

UCB (UCB BB)

Tax Saves Underlying Margin Cuts as Need for Pipeline Spend Bites

Key Takeaway

2017 profits beat but focus should be on the acute need for hiked R&D, plus perhaps acquisitions, to sustain UCB in the 2020s. We had persistent concerns on longevity of growth and the pipeline's commercial potential. Despite -3%-5% REBITDA on higher R&D we tweak EPS +1%-2% on lower tax post-reforms. We forecast low-s.d. sales growth until 2022E declines, with margins now also under pressure. PT rises +13% to €60/share on NPVs but remains an Underperform.

Concerns on longevity of growth: Anti-TNF α biosimilars are likely to steadily put pressure on Cimzia, in our view, lowering net prices even if not taking patient share. Recent Phase III data for oral JAK-1 inhibitors are impressive, with launches possible 2019+E. Given these risks we assume Cimzia sales could stall 2020+E. Note for epilepsy drug Vimpat we assume UCB retains IP exclusivity until 2022E for five future years' sales. Neupro likely faces generics from 2021E.

Building pipeline but necessitates spend: We now forecast hiked R&D spend to depress margins. Bimekizumab (IL-17A/F) Phase IIb psoriasis, PsA and AS data are encouraging with impressive efficacy, but this is lagging already approved anti-IL17 competitors and the near to market anti-IL23 agents that may be disease-modifying. Three broad Phase III programmes will be costly and UCB currently intends to go-it alone. We are more intrigued by PPSI padsevonil for drug-resistant epilepsy, now in a pivotal Phase IIb. We assume WW peak sales of \$1bn (from \$750m) for bimekizumab and \$750m for padsevonil, both at 50% probability for €2.5 and €3.8 NPVs. We assume Evenity is likely approved for PMO. Increasingly the early pipeline warrants attention; '0599 α -synuclein inhibitor, '0107 anti-tau Ab, and rozanolixizumab anti-FcRn. These and others could offer out-licensing opportunities demonstrating UCB's deep platform know-how.

Acquisitions may be needed to plug the gap: Management aims to stay below 2x Net Debt/EBITDA but would be willing to temporarily go higher for the right asset. This suggests firepower up to €4bn/\$5bn, in our view, but a target would have to fit the existing neurology/immunology focus areas.

Valuation/Risks

Our €60 per share Price Target is based on an NPV sum-of-the-parts valuation and suggests c.11.5x 2019E P/E. Risks to our Underperform include: (1) better-than-expected growth of core products Cimzia, Vimpat, Briviact or Neupro; (2) greater margin expansion than we envisage; (3) Evenity achieves multi-\$bn peak sales; and (4) positive pipeline news.

EUR	Prev.	2017A	Prev.	2018E	Prev.	2019E	Prev.	2020E
Rev. (MM)	4,462.7	4,530.0	4,505.9	4,577.9	4,664.6	4,767.1	4,771.1	4,900.0
EV/Rev		3.1x		3.0x		2.9x		2.8x
EBIT (MM) Adjusted	1,226.3	1,290.0	1,265.5	1,222.6	1,383.3	1,319.5	1,495.1	1,423.7
EV/EBIT		10.8x		11.4x		10.6x		9.8x
EPS Adjusted	4.29	4.82	4.62	4.66	5.19	5.28	5.70	5.82
FY P/E		14.3x		14.8x		13.0x		11.8x

EPS-GAAP

FY Dec	3.78	4.00	4.11	4.12	4.99	5.08	5.51	5.62
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As defined by UCB Core EPS

As defined by UCB Recurring EBIT

UNDERPERFORM

Price target €60.00

(from €53.00)

Price €68.90^

Financial Summary

Book Value (MM):	€5,813.0
Book Value/Share:	€29.89
Net Debt (MM):	€524.0
Return on Avg. Equity:	14.3%
Net Debt/Capital:	9.0%
Long-Term Debt (MM):	€1,531.0
LTD/Cap:	26.0%
Dividend Yield:	1.4%
Cash & ST Invest. (MM):	€1,049.0

Market Data

52 Week Range:	€79.05 - €56.55
Total Entprs. Value (MM):	€13,925.1
Market Cap. (MM):	€13,401.1
Insider Ownership:	38.2%
Shares Out. (MM):	194.5
Float (MM):	120.1
Avg. Daily Vol.:	400,482

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Price Performance



^Prior trading day's closing price unless otherwise noted.

Scenarios

Base Case

- We see focus shifting to assessing the longevity of UCB's growth. We maintain a cautious stance on Cimzia, assuming growth may stall beyond 2019E, and do not believe the pipeline's commercial potential is sufficient to sustain sales.
- We believe UCB should meet its longer-term core products' sales targets and return to 31+% REBITDA margin by 2021E, with near-term pressure from hiked R&D spend to advance the pipeline.
- Our €60 per share Price Target is based on an NPV sum-of-the-parts valuation and implies c.11.5x 2019E P/E.

Upside Scenario

- Assumes 2017-22E Revenue CAGR from +0% to +3% so 2017 29% Operating Margin expands by +5% to 34% in 2022E from base case 31%.
- Hence 2022E Adjusted EPS from €6.0 to €7.8 (+29%).
- We believe the higher +10% 2017-22E earnings CAGR, from +5%, justifies a higher c.15.5x 2019E target P/E multiple and upside scenario of €80 per share.

Downside Scenario

- Assumes 2017-22E Revenue CAGR from +0% to -2% so 2017 29% Operating Margin contracts by -1% to 28% in 2022E from base case 31%.
- Hence 2022E Adjusted EPS from €6.0 to €4.5 (-25%).
- We believe the lower -1% 2017-22E earnings CAGR, from +5%, justifies a lower c.9.5x 2019E target P/E multiple and downside scenario of €50 per share.

Investment Thesis / Where We Differ

- We believe UCB should meet its longer-term sales targets of Cimzia, Vimpat, and Neupro (CVN) around €1.5bn, €1.2bn and €400m by 2020E, respectively, and Briviact sales over €600m by 2026E.
- We now see focus shifting beyond the current robust growth trajectory to assessing the longevity of the core CVN products and calling into question the pipeline's commercial potential.

