

Company Description: Seattle Genetics (SGEN) is a biotech company focused on creating, and marketing oncological drugs. Right now Seattle Genetics has one drug on market, which treats Lymphoma. SGEN is focused on developing many other drugs, which could possibly be the future of oncology.

BUY

Current Price: \$73.18
Target Price: \$85.22
Market Cap: 12B
Beta: 1.877
Gross Margin: 86.31
ROIC: -18.55
EBITDA margin: -35.74
EV/ Revenue: 13.98
Dividend Payout Ratio: 0



Thesis:

Seattle Genetics is an up and coming and underpriced oncology therapeutic company, it has tremendous growth and shows plenty of potential to add new products to the market. SGEN focuses on Antibody Drug Conjugates, which is the emerging best in class oncology therapeutics. With increase in revenues, there is room for a lot of growth in this company of up to 16%. The stocks true intrinsic value stands at \$85.12.

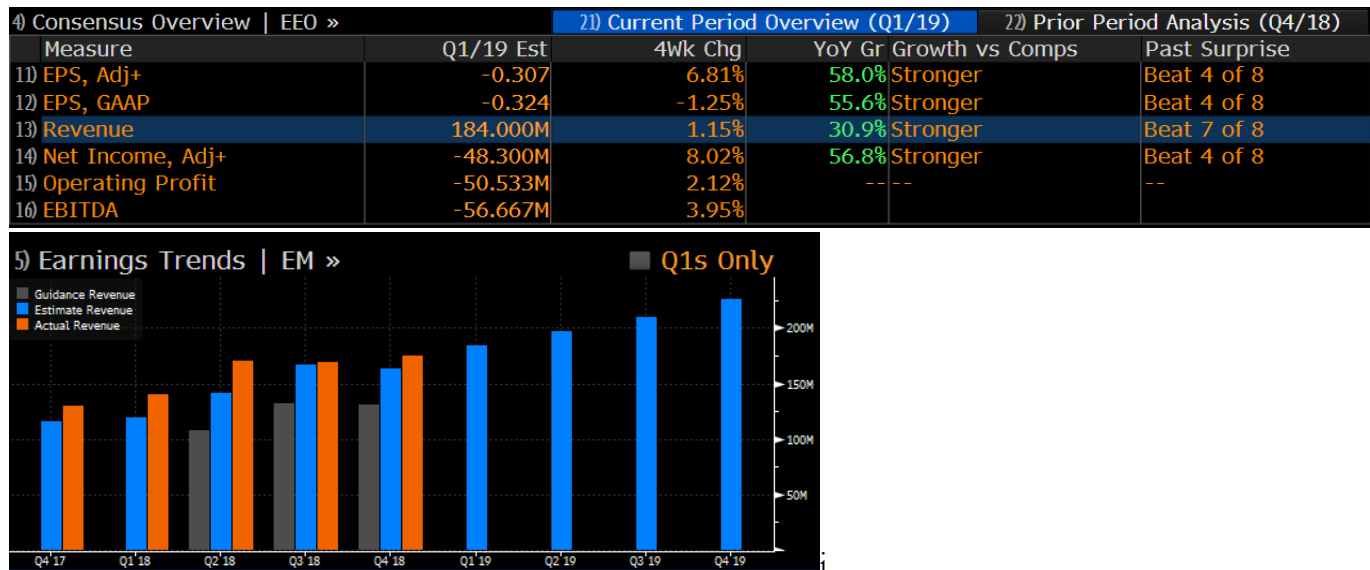
Catalysts:

- Short Term(within the year): Adcetris gets approved for all kinds of Lymphoma
- Mid Term(1-2 years): EV gets approved and increase in revenues occur
- Long Term(3+): Drugs currently in Phase 1 get approved through FDA

Earnings Performance:

SGEN has beat their earnings calls for EPS four of the last eight times. They have consistently beat their revenue projections seven of the last eight times. Revenue is a more important measure to look at because it is the main driver of stock price. The one time that the price dipped dramatically was only a result of a weak

performance on revenue, not because of earnings per share. Regardless, SGEN has shown consistently stronger growth than competitors in both EPS and Revenue, and shows consistent year over year growth in double digits. The bar chart below is revenue earnings trends.



