

April 25, 2019

**Jazz pharmaceutical.**

**Victor Secco**

**Sector: Pharmaceutical**  
**Industry: Healthcare**  
**Current Price: \$128.53**  
**Target Price: \$167.2**

## Company Description

**Jazz Pharmaceuticals Public Limited Company is a specialty biopharmaceutical company focused on improving patients' lives by identifying, developing and commercializing innovative products that address unmet medical needs. The Company has a diverse portfolio of products in the areas of narcolepsy, oncology, pain and psychiatry.**

### Market BUY

Current Price: \$128.53  
 Target Price: \$167.2  
 Market Cap: \$7B  
 Target Dividends: \$0.0  
 Other key Metrics/Ratios

**# product in phase 3: 5**  
**Passing rate from phase 2 to 3: 25%**  
**YTD Δ of phase 2 products : 130%**



**Thesis:** I am initiating a BUY at \$128.53 on Jazz. The company has proven capacity to push its pipeline project through FDA phases efficiently. Their main field of study is currently oncology, especially Leukemia. I believe that their latest drug to fight leukemia is a market breaker and give Jazz a high growth potential.

### Catalysts:

- JZP-258 treatment for narcolepsy
- JZP-258 application into recombinant.
- Vyxeo treatment for leukemia

## Earnings & Financials

For my competitors, I compared Jazz to six companies. Beside Avadel Pharmaceutical, all of the competitors are a lot bigger than JAZZ. The reason why I decided to use them regardless is that they have the financial maturity of those competitors and the potential to grow at their level in the long run.

Name	Mkt Cap	P/E	Last Px	Rev - 1 Yr Gr:Y	GM:Y
Median	101.21B	17.33	79.16	3.76%	71.95%
100) JAZZ PHARMACEUTICAL...	7.33B	14.71	128.53	16.82%	93.57%
101) AVADEL PHARMACEUTIC...	40.72M	--	1.09	-40.39%	83.04%
102) MERCK & CO. INC.	197.19B	17.33	76.34	5.41%	75.43%
103) SANOFI	102.33B	21.29	73.62	-1.50%	67.95%
104) NOVARTIS AG-REG	204.92B	14.97	81.98	6.66%	68.13%
105) GLAXOSMITHKLINE PLC	100.08B	21.10	1555.20	2.10%	68.48%
106) BAYER SCHERING PHAR...	--	--	--	--	--

In Millions of USD	2015 Y	2016 Y	2017 Y	2018 Y	Current/LTM	2019 Y Est	2020 Y Est
12 Months Ending	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2018	12/31/2019	12/31/2020
Market Capitalization	8,617.0	6,522.2	8,065.3	7,128.2	7,333.4		
- Cash & Equivalents	988.8	426.0	601.0	824.6	824.6		
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0		
+ Total Debt	1,188.4	2,029.6	1,581.0	1,596.4	1,596.4		
Enterprise Value	8,816.7	8,125.8	9,045.3	7,900.0	8,105.2		
Revenue, Adj	1,324.8	1,488.0	1,618.7	1,890.9	1,890.9	2,073.6	2,308.3
Growth %, YoY	13.0	12.3	8.8	16.8	16.8	9.7	11.3
Gross Profit, Adj	1,222.8	1,382.7	1,508.5	1,769.4	1,769.4	1,949.1	2,169.2
Margin %	92.3	92.9	93.2	93.6	93.6	94.0	94.0
EBITDA, Adj	692.6	763.1	788.5	943.5	943.8	1,115.1	1,264.4
Margin %	52.3	51.3	48.7	49.9	49.9	53.8	54.8
Net Income, Adj	390.1	444.1	416.4	538.2	535.2	851.9	984.8
Margin %	29.4	29.8	25.7	28.5	28.3	41.1	42.7
EPS, Adj	6.19	7.17	6.79	8.79	8.73	14.52	17.00
Growth %, YoY	59.9	15.9	-5.3	29.4	29.2	65.2	17.1
Cash from Operations	531.9	592.4	693.1	798.9	798.9		
Capital Expenditures	-36.0	-9.7	-29.0	-20.4	-20.6	-21.4	-23.3
Free Cash Flow	496.0	582.7	664.1	778.5	778.3	946.5	950.4

