# UCB

## Hold: €65 Price Target



## Scenarios

### Target Investment Thesis

- We see focus shifting to assessing the longevity of UCB's growth. The current share price already assumes commercial success of romosozumab, in our view. We maintain a cautious stance on Cimzia, assuming growth may stall beyond 2019E.
- We believe UCB should meet or exceed its longer-term CVN sales targets and 30% 2018E REBITDA margin aim.
- Our €65 per share Price Target assumes a c.1.2x 2018E PEG multiple with +11% EPS CAGR for 14x 2018E target P/E.

### Upside Scenario

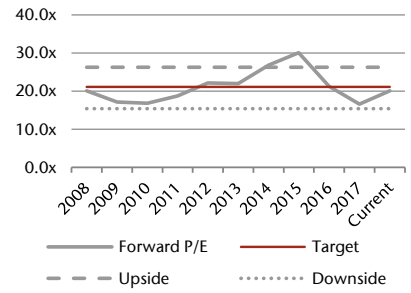
- Assumes 2015-20E Revenue CAGR from +6% to +7% so 2015 19% Operating Margin expands by +14% to 33% in 2020E from base case 31%.Hence 2020E Adjusted EPS from €6.1 to €7.1 (+17%).
- We believe the higher +13% 2018-21E earnings CAGR, from +11%, justifies a higher 1.3x PEG for a c.17x 2018E target P/E multiple and upside scenario of €80 per share.

### Downside Scenario

- Assumes 2015-20E Revenue CAGR from +6% to +5% so 2015 19% Operating Margin expands by +8% to 27% in 2020E from base case 31%.Hence 2020E Adjusted EPS from €6.1 to €4.8 (-23%).
- We believe the lower +9% 2018-21E earnings CAGR, from +11%, justifies a lower 1.1x PEG for a c.10x 2018E target P/E multiple and downside scenario of €45 per share.

## Long Term Analysis

### 1 Year Forward P/E




Source: FactSet, Jefferies estimates

### Long Term Financial Model Drivers

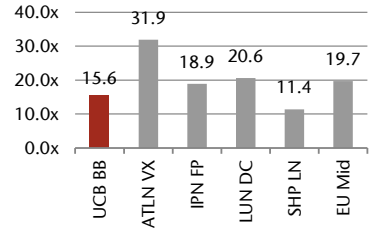
| **2015-20E Earnings CAGR** | **+23%** |
|---|---|
| 2015-20E Revenue CAGR | +6% |
| 2015-20E Operating Margin Change | +12% |

### Other Considerations

We believe UCB should meet or exceed its longer-term targets, with a 30% REBITDA margin in 2018E, plus Cimzia, Vimpat and Neupro (CVN) sales in excess of €1.5bn, €1.2bn and €400m by 2020E, respectively. However, we now see focus shifting beyond the current impressive growth trajectory, assessing the longevity of the core CVN products and calling into question the pipeline's commercial potential.

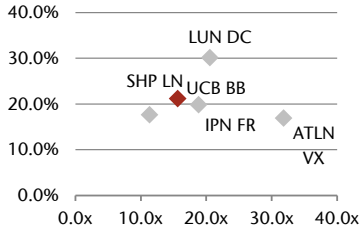
## Peer Group

### Group P/Es




Source: FactSet, Jefferies estimates

### 3-Year Earnings Growth vs P/E




Source: Jefferies estimates

### Recommendation / Price Target

| **Ticker** | **Rec.** | **PT** |
|---|---|---|
| **UCB BB** | **Hold** | **€65** |
| ATLN VX | Hold | CHF 240 |
| IPN FP | Buy | €80 |
| LUN DC | Buy | DKK 340 |
| SHP LN | Buy | 6600p |

