



Horizon Therapeutics PLC (NASDAQ: HZNP)

Healthcare Sector, Fall 2022

Claire McNulty, Analyst

William Martin, Analyst

Thomas Silva Larsson, Analyst

JT Jones, Analyst

Aazan Khan, Senior Analyst



HORIZON[®]

I. Investment Overview

Buy HZNP at 1.5% (Standard Allocation)

1

Robust Pipeline

- Horizon has **10 programs** currently in its pipeline, some which have multiple dimensions
- These programs are headed by **UPLIZNA which is currently in phase 3 trials** for myasthenia gravis (neuromuscular disease) and phase 2 trials for kidney transplant desensitization and Sjögren's Syndrome

2

2021 Acquisition of Viela Bio

- **Purchased AstraZeneca spinoff Viela Bio** for \$3 billion in 2021
- This takeover will give Horizon a new bundle of **clinical-phase autoimmune and inflammatory drug candidates, R&D capabilities, and an approved monoclonal antibody**
- **Boosts long-term prospects** through the acquisition of a team with deep scientific knowledge in autoimmune and severe inflammatory diseases

3

Success of TEPEZZA and KRYSTEXXA

- TEPEZZA and KRYSTEXXA are the **first and only medications approved** for Thyroid Eye Disease and uncontrolled gout, respectfully
- TEPEZZA's annual US net sales are expected to be **greater than \$1 billion**
- KRYSTEXXA annual US net sales are expected to be **greater than \$1.5 billion**

4

Promising Q3 Earnings

- Horizon increased full-year net sales guidance to **\$3.59-3.61 billion**
- Presented a strong balance sheet and class flow generation with a **net leverage ratio of 0.3** and \$2.1 billion in cash and cash equivalents
- Reported EPS of \$1.25

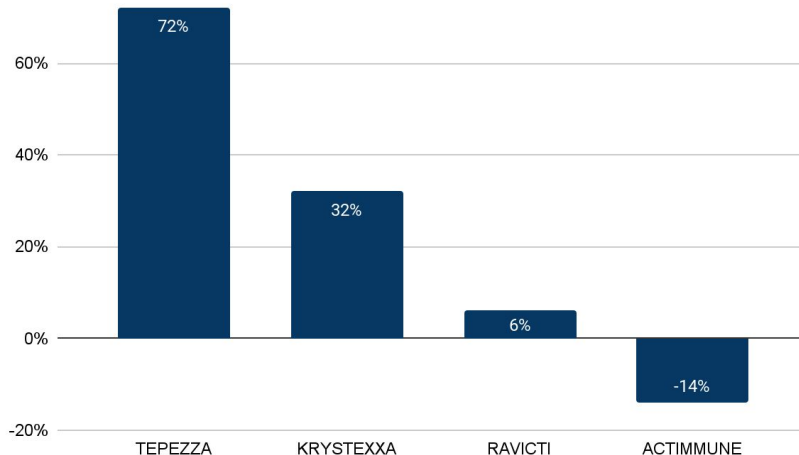
Business Description

- Horizon Therapeutics is a Biotechnology company focusing on discovery, development and commercialization of rare auto immune and severe inflammatory diseases
- It operates in two segments: Orphan and Inflammation with Orphan consisting of a lion share of its revenue
- Horizon has a robust pipeline with more than 20 programs in total, with 3 of them in Phase 3 and 7 more trials expected to initiate in the next 24 months

Key Statistics

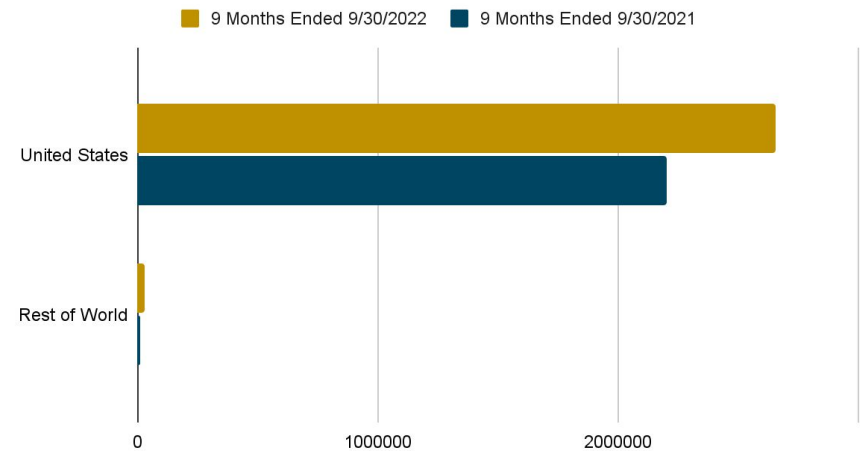
GICS Sub-Industry	Biotech
Market Cap	\$17.89B
Revenue	\$3.2B
Current Price	\$77.64
52-Week Range	\$57.84 - \$117.49
Beta	1.16
Dividend Yield	0%
Credit Rating	BB

