

April 16, 2019

Incyte: (INCY)

Thomas Burke

Sector: Healthcare

Industry: Biotechnology

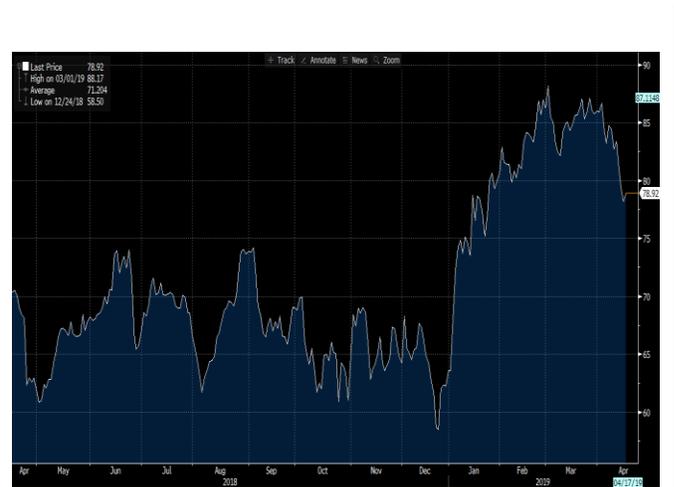
Current Price: \$78.93

Target Price: \$88.00

Company Description: Incyte is a promising American biotech company that focuses on oncological pharmaceuticals. Incyte has a impressive repertoire of drugs in their pipeline. INCY currently has one drug on the market and receives royalties on another joint project.

BUY

Current Price:	\$78.93
Buy Price:	\$76.00
Target Price:	\$88
Market Cap:	2B
Beta:	1.285
WACC:	10.762
ROIC:	6.46%
EBITDA Margin:	11.2%



Thesis: Incyte is a promising biotech company that has four late stage drugs in their pipeline which show positive signs. They have a NDA expected to be pitched this year that will boost revenues and shoot up stock price. Incyte consistently beats the market on revenues and I expect a big increase in sales as their products progress through the pipeline.

Catalysts:

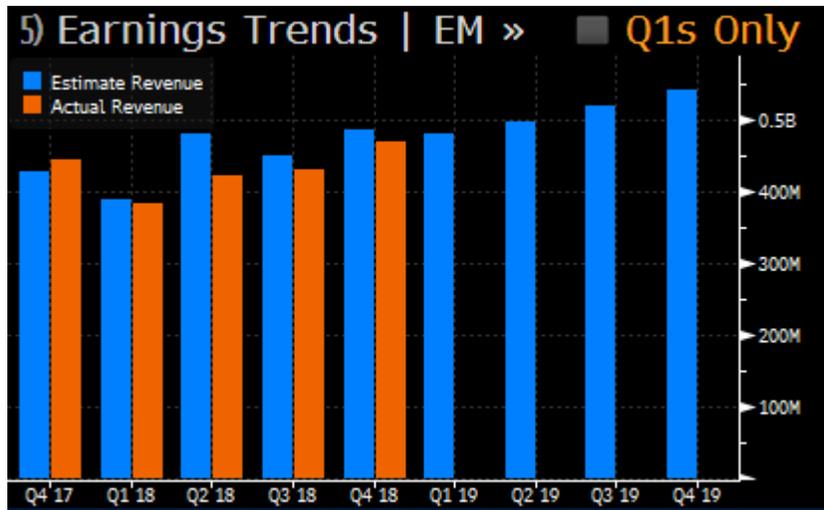
- Short Term(within the year): Get results back from NDA
- Mid Term(1-2 years): Products in stage 3 advance to stage 4
- Long Term(3+): Initial data from parasclib and INCGMA0012 show promising results

Earnings Performance:

Incyte last earnings call was a very optimistic one. The only measure where they beat their expectations was EPS GAAP which they surpassed by 42.47%. On all their other measures such as EPS Adjusted, revenue, and adjusted net income they all missed their expectations. Despite their lackluster performance in many measures, stock price still managed to continue to increase for the following 18 more days by 8%. Incyte does show a lot of promise considering that their year over year growth in revenue rests at 25.5% which is stronger than their competitors. Revenue is one of the most important drivers in the biotech industry and Incyte has awesome potential with the pipeline.