Company Overview:

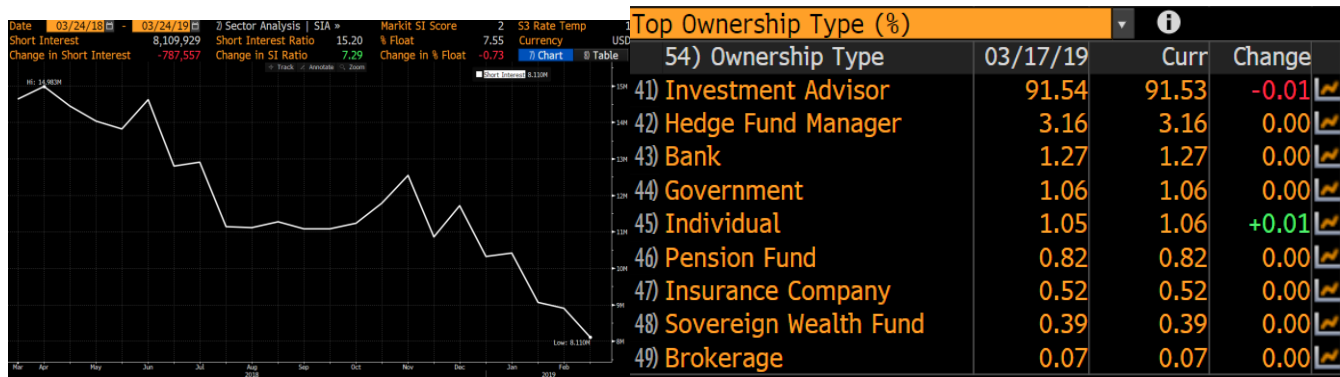
Seattle Genetics (SGEN) is a biotechnology company that was founded in 1997. SGEN is responsible for developing and commercializing pharmaceutical drugs. SGEN is particularly focused on treatments that target cancer. SGEN currently only has one product that is commercialized at the moment known as Adcetris. Adcetris is primarily used for helping treat lymphoma. SGEN currently has several drugs on their pipeline with one of these products in stage 3, and several others in stage 2. The company primarily does business in the United States but seeks to approve its products internationally. 92% of SGEN's EBIT comes from the United States and 8% from other countries. EBIT from other countries is set to increase as more countries approve of.



Ownership and Management:

Institutions own 97% of the SGEN float. Investment advisors own 74.57% of the total float with Baker Brothers Advisors holding the largest outstanding percentage of shares at 31.79%. This is a huge number of shares but there has been no recent selling or buying from this group. In December, there was a 40% increase in investment advisors adding to their positions implying that they see potential growth in this stock. Hedge

funds only own 3.95% of outstanding shares. The hedge fund with the most outstanding shares is Matrix Capital Management Co LLC with 1.96% of float. Short interest has been steadily decreasing in the past year, which also implies that investors believe this stock is going to rise.



October Price Shocks:

Observing the technicals of SGEN a point in October stands out. From October 4th to October 26th there was a 40% price drop. This was primarily because analysts thought that SGEN's commercialized drug Adcetris would produce higher revenues and take immediate market share over earlier styles of therapeutics. Many doctors like to see more definitive test results even after the FDA approves of a certain drug. Analysts did not anticipate this and expected drug revenues to skyrocket immediately. So on October 3rd, SGEN experienced buyers exhaustion and the trend switched to a selling environment. For the next 23 days, the price dropped all the way to \$51.14. Later that year on December 24th SGEN fell back down to a price of \$52.00. This price appears to be the price floor that investors will start to switch to buying mentality. As revenues of Adcetris started to rise, the price of SGEN started to increase back to numbers in the \$70 range.