Key Orphan Drugs YE 2021 YoY Growth

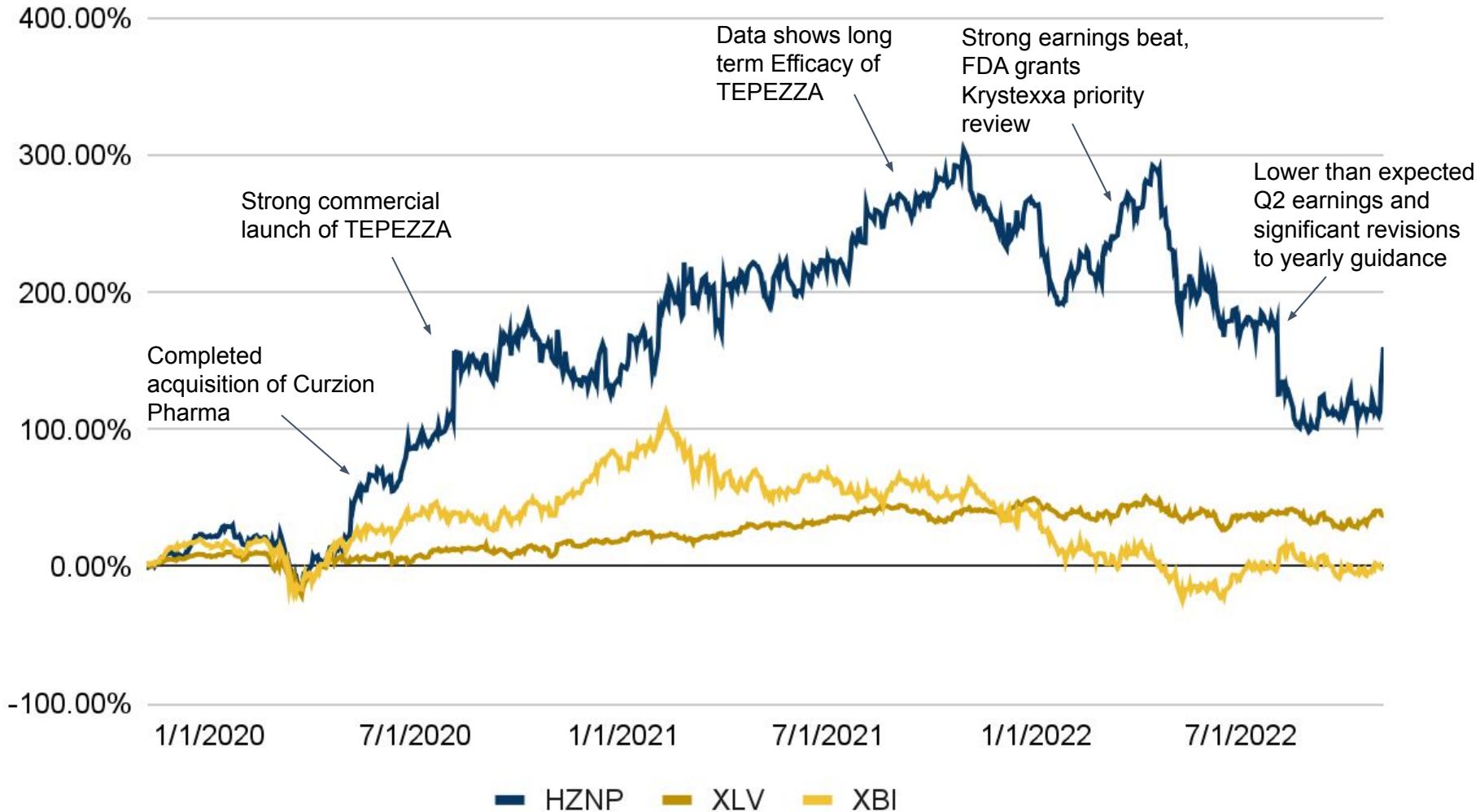


Geographic Breakdown

Net Sales



3-Year Stock Performance



Holding HZNP would help improve our **active exposure** in Biotechnology and Pharmaceuticals (currently underexposed in both)