**JAZZ US Equity** 97 Actions
 

**Earnings & Estimates**

**Jazz Pharmaceuticals PLC**

Periodicity: Quarters
 Source: Standard
 Cur: USD

**1 Earnings History | ERN**

Next Announcement (C) 05/07/19  
 Prior Announcement 02/26/19  
 Avg/Implied 1 Day Move 5.17% / 6.44%

**2 Consensus Overview | EEO**

Trailing 12M P/E 14.71  
 Forward 12M P/E 8.88  
 Est. LTG (EPS) 6.75%

**3 Analyst Coverage | ANR**

Buy/Hold/Sell 14/6/0  
 Current Price 128.53  
 Target Price 172.88

**4 Consensus Overview | EEO**

Measure Q1/19 Est 41k Chg -0.08% YoY Gr Growth vs Comps 5.5% Stronger Past Surprise Beat 5 of 8  
 12 EPS, Adj+ 2.410 -10.52% 221.3% Stronger Missed 5 of 8  
 13 Revenue 466.000M -0.23% 4.8% In-line Missed 5 of 8  
 14 Net Income, Adj+ 185.533M -0.29% 1.7% Stronger Beat 5 of 8  
 15 Operating Profit 229.583M -0.36% ---  
 16 EBITDA 245.667M -0.29% ---

**5 Earnings Trends | EM**

**6 Q1s Only**

**7 Bloomberg Intelligence Preview | BI**

Jazz's Blood-Sales Struggles Make Sleep Launch Key: 1Q Preview  
 Growth of Jazz's lead asset, Xyrem for narcolepsy, could normalize in 1Q, placing a greater onus on the blood-cancer franchise to deliver. We also expect a seasonal 1Q dip in sales vs. 4Q. We continue to expect pressure on Vyxeos on limited uptake in the U.S.

**8 Earnings Estimates Graph | EEG**

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**8 Earnings Estimates Graph | EEG**

Jazz have strong financials for a biotech company. They maintain relatively flat gross margin roughly of 92% and are projected to remain around this level in the future. The median gross profit margin for biotech is 72% which means that Jazz is doing a lot better than 50% of the industry. Jazz also have a better net income margin of 25% while most biotech have no earnings. Jazz have been the company constantly met or exceeded estimates in revenues and net income for the past 5 years. Projections show constant increase every year for revenue and net income.

## Product growth potential

- JZP-258 treatment for narcolepsy

“The mechanism by which sodium oxybate produces its anti-cataplectic effects is unknown. Gamma hydroxybutyrate is a CNS depressant that produces dose-dependent sedation and anesthesia. GHB is also an endogenous compound that is widely found throughout the body although its function outside of the CNS is essentially unknown. Endogenous GHB appears to fulfill the criteria necessary to be considered a neurotransmitter or neuromodulator. “ (Jazz product description)

This drug is currently used in France and Canada under the name Xyrem. The JZP-258 is the same principle of action but with a lower quantity of sodium reducing the risk of heart

- Vyxeo treatment for leukemia

Vyxeos belongs to a group of medicines called ‘antineoplastics’ used in cancer. It contains two active substances, called ‘daunorubicin’ and ‘cytarabine’, in the form of tiny particles known as ‘liposomes’. These active substances act in different ways to kill cancer cells by stopping them from growing and dividing. Packaging them in liposomes prolongs their action in the body and helps them to enter and kill the cancer cells. I see a lot of growth potential from this drug as the clinical trial shows great efficiency and is unique in its mechanism of action.