4) Consensus Overview EEO »		2) Current Period Overview (Q1/19)		2) Prior Period Analysis (Q4/18)	
Measure	Q1/19 Est	4Wk Chg	YoY Gr	Growth vs Comps	Past Surprise
1) EPS, Adj+	0.382	-4.81%	N.M.	N.A.	Missed 6 of 8
12) EPS, GAAP	0.244	5.78%	N.M.	N.A.	Missed 5 of 8
13) Revenue	479.875M	0.05%	25.5%	Stronger	Beat 4 of 8
14) Net Income, Adj+	80.873M	-5.46%	N.M.	N.A.	Missed 6 of 8
15) Operating Profit	56.667M	2.53%	--	--	--
16) EBITDA	50.550M	-0.98%			

Above pictured is their earnings call.



Above pictured is a graph based on revenue projections



Despite the poor earnings call, institutions have decided to flock to buying this product. This may signify that there will be an upcoming swing in prices as buyers are more confident in this stock.

Company Overview:

Incyte (INCY) is an American pharmaceutical company that focuses on oncological products. Incyte was first founded in Palo Alto, California in 1991 but has since moved its headquarters Delaware. At the moment Incyte currently has one drug on the market, Jafaki, which treats myelofibrosis (MF), a rare life threatening disease that affects the bone marrow. Incyte also receives revenue streams through royalties from other drugs such as Iclusig, which is currently marketed in the European Union. The vast majority of Incytes revenues come from the United States.



Drugs in Pipeline:

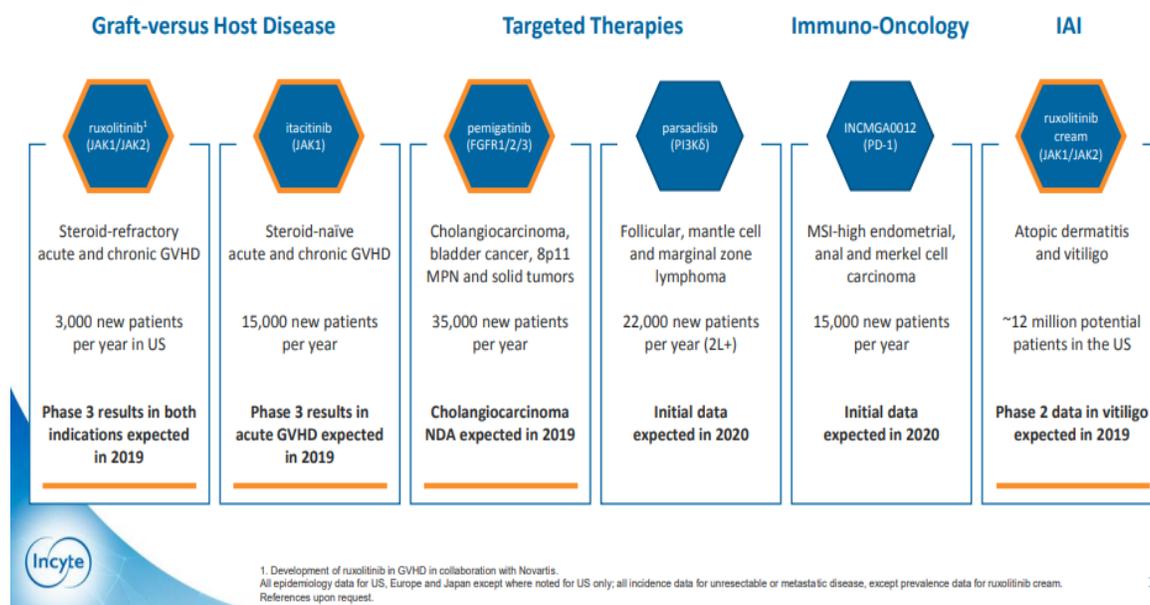
Incyte is currently working on six major projects they are working on. Of those six projects two are in stage 3, one is in stage 2 and one has an NDA set to be released this year. There are sixteen indications aim to accelerate near term growth in the company and their developments.

Two of the projects that Incyte is working on is for the Graft-versus Host disease (GVHD). The first project is referred to as ruxolitinib (JAK1/JAK2). Ruxolitinib is a steroid for refractory \acute and chronic GVHD. What this medication treats could potentially treat 3000 patients a year in the United States and phase 3 results are expected to come out this year. The second drug they are developing for GVHD is known as Itacitnib (JAK1). Itacitnib is also a steroid that would treat naive acute and chronic GVHD. This type of GVHD affects 15000 patients a year and results are expected to be released this year.

