
UNION IIII SECURITIES

Pharmaceuticals in 2019

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Pharmaceuticals

☐ Positives for the sector include:

- **Easier regulatory environment**
 - Trump administration pushes for faster FDA review;
 - FDA released draft guidance to expand the range of conditions for which medicines can be available without a prescription;
- **New product launches**
 - AstraZeneca in particular is driven by a new growth phase with five drugs with strong competitive position.
- Potential **pipeline news flow** for a number of companies. Expect some late-stage trial news flow on two major “war fronts”:
 - Immuno-oncology with AstraZeneca, Bristol Myers, Merck and Roche.
 - Diabetes and Cardio Vascular with Eli Lilly, Novo Nordisk, Sanofi
- **Falling generic competition** in the coming years
- **Volume growth** is offsetting pricing pressure

☐ Key risks for sector include:

- Increased Trump administration **pressure on drug pricing** and criticism towards PBMs and insurers; Pricing pressure from end buyers.
- **Heavy investment** is required to maintain an attractive pipeline. Companies are increasingly utilizing risk-sharing in drug research.
- **China trade uncertainties.** Though the country remains a dependable long-term driver of volume.

Pharmaceuticals

Merck - Daily



□ Oncology remains the most active field of pharmaceuticals research and potential M&A with Immuno-Oncology drugs showing the most promising results. **Merck & Co** has taken the lead in that field with *Keytruda* but **Roche** and **Bristol Myers** remain in the race, though the latter has now to integrate Celgene.

□ **AstraZeneca** will benefit from a strong product ramp up in 2019. Stock is falling amid some management shakeup which will offer an entry point when the dust settles.

□ Stocks will exhibit show high volatility around clinical trials outcomes.

Roche - Daily



AstraZeneca - Daily



Pharmaceuticals

DESCRIPTION

Name	Mkt Cap (\$bn)	Revenue (\$bn)	Sector	Sub-Industry	Country Name	Currency
Roche Holding AG	222.7	54.1	Health Care	Pharmaceuticals	SWITZERLAND	CHF
AstraZeneca PLC	89.9	22.5	Health Care	Pharmaceuticals	BRITAIN	GBp
Merck & Co Inc	191.8	40.1	Health Care	Pharmaceuticals	UNITED STATES	USD

VALUATION

Name	Est. PE - 12M Fwd	Est. PE - 24M Fwd	Est. PE GAAP	Est. EV/EBITDA	Est. Price/Sales	Est. EV/Sales
Roche Holding AG	14.0	13.6	16.5	9.7	3.8	4.0
AstraZeneca PLC	19.2	15.4	32.1	14.8	3.8	4.5
Merck & Co Inc	15.5	13.9	18.7	11.9	4.3	4.6

VALUE CREATION

Name	Est. RoE	Sales Growth (3y avg.)	EPS Growth (3y avg.)	LT Exp. EPS CAGR	Asset Turnover	FCF Margin (3y avg.)	FCF Yield	Est. Gross Margin	Est. EBIT Margin	Est. Net Margin
Roche Holding AG	43.4%	4.0%	-2%	5%	73%	22.8%	6.52%	75.5%	33.6%	26.9%
AstraZeneca PLC	21.5%	-5.4%	46%	16%	34%	10.6%	0.56%	81.2%	27.6%	19.8%
Merck & Co Inc	36.4%	-1.6%	-37%	8%	47%	20.6%	4.51%	75.7%	33.9%	27.9%

Pharmaceuticals – M&A Targets

- ❑ Expect more M&A in 2019 in oncology following the acquisition of Tesaro by GSK, Celgene by Bristol Myers and Loxo by Eli Lilly. Most likely targets are companies with multiple late-stage, near-commercial precision oncology assets.
- ❑ The most cited potential targets in the oncology (and in some other fields) are in the following list.
- ❑ Please note that many of these companies are small clinical stage Biotechs and present **a significant downside risk** if they fail to discover viable drugs.

Theme	Name	Mkt Cap (\$bn)	Revenue (\$bn)
Oncology M&A Candidate	Incyte Corp	15.71	1.54
Oncology M&A Candidate	Nektar Therapeutics	7.06	0.31
Oncology M&A Candidate	Allogene Therapeutics Inc	3.50	na
Oncology M&A Candidate	Immunomedics Inc	3.39	0.00
Oncology M&A Candidate	Agios Pharmaceuticals Inc	3.20	0.04
Oncology M&A Candidate	Blueprint Medicines Corp	2.87	0.02
Oncology M&A Candidate	Mirati Therapeutics Inc	1.99	0.00
Oncology M&A Candidate	Clovis Oncology Inc	1.22	0.06
Oncology M&A Candidate	Epizyme Inc	0.81	0.01
Oncology M&A Candidate	Principia Biopharma Inc	0.74	0.01
Oncology M&A Candidate	ArQule Inc	0.40	0.00
Oncology M&A Candidate	Moleculin Biotech Inc	0.04	0.00
Non Oncology M&A Candidate	Vertex Pharmaceuticals Inc	47.08	2.49
Non Oncology M&A Candidate	Alexion Pharmaceuticals Inc	24.33	3.55
Non Oncology M&A Candidate	BioMarin Pharmaceutical Inc	16.67	1.31
Non Oncology M&A Candidate	Alnylam Pharmaceuticals Inc	8.74	0.09
Non Oncology M&A Candidate	Sarepta Therapeutics Inc	8.52	0.15
Non Oncology M&A Candidate	Neurocrine Biosciences Inc	7.75	0.16
Non Oncology M&A Candidate	Bluebird Bio Inc	6.32	0.04
Non Oncology M&A Candidate	Sage Therapeutics Inc	5.90	0.00

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