

European Mid Cap Pharmaceuticals

Thoughts into 4Q19 earnings: No signs of this bull getting the horns

2019 was a great year for European healthcare (SXDP +28.4%) and an even better one for European Mid Cap pharma, with our names under coverage +34.6% on average. Our conversations with investors indicated that some were expecting potential underperformance following the annual January gathering of investors in San Francisco (particularly in the absence of major M&A, which ended up being the case), but feedback was that management teams were generally quite upbeat and healthcare stocks have yet again outperformed, with SXDP +3.9% YTD vs. MSCI Europe +2.1%.

This healthcare trend has been a friend to our coverage, which on average is up 5% YTD, and as we've taken detailed looks at all of our models whilst investors were on the road, we're generally expecting strong 2H/4Q results and also 2020 guidance. We don't see anything on the horizon to disrupt this strong momentum outside of something on the geopolitical front and we will closely be watching the US presidential election, as we see a return of drug pricing concerns as the greatest potential risk to the sector.

What we like: We recently upgraded Grifols to our Top Pick and continue to believe shares will outperform if the company continues to deliver high single-digit organic growth + operating margin expansion. We also see strong positive momentum continuing for UCB shares, particularly as the RARX deal is expected to close in 1Q20 and we'll get more insights into the phase 3 bimekizumab data in March.

What we like less: Our only UW rated name is **Merck**, which has been a strong performer as of late as investors are more positive on the Life Sciences and Semiconductor Solutions (i.e. Versum) segments. That being said, we remain well-below consensus on key launch asset Mavenclad as well as on 2020 group EPS, and do see risks to the company being able to grow EBITDA pre y/y in Healthcare.

PT/model changes of note: We've significantly raised our price targets for both Galapagos and Vifor. With Galapagos, we've increased our assumptions for filgotinib in IBD going into the phase 3 readout in ulcerative colitis expected in 2Q20. With Vifor, we've raised our Mircera and Velphoro forecasts and also are forecasting Vifor to report 2019 in a net cash position, which gives the company strong footing to add assets to its portfolio this year.

Major catalysts expected this year (by name): **ARGX** (ADAPT trial; mid-year), **GLPG** (filgotinib approval; mid-year), **GMAB** (sub-Q Darzalex approval/TV data; mid-year/1H), **GRF** (earnings), **HIK** (Advair PDUFA; 2H), **IPN** (palo update; TBD), **LUN** (epti PDUFA; February), **MRK** (tepotinib filing/TGF-B milestone; TBD), **UCB** (bimi data; March), **VIFN** (vadadustat/M&A; 2Q/TBD)

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 55.

INDUSTRY UPDATE

European Mid Cap Pharmaceuticals

POSITIVE

Unchanged

For a full list of our ratings, price target and earnings changes in this report, please see table on page 2.

European Mid Cap Pharmaceuticals

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Summary of our Ratings, Price Targets and Earnings Changes in this Report (all changes are shown in bold)

Company	Rating		Price		Price Target			EPS FY1 (E)			EPS FY2 (E)		
	Old	New	17-Jan-20	Old	New	%Chg	Old	New	%Chg	Old	New	%Chg	
European Mid Cap Pharmaceuticals	Pos	Pos											
argenx (ARGX BB / ARGX.BR)	EW	EW	138.40	125.00	135.00	8	-2.27	-2.58	-14	-3.81	-4.84	-27	
Galapagos (GLPG NA / GLPG.AS)	OW	OW	206.50	180.00	225.00	25	3.95	3.95	-	-1.96	-1.97	-1	
Genmab A/S (GMAB DC / GMAB.CO)	OW	OW	1520.00	1600.00	1650.00	3	36.60	36.35	-1	22.00	25.34	15	
Grifols SA (GRF SM / GRLS.MC)	OW	OW	31.80	36.00	36.00	-	1.08	1.08	-	1.32	1.32	-	
H Lundbeck A/S (LUN DC / LUN.CO)	OW	OW	281.30	290.00	290.00	-	18.84	18.84	-	16.05	15.80	-2	
Hikma Pharmaceuticals PLC (HIK LN / HIK.L)	EW	EW	19.56	19.00	19.00	-	1.43	1.43	-	1.46	1.46	-	
Ipsen SA (IPN FP / IPN.PA)	EW	EW	82.35	90.00	86.00	-4	7.01	6.95	-1	7.99	7.75	-3	
Merck KGaA (MRK GR / MRCG.DE)	UW	UW	115.50	88.00	94.00	7	5.52	5.53	0	6.07	6.19	2	
UCB SA (UCB BB / UCB.BR)	OW	OW	79.96	90.00	90.00	-	4.85	4.85	-	5.43	5.43	-	
Vifor Pharma AG (VIFN SW / VIFN.S)	EW	EW	183.30	150.00	170.00	13	5.06	5.09	1	6.92	6.92	-	

Source: Barclays Research. Share prices and target prices are shown in the primary listing currency and EPS estimates are shown in the reporting currency.

FY1(E): Current fiscal year estimates by Barclays Research. FY2(E): Next fiscal year estimates by Barclays Research.

Stock Rating: OW: Overweight; EW: Equal Weight; UW: Underweight; RS: Rating Suspended

Industry View: Pos: Positive; Neu: Neutral; Neg: Negative

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EARNINGS CALENDAR / SECTOR PREVIEW

Earnings / Events Calendar

FIGURE 1
4Q19 earnings dates – EU Mid Cap Pharmaceuticals

Q4 2019 - our coverage					
Company	Day	Date	Time	Conf Call Time	
H Lundbeck	Thursday	06/02/2020	06:00 GMT	12:00 GMT	
Ipsen	Thursday	13/02/2020	06:00 GMT	13:30 GMT	
Genmab	Wednesday	19/02/2020	16:00 GMT	17:00 GMT	
UCB	Thursday	20/02/2020	06:00 GMT	13:00 GMT	
Galapagos	Thursday	20/02/2020	21:00 GMT	13:00 GMT (21/02/2020)	
argenx	Thursday	27/02/2020	06:00 GMT	14:00 GMT	
Hikma	Thursday	27/02/2020	07:00 GMT	09:30 GMT	
Grifols	Thursday	27/02/2020	07:30 GMT	NA	
Merck KGaA	Thursday	05/03/2020	06:00 GMT	13:00 GMT	
Vifor	Thursday	12/03/2020	06:00 GMT	12:00 GMT	
Q4 2019 - key strategic partners					
Company	Day	Date	Time	Conf Call Time	Notes
Johnson & Johnson	Wednesday	22/01/2020	13:00 GMT	13:00 GMT	GMAB partner (Darzalex) ARGX partner (cusatuzumab)
Amgen	Thursday	30/01/2020	21:00 GMT	22:00 GMT	UCB partner (Evenity)
Gilead	Thursday	30/01/2020	21:00 GMT	22:30 GMT	GLPG partner

Source: Bloomberg, company reports

Sector/Multi-company research from 4Q19

- EU Pharmaceuticals: ESMO wrap: never a dull moment at the PARP bazaar (01/10/19)
- EU Pharmaceuticals: ESMO expert call takes: 'we'll need to re-think everything' (03/10/19)
- European Equity Strategy: Earnings: No v-shaped recovery in sight (09/10/19)
- European Mid Cap Pharmaceuticals: Thoughts into 3Q19: M&A as a theme...that escalated quickly! (11/10/19)
- European Pharmaceuticals: IO update: Mystical seafarers, revisited (15/10/19)
- UCB/LUN: Laterals from AMGN's 3Q19 to UCB/LUN (30/10/19)
- GLPG/GMAB/GRF: Happy Halloween - recent laterals/newsflow for GLPG/GMAB/GRF (31/10/19)
- GLPG/UCB/VIFN: Halloween hangover - more laterals to our names (GLPG, UCB and VIFN) (01/11/19)
- EU Pharmaceuticals: ASH abstracts take & preview: CAR-T killer is back... (07/11/19)
- European Equity Strategy: UK Election - What matters for equities (13/11/19)

- [European Equity Strategy: 2020 Outlook - Climbing at altitude \(27/11/19\)](#)
- [European Pharmaceuticals: Equity Strategy Outlook 2020 \(27/11/19\)](#)
- [European Mid Cap Pharmaceuticals: Turkey Trotting round the States: feedback from our US trip \(03/12/19\)](#)
- [European Pharmaceuticals: Q3'19 dynamic Rx data update \(05/12/19\)](#)
- [European Pharmaceuticals: ASH: EU pharma weekend takes \(09/12/19\)](#)
- [EU Pharmaceuticals: ASH wrap & coverage summary \(12/12/19\)](#)
- [European Pharmaceuticals: Immunology survey update: EU takes \(17/12/19\)](#)
- [EU Pharmaceuticals: US reform: quick takes on HHS/FDA drug importation update \(19/12/19\)](#)
- [European Pharmaceuticals: The Weekly Check-up \(06/01/20\)](#)
- [Europe Matters: Conviction with Catalysts - Q1 20 \(08/01/20\)](#)
- [UK Matters: Conviction with Catalysts - Q1 20 \(09/01/20\)](#)
- [European Pharmaceuticals: MS survey and market model update \(17/01/20\)](#)

EARNINGS PREVIEW BY COMPANY

argenx (EW, PT €135; FY19 – 27th February, BMO)

Thoughts on the quarter/expectations: argenx shares traded particularly well in 4Q19 and thus far into 2020, with last week's update (including updated phase 2 PV data as well as moving forward the timing of the MG readout from 2H20 to mid-year 2020) driving shares to an all-time high of €150.70. Since then, shares have given back some, which we think is partially due to competitors on the anti-FcRn front also providing optimistic updates on their own programs (investors seemed particularly enthusiastic regarding Momenta's (not covered) hypersialyated IgG M254; see table below for our assessment of the current landscape). We also suspect that some of the move in 4Q19 could have been driven by investors who may have been playing the name for a potential takeout (we noted that argenx ticks many of the boxes for a potential acquisition in our initiation last year; see: *argenx: Time for a breather? Initiate at EW (15/04/19)*), which clearly did not happen at the annual January gathering of the healthcare community in San Francisco.

Feedback from investors is that whilst the readout of the ADAPT trial is a true binary for the company, the drug is expected to "work," and the question remains just how well it will. Whilst we continue to agree with the prevailing consensus that argenx likely has the best anti-FcRn asset in efgartigimod, we believe the space is becoming increasingly competitive, particularly in MG, with Ra Pharmaceutical's zilucoplan also having recently entered phase 3 testing (RARX is in a definitive agreement to be purchased by UCB, with closing expected in 1Q20).

In any event, we aren't expecting that much incremental information at argenx's FY19 report and believe investors will be more focused on company and competitor data points in the anti-FcRn class as and when they become available.

FIGURE 2
anti-FcRn landscape (inc. MNTA's M254)

	anti-FcRn						hypersialyated IgG
	argenx	UCB	Momenta	Alexion	Immunovant	Alexion (Affibody collab.)	Momenta
Asset name	ARCX-113 / efgartigimod	UCB 7665 / rozanolixizumab	M281	ALXN1830	IMVT-1401 (RVT-1401)	ABY-039	M254
Asset description	human IgC1 Fc-fragment	anti-human IgC4 monoclonal antibody	human anti-FcRn aglycosylated IgC1 monoclonal antibody	humanized IgC4 monoclonal antibody	human IgC1 ADCC mutant or agly	18 kDa affibody Z domain-albumin-binding domain fusion	hypersialyated IgG
Binding - pH 7.4 affinity / avidity	+++ / dimeric	+++ / dimeric	+ / dimeric	+++ / dimeric	+++ / dimeric	++ / monomeric	
Binding - pH 6.0 affinity / avidity	+++ / tetrameric	+++ / tetrameric	++ / dimeric	+++ / tetrameric	+++ / tetrameric	++ / monomeric	
Fc effector potential?	No	Low	Yes	Low	Low-No	No	
Furthest advanced stage	started ph. 3 MC/ITP ph. 2 CIDP	started ph. 3 MC/ITP	Phase 2 (MC/HDFN) / Phase 2/3 (WAIHA)	Phase 2 (MC/WAIHA)	Phase 2 (MC/CO)	Phase 1	Phase 1/2 (ITP)
Announced intended indications	MC, ITP, PV, CIDP, 5th indication in 2020	MC, ITP, CIDP	HDFN, MC, WAIHA	MC, WAIHA	MC	n/a	ITP, CIDP
Next major readout?	MC - mid 2020	ITP/CIDP - 1H21	MC - 3Q20 HFDN - 2021 WAIHA - end of 2021	Initiate ph. 2 WAIHA 1Q20 Initiate ph. 2 SC MC 2H20 *additional info expected mid-2020*	MC/CO primary comp. Dec. 2019	SAD/MAD data - 1H20 *additional info expected mid-2020*	Ph 1/2 Part B in ITP - 2Q20

Source: Company reports, Barclays Research

Model changes: We make a few changes to our model, which result in our PT rising by 8% to €135. We increase our probability of success for ITP to 70% from 60% (with the drug now in phase 3 clinical testing) and also for PV from 50% to 60% (following last week's readout). We also modestly increase our share estimates in US MG in the out years. This is

offset by our projections of higher R&D spending both in 2H19 and FY20. Our estimates for total company sales in 2030 are now €2.615bn, up from €2.375bn previously.

Catalysts to watch for: The most significant catalyst for argenx is the ADAPT phase 3 results in MG (mid-year 2020). Other relevant catalysts include updates from Momenta, expected in 1H20 (on M254 in ITP) and 3Q20 (on M281 in MG); an update on Alexion's FcRn program, expected around mid-2020, with additional updates from argenx on cusatuzumab and the disclosure of a fifth indication for efgartigimod also expected sometime during 2020.

Comments published since the beginning of 4Q19:

- argenx: Thoughts on the capital raise: what's \$484mm amongst friends? (07/11/19)
- argenx: CIDP KOL event recap + model update (09/12/19)
- argenx: Positive PV/MG updates before heading to the Bay Area (09/01/20)

FIGURE 3
ARGX: catalyst calendar

Product	Event/Comments	Date
ARGX-117	Phase 1 study to commence	1Q20
efgartigimod x-read	M254 phase 2 additional readout in ITP	1H20
efgartigimod	ADAPT ph. 3 trial readout in MG	mid-2020
efgartigimod x-read	ALXN to update on FcRn program	mid-2020
efgartigimod x-read	M281 phase 2 readout in MG	3Q20
efgartigimod	MG BLA filing in the US	4Q20
efgartigimod	Disclose 5th indication	2020
cusatuzumab	Update development plans (add. indications?)	2020
ARGX-119	New product candidate announcement	2020
efgartigimod x-read	UCB ph. 3 ITP / ph. 2 CIDP data	1H21
efgartigimod	ADVANCE ph. 3 trial readout in ITP	2H21

Source: Company reports, clinicaltrials.gov, Barclays Research

FIGURE 4

ARGX: 2H19 estimates

ARGX BB (€ mm, Dec)							
2H19 estimates	2H18 actual	BARC 2H19E	BARC y/y chg.	BBG Cons. 2H19E	BBG Cons y/y chg.	BBG Cons vs. BARC Var.	
Revenues	4	42	1067%	36	911%	-13%	
COGS	-	-					
SG&A	(16)	(29)	-80%				
R&D	(49)	(98)	-100%				
Other operating	5	6	10%				
Total Opex	(60)	(122)	-102%				
EBIT (IFRS)	(56)	(80)	-41%				
<i>margin</i>	-315%	-183%	42%				
Net Financial Income	11	22	101%				
Pre-Tax Reported	(46)	(58)	-27%				
Tax	(1)	-					
<i>rate</i>	-1.8%	0.0%					
Net Income	(47)	(58)	-25%				
EPS	-€ 1.35	-€ 1.38	-2%	-€ 0.87	-36%	37%	
Net inc./(dec.) in cash	-26	48	281%				
Period end cash balance	281	697	148%				

Source: Company reports, Bloomberg consensus, Barclays Research estimates

FIGURE 5

ARGX: FY19/20 estimates

FY results	2019						2020				
	FY18 actual	BARC FY19	BARC y/y chg	BBG Cons FY19	Cons yoy chg	2019 Cons vs. BARC Var.	BARC FY20	BARC y/y chg	BBG Cons FY20	Cons yoy chg	2020 Cons vs. BARC Var.
Revenues	21	85	297%	79	270%	-7%	79	-7%	64	-19%	-19%
COGS	-	-					-				
SG&A	(27)	(56)	-105%				(62)	-10%			
R&D	(84)	(177)	-111%				(265)	-50%			
Other operating	8	13	73%				15	10%			
Total Opex	(103)	(220)	-112%				(312)	-42%			
EBIT (IFRS)	(82)	(134)	-64%	(154)	-88%	-14%	(233)	-74%	(221)	-44%	5%
<i>margin</i>											
Net Financial Income	16	31	95%				27	-14%			
Pre-Tax Reported	(66)	(103)	-57%				(206)	-100%			
Tax	(1)	(0)	56%				-				
<i>rate</i>	-1.2%	-0.3%	72%				0.0%				
Net Income	(67)	(103)	-55%	(123)	-85%	-19%	(206)	-100%	(210)	-71%	-2%
EPS	-€ 1.99	-€ 2.58	-29%	-€ 3.08	-55%	-19%	-€ 4.84	-87%	-€ 5.08	-65%	-5%
Net inc./(dec.) in cash	(54)	276	613%				(181)	-166%			
Period end cash balance	565	1,473	161%				1,307	-11%			

Source: Company reports, Bloomberg consensus, Barclays Research estimates

FIGURE 6
ARGX: forecasts & changes

EURm	2019E	2020E	2021E	2022E	2023E
Sales OLD	85	79	101	345	551
Sales NEW	85	79	101	356	660
CHANGE	0%	0%	0%	3%	20%
OLD sales growth	297%	-7%	28%	242%	59%
NEW sales growth	297%	-7%	28%	252%	85%
Recurring EBIT OLD	(122)	(190)	(293)	(167)	(12)
Recurring EBIT NEW	(134)	(233)	(346)	(224)	10
CHANGE	-10%	-23%	-18%	-34%	178%
OLD growth	-49%	-56%	-54%	43%	93%
NEW growth	-64%	-74%	-49%	35%	104%
OLD margin	-143.2%	-240.4%	-289.3%	-48.5%	-2.2%
NEW margin	-157.6%	-294.9%	-342.6%	-62.9%	1.5%
Adj EPS OLD	(2.27)	(3.81)	(6.12)	(3.22)	0.27
Adj EPS NEW	(2.58)	(4.84)	(7.40)	(4.57)	0.70
CHANGE	-14%	-27%	-21%	-42%	161%
OLD EPS growth	-14%	-68%	-61%	47%	108%
NEW EPS growth	-29%	-87%	-53%	38%	115%
FCF OLD	287	(140)	(223)	(125)	(79)
FCF NEW	274	(183)	(277)	(176)	(55)
CHANGE	-4%	-31%	-24%	-42%	30%
Net (debt)/cash OLD	1,485	1,362	1,440	1,315	1,236
Net (debt)/cash NEW	1,473	1,307	1,330	1,154	1,099
CHANGE	-1%	-4%	-8%	-12%	-11%
NPV old	124.49				
NPV new	134.91				
CHANGE	8%				
PT old	125				
PT new	135				
CHANGE	8%				

Source: Barclays Research estimates

Galapagos (OW, PT €225; FY19 – 20th February, AMC)

Thoughts on the quarter/expectations: Whilst we got a lot of incoming questions regarding GLPG's strong performance in 4Q19, we saw a number of competitor downgrades going into and just after year-end. Investor feedback suggested that the market was expecting a relatively quiet few weeks ahead, as we await further clarity on the FDA approval process into filgotinib in rheumatoid arthritis (i.e. will there be an advisory committee meeting?).