Catalysts

- Evenity US re-filing after the CRL around July '18E for approvals across all major geographies during 2019E
- Seletalisib Phase IIa pSS results around mid-18E
- Rozanolixizumab Phase IIa ITP and MG results during 3Q18E and 4Q18E
- Cimzia US and EU approvals for psoriasis during 3Q18E
- Dapirolizumab Phase IIb SLE results during 4Q18E
- Vimpat Phase III data for generalized seizures in 1H19E

Long Term Analysis

Long Term Financial Model Drivers

2017-22E Earnings CAGR	+5%
2017-22E Revenue CAGR	+0%
2017-22E Operating Margin Change	+2%

Retain Underperform; PT +13% to €60

We believe UCB should just meet its longer-term sales targets for Cimzia, Vimpat, Neupro, and Briviact of around €1.5bn, €1.2bn and €400m by 2020E, plus €600m by 2026E, respectively. However, we see focus shifting beyond the current growth trajectory, assessing the longevity of the core products and calling into question the pipeline's commercial potential, most notably Eeventy (romosozumab) for which enthusiasm waned after the Phase III FRAME results fell short of high expectations and was further dented on CV safety concerns in the ARCH study. After achieving the 30% REBITDA margin aim one year early in 2017, we expect pressure from the need to invest in R&D, with REBITDA declining before returning above 31% by 2021E. We remain enthusiastic on steady US growth of epilepsy drug Vimpat, assuming no generic erosion until the 2022E patent expiry. We retain a more cautious stance on Cimzia in view of longer-term risks from competing oral JAK inhibitor drugs and anti-TNF α biosimilars, which could increasingly gain traction as a focus for investors. We believe the current share price does not reflect these concerns, hence our Underperform rating. Our €60 per share Price Target is based on an NPV sum-of-the-parts valuation and implies 11.5x 2019 P/E.

Tweaking profits +1%-2% from 2018E as tax benefits offset margin pressures

Our Revenues rise +2%-3% despite a more adverse -4.6% FX headwind, largely driven by higher sales of Briviact and Xyzal after the strong 2H17 performance. The upgraded top-line is more than offset by higher R&D spend as management clearly alluded to the need to significantly boost investment in the pipeline, notably bimekizumab in Phase III but also padsevonil and an increasingly broad set of Phase I-II programmes. This drives -2%-5% lower REBITDA. However, this is more than offset by lower tax, likely to be in the low-20% range from 2018E benefiting from recent reforms, for +1%-2% Core EPS.

Table 1: Tweaking profits +1%-2% from 2018E as tax benefits offset margin pressures from hiked R&D spend

(EUR millions Dec YE)	2018			2019			2020		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
Keppra	782.2	771.8	-1%	761.6	751.7	-1%	709.5	699.7	-1%
Vimpat	1,047.5	1,043.3	-0%	1,142.2	1,137.7	-0%	1,242.9	1,242.6	-0%
Briviact	128.4	153.2	+19%	181.9	232.0	+28%	242.0	307.3	+27%
Neupro	331.8	324.9	-2%	353.2	346.6	-2%	373.8	366.1	-2%
Zyrtec	101.8	90.1	-11%	83.6	74.3	-11%	68.7	61.3	-11%
Xyzal	71.3	96.1	+35%	58.3	78.2	+34%	47.6	63.7	+34%
Cimzia	1,471.5	1,480.8	+1%	1,506.6	1,533.8	+2%	1,496.7	1,543.2	+3%
Royalties & Fees	117.6	107.5	-9%	121.0	112.3	-7%	121.2	112.4	-7%
Revenue	4,505.9	4,577.9	+2%	4,664.6	4,767.1	+2%	4,771.1	4,900.0	+3%
Gross Profit	3,369.5	3,384.3	+0%	3,599.0	3,636.3	+1%	3,725.5	3,789.0	+2%
Gross margin %	74.8%	73.9%		77.2%	76.3%		78.1%	77.3%	
Sales & Marketing Expenses	(984.6)	(966.9)	-2%	(1,008.0)	(995.0)	-1%	(1,024.2)	(1,015.5)	-1%
R&D Expenses	(1,031.3)	(1,136.0)	+10%	(1,025.6)	(1,171.4)	+14%	(1,019.7)	(1,192.5)	+17%
General & Admin. Expenses	(191.8)	(198.0)	+3%	(197.6)	(203.9)	+3%	(202.5)	(210.0)	+4%
Operating Income	1,108.5	1,061.6	-4%	1,323.3	1,259.5	-5%	1,435.1	1,363.7	-5%
Operating margin %	24.6%	23.2%		28.4%	26.4%		30.1%	27.8%	
Adjusted Operating Income	1,265.5	1,222.6	-3%	1,383.3	1,319.5	-5%	1,495.1	1,423.7	-5%
Recurring EBIT (REBIT)	1,108.5	1,061.6	-4%	1,323.3	1,259.5	-5%	1,435.1	1,363.7	-5%
Recurring EBITDA (REBITDA)	1,347.3	1,315.5	-2%	1,472.7	1,404.2	-5%	1,592.2	1,516.2	-5%
Pre-tax Profit	1,056.5	991.1	-6%	1,288.3	1,211.5	-6%	1,427.1	1,338.7	-6%
Net Income	774.3	776.1	+0%	946.3	959.1	+1%	1,049.9	1,065.3	+1%
Adjusted Net Income	871.6	877.5	+1%	983.5	996.9	+1%	1,087.1	1,103.1	+1%
EPS (EUR)	4.11	4.12	+0%	4.99	5.08	+2%	5.51	5.62	+2%
Adjusted EPS (EUR)	4.62	4.66	+1%	5.19	5.28	+2%	5.70	5.82	+2%
UCB Core EPS (EUR)	4.62	4.66	+1%	5.19	5.28	+2%	5.70	5.82	+2%
Adjusted Diluted EPS (EUR)	4.62	4.66	+1%	5.19	5.28	+2%	5.70	5.82	+2%
Net Cash/(Debt)	204.0	182.5	-11%	786.8	920.9	+17%	1,434.7	1,687.9	+18%

