



**TRINITY SMF**  
STUDENT MANAGED FUND

## *Equity Research Report*

### *Horizon Therapeutics*

*December 2020*

## **Horizon Therapeutics**

### **An exciting Orphan Drug specialist**

Horizon Therapeutics plc, formerly Horizon Pharma plc, is a rare disease biopharmaceutical company. The Company is focused on researching, developing and commercializing medicines that address needs for people impacted by rare and rheumatic diseases. The Company markets approximately 11 medicines, of which 6 are for rare and rheumatic diseases. Horizon was founded in 2008 and have grown to employ over 1,200 employees. Horizon's global headquarters are in Dublin; however they are spread over many locations across the US and have an office in Germany. They primarily market their products in the US, with this accounting for 99% of Horizon's worldwide sales in 2019.

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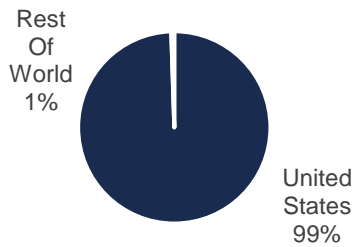
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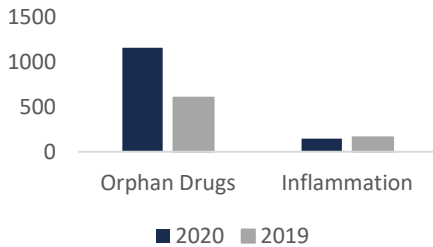
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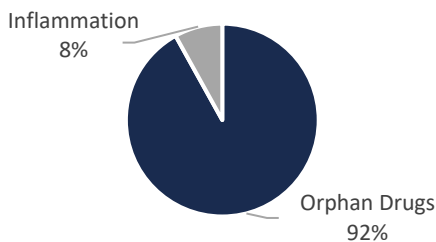
## Geographic Breakdown



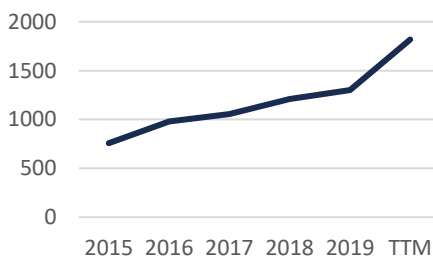
## Revenue YTD vs 2019 (\$MM)



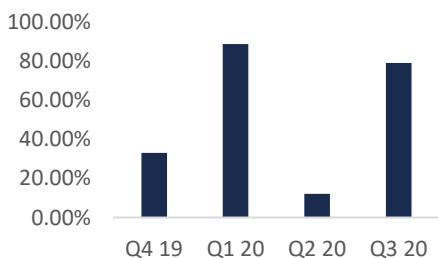
## Revenue breakdown



## Revenue (\$MM)



## Earnings Surprise



## Business Overview

Horizon Therapeutics are a Dublin based biopharmaceutical company that develops, and commercializes late-stage biopharmaceutical therapies for the treatment of pain, inflammation and orphan diseases. Orphan drugs account for 92% of revenue, with 52% of revenue in 2020 coming from blockbuster drugs Krystexxa and Tepezza.

- Tepezza is the first and only therapy on the market for chronic Thyroid Eye Disease (TED) with peak sales >\$3bn expected. It received market market authorization in Q1'20 and Horizon have already raised financial year 2020 sales guidance from \$650m to \$800m for the drug.
- Krystexxa is currently the only markets therapy for uncontrolled gout. Currently Horizon treat about 4,000 people in the USA but believe there is a market of c.100,000 people. Peak sales of \$1bn are expected in the future.

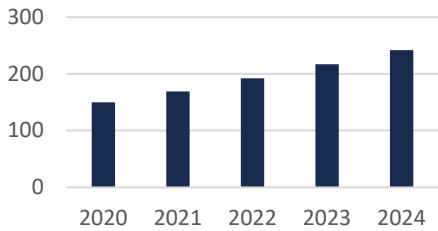
Horizon's geographic exposure is heavily weighted towards the USA with 99% of revenue deriving from America. They have stated their intent to pursue global expansion particularly with TEPEZZA in Japan.

In the nine months ended September 30<sup>th</sup> 2020 Revenue has grown 55.4% yoy as well as improving their bottom line performance significantly from a Net Income loss of (-\$19.75m) through 30<sup>th</sup> September 2019 to a Net Income profit of \$199.24m through September 30<sup>th</sup> 2020.

