

UCB SA UCB (XBRU) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
67.26 EUR	68.00 EUR	47.60 EUR	91.80 EUR	Medium	None	Positive	Standard	Biotechnology

UCB's new products and emerging pipeline trump generic headwinds resulting in a positive moat trend.

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

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Pricing data through 04 Jul 2016
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Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

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Investment Thesis 02 Oct 2015

With blockbuster drugs Zyrtec and Keppra, UCB 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. 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 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). 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 a promising Phase III program (romosozumab in osteoporosis) that may further enhance its future product 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 high valuations for smaller drug development companies makes successful acquisitions more challenging and expensive.

Vital Statistics

Market Cap (EUR Mil)	12,662
52-Week High (EUR)	86.05
52-Week Low (EUR)	61.60
52-Week Total Return %	4.2
YTD Total Return %	-17.9
Last Fiscal Year End	31 Dec 2015
5-Yr Forward Revenue CAGR %	8.1
5-Yr Forward EPS CAGR %	19.2
Price/Fair Value	0.99

Valuation Summary and Forecasts

	Fiscal Year:	2014	2015	2016(E)	2017(E)
Price/Earnings		37.4	38.4	21.9	19.7
EV/EBITDA		22.6	21.6	14.0	12.7
EV/EBIT		36.3	30.2	19.0	16.6
Free Cash Flow Yield %		3.5	0.6	4.3	5.2
Dividend Yield %		1.8	1.4	1.7	1.8

Financial Summary and Forecasts (EUR Mil)

	Fiscal Year:	2014	2015	2016(E)	2017(E)
Revenue		3,344	3,876	4,077	4,286
Revenue YoY %		6.7	15.9	5.2	5.1
EBIT		379	577	714	814
EBIT YoY %		27.6	52.2	23.7	14.1
Net Income, Adjusted		308	417	577	630
Net Income YoY %		36.3	35.4	38.4	9.3
Diluted EPS		1.69	2.17	3.07	3.41
Diluted EPS YoY %		36.3	28.5	41.3	11.2
Free Cash Flow		539	1,206	603	715
Free Cash Flow YoY %		-2,142.2	123.6	-50.0	18.6

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 Reports Solid 1Q Top-Line Results Consistent With Expectations; Shares Fairly Valued 25 Apr 2016

We do not plan to materially change our EUR 68 per share fair value estimate and are maintaining our no-moat, positive trend ratings for UCB as the company reported first-quarter top-line results that were largely consistent with our expectations. Overall, UCB continues to perform well and is demonstrating strong growth momentum, particularly from core immunology and neurology franchises Cimzia, Vimpat and Neupro. Nevertheless, we think that the company's improving prospects are already reflected in its fully valued stock price.

Revenue for the quarter totaled EUR 991 million, up 11% compared with last year. Cimzia, Vimpat, and Neupro together produced strong 26% growth, with their combined sales reaching EUR 544 million. However, after positive growth from Keppra in recent quarters because of tight supply in the U.S and growth in international markets, the impact of generic competition for the anti-epileptic drug in the U.S. and Europe returned, resulting in an 11% decline in sales to EUR 170 million.

In its pipeline, the focus continues to be on osteoporosis drug romosozumab, which is partnered with Amgen and remains on track for regulatory filings later this year. The company recently reported positive phase 3 data from the Bridge study in men with osteoporosis. Earlier this month, the company also presented the details of the positive phase 3 Structure study of the drug compared with Eli Lilly's Forteo in postmenopausal women with osteoporosis at high risk for fracture who had previously been treated with bisphosphonate therapy. However, these results are counterbalanced with the less-than-stellar phase 3 results in the larger Frame trial, which were positive on their primary endpoint of reducing the risk of vertebral fractures but failed to achieve significance in its key secondary endpoint in nonvertebral fractures. This will likely be seen as a disadvantage to Forteo and Radius Health's abaloparatide,

which have hit on both endpoints. Nevertheless, we think its dosing advantage (monthly versus daily) and potential for a pricing advantage over the full course of treatment due to its 12-month regimen (versus 24 months for Forteo and 18 months for abaloparatide) still position it as a potential blockbuster.