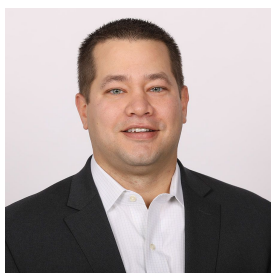
Tim Walbert Chairman, Chief Executive Officer & President

- Joined Horizon in June 2008 as president and CEO and has served as chairman of board of directors since 2010
- Before Horizon, he served as president and CEO of biopharmaceutical company, IDM Pharma Inc. and executive vice president of commercial operations at biopharmaceutical company NeoPharm Inc.



Sean Clayton Executive Vice President & General Counsel

- Joined Horizon in February 2022
- He has nearly 20 years of experience representing public and private biotechnology companies in general corporate matters and securities law
- Led the team that represented Horizon in its initial public offering in 2011



Aaron Cox Chief Financial Officer and Executive Vice President

- Joined Horizon in 2016 and has served in various roles across finance, business development, and corporate development
- Before Horizon, Cox was vice president, capital markets at BMO Capital Markets

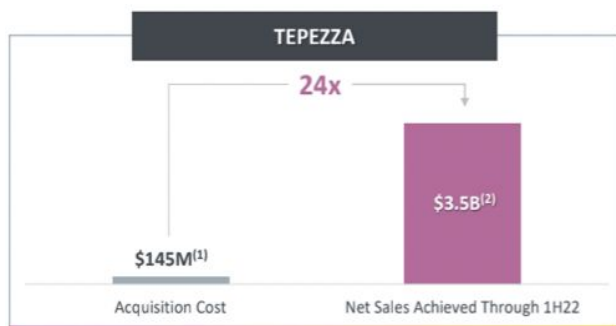
Horizon is led by a management team that has significant industry experience from competitors and from within the company

II. Business Segments

1

TEPEZZA

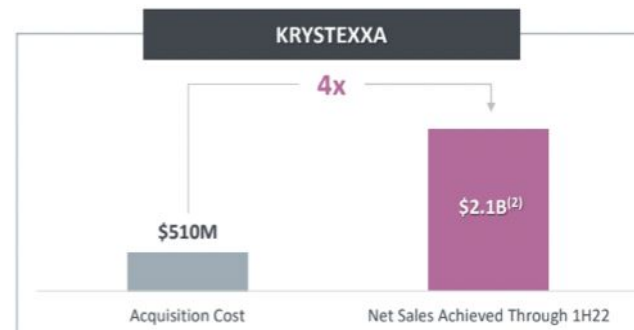
- 3rd Quarter 2022 Earnings of **\$490.9 Million**
- Accounts for **53% of Horizon's Net Sales**
- Expect FY2022 net sales percentage **growth in the high teens**
- Peak global sales expected to be **greater than \$4 Billion**
- TEPEZZA is the first and only medication approved for Thyroid Eye Disease (TED)
- Currently > 100k patients appropriate for TEPEZZA with ~15-20k newly diagnosed moderate-to-severe TED patients each year
- Originally acquired in 2017 for \$145 Million



2

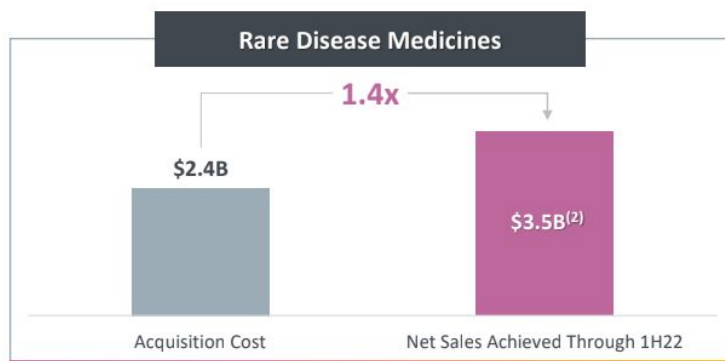
KRYSTEXXA

- 3rd Quarter Earnings of **\$191.6 Million**
- Accounts for **20.7% of Horizon's Net Sales**
- Expect FY2022 net sales growth **expectations to ~25%**
- KRYSTEXXA is the first and only medicine approved for uncontrolled gout
- After FDA approval, Horizon launched a new promotional campaign that drastically drove growth.
- Expected US Net Sales growth of more than 20% in 2022
- Originally acquired in 2015 for \$510 Million