However, if there's one thing we learned in covering GLPG throughout 2019, it's that when the prevailing sentiment suggests that the catalyst path ahead will be "light," we're soon reminded that that isn't necessarily the case. From our own seat, we saw the validity of the argument that GLPG could trade in line for a few weeks, but we note that the SELECTION phase 3 data of filgotinib in ulcerative colitis is just around the corner (2Q20), and this could represent an even larger share-take opportunity for filgotinib, as it would be the second JAK inhibitor to market in this indication. GLPG management noted last week that the IBD markets (i.e. Crohn's and colitis) could be "as large of an opportunity for filgotinib or maybe even bigger [than rheumatoid arthritis] because... [of the] significant unmet medical need in those markets." When speaking this same forum, management also confirmed that enrolment in the phase 3 DIVERSITY trial in Crohn's disease is expected to

be complete by year-end; the company had noted that there was difficulty enrolling patients in Crohn's industry-wide and this update likely affirms that GLPG will be the first JAK inhibitor in this indication. **Thus, particularly with insights into the IBD opportunity just around the corner, we're sticking with our OW rating which actually feels like more of a contrarian viewpoint at this stage.**

Model changes: We make a number of changes to our model, including increasing the probability of success in both IBD indications from 65% to 70%; our 2030 sales to GLPG are now €3.133bn, up from €2.946bn previously as well as increasing our terminal growth rate in our model from -1% to 0% and reducing the tax rate used in our DCF from 20% to 15%. This results in our NPV increasing from €180 to €225.

Catalysts to watch for: Any updates as to whether the company (and or partner Gilead (not covered) is expecting an advisory committee meeting with the FDA for the filgotinib filing in RA, the SELECTION UC data in 2Q20 and numerous catalysts in 2H20, including two in the company's fibrosis program (the PINTA phase 2 program of GLPG 1205 in IPF and the NOVESA trial of GLPG 1690 in systemic sclerosis).

Comments published since the beginning of 4Q19:

- Galapagos: 3Q19 first take: Big bump from the Gilead transaction; filgo filing on track (24/10/19)
- Galapagos: Full steam ahead into filgotinib filing (11/11/19)
- Galapagos: R&D update: still waiting on Toledo but timelines set for ISABELA (14/11/19)
- Galapagos: Christmas comes early for GLPG holders - thoughts on the recent outperformance (13/12/19)
- Galapagos: Filgotinib FDA filing caps off a transformative year (20/12/19)

FIGURE 7

GLPG: catalyst calendar

Product	Event/Comments	Date
Toledo	3970 ph. 1 data	1H20
Toledo	3312 ph. 1 data	1H20
filgotinib	EU approval and launch	mid-year/2H20
filgotinib	US approval/label information	mid-year/2H20
filgotinib	SELECTION phase 3 readout (UC)	2Q20
GLPG 1972	ROCELLA phase 2b readout in OA	2H20
GLPG 1690	ph. 2 SSC data	2H20
GLPG 1205	ph. 2 IPF data	2H20
Toledo	3312 ph. 2 UC data	2H20
filgotinib	DIVERSITY phase 3 enrollment complete (CD)	end of 2020
GLPG 1690	ISABELA futility update	1Q21
filgotinib	Ulcerative colitis potential launch	2021
filgotinib	Crohn's disease potential launch	2022

Source: Company reports, clinicaltrials.gov, Barclays Research

FIGURE 8

GLPG: 4Q19 estimates

GLPG NA (EURmm, Dec)						
4Q19 estimates	4Q18 actual	BARC 4Q19E	BARC y/y chg.	BBC Cons. 4Q19E	BBC Cons y/y chg.	BBC Cons vs. BARC Var.
Revenues (+ other inc.)	113	101	-11%	132	17%	30%
COGS	-	-				
SG&A	(13)	(29)	-125%			
R&D	(91)	(108)	-18%			
Other Opex	-	-				
Total Opex	(104)	(137)	-31%	(145)	39%	-6%
EBIT	9	(36)	-511%	(13)	-250%	64%
<i>margin</i>	7.7%	-36%		-9.9%		
Net Financial Income	7	-	-100%			
Pre-Tax Reported	15	(36)	-333%			
Tax	(0)	-				
<i>rate</i>	2.6%	0.0%				
Net Income	15	(36)	-339%	3	-81%	108%
EPS	€ 0.29	-€ 0.57	-298%	-€ 0.54	-290%	4%
Operational Cash Burn	-58	-106	84%			
Period end cash balance	1,291	5,862	354%			

Source: Company reports, Bloomberg consensus, Barclays Research estimates

FIGURE 9

GLPG: FY19/20 estimates

FY ESTIMATES		2019					2020				
	FY18 actual	BARC FY19	BARC y/y chg	BBC Cons FY19	Cons y/y chg	2019 Cons vs. BARC Var.	BARC FY20	BARC y/y chg	BBC Cons FY20	Cons y/y chg	2020 Cons vs. BARC Var.
Revenues (+ other inc.)	318	853	168%	863	172%	1%	518	-39%	561	-35%	8%
COGS	-	-					-				
SG&A	(40)	(90)	-127%				(150)	-67%			
R&D	(323)	(406)	-26%				(503)	-24%			
Other Opex	-	-					8				
Total Opex	(363)	(496)	-37%	(491)	-35%	1%	(645)	-30%	(666)	-36%	3%
EBIT	(45)	357	897%	372	930%	4%	(128)	-136%	(105)	-128%	-18%
<i>margin</i>	-14.1%	41.9%		43.1%			-24.6%		-18.7%		
Net Financial Income	16	(144)	-1026%				-				
Pre-Tax Reported	(29)	213	829%				(128)	-160%			
Tax	(0)	17					-				
<i>rate</i>	-0.2%	-7.8%					0.0%				
Net Income	(29)	230	884%	302	1132%	32%	(128)	-156%	(15)	-105%	-88%
EPS	-€ 0.56	€ 3.95	805%	€ 5.35	1055%	35%	-€ 1.97	-150%	-€ 0.71	-113%	-64%
Operational Cash Burn	-158	3,200	2120%				-306	-110%			
Period end cash balance	1,291	5,862	354%				5,556	-5%			

Source: Company reports, Bloomberg consensus, Barclays Research estimates

FIGURE 10

GLPG: forecasts & changes

EURm	2019E	2020E	2021E	2022E	2023E
Sales OLD	853	518	639	1,002	1,079
Sales NEW	853	518	627	1,017	1,107
CHANGE	0%	0%	-2%	1%	3%
OLD sales growth	168%	-39%	23%	57%	8%
NEW sales growth	168%	-39%	21%	62%	9%
Recurring EBIT OLD	357	(127)	(93)	170	211
Recurring EBIT NEW	357	(128)	(112)	192	253
CHANGE	0%	0%	-21%	13%	20%
OLD growth	897%	-136%	27%	283%	24%
NEW growth	897%	-136%	12%	271%	32%
OLD margin	41.9%	-24.6%	-14.5%	17.0%	19.6%
NEW margin	41.9%	-24.6%	-17.9%	18.9%	22.8%
Adj EPS OLD	3.95	(1.96)	(1.42)	2.86	3.92
Adj EPS NEW	3.95	(1.97)	(1.71)	3.17	4.50
CHANGE	0%	0%	-21%	11%	15%
OLD EPS growth	805%	-150%	28%	301%	37%
NEW EPS growth	805%	-150%	13%	285%	42%
FCF OLD	3,205	(306)	(281)	16	81
FCF NEW	3,205	(306)	(303)	43	123
CHANGE	0%	0%	-8%	166%	50%
Net (debt)/cash OLD	5,862	5,556	5,275	5,291	5,373
Net (debt)/cash NEW	5,862	5,556	5,253	5,296	5,418
CHANGE	0%	0%	0%	0%	1%
NPV old	181.53				
NPV new	225.37				
CHANGE	24%				
PT old	180				
PT new	225				
CHANGE	25%				

Source: Barclays Research estimates

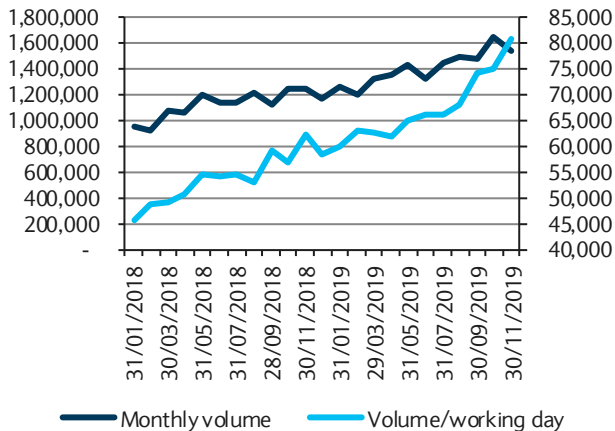
Genmab (OW, PT DKK 1650; FY19 – 19th February, AMC)

Thoughts on the quarter/expectations: Whilst GMAB had outperformed SXDP going into ASH, and whilst we'd characterize reactions to the initial data presented for GEN3013 as generally positive, the stock gave back much of this outperformance following the event. We believe much of this was due to the CEO tempering his language about the timing for a potential partnership on this asset, relative to prior comments (we'd note the 2Q19 call was quite bullish on this front).

In any event, shares have now performed in line with SXDP since the beginning of 4Q19 as investors' focus returned to Darzalex. Whilst the CEO did note last week at a conference that the company intends to "step up expenses next year" as the company continues to advance its clinical pipeline, we did not see the same negative reaction in shares that we saw in January 2018. After having taken another look at the latest available Symphony data (through November 2019), we do believe that Genmab is likely to make its target of \$3bn in Darzalex sales for 2020, and we also modestly take up our estimates for 2020 such that we're now over \$4bn in sales (we take up our peak sales estimates as well, largely predicated upon higher ex-US sales).

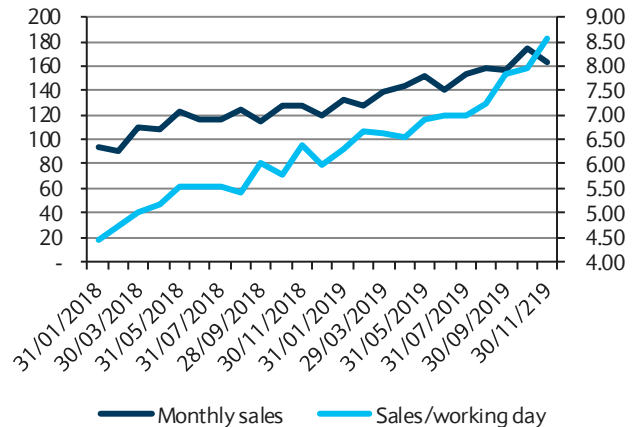
Thus, with the US data indicating that sales are starting to pick up in 1L MM, as well as expected approval for subcutaneous Darzalex and partnered MS asset ofatumumab, combined with the data for tisotumab vedotin expected in 1H20, we expect 2020 to be another good one for Genmab and remain OW, raising our PT to DKK 1650.

FIGURE 11
Darzalex Symphony monthly US vol. (units (left axis) and units/working day (right axis))



Source: Symphony Health, Barclays Research

FIGURE 12
Darzalex Symphony monthly US sales (\$mm (left axis) and \$mm/working day (right axis))



Source: Symphony Health, Barclays Research

Model changes: We increase our estimates for ex-US Darzalex sales and slightly lower our near-term estimates for US Darzalex sales. We've raised our PT to DKK 1650, which is 65x our revised 2020E EPS estimate which falls to 17.5x our 2024E EPS estimates as earnings increase. Our NPV is DKK 1646/sh, based on an 8.58% WACC and +1% terminal growth rate.

Catalysts to watch for: The FDA decision for subcutaneous Darzalex is expected in July 2020, and we should be seeing the innovaTV204 data in cervical cancer in 1H20. The other potentially big catalyst for Genmab would be any potential partnership announcement for GEN3013, but that information is obviously uncertain.

Comments published since the beginning of 3Q19:

- Genmab A/S: Sing me a Symphony: Darzalex September 2019 update (+ updates from JNJ/NOVN) (23/10/19)
- Genmab A/S: 3Q19 first take: massive FX gain, guidance increased, expecting an ASH dominated call (06/11/19)
- Genmab A/S: We're going to Disney World (08/11/19)
- Genmab A/S: GEN3013 data at ASH - moving in the right direction (09/12/19)
- Genmab A/S: Annual ASH update: Darzalex data getting better and better and pipeline good enough (for now) + CANDOR late breaker (10/12/19)

FIGURE 13
GMAB: catalyst calendar

Product	Event/Comments	Date
GEN3010 (CD3xCD20)	Partnership announcement	TBD
Company	JNJ 4Q19 earnings	21/01/2019
Company	4Q19 earnings/2020 Guidance	19/02/2020
DuoBody-CD3x5T4	IND submission	1H20
tisotumab vedotin	Ph. 2 results in cervical cancer (innovaTV204)	1H20
Darzalex	FDA/EMA decision on subcutaneous formulation	July 2020
ofatumumab	FDA approval in MS	4Q20
HexaBody-CD38	IND/CTA submission	2H20
enapotamab	Data from phase 1/2 expansion cohorts	2H20
GEN3010 (CD3xCD20)	Decision on recommended ph. 2 dosing; initiate expansion cohorts	2020
HexaBody-DR5/DR5	Phase 1/2 - advance dose escalation	2020
Tisotumab vedotin	Ph. 2 results in solid tumours (innovaTV207)	2020
DuoBody-PL-L1x4-1BB	Phase 1/2 clinical data release	end of 2020/early 2021

Source: Company reports, clinicaltrials.gov, Barclays Research

FIGURE 14
GMAB: 4Q19 estimates

GMAB DC (DKKmm, Dec.)						
4Q19 estimates	4Q18 actual	BARC 4Q19E	BARC y/y chg.	Cons. 4Q19E	Cons yoy chg.	Cons vs. BARC Var.
Group Sales	1,236	2,745	122%	2,777	125%	1%
Darzalex US sales (USD)	323	444				
Darzalex ROW sales (USD)	261	408	56%			
Darzalex Net Sales (USD)	584	852	46%	855	46%	0%
Darzalex Royalties	597	1,035	73%	989	66%	-4%
Darzalex Milestones	545					
COGS	0	0				
SG&A	(58)	(82)	40%			
R&D	(456)	(676)	48%			
Total Opex	(515)	(757)	47%	(773)	50%	2%
EBIT	721	1,988	176%	2,007	178%	1%
<i>margin</i>	58.3%	72.4%		72.3%		
EBITDA	779.9	2,207.8	183%			
<i>margin</i>	63.1%	80.4%				
Net Financial Income	69	45	-35%	-48	nm	nm
Pre-Tax Reported	790	2,034	157%	1,959	148%	-4%
Tax	43	(447)	-1132%	(396)	-1012%	-12%
<i>rate</i>	-5.5%	22.0%				
Net Income	834	1,586	90%	1,587	90%	0%
EPS	13.40	25.10	87%			
Cash Position	6,106	13,225	117%			

Source: Company reports, Company consensus, Barclays Research estimates

FIGURE 15

GMAB: FY19/20 estimates

FY ESTIMATES	2019						2020				
	FY18 actual	BARC FY19	BARC yoy chg	Comp. Cons. FY19	Cons y/y chg	2019 Cons vs. BARC Var.	BARC FY20	BARC yoy chg	Comp. Cons. FY20	Cons y/y chg	2020 Cons vs. BARC Var.
Group Sales	3,025	5,150	70%	5,178	71%	1%	5,562	84%	5,664	9%	2%
Darzalex US sales	1,203	1,567	30%				2,181	81%			
Darzalex ROW	822	1,453	77%				1,855	126%			
Darzalex Net	2,025	3,020	49%	3,024	49%	0%	4,036	99%	4,167	106%	3%
Darzalex Royalties	1,708	3,068	80%	3,047	78%	-1%	4,513	164%	4,585	168%	2%
Darzalex COGS	647	1,686	161%				671	4%			
SG&A	0	0					0				
R&D	(214)	(307)	44%				(384)	80%			
Total Opex	(1,431)	(2,393)	67%				(3,350)	134%			
EBIT	1,380	2,450	78%	2,404	74%	-2%	1,828	32%	2,123	54%	16%
<i>margin</i>	<i>45.6%</i>	<i>47.6%</i>		<i>46.4%</i>			<i>32.9%</i>		<i>37.5%</i>		
EBITDA	1,559	2,876					2,273				
<i>margin</i>	<i>51.5%</i>	<i>55.8%</i>					<i>40.9%</i>				
Net Financial	232	487	110%	366	58%	-25%	234	1%	147	-37%	-37%
Pre-Tax Reported	1,612	2,937	82%	2,751	71%	-6%	2,061	28%	2,277	41%	10%
Tax rate	(140)	(657)	370%	(596)	326%	-9%	(453)	224%	(491)	251%	8%
Net Income	1,472	2,280	55%	2,156	46%	-5%	1,608	9%	1,787	21%	11%
EPS	23.73	36.35	53%				25.34	7%			
Cash Position	6,106	13,225	117%	11,973	96%	-9%	15,776	158%	12,073	98%	-23%

Source: Company reports, Company consensus, Barclays Research estimates

FIGURE 16

GMAB: forecasts & changes

DKKmm	2019E	2020E	2021E	2022E	2023E
Sales OLD	5,170	5,291	7,682	8,103	9,917
Sales NEW	5,150	5,562	7,918	8,573	10,779
CHANGE	0%	5%	3%	6%	9%
OLD sales growth	71%	2%	45%	5%	22%
NEW sales growth	70%	8%	42%	8%	26%
Recurring EBIT OLD	2,470	1,557	3,171	3,499	4,195
Recurring EBIT NEW	2,450	1,828	3,407	3,283	4,806
CHANGE	-1%	17%	7%	-6%	15%
OLD growth	79%	-37%	104%	10%	20%
NEW growth	78%	-25%	86%	-4%	46%
OLD margin	47.8%	29.4%	41.3%	43.2%	42.3%
NEW margin	47.6%	32.9%	43.0%	38.3%	44.6%
Adj EPS OLD	36.60	22.00	42.12	46.73	56.44
Adj EPS NEW	36.35	25.34	45.07	44.19	64.17
CHANGE	-1%	15%	7%	-5%	14%
OLD EPS growth	54%	-40%	91%	11%	21%
NEW EPS growth	53%	-30%	78%	-2%	45%
FCF OLD	3,213	2,346	3,686	4,978	5,968
FCF NEW	3,200	2,551	3,990	4,727	6,624
CHANGE	0%	9%	8%	-5%	11%
Net (debt)/cash OLD	13,237	15,583	19,269	23,002	27,478
Net (debt)/cash NEW	13,225	15,776	19,766	23,311	28,279
CHANGE	0%	1%	3%	1%	3%
NPV old	1587				
NPV new	1646				
CHANGE	4%				
PT old	1600				
PT new	1650				
CHANGE	3%				

Source: Barclays Research estimates

Grifols (OW, PT €36; FY19 – 27th February, BMO)

Thoughts on the quarter/expectations: Feedback to our recent upgrade of Grifols to our Top Pick was generally positive, with the most common point of pushback being that investors thought that they may have missed the opportunity, with shares +37% in 2019 vs. SXDP +28%. Investors seem universally positive regarding the strong underlying organic growth story for immunoglobulin and albumin. Whilst we get the impression that some still believe Grifols is a “show me story” from a margin expansion perspective, with the support coming from the positive pricing dynamics in IG (due to the tight supply/demand dynamic globally) and from the third-party contracted plasma from 2018’s acquisitions continuing to roll off, we feel confident that Grifols will continue to deliver on this front in 2020.