Source: Jefferies estimates

Table 2: Our 2018E estimates are at the upper-end of management's aims

2018	22-Feb-18	
	Outlook	Estimates
Revenue	4,500-4,600	4,578
Operating Expenses		+5.6%
Recurring EBITDA	1,300-1,400	1,316
Core EPS	4.30-4.70	4.66

Source: Jefferies estimates, company data

Table 3: We believe UCB should meet its longer-term targets

Core Product Peak Sales 2020E	02-Mar-10		
	Estimates	Outlook	Estimates
	(€m)	(€m)	(\$m)
Cimzia	>€1.5bn	1,500	1,848
Rheumatoid Arthritis		750	924
Crohn's (incl Ulcerative Colitis)		280	345
Other Indications (PsA, AS, etc)		470	579
Vimpat	>€1.2bn	1,240	1,528
Neupro	>€400m	370	456
Briavact (by 2026E); was >€450m	>€600m	610	752

Profitability	Outlook	Estimate
2018E REBITDA Margin (achieved 2017)	30%	29%
2021E REBITDA Margin (Feb-18 aim)	31%	32%

Source: Jefferies estimates, company data originally established in March 2010

Raising Price Target +13% to €60

Our €60 per share Price Target is based on an NPV sum-of-the-parts valuation. This could increase to €72 per share including potential upside catalysts, most notably only a minimal impact on Cimzia sales growth from future anti-TNF α biosimilars and orals, plus positive pipeline news. However, on the downside we note Cimzia sales erosion could be greater than we predict and Evenity could face more regulatory delays.

Table 4: UCB sum-of-the-parts valuation

	Indication	Peak Sales (\$mn)	Value (EURmn)	Prob.	Adj. Value (EURmn)	EUR per share
Keppra	Epilepsy	1,850	1,562	100%	1,562	8.0
Keppra XR	Epilepsy (US)	180	64	100%	64	0.3
Cimzia	Crohn's Disease (incl UC)	400	560	100%	560	2.9
	Rheumatoid Arthritis	900	1,629	100%	1,629	8.4
	AxSpA	350	659	100%	659	3.4
	Psoriatic arthritis	150	286	100%	286	1.5
	Psoriasis	250	299	100%	299	1.5
Vimpat	Epilepsy	1,600	1,693	100%	1,693	8.7
Neupro	Parkinson's Disease	400	353	100%	353	1.8
	Restless leg syndrome	50	38	100%	38	0.2
Zyrtec	Allergy (ex-US)	600	73	100%	73	0.4
padsevonil	Drug-resistant focal epilepsy	750	1,463	50%	732	3.8
Briviact	Epilepsy	750	1,741	100%	1,741	9.0
Evenity (romosozumab)	Osteoporosis	730	339	85%	288	1.5
bimekizumab	PsO, PsA & Ankylosing spondyloarthritis	1,000	989	50%	494	2.5
Biotech IP Royalties		175	890	100%	890	4.6
Other marketed products		1,700	1,271	100%	1,271	6.5
Net Cash/(Debt)			(962)	100%	(962)	(4.9)
Valuation			12,946		11,669	60.0