Valuation, Growth and Profitability 25 Apr 2016

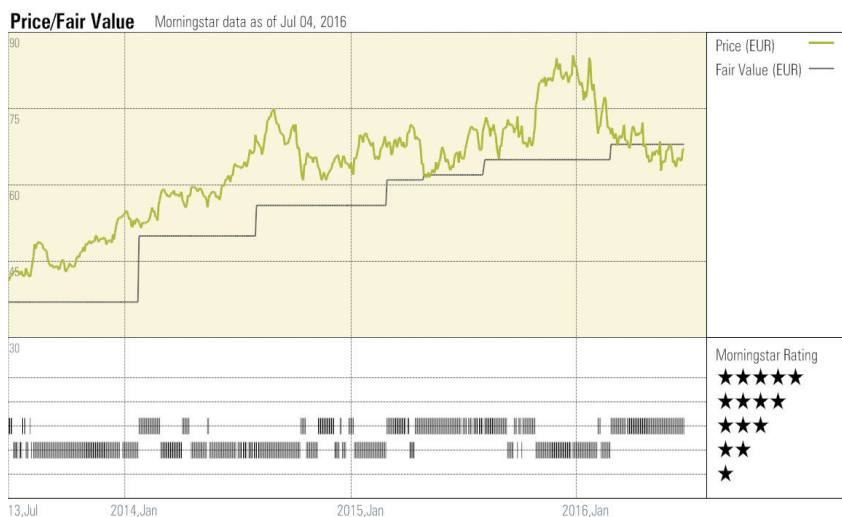
UCB's fair value estimate of EUR 68 per share is driven primarily by its key immunology and neurology franchises Cimzia, Vimpat, Keppra and Neupro. Cimzia's uptake into the expansive rheumatoid arthritis market should help drive growth, and we think sales have the potential to reach over EUR 2.0 billion by the end of our 10-year explicit forecast period. We also expect Vimpat (EUR 1.3 billion peak sales) and Neupro (EUR 400 million peak sales) to add important incremental sales. 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 2020, as new product launches have replaced the firm's declining flagship products. We expect operating margins to climb to the 20% range as restructuring efforts and operating leverage from its expected solid top-line growth take hold in the coming years.

Scenario Analysis

While we believe UCB's fair value is EUR 68 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 2.3 billion. In this case, operating margins would probably reach 25% and our fair value estimate would rise to EUR 85 per share. In our bear case, we assume generic losses for Keppra are

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more severe and Cimzia is unable to capture a sizable portion of the rheumatoid arthritis market, resulting in peak sales of only EUR 1.2 billion. 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 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 firm's 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 antiepileptic drug Vimpat and recently approved 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 could become challenged if the growth of the firm's core products slows.
- ▶ UCB has historically grown via acquisitions; this strategy could be risky given increasing competition for promising products and high valuations for smaller drug development companies.
- ▶ UCB's debt load is over EUR 2 billion. This may limit its ability to make meaningful acquisitions in the future.

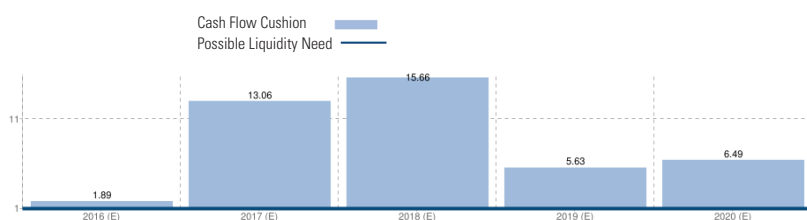
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Five Year Adjusted Cash Flow Forecast (EUR Mil)