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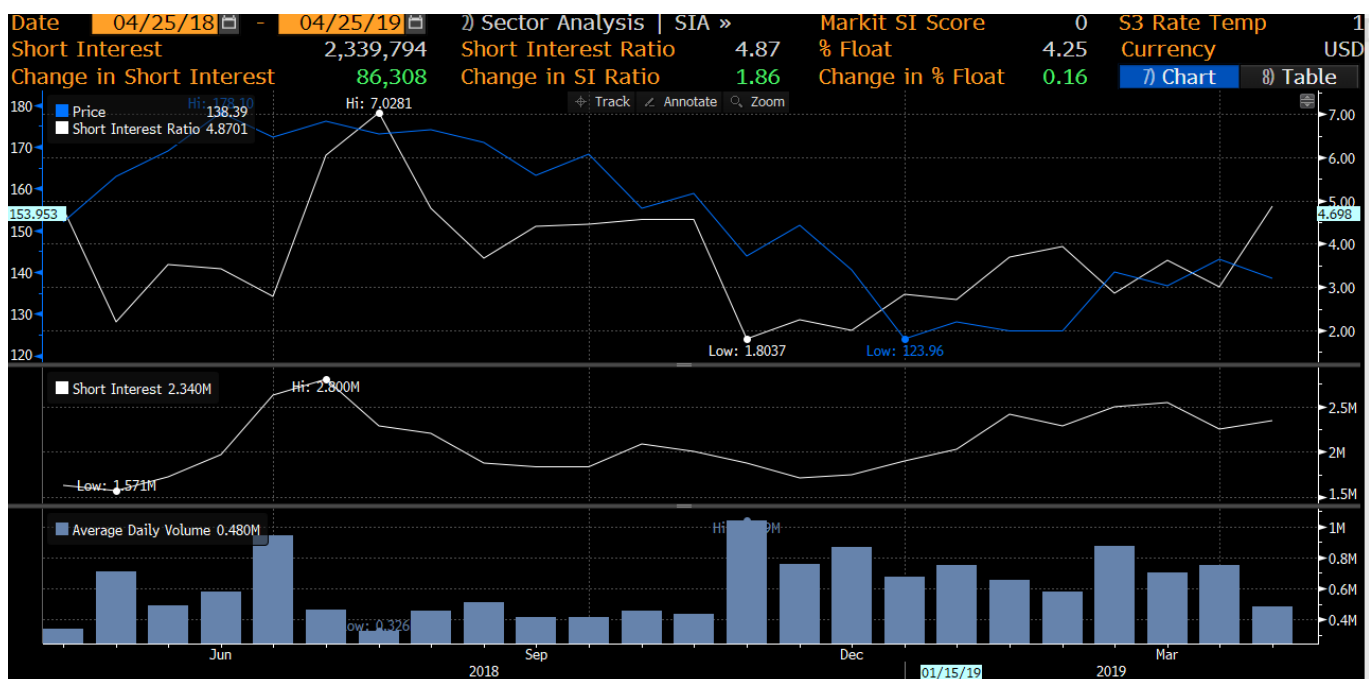
## Section 5: Threats/ Downside

Firstly, if the FDA calls one of the drugs produced by Jazz back after suspicion of dangerous side effect, the company will call back products. In this scenario, the company will suffer important losses, which will tank the price. Secondly, if a new drug issued beat the effectiveness of Jazz products, the losses on revenue for Jazz will destroy shareholder wealth.