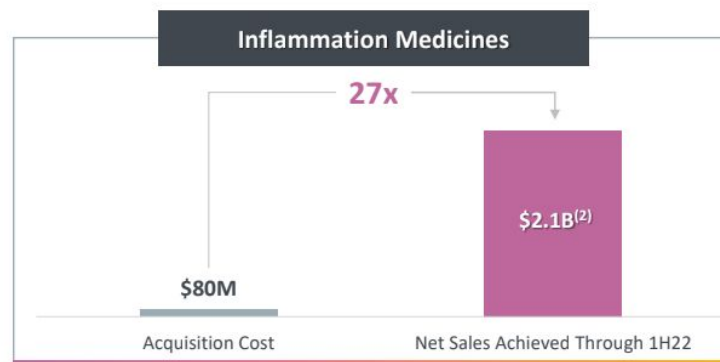
3 Rare Disease Medicines

- Horizon wants to continue their **strong focus in rare disease treatments** with significant unmet need.
- Horizon has **4 medications** in early stages to meet new rare diseases with an unmet need
- Horizon is in **phase two of a drug for Sjögren's Syndrome**, which has around 250k-350k patients in the US.
- Looking to expand ADX-914 to **trials for autoimmune diseases in 2023**
- Horizon states UPLINZA, the first and only FDA approved B-cell depleting therapeutic has significant opportunity to **exceed \$1B** in Global Peak annual sales



4 Inflammation Medicines

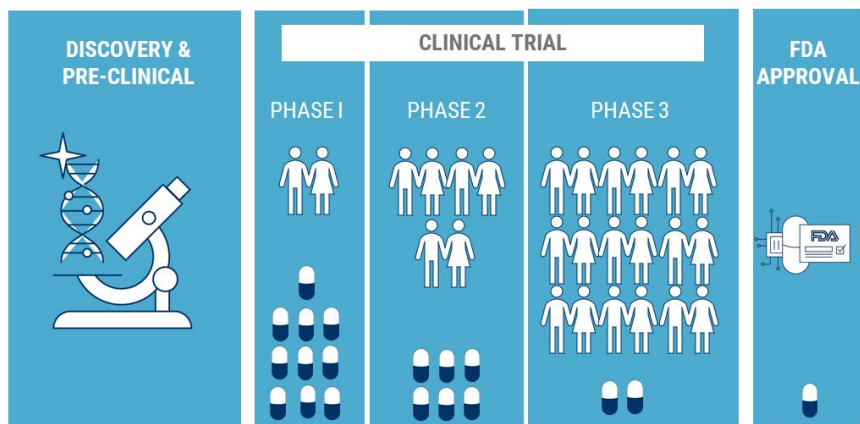
- Horizon hopes to deepen their presence in severe inflammatory disease treatment
- **Two additional drugs** are in phase 1 for rare types of gout treatment
- Faced a **loss of \$10.8 M** in the inflammation segment due to a generic PENNSAID 2% entering market.
- Horizon has still made **large returns on inflammation medicines acquired despite market competition.**