	2016(E)	2017(E)	2018(E)	2019(E)	2020(E)
Cash and Equivalents (beginning of period)	1,339	1,039	1,217	1,488	1,636
Adjusted Available Cash Flow	411	516	649	589	760
Total Cash Available before Debt Service	1,750	1,555	1,866	2,077	2,396
Principal Payments	-807	—	—	-250	-250
Interest Payments	-119	-119	-119	-119	-119
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-926	-119	-119	-369	-369

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	EUR Millions	% of Commitments
Beginning Cash Balance	1,339	70.4
Sum of 5-Year Adjusted Free Cash Flow	2,925	153.7
Sum of Cash and 5-Year Cash Generation	4,264	224.1
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	4,264	224.1
Sum of 5-Year Cash Commitments	-1,903	—

Financial Health

As of the end of 2015, UCB had EUR 921 million in net debt on its balance sheet following the sale of its U.S. specialty generics business, Kremers Urban. The company's balance sheet is in solid condition, and UCB is in a reasonable position to make new acquisitions or buy back shares. The company also increased its dividend by 4% in 2015 to EUR 1.10 per share, and we expected that this trend will continue in the midterm.

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 Keppra. 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*	Insider Activity
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

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
VA CollegeAmerica EuroPacific Growth	6.73	0.84	—	31 Mar 2016
Vanguard Health Care Fund	5.68	1.74	—	31 Mar 2016
VA CollegeAmerica Cap World Gr and Inc	2.49	0.46	613	31 Mar 2016
Artisan International Fund	0.83	0.70	-330	31 Mar 2016
American Funds IS® International	0.67	1.34	136	31 Mar 2016
Concentrated Holders				
KBC Multi Track Belgium	0.04	9.07	—	29 Feb 2016
Candriam Eqs B Belgium	0.14	8.91	-4	30 Apr 2016
Argenta Actions Belges	0.01	6.87	—	31 May 2016
iShares MSCI Belgium Capped	0.11	4.57	—	21 Jun 2016
Deka STOXX® Europe Strong Growth 20 ETF	—	4.31	—	29 Jun 2016

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Capital Research and Management Company	10.88	0.58	851	31 Mar 2016
British Columbia Inv Management Corp	0.16	0.04	282	31 Mar 2010
NN Investment Partners BV	0.11	1.34	199	31 Mar 2016
Government Pension Fund of Norway - Global	1.76	0.03	168	31 Dec 2013
State Street Global Advisors	0.14	0.08	135	31 May 2016
Top 5 Sellers				
Artisan Partners Limited Partnership	0.83	0.70	-330	31 Mar 2016
Ireland National Pensions Reserve Fund	0.21	0.12	-315	31 Dec 2009
J P Morgan Asset Management (UK) Ltd	0.01	0.30	-288	31 May 2016
BNZ Investment Management limited	—	0.06	-213	31 Mar 2016
Templeton Global Advisors Limited	0.70	0.60	-205	31 Mar 2016

Management 02 Mar 2015

We award UCB Standard marks for stewardship. Jean-Christophe Tellier, UCB's former executive vice president, Biopharma Brands and Solutions, became CEO in 2014. 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. Shareholders should take note 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 991 million, up 11% compared with last year. Cimzia, Vimpat, and Neupro together produced strong 26% growth, with their combined sales reaching EUR 544 million. However, after positive growth from Keppra in recent quarters because of tight supply in the U.S and growth in international markets, the impact of generic competition for the anti-epileptic drug in the U.S. and Europe returned, resulting in an 11% decline in sales to EUR 170 million.

