

Geron Corporation

NASDAQ:GERN

Analyst: Christian
Sector: Henderson
Biopharmaceutical

BUY

Price Target: \$4.38

Key Statistics as of 10/21/2016

Market Price: \$2.12
Industry: Biotechnology
Market Cap: \$332.6M
52-Week Range: \$1.84 -5..30
Beta: 2.82

Catalysts:

- IMbark has a higher-dose 9.4 mg/kg of a drug that will be testing further because of encouraging efficacy data trends, which should be available during the second quarter of 2017
- Johnson & Johnson is funding a drug called IMerge that may enter phase 3 of trials by mi 2017

Company Description:

Geron Corporation is a biotechnology company located in Menlo Park, California that specializes in developing and commercialization of therapeutic products for cancer that inhibit telomerase. The company was incorporated in 1990 and began doing business in 1992. It began publicly trading July 31, 1996. The company gets revenue from signing contracts with big pharmaceutical sale companies. This company has \$46 thousand in net income, a remarkable increase from its negative \$35,670 thousand in 2014. Geron has also drastically increased revenue to \$36,731 million due to a multimillion dollar deal with Johnson and Johnson for a clinical trial drug.



Thesis

I suggest that we should buy this stock because at the low price of \$2.12 it is not a high risk. The potential for growth is also high because if the company can continue to perform well and get positive results for the clinical trials, they will get more agreements such as the multimillion dollar deal they received from Johnson & Johnson. I think we should jump in on the stock at \$2.00 and sell at \$4.00. I synthesize my thesis based on two particular causes:

- There is a disease and cancer treatment drug, called IMbark, which has shown encouraging interest. This will prove to generate revenue for the company if the trials go as planned.
- The further the company goes in the commercialization of all of their drugs, the more funds they will receive and stock price will increase.

Business Model

The company began and operates as a clinical stage biopharmaceutical company focused on the development of a cancer cell inhibitor. They had initial success creating the drug, called IMetelstat, which targets and stops the enzyme within cancer cells to impede cell proliferation. The results of this drug also suggest that it has disease modifying activities that can reverse bone marrow fibrosis.

In Q4 of 2014, Geron Corp. entered an exclusive agreement with Janssen Biotech Inc. to develop and commercialize the IMetelstat drug. They received an upfront payment of \$35 million and a potential total of \$900 million as well as the opportunity for royalties on worldwide net sales.

Macro Environment

The environment of the biotechnology industry is focused more towards research and development and not typical pharmaceutical companies that profit off of individual sale and consumption of

drugs. These companies are funded by large pharmaceutical capital investors, and do not finance much internally generated cash flows. Geron and its competitors are at the direct effect of:

- weak economic growth (less interest by the struggling investors)
- drug approval from FDA
- patents on drugs and how efficiently they financially benefit from them

Industry Outlook

There are a lot of companies that are also focused on these disease and cancer treatments. Some are starting up in developing drugs and others in the clinical trial phase as Geron is. However, there are many types of different cancers and diseases that cannot be all treated by the same treatment. The industry for biotech companies surrounds the efficacy of their clinical trials. Only companies that prove to perform well and are innovative with drugs get further funding and increase their company value.

Porters Five Forces

Intensity of competition

There is moderate intensity amongst existing competitors within the biotechnical industry. The competitors in this industry are other therapeutic companies and laboratories working on drugs to help combat all types of cancer and other diseases. The competition is not really involved with actively trying to steal consumers or anything that typical competition organizations engage in. This type of competition competes with high quality results and lives are at stake. Thus, competition is less of a factor.

Threat of Substitution

The threat of substitution is low because the company is working on treatment for life threatening diseases and illnesses. There are not many substitutions for the same potential results of the drug, because different drugs work for different levels of cancer. Also different drugs

react differently in a patient's body.

Barriers to New Entry

The threat of new competition is low. There is a high initial investment capital requirement to enter the market. Also, there is an intelligence requirement needed by scientist and chemists.