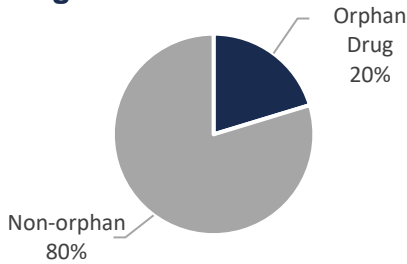
## Investment Thesis

- They have beaten analyst estimates for 10 quarters in a row with an average earnings surprise of 53.49%.
- They have a growing market share in the lucrative rare diseases industry with high margins and less threat of competitors or generics entering the market after expiration of patents.
- Horizon have made massive strides to consolidate their balance sheet and have an impressive 3.5x current ratio as well as a 3.1x quick ratio, holding \$1.725bn of cash and short-term investments. Their Altman Z-score of 6.75 further reiterates their efforts to secure the balance sheet.
- Their excellent top and bottom line is expected to continue into 2021 and beyond with analysts constantly revising estimates.

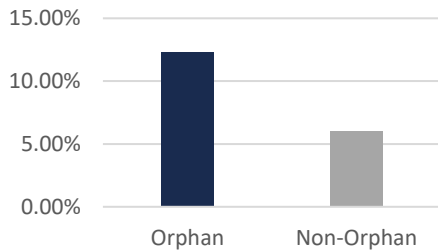
## Orphan Drug Sales EST (\$ bn)



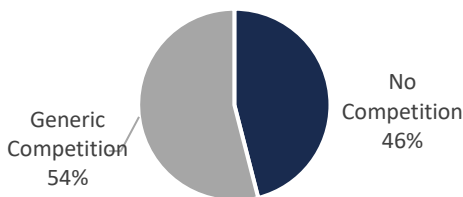
## Drug Market Breakdown 2024



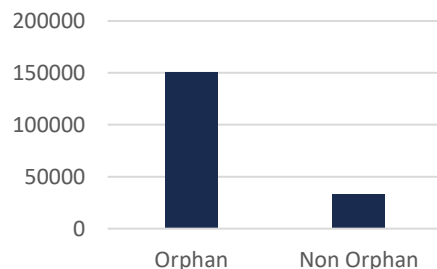
## CAGR 2019-2024



## Competition after patent expiry



## Mean Cost per patient per year (\$)



## Industry Overview

As defined by law, according to Deloitte rare disease populations make up less than 200,000 people out of a population of 325 million in the USA, less than 256,000 out of a population of 512 million in Europe and 50,000 people out of a population of 125 million people in Japan.

In recent years we have seen a huge shift in therapeutic focus towards rare-diseases and orphan drugs. By 2024, orphan drugs are expected to account for 20% of prescription sales despite only 5% of rare diseases having a pharmacotherapy. Growth in orphan drugs is high with sales expected to grow at 12.3% CAGR between 2019-2024 (vs 6.8% for non-orphan) with the average orphan drug costing 4.5x a non-orphan drug.

Some key benefits of orphan drug production are:

- Extended market exclusivity in Europe & USA
- Up to 50% tax credit on R&D costs in the USA
- Grants & subsidies issued for development as well as user fee charges under PDUFA being waved.
- 46% of orphan drugs no longer patent protected do not face generic competition.

Big pharmaceutical companies have recognised the benefits associated with orphan drugs as a high margins, high growth industry and smaller companies have become prime acquisition candidates. The lower risk of generics and biosimilars also is highly attractive as the market is often seen as too small for competitors to enter.

## Risks

### 1. Geographical Exposure:

- 99% of revenue comes from the US
- They must look to expand operations reducing risk associated with their low geographic exposure.
- They have looked at Japan as a particular opportunity to expand

### 2. Competitors

- 52% of revenue comes from two key revenue drivers
- Biosimilars or the entry of generics after patent expiration would severely affect bottom line.

### 3. Market Penetration

- TEPEZZA has only 12% market penetration thus far
- Horizon needs to spread awareness of the disease in order to extract full revenue potential

### 4. Cost Control

- Horizon have significantly increased marketing & sales expenses

# Financial Summary

## Income Statement

	2018	2019	2020E	2021E
Revenue	1,208	1,300	2,132	2,923
EBITDA	362	393	725	1,029
% margin	30%	30.2%	34%	35.2%
EBIT	86	155	405	490
% margin	11.4%	20.5%	19%	20.2%
Net Income	(-38)	573	229	464
% margin	-	44%	10.74%	15.87%

Horizon has a huge amount of room to grow into the future as patient and physician awareness for TEPEZZA grows. Currently only about 12% of the 15-20k patients with acute TED have received TEPEZZA, there is also another ≈70k patient pool with chronic TED which according to JP Morgan could add another \$1bn in revenues. They are also looking to expand beyond the USA which could open up another ≈\$500m in revenue per annum in the future depending on market penetration. If they continue to outperform estimates we could see Revenue reach \$3bn by 2022

## Capital Structure

	As of 30/11/2020
Current Share Price	\$70.43
No. of Shares Outstanding	223
<b>Equity Value</b>	<b>\$15,585</b>
(-) Cash & Equivalents	(\$1,725)
(+) Total Debt	\$1,002
(+) Non-Controlling Interests	\$0
(+) Preferred Stock	\$0
<b>= Enterprise Value</b>	<b>\$14,862</b>

Horizon has a very secure capital structure of almost 94% equity. Their low debt levels, combined with their high cash reserves which was raised in a \$920m share offering in Q3'20 leaves room for Horizon to invest considerably in expansion, either with cash or by issuing debt.