In its pipeline, the focus continues to be on osteoporosis drug romosozumab, which is partnered with Amgen and remains on track for regulatory filings later this year. The company recently reported positive phase 3 data from the Bridge study in men with osteoporosis. Earlier this month, the company also presented the details of the positive phase 3 Structure study of the drug compared with Eli Lilly's Forteo in postmenopausal women with osteoporosis at high risk for fracture who had previously been treated with bisphosphonate therapy. However, these results are counterbalanced with the less-than-stellar phase 3 results in the larger Frame trial, which were positive on their primary endpoint of reducing the risk of vertebral fractures but failed to achieve significance in its key secondary endpoint in nonvertebral fractures. This will likely be seen as a

disadvantage to Forteo and Radius Health's abaloparatide, which have hit on both endpoints. Nevertheless, we think its dosing advantage (monthly versus daily) and potential for a pricing advantage over the full course of treatment due to its 12-month regimen (versus 24 months for Forteo and 18 months for abaloparatide) still position it as a potential blockbuster.

UCB Reports Strong 4Q and Guidance but Romosozumab Results Disappoint; Shares Fully Valued 28 Feb 2016

We plan on increasing our EUR 65 per share fair value estimate by about 5% and maintaining our no-moat positive trend rating for UCB following the company reporting fourth-quarter results and providing 2016 guidance which were better than our expectations. Strong growth from its core products, currency tailwinds and improving margins puts the company on a solid near-term growth trajectory. However, these strong results are counterbalanced with the less-than-ideal romosozumab phase III results in osteoporosis, which were positive on their primary endpoint of reducing the risk of vertebral fractures, but failed to achieve its key secondary endpoint of reducing nonvertebral fractures. This will likely be seen as a disadvantage compared with Eli Lilly's Forteo and Radius Health's abaloparatide, which have hit on both endpoints. Overall, UCB continues to perform well and is demonstrating strong growth momentum. Nevertheless, we think the company's improving prospects are already reflected in its fully valued stock price.

Revenue for the quarter totaled EUR 1012 million, up 7% compared with last year. Aided by positive currency impacts, Cimzia (up 31%), Vimpat (up 35%), and Neupro (up 13%) together produced strong 30% growth, with their combined sales reaching EUR 551 million. The company also received a boost from Keppra, which reported a 7% increase in sales to EUR 172 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 due to ongoing generic

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Analyst Notes

competition for the antiepileptic drug in the U.S and Europe.

The company provided bullish 2016 guidance of EUR 4.0-4.1 billion and core EPS of EUR 2.90-3.20. This is solidly above our estimates of EUR 3.9 billion and EUR 2.61, respectively, which we will be updating towards the top end of the range given the strong operating leverage the company is demonstrating as its core franchises drive strong topline growth.

In its pipeline update, UCB highlighted that brivaracetam was recently approved in the U.S. and Europe as adjunctive therapy for patients uncontrolled on one or two concomitant antiepileptic drugs and we expect the drug to achieve peak sales of more than EUR 550 million. For romosozumab, we think its dosing advantage (monthly versus daily) and potential for a pricing advantage over the full course of treatment due to its 12-month regimen (versus 24 months for Forteo and 18 months for abaloparatide) still position it as a potential blockbuster, despite the disappointing data on nonvertebral fractures.