We were surprised that we got very little pushback in terms of investors who are concerned about the risks posed by the emergent anti-FcRn class, particularly as we will see the first phase 3 data from the class around mid-year when argenx reports the ADAPT trial in myasthenia gravis. The truly disruptive indication to the IG business would be if these assets are able to demonstrate success in CIDP, though the first data we will see in this indication is likely to be UCB’s proof of concept study, scheduled to be read out in 1H21. We would note that there was a significant amount of enthusiasm regarding Momenta’s (not covered) M254 (hypersialylated IgG) ITP data, released earlier last week (see: [Momenta press release](#)), and we will be seeing some incremental data from this trial in the first half of

this year. However, with data only shown in six patients thus far, we think it's too early to draw any conclusions regarding the potential impact to IG from this asset.

In our view, the company has been deemphasizing any near-term impact from the AMBAR trial/Alzheimer's studies. Whilst we could see some update to the ASFA guidelines following that organization's annual meeting in May, we don't expect this to result in any changes to reimbursement in the US. The company has indicated we could see the AMBAR data published in a peer-reviewed journal in 2H20.

Model changes: Having just gone through our model as part of our recent upgrade of the name to our Top Pick, we are not making any additional changes at this time.

Catalysts to watch for: In terms of catalysts that are Grifols specific, we highlight that we expect this to be an earnings-driven story with the focus likely on the quarterly prints. As always, the company's June CMD is an event to watch for and we also expect investors to be paying close attention to developments on the anti-FcRn front (with the first phase 3 data for the class expected around mid-year for argenx's efgartigimod in myasthenia gravis).

Comments published since the beginning of 4Q19:

- Grifols SA: 3Q19 first take: another step in the right direction (29/10/19)
- Grifols SA: Twisting again like it did last summer (11/11/19)
- Grifols SA: The broker went down to Georgia: read-throughs from Takeda's Plasma-Derived Therapies Investor Day (18/11/19)
- Grifols SA: It's all good in the plasma neighborhood - raise to Top Pick (07/01/20)

FIGURE 17
GRF: catalyst calendar

Product	Event/Comments	Date
SCIG	Launch of 20% SCIG product	End 2019
Company	Takeda 4Q19 earnings	04/02/2020
Company	CSL 1H20 earnings	12/02/2020
Company	4Q19 earnings	27/02/2020
AMBAR	ASFA 2020 annual meeting	06-09/05/2020
Company	Annual CMD	June 2020
IVIG x-read	Additional M254 ITP phase 2 data	1H20
IVIG x-read	ARGX FcRn ph. 3 data in MG	mid-2020
AMBAR	Publication of data in medical journal	2H20
IVIG x-read	UCB FcRn ph. 2 data in CIDP	1H21
Albumin	Phase 3 PRECIOSA study in cirrhosis	2020
Albumin	Phase 3 APACHE study in acute-on-chronic liver failure	2022

Source: Company reports, clinicaltrials.gov, Barclays Research

FIGURE 18

GRF: 4Q19 estimates

GRF SM (EURmm, Dec)						
4Q19 estimates	4Q18 actual	BARC 4Q19E	BARC y/y chg.	BBG Cons. 4Q19E	BBG Cons. y/y chg.	Cons vs. BARC Var.
Group Sales	1,223	1,328	8.6%	1,351	10.5%	1.7%
Bioscience	920	1,035	12.5%			
Diagnostic	185	188	2.0%			
Hospital	34	37	10.0%			
Biosupplies	90	73	-18.5%			
Others	5	5	0.0%			
Intersegment	(11)	(11)	0.0%			
COGS	(705)	(708)	-0.4%			
<i>Gross Margin</i>	42.4%	46.7%				
SG&A	(227)	(240)	-5.7%			
<i>% of sales</i>	18.5%	18.0%				
R&D	(70)	(71)	-1.1%			
<i>% of sales</i>	5.7%	5.3%				
Other Opex	-	1				
addbacks	28	43				
Core EBIT	249	354	41.9%			
<i>margin</i>	20.4%	26.6%				
Reported EBIT	221	311	40.7%	301	36.0%	-3.4%
<i>margin</i>	18.1%	23.4%		22.3%		
Reported EBITDA	312	430	37.9%			
<i>margin</i>	25.5%	32.4%				
Net Financial Income	(80)	(93)	-16.8%			
Pre-Tax Reported	141	218	54.3%			
Tax	(13)	(44)	-230.1%			
<i>rate</i>	9.3%	20.0%				
Core Net Income	152	209	38%	195	28.7%	-6.7%
CORE EPS	0.22	0.31	40%	0.31	40.6%	0.7%

Source: Company reports, Bloomberg consensus, Barclays Research estimates

FIGURE 19

GRF: FY19/20 estimates

FY ESTIMATES	2019						2020				
	FY18 actual	BARC FY19	BARC y/y chg	BBG Cons FY19	Cons y/y chg	2019 Cons vs. BARC Var.	BARC FY20	BARC y/y chg	BBG Cons FY20	Cons y/y chg	2020 Cons vs. BARC Var.
Group Sales	4,487	5,066	13%	5,036	12%	-1%	5,465	8%	5,404	7%	-1%
Bioscience	3,517	3,981	13%				4,358	9%			
Diagnostic	702	723	3%				737	2%			
Hospital	119	131	10%				144	10%			
Biosupplies	167	260	56%				254	-2%			
Others	22	20	-9%				20	0%			
Intersegment	(41)	(48)	-17%				(48)	0%			
COGS	(2,437)	(2,713)	-11%				(2,872)	-6%			
<i>Gross Margin</i>	<i>45.7%</i>	<i>46.5%</i>					<i>47.5%</i>				
SG&A	(815)	(936)	-15%				(979)	-5%			
<i>% of sales</i>	<i>18.2%</i>	<i>18.5%</i>					<i>17.9%</i>				
R&D	(241)	(272)	-13%				(289)	-6%			
<i>% of sales</i>	<i>5.4%</i>	<i>5.4%</i>					<i>5.3%</i>				
Other Opex	0	8					4				
addbacks											
Core EBIT	1,098	1,323	20%				1,463	11%			
<i>margin</i>	<i>24.5%</i>	<i>26.1%</i>					<i>26.8%</i>				
Reported EBIT	994	1,153	16%	1,146	15%	-1%	1,330	15%	1,279	12%	-4%
<i>margin</i>	<i>22.2%</i>	<i>22.8%</i>		<i>22.8%</i>			<i>24.3%</i>		<i>23.7%</i>		
Core EBITDA	1,327	1,623	22%				1,764	9%			
<i>margin</i>	<i>29.6%</i>	<i>32.0%</i>					<i>32.3%</i>				
Net Financial Income	(268)	(377)	-41%				(328)	13%			
Pre-Tax Reported	726	776	7%				1,003	29%			
Tax	(131)	(155)	-18%				(201)	-29%			
<i>rate</i>	<i>18.1%</i>	<i>20.0%</i>					<i>20.0%</i>				
Core Net Income	681	734	8%	697	2%	-5%	898	22%	802	15%	-11%
CORE EPS	0.99	1.08	9%	1.03	4%	-5%	1.32	23%	1.24	21%	-6%

Source: Company reports, Bloomberg consensus, Barclays Research estimates

Hikma (EW, PT £19; FY19 – 27th February, BMO)

Thoughts on the quarter/expectations: Hikma is only one of two of our names under coverage that are down on year thus far (with the other being argenx), after having performed essentially in-line with SXDP in 2019. We'd note that Hikma was an underperformer in 2019 from the start of the year going into the print (by >450bps) as investors were concerned about the potential for guidance that could disappoint the street.

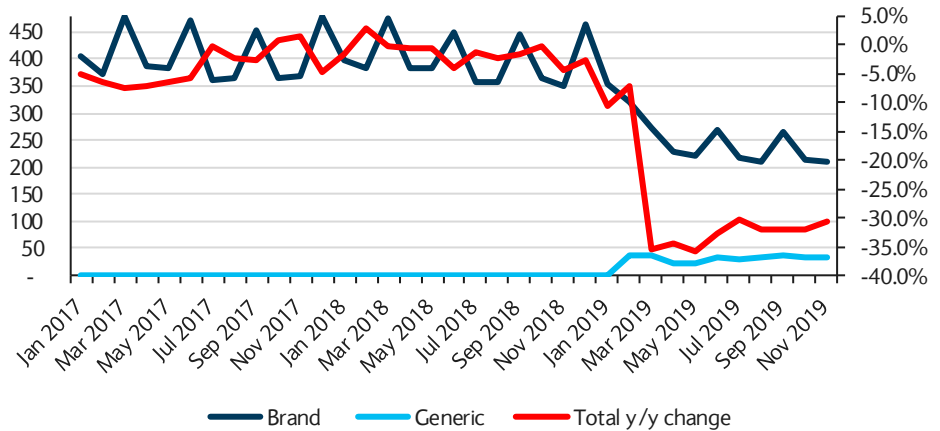
We suspect that the reason behind the more recent underperformance is not too dissimilar; investors continue to expect that once the benefit from shortages within controlled substances lapses, that we could see a decline in both topline and core operating margin in Hikma's Injectables segment...but the underlying IQVIA data (see linked below) continues to show Hikma bucking the industry trend of year over year declines and continuing to grow. Thus, given our limited visibility into trends within this business, we're maintaining our EW rating and £19 PT.

One thing to watch for when Hikma issues guidance though is whether the company gives two guidance scenarios (i.e. with and without an approved generic Advair in 2020). Hikma emphasized this as a particularly significant opportunity at its November trading update, but we would note that overall sales of the product have declined significantly since

Mylan (covered by Balaji Prasad) introduced its generic version (Wixela) in February of last year.

FIGURE 20

Advair market: Branded & Generic monthly sales (\$mm, left axis) and y/y % change of the overall market sales (right axis)



Source: IQVIA, Barclays Research

Model changes: We've made very minor changes to our model, modestly raising our forecasts for revenues in Injectables and modestly decreasing our forecasts for Generics (as we'd previously been modelling a disproportionate benefit from generic Advair).

Catalysts to watch for: IQVIA monthly data reports (as always) as well as FY earnings updates from Injectables competitors Pfizer (not covered; 28/01) and Fresenius (covered by Hassan Al-Wakeel; 20/02). We'll also be looking for any updates on the ongoing opioid litigation in the United States, as investors are concerned about the potential implications this could have to Hikma's Generics segment (see: *U.S. Specialty Pharmaceuticals: Takeaways from Expert Call on 'Opioid Settlement in 2020? The Road Ahead'* (10/01/2020))

Comments published since the beginning of 4Q19:

- Hikma Pharmaceuticals PLC: Injectables shortages benefit showing no signs of slowing in August but Generics slightly weaker (01/10/19)
- European Medical Technology & Services: US generic injectables tracker: August (04/10/19)
- European Medical Technology & Services: US generic IV tracker: September (29/10/19)
- Hikma Pharmaceuticals PLC: 3Q19 first take: holding steady with trading update (07/11/19)
- Hikma Pharmaceuticals PLC: Post-trading update CEO lunch - cruise control into 2020 (07/11/19)
- European Medical Technology & Services: US generic IV tracker: October (02/12/19)
- European Medical Technology & Services: US generic IV tracker: November (30/12/19)

FIGURE 21
HIK: catalyst calendar

Product	Event/Comments	Date
Company	Pfizer earnings	28/01/2020
Company	IQVIA December 2019 sales data	30/01/2020
Company	Fresenius earnings	20/02/2020
Company	2020 Guidance	27/02/2020
Advair	FDA decision on generic filing (made on 27/11/19)	2H20
Herzuma (biosim Herceptin)	Launch in 4 markets by end of year	2020
Truxima (biosim Rituxan)	Launch in additional markets	2021

Source: Company reports, Barclays Research

FIGURE 22
HIK: 2H19 estimates

HIK LN (\$mm, Dec)			
2H19 estimates	2H18 actual	BARC 2H19E	BARC y/y chg.
Core Revenue	1,097	1,127	3%
Injectables	422	451	7%
Generics	360	342	-5%
Brands	310	329	6%
COGS	(530)	(552)	4%
SG&A	(218)	(223)	2%
R&D	(71)	(76)	7%
Core EBIT	246	241	-2%
<i>margin</i>	22.4%	21.4%	
Injectables core EBIT	162	160	-1%
<i>margin</i>	38.4%	35.4%	
Generics core EBIT margin	63	50	-21%
<i>margin</i>	17.5%	14.5%	
Brands core EBIT margin	72	76	6%
<i>margin</i>	23.2%	23.2%	
Core EBITDA	297.0	284.3	-4%
<i>margin</i>	27.1%	25.2%	-7%
Net Financial Income	(27)	(25)	-6%
Pre-Tax	219	216	-1%
Tax	(35)	(45)	30%
<i>rate</i>	16.0%	21.0%	
Core Net Income	184	171	-7%
CORE EPS	\$ 0.76	\$ 0.70	-7%
Dividend	\$ 0.12	\$ -	

Source: Company reports, Company consensus, Barclays Research estimates

FIGURE 23
HIK: FY19/20 estimates

FY ESTIMATES	2019						2020				
	FY18 actual	FY19 BARC	BARC yoy chg	Cons FY19	Cons yoy chg	2019 Cons vs. BARC Var.	FY20 BARC	BARC yoy chg	Cons FY20	Cons yoy chg	2020 Cons vs. BARC Var.
Group Sales	2,076	2,170	4.5%	2,178	4.9%	0%	2,230	2.8%	2,261	3.8%	1%
Injectables	832	879	5.7%	886	6.5%	1%	891	1.3%	917	3.5%	3%
Generics	692	710	2.6%	713	3.1%	0%	724	2.0%	740	3.8%	2%
Brands	542	571	5.3%	568	4.8%	0%	605	6.0%	593	4.5%	-2%
COGS	(1,004)	(1,051)	4.6%				(1,092)	4.0%			
SG&A	(437)	(439)	0.4%				(442)	0.6%			
R&D	(118)	(134)	13.7%				(140)	4.4%			
Core EBIT	460	487	6.0%	497	8.0%	2%	497	2.0%	506	1.9%	2%
<i>margin</i>	<i>22.2%</i>	<i>22.5%</i>		<i>22.8%</i>			<i>22.3%</i>		<i>22.4%</i>		
Injectables core EBIT	335	327	-2.5%	332	-0.8%	2%	318	-2.8%	329	-0.9%	4%
<i>margin</i>	<i>40.3%</i>	<i>37.2%</i>		<i>37.5%</i>			<i>35.7%</i>		<i>35.9%</i>		
Generics core EBIT margin	93	121	29.7%	124	33.6%	3%	130	8.0%	130	4.6%	0%
<i>margin</i>	<i>13.4%</i>	<i>17.0%</i>		<i>17.4%</i>			<i>18.0%</i>		<i>17.5%</i>		
Brands core EBIT margin	117	125	7.1%	125	6.8%	0%	136	8.4%	133	6.7%	-2%
<i>margin</i>	<i>21.6%</i>	<i>22.0%</i>		<i>22.0%</i>			<i>22.5%</i>		<i>22.5%</i>		
Core EBITDA	549.0	572	4.2%				582	1.7%			
<i>margin</i>	<i>26.4%</i>	<i>26.4%</i>					<i>26.1%</i>				
Net Financial Income	(52)	(46)	-11.0%				(51)	9.3%			
Pre-Tax	408	441	8.1%				446	1.2%			
Tax	(73)	(94)	29.3%				(94)	-0.7%			
<i>rate</i>	<i>17.9%</i>	<i>21.4%</i>					<i>21.0%</i>				
Core Net Income	332	347	4.4%	353	6.4%	2%	353	1.7%	365	3.2%	3%
CORE EPS	\$ 1.37	\$ 1.43	4.1%	\$ 1.46	6.1%	2%	\$ 1.46	2.2%	\$ 1.49	2.6%	2%
Dividend	\$ 0.36	\$ 0.26	-26.7%				\$ 0.36	35.4%			

Source: Company reports, Company consensus, Barclays Research estimates

FIGURE 24
HIK: forecasts & changes

USDm (ex-PT (GBP)),	2019E	2020E	2021E	2022E	2023E
Sales OLD	2,169	2,258	2,351	2,452	2,518
Sales NEW	2,170	2,230	2,305	2,370	2,437
CHANGE	0%	-1%	-2%	-3%	-3%
OLD sales growth	4%	4%	4%	4%	3%
NEW sales growth	5%	3%	3%	3%	3%
Core EBIT OLD	487	497	526	543	556
Core EBIT NEW	487	497	521	531	544
CHANGE	0%	0%	-1%	-2%	-2%
OLD growth	6%	2%	6%	3%	2%
NEW growth	6%	2%	5%	2%	2%
OLD margin	22.5%	22.0%	22.4%	22.2%	22.1%
NEW margin	22.5%	22.3%	22.6%	22.4%	22.3%
Core EPS OLD	1.43	1.46	1.56	1.62	1.67
Core EPS NEW	1.43	1.46	1.55	1.59	1.64
CHANGE	0%	0%	-1%	-2%	-2%
OLD EPS growth	4%	2%	7%	4%	3%
NEW EPS growth	4%	2%	6%	3%	3%
FCF OLD	246	250	271	274	294
FCF NEW	246	266	277	283	289
CHANGE	0%	6%	2%	0%	0%
Net (debt)/cash OLD	(199)	(35)	147	326	523
Net (debt)/cash NEW	(199)	(20)	168	359	553
CHANGE	0%	-42%	15%	10%	6%
NPV old	1,925				
NPV new	1,866				
CHANGE	-3%				
PT old	19.00				
PT new	19.00				
CHANGE	0%				

Source: Barclays Research estimates

Ipsen (EW, PT €86; FY19 – 13th February, BMO)

Thoughts on the quarter/expectations: Unfortunately, whilst we do expect another year of strong underlying performance from Ipsen, a lot of what will dictate the trajectory for shares is outside of the company's control, with the two most important catalysts being any updates on the generic SSA market and to the ongoing clinical trial programme for key pipeline asset palovarotene. Regarding the SSA market, in 2020 we should see something in the way of updates to a potential octreotide generic in the US. Teva (covered by Balaji Prasad), which has launched this product in Europe, likely received a CRL from the FDA for its US filing (as Ipsen indicated on its 1H19 conference call), but we have not heard any updates on this in quite some time. Also, given that Advanz (not covered) filed for approval of its generic lanreotide in Europe almost 10 months ago, we should see some sort of update on the filing this year. Until there's more clarity on either of these two issues, we expect any outperformance of Somatuline to be discounted by investors.