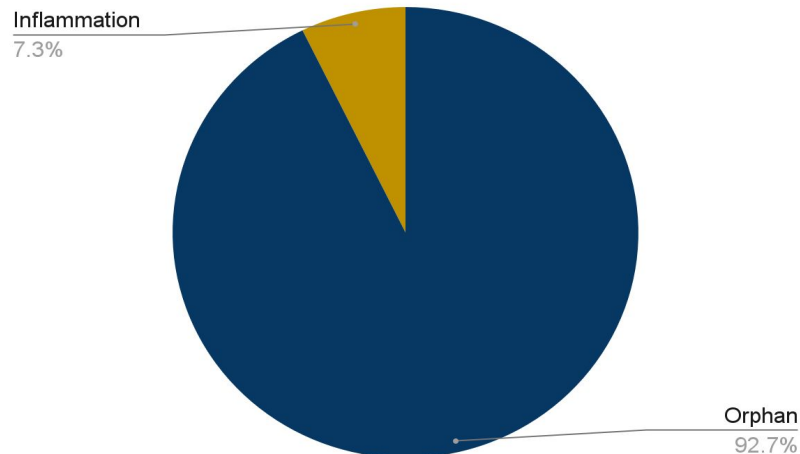
Horizon Future Drug Pipeline

- Horizon has **over 20 drug programs in development**, with around **10 potential approvals** in the second half of the decade. The other potential approvals should be complete in the next 10 years.
- **Four current phase 4 programs** in the works for their two largest earners, Tepezza and Krystexxa.
- Continuing to approve current drugs for new treatments and research new orphan drugs as well for unmet needs
- **13 orphan drugs in phase 2 trials.**
- Out of their three drugs in preclinical trials, two are for inflammation, showing Horizon's devotion to continuing to expand this segment
- Ig-G4 Disease, which Uplinza (Stage 3) targets is a relatively new disease only emerging in the last two decades, and **doctors expect the amount of people diagnosed to continue to increase** as its grown prominence
- **Uplinza is also in stage 3 of being tested for treating Myasthenia Gravis**, a rare autoimmune disorder affecting communication between muscles and nerves. Current Treatments for MG mostly just delay worsening of the condition.

Clinical Trial Process

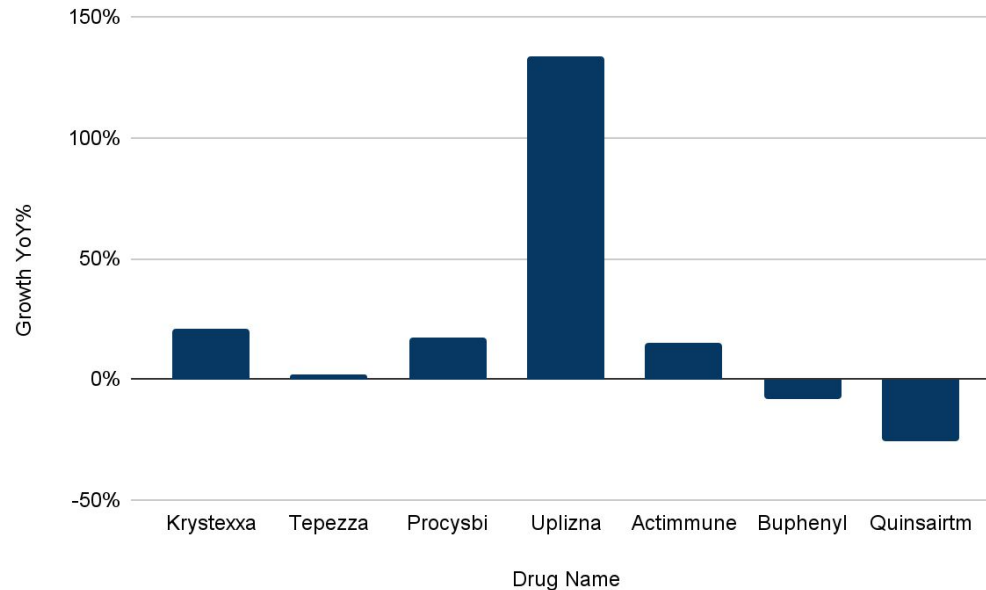


Segment Breakdown



Key Messages

- Q3 Net Sales declined 11% YoY, but **beat analyst estimates by over \$37M.**
- Tepezza had net sales **increase by 2%** to \$491M
- **Guidance for Tepezza and Krystexxa both increased by \$500 million for 2022** due to new growth opportunities and approvals.
- Modest sequential growth is expected in Q4, followed by mid-teens growth in 2023.
- Increased sales rep team by 75% and this should lead to increased sales in 2023.
- **Procysbi** sales were up \$57.8 million in the quarter, up 17% year over year. **Uplizna** sales were \$43.8 million in the quarter, up 134% year over year. **Actimmune** sales were \$34.4 million in the quarter, up 15% year over year.



