

## ADMA Biologics (ADMA - \$ 7.30)

1Q14: RI-002 Study is On Track with Plasma Collection Center Expansion Underway.

ADMA recently reported 1Q14 financial results with a net loss of (\$5.9MM), or (\$0.64) net loss per share. With cash of ~\$28.7MM by the end of 1Q14, we believe the company has sufficient capital for operations entering 2016.

- **The major emphasis for share value is not yet the key investment focus of ADMA.** Focus remains on the progression and clinical results of the company's RI-002 in primary immune deficiency disease (PIDD) Phase III study and continued expansion of plasma collection centers.
- **RI-002 Phase III study is on-track with top-line results expected in 4Q14.** ADMA indicated that the study has advanced into its half way mark as >70% of expected infusions to patients have taken place; while some patients have already completed the entire dosing. The Phase III trial is in PIDD patient for potential approval as an intravenous immunoglobulin (IVIG). The primary endpoint is to achieve <1 serious infection/person/year; while one key secondary endpoint is levels of anti-RSV antibodies. RI-002 could potentially be used off-label for RSV infection management in PIDD and transplant patients should it receive approval as a regular IVIG with high titer of anti-RSV antibodies. In our opinion, if approved, RI-002 could be very appealing to more vulnerable patients given the lack of suitable products in market.
- **ADMA shares are eligible to be up-listed to the NASDAQ market by 4Q14.** We believe this development could occur prior to RI-002 top-line data releases. Such development, in our opinion, potentially could further expand institutional investor base and gain greater visibility.
- **Completion of the 1<sup>st</sup> plasma collection center expansion is expected in 2H14.** Construction of the 2<sup>nd</sup> center is underway with potential completion and possible PLA filing in late 2014 and potential approval in 2015.
- **Action.** We are reiterating our Buy rating and our \$15 target price to reflect the continued execution of corporate developments, including completion of the RI-002 Phase III study and expansion of additional plasma collection centers.

*Healthcare/Biotechnology*

Ticker: **ADMA**  
Rating: **Buy**  
Price Target: **\$ 15.00**

### Trading Data:

Last Price (05/12/2014)	\$ 7.30
52-Week High (2/24/2014)	\$ 10.16
52-Week Low (12/26/2013)	\$ 6.52
Market Cap. (MM)	\$ 68
Shares Out. (MM)	9

### Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY-14E</b>	-0.64A	-0.49	-0.36	-0.30	-1.43	NM
<b>FY-13A</b>	-0.55	-0.83	-0.46	-0.55	-2.38	NM
<b>FY-12A</b>	-0.18	-0.20	-0.70	-0.68	-1.76	NM
<b>FY-11A</b>	-4.50	-6.79	-2.79	-2.64	-16.72	NM

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Source: Laidlaw & Company estimates

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## Anticipated milestones in 2014 and beyond

Program	Indication	Event	Timing	Importance
RI-002	RSV infection prevention in PIDD	Potential report top-line Phase III trial results	4Q14	*****
		Potential BLA filing	1H15	*****
		Potential U.S. approval	4Q15 / 1Q16	*****
		Potential U.S. product launch	1H16	*****
VZIG (Varitect)	Vicella Zoster virus infection	Potential commence Phase II/III study	2H14	***
		Potential report top-line Phase II/III trial results	2015	****
Corporate development		Potential up-list to NASDAQ market	4Q14	****
BioCenters		Start 2nd center build-out & FDA review process	1H14	****
		Start 3rd center build-out & FDA review process	2H14	****
		FDA approval of 2nd BioCenter	2015	****
		FDA approval of 3rd BioCenter	2015	****

\*\*\*\* / \*\*\*\*\* Major catalyst event that could impact share price very significantly while \*\*\* event is more informative

Source: Laidlaw & Company estimates and company presentation.

## Major Risks

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**Clinical risks of clinical study failure could have a major impact on ADMA share value.** Despite a well-established path for IVIG approval, risks still exist as RI-002 might not be approved by the FDA if the pivotal study does not meet its endpoints. Given that the majority of upside for ADMA shares is currently based on the assumption that the product can be approved before its commercial potential can be realized, an unsuccessful approval application would have a significant negative impact on ADMA share value.

**Commercial success of the RI-002 in PIDD and potentially in transplantation is less predictable.** We believe that the potential product label for RI-002, if approved, would likely to indicate as a regular IVIG; and higher titer of anti-RSV antibodies could appear on the label if the pivotal study met the relevant secondary endpoint. As such, the company may not promote the product directly for the prevention or treatment of RSV infection, but instead, it will base on the understanding that receiving high titer RSV antibodies should reduce probability of RSV infection. With more limited sales and marketing tactics available, the sales ramp up could be slower than projected. The risk could also exist as more rapid sales expansion might only occur after the company conducting more clinical studies and demonstrating positive clinical outcome.