Two of the projects that Incyte has been working on are targeted therapies. The one project that is showing the most promise is known as pemigatinib which is focused on cholangiocarcinoma, bladder cancer, 8p11 MPN, and solid tumors. This could possibly treat 35,000 new patients in the United States each year. The treatment for cholangiocarcinoma is set to have an expected NDA by this year.

The last project that shows incredible promise is an IAI. This would be a ruxolitinib cream (JAK1/JAK2). This cream would have the potential to treat close 12 million patients in the United States. The cream is a treatment for atopic dermatitis and vitiligo. This project is expected to have phase 2 data for vitiligo by this year.

Six Projects in 16 Indications Aim to Accelerate Near-Term Growth Focused efforts on executing late-stage objectives in 2019

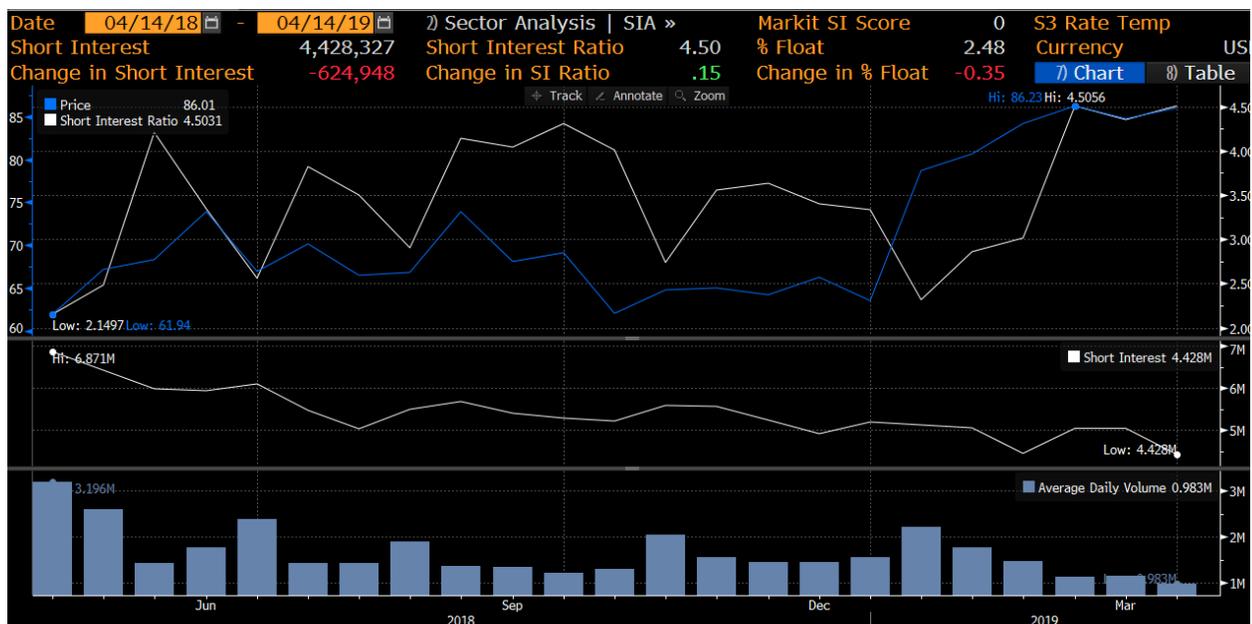


Ownership and Management:

Top Ownership Type (%)			
54) Ownership Type	04/07/19	Curr	Change
41) Investment Advisor	85.98	86	+0.02
42) Hedge Fund Manager	6.75	6.75	0.00
43) Pension Fund	1.64	1.64	0.00
44) Bank	1.52	1.51	-0.01
45) Sovereign Wealth Fund	1.3	1.3	0.00
46) Government	0.94	0.94	0.00
47) Insurance Company	0.9	0.9	0.00
48) Individual	0.49	0.49	0.00
49) Brokerage	0.13	0.13	0.00

Institutions hold around 96% of the float. Of that the highest percentage of owners are investment advisors (85.98%), followed by hedge fund managers (6.75%) then pensions funds (1.64%). An interesting development to point out is that number of institutional buyers within the past 6 months has increased by 18.91%. The majority of this change came in the middle of February during their last earnings call. In this time Incyte reached a 52 week high price of \$88.17. During that particular earnings call Incyte did not beat their revenue or EPS

Short Interest:



Over the past year short interest has consistently been dropping. At the moment people are holding on to their short positions for around 4.5 days at a time. The average daily volume is resting around 1 million shares. The fact that short interest has been dropping is a positive indication. This indicates that investors have increasing faith in this position

Multiples Analysis:

The best way to value a biotech with a lot of potential would be through the means of multiples. Multiples is a good standard for the reasons that biotech has a lot of boom and bust potential. The nature of biotech can be very volatile and to view the industry as a whole is very important. The companies I used to value INVCY were found via NASDAQ, Capital IQ and companies that I believed represented the same amount of promise in cancers and rare diseases. The two multiples I used were the price to sales multiple and the enterprise value to sales ratio. The reason I used these multiples is because the biotech industry is primarily driven by revenues.

