



SIGA Technologies: There's An Assured Market For A Smallpox Drug

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Summary

- SIGA develops a smallpox drug.
- Smallpox has been eradicated.
- However, the US and other governments buy these drugs for hundreds of millions of dollars.
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SIGA Technologies (NASDAQ:[SIGA](#)) is a developer of smallpox drugs in a world where smallpox has been eradicated for 40 years. Only two [locations](#) in the world officially hold stocks of the variola virus which causes smallpox - the Centers for Disease Control and Prevention in Atlanta, Georgia, and the State Research Center of Virology and Biotechnology (VECTOR Institute) in Koltsovo, Russia. Although the last person to die of smallpox, in 1978 - a British photographer named Janet Parker - contracted it while working at a laboratory in England's Birmingham University Medical School where the Medical Microbiology Department conducted smallpox research, current state-of-the-art facilities have very low chance of causing accidental infection. Given all of that, investors will naturally want to ask - why a smallpox antiviral drug? What is the target market? How much will it sell?

SIGA makes smallpox drugs not because there's actual smallpox in the world, but because a select few governments wish to stockpile the drug for future outbreaks, natural or as a form of biological warfare. This drug is called TPOXX. Its oral version was approved in 2018, an IV version is expected to be approved for patients too sick to take it orally, in 2021, and a Post-Exposure Prophylaxis or PEP version is also being developed for treating patients who have already contracted smallpox. The US, [Canada](#), and the EU, are currently stockpiling the drug. Other countries may follow.

Unlike a drug with an active disease, the target market here is fixed - it consists of the number of anti-smallpox drugs the US or another government wants to stockpile. That number, for the US, stands at 1.7 million doses at present, which produced revenues of \$113mn for the company. The market does not stop with just that one BARDA order because the drugs have limited shelf life, so the US government, for example, will order 1.7 million doses this year, as well. This is a continuing process, and the company expects the following revenues over the next few years:

	2020	2021 – 2024 Targets	
		Total	4-year Average
Product Revenues - 2018 BARDA Contract	\$113M	\$414M (\$113M target in 2021)	\$104M
International	\$2 M	Ramping Up (\$10M in the first 6 months of 2021)	
SNS Expansion for PEP indication	Building The Foundation		
Other Platform Revenues	Scanning		

Source

So the company expects a pretty fixed volume of revenue over the next few years, unless its PEP program takes off, in which case revenue may increase. There are no competitors in the market, and while small, the company has access to a steady supply of revenue from the US market. If other countries wish to stockpile drugs for a disease that has been eradicated, then there will be other revenue streams.

What are some of the expected sources of infection for such an outbreak? Well, between Bill Gates and the Pentagon, here's the breakdown of the expected sources:



Source

So one source of origin of such a virus could be what the NIH discovered in one of its labs - live virus in a vial. This is a hackneyed one in a million event, however the virus is highly contagious and many times more deadly than corona. The two concepts are contradictory - the more deadly a virus, the less contagious it is (because its carrier dies too quickly to spread it) - however historically, smallpox has killed hundreds of millions of people around the world, so a vial or two lying in Maryland or Russia is no joke.

That the threat is real - if unquantifiable - was recently underlined by the discovery of 15 vials of "smallpox" virus in a Merck facility in Pennsylvania. An FBI/CDC investigation found that the vials contained vaccinia, the virus used to produce the smallpox vaccine, and not variola, the virus that causes smallpox. In 2014, however, of the 6 vials discovered at an NIH facility, 2 contained live virus. The recent incident took up SIGA stock to a 3-year high.

The other threat is a biological warfare. SARS-COV2 was perhaps an accidental outbreak, however the quote from the above graphic identifies North Korea as a potential smallpox threat. This all may seem like gobbledygook right now, but if there's an outbreak someday, the only government that will have protection for its citizens are the ones now buying from SIGA. There is a small but long-term business opportunity here, and SIGA is almost the only player.

Financials

SIGA has a market cap of \$596mn and a cash balance of \$118mn. The company has a 3-month operating expense of \$8mn, divided into \$4.4mn for SG&E and \$3.3mn for R&D, and other assorted expenses. At that rate, they have an annual cash requirement of \$32mn, which gives them a very long runway with existing cash.

In Q3 2021, they made revenues of \$5mn, broken up equally between product sales and R&D. Last year, they made \$44mn in total revenue, with \$41mn coming from product sales. This year, in the fourth quarter, they expect to sell \$113mn of drugs to the US government, which will add to their revenue figures for the year.

The current BARDA contract with the company is on an annual basis. However, there may be an opportunity to make this into a longer term contract, because the US government, according to the company, usually works that way. About such a potential transition, the company says:

Historically, that's been the strategic national stockpile. There is a lot of ongoing discussions with the government as to where that's going to settle out and how that organization is going to be structured, post the learnings of COVID-19. But as I said in my remarks, we have an opportunity over the next 3 years for the remainder of our BARDA contract. And certainly, we'll be working hard over that time period to make sure we have a smooth transition.

Bottom line

SIGA is a relatively "boring," under-covered stock with a staid thesis. However, investors will do well to remember that while revenue growth is not adventurous, it is assured. Few biopharma companies can make that claim. People looking for less adventure in their lives will do well to consider SIGA as an investment opportunity.

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