III. Valuation

Sensitivity Analysis (30.44% Implied Upside over current price)

		Exit Multiple				
		12.0x	12.5x	13.0x	13.5x	14.0x
WACC	7.88%	\$ 94.97	\$ 98.02	\$ 101.08	\$ 104.13	\$ 107.19
	8.38%	\$ 92.96	\$ 95.94	\$ 98.93	\$ 101.91	\$ 104.90
	8.88%	\$ 91.00	\$ 93.92	\$ 96.84	\$ 99.75	\$ 102.67
	9.38%	\$ 89.10	\$ 91.95	\$ 94.80	\$ 97.65	\$ 100.50
	9.88%	\$ 87.24	\$ 90.03	\$ 92.81	\$ 95.60	\$ 98.39

Model Assumptions

- Assumption of decreased revenue growth annually, albeit still high levels, due to combined high CAGR as well as difficulty in sustaining such extremely high growth rates
- Exit multiple of 13x based on combination of the historic EV/EBITDA ratios as well as analyst estimates
- Gross Profit Margin continues to hover around 75%

WACC Assumptions

Assumptions	
Tax Rate	13%
Exit Multiple (EBITDA)	13.0x
WACC Calculation	
Risk Free Rate	3.82%
Beta	1.08
Market Risk Premium	5.50%
Cost of Equity	9.8%
Pre-Tax Cost of Debt	3.82%
Market Cap	\$ 16,824
BV of Debt	\$ 2,683
Equity-to-Value	86.2%
Debt-to-Value	13.8%
WACC	8.88%

Company	Market Cap	5Y Rev CAGR	R&D/Sales	P/E	P/S	EV/EBITDA
Horizon	17.59B	27.78%	12.46%	23.83	4.81	16.79
Incyte Corp.	16.89B	16.63%	46.76%	14.39	5.05	20.29
Halozyme Therapeutics	6.38B	35.18%	9.42%	29.68	13.24	28.88
Seagen Inc.	24.1B	30.41%	-	-	12.81	-
BioMarin Pharmaceutical	15.12B	8.62%	31.77%	195.43	7.48	70.58
Median	16.01	23.52%	31.77%	29.68	10.14	28.88

Pros

- **5Y Rev CAGR:** HZNP has grown rapidly over the last five years as their pipeline has developed
- **EV/EBITDA:** Lower EV/EBITDA than its competitors and the industry as a whole after major dip in stock price over the past year

Cons

- **P/E:** The nature of BioTech companies is that they trade at premiums relative to the broader market due to pipeline and commercial peak sale potential.

IV. Conclusion

		Risk	Mitigation
1	Small Total Addressable Market	<ul style="list-style-type: none"> Horizon focuses on developing treatments for rare diseases which naturally are niche markets Difficult to grow horizontally 	<ul style="list-style-type: none"> They're investing a lot in R&D; Can treat other rare diseases in the future (i.e. find new markets) Little-to-no competition with other firms due to nature of limited FDA approvals
2	Small Portfolio of Drugs	<ul style="list-style-type: none"> Horizon currently offers 11 medicines, rather limited compared to major Healthcare players Competitors such as Abbvie offer 120+ drugs in their portfolio 	<ul style="list-style-type: none"> Horizon currently has 10 medicines in the pipeline (3 are in phase 3 clinical trials) Little-to-no competition helps them capitalize on this smaller portfolio
3	Recent Volatility	<ul style="list-style-type: none"> HZNP fell nearly 19% in one day during early August Revenue forecasts were conservative, predicting a 5.6% decline vLY 	<ul style="list-style-type: none"> HZNP beat EPS estimates by \$0.24 for Q3 2022 HZNP price rose 6% day of earnings report and has since rose a total of 14% Share repurchase program (500 million) announced indicating they're confident in their growth
4	Activist Investor Rumors	<ul style="list-style-type: none"> Currently there's rumors of an activist investor accumulating shares through Barclays Isn't necessarily a risk, however is something to note especially with the recent jump in stock price that could cause future stock growth to slow/drop rapidly 	<ul style="list-style-type: none"> Continue to grow organically and improve their financials supporting the strength of their company

Robust Pipeline with High Peak Sale Guidances

- Horizons strong pipeline of Orphan drugs targeting rare diseases with unmet needs means they have **little competition on many of their products**
- Many of their **existing drugs are being treated and approved for other conditions** to increase sales
- Horizon actively seeks to treat conditions with no existing FDA approved treatments.