## Catalysts

- Cimzia Phase III psoriasis data in 1Q17E for filings during 2H17E, and potential approvals for juvenile RA in 3Q17E
- Phase III romosozumab ARCH PMO data during 2Q17E, and potential US approval for PMO during 3Q17E (PDUFA 19 July)
- Vimpat Phase III paediatric POS data in 2Q17E, for EU and US filings during 2H17E
- Bimekizumab (IL-17A/F) Phase IIa RA data plus Cimzia in 2Q17E and Phase IIb psoriasis data during 2H17E

## Company Description

UCB is a global biopharmaceutical company established with the acquisitions of Celltech in 2004 and Schwarz Pharma in 2006. The company focuses on the two core therapeutic areas of CNS and immunology, using both small molecules and biologics. UCB's allergy portfolio is now maturing and blockbuster epilepsy drug Keppra peaked in 2008 when the US patent expired. The company's key products include Vimpat (epilepsy), Cimzia (rheumatoid arthritis and Crohn's disease) and Neupro (Parkinson's disease).



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Please see important disclosure information on pages 54 - 58 of this report.

## Company Description

Ablynx is a Belgian biotech company engaged in the discovery and development of Nanobodies, a novel class of therapeutic proteins based on single-domain antibody fragments. The company has alliances with Merck Serono, Merck, Boehringer Ingelheim and Novartis to use its platform technology to generate Nanobodies against specific disease targets. Lead pipeline product caplacizumab (anti-vWF) treats the rare blood disorder thrombotic thrombocytopenic purpura (TTP). Ablynx has partnered ALX-0061 (anti-IL-6R) with AbbVie for rheumatoid arthritis and systemic lupus erythematosus, and has ALX-0171 (anti-RSV) in early-stage clinical development for respiratory syncytial virus infections.

Actelion is a profitable biotechnology company headquartered in Basel, Switzerland. The company's flagship product was Tracleer (bosentan), an endothelin receptor antagonist (ERA), marketed worldwide for the treatment of pulmonary arterial hypertension (PAH), together with PAH drugs Ventavis and Veletri. Opsumit (macitentan) was launched as an improved ERA to replace the Tracleer franchise, with Uptravi (selexipag) representing a potential novel addition to the PAH portfolio. Actelion's R&D focuses on immunology, anti-infectives, and orphan disease opportunities.

Adocia is a French biotech company with innovative delivery and drug targeting technologies. Its BioChaperone (BC) platform allows the formulation of therapeutic proteins with improved pharmacokinetic/pharmacodynamic properties. Its clinical pipeline products include: (1) BC ultra-fast acting insulin lispro; (2) BC fast- and long-acting combo based on glargine; (3) HinsBet fast-acting human insulin; and (4) BC PDGF-BB for the treatment of diabetic foot ulcers.

Advanced Accelerator Applications (AAA) is headquartered in Saint-Genis-Pouilly, France and was founded in 2002 as a spin-off of the European Organization for Nuclear Research (CERN). The company focuses on developing diagnostic and therapeutic products in Molecular Nuclear Medicine (MNM). It produces and commercialises Positron Emission Tomography (PET) tracers and Single-Photon Emission Computed Tomography (SPECT) products, utilising a network of manufacturing facilities in 16 European locations. AAA's lead therapeutic product is Lutathera, a Peptide Receptor Radioisotope Therapy (PRRT) for the treatment of Neuroendocrine Tumors (NETs).

ALK-Abello is a Danish allergy company focusing on treatments that target the cause of allergy. ALK has a number of marketed products including both subcutaneous and sub-lingual immunotherapy vaccines. In 2006, ALK launched the first tablet-based allergy vaccine against grass pollen in Europe and also has SLIT-tablets to treat ragweed, house dust mite, and tree pollen allergies. ALK has partnered with Torii in Japan and other companies in selected Asian markets.

Almirall is an international pharmaceutical company headquartered in Barcelona, Spain. Founded in 1943 Almirall markets products derived from its internal R&D (including Ebastine, Almotriptan and Aceclofenac) and products licensed from third-parties through its sales affiliates in Spain and across Europe and the Americas. The company focuses on medicines for the treatment of autoimmune and dermatological diseases.