We view any updates for palovarotene as the more significant catalyst for Ipsen in 2020. Management confirmed last week that it had received the expected letter from the FDA following December's announcement of a partial clinical hold and that it hopes to "be in a position to provide palovarotene to FOP patients in the course of 2020." It would seem that

the company has some level of confidence that it should still be able to file in the adult FOP population in 1H20 (in order to then be on the market before year-end), but at this stage, the company is unable to commit to timelines as it works through the outstanding issues with the FDA.

One other catalyst that we should be seeing in the near term is the release of the Checkmate-9ER data of Cabometyx + Opdivo in 1L RCC, expected in 1Q20. Whilst investors are less focused on Cabometyx, success in this indication would be a positive catalyst for shares.

We also await any news on the company's ongoing search for a new CEO, though we have full confidence in acting CEO Aymeric Le Chatelier's ability to steer the ship during this period.

Model changes: We modestly reduce our forecasts for Somatuline, Cabometyx and Onivyde to reflect current script trends and update peak sales opportunities. This results in low SD declines to our EPS forecasts and we reduce our P/E derived PT to €86 from €90 (which is roundly on the same P/E as before (11.1x) on our 2020 EPS estimate).

Catalysts to watch for: The CEO search, SSA generics, and palovarotene updates are all particularly important catalysts but each of these is date-uncertain. The biggest near-term catalyst is the Checkmate-9ER data in 1L RCC, expected in 1Q20.

Comments published since the beginning of 4Q19:

- Ipsen SA: 3Q19 sales first take: strong print, guidance confirmed, palo filing pushed out slightly (24/10/19)
- Ipsen SA: With benefit of hindsight, it's all about 2020 (05/11/19)
- Ipsen: Palovarotene pediatric clinical hold - quick thoughts (06/12/19)
- Ipsen SA: Palo news amplifies risks & likely takes out 2020 upside - d/g to EW (06/12/19)
- Ipsen SA - CEO departure announcement - initial thoughts (18/12/19)
- Ipsen SA: Regeneron looks competitive in adult FOP population; waiting for update on palovarotene (09/01/20)

FIGURE 25

IPN: catalyst calendar

Product	Event/Comments	Date
Company	CEO announcement	TBD
palovarotene	Update on clinical development program	TBD
Somatuline	Updates to US octreotide generics/EU lanreotide generics	TBD
Cabometyx	1L RCC ph. 3 in combo. with Opdivo (CheckMate 9ER)	1Q20
palovarotene	Filing in US adult episodic FOP population	1H20 (?)
palovarotene	Topline data from ph. 3 MOVE trial in FOP	12/07/1905
palovarotene	garetosmab regulatory update (Regeneron)	2020
BLU-782	Initiate Phase 2 program in FOP	2020
Dysport	Phase 2 data in hallux valgus	2020
Onivyde	Initiate Phase 3 trial in PDAC	2020
Cabometyx	Phase 3 COSMIC-312 trial in 1L HCC	2021

Source: Company reports, clinicaltrials.gov, Barclays Research

FIGURE 26

IPN: 4Q/2H19 estimates

4Q19 sales estimates	4Q18 actual	BARC 4Q19	4Q19 BARC y/y chg.	2H18 actual	BARC 2H19	2H19 BARC y/y chg.
Group Sales	604	650	8%	1,223	1,345	10%
Product revenues	604	650	8%	1,160	1,295	12%
Somatuline	227	251	11%	444	515	16%
Decapeptyl	100	108	8%	189	207	10%
Cabometyx	47	71	49%	86	135	57%
Onivyde	34	16	-54%	61	42	-31%
Other Oncology	6	7	5%	13	13	1%
Dysport/Neuroscience	87	100	15%	177	198	12%
Neutropin Aq	11	10	-9%	22	20	-9%
Increlex	6	6	-4%	12	12	-3%
Total Specialty Care	520	568	9%	1,004	1,142	14%
Smecta	31	32	2%			
Total CHC	84	82	-3%	156	152	-2%
Other						
COGS				(238)	(255)	-7%
SG&A				(494)	(506)	-2%
R&D				(161)	(193)	-20%
Other Opex				6	3	-53%
Core Operating Income				337	393	16%
<i>margin</i>				29.1%	30.3%	
Reported EBIT				249.8	326	30%
Core EBITDA				402.4	460	14%
<i>margin</i>				34.7%	35.6%	3%
Net Financial Income				(12)	(20)	-60%
Pre-Tax Core				325	373	15%
Tax				(72)	(75)	-3%
<i>rate</i>				22.2%	20.0%	
Core Net Income				254	299	17%
<i>margin</i>				21.9%	23.1%	5%
Core EPS				€ 3.05	€ 3.57	17%
Dividend				€ 0.00	€ 0.00	-

Source: Company reports, Bloomberg consensus, Barclays Research estimates

FIGURE 27

IPN: FY19/20 estimates

Annual forecasts	2019						2020				
	FY18 actual	FY19 BARC	BARC yoy chg	FY19 BBG cons	BBG cons y/y chg	2019 BBG Cons vs. BARC Var.	FY20 BARC	BARC yoy chg	FY20 BBG cons	BBG cons y/y chg	2020 BBG Cons vs. BARC Var.
Group Sales	2,348	2,637	12%	2,580	10%	-2%	2,869	9%	2,807	9%	-2%
Product revenues	2,225	2,524	13%				2,777	10%			
Somatuline	847	994	17%	1,011	19%	2%	1,049	6%	1,106	9%	5%
Decapeptyl	373	406	9%	406	9%	0%	414	2%	434	7%	5%
Cabometyx	148	247	67%	248	67%		315	28%	315	27%	0%
Onivyde	109	116	6%				150	30%			
Other Oncology	26	29	10%				29	1%			
Dysport/Neuroscience	348	382	10%	393	13%	3%	413	8%	434	10%	5%
Neutropin Aq	46	42	-9%				41	-2%			
Increlex	24	23	-4%				23	-2%			
Total Specialty Care	1,924	2,242	17%				2,434	9%			
Smecta	127	124	-2%				129	4%			
Total CHC	300	282	-6%				289	2%			
Other	124	113	-8%				92	-19%			
COGS	(454)	(492)	-8%				(537)	-9%			
SG&A	(953)	(996)	-5%				(1,055)	-6%			
R&D	(302)	(370)	-22%				(416)	-13%			
Other Opex	21	1	-95%				2	100%			
Recurring EBIT	660	780	18%	775	18%	-1%	863	11%	848	9%	-2%
<i>margin</i>	29.7%	30.9%					31.1%				
Reported EBIT	519	644	24%				720	12%			
Recurring EBITDA	802	913	14%				1,008	10%			
<i>margin</i>	34.2%	34.6%					35.1%				
Net Financial Income	(25)	(54)	-114%				(55)	-1%			
Pre-Tax Core	634	726	14%				808	11%			
Tax	(144)	(145)	-1%				(179)	-24%			
<i>rate</i>	22.7%	20.0%					22.2%				
Core Net Income	492	581	18%	562	14%	-3%	629	8%	647	15%	3%
<i>margin</i>	20.9%	22.0%					21.9%				
Core EPS	€ 5.91	€ 6.95	18%	€ 6.98	18%	0%	€ 7.75	12%	€ 7.95	14%	3%

Source: Company reports, Bloomberg consensus, Barclays Research estimates

FIGURE 28
IPN: forecasts & changes

EURm	2019E	2020E	2021E	2022E	2023E
Sales OLD	2,658	2,953	3,164	3,186	3,324
Sales NEW	2,637	2,869	3,051	3,054	3,201
CHANGE	-1%	-3%	-4%	-4%	-4%
OLD sales growth	13%	11%	7%	1%	4%
NEW sales growth	12%	9%	6%	0%	5%
Recurring EBIT OLD	786	889	946	886	917
Recurring EBIT NEW	780	863	912	849	883
CHANGE	-1%	-3%	-4%	-4%	-4%
OLD growth	19%	13%	6%	-6%	4%
NEW growth	18%	11%	6%	-7%	4%
OLD margin	29.6%	30.1%	29.9%	27.8%	27.6%
NEW margin	29.6%	30.1%	29.9%	27.8%	27.6%
Adj EPS OLD	7.01	8.02	8.94	8.72	9.45
Adj EPS NEW	6.95	7.75	8.53	8.23	8.92
CHANGE	-1%	-3%	-5%	-6%	-6%
OLD EPS growth	19%	14%	11%	-2%	8%
NEW EPS growth	18%	12%	10%	-4%	8%
FCF OLD	475	673	641	627	620
FCF NEW	471	654	619	602	595
CHANGE	-1%	-3%	-3%	-4%	-4%
Net (debt)/cash OLD	(1,137)	(889)	(661)	(457)	(249)
Net (debt)/cash NEW	(1,131)	(892)	(675)	(482)	(286)
CHANGE	-1%	0%	2%	6%	15%
NPV old	101.39				
NPV new	96.94				
CHANGE	-4%				
PT old	90				
PT new	86				
CHANGE	-4%				

Source: Barclays Research estimates

Lundbeck (OW, PT DKK 290; FY19 – 6th February, BMO)

Thoughts on the quarter/expectations: Lundbeck's rebound off the October lows (+30% since 2nd October 2019 vs. SXDP +15% in DKK terms) has certainly caught us by surprise, given that it's our sense that (in contrast to ourselves), investors remain quite negative on eptinezumab, and we haven't had any major updates to the anti-CGRP market in recent weeks. This asset's potential dominates any and all discussions on the name (with the general consensus being that Lundbeck's base business ex-the Alder assets is continuing to perform quite well). Aside from Lundbeck's forthcoming PDUFA for eptinezumab (21/02/20), the other major update we are waiting for in migraine is the readout of Biohaven's (not covered) rimegepant in preventative migraine (whilst that company had indicated that this readout could have come by YE19, in a presentation filed last week, the company noted it expects this data in 1Q20).

In terms of what could be driving the sentiment shift for Lundbeck, we tuned into the company's presentation at a conference last week and management seems to be trying to shift the discussion more towards the pipeline, with much of the presentation focused on eptinezumab, the Abide transaction and other elements of the pipeline. The company affirmed that we will be getting phase 2a data for both foliglurax in Parkinson's and the first

Abide asset in 1H20. We also heard feedback from investors that the company was not indicating that consensus was mis-modelling expense growth in 2020; we see opex as the biggest variable impacting overall earnings growth in 2020, given that the contribution from eptinezumab on the topline will be minimal and the company guided the street at 3Q19 to expect an additional DKK 2bn in opex.

Model changes: We've updated some of our revenues forecasts by product to reflect recent script trends and also modestly increased gross margin/modestly decreased base (i.e. ex-ALDR) R&D expense growth.

Catalysts to watch for: eptinezumab PDUFA (21/01/20), rimegepant in preventative migraine (1Q20)

Comments published since the beginning of 4Q19:

- Migraine: The headaches will soon be over (25/10/19)
- H Lundbeck A/S: 2020 dilution the last shoe to drop? Why we're staying OW post ALDR (25/10/19)
- H Lundbeck A/S: 3Q19 first take: FY19 raised, preliminary tidbits on 2020 (05/11/19)
- H Lundbeck A/S: Kicking off the 2020 shoes... (07/11/19)
- NOVN/LUN: Headaches? Extraordinary opportunity apparently (12/11/19)

FIGURE 29

LUN: catalyst calendar

Product	Event/Comments	Date
eptinezumab	PDUFA	21/02/2020
eptinezumab	US launch	March/early April 2020
eptinezumab	Canada filing	1Q20
foliglurax	Phase 2a headline results (Parkinson's)	1H20
Lu AG06466 (Abide)	Phase 2a headline results (Tourette's)	1H20
eptinezumab	Headline results of RELIEF study	2H20
Company	introduce 1-2 new molecules in clin. dev.	2H20
eptinezumab	EU filing	end of 2020
Abilify Maintena	2 month formulation filing	2020
Rexulti	Additional ph. 3 data in AD agitation	early 2021
eptinezumab	EU approval/launch	2022
Rexulti	PTSD filing	≥ 2023
eptinezumab	China/Japan launch	2025
eptinezumab	LOE	~2035

Source: Company reports, clinicaltrials.gov, Barclays Research

FIGURE 30

LUN: 4Q19 estimates

LUN DC (DKKm, Dec)						
4Q19 estimates	4Q18 actual	BARC 4Q19E	BARC y/y chg.	BBG cons 4Q19	BBG cons y/y chg.	BBG cons vs. BARC var.
Group Sales	4,196	4,240	1%	4,230	1%	0%
Abilify Maintena	415	486	17%	487	17%	0%
Trintellix	386	440	14%			
Brintellix	253	329	30%			
BOTH	639	768	20%	784	23%	2%
Ciprallex	333	569	71%	428	28%	-25%
Northera	524	612	17%	591	13%	-3%
Onfi	496	124	-75%	159	-68%	28%
Rexulti	509	631	24%	648	27%	3%
Sabril	359	170	-53%	213	-41%	25%
Other Pharma	791	823	4%			
Other	196	157	-20%			
COGS (core)	(646)	(602)	-7%			
<i>Gross Margin- core</i>	84.6%	85.8%		81.8%		
COGS (rept.)	(850)	(919)	8%			
<i>Gross Margin- rept.</i>	79.7%	78.3%				
SG&A (core)	(1,631)	(1,762)	8%			
<i>% of sales</i>	38.9%	41.5%				
R&D (core)	(988)	(947)	-4%			
<i>% of sales</i>	23.5%	22.3%				
Core EBIT	931	929	0%	911	-2%	-2%
<i>margin</i>	22.2%	21.9%				
Reported EBIT	848	163	-81%			
<i>margin</i>	20.2%	3.8%				
Reported EBITDA	1,134	522	-54%			
<i>margin</i>	27.0%	12.3%				
Net Financial Income	-16	-30	nm			
Pre-Tax Core	915	899	-2%			
Tax - Core	(178)	(36)	-80%			
<i>rate</i>	19.5%	4.0%				
Core Net Income	737	863	17%	648	-12%	-25%
Reported Net Income	654	97	-85%			
CORE EPS	3.75	3.44	-8%	3.19	-15%	-7%
IFRS EPS	3.29	0.49	-85%			

Source: Company reports, Bloomberg consensus, Barclays Research estimates

FIGURE 31
LUN: FY19/20 estimates

FY Estimates	FY18 actual	2019					2020				
		FY19 BARC	BARC y/y chg	FY19 BBG cons	BBG cons y/y chg	2019 BBG Cons vs. BARC Var.	FY20 BARC	BARC y/y chg	FY20 BBG cons	BBG cons y/y chg	2020 BBG Cons vs. BARC Var.
Group Sales	18,117	16,855	-7%	16,830	-7%	0%	18,273	8%	17,854	6%	-2%
Abilify Maintena	1,595	1,943	22%	1,970	23%	1%	2,100	8%	2,233	13%	6%
Trintellix	1,239	1,543	25%				1,911	24%			
Brintellix	943	1,249	32%				1,463	17%			
BOTH	2,182	2,791	28%	2,803	28%	0%	3,374	21%	3,323	19%	-2%
Cipralex	2,227	2,378	7%	2,296	3%	-3%	2,395	1%	2,232	-3%	-7%
Northera	1,806	2,218	23%	2,185	21%	-1%	2,684	21%	2,378	9%	-11%
Onfi	3,165	964	-70%	996			482	-50%	452	-55%	
Rexulti	1,702	2,251	32%	2,265	33%	1%	2,798	24%	2,825	25%	1%
Sabril	1,342	813	-39%	807	-40%	-1%	521	-36%	515	-36%	-1%
Other Pharma	3,183	3,201	1%				3,060	-4%			
Other	662	590	-11%				560	(0)			
COGS	(2,643)	(2,400)	-9%				(2,512)	5%			
<i>Gross Margin - core</i>	<i>85.4%</i>	<i>85.8%</i>		<i>81.8%</i>			<i>86.3%</i>		<i>81.9%</i>		
COGS (rept.)	(3,456)	(3,355)	-3%				(3,806)	13%			
<i>Gross Margin - rept.</i>	<i>80.9%</i>	<i>80.1%</i>					<i>79.2%</i>				
SG&A	(6,039)	(6,343)	5%				(7,218)	14%			
<i>% of sales</i>	<i>33.3%</i>	<i>37.6%</i>					<i>43.2%</i>	<i>20.6%</i>			
R&D	(3,277)	(3,173)	-3%				(4,166)	31%			
<i>% of sales</i>	<i>18.1%</i>	<i>18.8%</i>					<i>22.8%</i>				
Core EBIT	6,158	4,939	-20%				4,377	-11%			
<i>margin</i>	<i>34.0%</i>	<i>29.3%</i>					<i>24.0%</i>				
Reported EBIT	5,301	3,480	-34%				3,083	-11%			
<i>margin</i>	<i>29.3%</i>	<i>20.6%</i>					<i>16.9%</i>				
EBITDA	6,437	4,738	-26%				4,560	-4%			
<i>margin</i>	<i>35.5%</i>	<i>28.1%</i>					<i>27.3%</i>	<i>20.5%</i>			
Net Financial Income	(12)	(8)	-31%				(239)	2808%			
Pre-Tax Core	6,146	4,931	-20%				4,138	-16%			
Tax - Core	(1,435)	(1,188)	-17%				(993)	-16%			
<i>rate</i>	<i>23.3%</i>	<i>24.1%</i>					<i>24.0%</i>				
Core Net Income	4,711	3,743	-21%	3,570	-24%	-5%	3,145	-16%	2,967	-17%	-6%
Reported Net Income	3,907	2,534	-35%				2,076	-18%			
CORE EPS	23.70	18.84	-21%	18.45	-22%	-2%	15.80	-16%	15.21	-18%	-4%
IFRS EPS	19.66	12.75	-35%				10.43	-18%			

Source: Company reports, Bloomberg consensus, Barclays Research estimates

FIGURE 32
LUN: forecasts & changes

DKKm	2019E	2020E	2021E	2022E	2023E
Sales OLD	16,858	18,610	18,726	19,940	21,605
Sales NEW	16,855	18,273	18,456	19,619	21,245
CHANGE	0%	-2%	-1%	-2%	-2%
OLD sales growth	-7%	10%	1%	6%	8%
NEW sales growth	-7%	8%	1%	6%	8%
Reported EBIT OLD	3,480	3,147	3,660	5,653	7,272
Reported EBIT NEW	3,480	3,083	3,621	5,592	7,194
CHANGE	0%	-2%	-1%	-1%	-1%
OLD growth	-34%	-10%	16%	54%	29%
NEW growth	-34%	-11%	17%	54%	29%
OLD margin	20.6%	16.9%	19.5%	28.4%	33.7%
NEW margin	20.6%	16.9%	19.6%	28.5%	33.9%
Adj EPS OLD	18.84	16.05	17.41	21.51	27.75
Adj EPS NEW	18.84	15.80	17.26	21.28	27.45
CHANGE	0%	-2%	-1%	-1%	-1%
OLD EPS growth	-21%	-15%	8%	24%	29%
NEW EPS growth	-21%	-16%	9%	23%	29%
FCF OLD	3,038	2,991	3,459	4,385	5,450
FCF NEW	3,037	2,912	3,433	4,344	5,398
CHANGE	0%	-3%	-1%	-1%	-1%
Net (debt)/cash OLD	(6,884)	(5,413)	(4,536)	(1,651)	62
Net (debt)/cash NEW	(6,869)	(5,477)	(4,596)	(1,735)	(34)
CHANGE	0%	1%	1%	5%	-155%
NPV old	290.16				
NPV new	287.09				
CHANGE	-1%				
PT old	290				
PT new	290				
CHANGE	0%				

Source: Barclays Research estimates

Merck (UW, PT €94; FY19 – 5th March, BMO)

Thoughts on the quarter/expectations: In spite of being our largest company under coverage by market cap, Merck's share price feels like one of the names that is the most reactive to changes in underlying investor sentiment. With the stock having performed quite well going into the 3Q print, the relatively underwhelming quarter and subsequent underperformance left us feeling somewhat validated that our UW thesis was starting to play out.

