Seattle Genetics, Inc. (SGEN)

$118.07 (As of 02/14/20)

Price Target (6-12 Months): **$124.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/10/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:F
	Value: F | Growth: D | Momentum: F	

Summary

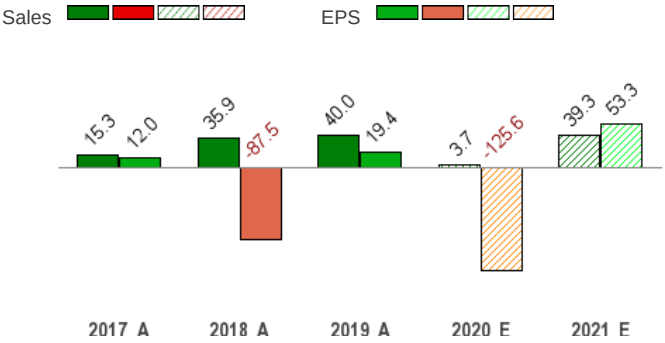
Seattle Genetics delivered both earnings and revenue beat in the fourth quarter. Its lead drug Adcetris has been performing well since its launch. The drug's label expansion in frontline stage III/IV HL and frontline CD30-expressing PTCL is generating incremental revenues. Collaboration with Japans' Takeda for the global development and commercialization of Adcetris looks encouraging as well. The company has multiple ADC candidates in its pipeline, which are progressing well. Among these, Padcev got the FDA approval for a cancer indication, which should reduce heavy dependence on Adcetris in the future quarters. However, excessive reliance on Adcetris for growth remains a concern. Hence, any regulatory setback for the drug could hurt sales significantly. Shares have outperformed the industry in the past year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$124.32 - $62.90**
20 Day Average Volume (sh)	**956,834**
Market Cap	**$20.3 B**
YTD Price Change	**3.3%**
Beta	**2.00**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Medical - Biomedical and Genetics**
Zacks Industry Rank	**Top 28% (72 out of 255)**
Last EPS Surprise	**51.1%**
Last Sales Surprise	**29.4%**
EPS F1 Est- 4 week change	**-334.9%**
Expected Report Date	**NA**
Earnings ESP	**0.0%**
P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**22.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	266 E	292 E	322 E	366 E	1,325 E
2020	210 E	222 E	237 E	262 E	951 E
2019	195 A	218 A	213 A	290 A	917 A

EPS Estimates

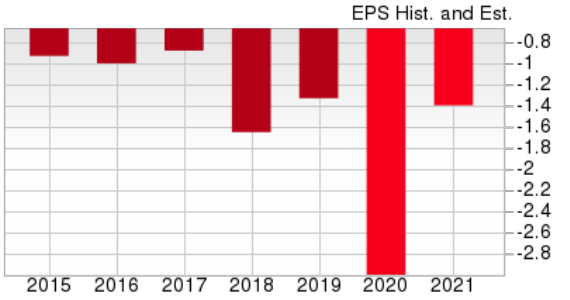
	Q1	Q2	Q3	Q4	Annual*
2021	-$0.78 E	-$0.66 E	-$0.55 E	-$0.36 E	-$1.40 E
2020	-$0.77 E	-$0.81 E	-$0.87 E	-$0.85 E	-$3.00 E
2019	-$0.32 A	-$0.24 A	-$0.54 A	-$0.22 A	-$1.33 A

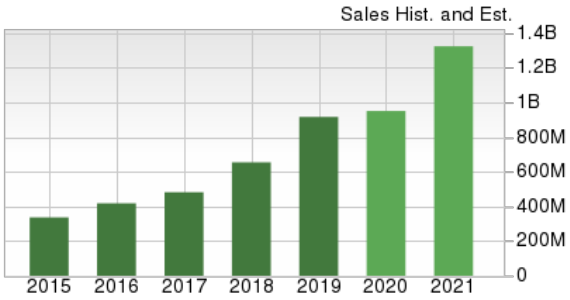
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/17/2020.

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. It is also approved in the United States and Europe for the treatment of patients suffering from classical Hodgkin lymphoma (cHL) with no prior treatment as well as who are at high risk of relapse or progression as post-autologous hematopoietic stem cell transplantation (auto-HSCT) consolidation.

