

NewLink Genetics Corp.

NASDAQ: NLNK

Analyst: Andrew Varone

Sector: Healthcare

BUY

Price Target: \$44.41

Key Statistics as of 11/24/2015

Market Price:	\$36.50
Industry:	Biotechnology
Market Cap:	\$1.07B
52-Week Range:	\$31.70-58.73
Beta:	0.97

Thesis Points:

- Approval of Pancreatic Cancer treatments would result in major market share gains
- Undervaluation due to macroeconomics gives entry for investors
- High cash can be used to pursue future catalysts and cure high demand diseases.

Company Description:

NewLink Genetics Corporation (NLNK) is a biopharmaceutical company focused on discovering, developing and commercializing immunotherapeutic products for cancer treatment. Its portfolio includes both biologic and small-molecule immunotherapy product candidates. Its biologic product candidates are based on its HyperAcute immunotherapy technology, which is designed to stimulate the human immune system. Its small-molecule product candidates are focused on breaking the immune system's tolerance to cancer by inhibiting the indoleamine-(2, 3)-dioxygenase (IDO) pathway. Its lead product candidate algenpantucel-L or HyperAcute Pancreas. HyperAcute Pancreas is being studied in two Phase III clinical trials; one in surgically-resected pancreatic cancer patients that is being performed under a Special Protocol Assessment (SPA) with the United States Food and Drug Administration (FDA) and one in patients with locally advanced pancreatic cancer.



Thesis

NewLink Genetics Corp (NLNK) is a BUY because of its growth potential and undervaluation. NLNK is awaiting FDA approval for a treatment called IMPRESS. This treatment would be used for pancreatic cancer which currently affects 50,000 annually. Over the past 30 years, there has been no decrease in the mortality rate of those suffering with pancreatic cancer. Getting approved would give the company significant growth because of the potential new customers that need the treatment. There is currently an undervaluation of the stock due to the expectation of future legislation restricting the markup that the company can charge on its treatments. The stock price had decreased in September and has yet to see a major back to where it was priced prior. Because of this, there is major upside and very little downside to the stock.

The stock has a one-year target of \$44.41 making it a BUY with an upside potential of 22%.

Porter's 5 Forces

Threat of new entrants is low. The threat of new entrants is low because of the nature of the firms. A company trying to gain entry will need significant capital to purchase buildings and equipment to create the drugs for cancer patients. Furthermore, more capital will be needed because of patients that are associated with the biotech industry and to contract suppliers to gain the necessary ingredients for their drugs. Lastly, there is high government regulation to get these drugs sold on shelves. The drugs must go through different phases in the pipeline and get approval from the FDA for it to be distributed.

The threat of substitution is low. NewLink Genetics also focuses on diseases that have very little cures. They created a cure for Ebola and are awaiting FDA approval for adjuvant treatment of patients with surgically resected pancreatic cancer.

Bargaining power of customers is high. Though customers that are affected with illness that NLNK treats do not have many alternatives, the bargaining power remains in the insurance companies. Insurance companies set the rate that they will pay for cancer treatments. Also, there has been a push in politics for biotech companies to not have as high of markups. If legislation pass that puts a cap on the amount of markup that these companies can markup their products, this will further give bargaining power to the

customers.

Bargaining power of suppliers is neutral. NLNK currently have partnerships with other companies to help create their products through research and development. Though if they want to further the pipeline into a new disease that presents itself, similar to what lead them creating Ebola vaccines then they would need to partner with another company that has the ingredients needed. NLNK does have \$200M in cash that they can use to partner with other companies if needed and gain more catalysts.

Threat of rivalry is low. This is because NewLink Genetics has development drugs and treatments where there is little competition present and where it would hard for others to enter because of the barriers to entries that are presented.

Industry Overview

NewLink Genetics operates in what is called immunotherapy; it is a relatively new alternative to cancer treatments. Immunotherapy uses the body's natural immune system to combat cancer cells. This is done by exposing the body to dead cancer cells to help trigger the body's response and combat these cancer cells.

NewLink has developed their immunotherapy called HyperAcute Cellular Immunotherapies. It is in its final stage of development and will treat prostate and renal cancers. Also in their pipeline are treatments for pancreatic cancer, NSCLC, and melanoma.