Bavarian Nordic was founded in Denmark during 1994 with an initial focus on HIV and melanoma therapeutic vaccines, together with a pancreatic cancer gene therapy. The company listed in 1998. During 2002 Bavarian Nordic exited cancer vaccines to focus on infectious diseases, notably smallpox and its MVA IMVAMUNE largely funded by the US Government. However, in 2004 the company re-entered cancer immunotherapy using a MVA-BN based approach, and subsequently in 2008 partnered with the US National Cancer Institute to develop new immunotherapies for prostate cancer, specifically PROSTVAC. This Phase III product is an "off-the-shelf" immunotherapy for metastatic castrate-resistant prostate cancer.

BTG is a UK-based specialty pharma company with two commercial divisions and royalty income from legacy patent estates. The company gained access to marketed hospital critical care products (notably CroFab and DigiFab) via the acquisition of Protherics, and in 2010 purchased Biocompatibles to establish an Interventional Oncology franchise. The latter was boosted in 2013 with the purchase of Therasphere, while EkoSonic provided an opportunity in vascular surgery ahead of the Varithena launch for varicose veins.

Cassiopea is a Swiss listed specialty pharmaceutical company focusing on dermatology. It is a demerged business initially funded by parent Cosmo Pharmaceuticals, which has retained a c.45% stake. The company has a pipeline consisting of four clinical assets, Winlevi and CB-06-01 for acne, Breezula for androgenic alopecia, and CB-06-02 for anogenital warts. Cassiopea intends to hire a US salesforce and commercial organisation to launch its dermatology portfolio, subject to obtaining FDA regulatory approval for its lead product Winlevi, while out-licensing rights to other geographies.

Compugen is a product discovery and development company focused on therapeutic proteins and monoclonal antibodies to address unmet needs in the fields of immunology and oncology. Compugen utilises a broad and expanding infrastructure of proprietary scientific understandings and predictive platforms, algorithms, machine learning systems, and other computational biology capabilities for the prediction and selection of product candidates. The company's business model primarily involves collaborations covering the further development and commercialisation of product candidates from its pipeline and various forms of research and discovery agreements, providing Compugen with potential milestone payments and royalties on product sales or other forms of revenue sharing.

Cosmo is a biotechnology company whose novel drug delivery system allows for targeted, sustained drug release in the lower colon. The company focuses on gastro-intestinal disorders such as ulcerative colitis (UC), in addition to travellers' diarrhoea and chromoendoscopy for the earlier diagnosis of colorectal cancer.



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Galapagos is a Belgian biotech company focusing on drug discovery using cells taken from patients with diseases of interest; typically musculoskeletal, CNS and inflammatory disorders plus orphan indications. The company's most advanced product is filgotinib (GLPG0634 a JAK1 inhibitor) entering Phase III for rheumatoid arthritis and in Phase II for Crohn's disease partnered with Gilead. Galapagos also has a global alliance with AbbVie in cystic fibrosis. The company has active collaborations with GSK, Servier and MorphoSys.

Genmab is a Danish antibody company. Genmab's lead product is Darzalex (daratumumab), partnered with Janssen, currently approved for relapsed-refractory multiple myeloma (MM) and in clinical trials for additional lines of MM therapy and other cancer indications. Arzerra (ofatumumab) is approved for CLL, partnered with Novartis worldwide, and in Phase III for NHL plus relapsed multiple sclerosis. Genmab has a broad early-stage pipeline, notably HuMax-TF ADC (Tissue Factor antibody-drug conjugate) in Phase I and a broad DuoBody collaboration with Janssen.