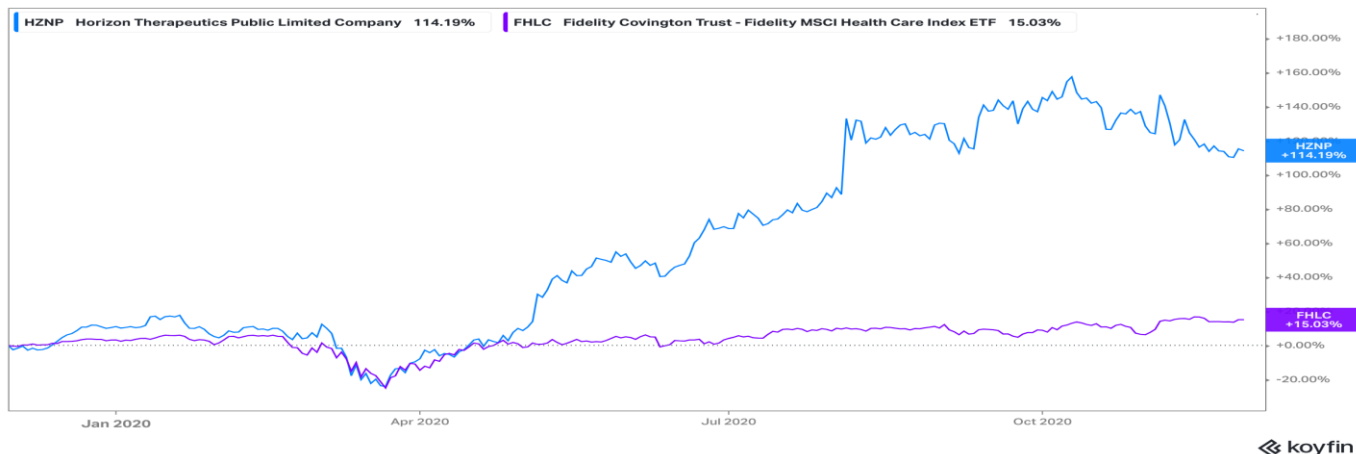
## Key Financial Metrics

	Firm	Industry
Gross Profit %	72.1%	68.1%
Operating Profit %	21%	27.8%
EBITDA Margin	29.2%	10%
Current Ratio	3.49x	3.07x
Quick Ratio	3.39x	2.91x
Inventory Turnover	6.90x	2.82x
Debt/Equity	26.4%	124.3%
Avg Receivable days	122.05	69.05

Horizon are outperforming their peers. Their operating margin and EBITDA margin E'2020 is expected to improve significantly with EBITDA margin through 2020 thus far in the low 40% range. Their balance sheet is solid, with an impressive current ratio and acid test ratio along with a considerably lower debt/equity ratio than its peers. The strong balance sheet would offset most concerns about their considerably longer receivable days ratio.



# TTM Share Price Movements



## Valuation

### Comparable Companies Analysis

Comparable companies can be very difficult to find in pharmaceuticals, especially rare diseases. Given they do not have any major direct competitors the industry mean is based off Refinitiv's industry peers. Horizon performs strongly, trading at almost a 41% discount on P/E and a 34% discount on forward P/E. Across the board Horizon performs strongly and their P/FCF reflects strongly on their ability to drive non-asset related growth into the future.

	Firm	Industry
<b>P/E</b>	19.2	32
<b>Fwd. P/E</b>	14.79	22.3
<b>PEG</b>	0.49	2.1
<b>P/B</b>	4.10	9.1
<b>P/S</b>	8.55	10.4
<b>EV/EBITDA</b>	23.72	18.1
<b>P/FCF</b>	16.89	35.4
<b>ROIC</b>	17.77%	21.1%

### Discounted Cash Flow Analysis

Our discounted cashflow model has provided a price Target of \$105.48, an upside of 49.8%. This has been made With the assumption of a WACC of 8%. Revenue growth should remain strong through 2021 & 2022 as they improve market penetration and we expect them to continue top-line growth in the high-teens through 2022, eclipsing the \$3bn mark. Amortization of patents as a percentage of sales should continue to fall to single digits as revenue rises and as a result margins should continue to grow.

**Price Target: \$108.59**  
+54.2% Upside

Analysts have constantly been revising price targets as Horizon have continued to beat expectations and the analyst consensus is \$110 which is relatively in line with our own expectations. Their low level of capital expenditure, combined with improved EBITDA margins through 2024 we have derived an implied equity value of \$21,644. Horizon's low level of debt leaves room for them to expand in a low-cost environment if they look to bolster their growth through capital investment or through acquisitions.