62%	-8.35%	5.86%
12 Week Price Chg	38.10%	-10.04%	-21.09%	-7.63%	-7.77%	1.76%
52 Week Price Chg	140.58%	-21.91%	-10.17%	29.24%	-3.49%	-68.99%
20 Day Average Volume	1,197,842	233,208	2,398,409	13,891,925	10,579,699	997,398
(F1) EPS Est 1 week change	18.49%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	14.79%	0.00%	-6.95%	-0.03%	-6.92%	-1.32%
(F1) EPS Est 12 week change	-2.20%	0.00%	-15.68%	-0.65%	-7.17%	-28.57%
(Q1) EPS Est Mthly Chg	23.03%	0.00%	-13.12%	-0.84%	-22.49%	-2.86%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Growth Score	D
Momentum Score	C
VGM Score	D

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.

Disclosures

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