**Developments by competitors may render RI-002 or relevant technologies obsolete or un-competitive.** Although the manufacturing processes of RI-002 are protected by proprietary technology, trade secrets and know-how, it is possible that other competitors develop similar processes to produce similar or even better anti-RSV IVIG. As such, the company might not enjoy the competitive edge and potentially damage RI-002's commercial outlook

**Plasma collection center operations might not perform as expected.** The company currently operates one and expects to expand into three plasma collection centers over the next 12 months. Although the plasma collection operation is business with relatively sustainable positive cash inflow and ADMA management appears to have substantial experience, risks of mismanagement as well as internal and external factors could change, resulting in sub-par business performance. Although the plasma collection operation might not be the main reason for investing in ADMA shares, a less successful performance could negatively impact on the expected cash flow and strategic objective of diversifying plasma sources for RI-002 production.

**Limited product diversity could increase overall risk.** Given the nascent stage of the corporate development, the majority of the product pipeline value mainly resides on RI-002. The second potential pipeline product, an anti-Vicella Zoster virus immunoglobulin, is in very early development stage with

market potential possibly much smaller. As such, we believe the company at the current stage has very limited diversification potential in its product pipeline.

**Lack of cash could impede corporate development.** Despite the company's recent successful IPO to raise \$26.5MM cash, ADMA could potentially need more financial resources going forward if they want to expand and further develop its pipeline. Should the product not receive FDA approval or product revenue does not reach expectations, the company might have to issue new equity to raise additional cash. Under such a scenario, the share value of existing shareholders could be diluted.

**Limited trading liquidity limits shareholder options.** Given that ADMA shares only entered the public market recently; daily trading volume and name recognition are relatively low. With relatively illiquid trading volume, shareholders wanting to increase or reduce their positions in a volatile stock market may face constraints.

Figure 1: Income Statement

ADMA Biologics – Income Statement													
(\$ '000)	2012	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Revenue</b>													
Product revenue	1,118	3,024	1,542	1,249	1,124	983	4,898	7,836	12,068	16,412	17,889	19,142	20,233
RI-002 revenue	-	-	-	-	-	-	-	-	17,318	52,409	90,303	143,560	185,046
License revenue	-	44	19	25	40	33	117	200	300	300	300	300	300
Total Revenue	1,118	3,068	1,561	1,274	1,164	1,016	5,015	8,036	29,686	69,122	108,492	163,002	205,578
Cost of product revenue	669	2,023	977	824	742	649	3,192	5,329	8,206	11,160	12,165	13,016	13,758
Cost of RI-002	-	-	-	-	-	-	-	-	8,659	26,205	45,151	71,780	92,523
Gross revenue (RI-002)	-	-	-	-	-	-	-	-	8,659	26,205	45,151	71,780	92,523
Gross revenue (Biocenter)	449	1,000	565	425	382	334	1,706	2,508	3,862	5,252	5,725	6,125	6,475
Total gross revenue	449	1,000	565	425	382	334	1,706	2,508	12,521	31,457	50,876	77,906	98,997
Research and development	3,469	9,303	4,330	2,945	1,708	905	9,888	9,691	10,078	10,481	11,005	11,556	12,133
Plasma center operating expenses	1,747	2,418	802	819	827	860	3,307	3,473	3,612	3,865	4,019	4,140	4,223
General and administrative	3,142	4,365	1,135	1,180	1,263	1,313	4,890	5,086	5,289	5,501	5,688	5,881	6,081
Marketing and sales	-	-	-	-	-	-	-	1,000	8,400	8,904	9,438	9,948	10,445
<b>Total Operating Expenses</b>	8,358	16,087	6,268	4,943	3,797	3,078	18,086	19,249	27,379	28,751	30,151	31,524	32,882
<b>Operating Income (loss)</b>	(7,909)	(15,042)	(5,684)	(4,494)	(3,375)	(2,711)	(13,071)	(11,213)	2,307	40,371	78,342	131,478	172,696
Interest income	21	8	2	10	10	10	32	51	81	130	156	187	206
Interest expense	(31)	(618)	(227)	(162)	(162)	(162)	(713)	(713)	(713)	(713)	(713)	(713)	(713)
Change in fair value of stock warrants	-	43	5	90	150	(140)	105	(700)	(100)	(100)	(100)	(100)	(100)
Other income	-	82	-	2	2	2	6	6	6	6	6	6	6
Total other expenses	(10)	(485)	(220)	(60)	-	(290)	(570)	(1,356)	(726)	(677)	(651)	(619)	(601)
Income (loss) before tax expense	(7,919)	(15,527)	(5,904)	(4,554)	(3,375)	(3,001)	(13,641)	(12,569)	1,581	39,694	77,691	130,858	172,095
Income tax expense-State income tax benefit	618	-	-	-	-	-	-	-	585	14,687	28,746	48,417	63,675
<b>Net Incomes (Losses)</b>	(7,301)	(15,527)	(5,904)	(4,554)	(3,375)	(3,001)	(13,641)	(12,569)	996	25,008	48,945	82,441	108,420
Net Earnings (Losses) Per Share—Basic	(\$1.76)	(\$2.38)	(\$0.64)	(\$0.49)	(\$0.36)	(\$0.30)	(\$1.43)	(\$1.09)	\$0.07	\$1.73	\$3.30	\$5.42	\$6.94
Net Earnings (Losses) Per Share—Diluted	(\$1.76)	(\$2.38)	(\$0.64)	(\$0.49)	(\$0.36)	(\$0.30)	(\$1.43)	(\$1.09)	\$0.07	\$1.73	\$3.30	\$5.42	\$6.94
Shares outstanding—basic	4,146	6,531	9,292	9,372	9,452	9,952	9,517	11,517	14,017	14,417	14,817	15,217	15,617
Shares outstanding—diluted	4,146	6,531	9,292	9,372	9,452	9,952	9,517	11,517	14,017	14,417	14,817	15,217	15,617
<b>Margin Analysis (% of Revenue)</b>													
Gross	40%	33%	37%	34%	34%	34%	32%	32%	32%	32%	32%	32%	32%
Cost of RI-002	-	-	-	-	-	-	-	-	50%	50%	50%	50%	50%
R&D	310%	303%	277%	231%	147%	89%	197%	121%	34%	15%	10%	7%	6%
Plasma operation	156%	80%	52%	66%	74%	87%	68%	44%	30%	24%	22%	22%	21%
G&A	281%	142%	73%	93%	108%	129%	98%	63%	18%	8%	5%	4%	3%
M&S	-	-	-	-	-	-	-	-	28%	13%	9%	6%	5%
Operating Income (loss)	-707%	-490%	-364%	-353%	-290%	-267%	-261%	-140%	8%	58%	72%	81%	84%
Net Income	-653%	-506%	-378%	-357%	-290%	-295%	-272%	-156%	3%	36%	45%	51%	53%
<b>Financial Indicator Growth Analysis (Y/Y)</b>													
Product (Biocenter) revenue	47%	170%	94%	69%	3%	143%	62%	60%	54%	36%	9%	7%	6%
RI-002 revenue (projected)	N.A.	N.A.	203%	72%	59%	29%							
Total Revenue	47%	174%	97%	71%	5%	140%	63%	60%	269%	133%	57%	50%	26%
Research and development	436%	168%	195%	-15%	21%	-69%	6%	-2%	4%	4%	5%	5%	5%
Plasma center operating expenses	50%	38%	56%	52%	26%	22%	37%	5%	4%	7%	4%	3%	2%
General and administrative	119%	39%	-21%	8%	49%	31%	12%	4%	4%	4%	3%	3%	3%
Marketing and sales	-	-	-	-	-	-	-	-	6%	6%	6%	5%	5%
Operating incomes	71%	90%	80%	-7%	33%	-40%	-13%	-14%	-121%	1650%	94%	68%	31%
Pretax Income	27%	96%	82%	-7%	26%	-36%	-12%	-8%	-113%	2411%	96%	68%	32%
Net Income	24%	113%	82%	-7%	26%	-36%	-12%	-8%	-108%	2411%	96%	68%	32%
EPS - Basic	-89%	35%	15%	-42%	-22%	-45%	-40%	-24%	-107%	2341%	90%	64%	28%
EPS - Diluted	-89%	35%	15%	-42%	-22%	-45%	-40%	-24%	-107%	2341%	90%	64%	28%
Shares outstanding—basic	1074%	58%	58%	60%	61%	17%	46%	21%	22%	3%	3%	3%	3%
Shares outstanding—diluted	1074%	58%	58%	60%	61%	17%	46%	21%	22%	3%	3%	3%	3%