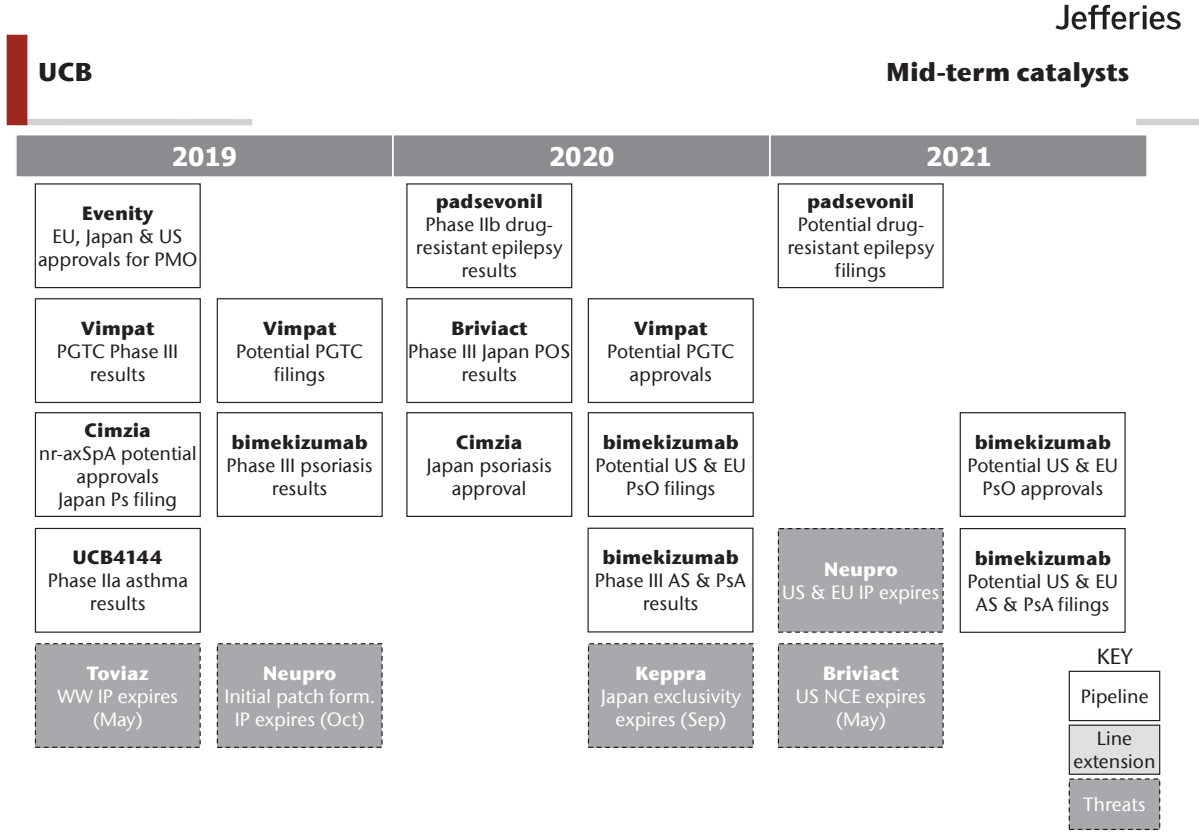
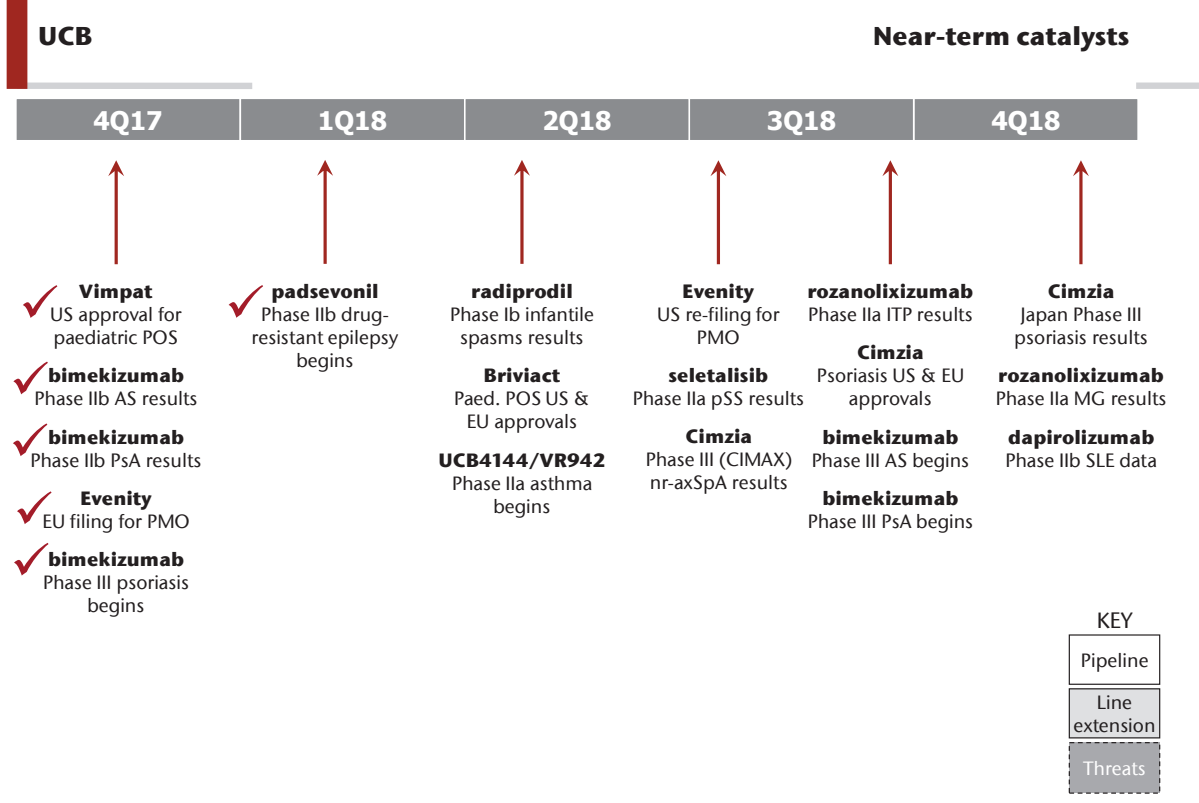
Source: Jefferies estimates

Table 5: Sources of upside potential and downside risk

	Upside	EUR per share	Downside	EUR per share
Cimzia net price erosion from anti-TNF biosimilars	Minimal impact until mid-2020s	4.0	More rapid decline	(2.6)
Evenity regulatory approvals	Approved with differentiated label	1.6	Regulatory concerns or delays	(1.1)
padsevonil Phase IIb in drug-resistant epilepsy	Positive for regulatory filings	3.0	Fails	(3.8)
dapirolizumab Phase III decision in SLE	Positive Phase IIb results	1.9	Discontinued	0.0
bimekizumab Phase III results	Suggest a competitive profile	1.5	Efficacy and/or safety concerns	(1.5)
Potential Upside/(Downside)		12.0		(9.0)
Potential Valuation		71.9		51.0