What sets apart NewLink and has them set up to be the industry leader is the way they combat cancer cells using immunotherapy. Traditionally, patient's tissues or cells were needed to create the vaccine that would be injected into the body. Instead, NLNK using tumor specific human cells that are have been lined with alpha-gal. The body's immune system then attacks these tumor cells and triggers a response for the body to continue killing cancer cells. Because of this, it is easy to give the patients these cells as they are not patient specific but cancer specific. Lastly, it is believed that a stronger immune response will be triggered as NLNK uses who cells rather than cell fragments to trigger the immune response.

Clinton Effect

The stock had seen a huge drop in price in September where it fell from low-50s to mid-30s. This was due to Hillary Clinton wanting to reduce the markups that

companies have on their drugs. This decrease in price was a reaction to this news. This is a positive or NLNK as the huge drop in price was due to macroeconomics and was not industry specific.

This creates an entry point for this stock because it can be considered undervalued. The stock currently reflects the decrease in revenues if legislation passes that Clinton and other members of the Democratic party currently want. The stock will be considered undervalued if a law restricting markups does not pass into legislation. This is because the revenues would remain constant if sales remain constant for the company.

If a law does pass, there is still room for revenues to increase. This is because of an increase in revenues from potential products that NLNK currently have in their pipeline. If their revenues are restricted because they have to sell their current products for loss, they can make it up by selling new products.

Pancreatic Cancer Treatment

NewLink Genetics are awaiting FDA approval after completed enrollment in phase 3 of their drug, IMPRESS. This drug is used to target pancreatic cancer. This would be the first drug of its kind to treat pancreatic cancer. Getting FDA approved cause result in substantial revenue growth for the company.

The growth for NLNK will be due to the amount of patients that are available for the drug treatment. In 2015, it is estimated that there will be 49,000 new cases of pancreatic cancer. This new cases will result in around 40,500 deaths. Currently there are two routes to go for pancreatic cancer. They are surgical resection and chemotherapy. Out of these 49,000 new cases, only 15,000 will be eligible for surgical resection. This is due to pancreatic cancer being found in too late of a stage, making surgery impossible and not a reliable treatment.

Since there are no reliable treatments, the one-year survivability for those at any stage is 26%. Going to the five-year survivability rate, that number decrease even further to 6% survivability for those with any stage of pancreatic cancer. Getting FDA approval for IMPRESS would be a major cancer breakthrough that is much needed. IMPRESS can treat those suffering with pancreatic cancer at any phase. This means they can capture market share from those who do not treatment because their pancreatic cancer has spread too far and for those who would be eligible for surgical resection. For those that will need chemotherapy,

NLNK has PILLAR in the phase 3 of the pipeline that is for chemotherapy in pancreatic cancer.

Despite advances in cancer research, mortality rates in those suffering with pancreatic cancer have remained unchanged over the last 30 years. Getting these treatments FDA approved could present major upside.

Product Pipeline

The two treatments that NewLink Genetics has in their pipeline are in the only ones in phase 3 but, they have other products in their pipeline. In phase 2 that have treatments that targeted the diseases of NSCLC and melanoma. Just finished up their phase 1 in the pipeline are treatments that cure prostate and renal cancer. Though these products will not be completed in the next year, their potential pipeline gives investors of growth for the future. The product that they currently have in the pipeline has relatively high demand due to the nature of the diseases they treat. They either cause high amounts of death or do not currently have any reliable forms of treatment. This will allow the company to grow and gain market share as their products are better than those on the market. Their products that treat cancer using their HyperAcute treatment is supposed to have a greater immune response which can be measured once its tested is completed.

Treatments for New Diseases

NewLink Genetics were the first ones to create a vaccine for Ebola with the partnering of Merck. Due to the outbreak of Ebola in the United States, there were a lot of companies competing to try and treat a vaccine for Ebola. The pairing of NewLink and Merck created a vaccine that was 100% effective in its field test. The vaccine was given to two tribes in Africa. The first had not been exposed to the virus yet; the other tribe had been exposed to the virus and was given the vaccine a few days later. The tribe that had yet to be exposed had zero people contract the virus. The second tribe only had sixteen members contract the virus.