Barriers are also results, if results are not positive or even worse negative then it is more difficult for a company to gain market relevance.

Bargaining power of suppliers

Bargaining power of suppliers is low to moderate. There is moderate cost of switching suppliers which makes supplier competition minimal but intense. The volume of the materials for the drugs is important.

Bargaining power of consumers

Bargaining power of consumers is low because the drug is not a product out for purchase as of yet. The consumers are the patients in the clinical trials, and the trials are voluntary. In the reasonable hope that the various drugs the company develops are accepted and entered into commercialized practices, consumers become large hospitals and the government. They will have a higher budget to purchase because of their large capital. They also will purchase a lot of volume for their patients and will pay the price, or close, offered by Geron Corp.

Product Differentiation

The company offers drugs that are therapeutic to cancer treatment, and bone marrow disorders specifically myelofibrosis and cancers related to this disease. Their product will only prove to be highly differentiated if the clinical trials yield positive results. This issue will be addressed upon termination of the current trials of the three main drugs.

Social and Moral Responsibility

It is a strong influence of investors to want to choose companies that are socially and morally responsible and growth positive. This company is doing well in this department. They are mission driven and their responsibility to help ease certain

harmful illnesses and diseases is above all. Bigger funding companies are in charge of selling the drug upon completion, but Geron Corp. can grow by performing well and continuing to improve their drugs.

Financials

They have just become income positive as of 2015. They are debt free and being backed by Johnson & Johnson for the clinical trial procedures of their newest drug. The fact that they are being backed by such a positive company should give some support for potential investors. They also have dropped their operating expenses to negative amount, but as a biotechnology company much of the expenses are covered by the cash granted through big agreements and contracts.

Valuation

The Bloomberg software overvalues this company because of the 3,000% increase in revenue from 2014 to 2015. However, in the company's annual report they acknowledge that their anticipated financial success is highly dependent on the success of IMerge and IMbark and the commercialization of IMetelstat. A more accurate forecast would be \$4.38.

Important Dates and Catalysts

Important dates and catalysts for this company are the second quarter of 2017 and mid-2017. The second quarter of 2017 will reveal the results of clinical trials of the IMbark drug. Although it is a business risk of the company to put a lot of emphasis on their forecasted success on one drug and one clinical trial, it is a risk that could be assumed.

By mid-2017, Johnson and Johnson will determine if IMerge will enter phase 3 of its trial period. If J&J elects to move forward then the amount of patients in this clinical trial increase by more than 5 times. This will be one of the final stages of the drugs testing and it will be closer to being commercialized.

Summary

In conclusion I believe it will be in our interest to assume the risk and invest in this company. The company is near the 52-week low of \$1.86. I will suggest to wait until the stock drops to \$2.00 to maximize return. We should purchase 1,500 stocks in this company for a cost of \$3,000.

Johnson & Johnson and Geron Corp.'s working bond is growing stronger the better Geron performs and they will get more funding to increase their revenue which will increase stock price.

Geron Corporation (GERN)

CENTER FOR GLOBAL FINANCIAL STUDIES

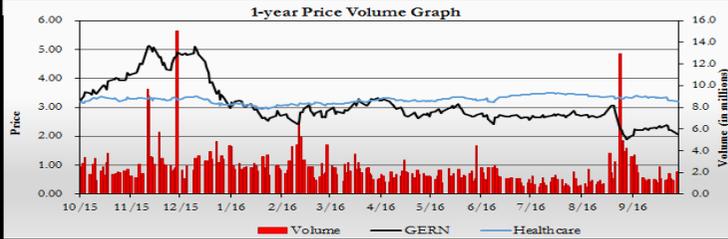
BULLISH

Analysis by P.C. Principal
10/21/2016

Current Price: **\$2.09**
Divident Yield: **0.0%**

Intrinsic Value: **\$16.21**
Target Price: **\$28.74**

Target 1 year Return: **1274.94%**
Probability of Price Increase: **99.2%**



Description
Geron Corporation, a clinical stage biopharmaceutical company, focuses on the development of telomerase inhibitor, imetelstat, for treating hematologic myeloid malignancies.