Adcetris is also approved in combination with chemotherapy for the treatment of stage III or IV classical Hodgkin lymphoma (cHL) in patients with no previous treatment history. The drug is approved for treating frontline CD30-expressing peripheral T-cell lymphomas (PTCL). Adcetris recorded sales of $627.7 million in 2019.

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.

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.

The company also has license agreements with several companies for the development of its pipeline candidates. Partners include 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:

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.

- **Shares Outperforming Industry:** Shares of Seattle Genetics have outperformed the industry in the past year.

- **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.

  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 acquired exclusive worldwide rights to develop and commercialize Immunomedics' sacituzumab govitecan (IMMU-132), which is being evaluated for the treatment of cancers of the breast, lung and bladder. 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 tucatinib, TV, ladiratuzumab vedotin and SEA-BCMA. The company is developing TV and SEA-BCMA 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. The approval, should reduce the company's heavy dependence on its lead marketed drug Adcetris.

  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 January 2020, Seattle Genetics announced updated results from the phase Ib/II EV-103 study on EV in combination with Keytruda for addressing previously untreated patients with locally advanced/metastatic urothelial cancer, who are not eligible for cisplatin-based chemotherapy.

  Last November, the company initiated dosing in the phase I study on its pipeline candidate, SEA-BCMA. The early-stage candidate is currently being evaluated for the treatment of patients with relapsed/refractory multiple myeloma (MM).

  In March 2018, Seattle Genetics added a late stage breast cancer candidate, tucatinib, with the acquisition of Cascadian Therapeutics. In September 2019, Seattle Genetics presented initial data from the single arm phase II MOUNTAINEER study on tucatinib 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 October 2019, Seattle Genetics announced positive top-line results from the HER2CLIMB study evaluating tucatinib in combination with Roche's Herceptin and Xeloda as compared to Herceptin + Xeloda alone for treating patients with locally advanced unresectable/metastatic HER2-positive breast cancer. The study met the primary endpoint of progression-free survival and also the two key secondary endpoints during interim analysis. In December 2019, the company submitted a new drug application for tucatinib combo to address the given patient population. In February 2020, the FDA accepted and granted priority review to the NDA. The regulatory body set an action date of Aug 20, 2020.

  Also, in October this year, Seattle Genetics dosed the first patient in a phase III HER2CLIMB-02 study on tucatinib in combination with Roche's Kadcyla (ado-trastuzumab emtansine) for the treatment of patients with locally advanced/metastatic HER2-positive breast cancer.

  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 in the first half 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 concernas Padcev 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 number of candidates in its pipeline, most of these candidates are in the early stage of development. Since the company is heavily dependent on Adcetris for growth, failure to develop any new product will magnify this dependence. Unfavorable results may lead the company to postpone or discontinue the studies. They might also have an adverse impact on the shares 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 Q4 Earnings Top, Adcetris Drives Sales

Quarter Ending	12/2019
Report Date	**Feb 06, 2020**
Sales Surprise	**29.44%**
EPS Surprise	**51.11%**
Quarterly EPS	**-0.22**
Annual EPS (TTM)	**-1.32**

Seattle Genetics incurred an adjusted loss of 22 cents per share for the fourth quarter of 2019, narrower than the Zacks Consensus Estimate of 45 cents and also the year-ago loss of 57 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 $289.8 million were up 66.1% 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 $224 million.

Quarter in Detail

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

Adcetris generated net sales of $166.2 million in the United States and Canada, up 26% year over year. Improved sales of the drug were owing to its label expansions for frontline CD30-expressing PTCL and frontline HL.

Newly-launched Padcev generated $0.2 million sales in the quarter. On the fourth-quarter conference call, management seemed pleased with the uptake of Padcev so far, which exceeded its internal predictions.

Collaboration and license agreement revenues of $51.1 million significantly surged year over year. In the reported quarter, Seattle Genetics received a milestone fee from Glaxo and an upfront payment from BeiGene for entering into a licensing agreement to develop a preclinical product candidate to treat cancer.

Royalty revenues of $72.3 million soared from the year-ago quarter's $24.6 million. In the reported quarter, Seattle Genetics received a one-time $40 million milestone from Takeda as Adcetris sales crossed $400 million in the latter's territory during 2019.

Research and development (R&D) expenses of $201.1 million escalated 34.2% year over year due to higher investment in developing the late-stage pipeline candidates.

