FLASH NOTE

Company Update

Belgium | Healthcare | Biotechnology

26 April 2018

Jefferies

UCB (UCB BB)

1Q Sales In-line but Key Growth Drivers Fall Short

UNDERPERFORM
Bloomberg BXS: UCB BB
Price target €60.00
Price €65.48^

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

EQUITY RESEARCH EUROPE

Key Takeaway

Revenues are similar to consensus but sales of key growth drivers Cimzia, Vimpat and Briviact are all shy. As expected the 2018 aims are reiterated. Focus remains on the acute need for hiked R&D, plus perhaps acquisitions, to sustain UCB in the 2020s. We have persistent concerns on longevity of growth and the pipeline's commercial potential, hence our Underperform rating. Minimal changes to consensus are likely so we envisage a minor stock downtick.

1Q Revenues in-line but key products lagging: YoY -1% CER, or +4% excluding the Xyzal one-time out-licensing income, is similar to consensus but sales of key growth drivers Cimzia, Vimpat and Briviact are all below expectations by 5%, 3% and 23%, respectively. The shortfalls in Cimzia and Vimpat are both on weaker US sales.

- Cimzia €310m vs. JEFe €315m & consensus €327m. US sales €180m +4% CER vs. JEFe €188m are tracking below our 2018 +10.5% CER forecast with increased competition in Crohn's flagged.
- Vimpat €242m vs. JEFe €247m & consensus €250m. US sales €177m +10% CER vs. JEFe €186m are tracking just shy of our 2018 +14.6% CER forecast.
- Neupro €71m vs. JEFe €78m & consensus €74m impacted by different shipment patterns to Japan.
- Briviact €27m vs. JEFe €30m & consensus €35m but hard to model EU in launch phase.
- Keppra €189m vs. JEFe €200m & consensus €186m. US sales €36m -20% CER are eroding more rapidly than our -6% 2018E.
- Revenue €1,070m vs. JEFe €1,095m & consensus €1,072m.

2018 outlook unchanged: As expected management reiterates its targets set on 22 Feb.

- Revenue €4.5-4.6bn vs. JEFe €4.58bn & consensus €4.57bn
- Recurring EBITDA €1.3-1.4bn vs. JEFe €1.32bn & consensus €1.34bn
- Core EPS €4.30-4.70 vs. JEFe €4.66 & consensus €4.52

Pipeline news: (1) Last week UCB paid $150m to acquire USL261 midazolam nasal spray from Proximagen (private) for rescue treatment of acute repetitive seizures. This should be a highly profitable bolt-on for the established epilepsy franchise, with US filing anticipated this year. (2) UCB0107 anti-tau humanised antibody entered a single ascending dose Phase I safety study in healthy males during March.

Concerns on longevity of growth: Anti-TNF 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 forecast hiked R&D spend to depress margins for sub-30% EBITDA 2018-19E. 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 new 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 in a pivotal Phase IIb. We assume WW peak sales of $1bn for bimekizumab and $750m for padsevonil, both at 50% probability for €2.5 and €3.8 NPVs. We assume Evenity is likely approved for osteoporosis. Increasingly the early pipeline also warrants attention: '0599 a-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.

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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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Investment Recommendation Record

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

Recommendation Published	, 13:01 ET. April 25, 2018
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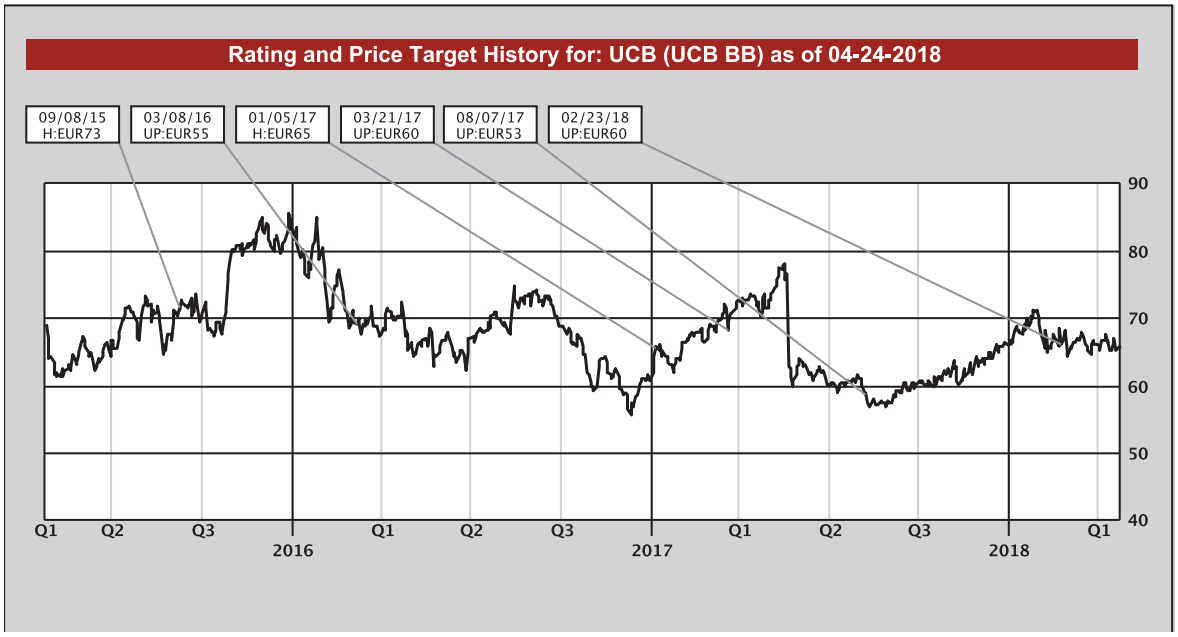

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