Though the stock price reflects the finding of the cure and the amount they sold it for in a contract, this shows that NewLink's ability to find cures for diseases. Currently, they have \$200M on their books in cash to purchase catalysts and to fund research and development of any treatments in areas that are needed.

Conclusion

NLNK is considered a BUY because of the upside it currently has. NLNK have products in their pipeline for treatments that are currently needed. The stock price is currently undervalued due to speculation that legislation will be passed that limited markups on their treatments. Being on macroeconomic issue, this affects all biotech stocks. NLNK have much higher upside potential than downside which supports it of being a buy.

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NewLink Genetics Corporation		Analyst Andrew Varone	Current Price \$36.50	Intrinsic Value \$44.41	Target Value \$47.76	Divident Yield 0%	1-y Return: 30.86%	BULLISH	
General Info		Peers	Market Cap.	Management					
Sector	Healthcare	Verastem, Inc.	\$81.63	Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014	
Industry	Biotechnology	Array BioPharma Inc.	\$546.23	Link, Charles	Founder, Chairman, Chief Executive Officer	\$1,432,418	\$2,036,358	\$3,291,208	
Last Guidance	May 5, 2015	Opko Health, Inc.	\$6,033.28	Vaharian, Nicholas	President, Chief Medical Officer and Director	\$958,935	\$1,310,184	\$2,252,807	
Next earnings date	February 26, 2016	GlycoMimetics, Inc.	\$129.27	Henneman, John	Chief Financial Officer, Executive Vice President	\$0	\$0	\$4,017,075	
Market Data		INSYS Therapeutics, Inc.	\$2,265.38	Wiley, Brian	Vice President of Business Development	\$0	\$1,846,525	\$856,764	
Enterprise value	\$883.24	Seattle Genetics, Inc.	\$5,960.02	Langen, Carl	Principal Accounting Officer and Vice President	\$0	\$0	\$0	
Market Capitalization	\$4,449.48	Celldex Therapeutics, Inc.	\$1,786.48	Mautino, Mario	Vice President of Drug Discovery Module and	\$0	\$0	\$0	
Daily volume	0.22	Aniad Pharmaceuticals Inc.	\$1,228.51	Past Earning Surprises					
Shares outstanding	28.79	Isis Pharmaceuticals, Inc.	\$7,454.50			Revenue	EBITDA	Norm. EPS	Standard Error of "Surprise"
Diluted shares outstanding	31.56	Spectrum Pharmaceuticals, Inc.	\$369.02	Last Quarter	43.54%	0.00%	NM	21.77%	
% shares held by institutions	26.01%	Current Capital Structure			Last Quarter-1	128.53%	0.00%	NM	64.26%
% shares held by insiders	2.03%	Total debt/Common Equity (LTM)	0.01	Last Quarter -2	77.54%	0.00%	NM	38.77%	
Short interest	15.80%	Cost of Borrowing (LTM)	9.77%	Last Quarter -3	10.37%	0.00%	NM	5.18%	
Days to cover short interest	8.18	Estimated Cost of new Borrowing	2.63%	Last Quarter -4	803.23%	0.00%	NM	401.61%	
52 week high	\$58.73	Altman's Z	41.35	Standard error	148.9%	0.0%	NM	78.65%	
52-week low	\$31.70	Estimated Debt Rating	AAA	Standard Error of Revenues prediction	148.9%	Industry Outlook (Porter's Five Forces)			
5y Beta	0.96	Current levered Beta	1.25	Imputed Standard Error of Op. Cost prediction	NM	Bargaining Power of Suppliers (100th Percentile), Bargaining Power of Customers (100th Percentile), Intensity of Existing Rivalry (100th Percentile), Threat of Substitutes (100th Percentile), Threat of New Competition (100th Percentile), and Overall (100th			