Drugs in Pipeline (Promising Future):

Currently SGEN has four products in late stage drug development. SGEN only drug on market, Adcetris, is now being approved for specific forms of Lymphoma. Adcetris is now in progress to be approved to treat Hodgkin Lymphoma. Hodgkin Lymphoma affects 8,500 people in the US per year and of those it is expected that 1,050 will die from it. The clinical trials to approve Adcetris for Hodgkin are reported to be very promising. The second drug in phase 3 is Enfortumab Vedotin (EV). EV is a project that is shared 50/50 with the company Astellas. EV is a drug used to treat bladder cancer which affects 19,000 Americans each year and 29,000 in the EU. EV is in the final days of stage 3 and is supposedly to be approved soon. This will boost revenues dramatically assuming no complications. The next drug SGEN is invested in is known as Tucatinib and is also goes by another alias, the HER2 drug. The HER2 drug would be used to treat metastatic breast cancer. HER2 consists of two drugs which are currently approved on the market but it presents a much less toxic option. HER2 is currently in the pivotal phase 2 in the pipeline process. When this is approved it will be considered a best in class drug and not a first in class drug. Then finally, the last drug being developed in the pipeline is known as the Tisotumab Vedotin (TV) which is used to treat cervical cancer. Cervical cancer is currently a undertreated field with not many reliable options. There are 13,000 cases of cervical cancer a year in the United States and of those 4,500 of those victims will die. Even with the Gardasil vaccine in use, cervical cancer is still a threat in the United States and European Union. With all these developments in progress, SGEN has a very promising and lucrative future in front of it.

Our Late-Stage Clinical Development Pipeline

The following table summarizes the clinical development status of ADCETRIS and our lead product candidates:

Name of Product or Product Candidate	Therapeutic Area	Monotherapy/Combination	Development Status
ADCETRIS (brentuximab vedotin)	Relapsed Hodgkin lymphoma	In combination with nivolumab ¹	Phase 3 (CheckMate 812)
	Relapsed non-Hodgkin lymphoma		Phase 1/2 (CheckMate 436)
	Frontline Hodgkin lymphoma (patients 60+)		Phase 2
	Second-line Hodgkin lymphoma		Phase 1/2
	Relapsed Hodgkin lymphoma (pediatrics)		Phase 1/2 (CheckMate 744)
Enfortumab Vedotin ²	Metastatic urothelial cancer previously treated with platinum chemotherapy and a PD-1 or PD-L1 inhibitor	Monotherapy	Pivotal Phase 2 (EV-201)
	Metastatic urothelial cancer previously treated with platinum chemotherapy and a PD-1 or PD-L1 inhibitor		Phase 3 (EV-301)
	First- or second-line metastatic urothelial cancer	In combination with platinum agents or pembrolizumab	Phase 1 (EV-103)
Tucatinib	HER2+ metastatic breast cancer previously treated with HER2-targeted agents, including patients with brain metastases	In combination with capecitabine and trastuzumab	Pivotal Phase 2 (HER2CLIME)
Tisotumab Vedotin ²	Recurrent/metastatic cervical cancer	Monotherapy	Pivotal Phase 2 (imnovaTV 204)
	First- and -second-line metastatic cervical cancer	In combination with other cancer agents	Phase 1/2 (imnovaTV 205)
	Relapsed, locally-advanced or metastatic solid tumors		Phase 2 (imnovaTV 207)
	Platinum-resistant ovarian cancer	Monotherapy	Phase 2 (imnovaTV 208)

Multiples Analysis:

Seattle Genetics is currently not turning a profit so they are difficult to evaluate by conventional techniques. To combat this an appropriate way to evaluate them is by the use of multiples. I found plenty of companies that are in the same niche market of rare diseases and oncology and averaged there price to sales ratio together to find a benchmark multiple of 16.755x. Analysts project sales for the year of 2019 to be \$816.7M,

but on the 10k SGEN stated various times that they believe they will exceed sales of \$1,000M this year. I took the middle road of these projections and said that \$900M. With this approach, the price was projected to hover around \$93.92, which would swing a 22% increase for the year 2019. This may not actually be accurate when considering that two products are in stage 3 and the moment they are upgraded to stage 4 this could produce a massive surge in revenues. Granted both those drugs could fail the approval process tanking the price. Based upon this school of thought I say there could be