Selling, general and administrative (SG&A) expenses rose 44.9% year over year to $115.2 million, mainly on account of costs pertaining to the launch of Adcetris in frontline setting and costs related to preparations for the launches of Padcev and tucatinib.

2020 Outlook

Seattle Genetics projects Adcetris' full-year net sales in the range of $675-$700 million, denoting modest growth.

The company expects collaboration and license revenues in the band of $30-$50 million while royalty revenues are anticipated within $105-$115 million.

SG&A expenses are expected within $475-$525 million while R&D is estimated in the band of $860-$950 million.

Recent News

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.

Submits NDA to FDA for Tucatinib Combo — Dec 23

Seattle Genetics announced that it submitted a new drug application (NDA) to the FDA for its oral tyrosine kinase inhibitor tucatinib in combination with Roche's Herceptin (trastuzumab) and Xeloda (capecitabine). The NDA was submitted seeking approval to treat patients with locally advanced/metastatic HER2-positive breast cancer, including those with brain metastases who have received at least three prior HER2-directed agents separately or in combination, in the neoadjuvant, adjuvant or metastatic setting.

Gets Speedy FDA Nod for Bladder Cancer Drug — Dec 18

Seattle Genetics along with Astellas announced that the FDA has granted accelerated approval to its pipeline candidate Padcev (enfortumab vedotin-ejfv). The drug is approved 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. Following this nod, Padcev becomes the first FDA approved drug for treating the given patient population.

The approval comes much before the scheduled Prescription Drug User Fee Act (PDUFA) action date of Mar 15, 2020.

Separately, Seattle Genetics announced that the FDA has granted Breakthrough Therapy designation to its oral tyrosine kinase inhibitor 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 and earlier being treated with Herceptin, pertuzumab and T-DM1.

Team Up With Merck for Cancer Study — Dec 2

Seattle Genetics along with Astellas announced that it has inked a collaboration agreement with Merck to begin a phase III study for evaluating the combination of enfortumab vedotin and the latter's PD-1/L1 inhibitor Keytruda to address patients with previously untreated metastatic urothelial cancer.

Per the agreement, the three companies will initiate a registrational phase III study to evaluate the efficacy of the enfortumab vedotin plus Keytruda combo in the above-mentioned patient population. The study, which will be led by Seattle Genetics, is expected to being in the first half of 2020. It is likely to support global registrations of enfortumab vedotin.

Valuation

Seattle Genetics' shares are up 3.3% in the year-to-date period and 65.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are up 1.2% and 2.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 3.7% while the sector is up 1.8%.

The S&P 500 index is up 4.9% in the year-to-date period and up 21% in the past year.

The stock is currently trading at 22.99X trailing 12-month sales per share, which compares to 2.84X for the Zacks sub-industry, 3.19X for the Zacks sector and 3.84X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.56X and as low as 11.13X, with a 5-year median of 17.37X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $124.00 price target reflects 24.14X trailing 12-month sales per share.

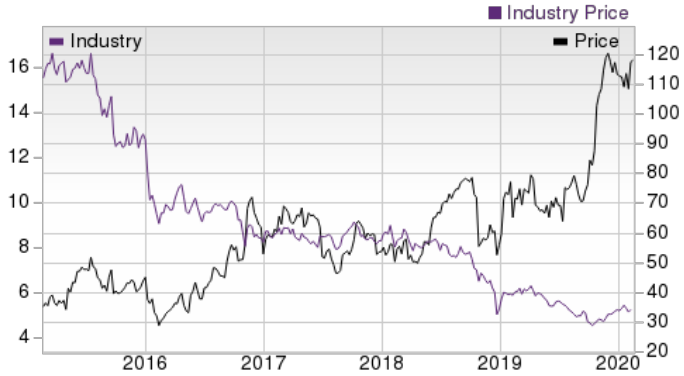
The table below shows summary valuation data for SGEN

Valuation Multiples - SGEN

		Stock	Sub-Industry	Sector	S&P 500
P/S TTM	Current	22.99	2.84	3.19	3.84
	5-Year High	25.56	5.02	4.16	3.84
	5-Year Low	11.13	2.12	2.71	2.51
	5-Year Median	17.37	2.66	3.27	3.15
P/B TTM	Current	10.79	3.91	4.63	4.68
	5-Year High	35.89	5.77	5.04	4.68
	5-Year Low	5.46	2.43	3.44	2.85
	5-Year Median	10.01	3.27	4.31	3.62

