

UCB SA UCB (XBRU) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
78.41 EUR	65.00 EUR	45.50 EUR	87.75 EUR	Medium	None	Positive	Standard	Biotechnology

UCB's Strong Third-Quarter Results; Fully Valued Shares Already Reflect Improving Outlook

See Page 2 for the full Analyst Note from 28 Oct 2015

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The primary analyst covering this company does not own its stock.

Research as of 28 Oct 2015
Estimates as of 18 Sep 2015
Pricing data through 21 Jan 2016
Rating updated as of 21 Jan 2016

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

Investment Thesis 02 Oct 2015

With blockbuster drugs Zyrtec and Keppra, UCB has emerged as a major biopharmaceutical player. However, given the patent expiration of its former flagship products, the company has struggled in recent years to fill the gap through acquisitions and developing its pipeline products. However, strong growth from its new core products has finally outpaced the declining sales in its legacy portfolio and the company is back on a growth trajectory, with several late-stage pipeline opportunities on the near-term horizon.

UCB has transformed from a hybrid pharma/chemical firm into a pure-play biopharmaceutical player. By shedding noncore assets, such as its chemical peptides manufacturing business, UCB has slimmed down to focus on its more profitable health-care segment. This increased investment in pharmaceuticals gave rise to the antihistamine Zyrtec and epilepsy medication Keppra. However, those two drugs, have since lost patent protection and UCB has seen its growth and profitability deteriorate because of generic competition.

To address this dynamic, UCB has made strategic purchases to bulk up its pipeline. The acquisition of Celltech in 2004 added biologic capabilities and the Schwarz Pharma acquisition in 2006 enriched the company's pipeline. Additionally, the firm has honed its focus on two therapeutic categories: central nervous system and immunology. In CNS, the firm's lead products include Vimpat (for epilepsy) and Neupro (for Parkinson's disease and restless leg syndrome). In immunology, Cimzia (for rheumatoid arthritis, Crohn's disease and ankylosing spondylitis) has blockbuster potential, particularly in the expansive rheumatoid arthritis market. Furthermore, the company's pipeline has two promising Phase III programs that may further enhance its future products offerings.

While it appears that the company has been able to fill the gap made by the genericization of key products, we are uncertain that its strategy of growth by acquisition or in-licensing will continue to bear fruit as increasing competition for promising products and

Vital Statistics

Market Cap (EUR Mil)	14,796
52-Week High (EUR)	86.05
52-Week Low (EUR)	60.40
52-Week Total Return %	14.7
YTD Total Return %	-5.8
Last Fiscal Year End	31 Dec 2014
5-Yr Forward Revenue CAGR %	8.1
5-Yr Forward EPS CAGR %	20.4
Price/Fair Value	1.21

Valuation Summary and Forecasts

	Fiscal Year:	2013	2014	2015(E)	2016(E)
Price/Earnings		43.7	37.4	38.1	30.0
EV/EBITDA		21.9	22.6	23.1	20.8
EV/EBIT		39.6	36.3	33.3	28.2
Free Cash Flow Yield %		0.5	3.5	6.3	3.4
Dividend Yield %		2.1	1.8	1.4	1.5

Financial Summary and Forecasts (EUR Mil)

	Fiscal Year:	2013	2014	2015(E)	2016(E)
Revenue		3,133	3,344	3,749	3,920
Revenue YoY %		-9.5	6.7	12.1	4.6
EBIT		297	379	497	588
EBIT YoY %		-33.1	27.6	31.1	18.4
Net Income, Adjusted		226	308	396	501
Net Income YoY %		-40.0	36.3	28.6	26.5
Diluted EPS		1.24	1.69	2.06	2.61
Diluted EPS YoY %		-41.0	36.3	22.1	26.5
Free Cash Flow		-26	539	1,905	527
Free Cash Flow YoY %		-113.3	-2,142.2	253.2	-72.4

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

UCB is a Belgium-based biopharmaceutical firm focused on developing novel therapies for the treatment of central nervous system and immunological diseases. Historically, revenue was derived from allergy medicine Zyrtec and epilepsy drug Keppra, both of which have lost patent protection. The firm's newer key drugs include Cimzia (rheumatoid arthritis and Crohn's disease), Vimpat (epilepsy), and Neupro (Parkinson's disease and restless leg syndrome). The company also has late-stage development programs in epilepsy, and osteoporosis.

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Morningstar Analysis

UCB's Strong Third-Quarter Results; Fully Valued Shares Already Reflect Improving Outlook 28 Oct 2015

We plan on maintaining our EUR 65 per share fair value estimate and our no-moat positive trend rating for UCB as the company reported top-line third quarter results and increased its full-year guidance in line with our expectations. Overall, strong growth from its new core products, currency tailwinds and a rebound in Keppra sales puts the company on a solid near-term growth trajectory. However, this strong growth is counterbalanced with recent pipeline setbacks, such as the failure this summer of its epratuzumab phase III program in lupus, which had blockbuster potential. While the company has other attractive near-term pipeline catalysts such as romosozumab in osteoporosis (results in first-half 2016) which may be potential longer-term growth drivers for the company, in our view, the company's improving prospects are already reflected in its stock price.

