

Emergent BioSolutions

Becoming more than BioThrax

Emergent is transforming, largely through integrating Cangene, acquired in February 2014, with its three Biodefense and four specialty Biosciences products. Revenue guidance for FY14 is \$445m-\$450m (GAAP net income \$36m-\$38m) and 2015 guidance is for total revenues of \$510m-\$540m. The company continues to actively expand its Biodefense portfolio to exploit the \$5bn-\$6bn annual US government spend and to acquire products that add revenues in Biosciences. Further M&A activity, plus clarity on IXinity approval and a partner for otlertuzumab should provide interest in 2015.

Biodefense: Five marketed products and counting

Emergent's \$230m-\$250m per year contract to supply BioThrax, the only FDA-licensed anthrax vaccine, to the US government is capacity constrained. FDA approval of the 'Building 55' facility with a 25m dose per year capability (vs 7m-9m currently), expected in Q415/Q116, should significantly increase revenues from 2016. It filed for post-exposure prophylaxis for BioThrax in Q414 and is developing a second-generation anthrax vaccine (NuThrax, Phase II). Beyond BioThrax, M&A remains a key part of the Biodefense growth plan, illustrated recently by the acquisition of the EV-035 series of broad spectrum antibiotics from Evolva in December 2014; lead candidate GC-072 is being developed as a potential oral and IV treatment for *Burkholderia pseudomallei* under a three-year government contract valued at up to \$15m.

Biosciences: Aiming to be a profitable division

The four specialty products acquired with Cangene (with \$44m sales in 2013) should kick-start this division, and the small contract manufacturing operation could enable economic synergies with Biodefense. The deal with MorphoSys to co-develop ES414 unlocks some value from the ADAPTIR protein therapeutic platform and ES414 should start Phase I in prostate cancer by Q115. Following concerns about antibody formation, Emergent has submitted a response to the FDA for IXinity (recombinant Factor IX for haemophilia) and the FDA's decision is expected in July 2015. Emergent is seeking a partner for its anti-CD37 protein, otlertuzumab, acquired with Trubion, after positive interim Phase II data in relapsed CLL.

Valuation: M&A to drive additional value in 2015

Our back-of-the-envelope NPV of the Biodefense business alone justifies the EV of c \$1.0bn, leaving potential for upside from acquisitions in both divisions and near-term news on IXinity and a partner for otlertuzumab.

Consensus estimates

Year end	Revenue (\$m)	PBT (\$m)	EPS (\$)	DPS (\$)	P/E (x)	Yield (%)
12/12	281.9	32.1	0.65	0.0	44.3	N/A
12/13	312.7	43.4	0.85	0.0	33.9	N/A
12/14e	454.0	53.2	1.08	0.0	26.7	N/A
12/15e	514.7	99.4	1.28	0.0	22.5	N/A

Source: Company data, Bloomberg

Pharma & biotech

30 January 2015

Price **\$28.8**

Market cap **\$1,082m**

Share price graph



Share details

Code	EBS
Listing	NYSE
Shares in issue	37.6m

Business description

Emergent BioSolutions, based in Rockville MD, US, is a specialty biopharmaceutical company with nine marketed products across two divisions: Biodefense and Biosciences. Its key product is an anthrax vaccine, BioThrax, sold via government contract. It has a contract manufacturing business (from the acquisition of Cangene in H114) and a small development portfolio of therapeutic proteins.

Bull

- BioThrax revenues (\$247m in 2013) and contract manufacturing (\$33m in 2013) form a valuable annuity, which funds R&D costs in Biosciences.
- Biosciences' specialty therapeutics pipeline offers investors diversification away from Biodefense.
- Proprietary platforms in MVator and ADAPTIR; the latter is validated by collaboration with MorphoSys for ES414.

Bear

- Biodefense division is dependent on government contracts for sales and R&D funding, which can be lumpy and lack transparency.
- Biosciences' pipeline is early stage and relatively untested – it may not be able to partner otlertuzumab in the highly competitive CLL field.
- Future growth plan depends on M&A, partnering products and acquiring bioscience assets.

Analysts

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