

Seattle Genetics, Inc. (SGEN)

\$136.87 (As of 04/17/20)

Price Target (6-12 Months): **\$145.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: C

Summary

Seattle Genetics' 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's ADC pipeline candidates are 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. Shares have outperformed the industry year to date. Loss estimates remain mixed ahead of Q1 earnings. Seattle Genetics have a mixed record of earnings surprises in recent quarters.

Price, Consensus & Surprise



Data Overview

52 Week High-Low **\$143.77 - \$62.90**

20 Day Average Volume (sh) **1,093,304**

Market Cap **\$23.6 B**

YTD Price Change **19.8%**

Beta **1.42**

Dividend / Div Yld **\$0.00 / 0.0%**

Industry **Medical - Biomedical and Genetics**

Zacks Industry Rank **Top 4% (11 out of 253)**

Last EPS Surprise **51.1%**

Last Sales Surprise **29.4%**

EPS F1 Est- 4 week change **-1.1%**

Expected Report Date **04/30/2020**

Earnings ESP **11.0%**

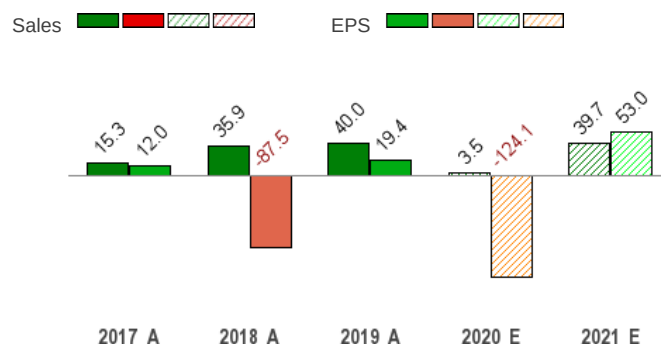
P/E TTM **NA**

P/E F1 **NA**

PEG F1 **NA**

P/S TTM **25.8**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	266 E	292 E	322 E	365 E	1,326 E
2020	209 E	220 E	235 E	262 E	949 E
2019	195 A	218 A	213 A	290 A	917 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.78 E	-\$0.68 E	-\$0.56 E	-\$0.37 E	-\$1.40 E
2020	-\$0.78 E	-\$0.83 E	-\$0.88 E	-\$0.85 E	-\$2.98 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 04/17/2020. The reports text is as of 04/20/2020.

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.

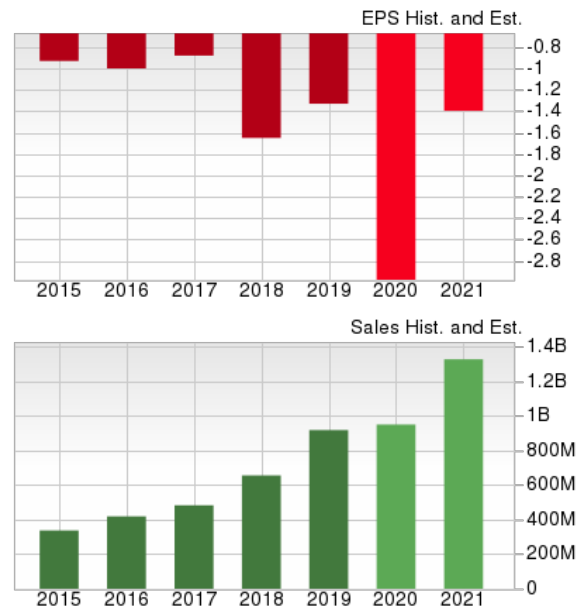
Adcetris is also approved in combination with chemotherapy for the treatment of stage III or IV classical Hodgkin lymphoma (cHL) in patients with no previous treatment history. The drug is approved for treating frontline CD30-expressing peripheral T-cell lymphomas (PTCL). Adcetris recorded sales of \$627.7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

▲ **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 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 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 February 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. The combo has been granted a Breakthrough Therapy designation by the FDA in the first-line setting.

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, 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 October 2019, Seattle Genetics announced positive top-line results from the HER2CLIMB study evaluating Tukysa 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 Tukysa combo to address the given patient population. In February 2020, the FDA accepted and granted priority review to the NDA. In April 2020, the FDA approved the Tukysa combo for the given indication, four months before the scheduled 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 Tukysa 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 concern as 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.
- ▼ **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.

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

Last Earnings Report

Seattle Genetics Q4 Earnings Top, Adcetris Drives Sales

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 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

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

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 19.7% in the year-to-date period and 99% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are up 1.9% and down 4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 6.6% and the sector is up 4.1%.

The S&P 500 index is down 10.9% in the year-to-date period and down 1.7% in the past year.