Revenue for the quarter totaled EUR 947 million, up 17% compared with last year. Cimzia, Vimpat and Neupro together produced stellar 42% growth, with their combined sales reaching EUR 527 million. The company also received a boost from Keppra, which reported a 9% increase in sales to EUR 180 million as a result of tight supply in the U.S and growth in international markets. However, we do not expect that this will be sustainable as a result of ongoing generic competition for the antiepileptic drug in the U.S and Europe.

Unexpectedly, the company increased its full-year guidance to revenue of \$3.75 billion (from \$3.65-3.75 billion) and core EPS of EUR 2.00-2.10 (from EUR 1.90-2.05). We do not expect to significantly change our estimates of EUR 3.75 billion and EUR 2.06 per share, respectively, which are now consistent with the company's current outlook.

Valuation, Growth and Profitability 03 Aug 2015

We are increasing our fair value estimate slightly to EUR 65

per share from EUR 62 after better-than-anticipated first-half results. Cimzia's uptake into the expansive rheumatoid arthritis market should help drive growth, and we think sales have the potential to reach EUR 1.5 billion by the end of our 10-year explicit forecast period. We also expect Vimpat (EUR 1.3 billion peak sales) and Neupro (EUR 375 million peak sales) to add important incremental sales, especially now that Neupro is once again available in the United States. We expect Keppra sales to continue to fall in the near term because of U.S. and European patent expirations, though expansion in Japan and in emerging markets could lessen revenue declines. Overall, we expect top-line growth to remain in the high single digits through 2019, as new product launches replace the firm's declining flagship products. We expect operating margins to remain in the mid-teens as restructuring efforts help offset revenue declines from the company's former flagship products.

Scenario Analysis

While we believe UCB's fair value is EUR 65 per share, we examined two additional scenarios to test our base-case assumptions and develop a range of potential outcomes. In our bull case, we assume both label and geographic expansion are very successful for Keppra, allowing the firm to hold back the tide of generic competition longer than expected, and that Cimzia captures a greater portion of the expansive rheumatoid arthritis market than we model under our base case, resulting in peak sales of EUR 1.7 billion. In this case, operating margins would probably reach 25% and our fair value estimate would rise to EUR 83 per share. In our bear case, we assume generic losses for Keppra are more severe and Cimzia is unable to capture a sizable portion of the rheumatoid arthritis market, resulting in peak sales of only EUR 900 million. We think UCB would be unable to see operating margins much above the low teens, and our fair value estimate would fall to EUR 50 per share.

Economic Moat

UCB has no economic moat, in our view. While the firm has

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Price/Fair Value Morningstar data as of Jan 21, 2016

returned to growth and profitability as newer drugs Cimzia, Vimpat, and Neupro are on growth trajectories sufficient to overcome the lost patent protection for former flagship products Keppra and Zyrtec, we do not expect the company to achieve attractive enough returns to warrant a moat. The company's current key drugs have relatively long patent lives, Cimzia (2024), Vimpat (2022) and Neupro (2021); however, we do not see enough obvious winners in the company's pipeline to replace these drugs once generic/biosimilar competition takes hold, particularly with the recent Phase III failure of epratuzumab in lupus. While we do like the prospects of Phase III drug romosozumab in osteoporosis, the asset is partnered with Amgen and the firms will split the drug's profits. Overall, we are unconvinced that the firm has come up with a product that will afford it sustainable competitive advantages over the long run. In the past the firm has made strategic acquisitions to bulk up its pipeline in the face of the patent expiration, but it has encountered several clinical and regulatory hurdles on its path to regaining growth and has also added significantly to its debt load in the process. Furthermore, we are uncertain the company's strategy of growth via acquisition and in-licensing partnerships will be successful

given the challenges of finding promising products or companies and purchasing them at reasonable prices to assure attractive long-term returns.

Moat Trend

We assign UCB a positive moat trend based on the improving profile of the company's new core drugs, which are growing strongly and have managed to fill the gap from the significant revenue lost to generic competition for former blockbusters Keppra and Zyrtec. We think UCB's focus on the attractive therapeutic area of immunology is encouraging. Its Cimzia franchise is well on its way to blockbuster status in the expansive rheumatoid arthritis and Crohn's disease markets. The recent Phase III failure of epratuzumab in lupus was disappointing given the large opportunity in this underserved market. However, the company has an additional opportunity in this indication with Biogen-partnered CDP7657 expected to start Phase II in 2016 and its earlier stage pipeline targeting other immunological diseases have solid potential given the large markets and unmet medical need in these areas. The firm's other area of focus is the more challenging neurology market, nevertheless we still think that Vimpat will be able to achieve blockbuster status in the relatively genericized epilepsy market given its strong profile. We also like the prospects of osteoporosis treatment romosozumab (CDP7851/AMG 785), which is partnered with Amgen. The firms recently reported positive Phase III data on bone mineral density measures, which we think augurs well for the more important Phase III outcomes on vertebral fractures that are expected in the first half of 2016.

