

Jazz Pharmaceuticals

Takeaways from investor meetings:
oxybate defense, late-stage pipe, M&A

Maintain Rating: BUY | PO: 173.00 USD | Price: 118.90 USD

Investor focus on pipeline + sodium oxybate

Yesterday, we hosted investor meetings with Jazz management, including COO (Chief Operating Officer) and Head of R&D, to discuss post-4Q business performance and the status of key pipeline programs. The bulk of investor questions were around 1) the growth dynamics for Jazz's oxybate sleep franchise, and 2) late-stage pipeline programs with key data updates in 2024 — Ph2b JZP-385 for essential tremor and Ph3 Zanidatimab for 1L GEA (gastroesophageal adenocarcinoma). On oxybate, management sounded upbeat regarding growth prospects for the broader business led by the IH indication but also including some growth from legacy narcolepsy indication. On pipeline, Zani for GEA received the bulk of the focus given stronger supportive data and clearer path to market post '24 data. Lastly, on M&A outlook, we got the sense all options are on the table and diversification of business (via M&A) is preferred over share buybacks. We maintain Buy and \$173 PO.

Oxybate remains patchwork, but IH indication remains key

After a 4Q Xywav miss, management sounded positive on the IH (idiopathic hypersomnia) indication growth prospects with sales force expansion expected to have a 2024 impact. While the IH segment is under-penetrated, Jazz believes its sales reps can have success with oxybate-familiar physicians who are lower IH prescribers. Similar to the early days of the oxybate narcolepsy launch, we see IH growing in a more gradual fashion. Management concedes some Xywav-narco switches to (competitor) Avadel but sees the drug growing in narco keyed by winning the battle for new patient starts. On various Jazz vs. Avadel litigation matters, Jazz management seems open to a range of outcomes but refrained from offering details given ongoing litigation.

See page 3 for continued discussion on M&A, pipeline, and other topics.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	13.20	18.29	18.73	20.12	20.45
GAAP EPS	(3.58)	6.10	2.56	3.70	3.86
EPS Change (YoY)	-18.7%	38.6%	2.4%	7.4%	1.6%
Consensus EPS (Bloomberg)			19.49	21.39	21.97
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	9.0x	6.5x	6.3x	5.9x	5.8x
GAAP P/E	NM	19.5x	46.4x	32.1x	30.8x
EV / EBITDA*	6.5x	5.2x	4.9x	4.7x	4.6x
Free Cash Flow Yield*	10.2%	25.6%	20.6%	21.2%	22.3%

* For full definitions of *IQmethod*SM measures, see page 6.

01 March 2024

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Stock Data

Price	118.90 USD
Price Objective	173.00 USD
Date Established	28-Feb-2024
Investment Opinion	B-1-9
52-Week Range	111.25 USD - 147.98 USD
Mkt Val (mn) / Shares Out (mn)	6,828 USD / 57.4
Free Float	96.8%
Average Daily Value (mn)	60.25 USD
BofA Ticker / Exchange	JAZZ / NAS
Bloomberg / Reuters	JAZZ US / JAZZ.OQ
ROE (2024E)	24.9%
Net Dbt to Eqty (Dec-2023A)	64.7%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

Acronyms:

IH: idiopathic hypersomnia
GEA: gastroesophageal adenocarcinoma
BTC: biliary tract cancer

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Timestamp: 01 March 2024 05:01AM EST

iQprofileSM Jazz Pharmaceuticals

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.9%	13.9%	13.6%	14.0%	13.6%
Return on Equity	24.9%	31.0%	24.9%	22.3%	19.3%
Operating Margin	47.9%	43.5%	42.6%	42.8%	42.4%
Free Cash Flow	696	1,750	1,410	1,444	1,522