## Section 6: Ownership

Compare Current Stats Against 04/22/18							
Institutional - Based on Current Filings				Insider - Based on Last 6 Months			
51) Institutional	04/22/18	Curr	Change	52) Insider	04/22/18	Curr	Change
11) % of Shares Held	115.53	118.88	+3.35%	21) % of Shares Held	2.9	3.02	+0.12%
12) % of Float Held	119.05	122.93	+3.88%	22) % Chg Insider Positions	+6.37	+7.08	+0.71%
13) # of Institutions	576	690	+19.79%	23) # of Insiders	20	20	0.00%
14) # of Buyers	160	241	+50.63%	24) # of Buyers Opn Mkt	0	1	
15) # of Sellers	159	191	+20.13%	25) # of Sellers Opn Mkt	7	5	-28.57%
16) # of New Buyers	96	130	+35.42%	26) # of Shrs Bought Opn Mkt	0	50,000	
17) # of Selloffs	63	86	+36.51%	27) # of Shrs Sold Opn Mkt	36,109	18,202	-49.59%
18) % Chg in Inst Positions	+8.25	+8.97	+0.72%	28) Avg Opn Mkt Buy Price	0	144.56	+144.56%
				29) Avg Opn Mkt Sell Price	143.34	141.08	-2.26%
Top Geographic Ownership (%)				Top Ownership Type (%)			
53) Geographic	04/22/18	Curr	Change	54) Ownership Type	04/22/18	Curr	Change
31) UNITED STATES	83.72	82.45	-1.27%	41) Investment Advisor	81.13	83.4	+2.27%
32) UNITED KINGDOM	2.86	3.14	+0.28%	42) Hedge Fund Manager	10.1	7.4	-2.70%
33) Unknown	2.45	2.63	+0.18%	43) Individual	2.45	2.63	+0.18%
34) LUXEMBOURG	1.6	2.18	+0.58%	44) Pension Fund	2.07	2.52	+0.45%
35) SWITZERLAND	1.49	1.53	+0.04%	45) Bank	0.96	1.12	+0.16%
36) BERMUDA	1.27	1.21	-0.06%	46) Sovereign Wealth Fund	0.74	0.95	+0.21%
37) CANADA	0.84	1.11	+0.27%	47) Government	0.94	0.91	-0.03%
38) JAPAN	1.22	1.07	-0.15%	48) Brokerage	0.13	0.43	+0.30%
39) NORWAY	0.7	1.01	+0.31%	49) Venture Capital	0.31	0.32	+0.01%

Over 80% of the shares are U.S owned, the remaining shares are mostly owned by European countries. A majority of that is via investment advisors. All type of investor increased their position in the company to the exception of the hedge funds. My explanation of this decrease is simply because the company reached target price from precedent years and the future project in pipeline still need to be valued.



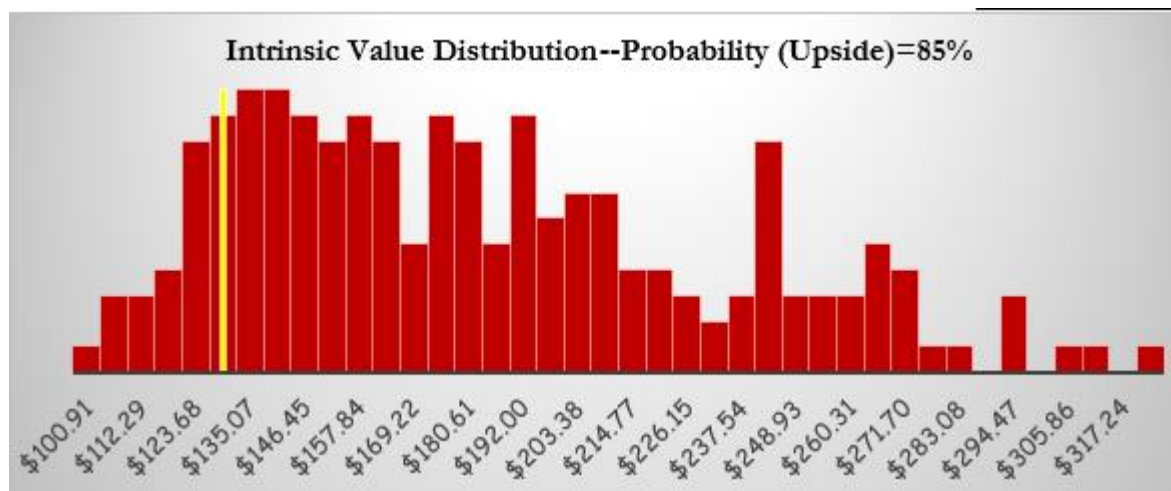
The short interest for Jazz is on the rise since the last two month, this is probably due to the decrease in volume, making easier prices fluctuations.

### Base/Best/Worst case

Given the mature profile of my company and its historical financial performances, all my forecast are based on DCF valuation.

