Seattle Genetics, Inc. (SGEN)

$154.48 (As of 08/26/20)

Price Target (6-12 Months): **$163.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/30/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: F | Momentum: B	

Summary

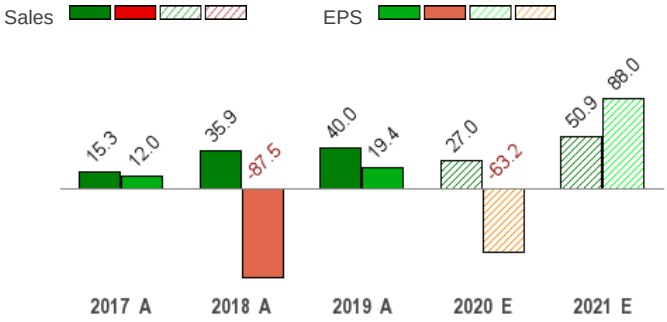
Seattle Genetics' posted a narrower than expected loss and beat sales estimates in second quarter of 2020. The company's lead lymphoma drug Adcetris has been performing well since its launch. The drug's label expansion in additional indications is generating incremental revenues too. Collaboration with Japans' Takeda for 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 future. However, high reliance on Adcetris for growth still remains a woe. Hence, any regulatory setback for the drug could hurt sales significantly. Stiff competition is another concern for the company. Shares have outperformed industry.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$187.99 - $65.44**
20 Day Average Volume (sh)	**780,855**
Market Cap	**$26.9 B**
YTD Price Change	**35.2%**
Beta	**1.41**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Medical - Biomedical and Genetics**
Zacks Industry Rank	**Bottom 28% (181 out of 252)**
Last EPS Surprise	**6.9%**
Last Sales Surprise	**8.3%**
EPS F1 Est- 4 week change	**16.0%**
Expected Report Date	**11/03/2020**
Earnings ESP	**0.0%**
P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**26.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	352 E	384 E	423 E	465 E	1,758 E
2020	235 A	278 A	306 E	341 E	1,165 E
2019	195 A	218 A	213 A	290 A	917 A

EPS Estimates

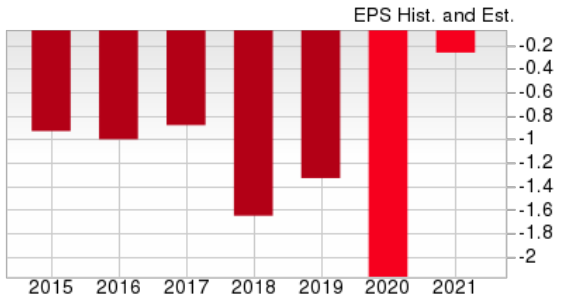
	Q1	Q2	Q3	Q4	Annual*
2021	-$0.53 E	-$0.42 E	-$0.26 E	-$0.11 E	-$0.26 E
2020	-$0.64 A	-$0.54 A	-$0.57 E	-$0.51 E	-$2.17 E
2019	-$0.32 A	-$0.24 A	-$0.54 A	-$0.22 A	-$1.33 A

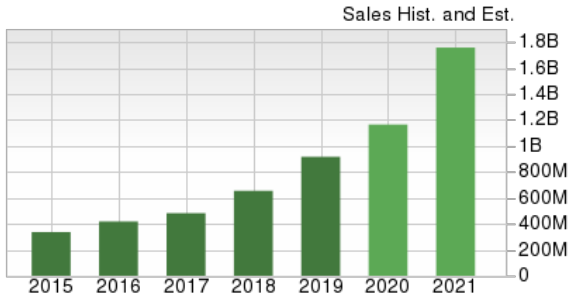
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/26/2020. The reports text is as of 08/27/2020.

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:

> 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 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 $331.6 million sales in the United States and Canada in the first half of 2020, constituting almost 64.7% 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 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.

  In July 2020, Merck expanded its ongoing phase III KEYNOTE 905 study to include an arm evaluating Padcev in combination with Keytruda for patients with cisplatin-ineligible Muscle Invasive Bladder Cancer (MIBC). The expansion is being conducted under a clinical trial collaboration and supply agreement among Seattle Genetics, Astellas and Merck.