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Bulls Say/Bears Say

Bulls Say

- Cimzia provides a foothold in the expansive rheumatoid arthritis market, which is significantly larger than the epilepsy market where UCB has traditionally operated.
- UCB should be able to leverage its commercial experience with Keppra and position itself as a leader in the epilepsy field with its new anti-epileptic drug Vimpat and pipeline candidate brivaracetam.
- UCB's late-stage drug candidates could help fuel growth over the long term. For instance, romosozumab could gain UCB a foothold in the large market for osteoporosis.

Bears Say

- Generic competition has created a significant drag on revenue growth. UCB's financial performance will continue to deteriorate if the firm is unable to plug this sales drain with new products.
- Distribution issues with Neupro led to a recall of the drug and an out-of-stock situation in the U.S. Although UCB has relaunched the product, these issues have significantly stunted the sales uptake of one of the firm's most promising new products.
- UCB's long-term debt load is more than EUR 2 billion. This may limit its ability to make meaningful acquisitions in the future.

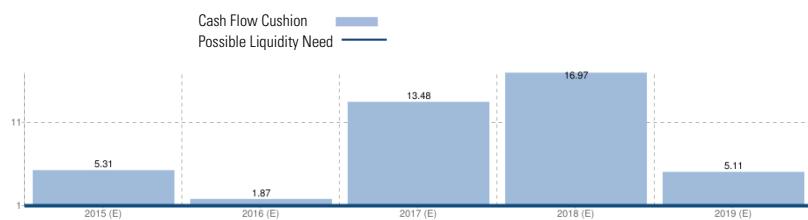
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Five Year Adjusted Cash Flow Forecast (EUR Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	560	1,327	799	912	1,153
Adjusted Available Cash Flow	1,745	346	397	595	576
Total Cash Available before Debt Service	2,305	1,673	1,197	1,506	1,730
Principal Payments	-305	-807	—	—	-250
Interest Payments	-129	-89	-89	-89	-89
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-434	-896	-89	-89	-339

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	EUR Millions	% of Commitments
Beginning Cash Balance	560	30.3
Sum of 5-Year Adjusted Free Cash Flow	3,660	198.2
Sum of Cash and 5-Year Cash Generation	4,220	228.6
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	4,220	228.6
Sum of 5-Year Cash Commitments	-1,846	—

Financial Health

As of the end of 2014, UCB had EUR 1.8 billion in net debt on its balance sheet. However, the company's plans to divest its U.S. specialty generics business, Kremers Urban, should further reduce its leverage. Although we believe UCB's earnings should more than cover interest expense, we are keeping an eye on its debt load as a potential issue since it may limit the company's ability to make meaningful acquisitions in the future.

Enterprise Risk

UCB's revenue growth, profitability and cash flow generation were hurt by the loss of marketing exclusivity in the U.S. for Zyrtec and Kepra. However, the company has turned the corner with the strong growth seen with its new core products. Nevertheless, despite the firm's full pipeline, a high degree of clinical and regulatory risk surrounds these development-stage and newly launched drugs. For example, one of Vimpat's key U.S. patents is being challenged by several generic manufacturers, potentially allowing for a generic version as early as 2016 (European exclusivity expires in 2018 and patents extend to 2022). While we believe that it will remain valid, the earlier than expected genericization of this product in the U.S. would be a significant negative for the firm.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Top Owners				
VA CollegeAmerica EuroPacific Growth	6.73	0.88	—	30 Sep 2015
Vanguard Health Care Fund	5.70	1.73	495	30 Sep 2015
VA CollegeAmerica Cap World Gr and Inc	1.73	0.34	—	30 Sep 2015
Artisan International Fund	1.02	0.85	-257	30 Sep 2015
Vanguard Total Intl Stock Idx Fund	0.62	0.06	18	30 Nov 2015
Concentrated Holders				
Candriam Eqs B Belgium	0.14	9.91	-6	31 Oct 2015
KBC Multi Track Belgium	0.05	9.84	—	31 Oct 2015
Argenta Actions Belges	0.02	9.69	—	31 Dec 2015
BNP Paribas B Fd I Eq Belgium	0.12	6.74	—	31 Dec 2015
iShares MSCI Belgium Capped	0.08	5.57	—	04 Jan 2016