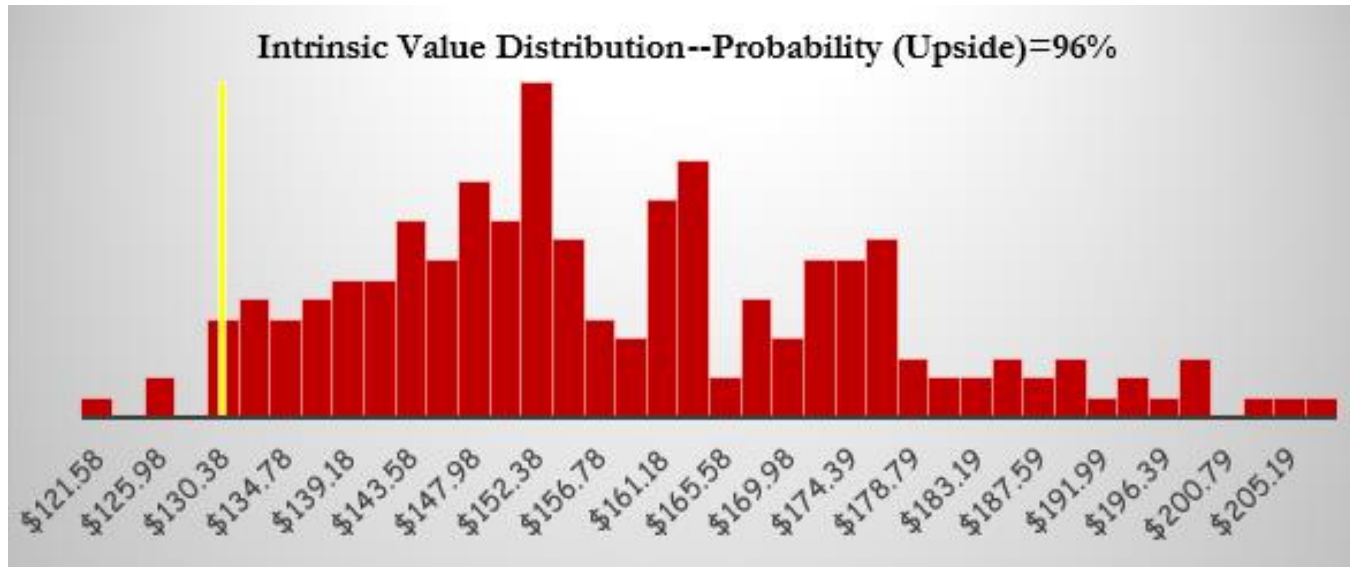
My base case is \$36.89 | Bull case \$38.9 | Bear case is \$29.37

### Bear case outcome



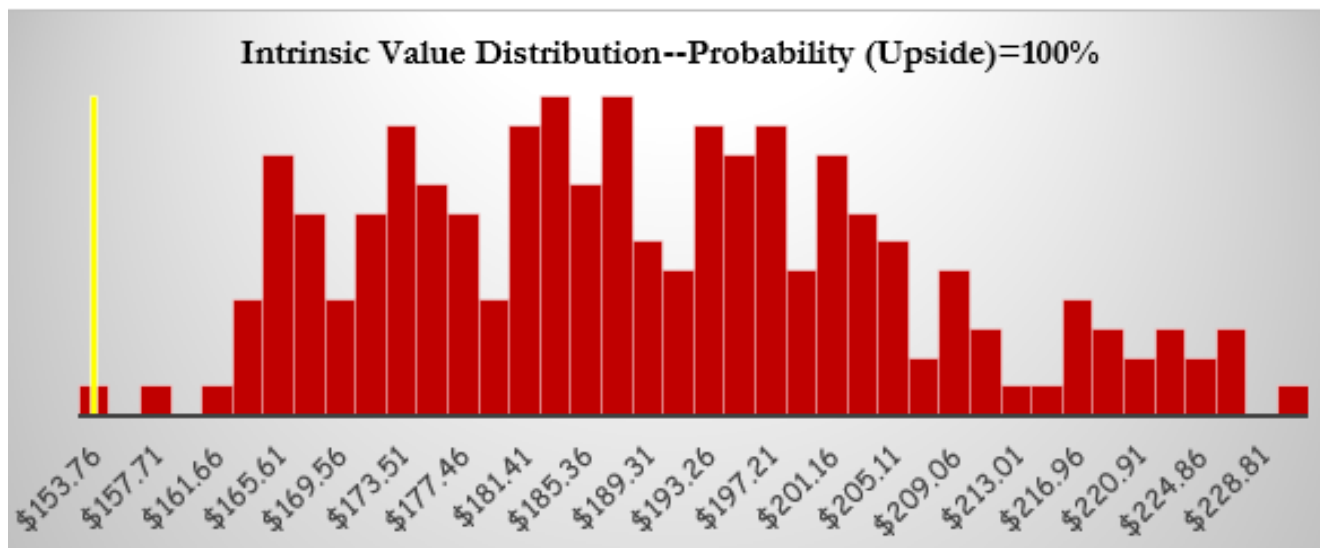
- Growth pegged to current growth for 5 years, gradually decline toward 3%