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.8x	1.4x	1.1x	1.0x	1.1x
Asset Replacement Ratio	1.2x	1.5x	1.5x	1.6x	1.5x
Tax Rate	9.2%	6.7%	11.5%	13.0%	14.0%
Net Debt-to-Equity Ratio	137.7%	64.7%	27.7%	1.2%	-19.0%
Interest Cover	5.2x	6.2x	7.0x	9.1x	10.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,659	3,834	4,051	4,264	4,332
% Change	18.2%	4.8%	5.7%	5.2%	1.6%
Gross Profit	3,407	3,565	3,756	3,936	3,983
% Change	17.9%	4.6%	5.3%	4.8%	1.2%
EBITDA	1,334	1,673	1,749	1,850	1,863
% Change	-1.9%	25.4%	4.5%	5.8%	0.7%
Net Interest & Other Income	(279)	(261)	(223)	(185)	(153)
Net Income (Adjusted)	934	1,296	1,330	1,428	1,449
% Change	-6.0%	38.8%	2.6%	7.4%	1.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(224)	415	182	262	274
Depreciation & Amortization	27	23	24	24	25
Change in Working Capital	(337)	(10)	(123)	(167)	(102)
Deferred Taxation Charge	(200)	(200)	(200)	(200)	(200)
Other Adjustments, Net	1,463	1,556	1,563	1,563	1,563
Capital Expenditure	(33)	(34)	(36)	(38)	(39)
Free Cash Flow	696	1,750	1,410	1,444	1,522
% Change	-7.3%	151.3%	-19.5%	2.5%	5.4%
Share / Issue Repurchase	(10)	(10)	(10)	(10)	(10)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(615)	(139)	(915)	(845)	(800)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	620	2,170	2,755	3,443	4,255
Trade Receivables	666	698	738	776	789
Other Current Assets	1,728	1,815	1,966	2,142	2,254
Property, Plant & Equipment	226	237	249	263	277
Other Non-Current Assets	7,708	7,247	6,630	6,013	5,396
Total Assets	10,947	12,168	12,338	12,637	12,970
Short-Term Debt	615	915	845	800	800
Other Current Liabilities	816	925	993	1,039	1,062
Long-Term Debt	4,860	4,375	3,530	2,730	1,930
Other Non-Current Liabilities	1,131	1,131	1,131	1,131	1,131
Total Liabilities	7,422	7,346	6,499	5,700	4,923
Total Equity	3,526	4,822	5,839	6,937	8,047
Total Equity & Liabilities	10,947	12,168	12,338	12,637	12,970

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Pharmaceuticals

Company Description

Jazz is a biopharmaceutical company focused on specialty drugs for orphan (rare) conditions, with a focus in the areas of sleep and hematology/oncology. The company was founded in 2003 and went public in 2007. JAZZ's largest products are Xyrem for narcolepsy (excessive daytime sleepiness), followed by Xywav for narcolepsy and idiopathic hypersomnia, Epidiolex for Lennox-Gastaut syndrome, Dravet syndrome and Tuberous sclerosis (seizures), and Rylaze for acute lymphoblastic leukemia (ALL).

Investment Rationale

We rate JAZZ a Buy as the company is positioned to shed a long-lived "oxybate overhang" with the recent launch of a Xyrem authorized generic. In our view, strength in '23 numbers bridging to '25 targets is key to improving investor confidence in growth story and we're encouraged to see Epidiolex (seizures) performance uptick. Last, we believe Jazz's emerging pipeline (essential tremor, Zanidatimab programs) is essentially free at current valuation.

Stock Data

Average Daily Volume 565,514

Quarterly Earnings Estimates

	2023	2024
Q1	3.95A	4.54E
Q2	4.51A	4.79E
Q3	4.84A	5.04E
Q4	4.77A	4.46E

Mgmt sees oxybate as steady grinder, IH is key to growth

In the meetings, Jazz addressed reasons for a Q/Q slowdown in total Xywav patient adds (across both indications). While management concedes competitor Lumryz has driven some patient switching (in the narcolepsy indication), management still sees Xywav dominating the battle for new patient starts and expects Xywav-narco revenues to grow in 2024. As noted on the 4Q call, IH is now driving the bulk of new patient adds but the trade-off is that patients new to treatment are not fully titrated (low revenue capture). When asked about the timing/phasing of added promotional resourcing to grow the IH indication, management indicated the benefit should be realized sometime in 2024. As it relates to (authorized) generic Xyrem competition, Hikma appears to be the only relevant generic entity in the market (no volume restraints) and has remained rationale on pricing. Management still expects typical 1Q-seasonality to impact the oxybate business. Last, with regards to pending litigation with AVDL (patents + regulatory), management seemed open to multiple options to achieving a favorable resolution but would not comment specifically on active litigation.