Institutional Transactions

	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Top 5 Buyers				
Wellington Management Company LLP	6.01	1.69	551	30 Nov 2015
British Columbia Inv Management Corp	0.16	0.04	282	31 Mar 2010
William Blair Investment Management, LLC	0.11	0.03	201	30 Sep 2015
American Century Inv Mgt Inc	0.24	0.51	188	31 Oct 2015
Brown Advisory LLC	0.13	1.85	181	30 Sep 2015
Top 5 Sellers				
Ireland National Pensions Reserve Fund	0.21	0.12	-315	31 Dec 2009
Artisan Partners Limited Partnership	1.02	0.85	-257	30 Sep 2015
Henderson Management SA	0.47	1.19	-179	30 Nov 2015
BlackRock Advisors (UK) Limited	0.26	0.12	-102	31 Dec 2015
Pioneer Investment Management SGRpA	0.10	0.28	-97	31 Oct 2015

Management

01 Jan 0001

We award UCB standard marks for stewardship. Roch Dolveux has led the firm since 2005 and boasts a long record in the pharmaceutical sector, including a stint at Schering-Plough (now part of Merck). However, Dolveux stepped down at the end of 2014. He has been replaced by Jean-Christophe Tellier, UCB's former executive vice president, Biopharma Brands and Solutions. Tellier, who is a rheumatologist by training, has worked at UCB since 2011 and spent a majority of his career at Novartis. The board is led by independent director Gerhard Mayr. Dolveux's compensation package totaled EUR 4.9 million in 2014, which we believe is reasonable for a company of UCB's size. Shareholders should be wary of the heavy presence of members of management and minority stakeholders on the board. More than 40% of the voting rights of UCB are controlled by Financiere de Tubize, a Belgian investment group held by the Janssen family. Accordingly, several members of the family serve on the board, limiting the impact that outside shareholders may have on the firm's governance.

Although it remains to be seen whether management's acquisition and development activities will be sufficient to offset generic competition for its mature product line, we generally approve of the firm's strategy to selectively target in-licensing opportunities that focus on its core therapeutic strengths of CNS and immunology.

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Revenue for the quarter totaled EUR 947 million, up 17% compared with last year. Cimzia, Vimpat and Neupro together produced stellar 42% growth, with their combined sales reaching EUR 527 million. The company also received a boost from Keppra, which reported a 9% increase in sales to EUR 180 million as a result of tight supply in the U.S and growth in international markets. However, we do not expect that this will be sustainable as a result of ongoing generic competition for the antiepileptic drug in the U.S and Europe.

Unexpectedly, the company increased its full-year guidance to revenue of \$3.75 billion (from \$3.65-3.75 billion) and core EPS of EUR 2.00-2.10 (from EUR 1.90-2.05). We do not expect to significantly change our estimates of EUR 3.75 billion and EUR 2.06 per share, respectively, which are now consistent with the company's current outlook.

Pricing Concerns in Pharma and Biotech Industries Creates Some Buying Opportunities 29 Sep 2015

The pharma and biotech sectors have recently faced significant market weakness, largely because of recent headlines about price-gouging, strong policy positions from presidential candidates, notably Hillary Clinton, and congressional investigations into drug pricing. Overall, this echoes a previous industry sell-off in the spring of 2014 when some members of Congress questioned the pricing of Gilead's Sovaldi. Valeant Pharmaceuticals received queries on Sept. 28 from politicians about the company's drug pricing on a handful of recently acquired products. While certain components of policy proposals span from highly unlikely (mandating research and development levels at drug developers) to possible (shortening the exclusivity period for biologics), our moat methodology, uncertainty ratings, debt ratings, and fair value estimates attempt to capture a particular company's risks to a variety of issues beyond drug pricing. Based on current information, we don't see any particular reason to adjust our fair value estimates for the drug companies we cover at this time. Lawsuits, changes to Medicare pricing, new tax rules, or other policy suggestions remain mostly speculative at this point, and in our view the pullback has created some opportunities.

Merck remains our most undervalued Big Pharma idea, because we believe the company's immuno-oncology franchise is underappreciated and the current valuation already appears to have taken into account the competitive threats to its top drug Januvia from the SGLT2 class.

Our favorite names in biotech remain wide-moat Amgen and Biogen (both on our Best Ideas list) because of their diversified portfolios and innovative pipelines. In addition, narrow-moat Biomarin, which has sold off particularly hard, probably because of its high-priced drugs, is an attractive value since it is still well-protected from competition in the rare-disease space and has a compelling pipeline.

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Analyst Notes**UCB Reports Strong First-Half Results; Fully Valued Shares Already Reflect Improving Outlook** 31 Jul 2015

We plan to modestly increase our EUR 62 per share fair value estimate and maintain our no-moat rating for UCB as the firm reported very strong first-half results that were better than our expectations and increased its full-year revenue guidance.