General Information

Sector	Healthcare
Industry	Biotechnology
Last Guidance	November 3, 2015
Next earnings date	November 3, 2016
Estimated Country	Risk Premium 8.40%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data

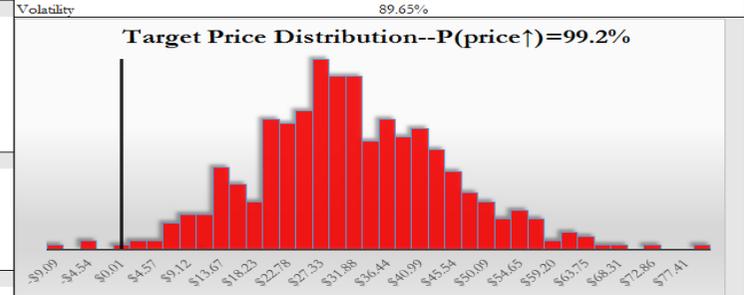
Market Capitalization	\$332.60
Daily volume (mil)	1.21
Shares outstanding (mil)	159.14
Diluted shares outstanding (mil)	163.23
% shares held by institutions	115%
% shares held by investments Managers	35%
% shares held by hedge funds	1%
% shares held by insiders	0.50%
Short interest	17.13%
Days to cover short interest	14.98
52 week high	\$5.30
52-week low	\$1.84
Levered Beta	2.82
Volatility	89.65%

Past Earning Surprises

Quarter ending	Revenue
6/30/2015	-53.35%
9/30/2015	0.17%
12/31/2015	-41.33%
3/31/2016	133.33%
6/30/2016	-71.90%
Mean	-6.62%
Standard error	36.9%

EBITDA

N/A
#DIV/0!
#DIV/0!



Management

Management	Position
Scarlett, John	Chief Executive Officer, Pre
Bloom, Olivia	Chief Financial Officer, Exe
Grethlein, Andrew	Executive Vice President of
Rosenfield, Stephen	Executive Vice President, Ge
Behrs, Melissa	Executive Vice President of
Krasovska, Anna	Senior Director of Investor

Profitability

	GERN (LTM)	GERN (5 years historical average)	Industry (LTM)
ROIC	6.2%	-36.17%	12.69%
NOPAT Margin	9%	-1633.87%	22.6%
Revenue/Invested Capital	0.70	0.02	0.56
ROE	1.6%	-17.46%	14.17%
Adjusted net margin	8%	-1647.60%	20.1%
Revenue/Adjusted Book Value	0.20	0.01	0.71

Invested Funds

	GERN (LTM)	GERN (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	60.8%	64.1%	30%
Estimated Operating Cash/Total Capital	3.3%	8.1%	N/A
Non-cash working Capital/Total Capital	-3.3%	-8.1%	6%
Invested Capital/Total Capital	29.7%	35.6%	60%

Capital Structure

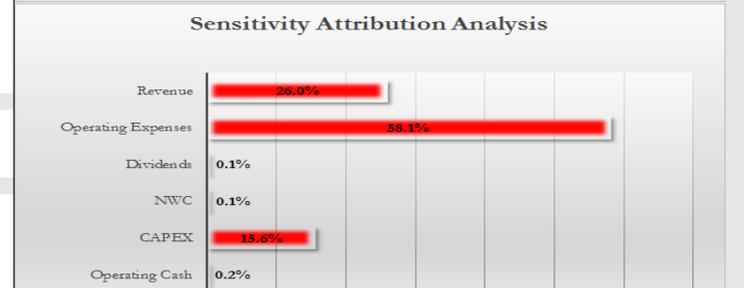
	GERN (LTM)	GERN (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.02	0.02	0.17
Cost of Existing Debt	4.48%	5.53%	6.30%
Estimated Cost of new Borrowing	3.73%	4.12%	6.30%
CGFS Risk Rating	BB	B	CCC
Unlevered Beta (LTM)	2.81	1.70	1.03
WACC	27.54%	17.00%	12.08%