Phase 3 Zani study is adequately powered + registrational

Before YE24, Jazz plans to report Ph3 zani data in 1L GEA with a focus on the PFS registrational endpoint. At the time of the YE24 data cut, OS data are expected to be immature with the focus on lack of harm. Management flagged several supportive data points underpinning its confidence for a favorable GEA update including Ph2 zani GEA open-label and zani data in other relevant settings. In our view, roughly half the market of GEA patients with PDL1 -ve status currently managed by the TOGA regimen (Herceptin/chemo) serve as a lower hurdle versus the PDL1 +ve group (higher bar) where MRK's KN811 has become standard of care. Based on expert feedback, a PFS improvement of 2-months over benchmark would be sufficient to make zani competitive while a 4-month difference would be viewed as "striking" level of improvement. During the meetings, management fielded several questions around next steps for zani in breast cancer, but the company deferred answering prior to the 3/19 zani virtual R&D Day.

Other CNS pipeline: Ph2b ET trial readout + orexins

Management fielded numerous questions around the pending (1H24) Ph2b study readout for JZP-385 for treatment of essential tremor. Management continues to view the study as a pivotal study but believes (base case) a second study will be needed to secure approval. In response to investor questions: 1) the ET trial won't pool data from the 3 dosing arms; 2) on other calcium channel modulator failures – management sees differences in '385 pharmacology and trial design as reason for optimism into its readout. Management continues to favor using a primary composite endpoint including in-person rater to assess certain objective performance scale items whereas competitor Praxis approach (using modified ADL thought to offer less precision in measure disease improvement). Last, management believes the use of an in-person rater should help overcome issues around tremor variability and risks around patient performance anxiety (during evaluation).

On Jazz's orexin (narcolepsy) program where development was recently paused (due to cardiovascular and visual disturbance AE's), Jazz management is still sorting out certain issues like whether minor visual disturbances might impair patient driving. Jazz would not offer details regarding the nature of visual disturbances seen with patients in its trial. If Jazz decides to advance its current drug, potential options to mitigate safety issues (leading to the pause) could be dose titration. Alternatively, Jazz has other backup orexin molecules which could get prioritized. On other key topics: 1) Jazz still thinks orexin development in NT2 can be viable, based on their healthy volunteer data; 2) when asked about the possible need to run ambulatory blood pressure monitor study – Jazz believes that would depend on clinically observed blood pressure changes.

M&A still in sights but not needed just to hit Vision 2025

Capital deployment remains an important consideration for Jazz, given stated ambitions to diversify the business through M&A. A few observations: 1) Jazz management clearly stated that is no pressure or imperative to acquire a marketed drug that could backfill the company's 2025 revenue targets though the company is looking for on-market products, 2) M&A led diversification is preferred over share buybacks, and 3) a GW sized deal is possible, but would need to have a similar, rapid path to de-leveraging.

Price objective basis & risk

Jazz Pharmaceuticals (JAZZ)

Our \$173 price objective (PO) is based on equally blended valuation based on 8x EV/EBITDA of our 2024E EBITDA. Our valuation multiple reflects our confidence in Jazz's ability to navigate patent cliff concerns, and company growth profile. Our EV/EBITDA multiple of 8x compares to the peer group that trades at 6-7x, which we think is appropriate based on JAZZ's growth outlook vs peers. We assume WACC of 9% and terminal growth rate of -3% in our DCF.

Downside risks to our PO are 1) slower-than-expected sales growth from Xywav or Zepzelca launch, 2) slower-than-expected sales growth of Epidiolex, and 3) competitive headwinds to sodium oxybate brand franchise.

Upside risks to our PO are 1) greater-than-expected sales growth from Xywav or Zepzelca launch, 2) less-than-expected generic erosion of Xyrem (eg. due to difficulty setting up a generic REMS), and 3) future business development transactions, which is a core element of the company's strategy.