Overall, strong growth from its new core products, currency tailwinds, and a rebound in Keppra sales put UCB on a solid near-term growth trajectory. However, this strong growth was counterbalanced by the recent failure of its epratuzumab phase III program in lupus, which had blockbuster potential. While the firm has other attractive near-term pipeline catalysts such as romosozumab in osteoporosis (results in first-half 2016) that may be potential longer-term growth drivers, in our view UCB's improving prospects are already reflected in its stock price.

Revenue for the half-year totaled EUR 1,917 million, up 21% compared with last year (or 12% on a constant currency basis). Cimzia, Vimpat, and Neupro together produced stellar 40% growth (23% constant currency), with their combined sales reaching EUR 942 million. UCB also received a boost from Keppra, which reported a 14% increase in sales to EUR 385 million due to inventory restocking; however this is likely a one-time event due to ongoing generic competition for the anti-epileptic drug.

The company continued to track toward its longer-term goal of a 30% recurring EBITDA margin in 2018, as costs grew more slowly than sales. This resulted in recurring EBITDA increasing 49% to EUR 464 million (or 24% margin) and core EPS increasing 23% to EUR 1.18 per share. While the company increased its guidance for revenue to of EUR 3.65 billion-EUR 3.75 billion (from EUR 3.55 billion-EUR 3.65

billion) and recurring EBITDA at the top of its previous EUR 710 million-EUR 740 million range, it maintained its outlook for core EPS of EUR 1.90-EUR 2.05. Nevertheless, we anticipate our core EPS estimate will remain above the top end of the guidance range given the company's strong sales growth.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		2012	2013	2014	2015	2016	
Growth (% YoY)							
Revenue	1.0	6.7	-9.5	6.7	12.1	4.6	8.1
EBIT	-4.8	1.1	-33.1	27.6	31.1	18.4	22.2
EBITDA	-3.8	-0.2	-21.6	13.6	17.9	10.7	14.9
Net Income	-3.3	10.4	-40.0	36.3	28.6	26.5	20.3
Diluted EPS	-4.0	10.0	-41.0	36.3	22.1	26.5	20.4
Earnings Before Interest, after Tax	5.0	4.5	-71.4	286.4	7.9	-2.1	9.2
Free Cash Flow	26.6	-24.9	-113.3	-2,142.2	253.2	-72.4	7.6
Profitability	3-Year Hist. Avg						5-Year Proj. Avg
Operating Margin %	11.2	12.8	9.5	11.3	13.3	15.0	17.7
EBITDA Margin %	18.4	19.8	17.1	18.2	19.2	20.3	22.4
Net Margin %	9.1	10.9	7.2	9.2	10.6	12.8	13.8
Free Cash Flow Margin %	7.0	5.8	-0.8	16.1	50.8	13.4	22.3
ROIC %	6.7	6.2	7.2	6.8	7.7	8.1	8.5
Adjusted ROIC %	11.9	11.2	12.6	11.7	12.6	12.6	13.0
Return on Assets %	2.1	2.7	1.7	2.0	3.7	4.6	5.9
Return on Equity %	4.4	5.3	3.6	4.4	7.4	8.1	10.3
Leverage	3-Year Hist. Avg						5-Year Proj. Avg
Debt/Capital	0.35	0.31	0.40	0.33	0.23	0.12	0.14
Total Debt/EBITDA	4.12	3.05	5.38	3.93	2.12	0.90	1.00
EBITDA/Interest Expense	2.85	2.94	2.79	2.83	5.56	8.96	10.39

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)				
						EUR Mil	Firm Value (%)	Per Share Value
Price/Fair Value	1.46	1.13	—	—	Present Value Stage I	6,531	47.6	34.29
Price/Earnings	43.7	37.4	38.1	30.0	Present Value Stage II	428	3.1	2.25
EV/EBITDA	21.9	22.6	23.1	20.8	Present Value Stage III	6,749	49.2	35.44
EV/EBIT	39.6	36.3	33.3	28.2	Total Firm Value	13,708	100.0	71.97
Free Cash Flow Yield %	0.5	3.5	6.3	3.4	Cash and Equivalents	560	—	2.94
Dividend Yield %	2.1	1.8	1.4	1.5	Debt	-2,394	—	-12.57

Key Valuation Drivers

Cost of Equity %	9.0		
Pre-Tax Cost of Debt %	6.5		
Weighted Average Cost of Capital %	8.3		
Long-Run Tax Rate %	28.0	Projected Diluted Shares	190
Stage II EBI Growth Rate %	5.0		
Stage II Investment Rate %	20.0		
Perpetuity Year	11	Fair Value per Share (EUR)	—

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
78.41 EUR	65.00 EUR	45.50 EUR	87.75 EUR	Medium	None	Positive	Standard	Biotechnology