Comparable Multiples (Price/Sales)			
Company Name (Ticker)	Multiple		
SGEN	18.12		
Vertex (VRTX)	15.51		
Exelexis (EXEL)	6.86		
Ionis (IONS)	17.17		
Clovis Oncology (CLVS)	12.76		
Immunogen (IMGN)	12.57		
Incyte (INCY)	9.7		
Loxo Oncology (LOXO)	41.35		

Sensitivity Forecasting:

Bear Case: There is a real possibility that Seattle Genetics does not do as well as projected. For example if one or two of the drugs in their pipeline fail or another company produces and markets a more effective drug than Adcetris then the company stock price would fall dramatically. If this were the case SGEN would not be worth investing in at all. The price could fall from current levels of \$73. Let us assume that a new drug is released that is better than Adcetris and revenues fall by 10% in the first year so that Revenues were only 589 million. This would result in drop in price to \$48.49.

Realistic Case: If SGEN continues to increase revenues in Adcetris and expand the treatment to Hodgkin Lymphoma then a realistic case would be around the price of \$90. How we get this \$90 is by plugging the factoring in that we expect \$790- \$840 million in revenues. This price would not factor in new drugs in their pipeline being approved and marketed.

Bull Case: Within the next year if SGEN not only expands Adcetris treatment to Hodgkin Lymphoma and EV is approved to level 4 in the drug pipeline then there is room for tremendous revenue growth. As revenue grows, the stock price will follow suit. Let us assume that the revenues produced would be \$900 and

their company goal is reached. This would elevate the stock price to \$93.35. Now this is an extremely bullish outcome but it is possible.

Another option of multiples analysis to look at is price to book value. All of the companies below were picked from the competitors section of the 10k. This indicates the intrinsic price were \$85.12.

	P/B			
Merck (MRK)	8.11			
Spectrum Pharma (SPPI)	4.16			
Pfizer (PFE)	3.86			
MacroGenics (MGNX)	3.23			
AbbVie (ABBV)	30.45			
Clovis Oncology	8.74			
Teva (TEVA)	1.09			
Karyopharm (KPTI)	3.11			
Biogen (BIIB)	4.55			
Celgene (CELG)	10.65			
Puma Biotech (PBYI)	39.82			
Benchmark	10.70636			
	BVPS	7.95		\$ 85.12

Conclusion:

SGEN is a promising company that is in a niche market. It is focused on life saving cancer drugs such as lymphoma and cervical cancer. The drugs in SGEN's pipeline are showing very promising results and once approved revenues will only increase. Revenue is the main driver of the stock price and SGEN has consistently beaten their projections. In their own 10k SGEN announced that they believe attaining one billion dollars in revenue is attainable. If SGEN can produce results anywhere close to what they believe, stock price will boom. A 16% increase in price is a very realistic goal for this stock.

CENTER FOR GLOBAL FINANCIAL STUDIES

SGEN

Thursday, March 28, 2019

Page 2

Seattle Genetics, Inc.	Symbol: SGEN
Analyst	Thomas Burke
Buy Value	\$86.00
Sell Value	\$121.75
Probability of Price Increase	100%
Last Price	\$73.99
Intrinsic Value	\$97.40
Target Dividend	\$0.00
Target Price	\$107.50

Quarterly Earning Surprises (Actual Vs. Median Estimator)

Revenue	
12/31/2017	0.43%
3/31/2018	17.89%
6/30/2018	20.71%
9/30/2018	1.35%
12/31/2018	5.82%
Mean (Standard Error)	9.24% (1.06%)

EBITDA	
12/31/2017	N/A
3/31/2018	37.88%
6/30/2018	-86.70%
9/30/2018	-58.33%
12/31/2018	12.74%
Mean (Standard Error)	9.24% (55.44%)

Financials

Profitability	SGEN (LTM)	SGEN Historical	Peers' Median (LTM)
Return on Capital	6.9%		
Adjusted EBITDA Margin	-22.9%	61.65%	83.06%
Return on Equity	4.2%		
Adjusted Net margin	21.2%		