  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.

In June 2020, the company dosed the first patient in a phase I study of SEA-TGT, an anti-TIGIT antibody for patients with solid tumors and lymphomas. SEA-TGT employs the Company's proprietary Sugar Engineered Antibody (SEA) technology. The company also dosed the first patient in a phase I study evaluating SGN-B6A, an antibody-drug conjugate (ADC) targeting integrin beta-6, which is overexpressed in a variety of solid tumors and has been shown to be a negative prognostic indicator across a diverse range of cancers.

▲ **Favorable Debt Profile:** Seattle Genetics has a favorable debt profile. As of June 30, 2020, the company had no debt (short-term as well as long-term). The company had cash, cash equivalents and marketable securities of approximately $895.7 million as of June-end. Due to the absence of any debt until now, the company is less likely to file for bankruptcy in case of insolvency.

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

Quarter Ending	06/2020
Report Date	Jul 30, 2020
Sales Surprise	8.28%
EPS Surprise	6.90%
Quarterly EPS	-0.54
Annual EPS (TTM)	-1.94

Seattle Genetics incurred an adjusted loss of 54 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.

Recent News

Appoints Board of Director – Aug 18

Seattle Genetics announced that it has appointed Dr. Ted W. Love to the company's Board of Directors.

Gets Tukysa Approval in Australia – Aug 12

Seattle Genetics announced that the Australian regulatory authorities have approved Tukysa (tucatinib) in combination with Roche's Herceptin (trastuzumab) and Xeloda (capecitabine) 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.

Apart from Australia, the drug combo is now approved in the United States, Switzerland, Canada and Singapore. It is currently under review in the European Union.

Receives Milestone Payment From GlaxoSmithKline — Aug 6

Seattle Genetics announced that it has received a $20-million milestone fee from GlaxoSmithKline following the FDA approval of Blenrep (belantamab mafodotin-blmf), which is developed by the latter. Blenrep is made using Seattle Genetics' proprietary technology. The company is entitled to receive further royalties on the worldwide net sales of the drug.

Posts Positive Topline Data from Phase II Study on Tisotumab Vedotin – Jun 29

Seattle Genetics announced positive topline results from the phase II innovaTV 204 study evaluating tisotumab vedotin for the treatment of patients who have relapsed or progressed on or after prior treatment for recurrent or metastatic cervical cancer. Data from the study showed, tisotumab vedotin administered every three weeks demonstrated a 24% confirmed objective response rate as per independent central review with a median duration of response of 8.3 months.

Begins Phase I Study on Two Candidates for Multiple Tumor Types – Jun 18

Seattle Genetics announced that it has dosed the first patient in a phase I study evaluating investigational agent SEA-TGT, also known as SGN-TGT for treating patients with solid tumors and lymphomas. The company also announced dosing of the first patient in a phase I study on investigational agent SGN-B6A, an antibody-drug conjugate (ADC) for addressing a diverse range of cancers. Both antibody-based drug candidates will be evaluated in multiple tumor types.

Valuation

Seattle Genetics' shares are up 35.2% in the year-to-date period and 111% over the trailing 12-month period. Stocks in the Zacks sub-industry is up 1.6% and the Zacks Medical sector is up 0.3% in the year-to-date period. Over the past year, the Zacks sub-industry is up 15.1% and the sector is up 9.4%.

The S&P 500 index is up 6.9% in the year-to-date period and up 19.6% in the past year.

The stock is currently trading at 26.83X trailing 12-month sales per share, which compares to 3.09X for the Zacks sub-industry, 3.13X for the Zacks sector and 3.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.49X and as low as 11.13X, with a 5-year median of 17.79X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $163.00 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	26.83	3.09	3.13	3.85
	5-Year High	31.49	4.87	3.82	3.85
	5-Year Low	11.13	2.24	2.29	2.44
	5-Year Median	17.79	3.21	3.19	3.23
P/B TTM	Current	14.82	3.05	3.84	4.66
	5-Year High	33.9	5.87	5.07	4.66
	5-Year Low	5.46	2.06	2.94	2.83
	5-Year Median	9.84	3.86	4.29	3.76