The stock is currently trading at 26.65X trailing 12-month sales per share, which compares to 3.27X for the Zacks sub-industry, 3.01X for the Zacks sector and 3.10X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.65X and as low as 11.13X, with a 5-year median of 17.61X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$145.00 price target reflects 28.23X 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	26.65	3.27	3.01	3.1
	5-Year High	26.65	4.69	4.17	3.69
	5-Year Low	11.13	2.16	2.31	2.43
	5-Year Median	17.61	2.68	3.26	3.19

	P/B TTM	Current	5-Year High	5-Year Low	5-Year Median
P/B TTM	Current	12.57	3.97	3.7	3.8
	5-Year High	35.89	5.46	5.05	4.55
	5-Year Low	5.46	2.45	2.9	2.84
	5-Year Median	9.84	3.33	4.29	3.64

As of 04/17/2020

Industry Analysis Zacks Industry Rank: Top 4% (11 out of 253)



Top Peers

Eli Lilly and Company (LLY)	Outperform
Bristol-Myers Squibb Company (BMY)	Neutral
Johnson & Johnson (JNJ)	Neutral
Merck & Co., Inc. (MRK)	Neutral
Novartis AG (NVS)	Neutral
Pfizer Inc. (PFE)	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 Neutral	MRK Neutral	SPPI Neutral
VGM Score	F	-	-	B	A	D
Market Cap	23.61 B	177.17 M	19.60 B	136.81 B	211.68 B	314.55 M
# of Analysts	10	3	14	5	7	2
Dividend Yield	0.00%	0.00%	2.17%	2.97%	2.92%	0.00%
Value Score	F	-	-	C	C	F
Cash/Price	0.04	0.26	0.06	0.12	0.05	0.71
EV/EBITDA	-175.27	-2.75	11.73	24.52	14.82	-0.62
PEG Ratio	NA	1.82	2.19	1.31	2.17	NA
Price/Book (P/B)	12.50	3.25	2.67	2.61	8.17	1.63
Price/Cash Flow (P/CF)	NA	14.73	10.55	13.80	12.47	NA
P/E (F1)	NA	28.37	18.18	9.93	14.76	NA
Price/Sales (P/S)	25.75	13.66	2.08	5.23	4.52	NA
Earnings Yield	-2.18%	-18.16%	5.38%	10.07%	6.78%	-55.11%
Debt/Equity	0.00	0.02	0.70	0.84	0.87	0.00
Cash Flow (\$/share)	-1.12	-1.04	7.01	4.39	6.69	-1.09
Growth Score	D	-	-	B	B	D
Hist. EPS Growth (3-5 yrs)	NA%	18.12%	10.92%	20.53%	8.10%	NA
Proj. EPS Growth (F1/F0)	-123.76%	4.64%	-3.36%	30.15%	8.97%	-49.50%
Curr. Cash Flow Growth	-18.87%	13.18%	5.93%	36.74%	5.54%	67.29%
Hist. Cash Flow Growth (3-5 yrs)	NA%	8.03%	8.55%	22.46%	0.15%	NA
Current Ratio	4.54	4.72	1.24	1.60	1.24	3.94
Debt/Capital	0.00%	4.35%	42.78%	45.63%	46.65%	0.00%
Net Margin	-17.31%	-229.34%	11.64%	13.15%	21.01%	NA
Return on Equity	-13.99%	-65.95%	16.74%	31.85%	49.41%	-51.77%
Sales/Assets	0.49	0.20	0.54	0.38	0.56	NA
Proj. Sales Growth (F1/F0)	4.95%	5.91%	-0.14%	58.09%	4.13%	570.00%
Momentum Score	C	-	-	B	B	A
Daily Price Chg	2.60%	2.17%	4.04%	1.75%	0.55%	1.86%
1 Week Price Chg	3.27%	10.01%	16.01%	6.09%	8.18%	27.57%
4 Week Price Chg	36.86%	24.76%	18.93%	24.21%	18.00%	20.17%
12 Week Price Chg	18.66%	-17.22%	-19.39%	-9.38%	-5.76%	-4.36%
52 Week Price Chg	97.85%	-25.66%	-11.34%	33.13%	14.03%	-71.25%
20 Day Average Volume	1,093,304	227,526	3,220,598	16,426,061	12,679,769	1,190,537
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.03%	-0.43%	0.00%
(F1) EPS Est 4 week change	-1.05%	0.00%	-7.09%	-0.41%	-0.90%	0.00%
(F1) EPS Est 12 week change	-256.17%	-1.01%	-9.32%	0.03%	2.48%	-26.89%
(Q1) EPS Est Mthly Chg	-1.58%	0.00%	-10.68%	-3.09%	-7.26%	0.00%

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	C
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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