

Seeking Alpha ^α

Alliqua: This Company's Pedigree Is Impeccable

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Summary

- Management with a successful track record deserves investor attention.
- Wound care and management is an attractive market.
- Celgene is a substantial partner.

Certain entrepreneurs or management groups are exceptional at creating value for investors. If they are involved in a business, investors need to take notice because the likelihood of success is that much higher. As a matter of fact, in many instances investors are paying an upfront premium for those persons' involvement in a public company. For example, Elon Musk, with his tremendous success at Tesla (NASDAQ:[TSLA](#)), Solar City (NASDAQ:[SCTY](#)) and prior ventures; anything he brings to market now would be received with wild enthusiasm. Such "involvement premium" is currently accorded to other players like Alan Auerbach at Puma Biotech (NYSE:[PBYI](#)) because of his previous work at Couger Biotech and Patrick Soon-Shiong, whose NantKwest(NASDAQ:[NK](#)) just came flying out of the IPO gate, due to his achievements with Abraxis Biosciences and American Pharmaceutical Partners.

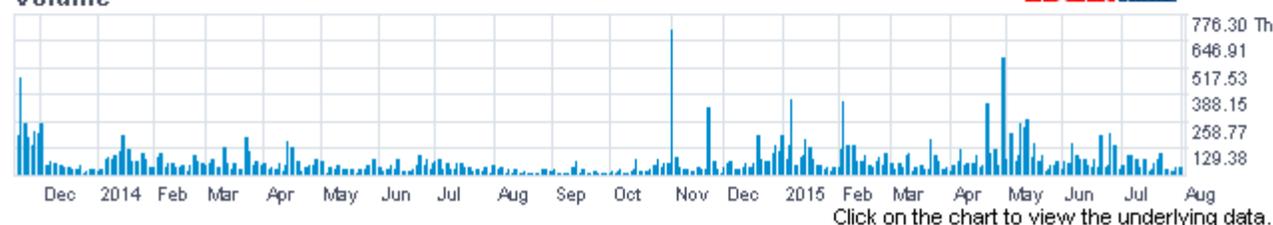
It makes sense that investors would have more confidence in companies that are managed by officers who exude competence and a genuine intent to create shareholder value. Poised against such stellar performers there are God knows how many instances of incompetence, or, worse, bad intentions and even fraud. That is why I have formulated my 4 Tenets of a Successful investment among which strong management and able partners is a critical component. One such company is small wound care startup Alliqua (NASDAQ:[ALQA](#)), in which, I believe, we have an as yet unrecognized opportunity to invest at a discount.

Alliqua Biomedical

20 Month



Volume



Click on the chart to view the underlying data.

Alliqua is an advanced wound care company offering a suite of products to hospitals and clinicians to address a full range of chronic and acute wounds. Management has done a nice job growing the company in [the large wound care space](#) (currently valued at over \$15 billion) through acquisitions and impressive partnerships. The company's revenues have [increased from negligible in 2013 to around \\$20 million in 2015](#) (over 250% annual growth) and are projected at close to \$35 million in 2016. In 2015 the company completed its largest acquisition to date of [Celleration and its FDA approved MIST Therapy ultrasound wound bed repair and preparation technology](#). This provided significant revenues and a complementary sales force of more than 20 reps.

Most impressively, the company [has a partnership with "CCT", a subsidiary of Celgene \(NASDAQ:CELG\)](#) to market certain of their placental based wound care products including Biovance and future Connective Tissue and Extracellular Matrix products. The [company's partnerships continue to expand](#) as does [Celgene's investments in Alliqua](#).

Research suggests placental derived wound care [products work significantly better than current standard of care](#). In April of 2015 the company received its first [Medicare Administrative Contractor \(NYSE:MAC\)](#) coverage for outpatient Biovance from Medicare administrator Novitas. As one of eight national MACs responsible for processing Medicare claims, this reimbursement coverage should be a huge boost for Biovance prescriptions. Based on the success of MiMedx (NASDAQ:MDXG) [securing total MAC coverage](#) for a comparable type of product, we can reasonably expect a similar expansion of MAC coverage for ALQA and Biovance. This should help continue to drive revenues and market share for ALQA.

Management at ALQA Brings Success and Experience

As stated before, it is ALQA's management team and partnership with Celgene that have created in me the confidence boost to establish a position in this company at current prices. Please look at this impressive slide:

How does ALQA stack up when examined against my 4 Tenets of Small Cap Biotech Investing

Strong Indication(s) for Drug Technology

As previously documented, wound care is a very large market valued at over \$15 billion and growing. With ALQA's product portfolio, the company is well positioned to benefit. This was strengthened with the recent complementary acquisition of Celleration's wound bed preparation and its salesforce. The company's partnership with Celgene provides longer term access to a growing portfolio of advanced wound care solutions and management has [clearly stated its intention to remain opportunistic with acquisitions](#).

Exceptional Science, Management and Partners

Strong management and the Celgene partnership are the primary attractions of this investment. David Johnson, the CEO, was previously President of the ConvaTec division of Bristol-Myers Squibb until 2008 when he orchestrated the [sale of the division to Avista Capital Partners and Nordic Capital for \\$4.1 billion](#). At ConvaTec Mr. Johnson employed a similar M&A strategy and has brought members of his ConvaTec team with him to Alliqua. Celgene exclusively licensing its current and future wound care products to Alliqua, combined with continued cash infusions is a tremendous sign of confidence in Alliqua's management.

Positive Insider or Hedge Fund/Institutional Activity

[Celgene is a buyer](#) at varying prices including some significantly high than today's.

A Definable Catalyst not Reflected in the Current Market Capitalization

I believe ALQA is significantly undervalued at today's prices. Trading at roughly 3x projected 2016 revenues and revenue growth at close to 100%, the company is valued inexpensively relative to peers. MiMedx and Osiris (NASDAQ:OSIR) are often referred to for industry comparison and both companies' 2016 growth is projected at around 30%, yet both companies trade at higher price/sales (MDXG P/S=4.5 OSIR P/S=7) multiples and sport significantly larger market valuations. A faster growing smaller company with similar industry margins should be accorded a higher market multiple to account for the accelerated rate of growth, especially with the strength of the management that directs this one.

Conclusions

With the opportunity for expanded MAC coverage and a growing portfolio of Celgene wound care product approvals, ALQA's rapid revenue growth should continue. And this prognosis doesn't take into consideration possible future acquisitions and/or additional product partnerships. Considering management's successful experience in the industry and the impressive partnership with Celgene, Alliqua looks like a winner and potential multi-bagger from today's levels. Given its micro market cap of \$130 million and 3x higher growth rate than its peers, I believe the company should be accorded at least twice the 4.5 forward price/sales multiple MiMedx (OSIR appears overvalued). That would translate into a 2016 price target of \$35 million (revenues) x 9 or \$315 million market cap or approximately 11/share. I am a buyer at today's quote.