Unfortunately for us (and fortunately for Merck bulls), a few things have gone the company's way as the calendar has turned. Glucophage was not included on the most recent list of drugs that will be included in China's volume based pricing procurement strategy, the market is becoming more optimistic that the semiconductor cycle is turning and life sciences peers have indicated at investor conference that the strong trends seen in 2019 are likely to continue in 2020. That being said, even after making these changes, we still remain below consensus and have also marginally reduced our forecasts for Mavenclad based on the latest available data from IQVIA BrandImpact. (see: European Pharmaceuticals: MS survey and market model update (17/10/20)).

Model changes: We've adjusted our model to reflect the China Glucophage outcome (though we do suspect the drug will be included eventually) and have also increased our forecasts for Process Solutions. Given our higher 2020 EPS estimates as well as higher sector multiples, our new PT is €94, which is 15.2x our revised forecast (our prior PT of €88 was 14.5x our previous estimate).

Catalysts to watch for: Given t

Comments published since the beginning of 4Q19:

- Merck KGaA: Potential early Versum close driving outperformance? (01/10/19)
- Merck KGaA: Adding Versum to the mix (12/11/19)
- Merck KGaA: 3Q19 first take: continuing trends in-place across all segments (14/11/19)
- Merck KGaA: 3Q19 call recap: A bit less optimistic than usual? (15/11/19)
- Merck KGaA: Stille Nacht for now... (19/12/19)

FIGURE 33

MRK GR: catalyst calendar

Product	Event/Comments	Date
evobrutinib	Ph. 2b data from PRNB/Sanofi BTK in MS	1Q20
avelumab	Ph. 3 data in 1L NSCLC (mono/high intensity)	2H20
Bintrafusp alfa	Milestone payment from GSK on lung interim	2020
tepotinib	Filing in MET exon 14 skipping	2020
evobrutinib	Ph. 2 data in rheumatoid arthritis/lupus	1H21
avelumab	Ph. 3 data read out in locally advanced head & neck	April 2021

Source: Company reports, Barclays Research

FIGURE 34
MRK GR: 4Q19 estimates

MRK GR (EURmm, Dec)						
4Q19 estimates	4Q18 actual	BARC 4Q19E	BARC y/y chg.	BBC Cons 4Q19	BBC cons y/y chg.	BBC cons vs. BARC var.
Group Sales	3,888	4,352	12%	4,325	11%	1%
Erbitux	202	204	1%	218	8%	-7%
Bavencio	21	40	90%	31	48%	29%
Rebif	344	311	-10%	306	-11%	2%
Mavenclad	32	103	221%	109	241%	-6%
Gonal-f	175	183	4%	205	17%	-11%
Saizen	62	64	2%			
Glucophage	216	248	15%			
Concor	140	147	5%			
Euthyrox	98	103	5%			
Healthcare	1,630	1,752	7%			
Life Sciences	1,628	1,776	9%			
Performance Materials	629	824	31%			
COGS	(1,456)	(1,578)	8%			
SG&A	(1,453)	(1,497)	3%			
R&D	(637)	(611)	-4%			
Other Opex	-	(14)				
EBITpre	789	959	22%	615	-22%	56%
<i>margin</i>	20.3%	22.0%	9%			
Reported EBIT	341	652	91%			
Healthcare EBITDApre	414	539	30%			
<i>margin</i>	25.4%	30.8%				
Life Sciences EBITDApre	474	541	14%			
<i>margin</i>	29.1%	30.5%				
Performance Materials EBITDApre	191	245	28%			
<i>margin</i>	30.3%	29.7%				
Corporate EBITDApre	(129)	(157)	21%			
EBITDApre	950	1,169	23%			
<i>margin</i>	24.4%	26.9%	10%			
Net Financial Income	(84)	(82)	-2%			
Pre-Tax	705	877	24%			
Tax	(176)	(219)	24%			
<i>rate</i>	25.0%	25.0%	0%			
Adjustments						
Net Income pre	529	658	24%	675	28%	-3%
EPSpre	1.22	1.51	24%	1.48	22%	2%

Source: Company reports, Bloomberg consensus, Barclays Research estimates

FIGURE 35

MRK GR: FY19/20 estimates

FY ESTIMATES	2019						2020				
	FY18 actual	FY19 BARC	BARC yoy chg	FY19 BBG cons	BBG cons y/y chg	2019 BBG Cons vs. BARC Var.	FY20 BARC	BARC yoy chg	FY20 BBG cons	BBG cons y/y chg	2020 BBG Cons vs. BARC Var.
Group Sales	14,836	16,123	9%	16,007	8%	-1%	17,880	11%	17,582	10%	-2%
Erbitux	816	837	3%	834	2%	0%	853	2%	823	-1%	-4%
Bavencio	69	114	66%	131	90%	15%	183	60%	216	64%	18%
Rebif	1,438	1,258	-13%	1,251	-13%	-1%	1,101	-12%	1,118	-11%	2%
Mavenclad	90	296	229%	287	218%	-3%	475	60%	561	96%	18%
Gonal-f	708	747	6%	745	5%	0%	770	3%	769	3%	0%
Saizen	234	236	1%	239	2%	1%	241	2%	242	1%	0%
Glucophage	733	901	23%	846	15%	-6%	991	10%	855	1%	-14%
Concor	475	531	12%				528	0%			
Euthyrox	363	400	10%	393	8%	-2%	397	-1%	407	4%	3%
Healthcare	6,246	6,666	7%				6,919	4%			
Life Sciences	6,185	6,858	11%				7,436	8%			
Performance Materials	2,406	2,600	8%				3,525	36%			
COGS	(5,382)	(5,894)	10%				(6,581)	12%			
SG&A	(5,503)	(5,708)	4%				(6,230)	9%			
R&D	(2,225)	(2,249)	1%				(2,385)	6%			
Other Opex	0	(14)					(92)	541%			
EBITpre	3,229	3,553	10%	2,876	-11%	-19%	3,889	9%	3,481	21%	-10%
<i>margin</i>	<i>21.8%</i>	<i>22.0%</i>	<i>1%</i>				<i>21.8%</i>	<i>-1%</i>			
Reported EBIT	1,726	2,257	31%				2,593	15%			
Healthcare EBITDApre	1,556	1,857	19%				1,855	0%			
<i>margin</i>	<i>24.9%</i>	<i>27.9%</i>					<i>26.8%</i>	<i>-4%</i>			
Life Sciences EBITDApre	1,840	2,121	15%				2,323	9%			
<i>margin</i>	<i>29.8%</i>	<i>30.9%</i>					<i>31.2%</i>	<i>1%</i>			
Performance Materials EBITDApre	786	805	3%				1,092	36%			
<i>margin</i>	<i>32.7%</i>	<i>31.0%</i>					<i>31.0%</i>				
Corporate EBITDApre	(381)	(479)	25%				(515)	8%			

Source: Company reports, Bloomberg consensus, Barclays Research estimates

FIGURE 36

MRK GR: forecasts & changes

EURm	2019E	2020E	2021E	2022E	2023E
HC Sales OLD	6,666	6,766	6,836	7,076	7,371
LS Sales OLD	6,851	7,309	7,769	8,265	8,785
PM Sales OLD	2,600	3,525	3,535	3,558	3,630
Sales OLD	16,116	17,601	18,139	18,899	19,786
HC Sales NEW	6,666	6,919	6,944	7,179	7,494
LS Sales NEW	6,858	7,436	7,907	8,415	8,949
PM Sales NEW	2,600	3,525	3,535	3,558	3,630
Sales NEW	16,123	17,880	18,386	19,153	20,073
HC Change	0.0%	2.3%	1.6%	1.5%	1.7%
LS Change	0.1%	1.7%	1.8%	1.8%	1.9%
PM Change	0.0%	0.0%	0.0%	0.0%	0.0%
CHANGE	0.0%	1.6%	1.4%	1.3%	1.4%
OLD sales growth	8.6%	9.2%	3.1%	4.2%	4.7%
NEW sales growth	8.7%	10.9%	2.8%	4.2%	4.8%
HC EBITDA pre NEW	1,857	1,813	1,879	1,944	2,042
LS EBITDA pre NEW	2,119	2,283	2,448	2,627	2,793
PM EBITDA pre NEW	805	1,092	1,120	1,147	1,170
EBITDA pre NEW	3,551	3,820	4,076	4,296	4,525
HC EBITDA pre NEW	1,857	1,855	1,909	1,972	2,077
LS EBITDA pre NEW	2,121	2,323	2,491	2,675	2,844
PM EBITDA pre NEW	805	1,092	1,120	1,147	1,170
EBITDA pre NEW	3,553	3,889	4,139	4,361	4,599
HC Change	0.0%	2.3%	1.6%	1.4%	1.7%
LS Change	0.1%	1.7%	1.8%	1.8%	1.9%
PM Change	0.0%	0.0%	0.0%	0.0%	0.0%
CHANGE	0.0%	1.8%	1.5%	1.5%	1.6%
OLD growth	10.0%	7.6%	6.7%	5.4%	5.3%
NEW growth	10.0%	9.5%	6.4%	5.4%	5.5%
OLD margin	22.0%	21.7%	22.5%	22.7%	22.9%
NEW margin	22.0%	21.8%	22.5%	22.8%	22.9%
EPS pre OLD	5.52	6.07	6.65	7.12	7.60
EPS pre NEW	5.53	6.19	6.76	7.24	7.73
CHANGE	0.1%	2.0%	1.6%	1.6%	1.7%
OLD EPS growth	8.2%	9.9%	9.5%	7.1%	6.7%
NEW EPS growth	8.3%	12.0%	9.2%	7.1%	6.9%
FCF OLD	2,524	3,322	3,562	3,174	3,150
FCF NEW	2,519	3,279	3,608	3,205	3,181
CHANGE	-0.2%	-1.3%	1.3%	1.0%	1.0%
Net (debt)/cash OLD	(13,468)	(7,756)	(3,368)	(373)	2,594
Net (debt)/cash NEW	(13,473)	(7,804)	(3,371)	(344)	2,653
CHANGE	0.0%	0.6%	0.1%	-7.6%	2.3%
NPV old	84.41				
NPV new	85.90				
CHANGE	1.8%				
PT old	88				
PT new	94				
CHANGE	6.8%				

Source: Barclays Research estimates

UCB (OW, PT €90; FY19 – 20th February, BMO)

Thoughts on the quarter/expectations: Following UCB's recent guidance update, we upgraded to OW and the feedback to our note was generally positive. We are expecting a strong report and guide from the company when it reports on 20th February, with investors keenly watching for both the close of the Ra Pharmaceuticals deal and for more data on the bimekizumab phase 3 trials, both of which are expected this quarter.

Model changes: We've very modestly updated our contribution to NPV by asset, but all our other forecasts/estimates (as well as overall NPV for UCB) remain unchanged following our update last week.

Catalysts to watch for: RARX deal close as well as any bimekizumab updates (we're expecting at least two of the phase 3 trials to be presented at the American Academy of Dermatology conference in Denver, CO on 20-24 March 2020).

Comments published since the beginning of 3Q19:

- UCB SA: Complementing the portfolio: thoughts on the Ra Pharmaceuticals deal (10/10/19)
- UCB SA: BE VIVID: first bimekizumab ph. 3 hits the mark (17/10/19)
- NOVN/UCB: Cosentyx data takes: still struggling to EXCEED (01/11/19)
- UCB SA: Guidance update first take: Who says bad news is only dropped on a Friday night? (10/01/20)
- UCB SA: Guidance raise confirms no signs of waffling from this Belgian; u/g to OW (13/01/20)
- NOVN/UCB: ECLIPSE, revisited... quick cross reads on Skyrizi headline (14/01/20)

FIGURE 37

UCB: catalyst calendar

Product	Event/Comments	Date
zilucoplan	RARX deal close	1Q20
bimekizumab	Ph. 3 data in psoriasis - full data	20-24/03/20
bimekizumab	BE RADIANT ph. 3 data vs. Cosentyx	2Q20
UCB0107	Confirmatory Phase 2 to start	2Q20
padsevonil	Ph. 2b data in drug-resistant epilepsy (ARISE)	1H20
rozimab x-read	ADAPT trial of efgartigimod in MG	Mid-2020
rozimab	Ph. 3 ITP data	1H21
rozimab	Ph. 2 CIDP PoC data	1H21
bimekizumab	Phase 3 results in PsA and axSpA	End of 2021

Source: Company reports, Barclays Research

FIGURE 38

UCB: 2H19 estimates

UCB BB (EURm, Dec)						
2H19 estimates	2H18 actual	BARC 2H19E	BARC y/y chg.	BBG cons 2H19	BBG cons y/y chg.	BBG cons vs. BARC var.
Group Sales	2,363	2,558	8%	2,426	3%	-5%
Hedging	35	-2	-105%			
Royalty Income	36	38	5%			
Other Revenue	61	67	10%			
Product Sales	2,231	2,455	10%			
Cimzia	767	887	16%			
Neurology	1,228	1,560	27%			
Vimpat	576	684	19%			
Kepra	397	368	-7%			
Neupro	173	167	-3%			
Briviact	82	131	60%			
Established Brands	236	211	-11%			
COGS	(625)	(647)	4%			
<i>Gross Margin</i>	<i>73.6%</i>	<i>74.7%</i>				
SG&A	(614)	(639)	4%			
<i>% of sales</i>	<i>26.0%</i>	<i>25.0%</i>				
R&D	(661)	(716)	8%			
<i>% of sales</i>	<i>28.0%</i>	<i>28.0%</i>				
Other Opex	(15)	5	-136%			
Recurring EBIT	448	562	25%			
<i>margin</i>	<i>19.0%</i>	<i>22.0%</i>				
Reported EBIT	433	552	27%			
Recurring EBITDA	604	715	18%			
<i>margin</i>	<i>25.6%</i>	<i>28.0%</i>				
Net Financial Income	(47)	(47)	-1%			
Pre-Tax Reported	386	505	31%			
Tax	(144)	(101)	-30%			
<i>rate</i>	<i>37.3%</i>	<i>20.0%</i>				
Adjustments	78	49	-38%			
Core Net Income	320	453	41%			
Core EPS	1.70	2.43	43%	2.25	32%	-7%

Source: Company reports, Bloomberg consensus, Barclays Research estimates

FIGURE 39
UCB: FY19/20 estimates

FY ESTIMATES	2019						2020				
	FY18 actual	FY19 BARC	BARC yoy chg	FY19 BBG cons	BBG cons y/y chg	2019 BBG Cons vs. BARC Var.	FY20 BARC	BARC yoy chg	FY20 BBG cons	BBG cons y/y chg	2020 BBG Cons vs. BARC Var.
Group Sales	4,632	4,881	5%	4,794	3%	-2%	5,303	9%	5,100	6%	-4%
Hedging	100	-53	-153%				5	-109%			
Royalty Income	92	71	-23%				101	43%			
Other Revenue	128	138	8%				114	-17%			
Product Sales	4,312	4,725	10%				5,083	8%			
Cimzia	1,446	1,669	15%	1,610	11%	-4%	1,804	8%	1,660	3%	-8%
Neurology	2,350	3,048	30%	2,617	11%	-14%	1,829	-40%	2,823	8%	54%
Vimpat	1,098	1,306	19%	1,297	18%	-1%	1,426	9%	1,429	10%	0%
Keppra	789	739	-6%	756	-4%	2%	728	-2%	752	0%	3%
Neupro	321	325	1%	334	4%	3%	308	-5%	336	1%	9%
Briavact	142	234	65%	230	62%	-2%	314	34%	306	33%	-2%
Established Brands	516	445	-14%				395	0			
COGS	(1,198)	(1,245)	4%				(1,342)	8%			
margin	74.1%	74.5%					74.7%				
SG&A	(1,144)	(1,237)	8%				(1,338)	8%			
% of sales	24.7%	25.3%					25.2%				
R&D	(1,161)	(1,284)	11%				(1,430)	11%			
% of sales	25.1%	26.3%					27.0%				
Other Opex	(24)	11	-146%				19	73%			
Recurring EBIT	1,105	1,126	2%	1,097	-1%	-3%	1,212	8%	1,171	7%	-3%
margin	23.9%	23.1%		22.9%			22.9%		23.0%		
Reported EBIT	1,109	1,150	4%				1,192	4%			
Recurring EBITDA	1,398	1,433	2%				1,531	7%			
margin	30.2%	29.4%					28.9%				
Net Financial Income	(94)	(101)	7%				(85)	-16%			
Pre-Tax Reported	1,015	1,049	3%				1,108	6%			
Tax	(200)	(209)	5%				(222)	6%			
rate	19.7%	19.9%					20.0%				
Adjustments	86	66	-24%				104	59%			
Core Net Income	901	906	1%	885	-2%	-2%	990	9%	929	5%	-6%
Core EPS	4.79	4.85	1%	4.70	-2%	-3%	5.43	12%	5.07	8%	-7%

Source: Company reports, Barclays Research estimates

Vifor (EW, PT CHF 170; FY19 – 12th March, BMO)

Thoughts on the quarter/expectations: The positive readout for avacopan in 4Q19 capped off what was a stellar year of performance for Vifor shares, which was the second-best performing name in our coverage in 2019 (behind only Galapagos). What was interesting regarding 2019's outperformance was that, aside from the avacopan readout, there wasn't a whole lot of clinical data out from Vifor itself, yet components of the bear thesis (risk from roxadustat, risk of not making 2020 numbers) slowly faded away as we got more data throughout the year.

We see no risk to the company making its 2020 guidance targets (i.e. at least CHF 2bn in net sales and ~CHF 700mm of EBITDA). We will be interested to see whether Vifor quantifies its 2025 strategy when the company reports in March and also note that investors will be watching for the readout of Vifor's partnered HIF asset (vadadustat, with phase 3 readouts expected in 2Q20 and at mid-year) as well as for any progress on the M&UA front, with Vifor not having acted on business development in a sizeable way in 2019 (we forecast the company as having ended 2019 in a slightly net-cash position).

Model changes: We've added CR845 to our model, adjusted our estimates for the company's IV iron franchise (reduced Injectafer and increased Velphoro and Ferinject), as well as increased the terminal growth rate used in our NPV calculation from 0% to +1% to

give the company credit for its pipeline assets. Our new PT of CHF 170 is 25x our revised 2020E core EPS estimate, whereas our prior CHF 150 target was based on a 22x core EPS multiple.

Catalysts to watch for: Updates on M&A, the first vadadustat phase 3 readout (2Q20) as well as whether there is an FDA advisory committee meeting for AZN/FGEN's filing for roxadustat (made in December 2019).