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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
		2013	2014	2015	2016	2017	
Growth (% YoY)							
Revenue	3.8	-9.5	6.7	15.9	5.2	5.1	8.1
EBIT	9.1	-33.1	27.6	52.2	23.7	14.1	17.4
EBITDA	5.7	-21.6	13.6	32.5	19.3	10.9	12.5
Net Income	3.5	-40.0	36.3	35.4	38.4	9.3	16.7
Diluted EPS	1.1	-41.0	36.3	28.5	41.3	11.2	19.2
Earnings Before Interest, after Tax	-17.5	-71.4	286.4	-49.2	154.0	9.5	29.3
Free Cash Flow	82.2	-113.3	-2,142.2	123.6	-50.0	18.6	-4.1
Profitability	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Operating Margin %	11.9	9.5	11.3	14.9	17.5	19.0	20.3
EBITDA Margin %	18.7	17.1	18.2	20.8	23.6	24.9	25.1
Net Margin %	9.1	7.2	9.2	10.8	14.2	14.7	15.2
Free Cash Flow Margin %	15.5	-0.8	16.1	31.1	14.8	16.7	16.6
ROIC %	7.3	7.2	6.8	8.0	8.6	8.7	9.1
Adjusted ROIC %	12.8	12.6	11.7	14.0	15.3	15.1	15.6
Return on Assets %	3.2	1.7	2.0	5.9	4.3	5.0	5.9
Return on Equity %	6.7	3.6	4.4	12.0	8.2	9.1	10.8
Leverage	3-Year Hist. Avg	2013	2014	2015	2016	2017	5-Year Proj. Avg
Debt/Capital	0.34	0.40	0.33	0.30	0.23	0.23	0.22
Total Debt/EBITDA	4.06	5.38	3.93	2.88	1.77	1.59	1.45
EBITDA/Interest Expense	3.94	2.79	2.83	6.21	8.09	8.97	10.03

Valuation Summary and Forecasts

	2014	2015	2016(E)	2017(E)
Price/Fair Value	1.13	1.28	—	—
Price/Earnings	37.4	38.4	21.9	19.7
EV/EBITDA	22.6	21.6	14.0	12.7
EV/EBIT	36.3	30.2	19.0	16.6
Free Cash Flow Yield %	3.5	0.6	4.3	5.2
Dividend Yield %	1.8	1.4	1.7	1.8

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	8.4
Long-Run Tax Rate %	28.0
Stage II EBI Growth Rate %	5.0
Stage II Investment Rate %	20.0
Perpetuity Year	11

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

Discounted Cash Flow Valuation

	EUR Mil	Firm Value (%)	Per Share Value
Present Value Stage I	6,221	45.3	32.66
Present Value Stage II	450	3.3	2.36
Present Value Stage III	7,057	51.4	37.05
Total Firm Value	13,728	100.0	72.08
Cash and Equivalents	1,339	—	7.03
Debt	-2,325	—	-12.21
Preferred Stock	—	—	—
Other Adjustments	—	—	—
Equity Value	12,742	—	66.90
Projected Diluted Shares	190		
Fair Value per Share (EUR)	—		

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.

UCB SA UCB (XBRU) | ★★★

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67.26 EUR	68.00 EUR	47.60 EUR	91.80 EUR	Medium	None	Positive	Standard	Biotechnology

Morningstar Analyst Forecasts

Income Statement (EUR Mil)

Fiscal Year Ends in December

	2013	2014	2015	Forecast	
				2016	2017
Revenue	3,133	3,344	3,876	4,077	4,286
Cost of Goods Sold	965	1,053	1,157	1,182	1,221
Gross Profit	2,168	2,291	2,719	2,895	3,064
Selling, General & Administrative Expenses	996	980	1,096	1,101	1,136
Research & Development	886	928	1,037	1,081	1,114
Other Operating Expense (Income)	-11	4	9	—	—
Depreciation & Amortization (if reported separately)	—	—	—	—	—
Operating Income (ex charges)	297	379	577	714	814
Restructuring & Other Cash Charges	32	43	-33	—	—
Impairment Charges (if reported separately)	29	30	88	—	—
Other Non-Cash (Income)/Charges	-27	34	—	—	—
Operating Income (incl charges)	263	272	522	714	814
Interest Expense	192	215	130	119	119
Interest Income	51	53	34	34	34
Pre-Tax Income	122	110	426	628	729
Income Tax Expense	54	-6	111	163	197
Other After-Tax Cash Gains (Losses)	78	94	359	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	15	-10	-51	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	161	200	623	465	532
Weighted Average Diluted Shares Outstanding	182	182	192	188	185
Diluted Earnings Per Share	0.88	1.10	3.24	2.47	2.88
Adjusted Net Income	226	308	417	577	630
Diluted Earnings Per Share (Adjusted)	1.24	1.69	2.17	3.07	3.41
Dividends Per Common Share	1.04	1.06	1.10	1.16	1.21
EBITDA	502	502	752	963	1,068
Adjusted EBITDA	536	609	807	963	1,068

