

Mossberg's Investor Digest

Best Idea Profile

Novavax, Inc. (Nasdaq: NVAX)

DESCRIPTION:

Headquartered in Rockville, MD, Novavax is a clinical-stage (they don't have meaningful revenue or earnings yet) biopharmaceutical company that focuses on making vaccines for seasonal flu, pandemic viruses (such as swine flu, avian flu), and other infectious diseases. The company's two key technologies are 1) virus-like particle (VLP) which is more effective, reduces cost and speeds development of new vaccines, and 2) disposable manufacturing technology, which can be set up quickly and requires less capital investment than traditional manufacturing, both of which are of particular interest in developing nations.

KEY INVESTMENT CONSIDERATIONS:

What is VLP and why is it better?

- **In theory, there is no way you can get infected by a VLP vaccine** – Traditional vaccines introduce a weakened or dead virus into the body, which stimulates the body to create antibodies and a memory record of the virus resulting in immunity. Sometimes the virus isn't weak enough and can only be used in relatively healthy people (5 to 49). As its name implies, the virus-like particle is not a dead or weakened virus...it's a particle that is coated with proteins that are on the outside of the virus. These proteins are what actually stimulate the body's immune response. Because there is no risk of viral infection, NVAX vaccines could be applicable for pediatric and elderly populations. (Clinical testing in the elderly will begin this fall.)
- **Very short development times** – Novavax can produce a new vaccine in 10 to 12 weeks versus 6 months using conventional technology.
- **Forms a stronger immune response** - Because they more closely match an individual viral strain, VLPs can trigger a more robust immune response.
- **VLPs do not need an adjuvant** - In order to be effective, traditional vaccines use an adjuvant, which acts like a booster for the vaccine and stimulates the body's immune response. Adjuvant can cause adverse reactions in patients and has been linked to autism, Gulf War Syndrome, etc.

Licensing deals with India & Spain validate the technology – NVAX has made licensing deals in Spain and India to develop seasonal and pandemic flu vaccines. The Spanish government and Rovi (the Spanish licensee) will invest \$84 million to complete clinical testing for EU approval. In India, NVAX's partner Cadila will invest \$8 million over three years to complete clinical testing for Indian approval. Both Cadila and Rovi have invested in Novavax.

Little stock with BIG players – For a company with a market cap of \$240 million, NVAX has a long line of proven leaders, including...

Rahul Singhvi (CEO) – Joined the company in 2005...previously headed vaccine manufacturing operations at Merck.

Penny Heaton (Chief Medical Officer) – Joined the company in 2006...previously head of Virology at Merck.

Thomas Monath, Kleiner Perkins (Board Member) – One of the most respected VC firms involved with pandemic issues has a board seat and owns approximately 3.5 % of the company.

The 2nd phase II testing milestone could be a near term catalyst – Results of the 2nd human study are expected to be available during the third quarter of this year and phase II testing is expected to be completed by the end of 2009. Successful data from each of the next milestones could be catalysts for the stock.

VALUATION:

With no revenue or earnings expected in the near term, valuing a biopharmaceutical company, such as NVAX is definitely challenging. It appears that NVAX has a unique solution and capable people that can make the company a significant player in the market for vaccines (the seasonal flu vaccine market alone is expected to be a \$6 billion market in 4 years). If proven efficacious, VLP may change not only flu vaccine production, but the way all vaccines are produced. This would make Novavax a very valuable property, indeed.

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Investment Data (as of 7/17/09)

Recent Price	\$3.04
52-Week Range	0.52 - 3.88
Fiscal Year End	December
Shares Outstanding	87 MM
Average Trading Volume (3 mos)	5.6 MM
Market Capitalization	236 MM
Cash	26 MM
Long Term Debt	N/A
Enterprise Value (EV)	210 MM
LT Debt/ Equity	N/A
BV/ Share	0.54
TTM Revenue	<1 MM
TTM EPS (non-GAAP)	-0.52
TTM EBITDA	-34 MM

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