Comments published since the beginning of 4Q19:

- AZN/VIFN/GSK: Roxa: crevasses evaded, but Zeus throne remains elusive (10/11/19)

FIGURE 40
VIFN: catalyst calendar

Product	Event/Comments	Date
CCX140	Phase 2 LUMINA-1 data	2Q20
vadadustat	Ph. 3 topline results for INNO2VATE	2Q20
CR845	Phase 3 data from KALM-2 study	2Q20
Ferinject	Geographic expansion - Japan launch	1H20
vadadustat	Ph. 3 topline results for PRO2TECT	mid-2020
avacopan	Phase 2b AURORA trial in hidradenitis suppurativa	3Q20
Ferinject	Ph. 4 FAIR-HF2 trial completion (testing if Ferinject results in reduced hospitalizations & mortality in patients with heart failure and iron deficiency)	2H20
Ferinject	Ph. 4 AFFIRM-AHF trial completion in patients with acute heart failure & iron deficiency	2H20
Veltassa	Guidelines update based on AMBER results	2020
avacopan	Phase 2b ACCOLADE trial in C3 glomerulopathy	2020
CCX140	Phase 2 LUMINA-2 data	2020
Ferinject	Geographic expansion - China	2021
Ferinject	Ph. 3 HEART-FID trial readout in patients with heart failure, iron deficiency & a reduced ejection fraction	2022
Veltassa	Ph. 3 DIAMOND results	2022

Source: Company reports, clinicaltrials.gov, Barclays Research

FIGURE 41

VIFN: 2H19 estimates

VIFN SW (CHFmm, Dec)						
2H19 estimates	2H18 actual	BARC 2H19E	BARC y/y chg	BBG cons 2H19	BBG cons yoy chg	BBG cons vs. BARC Var.
Total Revenue	861	964	12%	966	12%	0%
Other income	24	18	-26%			
Net Sales	837	946	13%			
Ferinject/ Injectafer	256	306	20%	346	35%	13%
Venofer	59	56	-5%	58	-2%	4%
Maltofer	28	28	1%	31	10%	9%
Mircera	237	230	-3%	255	7%	11%
Retacrit	10	13	nm	12	15%	-14%
Velphoro	60	93	55%	70	17%	-24%
Veltassa	54	83	54%	85	58%	2%
Infectious Disease	55	56	1%			
COGS	(361)	(366)	2%			
SG&A	(274)	(297)	8%			
R&D	(115)	(125)	9%			
Total Opex	(388)	(422)	9%			
EBIT	112	176	57%	172	53%	-2%
<i>margin</i>	<i>13.0%</i>	<i>18.2%</i>				
EBITDA	200	272	36%			
<i>margin</i>	<i>23.2%</i>	<i>28.2%</i>				
Net Financial Income	0	(10)	nm			
EBT	112	166	48%			
Tax	-26	(15)	nm			
<i>rate</i>	<i>23.1%</i>	<i>9.0%</i>				
Minority Interest	52	54	3%			
Rept. Net Income	34	97	182%			
Core Net Income	97	193	99%	126	29%	-35%
Diluted EPS	0.53	1.50	182%			
CORE EPS	1.50	2.98	99%	2.59	72%	-13%
Dividend	0.00	0.00				

Source: Company reports, Bloomberg consensus, Barclays Research estimates

FIGURE 42

VIFN: FY19/20 estimates

FY EST.	2019						2020				
	2018 actual	FY19 BARC	BARC yoy chg	Cons FY19	Cons yoy chg	2019 Cons vs. BARC Var.	FY20 BARC	BARC yoy chg	Cons* FY20	Cons yoy chg	2020 Cons vs. BARC Var.
Total Revenue	1,649	1,897	15%	1,903	15%	0%	2,106	11%	2,120	11%	1%
Other income	65	38	-41%	39	-39%	3%	27	-28%	31	-21%	14%
Net Sales	1,585	1,859	17%	1,864	18%	0%	2,079	12%	2,089	12%	0%
	485	579	19%	578	19%	0%	676		673		
Venofor	118	121	2%	123	4%	1%	119	-2%	122	-1%	3%
Maltofer	62	58	-7%				58	1%			
Mircera	451	506	12%	529	17%	4%	530	5%	538	2%	1%
Retacrit	10	16	62%	16	63%	0%	34	106%	48	196%	44%
Velphoro	96	174	82%	156	63%	-11%	167	-4%	166	6%	-1%
Veltassa	91	145	60%	141	56%	-3%	204	41%	207	46%	1%
Infectious Disease	112	108	-3%	111	-1%	3%	110	1%	113	2%	3%
COGS	(649)	(739)	14%	(756)	16%	2%	(786)	6%	(797)		
SG&A	(567)	(599)	6%				(575)	-4%			
R&D	(206)	(235)	14%				(250)	7%			
Total Opex	(773)	(833)	8%	(829)	7%	-1%	(825)	-1%	(842)	2%	2%
EBIT	227	324	43%	317	39%	-2%	495	53%	478	51%	-4%
<i>margin</i>	13.8%	17.1%		16.7%			23.5%	38%	22.5%	35%	
EBITDA	392	527	35%	525	34%	0%	706	34%	693	32%	-2%
<i>margin</i>	23.7%	27.8%		27.6%			33.5%	21%	32.7%	19%	
Net Financial Income	42	(19)	-144%	(11)	-125%	-44%	(9)	-54%	(5)		
EBT	269	306	13%	307	14%	0%	487	59%	473		
Tax	(25)	(29)	15%	(34)	37%	19%	(68)	137%	(61)		
<i>rate</i>	9.3%	9.4%	1%	11.2%			14.0%	49%	12.9%		
Minority Interest	92	115	25%	118	28%	3%	117	2%	125	6%	7%
Rept. Net Income	152	162	7%	154	1%	-5%	301	86%	288	87%	-4%
Core Net Income	270	331	22%				449	36%			
Diluted EPS	2.35	2.50	6%	2.70	15%	8%	4.65	86%	4.77	77%	3%
CORE EPS	4.16	5.09	22%	4.73	14%	-7%	6.92	36%	6.82	44%	-1%
Dividend	2.69	2.69	0%				2.00	-26%			

Source: Company reports, Company consensus, Barclays Research estimates

FIGURE 43

VIFN: forecasts & changes

CHFm	2019E	2020E	2021E	2022E	2023E
Sales OLD	1,874	2,079	2,328	2,534	2,670
Sales NEW	1,897	2,106	2,376	2,604	2,756
CHANGE	1%	1%	2%	3%	3%
OLD sales growth	15%	11%	12%	9%	5%
NEW sales growth	15%	11%	13%	10%	6%
Reported EBITDA OLD	520	697	834	908	956
Reported EBITDA NEW	527	706	851	933	987
CHANGE	1%	1%	2%	3%	3%
OLD growth	128%	34%	20%	9%	5%
NEW growth	132%	34%	21%	10%	6%
OLD margin	27.8%	33.5%	35.8%	35.8%	35.8%
NEW margin	27.8%	33.5%	35.8%	35.8%	35.8%
Dil. EPS OLD	2.51	4.67	6.21	7.15	7.39
Dil. EPS NEW	2.50	4.65	6.27	7.29	7.62
CHANGE	0%	0%	1%	2%	3%
OLD EPS growth	0%	86%	33%	15%	3%
NEW EPS growth	6%	86%	35%	16%	4%
Core EPS OLD	5.06	6.91	7.83	8.74	8.83
Core EPS NEW	5.09	6.92	7.92	8.93	9.10
CHANGE	1%	0%	1%	2%	3%
OLD EPS growth	30%	37%	13%	12%	1%
NEW EPS growth	22%	36%	14%	13%	2%
FCF OLD	467	558	712	805	847
FCF NEW	456	574	720	821	871
CHANGE	-2%	3%	1%	0%	0%
Net (debt)/cash OLD	19	447	1,030	1,706	2,425
Net (debt)/cash NEW	8	452	1,043	1,735	2,477
CHANGE	-58%	1%	1%	2%	2%
NPV old	148.83				
NPV new	167.75				
CHANGE	13%				
PT old	150				
PT new	170				
CHANGE	13%				

Source: Barclays Research estimates

European Mid Cap Pharmaceuticals	Industry View: POSITIVE
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argenx (ARGX.BR)

Stock Rating: EQUAL WEIGHT

Income statement (€mn)	2018A	2019E	2020E	2021E	CAGR
Revenue	21	85	79	101	67.6%
Gross profit	21	85	79	61	41.4%
EBITDA (adj)	-81	-132	-231	-343	N/A
EBIT (adj)	-82	-134	-233	-346	N/A
Pre-tax income (adj)	-66	-103	-206	-320	N/A
Net income (adj)	-67	-103	-206	-320	N/A
EPS (adj) (€)	-1.99	-2.58	-4.84	-7.40	N/A
Diluted shares (mn)	33.4	40.1	42.7	43.2	8.9%
DPS (€)	0.00	0.00	0.00	0.00	N/A

Price (17-Jan-2020) EUR 138.40
 Price Target EUR 135.00

Why Equal Weight? Whilst we believe that efgartigimod is likely the best-in-class asset in the anti-FcRn class, we do believe that is fully encapsulated in argenx's current valuation and also foresee a lack of potential catalysts over the next 12 months until the publication of the phase 3 data in MG in 2H20.

Upside case EUR 162.00

Our upside case is based on an M&A scenario, assuming 100% probability of success for efgartigimod in its 3 lead indications (discounted at a typical 8% large-cap pharma WACC) and a 5.0x EV/sales takeout multiple (in line with recent biotech transactions).

Downside case EUR 80.00

Our downside case assumes something goes seriously wrong with the MG trial, reducing our probability of success to 30% (from 70% in our base case) and peak share assumptions in the US and EU to 10% (from 15% in our base case).

Margin and return data	Average				
Gross margin (%)	100.0	100.0	100.0	60.0	90.0
EBIT (adj) margin (%)	-381.0	-157.6	-294.9	-342.6	-294.0
Pre-tax (adj) margin (%)	-306.5	-120.9	-261.1	-316.2	-251.2
Net (adj) margin (%)	-310.2	-121.4	-261.1	-316.2	-252.2
ROCE (%)	-23.9	-25.0	-17.5	-28.3	-23.7
ROE (%)	-19.3	-19.2	-18.9	-32.5	-22.5

Cash flow and balance sheet (€mn)	CAGR				
Change in working capital	9	380	18	34	56.5%
Cash flow from operations	-54	276	-181	-275	N/A
Capital expenditure	-1	-2	-2	-2	N/A
Free cash flow	-54	274	-183	-277	N/A
Tangible fixed assets	1	7	8	10	132.3%
Intangible fixed assets	0	35	35	35	758.8%
Cash and equivalents	281	697	530	554	25.4%
Total assets	578	1,539	1,374	1,412	34.7%
Short and long-term debt	0	0	0	0	N/A
Other long-term liabilities	0	0	0	0	0.0%
Total liabilities	40	211	154	201	71.1%
Total invested capital	257	394	452	420	17.8%
Net debt/(funds)	-565	-1,473	-1,307	-1,330	N/A
Provisions	0	0	0	0	N/A
Minorities	0	0	0	0	N/A
Shareholders' equity	538	1,090	983	974	21.8%

Valuation and leverage metrics	Average				
P/E (adj) (x)	N/A	N/A	N/A	N/A	N/A
EV/sales (x)	246.7	51.5	57.6	44.8	100.2
EV/EBITDA (adj) (x)	-65.1	-33.2	-19.7	-13.2	-32.8
Equity FCF yield (%)	-1.2	5.0	-3.1	-4.6	-1.0
P/FCF (x)	-84.9	20.2	-32.3	-21.6	-29.6
P/BV (x)	8.6	5.1	6.0	6.1	6.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Total debt/capital (%)	0.0	0.0	0.0	0.0	0.0
Net debt/equity (%)	-52.2	-63.9	-54.0	-56.8	-56.7

Selected operating metrics	Average				
SG&A/sales (%)	127.9	65.9	78.2	91.7	90.9
R&D/sales (%)	389.2	207.5	335.5	327.7	315.0
R&D growth (%)	61.6	111.4	50.0	25.0	62.0
SG&A growth (%)	120.7	104.5	10.0	50.0	71.3

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
 Note: FY End Dec

European Mid Cap Pharmaceuticals						Industry View: POSITIVE
Galapagos (GLPG.AS)						Stock Rating: OVERWEIGHT
Income statement (€mn)	2018A	2019E	2020E	2021E	CAGR	Price (17-Jan-2020) EUR 206.50
Revenue	318	853	518	627	25.4%	Price Target EUR 225.00
Gross profit	318	853	518	627	25.4%	Why Overweight? We believe that GLPG's proprietary drug discovery platform is being validated as the pivotal studies read out for its lead asset, JAK inhibitor filgotinib. We believe filgotinib has the potential to be a best-in-class asset for the treatment of autoimmune diseases such as rheumatoid arthritis and inflammatory bowel disease.
EBITDA (adj)	-38	367	-125	-109	N/A	Upside case EUR 240.00
EBIT (adj)	-45	357	-128	-112	N/A	Should the MANTA safety study read out positively, it would likely mean filgotinib would be the best-in-class JAK and we would increase our peak share assumptions. Success in the phase 3 trials for IPF asset GLPG 1690 would also result in us raising our NPV.
Pre-tax income (adj)	-29	213	-128	-112	N/A	Downside case EUR 150.00
Net income (adj)	-29	230	-128	-112	N/A	Any safety signals for filgotinib in MANTA or failure of the asset in the IBD ph. 3 trials. Inability of GLPG 1690 to show disease modification in IPF would also lower our peak sales estimates.
EPS (adj) (€)	-0.56	3.95	-1.97	-1.71	N/A	Upside/Downside scenarios
Diluted shares (mn)	52.2	58.2	64.9	65.5	7.8%	Price History Prior 12 months High
DPS (€)	0.00	0.00	0.00	0.00	N/A	Price Target Next 12 months Upside
Margin and return data	Average					207.20 Current 206.50
Gross margin (%)	100.0	100.0	100.0	100.0	100.0	240.00 Target 225.00
EBIT (adj) margin (%)	-14.1	41.9	-24.6	-17.9	-3.7	150.00
Pre-tax (adj) margin (%)	-9.2	24.9	-24.6	-17.9	-6.7	
Net (adj) margin (%)	-9.2	26.9	-24.6	-17.9	-6.2	
ROCE (%)	-4.0	31.6	-2.1	-2.0	5.9	
ROE (%)	-2.9	18.9	-3.8	-3.7	2.1	
Cash flow and balance sheet (€mn)	CAGR					
Change in working capital	-133	2,866	-154	-160	N/A	
Cash flow from operations	-142	3,228	-279	-269	N/A	
Capital expenditure	-10	-23	-27	-33	N/A	
Free cash flow	-153	3,205	-306	-303	N/A	
Tangible fixed assets	23	67	95	128	76.8%	
Intangible fixed assets	4	23	23	23	86.3%	
Cash and equivalents	1,291	5,862	5,556	5,253	59.7%	
Total assets	1,440	6,124	5,855	5,591	57.2%	
Short and long-term debt	0	0	0	0	N/A	
Other long-term liabilities	2	2	2	2	16.1%	
Total liabilities	225	2,808	2,837	2,856	133.2%	
Total invested capital	-77	-2,546	-2,538	-2,517	N/A	
Net debt/(funds)	-1,291	-5,862	-5,556	-5,253	N/A	
Provisions	0	0	0	0	N/A	
Minorities	N/A	N/A	N/A	N/A	N/A	
Shareholders' equity	1,214	3,316	3,018	2,736	31.1%	
Valuation and leverage metrics	Average					
P/E (adj) (x)	N/A	52.3	N/A	N/A	52.3	
EV/sales (x)	37.9	8.8	15.0	12.9	18.6	
EV/EBITDA (adj) (x)	-317.0	20.4	-62.2	-74.0	-108.2	
Equity FCF yield (%)	-1.4	26.7	-2.3	-2.2	5.2	
P/FCF (x)	-70.6	3.7	-43.8	-44.7	-38.8	
P/BV (x)	8.9	3.6	4.4	4.9	5.5	
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	
Total debt/capital (%)	0.0	0.0	0.0	0.0	0.0	
Net debt/equity (%)	-106.3	-176.8	-184.1	-192.0	-164.8	
Selected operating metrics	Average					
SG&A/sales (%)	12.5	10.6	29.1	31.7	21.0	
R&D/sales (%)	101.6	47.6	97.2	92.3	84.7	
R&D growth (%)	47.8	25.7	24.0	15.0	28.1	
SG&A growth (%)	46.1	127.0	66.6	32.1	68.0	

Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

European Mid Cap Pharmaceuticals	Industry View: POSITIVE
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Genmab A/S (GMAB.CO)	Stock Rating: OVERWEIGHT
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Income statement (DKKmn)	2018A	2019E	2020E	2021E	CAGR
Revenue	3,025	5,150	5,562	7,918	37.8%
Gross profit	3,025	5,150	5,562	7,887	37.6%
EBITDA (adj)	1,559	2,876	2,273	4,040	37.4%
EBIT (adj)	1,380	2,450	1,828	3,407	35.1%
Pre-tax income (adj)	1,612	2,937	2,061	3,689	31.8%
Net income (adj)	1,472	2,280	1,608	2,878	25.0%
EPS (adj) (DKK)	23.73	36.35	25.34	45.07	23.8%
Diluted shares (mn)	62.0	62.7	63.5	63.9	1.0%
DPS (DKK)	0.00	0.00	0.00	0.00	N/A

Price (17-Jan-2020)	DKK 1,520.00
Price Target	DKK 1,650.00

Why Overweight? Genmab's key asset, Darzalex, recently eclipsed blockbuster status globally and we think the strong growth in the multiple myeloma setting will continue. The company is highly cash-flow-generative and we expect the company will deploy that cash in order to supplement the already diverse early- to mid-stage pipeline.

Upside case	DKK 1,850.00
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More rapid Darzalex uptake in 1L multiple myeloma, positive of atumumab data, success of other pipeline assets such as DuoBody CD3xCD20 (and any potential partnerships).

Downside case	DKK 1,200.00
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Failure of Darzalex in ongoing clinical trials, slower launch ramp of Darzalex in approved indications, greater-than-projected operating expense ramp dampening est. EBIT margins.