### Base case outcome



- Used analyst estimates

### Bull case outcome



- Growth pushed up to 9% for the next 6 years

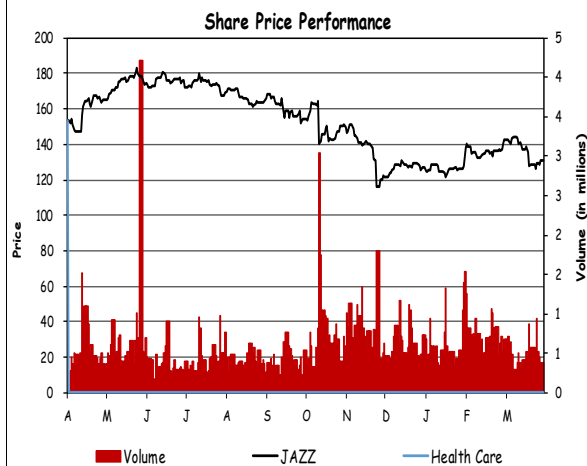


**Conclusion:**

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The main value driver for the company come from the potential market shares that can be acquired by Jazz pharmaceutical. Based on the technology they are currently developing for narcolepsy and oncology, the products in pipeline could be market breaker. All of the products from Jazz have a unique selling proposition, which is key to raise important cash flow in the future. Jazz is also one of the rare biotech company with stable financial cash flow and have better margins that most of its peers.

Jazz Pharmaceuticals plc	Symbol: JAZZ
Analyst	Victor Secco
Buy below	\$134.28
Sell above	\$187.05
Probability of Price Increase	96%
Last Price	\$130.99
Intrinsic Value	\$149.64
Target Dividends	\$0.00
Target Price	\$167.86



**Description**  
Jazz Pharmaceuticals plc, a biopharmaceutical company, identifies, develops, and commercializes pharmaceutical products for various unmet medical needs in the United States, Europe, and internationally.

Sector	Health Care
Industry	Pharmaceuticals
Last Guidance	December 11, 2018
Next earnings date	May 7, 2019

**People**  
Czadd, Bruce, Co-Founder, Chairman & CEO  
Young, Matthew, Executive VP & CFO  
Swisher, Daniel, President & COO  
Wilson, Karen, Senior VP of Finance & Principal Accounting Off  
Treacy, Paul, Senior Vice President of Technical Operations  
Littrell, Katherine, Vice President of Investor Relations

Top Competitors	
Horizon Pharma plc	Allergan plc
Endo International plc	Teva Pharmaceutical Industries Limited
Mallinckrodt plc	Hikma Pharmaceuticals PLC
Anneal Pharmaceuticals, Inc.	Ipsen S.A.
H. Lundbeck A/S	Shandong Buchang Pharmaceuticals Co., L

Market Statistics	
Market Capitalization (mil)	\$7,473.73
Last Price per share	\$130.99
52 week high	\$184.00
52-week low	\$113.52
Volatility	33.15%
Daily volume (mil)	0.38
Short interest	4.10%
Days to cover short interest	3.58
Beta	1.16

### Investment Thesis

#### JAZZ PHARMACEUTICALS IS SPEEDING UP THE TEMPO

I am initiating a BUY at \$128.53 on Jazz. The company has proven capacity to push its pipeline project through FDA phases efficiently. Their main field of study is currently oncology, especially Leukemia. I believe that their latest drug to fight leukemia is a market breaker and give Jazz a high growth potential.