As of 08/26/2020

Industry Analysis **Zacks Industry Rank:** Bottom 28% (181 out of 252)

Top Peers

Company (Ticker)	Rec	Rank
Bristol Myers Squibb Company **(BMY)**	Neutral	3
JohnsonJohnson **(JNJ)**	Neutral	3
Eli Lilly and Company **(LLY)**	Neutral	3
MerckCo., Inc. **(MRK)**	Neutral	3
Novartis AG **(NVS)**	Neutral	3
Pfizer Inc. **(PFE)**	Neutral	3
Roche Holding AG **(RHHBY)**	Neutral	2
Spectrum Pharmaceuticals, Inc. **(SPPI)**	Neutral	3

Industry Comparison Industry: Medical - Biomedical And Genetics

	SGEN	X Industry	S&P 500	BMY	MRK	SPPI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	A	A	F
Market Cap	26.88 B	266.36 M	23.69 B	140.92 B	216.35 B	575.65 M
# of Analysts	9	3	14	7	6	3
Dividend Yield	0.00%	0.00%	1.65%	2.89%	2.85%	0.00%
Value Score	D	-	-	B	B	F
Cash/Price	0.03	0.23	0.07	0.15	0.05	0.28
EV/EBITDA	-199.79	-3.69	13.37	23.97	15.31	-2.86
PEG Ratio	NA	1.73	3.04	1.16	2.23	NA
Price/Book (P/B)	14.82	4.08	3.17	2.87	7.78	3.52
Price/Cash Flow (P/CF)	NA	17.85	12.78	14.19	12.78	NA
P/E (F1)	NA	25.49	21.63	9.99	15.02	NA
Price/Sales (P/S)	26.47	15.17	2.50	4.04	4.58	NA
Earnings Yield	-1.40%	-12.80%	4.44%	10.02%	6.66%	-35.19%
Debt/Equity	0.00	0.02	0.75	0.85	0.94	0.00
Cash Flow ($/share)	-1.12	-1.08	6.94	4.39	6.69	-1.09
Growth Score	F	-	-	A	B	D
Hist. EPS Growth (3-5 yrs)	NA%	19.03%	10.41%	23.36%	9.70%	NA
Proj. EPS Growth (F1/F0)	-63.08%	15.96%	-4.92%	32.99%	9.73%	-37.30%
Curr. Cash Flow Growth	-18.87%	13.93%	5.22%	36.74%	5.54%	67.29%
Hist. Cash Flow Growth (3-5 yrs)	NA%	7.73%	8.50%	22.46%	0.15%	NA
Current Ratio	4.71	6.04	1.34	1.47	1.32	3.15
Debt/Capital	0.00%	3.39%	44.18%	45.99%	48.53%	0.00%
Net Margin	-25.18%	-205.02%	10.25%	-1.61%	22.20%	NA
Return on Equity	-18.32%	-59.07%	14.66%	28.47%	52.94%	-76.09%
Sales/Assets	0.47	0.19	0.50	0.31	0.55	NA
Proj. Sales Growth (F1/F0)	27.10%	0.61%	-1.45%	60.20%	2.07%	545.00%
Momentum Score	B	-	-	D	B	C
Daily Price Chg	-0.26%	-0.70%	-0.18%	-0.69%	-0.16%	-1.99%
1 Week Price Chg	0.15%	0.00%	-1.45%	-1.54%	1.80%	2.67%
4 Week Price Chg	-8.28%	0.00%	2.10%	5.29%	7.80%	1.80%
12 Week Price Chg	-0.37%	-0.61%	3.61%	3.44%	4.24%	35.27%
52 Week Price Chg	110.95%	10.53%	3.61%	27.99%	-1.09%	-47.61%
20 Day Average Volume	780,855	312,674	1,883,291	9,021,961	7,381,167	3,038,244
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.19%	0.00%
(F1) EPS Est 4 week change	16.00%	0.00%	0.93%	1.01%	7.08%	3.03%
(F1) EPS Est 12 week change	19.30%	1.07%	3.41%	1.44%	7.22%	3.03%
(Q1) EPS Est Mthly Chg	22.82%	0.00%	0.00%	-3.83%	4.42%	-12.12%

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	F
Momentum Score	B
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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