Ipsen is a global biopharmaceutical company with a targeted specialty pharmaceutical business and a primary care business that contributes to its R&D financing. The company's specialty franchise has a number of marketed products, including Decapeptyl (prostate cancer), Somatuline (acromegaly) and Dysport (botulinum toxin A for cosmetic and therapeutic indications), with a particular focus on injectable biologics for Oncology and Endocrinology. Ipsen launched its commercial US presence via the acquisitions of Tercica and the US operations of Vernalis (2008). The company is majority owned by the Mayroy Foundation.

Lundbeck is a mid-cap pharmaceutical company focusing on CNS diseases including depression, schizophrenia, Alzheimer's disease, Parkinson's disease and stroke. Historically the company commercialised drugs outside of the US market itself, utilising partners for marketing in North America, but this changed when the 2009 acquisition of Ovation provided Lundbeck with a US platform. The substantial income from Forest's US sales of anti-depressant Lexapro end in early-2012 and Lundbeck becomes dependent on its product pipeline, notably the depression collaboration with Takeda and longer-term the schizophrenia alliance with Otsuka.

Founded in 1993, Protalix BioTherapeutics is an emerging biotechnology company with a focus on developing and commercialising plant-based biologics for the treatment of severe orphan disorders. Protalix's lead drug candidate, Elelyso (taliglucerase alfa, human recombinant beta-glucocerebrosidase enzyme), was FDA approved for the treatment of patients with Gaucher disease in May 2012, approved in Israel in September 2012, and in Brazil in March 2013. Pfizer has WW commercialisation rights to Elelyso except in Brazil, where Protalix supplies the product as Uplyso under a contract with Fiocruz.

PureTech is headquartered in Boston, Massachusetts and aims to apply novel concepts to address unmet medical needs. After sourcing ideas from its network of world-leading scientific advisors, inventing and then validating the approaches using a cost effective strategy, newly formed companies are then incubated to advance the idea. PureTech typically retains a significant shareholding as the technology progresses through the growth phase, before then crystallise value at a later stage by executing deals, securing third-party financing, or building a commercial entity.

Shire PLC is a global biopharmaceuticals company that develops and markets novel therapeutics for areas of significant unmet medical need. The company is best known for its dominance in the ADHD market, with well-known flagship brands Adderall XR and Vyvanse serving as major value creators for the company over the last 10+ years. Via its 2005 acquisition of TKT, the company established a fast-growing rare disease portfolio (2015 sales of $2.6B), which has been further bolstered by the acquisitions of ViroPharma, NPS, and Dyax in recent years. Shire recently completed the $32B merger with Baxalta, a leader in hemophilia and immunology therapies. Together, Shire is poised to become the global leader in rare diseases, with a combined development pipeline of 40+ candidates and 30+ planned new launches with ~$5B sales potential by 2020.

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Zealand Pharma is a Danish biotechnology company focusing on the development of novel peptide drugs particularly to treat metabolic, gastrointestinal and cardiovascular diseases. The company's lead product is the once-daily GLP-1 agonist Lyxumia (lixisenatide), partnered globally with Sanofi, for Type II Diabetes and also being developed in combination with basal insulin MISS_SPELL_INDICATOR_null. Zealand also has active collaborations with Boehringer Ingelheim and Helsinn.

Neuroderm is an Israel-based biotech focused on developing treatments for central nervous system disorders, such as Parkinson's disease. Neuroderm has proprietary reformulation technology that could improve clinical efficacy/safety and compliance/convenience. The lead candidates in development are ND0612L and ND0612H, both in Phase II trials for the treatment of Parkinson's disease. Both drugs utilise a liquid formulation of levodopa/carbidopa (LD/CD); the oral form of LD/CD is the standard of care in treating the disease.

AC Immune is a clinical stage biopharmaceutical company founded in 2003. Leveraging its two proprietary platforms, SupraAntigen and Morphomer, it seeks to discover and develop novel medicines for the prevention, diagnosis and treatment of neurodegenerative diseases associated with protein misfolding. Its pipeline includes four products in clinical development, in addition to earlier stage therapies and



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