#### For the long:

##### 1. JZP-258 treatment for narcolepsy:

This narcolepsy medicine is being marketed in the US. This drug is currently used in France and Canada under the name Xyrem. The JZP-258 Is the same principle of action but with a lower quantity of sodium reducing the risk of heart. This will provide an important additional cash flow.

##### 2. Unique selling proposition for leukemia treatment :

Vyxeos belongs to a group of medicines called 'antineoplastics' used in cancer. It contains two active substances, called 'daunorubicin' and 'cytarabine', in the form of tiny particles known as 'liposomes'. These active substances act in different ways to kill cancer cells by stopping them from growing and dividing. I see a lot of growth potential from this drug as the clinical trial shows great efficiency and is unique in its mechanism of action.

#### For the short:

##### 1. Call back of drug:

If the FDA calls one of the drugs produced by Jazz back after suspicion of dangerous side effect, the company will call back products. In this scenario, the company will suffer important losses, which will tank the price

##### 2. Market product changes:

If the company were to enact its margin initiatives at a slower pace than I anticipate, it could pose a risk to my estimates.

#### Key Catalysts for price change

- o JZP-258 treatment for narcolepsy
- o JZP-258 application into recombinant.
- o Vyxeo treatment for leukemia

#### Valuation

My \$167.86 price target is derived from Discounted Unlevered Free Cash Flow estimates (75%) and 25% using P/BV

Ownership		Change in Ownership ("Input"/month)	
Shares outstanding (mil)	57.06		
Diluted shares outstanding (mil)	61.22		
Options and Warrants (Shares equivalent)	1.58		
% shares held by institutions	97%		19.79%
% shares held by investments Managers	79%		0.71%
% shares held by hedge funds	8.89%		-2.70%
% shares held by VC/PE firms	0.442%		0.01%
% shares held by insiders	2.70%		10.89%
Poison Pill Type	FALSE		



# CENTER FOR GLOBAL FINANCIAL STUDIES

# JAZZ

Sunday, April 28, 2019

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Jazz Pharmaceuticals plc	Symbol: JAZZ
Analyst	Victor Secco
Buy below	\$134.28
Sell above	\$187.05
Probability of Price Increase	96%
Last Price	\$130.99
Intrinsic Value	\$149.64
Target Dividends	\$0.00
Target Price	\$167.86

## Quarterly Earning Surprises (Actual Vs. Median Estimates)

Revenue	
12/31/2017	-1.24%
3/31/2018	2.28%
6/30/2018	6.46%
9/30/2018	-2.84%
12/31/2018	3.63%
Mean (Standard Error)	1.66% (1.01%)

EBITDA	
12/31/2017	-34.05%
3/31/2018	-38.15%
6/30/2018	-15.93%
9/30/2018	-14.61%
12/31/2018	-15.33%
Mean (Standard Error)	1.66% (4.12%)