Optimistic Sales Outlook

- Horizons **better than expected Q3 sales** increases the companies revenue forecasts for Q4 and 2023
- Horizon has almost doubled their sales reps in 2022 and the company expects their real effect with come into play gradually through 2023

Blockbuster Drugs Continue to Grow

- Horizon's blockbuster drug, Tepezza, continues to grow and management has **increased its peak sale guidance by \$500M** due to the expected addition of Europe
- Peak sales guidance for Krystexxa was **also raised by \$500 million** due to the growth opportunity of the combination with methotrexate

<u>Name</u>	<u>Position</u>	<u>Phone Number</u>	<u>Email</u>
JT Jones	Analyst	470-865-2449	jjones496@gatech.edu
Claire McNulty	Analyst	678-956-3727	clairemcnulty@gatech.edu
Thomas Silva Larsson	Analyst	470-796-0831	tlarsson6@gatech.edu
William Martin	Analyst	770-402-1245	wmartin72@gatech.edu
Aazan Khan	Senior Analyst	706-913-0282	aazankhan@gatech.edu
Justin Kaplin	Sector Head	678-592-1192	jkaplin3@gatech.edu

V. Appendix

Expanding Our Pipeline to Drive Long-Term Growth

Medicine/Candidate	Program/Potential Indication	Preclinical	Phase 1	Phase 2	Phase 3
UPLIZNA	Myasthenia Gravis (MG)	[Progress bar]			
	IgG4-Related Disease (IgG4-RD)	[Progress bar]			
Daxdilimab	Systemic Lupus Erythematosus (SLE)	[Progress bar]			
	Alopecia Areata (AA)	[Progress bar]			
	Discoid Lupus Erythematosus (DLE) ⁽¹⁾	[Progress bar]			
	Lupus Nephritis (LN) ⁽¹⁾	[Progress bar]			
	Dermatomyositis (DM) ⁽¹⁾	[Progress bar]			
Dazodalibep	Sjögren's Syndrome	[Progress bar]			
	Rheumatoid Arthritis ⁽²⁾	[Progress bar]			
	Kidney Transplant Rejection	[Progress bar]			
	Focal Segmental Glomerulosclerosis (FSGS) ⁽¹⁾	[Progress bar]			
HZN-825	Diffuse Cutaneous Systemic Sclerosis (dcSSc)	[Progress bar]			
	Idiopathic Pulmonary Fibrosis (IPF)	[Progress bar]			
ADX-914	Atopic Dermatitis ^(1,3)	[Progress bar]			
	Additional Autoimmune Disease ^(1,3)	[Progress bar]			
TEPEZZA	TED in Japan (OPTIC-J)	[Progress bar]			
	Subcutaneous Administration	[Progress bar]			
HZN-1116	Diffuse Cutaneous Systemic Sclerosis (dcSSc)	[Progress bar]			
	Autoimmune Diseases	[Progress bar]			
Alpine	Autoimmune Diseases ⁽⁴⁾	[Progress bar]			
ARO-XDH	Next-Gen Uncontrolled Gout ⁽⁴⁾	[Progress bar]			
HemoShear	Novel Gout Targets ⁽⁴⁾	[Progress bar]			

- **>20 programs**
- **Initiated 3 clinical trials** year-to-date
- **10 potential approvals** in the second half of the decade
- **4 additional Phase 4 programs:**
 - TEPEZZA chronic/low-CAS TED
 - KRYSTEXXA shorter infusion duration
 - KRYSTEXXA monthly dosing
 - KRYSTEXXA retreatment

IgG4: Immunoglobulin G4. | TED: Thyroid eye disease.
 CAS: Clinical activity score.
 (1) Planned programs; not yet initiated.
 (2) Trial complete. Announced positive topline results on May 3, 2022. The trial met the primary endpoint across all doses and was well tolerated.
 (3) Horizon has an option to acquire ADX-914 from Q32 Bio on pre-negotiated terms through the completion of Phase 2 clinical trials. Phase 2 trials to be conducted by Q32.
 (4) External collaborations.