Analyst Certification

I, Jason M. Gerberry, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Specialty Pharma & Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arcellx, Inc.	ACLX	ACLX US	Jason M. Gerberry
	Arrowhead Pharmaceuticals	ARWR	ARWR US	Jason M. Gerberry
	bluebird bio	BLUE	BLUE US	Jason M. Gerberry
	Exelixis	EXEL	EXEL US	Jason M. Gerberry
	Fractyl Health	GUTS	GUTS US	Jason M. Gerberry
	Immunovant, Inc.	IMVT	IMVT US	Jason M. Gerberry
	Intra-Cellular Therapies	ITCI	ITCI US	Jason M. Gerberry
	Ionis	IONS	IONS US	Jason M. Gerberry
	Jazz Pharmaceuticals	JAZZ	JAZZ US	Jason M. Gerberry
	Lyra Therapeutics	LYRA	LYRA US	Jason M. Gerberry
	Oculus Holding AG	OCS	OCS US	Jason M. Gerberry
	Relay Therapeutics	RLAY	RLAY US	Jason M. Gerberry
	Teva Pharmaceuticals	TEVA	TEVA US	Jason M. Gerberry
	Vaxcyte Inc	PCVX	PCVX US	Jason M. Gerberry
	Xenon Pharmaceuticals	XENE	XENE US	Jason M. Gerberry
NEUTRAL				
	Alkermes	ALKS	ALKS US	Jason M. Gerberry
	Amphastar Pharmaceuticals	AMPH	AMPH US	Jason M. Gerberry
	Axsome Therapeutics	AXSM	AXSM US	Jason M. Gerberry
	Galapagos	GLPG	GLPG US	Jason M. Gerberry
	ProKidney Corp	PROK	PROK US	Jason M. Gerberry
	Roivant	ROIV	ROIV US	Chi M. Fong
UNDERPERFORM				
	Bausch Health Cos Inc	BHC	BHC US	Jason M. Gerberry
	FibroGen Inc.	FGEN	FGEN US	Jason M. Gerberry
	Harmony Biosciences	HRMY	HRMY US	Jason M. Gerberry
	Organon	OGN	OGN US	Jason M. Gerberry
	Viartis Inc.	VTRS	VTRS US	Jason M. Gerberry
RSTR				
	Tarsus Pharmaceuticals	TARS	TARS US	Jason M. Gerberry



US - Specialty Pharma & Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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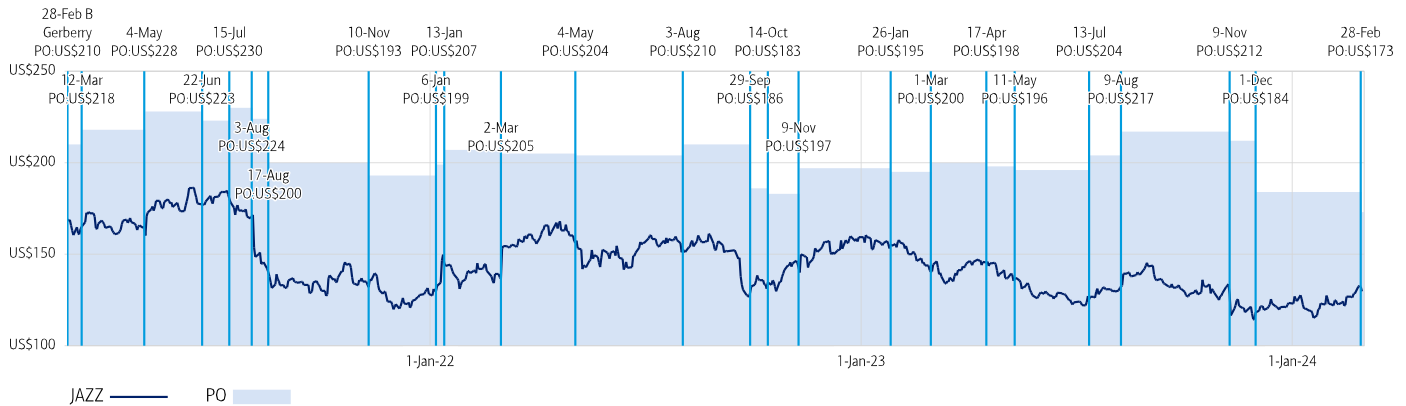
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Jazz Pharmaceuticals (JAZZ) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	234	60.94%	Buy	115	49.15%
Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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