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Morningstar Analyst Forecasts

Balance Sheet (EUR Mil)

Fiscal Year Ends in December

	2013	2014	2015	Forecast	
				2016	2017
Cash and Equivalents	816	560	1,339	1,039	1,217
Investments	—	—	—	—	—
Accounts Receivable	972	729	836	879	924
Inventory	627	547	566	599	602
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	9	665	97	97	97
Current Assets	2,424	2,501	2,838	2,615	2,840
Net Property Plant, and Equipment	722	686	651	704	760
Goodwill	4,694	4,882	5,164	5,164	5,164
Other Intangibles	1,312	1,219	1,055	887	719
Deferred Tax Assets (Long-Term)	498	682	843	843	843
Other Long-Term Operating Assets	—	—	—	—	—
Long-Term Non-Operating Assets	110	178	405	405	405
Total Assets	9,760	10,148	10,956	10,618	10,732
Accounts Payable	1,267	1,386	1,688	1,725	1,782
Short-Term Debt	723	372	623	—	—
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	355	578	750	750	750
Current Liabilities	2,345	2,336	3,061	2,475	2,532
Long-Term Debt	2,162	2,022	1,702	1,702	1,702
Deferred Tax Liabilities (Long-Term)	112	62	48	48	48
Other Long-Term Operating Liabilities	488	578	523	523	523
Long-Term Non-Operating Liabilities	330	308	76	76	76
Total Liabilities	5,437	5,306	5,410	4,824	4,881
Preferred Stock	—	—	—	—	—
Common Stock	—	—	—	—	—
Additional Paid-in Capital	4,323	4,842	5,546	5,546	5,546
Retained Earnings (Deficit)	—	—	—	248	556
(Treasury Stock)	—	—	—	—	-251
Other Equity	—	—	—	—	—
Shareholder's Equity	4,323	4,842	5,546	5,794	5,851
Minority Interest	—	—	—	—	—
Total Equity	4,323	4,842	5,546	5,794	5,851

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Morningstar Analyst Forecasts

Cash Flow (EUR Mil)

Fiscal Year Ends in December

	2013	2014	2015	Forecast	
				2016	2017
Net Income	209	160	623	465	532
Depreciation	59	62	62	82	86
Amortization	180	168	168	168	168
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	34	43	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	87	39	—	—	—
Other Non-Cash Adjustments	-401	-81	-588	—	—
(Increase) Decrease in Accounts Receivable	-159	-42	—	-43	-45
(Increase) Decrease in Inventory	-11	80	-19	-33	-3
Change in Other Short-Term Assets	—	—	—	—	—
Increase (Decrease) in Accounts Payable	290	83	—	37	57
Change in Other Short-Term Liabilities	—	—	—	—	—
Cash From Operations	288	512	246	675	795
(Capital Expenditures)	-238	-84	-150	-135	-142
Net (Acquisitions), Asset Sales, and Disposals	-107	-98	1,039	—	—
Net Sales (Purchases) of Investments	57	22	—	—	—
Other Investing Cash Flows	—	-1	—	—	—
Cash From Investing	-288	-161	889	-135	-142
Common Stock Issuance (or Repurchase)	74	-53	-122	—	-251
Common Stock (Dividends)	-205	-222	-225	-217	-224
Short-Term Debt Issuance (or Retirement)	—	—	-424	-623	—
Long-Term Debt Issuance (or Retirement)	687	-233	499	—	—
Other Financing Cash Flows	-125	-87	-94	—	—
Cash From Financing	431	-595	-366	-840	-475
Exchange Rates, Discontinued Ops, etc. (net)	-3	—	—	—	—
Net Change in Cash	428	-244	769	-300	178