	P/Sales	EV/Sales
ALXN	7.41	7.86
AMGN	5.3	5.15
AZN	4.5	5.3
VRTX	15.23	14.28
SGEN	18.7	18.46
BMJ	3.36	3.22
CCXI	15.51	13.9
INCY	8.82	8.14
XON	3.84	4.78
MRK	4.95	5.18
Median	6.355	6.58
High	18.7	18.46
Average	8.762	8.627

The first multiple I will mention will be price to sales.

	If INCY Hits Revenue Expectations		If INCY Beats Revenue by 5%		If INCY Misses Revenue by 5%	
INCY P/Sales	Median	\$61.08	Median	\$64.13	Median	\$58.03
	High	\$179.73	High	\$188.72	High	\$170.74
	Average	\$84.21	Average	\$88.42	Average	\$80.00

I believe that INCY will probably beat revenue expectations for this total year because of the promising NDA to be released. An appropriate number to value this company would be \$88.42. The 52 week low price for INCY happened in late December, the price hit \$57.00. I do not expect the price to drop below this. Within the past 4 years the price only was within this range once. The bear case for this scenario is that INCY misses revenues by 5% and the price does not increase and hovers around the \$80 range for the entire year.

The next multiple I used was to enterprise value to sales ratio.

	If INCY Hits Revenue Expectations		If INCY Beats Revenue by 5%		If INCY Misses Revenue by 5%	
INCY EV/Sales	Median	13552.826	Median	14230.4673	Median	12875.1847
	High	38022.062	High	39923.1651	High	36120.9589
	Average	17769.0319	Average	18657.4835	Average	16880.58031

Please refer to the graph above for estimated enterprise value. I am under the assumption that INCY will in fact beat their revenue projections and that their enterprise value will reside at 18657.48. The bear case would be that INCY only increase their enterprise value by 1,300,000,000.

Conclusion:

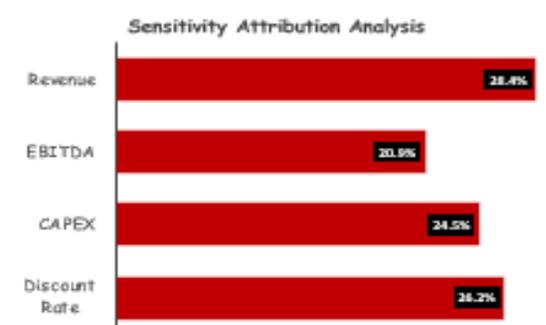
In conclusion I believe that Incyte is a impressive company that has a very promising future ahead of itself. It has six major projects going on in their pipeline with 16 indications of accelerated treatment. Incyte has a very promising future. Incyte has consistently beaten the market in revenues and I expect them to continue to do so in future years. I would like to pitch buying INCY at \$76.00 and to sell them at the price of \$88.00. There are plenty of indications that this stock is going to outperform the market and biotech is one of the most exciting and volatile.

Incyte Corporation	Symbol: INCY
Analyst	Thamar Burke
Buy below	\$62.28
Sell above	\$89.16
Probability of Price Increase	23%
Last Price	\$81.88
Intrinsic Value	\$71.33
Target Dividend	\$0.00
Target Price	\$77.85