Source: Jefferies estimates

Exhibit 1: UCB catalysts



Jefferies

Source: Jefferies

Updated financial models

Table 6: UCB Revenue Model

(EUR millions Dec YE)	2018E								Prob.
	2017A	1H18E	2H18E	2018E	2019E	2020E	2021E	2022E	
Neurology & CNS	2,304.0	1,194.3	1,247.9	2,442.3	2,614.3	2,759.8	2,842.7	2,295.4	
Keppra	778.0	389.5	382.3	771.8	751.7	699.7	585.9	510.1	
US Keppra Sales	232.0	101.5	98.0	199.5	186.6	174.2	162.7	152.0	100%
European Keppra Sales	235.0	113.1	110.2	223.3	210.9	198.1	186.0	174.7	100%
RoW Keppra Sales	311.0	175.0	174.1	349.1	354.2	327.4	237.2	183.4	100%
Vimpat	976.0	501.6	541.7	1,043.3	1,137.7	1,242.6	1,383.0	906.9	
US Vimpat Sales	746.0	376.6	405.5	782.1	852.4	936.1	1,054.6	653.9	100%
ex-US Vimpat Sales	230.0	125.0	136.2	261.2	285.3	306.5	328.4	253.0	100%
Briviact	87.0	65.7	87.5	153.2	232.0	307.3	390.0	466.7	
US Briviact Sales	63.0	48.7	64.7	113.4	173.1	232.8	301.2	366.9	100%
ex-US Briviact Sales	24.0	17.0	22.7	39.7	58.9	74.5	88.7	99.8	100%
Nootropil	44.0	21.8	20.2	42.0	37.8	34.0	30.6	27.6	100%
Metadate CD	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100%
Neupro	314.0	158.7	166.3	324.9	346.6	366.1	341.4	236.4	
US Neupro Sales	96.0	46.7	47.3	94.0	101.9	108.9	101.5	62.3	100%
ex-US Neupro Sales	218.0	112.0	119.0	231.0	244.6	257.2	239.9	174.1	100%
padsevonil	0.0	0.0	0.0	0.0	0.0	0.0	0.0	69.0	50%
Atarax	30.0	20.0	10.0	30.0	30.0	30.0	30.0	30.0	100%
Other CNS (incl Xyrem)	75.0	37.0	40.0	77.0	78.5	80.1	81.7	83.3	100%
Allergy & Respiratory	207.0	112.9	73.3	186.2	152.5	124.9	102.5	84.1	
Zyrtec (incl Cirrus & Zyrtec-D)	103.0	53.9	36.2	90.1	74.3	61.3	50.6	41.8	100%
Xyzal	104.0	59.0	37.1	96.1	78.2	63.7	51.9	42.3	100%
Immunology/Inflammation	1,424.0	667.2	813.7	1,480.8	1,547.2	1,580.4	1,623.0	1,806.3	
Cimzia (CDP 870)	1,424.0	667.2	813.7	1,480.8	1,533.8	1,543.2	1,520.5	1,572.7	
US Cimzia (CDP 870) Sales	918.0	400.2	528.7	928.8	948.4	951.5	934.6	951.8	100%
ex-US Cimzia (CDP 870) Sales	506.0	267.0	285.0	552.0	585.3	591.7	585.9	620.9	100%
Evenity (romosozumab; anti-sclerostin) ex-US/Jaj	0.0	0.0	0.0	0.0	13.4	37.2	80.2	122.1	100%
bimekizumab	0.0	0.0	0.0	0.0	0.0	0.0	44.6	222.8	50%
Other Products	247.0	90.8	135.5	226.4	208.8	192.9	178.5	165.3	
Net Sales Like-for-Like (Prob. Adjusted)	4,182.0	2,065.2	2,270.5	4,335.7	4,522.8	4,658.1	4,746.6	4,351.1	
Net Sales (Prob. Adjusted)	4,182.0	2,065.2	2,270.5	4,335.7	4,522.8	4,658.1	4,746.6	4,351.1	
Royalties & Fees	108.0	57.2	50.3	107.5	112.3	112.4	115.0	117.5	
Other Revenue (incl M/S & Profit-Share)	240.0	74.1	60.6	134.6	132.0	129.5	126.5	124.0	
Total Group Revenue (Prob. Adjusted)	4,530.0	2,196.5	2,381.4	4,577.9	4,767.1	4,900.0	4,988.1	4,592.6	
% Change Year over Year									
Neurology & CNS	14.9%	3.2%	8.8%	6.0%	7.0%	5.6%	3.0%	(19.3%)	
Keppra	8.1%	(5.5%)	4.5%	(0.8%)	(2.6%)	(6.9%)	(16.3%)	(12.9%)	
Vimpat	18.7%	5.2%	8.6%	6.9%	9.0%	9.2%	11.3%	(34.4%)	
Nootropil	(4.3%)	(0.7%)	(8.4%)	(4.5%)	(10.0%)	(10.0%)	(10.0%)	(10.0%)	
Metadate CD	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Neupro	5.4%	3.0%	3.9%	3.5%	6.7%	5.6%	(6.7%)	(30.8%)	
Atarax	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other CNS (incl Xyrem)	4.2%	2.7%	2.7%	2.7%	2.0%	2.0%	2.0%	2.0%	
Allergy & Respiratory	(5.0%)	(1.8%)	(20.3%)	(10.0%)	(18.1%)	(18.1%)	(18.0%)	(17.9%)	
Zyrtec (incl Cirrus & Zyrtec-D)	(12.0%)	(11.6%)	(13.9%)	(12.5%)	(17.6%)	(17.5%)	(17.4%)	(17.3%)	
Xyzal	3.0%	9.2%	(25.7%)	(7.6%)	(18.6%)	(18.6%)	(18.5%)	(18.5%)	
Immunology/Inflammation	9.2%	0.6%	6.9%	4.0%	4.5%	2.1%	2.7%	11.3%	
Cimzia (CDP 870)	9.2%	0.6%	6.9%	4.0%	3.6%	0.6%	(1.5%)	3.4%	
Other Products	(17.4%)	(10.1%)	(7.2%)	(8.4%)	(7.7%)	(7.6%)	(7.5%)	(7.4%)	
Tussionex	(31.5%)	(34.1%)	(27.5%)	(31.4%)	(25.0%)	(25.0%)	(25.0%)	(25.0%)	
Net Sales Like-for-Like (Prob. Adjusted)	9.3%	1.4%	5.8%	3.7%	4.3%	3.0%	1.9%	(8.3%)	
FX Impact	(1.2%)	(6.7%)	(2.1%)	(4.6%)	0.0%	0.0%	0.0%	0.0%	
L/C Growth	10.6%	8.7%	8.1%	8.6%	4.3%	3.0%	1.9%	(8.3%)	
Royalties & Fees	(13.6%)	(1.3%)	0.6%	(0.4%)	4.4%	0.1%	2.4%	2.1%	
Total Group Revenue (Prob. Adjusted)	9.2%	(1.5%)	3.5%	1.1%	4.1%	2.8%	1.8%	(7.9%)	