Discounted Cash Flow



	Historical			Expected	Projected				
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	\$ 1,300	\$ 2,200	\$ 3,226	\$ 3,607	\$ 3,996	\$ 4,386	\$ 4,772	\$ 5,143	\$ 5,492
% YoY Growth	N/A	69.26%	46.63%	11.78%	10.78%	9.78%	8.78%	7.78%	6.78%
Cost of Goods Sold	\$ 362	\$ 532	\$ 795	\$ 906	\$ 1,004	\$ 1,102	\$ 1,199	\$ 1,292	\$ 1,380
Gross Profit	\$ 939	\$ 1,668	\$ 2,432	\$ 2,701	\$ 2,992	\$ 3,285	\$ 3,573	\$ 3,851	\$ 4,112
% Margin	72.19%	75.80%	75.38%	74.88%	74.88%	74.88%	74.88%	74.88%	74.88%
EBITDA	370	770	907	1,329	1,472	1,616	1,758	1,895	2,023
% Margin	28.46%	34.97%	28.10%	36.84%	36.84%	36.84%	36.84%	36.84%	36.84%
Less: Depreciation	7	24	18	23	26	28	31	33	35
EBIT	363	745	889	1,305	1,446	1,588	1,727	1,861	1,988
Less: Taxes	45	93	111	163	181	198	216	233	248
EBIT*(1-T)	318	652	778	1,142	1,265	1,389	1,511	1,629	1,739
Add: Depreciation	7	24	18	23	26	28	31	33	35
Less: Inc. in NWC		256	131	(15)	88	88	87	84	79
Less: CapEx	18	170	77	55	61	67	73	78	84
FCF to Firm	307	250	588	1,126	1,143	1,262	1,382	1,500	1,612
PV Factor					0.92	0.84	0.77	0.71	0.65
PV of FCF					1,049	1,065	1,071	1,067	1,054
PV of Terminal Value									17190.7
Firm Value				22,497.1					
Less: Debt				\$ 2,683					
Plus: Cash				2,130.5					
Equity Value				21,944.9					
Shares Outstanding				227					
Share Price				\$ 96.84					

	Historical			Expected	Projected					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	
Drivers:										
Revenue Growth	N/A	69.26%	46.63%	11.78%	10.78%	9.78%	8.78%	7.78%	6.78%	
Margin Expansion:										
Gross Margin	72.19%	75.80%	75.38%	74.88%	74.88%	74.88%	74.88%	74.88%	74.88%	
EBITDA Margin	28.46%	34.97%	28.10%	36.84%	36.84%	36.84%	36.84%	36.84%	36.84%	
Depreciation (% of Sales)	0.5%	1.1%	0.5%	0.6%	0.65%	0.65%	0.65%	0.65%	0.65%	
Net Working Capital:										
A/R	\$ 408.7	\$ 659.7	\$ 632.8	\$ 691.2	\$ 765.8	\$ 840.7	\$ 914.5	\$ 985.7	\$ 1,052.6	
DSO	114.75	109.43	71.59	69.96	69.96	69.96	69.96	69.96	69.96	
Inventory	\$ 53.8	\$ 75.3	\$ 225.7	\$ 184.0	\$ 203.8	\$ 223.7	\$ 243.4	\$ 262.3	\$ 280.1	
DIO	54.3	51.6	103.7	74.1	74.1	74.1	74.1	74.1	74.1	
A/P	\$ 21.5	\$ 37.7	\$ 30.1	\$ 62.0	\$ 68.7	\$ 75.4	\$ 82.0	\$ 88.4	\$ 94.4	
DPO	21.7	25.9	13.8	25.0	25.0	25.0	25.0	25.0	25.0	
NWC	\$ 441.0	\$ 697.3	\$ 828.4	\$ 813.2	\$ 900.9	\$ 989.0	\$ 1,075.9	\$ 1,159.6	\$ 1,238.3	
Change in NWC		\$ 256.3	\$ 131.1	\$ (15.2)	\$ 87.7	\$ 88.1	\$ 86.9	\$ 83.7	\$ 78.7	
CapEx (% of Sales)	1.38%	7.72%	2.37%	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%	

Steps	
1-5Y	6-10Y
-1.00%	0.00%
0.00%	0.00%
0.00%	0.00%
0.00%	0.00%
365	365
0.00	0.00
365	365
0.00	0.00
365	365
0.00	0.00
0.00%	0.00%