As of 02/14/2020

Industry Analysis **Zacks Industry Rank:** Top 28% (72 out of 255)



Top Peers

Bristol-Myers Squibb Company **(BMY)**	Outperform
Pfizer Inc. **(PFE)**	Outperform
Johnson & Johnson **(JNJ)**	Neutral
Eli Lilly and Company **(LLY)**	Neutral
Merck & Co., Inc. **(MRK)**	Neutral
Novartis AG **(NVS)**	Neutral
Roche Holding AG **(RHHBY)**	Neutral
Spectrum Pharmaceuticals, Inc. **(SPPI)**	Neutral

Industry Comparison Industry: Medical - Biomedical And Genetics

Industry Peers

	SGEN Neutral	X Industry	S&P 500	BMY Outperform	MRK Neutral	SPPI Neutral
VGM Score	F	-	-	A	A	F
Market Cap	20.34 B	204.67 M	24.61 B	108.15 B	210.43 B	319.71 M
# of Analysts	9	3	13	5	7	1
Dividend Yield	0.00%	0.00%	1.78%	2.71%	2.95%	0.00%
Value Score	F	-	-	B	B	F
Cash/Price	0.04	0.22	0.04	0.30	0.04	0.81
EV/EBITDA	-150.15	-3.70	14.06	15.14	17.03	-0.76
PEG Ratio	NA	1.96	2.09	1.36	2.11	NA
Price/Book (P/B)	10.84	3.94	3.29	6.09	7.86	1.36
Price/Cash Flow (P/CF)	NA	14.35	13.65	11.79	13.32	NA
P/E (F1)	NA	33.65	19.21	11.51	14.45	NA
Price/Sales (P/S)	22.19	14.39	2.70	4.14	4.49	2.92
Earnings Yield	-2.54%	-15.58%	5.19%	8.69%	6.92%	-35.69%
Debt/Equity	0.00	0.02	0.71	1.37	0.84	0.00
Cash Flow ($/share)	-1.12	-1.07	6.92	5.63	6.21	-0.69
Growth Score	D	-	-	A	B	F
Hist. EPS Growth (3-5 yrs)	NA%	16.51%	10.85%	20.53%	8.10%	NA
Proj. EPS Growth (F1/F0)	-125.40%	7.05%	7.17%	22.94%	10.24%	-8.60%
Curr. Cash Flow Growth	-18.87%	19.01%	8.56%	28.20%	3.40%	27.48%
Hist. Cash Flow Growth (3-5 yrs)	NA%	7.72%	8.36%	20.89%	-1.53%	NA
Current Ratio	4.54	5.09	1.23	3.83	1.26	5.71
Debt/Capital	0.00%	3.97%	42.91%	57.87%	45.72%	0.00%
Net Margin	-17.31%	-209.62%	11.81%	13.15%	21.01%	NA
Return on Equity	-13.99%	-64.11%	16.86%	48.97%	48.76%	-46.70%
Sales/Assets	0.49	0.20	0.54	0.53	0.56	NA
Proj. Sales Growth (F1/F0)	5.15%	16.39%	3.85%	59.81%	6.36%	570.00%
Momentum Score	F	-	-	C	A	F
Daily Price Chg	-0.13%	0.00%	0.06%	0.45%	0.83%	-0.35%
1 Week Price Chg	8.32%	1.53%	2.47%	5.24%	-0.42%	8.70%
4 Week Price Chg	9.67%	-3.81%	0.59%	-0.60%	-9.36%	-13.98%
12 Week Price Chg	-1.53%	12.80%	6.98%	16.76%	-3.29%	-67.28%
52 Week Price Chg	72.19%	-8.13%	16.62%	30.59%	4.70%	-75.81%
20 Day Average Volume	956,834	195,889	2,020,569	12,950,735	11,789,464	2,168,642
(F1) EPS Est 1 week change	-114.30%	0.00%	0.00%	0.78%	-0.25%	0.00%
(F1) EPS Est 4 week change	-334.90%	0.00%	-0.05%	1.03%	3.41%	0.00%
(F1) EPS Est 12 week change	-282.02%	0.00%	-0.17%	13.69%	3.68%	-3.48%
(Q1) EPS Est Mthly Chg	-215.53%	0.00%	-0.24%	-0.22%	NA	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	F
Growth Score	D
Momentum Score	F
VGM Score	F

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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