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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		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Johnson & Johnson JNJ USA	1.11	16.6	18.5	17.7	11.1	12.5	12.0	18.0	22.7	19.5	4.0	4.6	4.5	4.1	4.6	4.5
Pfizer Inc PFE USA	0.94	14.7	14.7	14.2	12.0	10.8	10.6	15.2	15.2	14.4	3.1	3.3	3.4	4.1	4.1	3.9
Abbott Laboratories ABT USA	0.90	26.1	21.7	18.2	16.6	13.1	9.7	282.6	9.5	24.2	3.1	1.7	1.6	3.2	2.8	2.0
Average		19.1	18.3	16.7	13.2	12.1	10.8	105.3	15.8	19.4	3.4	3.2	3.2	3.8	3.8	3.5
UCB SA UCB BE	0.99	38.4	21.9	19.7	21.6	14.0	12.7	163.2	23.5	19.4	2.8	2.2	2.2	4.0	3.1	3.0

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Johnson & Johnson JNJ USA	133,411 USD	22.2	21.7	22.4	17.6	17.3	18.1	21.9	22.6	23.0	11.7	12.2	12.8	2.9	2.6	2.7
Pfizer Inc PFE USA	167,460 USD	14.0	16.4	17.1	9.3	10.6	10.9	10.2	17.3	18.4	4.1	6.8	7.2	3.5	3.3	3.3
Abbott Laboratories ABT USA	41,247 USD	11.8	8.7	8.4	20.8	14.4	13.4	11.4	9.1	9.1	5.9	4.4	4.3	2.2	2.3	2.3
Average		16.0	15.6	16.0	15.9	14.1	14.1	14.5	16.3	16.8	7.2	7.8	8.1	2.9	2.7	2.8
UCB SA UCB BE	10,956 EUR	8.0	8.6	8.7	14.0	15.3	15.1	12.0	8.2	9.1	5.9	4.3	5.0	1.4	1.7	1.8

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Johnson & Johnson JNJ USA	70,074 USD	-5.7	2.6	3.5	-4.3	8.2	4.1	6.9	5.6	4.8	6.9	-18.5	17.1	6.9	5.6	4.8
Pfizer Inc PFE USA	48,851 USD	-1.5	7.6	4.1	-3.9	31.2	3.8	-3.2	10.0	4.0	-119.4	-389.2	67.9	7.7	2.7	4.0
Abbott Laboratories ABT USA	20,383 USD	2.9	2.8	39.4	37.3	24.2	35.8	38.0	6.1	19.5	-124.2	NM	-108.3	7.5	5.0	5.0
Average		-1.4	4.3	15.7	9.7	21.2	14.6	13.9	7.2	9.4	-78.9	-203.9	-7.8	7.4	4.4	4.6
UCB SA UCB BE	3,876 EUR	15.9	5.2	5.1	52.2	23.7	14.1	28.5	41.3	11.2	123.6	-50.0	18.6	3.8	5.0	5.0

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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.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Johnson & Johnson JNJ USA	17,445 USD	69.3	70.4	70.8	34.2	35.4	35.5	28.7	30.3	30.5	24.9	25.2	25.0	22.6	20.5	23.0
Pfizer Inc PFE USA	13,754 USD	80.3	78.3	78.3	37.1	41.6	40.6	26.6	32.4	32.3	28.2	28.4	27.5	26.9	26.9	27.4
Abbott Laboratories ABT USA	2,620 USD	57.1	57.5	58.0	20.3	22.8	22.1	13.0	15.7	15.3	12.9	15.3	13.1	1.2	29.2	8.2
Average		68.9	68.7	69.0	30.5	33.3	32.7	22.8	26.1	26.0	22.0	23.0	21.9	16.9	25.5	19.5
UCB SA UCB BE	417 EUR	70.2	71.0	71.5	20.8	23.6	24.9	14.9	17.5	19.0	10.8	14.2	14.7	2.5	13.2	15.2