Morningstar Analyst Forecasts**Income Statement (EUR Mil)**

Fiscal Year Ends in December

	2012	2013	2014	2015	2016	Forecast
Revenue	3,462	3,133	3,344	3,749	3,920	
Cost of Goods Sold	1,084	965	1,053	1,143	1,176	
Gross Profit	2,378	2,168	2,291	2,606	2,744	
Selling, General & Administrative Expenses	1,073	996	980	1,050	1,058	
Research & Development	861	886	928	1,059	1,098	
Other Operating Expense (Income)	—	-11	4	—	—	
Depreciation & Amortization (if reported separately)	—	—	—	—	—	
Operating Income (ex charges)	444	297	379	497	588	
Restructuring & Other Cash Charges	40	32	43	-97	—	
Impairment Charges (if reported separately)	10	29	30	1	—	
Other Non-Cash (Income)/Charges	-24	-27	34	16	—	
Operating Income (incl charges)	418	263	272	577	588	
Interest Expense	233	192	215	129	89	
Interest Income	78	51	53	53	53	
Pre-Tax Income	263	122	110	501	552	
Income Tax Expense	35	54	-6	128	138	
Other After-Tax Cash Gains (Losses)	17	78	94	—	—	
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—	
(Minority Interest)	4	15	-10	-10	—	
(Preferred Dividends)	—	—	—	—	—	
Net Income	249	161	200	363	414	
Weighted Average Diluted Shares Outstanding	179	182	182	192	192	
Diluted Earnings Per Share	1.39	0.88	1.10	1.89	2.16	
Adjusted Net Income	377	226	308	396	501	
Diluted Earnings Per Share (Adjusted)	2.10	1.24	1.69	2.06	2.61	
Dividends Per Common Share	1.02	1.04	1.06	1.09	1.15	
EBITDA	658	502	502	798	795	
Adjusted EBITDA	684	536	609	718	795	

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Morningstar Analyst Forecasts

Balance Sheet (EUR Mil)

Fiscal Year Ends in December

	2012	2013	2014	Forecast	2015	2016
Cash and Equivalents	358	816	560	1,327	799	
Investments	—	—	—	—	—	
Accounts Receivable	835	972	729	822	859	
Inventory	616	627	547	595	596	
Deferred Tax Assets (Current)	—	—	—	—	—	
Other Short Term Assets	13	9	665	—	—	
Current Assets	1,822	2,424	2,501	2,744	2,255	
Net Property Plant, and Equipment	602	722	686	731	779	
Goodwill	4,808	4,694	4,882	3,957	3,957	
Other Intangibles	1,488	1,312	1,219	1,073	944	
Deferred Tax Assets (Long-Term)	505	498	682	682	682	
Other Long-Term Operating Assets	—	—	—	—	—	
Long-Term Non-Operating Assets	132	110	178	178	178	
Total Assets	9,357	9,760	10,148	9,364	8,794	
Accounts Payable	1,295	1,267	1,386	1,505	1,548	
Short-Term Debt	197	723	372	807	—	
Deferred Tax Liabilities (Current)	—	—	—	—	—	
Other Short-Term Liabilities	316	355	578	378	378	
Current Liabilities	1,808	2,345	2,336	2,690	1,926	
Long-Term Debt	1,890	2,162	2,022	715	715	
Deferred Tax Liabilities (Long-Term)	123	112	62	62	62	
Other Long-Term Operating Liabilities	469	488	578	578	578	
Long-Term Non-Operating Liabilities	474	330	308	324	324	
Total Liabilities	4,764	5,437	5,306	4,369	3,605	
Preferred Stock	—	—	—	—	—	
Common Stock	—	—	—	—	—	
Additional Paid-in Capital	4,588	4,323	4,842	4,842	4,842	
Retained Earnings (Deficit)	—	—	—	153	347	
(Treasury Stock)	—	—	—	—	—	
Other Equity	—	—	—	—	—	
Shareholder's Equity	4,588	4,323	4,842	4,995	5,189	
Minority Interest	5	—	—	—	—	
Total Equity	4,593	4,323	4,842	4,995	5,189	

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Morningstar Analyst Forecasts

Cash Flow (EUR Mil)					
Fiscal Year Ends in December					
	2012	2013	2014	2015	2016
Net Income	249	209	160	373	414
Depreciation	64	59	62	75	78
Amortization	176	180	168	146	129
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	10	34	43	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-180	87	39	—	—
Other Non-Cash Adjustments	98	-401	-81	16	—
(Increase) Decrease in Accounts Receivable	16	-159	-42	-93	-37
(Increase) Decrease in Inventory	-79	-11	80	-48	-1
Change in Other Short-Term Assets	—	—	—	665	—
Increase (Decrease) in Accounts Payable	1	290	83	119	43
Change in Other Short-Term Liabilities	—	—	—	-200	—
Cash From Operations	355	288	512	1,053	626
(Capital Expenditures)	-160	-238	-84	-120	-126
Net (Acquisitions), Asset Sales, and Disposals	-130	-107	-98	925	—
Net Sales (Purchases) of Investments	24	57	22	—	—
Other Investing Cash Flows	—	—	-1	—	—
Cash From Investing	-266	-288	-161	805	-126
Common Stock Issuance (or Repurchase)	4	74	-53	—	—
Common Stock (Dividends)	-201	-205	-222	-210	-220
Short-Term Debt Issuance (or Retirement)	—	—	—	435	-807
Long-Term Debt Issuance (or Retirement)	286	687	-233	-1,307	—
Other Financing Cash Flows	-116	-125	-87	-10	—
Cash From Financing	-27	431	-595	-1,092	-1,027
Exchange Rates, Discontinued Ops, etc. (net)	-6	-3	—	—	—
Net Change in Cash	56	428	-244	767	-527