Financials			
Profitability	INCY (LTM)	INCY Historical	Peers' Median (LTM)
Return on Capital	19.1%	12.58%	22.75%
Adjusted EBITDA Margin	20.3%	19.80%	42.79%
Return on Equity	16.8%	8.7%	25.2%
Adjusted Net margin	51.8%	10.8%	33.9%
Inverted Funds			
INCY (LTM)	INCY Historical	Peers' Median (LTM)	
Carh/Capital	33.3%	40.0%	23.6%
NWC/Capital	0.3%	-5.0%	1.0%
Operating Assets/Capital	62.7%	63.8%	64.5%
Goodwill/Capital	3.6%	0.0%	9.2%
Capital Structure			
INCY (LTM)	INCY Historical	Peers' Median (LTM)	
Total Debt/Market Cap.	0.01	0.05	0.08
Reported Cost of Borrowing	5.1%		4.4%
Carh Interest/Total Debt			4.6%
CGFS Credit Rating	AA		A
Credit Model Rating	bbb+		a- to a
Probability of Default	0.02%		0.03%
Cost of Capital			
	CGFS Credit Rating	Credit Model Rating	Probability of Default
Implied Cost of Borrowing (INCY)	3.9%	5.3%	3.9%
Implied Cost of Borrowing (Peers)	4.1%	4.9%	4.7%
Cost of New Debt Estimate	4.0%		
Market Risk Premium Estimate	6.1%		
Cost of Equity Estimate	10.1%		
WACC Estimate	10.0%		

Quarterly Earning Surprise (Actual Vs. Median Estimator)	
Revenue	
12/31/2017	2.79%
3/31/2018	-0.91%
6/30/2018	2.25%
9/30/2018	1.09%
12/31/2018	10.95%
Mean (Standard Error)	3.23% (1.03%)
EBITDA	
12/31/2017	-20.10%
3/31/2018	-76.88%
6/30/2018	55.63%
9/30/2018	158.78%
12/31/2018	21.86%
Mean (Standard Error)	3.23% (7.94%)

Valuation						
DCF Valuation						
	Revenues	EBITDA Margin	UFCF	WACC	ROIC	Price Per Share
Base Year (Actual)	\$566.34	39%	\$268.20	8.12%	35.33%	\$129.14
year 1	\$711.74	41%	\$158.32	8.93%	40.08%	\$139.94
year 2	\$869.28	42%	\$213.29	8.92%	35.83%	\$151.51
year 3	\$1,049.52	42%	\$265.88	8.91%	31.49%	\$163.82
year 4	\$1,252.44	42%	\$324.88	8.91%	28.19%	\$176.85
year 5	\$1,477.08	42%	\$390.33	8.90%	25.57%	\$190.58
year 6	\$1,721.34	42%	\$461.80	8.89%	23.39%	\$204.97
year 7	\$1,981.91	42%	\$538.58	8.88%	21.53%	\$219.98
year 8	\$2,254.19	42%	\$619.72	8.88%	19.90%	\$235.55
year 9	\$2,532.34	41%	\$703.59	8.87%	18.45%	\$251.62
year 10	\$2,809.38	41%	\$788.22	8.87%	17.11%	\$268.11
year 11	\$3,077.42	41%	\$871.48	8.86%	15.86%	\$284.95
year 12	\$3,327.98	41%	\$951.04	8.86%	14.69%	\$302.05
year 13	\$3,552.36	41%	\$1,024.59	8.86%	13.57%	\$319.33
year 14	\$3,742.18	41%	\$1,089.59	8.86%	12.50%	\$336.72
year 15	\$3,889.77	41%	\$1,141.58	8.86%	11.46%	\$367.02
Continuing Period	\$3,988.76	41%	\$743.65	8.87%	8.87%	



Relative Valuation						
RELATIVE	EV/Rev (FW)	EV/EBITDA (FW)	P/BV (TTM)	P/E (FW)	Recovery Rate	100%
Median (Peers)	8.2x	54.0x	19.7x	98.2x	Capital	\$7,395.45
Asset Based Valuation						
Base	Revenue (NTM)	EBITDA (NTM)	Book Value (LTM)	Net Income (NTM)	Intangibles	Claims
Implied EV	\$6,020.88	\$16,088.95	\$463.10	\$222.24		\$70.35
Total Net Claims	-\$90.33	-\$90.33				
Implied EQ	\$6,111.21	\$16,179.28	\$9,110.77	\$21,819.43		\$7,272.47
Valuation Summary						
Model	Intrinsic Value	Target Price	Weight			
DCF Valuation	\$129.14	\$139.94	40.00%			
EV/Rev (FW)	\$104.32	\$112.79	0.00%			
EV/EBITDA (FW)	\$276.18	\$298.60	30.00%			
P/BV (TTM)	\$155.52	\$168.15	30.00%			
P/E (FW)	\$372.46	\$402.69	0.00%			
Asset Based Valuation	\$124.14	\$134.22	0.00%			
Price per Share	\$181.16	\$196.00	100%			