Source: Jefferies estimates, company data

Table 7: UCB Profit and Loss Model

(EUR millions except EPS Dec YE)	2018E							
	2017A	1H18E	2H18E	2018E	2019E	2020E	2021E	2022E
Net Sales	4,182.0	2,065.2	2,270.5	4,335.7	4,522.8	4,658.1	4,746.6	4,351.1
Royalty Income	108.0	57.2	50.3	107.5	112.3	112.4	115.0	117.5
Other Revenue	240.0	74.1	60.6	134.6	132.0	129.5	126.5	124.0
Revenue	4,530.0	2,196.5	2,381.4	4,577.9	4,767.1	4,900.0	4,988.1	4,592.6
Cost of Sales	(1,200.0)	(586.5)	(607.1)	(1,193.6)	(1,130.8)	(1,111.0)	(1,116.9)	(999.5)
Gross Profit	3,330.0	1,610.0	1,774.2	3,384.3	3,636.3	3,789.0	3,871.2	3,593.0
Total Operating Expenses	(2,200.0)	(1,103.8)	(1,218.8)	(2,322.6)	(2,376.7)	(2,425.3)	(2,454.8)	(2,234.8)
Sales & Marketing Expenses	(940.0)	(473.8)	(493.1)	(966.9)	(995.0)	(1,015.5)	(1,030.0)	(939.8)
R&D Expenses	(1,057.0)	(522.5)	(613.4)	(1,136.0)	(1,171.4)	(1,192.5)	(1,200.9)	(1,092.1)
General & Admin. Expenses	(192.0)	(95.0)	(103.0)	(198.0)	(203.9)	(210.0)	(214.0)	(196.2)
o/w Acq'n-related Amortisation/Write-downs	(35.0)	(19.5)	(19.5)	(39.0)	(5.0)	(5.0)	(5.0)	(5.0)
Other Operating Income/Expenses	(11.0)	(12.5)	(9.3)	(21.8)	(6.4)	(7.3)	(9.9)	(6.6)
Operating Exceptionals	(43.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operating Income	1,087.0	506.2	555.4	1,061.6	1,259.5	1,363.7	1,416.4	1,358.2
Adjusted Operating Income	1,290.0	586.7	635.9	1,222.6	1,319.5	1,423.7	1,476.4	1,418.2
Net Financial Income	(99.0)	(36.5)	(34.0)	(70.5)	(48.0)	(25.0)	0.0	36.0
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income from Associates & JVs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Profit	988.0	469.7	521.4	991.1	1,211.5	1,338.7	1,416.4	1,394.2
Adjusted Pretax Profit	1,191.0	550.2	601.9	1,152.1	1,271.5	1,398.7	1,476.4	1,454.2
Taxation	(218.0)	(103.3)	(114.7)	(218.0)	(254.4)	(274.4)	(283.3)	(278.8)
Minority Interests	(18.0)	1.0	2.0	3.0	2.0	1.0	0.0	0.0
Net Income from Continuing Operations	752.0	367.4	408.7	776.1	959.1	1,065.3	1,133.1	1,115.4
Net Income from Discontinued Operations	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	753.0	367.4	408.7	776.1	959.1	1,065.3	1,133.1	1,115.4
Pre-exceptionals Net Income	783.0	367.4	408.7	776.1	959.1	1,065.3	1,133.1	1,115.4
Adjusted Net Income	907.0	418.1	459.4	877.5	996.9	1,103.1	1,170.9	1,153.2
WA Basic Shares (mn)	188.3	188.5	188.5	188.5	189.0	189.5	190.0	190.5
WA Shares Diluted (mn)	188.3	188.5	188.5	188.5	189.0	189.5	190.0	190.5
EPS (EUR)	4.00	1.95	2.17	4.12	5.08	5.62	5.97	5.86
Adjusted EPS (EUR)	4.82	2.22	2.44	4.66	5.28	5.82	6.16	6.05
UCB Core EPS (EUR)	4.82	2.22	2.44	4.66	5.28	5.82	6.16	6.05
Diluted EPS (EUR)	4.00	1.95	2.17	4.12	5.08	5.62	5.97	5.86
Diluted Adjusted EPS (EUR)	4.82	2.22	2.44	4.66	5.28	5.82	6.16	6.05
Dividends Paid and Proposed	(230.0)			(249.0)	(312.0)	(379.0)	(443.0)	(480.0)
Net Dividends per Share Interim/Final (EUR)	0.83			0.90	1.12	1.35	1.58	1.70
% Change Year over Year								
Revenue	9.2%	(1.5%)	3.5%	1.1%	4.1%	2.8%	1.8%	(7.9%)
Cost of Sales	(0.2%)	4.0%	(4.5%)	(0.5%)	(5.3%)	(1.8%)	0.5%	(10.5%)
Gross Profit	13.1%	(3.4%)	6.6%	1.6%	7.4%	4.2%	2.2%	(7.2%)
Total Operating Expenses	2.4%	5.4%	5.7%	5.6%	2.3%	2.0%	1.2%	(9.0%)
Sales & Marketing Expenses	0.2%	2.1%	3.6%	2.9%	2.9%	2.1%	1.4%	(8.8%)
R&D Expenses	3.6%	10.2%	5.2%	7.5%	3.1%	1.8%	0.7%	(9.1%)
General & Admin. Expenses	4.3%	2.2%	4.0%	3.1%	3.0%	3.0%	1.9%	(8.3%)
Operating Income	24.1%	(18.2%)	18.7%	(2.3%)	18.6%	8.3%	3.9%	(4.1%)
Adjusted Operating Income	35.1%	(15.8%)	7.2%	(5.2%)	7.9%	7.9%	3.7%	(3.9%)
Pretax Profit	29.3%	(16.7%)	23.0%	0.3%	22.2%	10.5%	5.8%	(1.6%)
Adjusted Pretax Profit	36.7%	(14.3%)	9.6%	(3.3%)	10.4%	10.0%	5.6%	(1.5%)
Net Income	44.8%	(14.8%)	26.9%	3.1%	23.6%	11.1%	6.4%	(1.6%)
Adjusted Net Income	51.2%	(12.4%)	6.8%	(3.3%)	13.6%	10.6%	6.2%	(1.5%)
EPS (EUR)	44.9%	(14.9%)	26.8%	3.0%	23.3%	10.8%	6.1%	(1.8%)
Adjusted EPS (EUR)	51.2%	(12.4%)	6.7%	(3.3%)	13.3%	10.4%	5.9%	(1.8%)
UCB Core EPS (EUR)	51.2%	(12.4%)	6.7%	(3.3%)	13.3%	10.4%	5.9%	(1.8%)
Diluted Adjusted EPS (EUR)	51.2%	(12.4%)	6.7%	(3.3%)	13.3%	10.4%	5.9%	(1.8%)

