



Just Released: The 5 Best Stocks to Buy in December 2022 [PREMIUM PICKS]

Description

AbCellera Biologics (NASDAQ:ABCL) develops antibodies to treat infectious diseases. Its AI-powered technology decodes and analyzes antibody responses to engineer new antibody drug candidates for its partners.

After nearly touching \$15 last month, AbCellera has declined by 24%, and it's once again at a price where I feel you're getting all the potential long-term returns at an attractive price. If you're looking for why the shares have fallen of late, I think it's most likely because AbCellera's sales over the last couple of quarters have been weaker than they were over the previous two quarters.

In my view, the current sales were always gravy and not the real story. These sales come almost entirely —there are some research fees included for hitting milestones — from the sales of two COVID-19 treatments developed in conjunction with **Eli Lilly (NYSE:LLY)**; one remains the only approved treatment that is effective against both the current dominant covid strains and past ones.

Our thesis for AbCellera is that these sales are bound to decline over time and are mostly about providing a source of capital to fund the expansion of the business without diluting shareholders. The cash from these sales has actually proven a little more valuable because it has allowed AbCellera to invest in the development of several drug candidates alongside partners with the opportunity to have partial ownership — and a share of the profits — if these drugs get regulatory approval.

The extra cash in the bank has also given AbCellera the financial strength to hold firm on higher royalty rates on the conventional research work done for clients. In short, the long-term benefits of a strong balance sheet have made an already attractive royalty model even more compelling.

The long-term revenue potential continues to get more attractive, too. As of the end of the third quarter, AbCellera had 164 programs under contract with 38 unique clients. That's 23 more than it had a year ago. During the last quarter, work started on four new programs and all four were for products where AbCellera would get a royalty if the research work leads to commercial treatments. Finally, one more product entered phase one of clinical trials during the quarter, giving AbCellera seven products currently in testing.

If you're still worried about a dry period before revenue from these new drugs kick in, the company had

some good news here, too. While its testing shows the current treatments it developed with Eli Lilly do not work against the two emerging strains of covid, it has identified a modified compound with Eli Lilly that does work. So, there is still a chance that the covid sales stream continues as the rest of the business grows.

With nearly \$900 million in cash and no debt, ongoing sales of COVID-19 treatments, better terms getting negotiated on new research contracts, and more candidates entering clinical trials the long-term potential of AbCellera remains very bright.

Nathan Parmelee has positions in AbCellera Biologics. The Motley Fool has positions in and recommends AbCellera Biologics.

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