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Source: Bloomberg LP; Company reports; Laidlaw & Company estimates.

## DISCLOSURES:

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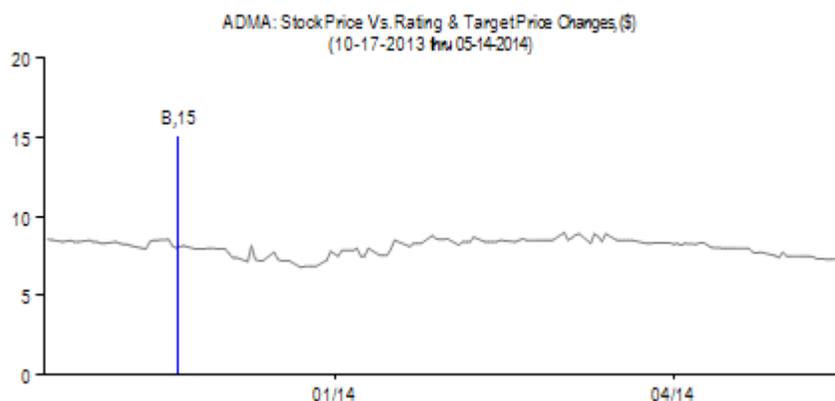
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#### Rating and Price Target Change History



#### 3 Year Rating Change History

Date	Rating	Closing Price (\$)
11/21/2013	Buy (B)	8.10

#### 3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
11/21/2013	15.00	8.10

Source: Laidlaw & Company

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			Investment Banking	Brokerage
<b>Strong Buy (SB)</b>	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
<b>Buy (B)</b>	Expected to outperform the sector average over 12 months.	92.86%	35.71%	14.29%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	7.14%	0.00%	0.00%
<b>Sell (S)</b>	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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