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Johnson & Johnson JNJ USA	19,861 USD	27.9	24.5	23.9	21.8	19.7	19.3	43.4	46.9	39.7	0.8	0.7	0.7	1.9	1.8	1.8
Pfizer Inc PFE USA	38,978 USD	60.2	55.3	57.9	37.6	35.6	36.7	15.1	19.9	19.3	2.1	1.7	1.6	2.6	2.5	2.6
Abbott Laboratories ABT USA	8,998 USD	42.4	82.7	74.3	29.8	45.3	42.6	26.3	19.5	9.2	2.2	5.8	4.1	1.9	2.2	2.1
Average		43.5	54.2	52.0	29.7	33.5	32.9	28.3	28.8	22.7	1.7	2.7	2.1	2.1	2.2	2.2
UCB SA UCB BE	2,325 EUR	41.9	29.4	29.1	29.5	22.7	22.5	6.2	8.1	9.0	2.9	1.8	1.6	2.0	1.8	1.8

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)	2015	2016(E)	2017(E)
Johnson & Johnson JNJ USA	333,626 USD	13.64	12.97	13.61	2.17	2.35	2.40	1.88	2.03	2.08	5.48	7.16	7.37	53.9	52.9	52.0
Pfizer Inc PFE USA	215,727 USD	3.72	3.02	3.03	1.49	1.50	1.50	1.23	1.21	1.20	2.29	2.49	2.42	100.7	63.2	60.6
Abbott Laboratories ABT USA	58,090 USD	4.01	5.44	4.67	1.54	2.89	2.86	1.26	2.49	2.34	1.96	—	—	59.5	70.1	58.5
Average		7.12	7.14	7.10	1.73	2.25	2.25	1.46	1.91	1.87	3.24	4.83	4.90	71.4	62.1	57.0
UCB SA UCB BE	12,662 EUR	6.97	5.53	6.59	0.93	1.06	1.12	0.74	0.81	0.88	2.15	—	—	33.9	46.7	42.1

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.

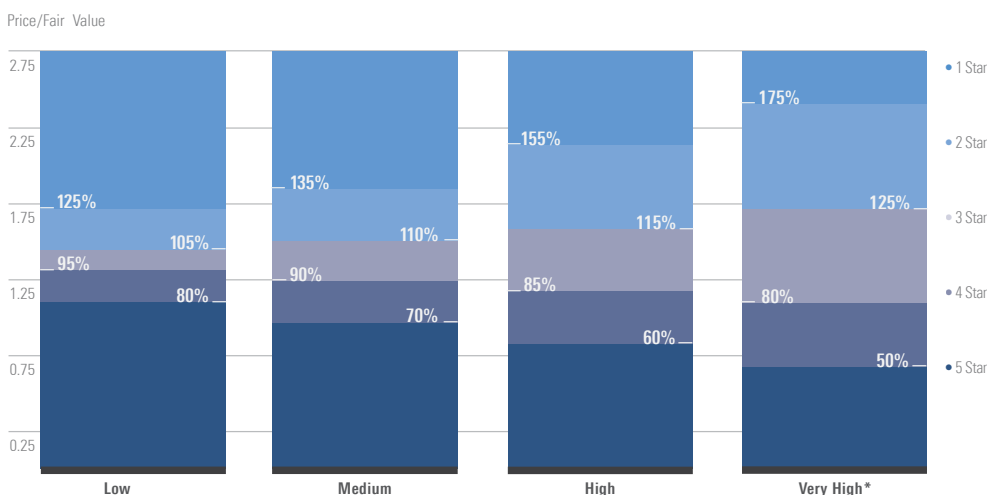
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts model three scenarios for each company we cover, stress-testing the model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

operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

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.

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67.26 EUR	68.00 EUR	47.60 EUR	91.80 EUR	Medium	None	Positive	Standard	Biotechnology

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