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Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Johnson & Johnson JNJ USA	0.94	18.0	15.6	15.1	10.7	9.9	9.9	19.7	15.5	16.1	4.2	3.6	3.7	3.9	3.8	3.7
Pfizer Inc PFE USA	0.81	13.7	13.8	13.3	10.5	10.1	7.8	12.5	13.4	8.1	2.7	2.7	0.9	4.0	3.9	3.0
Abbott Laboratories ABT USA	0.85	29.6	18.7	17.4	18.2	12.9	12.5	39.1	26.0	19.0	3.2	2.7	2.6	3.4	2.9	2.8
Average		20.4	16.0	15.3	13.1	11.0	10.1	23.8	18.3	14.4	3.4	3.0	2.4	3.8	3.5	3.2
UCB SA UCB BE	1.21	37.4	38.1	30.0	22.6	23.1	20.8	28.2	15.9	29.6	2.5	3.0	2.9	3.6	3.9	3.8

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Johnson & Johnson JNJ USA	131,119 USD	24.0	22.4	22.2	19.0	17.7	17.5	22.7	22.8	21.1	12.4	12.3	11.5	2.7	2.9	2.9
Pfizer Inc PFE USA	169,274 USD	16.4	17.3	17.8	11.2	11.0	9.3	12.4	14.2	8.2	5.4	6.0	4.4	3.4	2.9	3.7
Abbott Laboratories ABT USA	— USD	9.9	15.1	17.3	16.6	27.1	31.3	9.9	11.8	12.1	5.0	6.5	7.1	2.0	2.3	2.3
Average		16.8	18.3	19.1	15.6	18.6	19.4	15.0	16.3	13.8	7.6	8.3	7.7	2.7	2.7	3.0
UCB SA UCB BE	10,148 EUR	6.8	7.7	8.1	11.7	12.6	12.6	4.4	7.4	8.1	2.0	3.7	4.6	1.8	1.4	1.5

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Johnson & Johnson JNJ USA	74,331 USD	4.2	-5.7	1.6	32.4	-2.0	1.1	5.1	6.0	3.3	26.7	-1.0	-0.7	—	6.0	3.3
Pfizer Inc PFE USA	49,605 USD	-3.8	-2.2	28.1	-17.5	15.5	16.8	2.4	-2.3	3.8	-6.0	-117.8	NM	—	11.1	3.8
Abbott Laboratories ABT USA	20,247 USD	-7.3	1.3	4.7	-10.1	36.0	6.5	-7.5	40.1	7.5	-340.4	181.7	-62.7	56.8	5.0	5.0
Average		-2.3	-2.2	11.5	1.6	16.5	8.1	—	14.6	4.9	-106.6	21.0	-31.7	56.8	7.4	4.0
UCB SA UCB BE	3,344 EUR	6.7	12.1	4.6	27.6	31.1	18.4	36.3	22.1	26.5	-2,142.2	253.2	-72.4	1.9	3.0	5.0

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78.41 EUR	65.00 EUR	45.50 EUR	87.75 EUR	Medium	None	Positive	Standard	Biotechnology

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Johnson & Johnson JNJ USA	16,610 USD	69.4	69.8	70.3	34.3	35.5	35.2	28.3	29.4	29.3	22.4	24.6	24.4	19.9	24.4	23.1
Pfizer Inc PFE USA	14,587 USD	80.7	81.3	80.0	38.4	42.4	42.6	27.2	32.1	29.3	29.4	28.6	28.7	31.6	29.1	37.6
Abbott Laboratories ABT USA	2,328 USD	54.5	57.4	57.5	19.3	23.4	23.1	11.7	15.7	15.9	11.5	15.8	16.1	8.6	11.2	14.6
Average		68.2	69.5	69.3	30.7	33.8	33.6	22.4	25.7	24.8	21.1	23.0	23.1	20.0	21.6	25.1
UCB SA UCB BE	308 EUR	68.5	69.5	70.0	18.2	19.2	20.3	11.3	13.3	15.0	9.2	10.6	12.8	12.8	24.9	12.8