Peers

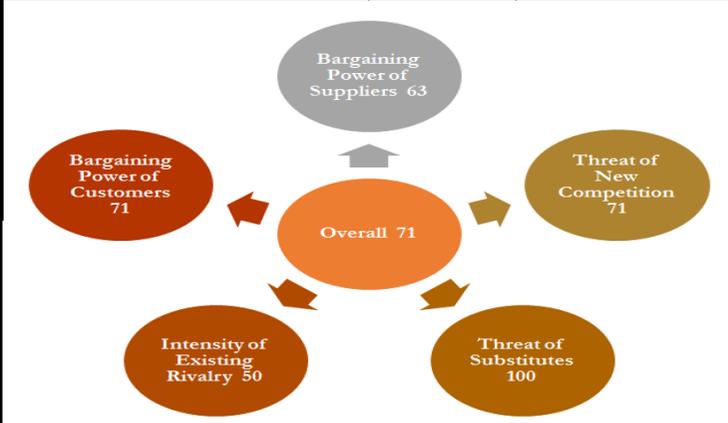
Inovio Pharmaceuticals, Inc.
Cytokinetics, Incorporated
Sangamo Biosciences Inc.
Concept Therapeutics Incorporated
TRACON Pharmaceuticals, Inc.
Tesaro, Inc.
Rigel Pharmaceuticals, Inc.
Incyte Corporation

Total return to shareholders

9.39% per annum over 4y
9.39% per annum over 4y
9.39% per annum over 4y
50.32% per annum over 3y
50.32% per annum over 3y
50.32% per annum over 3y
-20.78% per annum over 5y
N/A



Porter's 5 forces (scores are out of 100)



Revenue growth

Period	Revenue growth
Base Year	3145.4%
6/30/2017	64.5%
6/30/2018	1.6%
6/30/2019	-96.8%
6/30/2020	1013.6%
6/30/2021	110.4%
6/30/2022	115.4%
6/30/2023	68.7%
6/30/2024	60.4%
6/30/2025	85.3%
6/30/2026	-34.7%
Continuing Period	4.1%

Invested Capital

Period	Invested Capital
Base Year	\$100.82
6/30/2017	\$82.82
6/30/2018	\$54.67
6/30/2019	\$54.20
6/30/2020	\$51.90
6/30/2021	\$54.11
6/30/2022	\$75.11
6/30/2023	\$84.33
6/30/2024	\$47.44
6/30/2025	\$101.58
6/30/2026	\$184.36
Continuing Period	

Valuation

	NOPAT margin	ROIC/WACC
Base Year	8.8%	0.22
6/30/2017	25.0%	1.06
6/30/2018	9.2%	0.30
6/30/2019	-1274.2%	-1.24
6/30/2020	44.7%	0.91
6/30/2021	30.3%	0.65
6/30/2022	30.6%	0.82
6/30/2023	25.1%	1.83
6/30/2024	23.6%	1.87
6/30/2025	27.1%	2.77
6/30/2026	-15.7%	-0.65
Continuing Period	7.8%	0.42

Net Claims

Period	Net Claims	Price per share
Base Year	-\$107.95	\$0.43
6/30/2017	-\$123.54	\$0.50
6/30/2018	-\$130.38	\$0.50
6/30/2019	-\$111.94	\$0.24
6/30/2020	-\$87.16	\$0.27
6/30/2021	-\$43.05	\$0.36
6/30/2022	-\$180.69	\$0.67
6/30/2023	-\$206.33	\$0.94
6/30/2024	-\$243.80	\$1.39
6/30/2025	-\$324.17	\$2.44
6/30/2026	-\$252.00	\$2.01
Continuing Period		