Source: Jefferies estimates, company data

Table 8: UCB Margin Analysis

	2018E							
	2017A	1H18E	2H18E	2018E	2019E	2020E	2021E	2022E
Gross Margin	73.5%	73.3%	74.5%	73.9%	76.3%	77.3%	77.6%	78.2%
Sales & Marketing Expenses	20.8%	21.6%	20.7%	21.1%	20.9%	20.7%	20.6%	20.5%
R&D Expenses	23.3%	23.8%	25.8%	24.8%	24.6%	24.3%	24.1%	23.8%
General & Admin. Expenses	4.2%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%
Operating Income	24.0%	23.0%	23.3%	23.2%	26.4%	27.8%	28.4%	29.6%
Adjusted Operating Income	28.5%	26.7%	26.7%	26.7%	27.7%	29.1%	29.6%	30.9%
Pretax Profit	21.8%	21.4%	21.9%	21.7%	25.4%	27.3%	28.4%	30.4%
Net Income	16.6%	16.7%	17.2%	17.0%	20.1%	21.7%	22.7%	24.3%

Source: Jefferies estimates, company data

Table 9: UCB Cash Flow Model

(EUR millions Dec YE)	2017A	2018E	2019E	2020E	2021E	2022E
Net Income from Continuing Operations	752.0	776.1	959.1	1,065.3	1,133.1	1,115.4
Depreciation and Amortisation	234.0	238.9	144.7	152.5	161.2	169.6
Equity Share-Based Payments	8.0	95.0	99.8	104.7	110.0	115.5
Net Interest Income/(Expense)	55.0	55.5	40.0	20.0	(3.0)	(36.0)
Other Financial Income/(Expense)	44.0	15.0	8.0	5.0	3.0	0.0
Income Tax Expense	218.0	218.0	254.4	274.4	283.3	278.8
Minority Interest	18.0	(3.0)	(2.0)	(1.0)	0.0	0.0
Other Adjustments and Exceptionals	(155.0)	0.0	0.0	0.0	0.0	0.0
Adjustments for Non-Cash Items	188.0	380.5	400.2	403.2	393.3	358.3
EBITDA	1,321.0	1,300.5	1,404.2	1,516.2	1,577.6	1,527.8
Pre-exceptionals EBITDA	1,364.0	1,300.5	1,404.2	1,516.2	1,577.6	1,527.8
Recurring EBITDA (UCB)	1,375.0	1,315.5	1,404.2	1,516.2	1,577.6	1,527.8
Decrease/(Increase) in Inventories	(14.0)	9.8	3.6	13.6	(0.3)	65.6
Decrease/(Increase) in Receivables	95.0	10.6	(16.8)	(9.5)	(3.8)	53.4
Increase/(Decrease) in Payables	(160.0)	2.3	9.1	2.9	3.1	(33.6)
Change in WC	(79.0)	22.7	(4.1)	7.1	(1.0)	85.5
Interest Received	16.0	4.5	10.0	20.0	30.0	50.0
Interest Paid	(53.0)	(60.0)	(50.0)	(40.0)	(27.0)	(14.0)
Taxation Paid	(184.0)	(218.0)	(245.3)	(269.4)	(281.1)	(280.0)
Net Cash Flow from Operating Activities	874.0	1,144.6	1,214.5	1,338.6	1,408.5	1,484.8
Purchase of Tangible Fixed Assets	(100.0)	(128.2)	(143.0)	(171.5)	(174.6)	(160.7)
Proceeds from Sale of PP&E	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of Intangible Assets	(109.0)	(80.0)	(84.0)	(88.2)	(92.6)	(97.2)
(Purchase)/Sale of Investments	0.0	0.0	0.0	0.0	0.0	0.0
(Acquisitions)/Disposals of Subsidiaries	(19.0)	0.0	0.0	0.0	0.0	0.0
Dividends Received from Associates	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow from Investing Activities	(228.0)	(208.2)	(227.0)	(259.7)	(267.2)	(258.0)
Management of Financial & Other Assets	0.0	0.0	0.0	0.0	0.0	0.0
Capital Changes	(105.0)	0.0	0.0	0.0	0.0	0.0
Debt Changes	(27.0)	(39.0)	(246.0)	(370.0)	(369.0)	(350.0)
Equity Dividends Paid	(217.0)	(230.0)	(249.0)	(312.0)	(379.0)	(443.0)
Other Financing Cash Flows	0.0	0.0	0.0	0.0	0.0	0.0
Net Cash Flow from Financing Activities	(349.0)	(269.0)	(495.0)	(682.0)	(748.0)	(793.0)
Effect of FX on Cash and Cash Equivalents	(31.0)	0.0	0.0	0.0	0.0	0.0
Increase in Cash	266.0	667.5	492.5	396.9	393.3	433.8
Change in Net Debt	(324.0)	(706.5)	(738.5)	(766.9)	(762.3)	(783.8)
(Cash Burn)	646.0	936.5	987.5	1,078.9	1,141.3	1,226.8