## Valuation

DCF Valuation	Revenues	EBITDA Margin	UFCF	WACC	ROIC	Price Per Share
Base Year (Actual)	\$1,890.92	41%	\$427.55	8.76%	12.12%	\$131.73
year 1	\$2,067.20	52%	\$688.34	9.98%	15.38%	\$148.75
year 2	\$2,321.40	53%	\$779.10	10.12%	15.02%	\$166.48
year 3	\$2,476.75	56%	\$954.35	10.26%	14.76%	\$184.96
year 4	\$2,719.24	61%	\$1,198.09	10.41%	15.24%	\$204.02
year 5	\$2,457.30	64%	\$1,162.67	10.52%	11.62%	\$223.47
year 6	\$2,406.00	65%	\$1,167.83	10.61%	10.17%	\$243.39
year 7	\$2,574.05	63%	\$1,202.30	10.70%	9.77%	\$263.75
year 8	\$2,142.00	66%	\$1,083.20	10.76%	6.93%	\$284.64
year 9	\$2,110.25	69%	\$1,079.57	10.82%	6.47%	\$306.23
year 10	\$2,005.00	48%	\$803.94	10.85%	4.28%	\$328.69
year 11	\$1,867.21	50%	\$775.58	10.89%	3.70%	\$352.47
year 12	\$1,703.69	52%	\$732.48	10.91%	3.12%	\$377.74
year 13	\$1,522.38	54%	\$678.05	10.93%	2.58%	\$404.75
year 14	\$1,331.67	56%	\$614.48	10.95%	2.06%	\$433.79
year 15	\$1,139.75	57%	\$542.81	10.96%	1.59%	\$486.11
Continuing Period	\$1,168.84	41%	\$1,674.88	10.97%	10.97%	

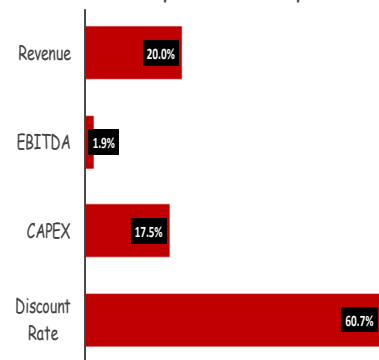
Relative Valuation					Asset Based Valuation	
Multiple	EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)	Recovery Rate	100%
Median (Peers)	3.0x	9.0x	2.9x	10.8x	Capital	\$12,582.27
Base	Revenue (NTM)	EBITDA (NTM)	Book Value (LTM)	Net Income (NTM)	Intangibles	\$3,658.96
JAZZ	\$2,149.38	\$1,124.48	\$4,704.10	\$1,034.06	Claims	\$3,972.89
Implied EV	\$6,502.36	\$10,159.23				
Total Net Claims	\$230.03	\$230.03				
Implied EQ	\$6,272.33	\$9,929.20	\$13,715.74	\$11,133.91		\$4,950.42

## Valuation Summary

Model	Intrinsic Value	Target Price	Weight
DCF Valuation	\$131.73	\$148.75	75.00%
EV/Rev (FW)	\$99.87	\$109.84	0.00%
EV/EBITDA (FW)	\$158.10	\$173.88	0.00%
P/BV (TTM)	\$218.39	\$240.19	25.00%
P/E (FW)	\$177.28	\$194.98	0.00%
Asset Based Valuation	\$78.82	\$86.69	0.00%
Price per Share	\$153.40	\$171.61	100%

Financials	JAZZ (LTM)	JAZZ Historical	Peers' Median (LTM)
Profitability			
Return on Capital	12.1%	21.92%	14.81%
Adjusted EBITDA Margin	41.0%	47.87%	31.64%
Return on Equity	17.0%	25.0%	17.4%
Adjusted Net margin	38.3%	34.8%	17.0%
Invested Funds			
Cash/Capital	10.1%	30.0%	10.6%
NWC/Capital	1.8%	3.0%	3.2%
Operating Assets/Capital	70.2%	47.0%	54.3%
Goodwill/Capital	17.9%	19.9%	17.7%
Capital Structure			
Total Debt/Market Cap.	0.22	0.15	0.56
Reported Cost of Borrowing	4.9%		8.0%
Cash Interest/Total Debt	2.7%		13.0%
CGFS Credit Rating	BB		CC
Credit Model Rating	a-		bbb-
Probability of Default	0.13%		0.37%
Cost of Capital			
Implied Cost of Borrowing (JAZZ)	5.2%	4.8%	5.6%
Implied Cost of Borrowing (Peers)	6.6%	5.6%	8.1%
Cost of New Debt Estimate	6.0%		
Market Risk Premium Estimate	6.1%		
Cost of Equity Estimate	12.1%		
WACC Estimate	10.0%		

## Sensitivity Attribution Analysis



## Intrinsic Value Distribution--Probability (Upside)=96%

