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Novavax (Nasdaq/NVAX)

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Neutral Lowering rating to Neutral

Novavax is developing recombinant vaccines for infectious diseases

Investment Highlights

1) Novavax reported their financial results for Q3/2011, including revenues of \$5.0 million and a net loss of \$3.2 million or (\$0.03) per share as compared with revenues of \$175,000 and a net loss of \$10.2 million or (\$0.10) per share in Q3/2010. Revenues in Q3/2011 were boosted by receipts under a new US Health and Human Services Biomedical Advanced Research and Development Authority (BARDA) contract signed in February 2011. Combined with lower R&D expenses due primarily to reduced outside-testing costs related to vaccine candidates (including outsourced clinical trial costs, sponsored research and consulting agreements), this helped reduce operating losses significantly in the third quarter over the year ago period. We estimate that operating cash burn for Novavax in Q3/2011 was approximately \$3.4 million (reduced from \$8.3 million in the year-ago period). At the end of the third quarter the Company had \$19.6 million in cash and short-term investments on hand and less than \$400,000 in long-term debt. We estimate that Novavax has enough financial resources to fund operations at current levels of activity into 2013.

2) Third quarter highlights for Novavax included: 1) The receipt of a \$1.3 million contract award from the US Department of Homeland Security to develop a virus-like-particle (VLP) vaccine to prevent foot-and-mouth disease in livestock; 2) Reporting of positive top-line results from a Phase 1 study of a vaccine to prevent respiratory syncytial virus (RSV), a prevalent cause of respiratory tract infection in infants and children; and 3) Publishing of positive safety and immunogenicity results from an H1N1 influenza vaccine trial in Mexico using Novavax's influenza VLPs. Going forward, key potential catalysts for Novavax could be the advancement of the RSV vaccine into later-stage testing and the initiation of new clinical trials for additional vaccine candidates in the areas of seasonal and pandemic influenza under the existing HHS BARDA contract.

Current Price \$1.26

Price Target N/A

MARKET DATA		12/23/11
Stock Symbol		NVAX
Market		Nasdaq
52-Week Range (Low - High)		\$1.13 - 3.50
Shares Outstanding (MM)		115.1
Market Capitalization (MM)		\$145
Enterprise Value (MM)		\$126
3-Month Avg Daily Volume (000s)		507
Insider Ownership		12.4%
Institutional Ownership		37.5%

BALANCE SHEET METRICS		09/30/11
Cash and Cash Equivalents (MM)		\$19.6
Long-Term Debt (MM)		\$0.3
Debt to Capital		0.1%
Book Value/Share		\$0.41
Price/Book		3.27

ESTIMATES				
FY- 12/31	2009A	2010A	2011E	
1Q - 03/31	(\$0.12)	(\$0.10)	(\$0.07)	A
2Q - 06/30	(\$0.10)	(\$0.09)	(\$0.04)	A
3Q - 09/30	(\$0.08)	(\$0.09)	(\$0.03)	A
4Q - 12/31	(\$0.15)	(\$0.06)	(\$0.04)	E
FY EPS (fully diluted)	(\$0.47)	(\$0.34)	(\$0.26)	E
Revenues (MM)	\$0.3	\$0.3	\$15.0	E



Source: Investors, Yahoo Finance

Price target and ratings changes over the past 3 yrs:
Initiated - June 15, 2010 - Buy - Price Target \$4.50
Downgraded to Neutral - December 23, 2011

Conclusion/Stock Valuation

We are reducing our rating on NVAX to Neutral and removing our price target on this stock at this time due to the departure of the analyst who was previously following this stock. Prior to this update, our price target on NVAX had been \$4.50, based on applying a multiple of 35X our estimate of \$0.32 per share in earnings for 2015 discounted annually at 25%. (See our Initiation report of June 25, 2010.) We are currently in the process of re-evaluating our price target.

Risk Factors

In addition to normal economic and market risk factors that impact most equities and the common risks shared by Novavax with other companies in the industry, we believe an investment in Novavax involves the following risks:

- **FDA and regulatory risks** – Novavax is subject to regulatory review for its ongoing research and development and activities and also its manufacturing, principally the US Food and Drug Administration but also potentially with other regulatory agencies as well, specifically in Europe and Asia.
- **Reliance on joint venture partners** — At present, Novavax has marketing, supply or development partnerships with Cadila Pharmaceuticals of India, GE Healthcare (NYSE/GE/Not Rated), and LG Life Sciences, Ltd. Partnerships and joint ventures bring certain risks that are not present in internal operations, however, such as potential delays, intra-company disagreements, or unforeseen financial difficulties at the partnering entity.
- **Need to defend patents and other intellectual property** – At December 31, 2010, Novavax held rights to over 100 patents in the US and foreign jurisdictions relating to vaccines and biologics. In addition, the Company has a number of additional patent applications pending in both US and foreign jurisdictions. The Company may need to defend its patents in the US and in foreign jurisdictions in the future, particularly as its pipeline programs move forward in the clinical area.
- **Need to raise additional capital** – Historically, the Company has not operated on a profitable basis, and may again record operating losses in future quarters. Currently, Novavax has approximately \$20 million in cash and long-term investments on hand, and at current rates of operating cash burn the Company may need to raise additional equity sometime in 2013.
- **Competitive market for therapeutics** – The market for vaccines and biologics is currently very competitive both in the US and internationally, with many alternative technologies and products produced and/or marketed by diversified pharmaceutical companies with extensive financial resources, including such firms as Sanofi Pasteur (NYSE/SNY/Not Rated), AstraZeneca (NYSE/AZN/Not Rated), GlaxoSmithKline (NYSE/GSK/Not Rated), Novartis (NYSE/NVS/Not Rated), and Merck (NYSE/MRK/Not Rated). In addition, there are a number of new technologies under development which, if approved, could potentially compete with the Company's vaccine technologies.

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Initiated – June 15, 2010 – Buy – Price target \$4.50
 Downgraded to Neutral – December 23, 2011

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Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Buy	16	67%	5	31%
Neutral	7	29%	5	71%
Sell	1	4%	0	0%
Total	24	100%	10	42%

Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISKS” sections of this report.

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