Source: Jefferies estimates, company data

Table 10: UCB Balance Sheet Model

(EUR millions Dec YE)	2017A	2018E	2019E	2020E	2021E	2022E
Non-current Assets	7,240.0	7,209.3	7,291.6	7,398.8	7,504.8	7,593.1
Intangible Assets	5,655.0	5,574.0	5,598.0	5,626.2	5,658.8	5,696.1
Property, Plant and Equipment	673.0	723.3	781.6	860.6	933.9	985.1
Deferred Income Tax Assets	715.0	715.0	715.0	715.0	715.0	715.0
Financial and Other Assets	197.0	197.0	197.0	197.0	197.0	197.0
Current Assets	2,677.0	3,309.1	3,806.7	4,194.5	4,588.9	4,903.7
Inventories	597.0	587.2	583.6	569.9	570.2	504.6
Trade Receivables	575.0	564.4	581.2	590.7	594.5	541.0
Other Receivables (incl Income Tax)	246.0	231.0	223.0	218.0	215.0	215.0
Financial and Other Assets	210.0	210.0	210.0	210.0	210.0	210.0
Cash and Cash Equivalents	1,049.0	1,716.5	2,208.9	2,605.9	2,999.2	3,433.0
Total Assets	9,917.0	10,518.3	11,098.3	11,593.3	12,093.7	12,496.8
Current Liabilities	1,949.0	2,090.0	2,232.1	2,239.0	2,225.3	2,016.6
Trade Payables	281.0	287.3	294.8	296.7	299.0	268.7
Other Current Liabilities (incl Income Tax)	1,466.0	1,466.0	1,475.1	1,480.1	1,482.3	1,481.2
Provisions	37.0	37.6	39.2	40.3	41.0	37.7
Deferred Income	73.0	0.0	0.0	0.0	0.0	0.0
Short-term Debt	37.0	244.0	369.0	369.0	350.0	176.0
Other Current Financial Liabilities	53.0	53.0	53.0	53.0	53.0	53.0
Leasing Obligations	2.0	2.0	1.0	0.0	0.0	0.0
Non-current Liabilities	2,232.0	2,054.3	1,684.3	1,315.3	965.3	789.3
Long-term Debt	1,531.0	1,287.0	918.0	549.0	199.0	23.0
Other Non-Current Financial Liabilities	57.0	57.0	57.0	57.0	57.0	57.0
Leasing Obligations	3.0	1.0	0.0	0.0	0.0	0.0
Deferred Tax Liabilities	53.0	53.0	53.0	53.0	53.0	53.0
Deferred Income	0.0	68.3	68.3	68.3	68.3	68.3
Long-term Provisions	588.0	588.0	588.0	588.0	588.0	588.0
Total Shareholders' Equity	5,813.0	6,454.1	7,263.9	8,121.9	8,986.0	9,773.9
Share Capital	0.0	0.0	0.0	0.0	0.0	0.0
Share Premium Account & Treasury Shares	2,257.0	2,257.0	2,257.0	2,257.0	2,257.0	2,257.0
Other Reserves and Adjustments	(255.0)	(255.0)	(255.0)	(255.0)	(255.0)	(255.0)
Retained Earnings	3,811.0	4,452.1	5,261.9	6,119.9	6,984.0	7,771.9
Minority Interests	(77.0)	(80.0)	(82.0)	(83.0)	(83.0)	(83.0)
Total Liabilities and Shareholders' Equity	9,917.0	10,518.3	11,098.3	11,593.3	12,093.7	12,496.8

Source: Jefferies estimates, company data

Key changes to forecasts

Table 11: Summary estimates changes for UCB

Forecasts (EURm)	2018E New	2018E Old	% Chg	2019E New	2019E Old	% Chg
Sales	4,577.9	4,505.9	+2%	4,767.1	4,664.6	+2%
Adj. EBIT	1,222.6	1,265.5	-3%	1,319.5	1,383.3	-5%
Adj. EPS	4.66	4.62	+1%	5.28	5.19	+2%
Net Cash/(Debt)	182.5	203.9	-11%	920.9	786.6	+17%

Drivers of Change Boosting the top-line +2% on higher sales of Briviact and Xyzal after the stronger 2017 performance. Hiked R&D spend drives lower operating profits but this is offset at the bottom-line by reduced tax rates following recent reforms for +1%-2% upgrades.

Source: Jefferies estimates

Company Description

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

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(Article 3(1)e and Article 7 of MAR)

Recommendation Published , 13:32 ET. February 22, 2018

Recommendation Distributed , 00:00 ET. February 23, 2018

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Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

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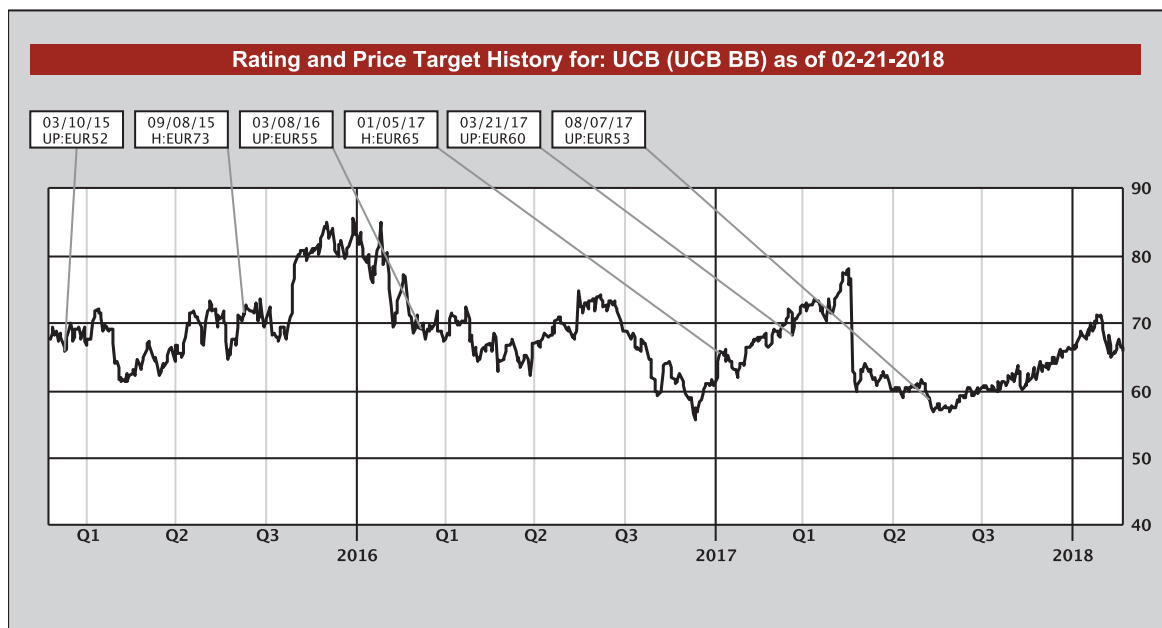
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D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

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