Margin and return data	Average				
Gross margin (%)	100.0	100.0	100.0	99.6	99.9
EBIT (adj) margin (%)	45.6	47.6	32.9	43.0	42.3
Pre-tax (adj) margin (%)	53.3	57.0	37.1	46.6	48.5
Net (adj) margin (%)	48.7	44.3	28.9	36.3	39.5
ROCE (%)	20.1	23.7	9.4	14.5	16.9
ROE (%)	23.5	28.5	10.6	15.7	19.6

Cash flow and balance sheet (DKKmn)	CAGR				
Change in working capital	-634	202	-400	-966	N/A
Cash flow from operations	1,015	3,314	2,662	4,148	59.9%
Capital expenditure	-72	-114	-111	-158	N/A
Free cash flow	943	3,200	2,551	3,990	61.7%
Tangible fixed assets	162	242	354	512	46.9%
Intangible fixed assets	470	420	420	420	-3.7%
Cash and equivalents	533	6,751	9,302	13,292	192.2%
Total assets	8,461	15,858	18,921	24,052	41.7%
Short and long-term debt	0	0	0	0	N/A
Other long-term liabilities	2	1	1	1	-8.3%
Total liabilities	447	627	627	654	13.5%
Total invested capital	2,443	8,759	11,822	16,927	90.7%
Net debt/(funds)	-6,106	-13,225	-15,776	-19,766	N/A
Provisions	0	0	0	0	N/A
Minorities	N/A	N/A	N/A	N/A	N/A
Shareholders' equity	8,014	15,231	18,293	23,399	42.9%

Upside/Downside scenarios



Valuation and leverage metrics	Average				
P/E (adj) (x)	64.1	41.8	60.0	33.7	49.9
EV/sales (x)	29.5	15.9	14.3	9.5	17.3
EV/EBITDA (adj) (x)	57.2	28.6	35.0	18.7	34.9
Equity FCF yield (%)	1.0	3.4	2.6	4.1	2.8
P/FCF (x)	100.0	29.8	37.8	24.3	48.0
P/BV (x)	11.8	6.3	5.3	4.1	6.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Total debt/capital (%)	0.0	0.0	0.0	0.0	0.0
Net debt/equity (%)	-6.6	-44.3	-50.8	-56.8	-39.7

Selected operating metrics	Average				
SG&A/sales (%)	7.1	6.0	6.9	5.8	6.4
R&D/sales (%)	47.3	46.5	60.2	50.8	51.2
R&D growth (%)	63.7	67.2	40.0	20.0	47.7
SG&A growth (%)	45.4	43.7	25.0	20.0	33.5

Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

European Mid Cap Pharmaceuticals	Industry View: POSITIVE
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Grifols SA (GRLS.MC)	Stock Rating: OVERWEIGHT
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Income statement (€mn)	2018A	2019E	2020E	2021E	CAGR
Revenue	4,487	5,066	5,465	5,898	9.5%
Gross profit	2,050	2,353	2,594	2,843	11.5%
EBITDA (adj)	1,327	1,623	1,764	1,964	14.0%
EBIT (adj)	1,098	1,323	1,463	1,652	14.6%
Pre-tax income (adj)	832	914	1,099	1,313	16.4%
Net income (adj)	681	734	898	1,073	16.4%
EPS (adj) (€)	0.99	1.08	1.32	1.58	16.8%
Diluted shares (mn)	687.6	680.8	679.2	680.0	-0.4%
DPS (€)	0.35	0.37	0.39	0.41	5.2%

Price (17-Jan-2020) EUR 31.80
Price Target EUR 36.00

Why Overweight? Given the underlying health of end-markets for blood plasma products, and Grifols' position as a top three supplier of products in this stable oligopoly, we expect Grifols to grow revenues at high SD rates in the coming years. We believe that Grifols' bottom line should benefit from margin expansion following a period of heavy investment.

Upside case EUR 40.00

End-markets grow at rates faster than we anticipate (for IG and albumin in particular), higher-than-anticipated operating leverage, success in plasma product label expansion clinical trials.

Downside case EUR 25.00

Import bans/price ceilings for albumin in China, greater competition for plasma donors in the US, price competition for plasma products among the big 3 manufacturers.

Margin and return data	Average				
Gross margin (%)	45.7	46.5	47.5	48.2	47.0
EBIT (adj) margin (%)	24.5	26.1	26.8	28.0	26.3
Pre-tax (adj) margin (%)	18.5	18.0	20.1	22.3	19.7
Net (adj) margin (%)	15.2	14.5	16.4	18.2	16.1
ROCE (%)	9.0	9.5	9.3	9.9	9.4
ROE (%)	18.8	17.4	17.9	17.7	17.9

Cash flow and balance sheet (€mn)	CAGR				
Change in working capital	-81	-249	71	105	N/A
Cash flow from operations	737	666	1,122	1,318	21.4%
Capital expenditure	-252	-259	-290	-313	N/A
Free cash flow	485	407	833	1,006	27.5%
Tangible fixed assets	1,952	2,183	2,473	2,785	12.6%
Intangible fixed assets	6,595	7,880	7,880	7,880	6.1%
Cash and equivalents	1,034	1,048	1,561	2,247	29.5%
Total assets	12,477	14,275	15,007	15,901	8.4%
Short and long-term debt	6,377	7,319	6,999	6,680	1.6%
Other long-term liabilities	424	431	431	431	0.6%
Total liabilities	7,780	8,729	8,409	8,090	1.3%
Total invested capital	10,040	11,816	12,035	12,243	6.8%
Net debt/(funds)	5,343	6,271	5,438	4,433	-6.0%
Provisions	0	0	0	0	N/A
Minorities	471	520	520	520	3.4%
Shareholders' equity	4,226	5,026	6,077	7,291	19.9%

Upside/Downside scenarios



Valuation and leverage metrics	Average				
P/E (adj) (x)	32.1	29.5	24.1	20.1	26.5
EV/sales (x)	6.0	5.5	4.9	4.4	5.2
EV/EBITDA (adj) (x)	20.3	17.1	15.3	13.2	16.5
Equity FCF yield (%)	2.2	1.9	3.9	4.7	3.2
P/FCF (x)	45.1	53.2	25.9	21.5	36.4
P/BV (x)	5.2	4.3	3.6	3.0	4.0
Dividend yield (%)	1.1	1.2	1.2	1.3	1.2
Total debt/capital (%)	56.8	56.8	51.4	46.0	52.8
Net debt/equity (%)	113.8	113.1	82.4	56.8	91.5

Selected operating metrics	Average				
SG&A/sales (%)	18.2	18.5	17.9	17.4	18.0
R&D/sales (%)	5.4	5.4	5.3	5.3	5.3
R&D growth (%)	-16.5	13.0	6.4	7.9	2.7
SG&A growth (%)	-5.3	14.9	4.6	4.9	4.8

Source: Company data, Bloomberg, Barclays Research
 Note: FY End Dec

European Mid Cap Pharmaceuticals						Industry View: POSITIVE	
Hikma Pharmaceuticals PLC (HIK.L)						Stock Rating: EQUAL WEIGHT	
Income statement (\$mn)	2018A	2019E	2020E	2021E	CAGR	Price (17-Jan-2020)	GBP 19.56
Revenue	2,076	2,170	2,230	2,305	3.5%	Price Target	GBP 19.00
Gross profit	1,072	1,120	1,138	1,174	3.1%	Why Equal Weight? Hikma is a UK-listed generics company for which we estimate a 2.3% core 3-year EPS CAGR. It holds a top 10 position in US generic non-injectables and injectables. Whilst we expect Hikma to continue to benefit from shortages in injectables, we believe that is largely factored into its premium valuation.	
EBITDA (adj)	549	572	582	622	4.3%	Upside case GBP 24.00	
EBIT (adj)	460	487	497	521	4.2%	Earlier-than-expected approval for generic Advair, continued injectable shortages, accelerated product launches, softer competition in existing products, successful patent challenges, new in-licensing agreements in MENA, earnings-accretive acquisitions.	
Pre-tax income (adj)	408	441	446	470	4.9%	Downside case GBP 15.50	
Net income (adj)	335	347	353	372	3.5%	Lack of generic Advair approval, greater pricing pressure in the US market, delays to product launches, greater-than-expected competition for pipeline products, political instability/currency devaluations in MENA, FDA warning letters and other regulatory sanctions.	
EPS (adj) (\$)	1.37	1.43	1.46	1.55	4.0%	Upside/Downside scenarios	
Diluted shares (mn)	242.0	242.9	241.7	240.5	-0.2%		
DPS (\$)	0.36	0.26	0.36	0.37	0.9%		
Margin and return data						Average	
Gross margin (%)	51.6	51.6	51.0	50.9	51.3		
EBIT (adj) margin (%)	22.2	22.5	22.3	22.6	22.4		
Pre-tax (adj) margin (%)	19.7	20.3	20.0	20.4	20.1		
Net (adj) margin (%)	16.1	16.0	15.8	16.1	16.0		
ROIC (%)	17.4	18.0	16.9	17.1	17.4		
ROCE (%)	14.6	14.7	15.9	15.1	15.1		
ROE (%)	22.1	20.6	17.5	16.3	19.1		
Cash flow and balance sheet (\$mn)						CAGR	
Change in working capital	-25	-136	-25	-30	N/A		
Cash flow from operations	430	356	388	404	-2.1%		
Capital expenditure	-107	-110	-123	-127	N/A		
Free cash flow	323	246	266	277	-5.0%		
Tangible fixed assets	870	924	1,047	1,173	10.5%		
Intangible fixed assets	766	787	716	693	-3.3%		
Cash and equivalents	276	429	608	796	42.4%		
Total assets	3,497	3,870	4,144	4,481	8.6%		
Short and long-term debt	613	628	628	628	0.8%		
Other long-term liabilities	368	398	398	398	2.6%		
Total liabilities	1,800	1,840	1,857	1,872	1.3%		
Total invested capital	2,125	2,324	2,402	2,537	6.1%		
Net debt/(funds)	337	199	20	-168	N/A		
Provisions	91	95	96	96	1.9%		
Minorities	12	12	12	12	0.0%		
Shareholders' equity	1,685	2,018	2,275	2,597	15.5%		
Valuation and leverage metrics						Average	
P/E (adj) (x)	18.6	17.8	17.5	16.5	17.6		
EV/sales (x)	3.2	3.0	2.8	2.7	2.9		
EV/EBITDA (adj) (x)	12.0	11.3	10.8	9.8	11.0		
Equity FCF yield (%)	5.2	4.0	4.3	4.5	4.5		
P/FCF (x)	19.1	25.2	23.2	22.1	22.4		
P/BV (x)	3.7	3.1	2.7	2.4	2.9		
Dividend yield (%)	1.4	1.0	1.4	1.4	1.3		
Total debt/capital (%)	23.5	25.4	23.0	20.6	23.2		
Net debt/equity (%)	19.9	9.8	0.9	-6.5	6.0		
Selected operating metrics						Average	
SG&A/sales (%)	21.1	20.2	19.8	19.5	20.1		
R&D/sales (%)	5.7	6.2	6.3	6.3	6.1		
R&D growth (%)	2.6	13.7	4.4	4.0	6.2		
SG&A growth (%)	2.6	0.4	0.6	1.5	1.3		

Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

European Mid Cap Pharmaceuticals	Industry View: POSITIVE
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H Lundbeck A/S (LUN.CO)	Stock Rating: OVERWEIGHT
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Income statement (DKKmn)	2018A	2019E	2020E	2021E	CAGR
Revenue	18,117	16,855	18,273	18,456	0.6%
Gross profit	15,474	14,455	15,762	15,894	0.9%
EBITDA (adj)	7,342	6,197	5,855	6,098	-6.0%
EBIT (adj)	6,158	4,939	4,377	4,768	-8.2%
Pre-tax income (adj)	6,146	4,931	4,138	4,532	-9.7%
Net income (adj)	4,711	3,743	3,145	3,444	-9.9%
EPS (adj) (DKK)	23.70	18.84	15.80	17.26	-10.0%
EPS (reported) (DKK)	19.66	12.75	10.43	12.38	-14.3%
Diluted shares (mn)	198.8	198.7	199.0	199.6	0.1%
DPS (DKK)	7.99	12.00	7.64	6.24	-7.9%

Price (17-Jan-2020)	DKK 281.30
Price Target	DKK 290.00

Why Overweight? We believe that strength in Lundbeck's Key Products such as Abilify, Trintellix and Rexulti will return the company to growth post-2019. We also are assuming a successful launch and significant earnings accretion for eptienzumab.

Upside case	DKK 382.63
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Strong momentum across the the major launches: Trintellix/Brintellix, Abilify Maintena, and Rexulti. Early stage R&D progresses. Eptienzumab becomes a blockbuster.

Downside case	DKK 201.65
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Trintellix/Brintellix, Rexulti and/or Abilify Matinena slows down, early-stage assets do not progress through the pipeline. Value destructive M&A (disappointing epti launch). Margin compression following the loss of Onfi.

Margin and return data	Average				
Gross margin (%)	85.4	85.8	86.3	86.1	85.9
EBIT (adj) margin (%)	34.0	29.3	24.0	25.8	28.3
Pre-tax (adj) margin (%)	33.9	29.3	22.6	24.6	27.6
Net (adj) margin (%)	26.0	22.2	17.2	18.7	21.0
ROIC (%)	46.8	40.6	36.4	36.9	40.2
ROE (%)	38.7	26.3	523.3	129.2	179.4

Balance sheet and cash flow (DKKmn)	CAGR				
Tangible fixed assets	2,018	2,594	2,959	3,328	18.2%
Intangible fixed assets	8,023	7,594	7,713	6,520	-6.7%
Cash and equivalents	6,635	5,821	7,213	8,094	6.8%
Total assets	23,011	22,651	25,607	25,160	3.0%
Short and long-term debt	72	12,690	12,690	12,690	460.7%
Other long-term liabilities	1,112	1,353	1,353	1,353	6.8%
Total liabilities	8,760	22,050	22,942	22,463	36.9%
Total invested capital	9,242	9,142	9,814	8,965	-1.0%
Net debt/(funds)	-6,563	6,869	5,477	4,596	N/A
Provisions	442	319	319	319	-10.3%
Shareholders' equity	14,251	601	2,665	2,696	-42.6%
Change in working capital	563	-356	-187	25	-64.7%
Cash flow from operations	5,981	3,373	3,278	3,802	-14.0%
Capital expenditure	-1,061	-337	-365	-369	N/A
Free cash flow	4,920	3,037	2,912	3,433	-11.3%

Upside/Downside scenarios



Valuation and leverage metrics	Average				
P/E (adj) (x)	11.9	14.9	17.8	16.3	15.2
P/E (reported) (x)	14.3	22.1	27.0	22.7	21.5
EV/sales (x)	2.7	3.7	3.4	3.3	3.3
EV/EBITDA (adj) (x)	6.7	10.2	10.5	10.0	9.3
Equity FCF yield (%)	8.8	5.4	5.2	6.1	6.4
P/FCF (x)	11.4	18.4	19.2	16.4	16.3
P/BV (x)	3.9	93.0	21.0	20.8	34.7
Dividend yield (%)	2.8	4.3	2.7	2.2	3.0
Total debt/capital (%)	0.5	87.6	76.7	76.6	60.3
Net debt/equity (%)	-24.8	1,398.7	263.2	227.5	466.1

Selected operating metrics	Average				
SG&A/sales (%)	33.3	37.6	39.5	38.9	37.4
R&D/sales (%)	18.1	18.8	22.8	21.3	20.3
R&D growth (%)	21.1	-3.2	31.3	-5.5	10.9
SG&A growth (%)	-6.8	5.0	13.8	-0.4	2.9

Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

European Mid Cap Pharmaceuticals						Industry View: POSITIVE		
Ipsen SA (IPN.PA)						Stock Rating: EQUAL WEIGHT		
Income statement (€mn)	2018A	2019E	2020E	2021E	CAGR	Price (17-Jan-2020)	EUR 82.35	
Revenue	2,348	2,637	2,869	3,051	9.1%	Price Target	EUR 86.00	
Gross profit	1,894	2,145	2,333	2,483	9.4%	Why Equal Weight? Whilst we do see a positive longer term case for Ipsen, in the near future we see overhangs such as potential Somatuline generics and the pediatric clinical hold on paloverotene as overshadowing any positive earnings growth. That being said, we believe valuation provides a floor limiting any further underperformance.		
EBITDA (adj)	802	913	1,008	1,065	9.9%	Upside case EUR 120.00		
EBIT (adj)	660	780	863	912	11.4%	The upside case for Ipsen would result from higher-than-projected sales of Cabometyx in key indications, a positive contribution from paloverotene and resolution of safety issues, as well as the possibility of higher market share for both Somatuline and Dysport in the US.		
Pre-tax income (adj)	634	726	808	857	10.5%	Downside case EUR 70.00		
Net income (adj)	492	581	629	667	10.7%	Our downside case is premised on higher mid-term spending, decreased market share for Somatuline in the US against potential generic competitors, approval/commercial risk to paloverotene and competition to Dysport from competitors.		
EPS (adj) (€)	5.91	6.95	7.75	8.53	13.0%	Upside/Downside scenarios		
Diluted shares (mn)	83.2	83.6	81.2	78.1	-2.1%			
DPS (€)	1.00	1.08	1.18	1.29	8.9%			
Margin and return data						Average		
Gross margin (%)	80.7	81.3	81.3	81.4	81.2			
EBIT (adj) margin (%)	28.1	29.6	30.1	29.9	29.4			
Pre-tax (adj) margin (%)	27.0	27.5	28.2	28.1	27.7			
Net (adj) margin (%)	20.9	22.0	21.9	21.9	21.7			
ROCE (%)	87.3	70.8	132.7	93.7	96.2			
ROE (%)	32.2	31.6	28.0	26.3	29.5			
Cash flow and balance sheet (€mn)						CAGR		
Change in working capital	-3	-62	61	-9	N/A			
Cash flow from operations	571	587	740	711	7.6%			
Capital expenditure	-107	-116	-86	-92	N/A			
Free cash flow	464	471	654	619	10.1%			
Tangible fixed assets	475	705	791	883	23.0%			
Intangible fixed assets	1,408	2,572	2,572	2,572	22.3%			
Cash and equivalents	350	566	805	1,023	43.0%			
Total assets	3,378	5,146	5,468	5,826	19.9%			
Short and long-term debt	570	1,698	1,698	1,698	43.9%			
Other long-term liabilities	125	354	354	354	41.4%			
Total liabilities	1,534	2,895	2,930	2,974	24.7%			
Total invested capital	2,100	3,406	3,453	3,549	19.1%			
Net debt/(funds)	220	1,131	892	675	45.3%			
Provisions	21	10	10	10	-23.1%			
Minorities	2	2	2	2	-4.6%			
Shareholders' equity	1,841	2,250	2,536	2,849	15.7%			
Valuation and leverage metrics						Average		
P/E (adj) (x)	13.9	11.8	10.6	9.7	11.5			
EV/sales (x)	3.1	3.0	2.7	2.5	2.8			
EV/EBITDA (adj) (x)	9.0	8.8	7.7	7.1	8.1			
Equity FCF yield (%)	6.8	6.8	9.8	9.6	8.3			
P/FCF (x)	14.8	14.6	10.2	10.4	12.5			
P/BV (x)	3.7	3.1	2.6	2.3	2.9			
Dividend yield (%)	1.2	1.3	1.4	1.6	1.4			
Total debt/capital (%)	23.6	49.9	46.0	42.4	40.5			
Net debt/equity (%)	12.3	52.7	37.3	25.6	31.9			
Selected operating metrics						Average		
SG&A/sales (%)	40.6	37.8	36.8	36.8	38.0			
R&D/sales (%)	12.9	14.0	14.5	14.8	14.0			
R&D growth (%)	13.7	22.3	12.7	8.5	14.3			
SG&A growth (%)	11.3	4.5	5.9	6.3	7.0			

Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

European Mid Cap Pharmaceuticals						Industry View: POSITIVE	
Merck KGaA (MRCG.DE)						Stock Rating: UNDERWEIGHT	
Income statement (€mn)	2018A	2019E	2020E	2021E	CAGR	Price (17-Jan-2020)	EUR 115.50
Revenue	14,836	16,123	17,880	18,386	7.4%	Price Target	EUR 94.00
Gross profit	9,454	10,229	11,299	11,595	7.0%	Why Underweight? Restructuring story seems in valuation. Few pipeline catalysts in pharma and a Liquid Crystals business coming off peak profitability and experiencing competition.	
EBITDA (adj)	3,800	4,348	4,755	5,030	9.8%	Upside case EUR 125.00	
EBIT (adj)	3,229	3,553	3,889	4,139	8.6%	Greater restructuring savings, a more sustainable outlook for Performance Materials, less Erbitux/Rebif erosion and potential disposal of non-core assets.	
Pre-tax income (adj)	2,963	3,207	3,600	3,921	9.8%	Downside case EUR 75.00	
Net income (adj)	2,219	2,403	2,692	2,932	9.7%	Greater-than-expected Rebif/Erbitux erosion, pipeline setbacks and a poorer outlook for Liquid Crystals and inability to reduce costs with expectations.	
EPS (adj) (€)	5.10	5.53	6.19	6.76	9.8%	Upside/Downside scenarios	
Diluted shares (mn)	434.8	434.8	434.8	433.8	-0.1%	Price History Prior 12 months	
DPS (€)	1.34	1.34	1.30	1.36	0.4%	Price Target Next 12 months	
Margin and return data						Average	
Gross margin (%)	63.7	63.4	63.2	63.1	63.4	High	
EBIT (adj) margin (%)	21.8	22.0	21.8	22.5	22.0	Upside	
Pre-tax (adj) margin (%)	20.0	19.9	20.1	21.3	20.3	116.75 Current 115.50	
Net (adj) margin (%)	15.0	14.9	15.1	15.9	15.2	85.84	
ROCE (%)	9.0	9.4	13.5	9.1	10.2	Low	
ROE (%)	15.8	14.0	40.1	13.7	20.9	Downside	
Cash flow and balance sheet (€mn)						CAGR	
Change in working capital	-178	-164	-266	-116	N/A	125.00	
Cash flow from operations	2,219	3,333	4,226	4,582	27.3%	Target 94.00	
Capital expenditure	-919	-911	-948	-974	N/A	75.00	
Free cash flow	1,301	2,422	3,279	3,608	40.5%	Upside	
Tangible fixed assets	4,811	5,629	6,576	7,551	16.2%	Downside	
Intangible fixed assets	21,001	13,526	21,323	19,972	-1.7%		
Cash and equivalents	2,170	2,434	3,986	6,420	43.6%		
Total assets	36,888	32,047	42,741	45,015	6.9%		
Short and long-term debt	8,896	15,906	11,790	9,790	3.2%		
Other long-term liabilities	2,101	2,141	2,141	2,141	0.6%		
Total liabilities	19,655	25,303	21,317	19,419	-0.4%		
Total invested capital	28,826	25,037	34,104	33,880	5.5%		
Net debt/(funds)	6,725	13,473	7,804	3,371	-20.6%		
Provisions	600	545	545	545	-3.2%		
Minorities	33	24	24	24	-10.6%		
Shareholders' equity	17,200	6,721	21,399	25,573	14.1%		
Valuation and leverage metrics						Average	
P/E (adj) (x)	22.6	20.9	18.7	17.1	19.8		
EV/sales (x)	4.0	4.2	3.4	3.1	3.7		
EV/EBITDA (adj) (x)	15.8	15.4	12.9	11.3	13.8		
Equity FCF yield (%)	2.7	5.0	6.5	7.2	5.4		
P/FCF (x)	37.5	19.9	15.3	13.9	21.7		
P/BV (x)	2.9	7.5	2.3	2.0	3.7		
Dividend yield (%)	1.2	1.2	1.1	1.2	1.2		
Total debt/capital (%)	31.4	73.5	34.4	26.2	41.4		
Net debt/equity (%)	39.0	199.8	36.4	13.2	72.1		
Selected operating metrics						Average	
SG&A/sales (%)	37.1	35.4	34.8	34.2	35.4		
R&D/sales (%)	15.0	13.9	13.3	13.0	13.8		
R&D growth (%)	5.6	1.1	6.0	0.4	3.3		
SG&A growth (%)	11.9	3.7	9.1	1.0	6.5		

Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

European Mid Cap Pharmaceuticals	Industry View: POSITIVE
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UCB SA (UCB.BR)	Stock Rating: OVERWEIGHT
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Income statement (€mn)	2018A	2019E	2020E	2021E	CAGR
Revenue	4,632	4,881	5,303	5,679	7.0%
Gross profit	3,434	3,636	3,961	4,242	7.3%
EBITDA (adj)	1,398	1,433	1,531	1,654	5.8%
EBIT (adj)	1,105	1,126	1,212	1,314	5.9%
Pre-tax income (adj)	1,129	1,130	1,236	1,337	5.8%
Net income (adj)	901	906	990	1,071	5.9%
EPS (adj) (€)	4.79	4.85	5.43	6.19	8.9%
Diluted shares (mn)	188.0	186.7	182.4	173.0	-2.7%
DPS (€)	1.18	1.22	1.31	1.45	7.2%

Price (17-Jan-2020) EUR 79.96
Price Target EUR 90.00

Why Overweight? Whilst we turned positive on UCB's pipeline in 3Q19, our concern that there could be a lack of expense control kept us on the sidelines. The company's exceptional financial performance in 2H19 nullifies that risk and we see P/E multiple expansion ahead for UCB shares as we learn more on the pipeline/base business continues to improve.

Upside case EUR 95.00

Limited penetration of biosimilars/competitors into the auto-immune disease space. More rapid launch of Briviact and slower decline of Keppra. Success of pipeline assets such as bimekizumab, rozanolixizumab and zilucoplan.

Downside case EUR 68.00

Cannibalisation of Cimzia requires greater investment in the pipeline which depresses both margins and earnings. Failure of pipeline assets potentially leading to dilutive M&A.

Margin and return data	Average				
Gross margin (%)	74.1	74.5	74.7	74.7	74.5
EBIT (adj) margin (%)	23.9	23.1	22.9	23.1	23.2
Pre-tax (adj) margin (%)	24.4	23.1	23.3	23.5	23.6
Net (adj) margin (%)	19.5	18.6	18.7	18.9	18.9
ROCE (%)	11.1	10.9	10.8	11.0	10.9
ROE (%)	15.5	14.4	13.5	13.5	14.2

Cash flow and balance sheet (€mn)	CAGR				
Change in working capital	-35	-137	-134	-68	N/A
Cash flow from operations	1,089	1,055	1,109	1,281	5.6%
Capital expenditure	-93	-98	-106	-114	N/A
Free cash flow	996	957	1,003	1,168	5.4%
Tangible fixed assets	805	879	985	1,099	10.9%
Intangible fixed assets	5,840	5,923	6,033	6,033	1.1%
Cash and equivalents	1,262	1,579	1,768	1,750	11.5%
Total assets	10,514	11,325	12,043	12,412	5.7%
Short and long-term debt	1,499	1,151	1,151	1,151	-8.4%
Other long-term liabilities	252	242	242	242	-1.3%
Total liabilities	4,259	4,019	4,143	4,285	0.2%
Total invested capital	6,802	7,170	7,576	7,822	4.8%
Net debt/(funds)	237	-428	-617	-599	N/A
Provisions	51	42	42	42	-6.3%
Minorities	-55	-28	-28	-28	N/A
Shareholders' equity	6,310	7,334	7,928	8,155	8.9%

Upside/Downside scenarios



Valuation and leverage metrics	Average				
P/E (adj) (x)	16.7	16.5	14.7	12.9	15.2
EV/sales (x)	3.4	3.1	2.8	2.6	3.0
EV/EBITDA (adj) (x)	11.2	10.4	9.6	8.9	10.0
Equity FCF yield (%)	6.6	6.4	6.9	8.4	7.1
P/FCF (x)	15.1	15.6	14.5	11.8	14.3
P/BV (x)	2.4	2.0	1.8	1.7	2.0
Dividend yield (%)	1.5	1.5	1.6	1.8	1.6
Total debt/capital (%)	18.1	12.8	12.0	11.7	13.7
Net debt/equity (%)	3.8	-5.8	-7.8	-7.3	-4.3

Selected operating metrics	Average				
SG&A/sales (%)	24.7	25.3	25.2	25.7	25.2
R&D/sales (%)	25.1	26.3	27.0	26.5	26.2
R&D growth (%)	9.8	10.6	11.4	5.1	9.2
SG&A growth (%)	1.1	8.1	8.2	9.2	6.6

Source: Company data, Bloomberg, Barclays Research
 Note: FY End Dec

European Mid Cap Pharmaceuticals						Industry View: POSITIVE	
Vifor Pharma AG (VIFN.S)						Stock Rating: EQUAL WEIGHT	
Income statement (CHFmn)	2018A	2019E	2020E	2021E	CAGR	Price (17-Jan-2020) CHF 183.30	
Revenue	1,649	1,897	2,106	2,376	12.9%	Price Target CHF 170.00	
Gross profit	1,001	1,158	1,321	1,520	15.0%	Why Equal Weight? We believe that Vifor's current valuation properly values future growth and await further clarity on whether competitive threats to the business will materialize.	
EBITDA (adj)	392	527	706	851	29.5%	Upside case CHF 210.00	
EBIT (adj)	227	324	495	613	39.2%	Any stumbles in the Lokelma launch, which would cause more rapid Veltassa growth. Stronger than expected growth of Ferinject/Injectafer in non-nephrology settings. Failure of roxadustat to demonstrate CV superiority to ESAs.	
Pre-tax income (adj)	269	306	487	619	32.0%	Downside case CHF 140.00	
Net income (adj)	244	277	419	532	29.6%	Rapid launch of Lokelma that causes Veltassa growth to slow. Slowing growth of IV iron outside of CKD. Approval of roxadustat and share take from Mircera in the dialysis setting.	
EPS (adj) (CHF)	4.16	5.09	6.92	7.92	24.0%	Upside/Downside scenarios	
Diluted shares (mn)	64.9	65.0	64.9	64.7	-0.1%		
DPS (CHF)	2.69	2.69	2.00	2.00	-9.4%		
Margin and return data						Average	
Gross margin (%)	60.7	61.0	62.7	64.0	62.1		
EBIT (adj) margin (%)	13.8	17.1	23.5	25.8	20.1		
Pre-tax (adj) margin (%)	16.3	16.1	23.1	26.1	20.4		
Net (adj) margin (%)	14.8	14.6	19.9	22.4	17.9		
ROCE (%)	5.8	7.5	10.2	11.2	8.7		
ROE (%)	8.0	9.1	12.6	13.7	10.9		
Cash flow and balance sheet (CHFmn)						CAGR	
Change in working capital	-133	-22	-79	-87	N/A		
Cash flow from operations	194	496	618	770	58.4%		
Capital expenditure	-63	-40	-44	-50	N/A		
Free cash flow	131	456	574	720	76.5%		
Tangible fixed assets	274	292	336	386	12.1%		
Intangible fixed assets	2,676	2,629	2,629	2,629	-0.6%		
Cash and equivalents	400	599	1,043	1,634	59.8%		
Total assets	4,495	4,746	5,328	6,068	10.5%		
Short and long-term debt	609	591	591	591	-1.0%		
Other long-term liabilities	35	21	21	21	-15.7%		
Total liabilities	1,131	1,109	1,123	1,135	0.1%		
Total invested capital	3,582	3,646	3,770	3,907	2.9%		
Net debt/(funds)	208	-8	-452	-1,043	N/A		
Provisions	1	6	6	7	76.3%		
Minorities	313	327	327	327	1.5%		
Shareholders' equity	3,052	3,311	3,879	4,606	14.7%		
Valuation and leverage metrics						Average	
P/E (adj) (x)	44.1	36.0	26.5	23.1	32.4		
EV/sales (x)	7.4	6.3	5.5	4.6	5.9		
EV/EBITDA (adj) (x)	31.0	22.7	16.3	12.8	20.7		
Equity FCF yield (%)	1.1	3.8	4.8	6.1	4.0		
P/FCF (x)	90.7	26.1	20.7	16.5	38.5		
P/BV (x)	3.9	3.6	3.1	2.6	3.3		
Dividend yield (%)	1.5	1.5	1.1	1.1	1.3		
Total debt/capital (%)	15.6	14.2	12.5	10.8	13.3		
Net debt/equity (%)	6.2	-0.2	-10.8	-21.1	-6.5		
Selected operating metrics						Average	
SG&A/sales (%)	34.4	31.6	27.3	26.8	30.0		
R&D/sales (%)	12.5	12.4	11.9	11.4	12.0		
R&D growth (%)	11.5	13.7	6.6	8.0	9.9		
SG&A growth (%)	3.8	5.7	-4.0	10.7	4.1		

Source: Company data, Bloomberg, Barclays Research
Note: FY End Dec

Valuation Methodology and Risks

European Mid Cap Pharmaceuticals

argenx (ARGX BB / ARGX.BR)

Valuation Methodology: Given that we do not expect argenx to be profitable until 2023, we employ an NPV-based methodology to derive our price target. Using a 11.4% WACC and +1.5% terminal growth rate (to give the company credit for its platform pipeline technology), we arrive at price target for argenx of EUR 135.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Upside risks: takeout, better than expected results of the ph. 3 ADAPT trial. Disappointing data from competitor assets.

Downside risks: failure in ph. 3/POC clinical trials, success of competitor assets.

Galapagos (GLPG NA / GLPG.AS)

Valuation Methodology: Given that we do not expect Galapagos to be profitable until 2022, we employ an NPV-based methodology to derive our price target. Using a 10% WACC and 0% terminal growth rate, we arrive at a price target for GLPG of EUR 225.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: MANTA study showing a safety signal. FDA ruling class effect for safety for JAKs that limits uptake for the class. Failure of filgotinib in ph. 3 IBD trials. Failure of GLPG 1690 to show disease modification in IPF.

Genmab A/S (GMAB DC / GMAB.CO)

Valuation Methodology: We think it is appropriate to value Genmab at a material P/E premium vs. its mid-cap peers, given our projections for strong near-term earnings growth plus a net cash position. We set our target 2020E P/E at 65x, a level that we see as providing a glide-path to a more sustainable c.17.5x P/E by 2024E, as earnings ramp up strongly.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Deceleration of Darzalex launch curve, pipeline failures, greater-than-projected operating expense ramp dampening estimated EBIT margins.

H Lundbeck A/S (LUN DC / LUN.CO)

Valuation Methodology: Our 12-month price target is P/E-driven in the context of our view on potential EPS growth/revisions, catalysts and the thematic outlook, overlaid with our long-term bottom-up DCF framework. Our P/E-based DKK290 price target is based on a target 15.4x 2019E P/E, a discount to the Mid Cap group. We feel this discount is appropriate, given the uncertainty going into the epti launch, but do not believe a further discount is warranted, given the strength of the base business.

Our base case DCF, which uses a 8.97% WACC and a 0.0% growth rate, which we view appropriate given the bulk of major patent expiries are encapsulated in our financial model, values Lundbeck at DKK 287.09.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Downside risks: Slower-than-expected growth for key franchises including Abilify Maintena, Rexulti and Trintellix/Brintellix; margin compression following losses of exclusivity on key products. Disappointing launch of epti.

Upside risks: Volume growth for Trintellix coming from recent label update, value-generative use of strong balance sheet. Quicker than expected launch of epti.

Hikma Pharmaceuticals PLC (HIK LN / HIK.L)

Valuation Methodology: Our 12-month price target is P/E-driven in the context of our view on potential EPS growth/revisions, catalysts and the thematic outlook, overlaid with our long-term bottom-up DCF framework.

In valuing Hikma, we think it is appropriate to value the company as in-line to the more mature pharma companies in our coverage. In light of this, we set our target multiple at 16x 2019E core EPS (rounded).

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Upside - generic Advair approved early, pricing power for pipeline products, acceleration in product launches, softer competition, margin expansion above expectations, successful patent challenges, new in-licensing agreements in MENA, earnings accretive acquisitions, FDA shortages.

Downside - Lack of generic Advair approval, delays to product launches, greater-than-expected competition for pipeline products, political instability/currency devaluations in MENA, FDA warning letters, other regulatory sanctions.

Ipsen SA (IPN FP / IPN.PA)

Valuation Methodology: Our 12-month price target is P/E-driven in the context of our view on potential EPS growth/revisions, catalysts and the thematic outlook, overlaid with our long-term bottom-up DCF framework.

In valuing Ipsen, we think it is appropriate to use a P/E discount vs. its mid-cap peers, given the safety concerns around paloverotene as well as the generic Somatuline overhang.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Key up/downside risks include Somatuline competition (including generics), as well as the obtaining of regulatory approvals and launch curve trajectories for Cabometyx, Onivyde and paloverotene.

Merck KGaA (MRK GR / MRCG.DE)

Valuation Methodology: Our 12-month price target is P/E-driven in the context of our view on EPS growth/revisions, catalysts and thematic

Valuation Methodology and Risks

outlook, overlaid with our long-term bottom-up DCF framework. Our PT of EUR94 equates to a '20E core P/E of c.15.2x, a slight discount to the European pharma sector average, which we consider justified by the single-digit 2020-23E EPS outlook ex-VSM + a conglomerate discount.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Upside - Mavenclad strong launch in the US, stronger-than-expected uptake of Bavencio, recovery in Performance Materials business in China.

Downside - weak Mavenclad launch in the US, stronger-than-anticipated decline in legacy pharma products.

Vifor Pharma AG (VIFN SW / VIFN.S)

Valuation Methodology: Our 12-month price target is P/E-driven in the context of our view on potential EPS growth/revisions, catalysts and the thematic outlook, overlaid with our long-term bottom-up DCF framework. Our CHF 170 price target implies a P/E of 25x on our 2020 core EPS estimate. We believe a premium vs. the sector is warranted given our forward 3-year estimated EPS CAGR of 20%.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Upside risks include weak Lokelma launch, increased penetration of Ferinject/Injectifer outside of the nephrology setting, Mircera taking dominant share in independent dialysis centers in the US, commercial failure of roxadustat. Downside risks to our thesis include strong launch for Lokelma, stronger market share take of Veltassa, stronger growth outside of CKD for IV iron, delays to roxadustat.

Source: Barclays Research.

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Primary Stocks (Ticker, Date, Price)

argenx (ARGX.BR, 17-Jan-2020, EUR 138.40), Equal Weight/Positive, J
Galapagos (GLPG.AS, 17-Jan-2020, EUR 206.50), Overweight/Positive, FC/J
Genmab A/S (GMAB.CO, 17-Jan-2020, DKK 1520.00), Overweight/Positive, CE/J
Grifols SA (GRLS.MC, 17-Jan-2020, EUR 31.80), Overweight/Positive, CD/FA/J/K/M/N
H Lundbeck A/S (LUN.CO, 17-Jan-2020, DKK 281.30), Overweight/Positive, J
Hikma Pharmaceuticals PLC (HIK.L, 17-Jan-2020, GBP 19.56), Equal Weight/Positive, CD/J/K/N
Ipsen SA (IPN.PA, 17-Jan-2020, EUR 82.35), Equal Weight/Positive, CD/D/J/K/L/M
Merck KGaA (MRCG.DE, 17-Jan-2020, EUR 115.50), Underweight/Positive, A/CD/D/E/J/K/L/M/N
UCB SA (UCB.BR, 17-Jan-2020, EUR 79.96), Overweight/Positive, CD/E/J/K/L/M
Vifor Pharma AG (VIFN.S, 17-Jan-2020, CHF 183.30), Equal Weight/Positive, CD/J/K/N

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European Mid Cap Pharmaceuticals

argenx (ARGX.BR)	Galapagos (GLPG.AS)	Genmab A/S (GMAB.CO)
Grifols SA (GRLS.MC)	H Lundbeck A/S (LUN.CO)	Hikma Pharmaceuticals PLC (HIK.L)
Ipsen SA (IPN.PA)	Merck KGaA (MRCG.DE)	UCB SA (UCB.BR)
Vifor Pharma AG (VIFN.S)		

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