Invested Funds	SGEN (LTM)	SGEN Historical	Peers' Median (LTM)
CapEx/Capital			
NWC/Capital			
Operating Assets/Capital			
Goodwill/Capital			

Capital Structure	SGEN (LTM)	SGEN Historical	Peers' Median (LTM)
Total Debt/Market Cap.			
Reported Cost of Borrowing			62.6%
Cost of Interest/Total Debt			3.8%
CGFS Credit Rating	AAA		BB
Credit Model Rating			bbb-
Probability of Default	0.03%		0.10%

Cost of Capital	CGFS Credit Rating	Credit Model Rating	Probability of Default
Implied Cost of Borrowing (SGEN)	3.8%		4.0%
Implied Cost of Borrowing (Peers)	5.5%	6.2%	5.4%
Cost of New Debt Estimate	3.8%		
Market Risk Premium Estimate	6.0%		
Cost of Equity Estimate	9.8%		
WACC Estimate	9.8%		

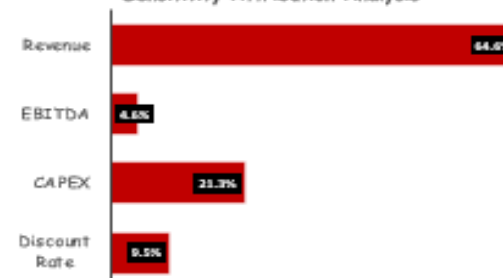
Valuation

DCF Valuation	Revenues	EBITDA Margin	WACC	ROIC	Price Per Share
Base Year (Actual)	\$566.34	39%	8.12%	35.33%	\$129.14
Year 1	\$711.74	41%	8.93%	40.08%	\$139.94
Year 2	\$869.28	42%	8.92%	35.83%	\$151.51
Year 3	\$1,049.52	42%	8.91%	31.49%	\$163.82
Year 4	\$1,252.44	42%	8.91%	28.19%	\$176.85
Year 5	\$1,477.08	42%	8.90%	25.57%	\$190.58
Year 6	\$1,721.34	42%	8.89%	23.39%	\$204.97
Year 7	\$1,981.91	42%	8.88%	21.53%	\$219.98
Year 8	\$2,254.19	42%	8.88%	19.90%	\$235.55
Year 9	\$2,532.34	41%	8.87%	18.45%	\$251.62
Year 10	\$2,809.38	41%	8.87%	17.11%	\$268.11
Year 11	\$3,077.42	41%	8.86%	15.86%	\$284.95
Year 12	\$3,327.98	41%	8.86%	14.69%	\$302.05
Year 13	\$3,552.36	41%	8.86%	13.57%	\$319.33
Year 14	\$3,742.18	41%	8.86%	12.50%	\$336.72
Year 15	\$3,889.77	41%	8.86%	11.46%	\$367.02
Continuing Period	\$3,988.76	41%	8.87%	8.87%	

Relative Valuation	EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)	Asset Based Valuation
RELEVANT	8.2x	54.0x	19.7x	98.2x	Recovery Rate 100%
Median (Peers)	8.2x	54.0x	19.7x	98.2x	Capital \$7,395.45
Base	\$729.87	\$297.87	\$463.10	\$222.24	Intangibles \$52.63
Implied EV	\$6,020.88	\$16,088.95			Claims \$70.35
Total Net Claims	-\$90.33	-\$90.33			
Implied EQ	\$6,111.21	\$16,179.28	\$9,110.77	\$21,819.43	

Valuation Summary	Intrinsic Value	Target Price	Weight
Model			
DCF Valuation	\$129.14	\$139.94	40.00%
EV/Rev (FW)	\$104.32	\$112.79	0.00%
EV/EBITDA (FW)	\$276.18	\$298.60	30.00%
P/BV (TTM)	\$155.52	\$168.15	30.00%
P/E (FW)	\$372.46	\$402.69	0.00%
Asset Based Valuation	\$124.14	\$134.22	0.00%
Price per Share	\$181.16	\$196.00	100%

Sensitivity Attribution Analysis



Intrinsic Value Distribution--Probability (Upside)=100%