6-month volatility	77.69%	LTM WACC	10.32%	Imputed Standard Error of Non Op. Cost prediction	NM				
Proforma Assumptions									
Convergence Assumptions		General Assumptions		Items' Forecast Assumptions			Other Assumptions		
		Money market rate (as of today)	0.37%	Base year (LTM)	Convergence period (Sub-industry)	Adjustment per year	Tobin's Q 80%		
All base year ratios linearly converge towards the Sub-industry ratios over an explicit period of 10 years		Risk-Free rate (long term estimate)	2.93%	Operating Cash / Rev.	0.00%	0.0%	Excess cash reinvestment Money market rate		
		Annual increase (decrease) in interest rates	0.1%	NWV / Rev.	2.69%	1.1%	Other claims on the firm's assets \$0.00		
		Marginal Tax Rate	37.5%	NPPE / Rev.	4.18%	40.30%	Capitalization		
		Country Risk Premium	6.0%	Dpr / NPPE	14.06%	14.00%	100% of all rent expenses are capitalized and amortized 'straightline' over 10 years		
				NOPAT MARGIN	48.45%	62.00%	100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years		
Forecast Year	Revenue Growth Forecast	Revenue (\$) Forecast		Op. Exp. / Rev.	36.67%	60.20%	E&P expenses are not capitalized		
LTM		\$230.09		SBC / Rev.	6.13%	2.47%	SG&A expenses are not capitalized		
FY2015	10.0%	\$253.10		Rent Exp. / Rev.	0.52%	0.72%	Valuation Focus		
FY2016	9.0%	\$275.88		R&D / Rev.	29.79%	18.28%	DCF Valuation 100%		
FY2017	8.0%	\$297.95		E&D / Rev.	0.00%	0.00%	Relative valuation 0%		
FY2018	7.0%	\$318.81		SG&A / Rev.	13.60%	13.00%	Distress Valuation 0%		
FY2019	6.0%	\$337.94		ROIC	72%	13.29%	Monte Carlo Simulation Assumptions		
FY2020	5.0%	\$354.84		EV / Rev.	3.58x	2.03x	Revenue Growth deviation Normal (0%, 1%)		
FY2021	4.0%	\$369.03		EV / EBITA	5.14x	5.91x	Operating expense deviation Normal (0%, 1%)		
FY2022	3.0%	\$380.10		Debt / Equity	1%	0%	Continuing Period growth Triangular (5.82%, 6%, 6.18%)		
FY2023	3.0%	\$391.50		Unlevered beta	1.24	1.20	Country risk premium Triangular (2.91%, 3%, 3.09%)		
FY2024	3.0%	\$403.25		Dividends / REV	0%	1%	Inttrinsic value σ(e) \$0.09		
Continuing Period	3.0%	\$413.33					1-year target price σ(e) \$0.10		
Valuation									
Forecast Year	ROIC	WACC	Invested Capital	Implied Enterprise Value	Net Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share	Monte Carlo Simulation Results	
LTM	71.6%	10.3%	\$344.95	\$1,121.91	\$85.73	28.79	\$43.91		
FY2015	69.3%	10.4%	\$378.56	\$1,033.15	-\$40.83	28.79	\$47.19		
FY2016	34.6%	10.3%	\$411.51	\$1,043.44	-\$136.16	28.79	\$51.02		
FY2017	32.6%	10.6%	\$443.09	\$1,050.97	-\$228.94	28.79	\$54.68		
FY2018	30.7%	10.6%	\$472.55	\$1,056.31	-\$319.96	28.79	\$58.29		
FY2019	28.7%	10.7%	\$499.15	\$1,060.17	-\$408.63	28.79	\$61.97		
FY2020	26.9%	10.8%	\$522.16	\$1,063.45	-\$492.12	28.79	\$65.95		
FY2021	25.0%	10.9%	\$540.92	\$1,067.21	-\$789.15	28.79	\$74.51		
FY2022	23.2%	10.9%	\$554.88	\$1,072.64	-\$861.25	28.79	\$81.32		
FY2023	21.5%	11.0%	\$569.18	\$1,085.53	-\$927.67	28.79	\$93.50		
FY2024	19.9%	11.1%	\$583.83	\$1,107.17	-\$988.02	28.79	\$97.24		
Continuing Period	13.3%	11.2%	\$1,938.05						
								Sensitivity Analysis	
								Revenue growth variations account for 95.9% of total variance	
								Risk premium's variations account for 2.5% of total variance	
								Operating expenses' variations account for 1.4% of total variance	
								Continuing period growth variations account for 0.2% of total variance	