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Johnson & Johnson JNJ USA	18,760 USD	26.9	27.0	27.2	21.2	21.3	21.4	47.8	44.4	36.2	0.7	0.8	0.8	1.9	1.8	1.8
Pfizer Inc PFE USA	36,682 USD	51.5	49.3	37.4	34.0	33.0	27.2	14.0	18.7	11.9	1.9	1.7	2.9	2.4	2.4	1.7
Abbott Laboratories ABT USA	7,845 USD	36.4	31.7	27.5	26.7	24.1	21.6	24.9	26.5	27.3	2.0	1.5	1.3	1.9	1.7	1.7
Average		38.3	36.0	30.7	27.3	26.1	23.4	28.9	29.9	25.1	1.5	1.3	1.7	2.1	2.0	1.7
UCB SA UCB BE	2,394 EUR	49.4	30.5	13.8	33.1	23.4	12.1	2.8	5.6	9.0	3.9	2.1	0.9	2.1	1.9	1.7

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Johnson & Johnson JNJ USA	264,935 USD	11.55	12.98	13.30	2.36	2.54	2.54	2.04	2.24	2.24	9.10	8.10	8.07	45.4	47.5	50.7
Pfizer Inc PFE USA	189,264 USD	5.62	3.07	6.35	2.67	1.97	3.01	2.41	1.71	2.71	7.03	4.24	6.39	55.7	54.9	62.6
Abbott Laboratories ABT USA	59,609 USD	2.66	4.10	4.02	1.66	3.05	3.22	1.36	2.65	2.78	0.92	5.23	6.92	62.9	54.1	53.0
Average		6.61	6.72	7.89	2.23	2.52	2.92	1.94	2.20	2.58	5.68	5.86	7.13	54.7	52.2	55.4
UCB SA UCB BE	14,796 EUR	3.07	6.91	4.16	1.07	1.02	1.17	0.84	0.80	0.86	1.51	1.64	—	96.7	57.8	53.2

Research Methodology for Valuing Companies

Components of Our Methodology

- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

We believe that a company's intrinsic worth results from the future cash flows it can generate.

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth. Four key components drive the Morningstar rating: our assessment of the firm's economic moat, our estimate of the stock's fair value, our uncertainty around that fair value estimate and the current market price. This process ultimately culminates in our single-point star rating. Underlying this rating is a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's equity analysts.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our actual calculation of our fair value estimates. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns on invested capital over at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for

10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. The assumptions that we make about a firm's economic moat play a vital role in determining the length of "economic outperformance" that we assume in the terminal sections of our valuation model. To assess the sustainability of excess profits, analysts perform ongoing assessments of what we call the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from one year (for companies with no economic moat) to 10-15 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard perpetuity formula. In deciding on the rate at which to discount future cash flows, we use a building block approach,

Morningstar Research Methodology for Valuing Companies



Source: Morningstar, Inc.

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

*Please contact a sales representative for more information.

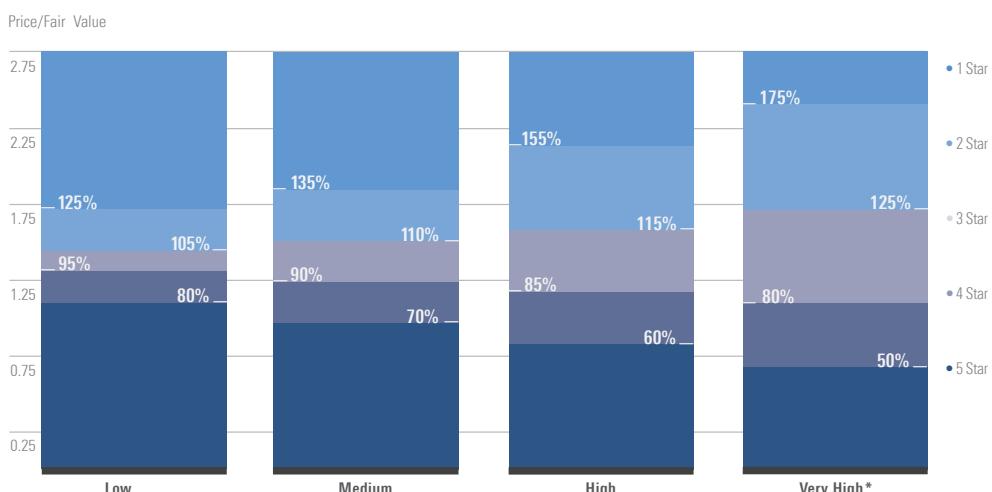
which takes into account expectations for market real return, inflation, country risk premia, corporate credit spread, and any additional systematic risk.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of likely potential fair values and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including

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Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions. ■

Morningstar Margin of Safety and Star Rating Bands

* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Source: Morningstar, Inc.

UCB SA UCB (XBRU) | ★★

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UCB SA UCB (XBRU) | ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
78.41 EUR	65.00 EUR	45.50 EUR	87.75 EUR	Medium	None	Positive	Standard	Biotechnology

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