

Incyte Corporation

FY23 in-line with expectations, we remain focused on long-term oppy for Jakafi

Reiterate Rating: NEUTRAL | PO: 69.00 USD | Price: 57.84 USD

FY24 Jakafi guidance of \$2.69-2.75bn

Incyte (INCY) reported FY23 Jakafi revenues of \$2.6bn (+8% y/y) in-line with our and consensus estimates. The company provided FY24 guidance for Jakafi of \$2.69-\$2.75bn representing 4.6% y/y growth at the midpoint (BofAe: \$2.64bn). Management highlighted continued growth in PV and GVHD in 2023 and maintaining market share in MF. They noted a transient increase in free drug patients (typically 3-4%) in 4Q due to Medicare dynamics. INCY also reported \$338mn (+162% y/y) in FY23 Opzelura revenues slightly ahead of estimates (BofAe: \$331mn, cons: \$333mn) noting strong continued demand in AD and vitiligo. They noted higher GTN impact is expected in 1Q as in previous years. They reiterated GTN in 2023 was 55% and they expect to focus on improving access which could further impact GTN but increase volume. We are encouraged by continued growth from Jakafi and Opzelura but will continue to monitor competitive dynamics in MF as we think increasing competition from Ojjaara could impact Jakafi revenues down the line. We reiterate our Neutral with \$69 PO.

Axatilimab approval in 3L+ cGVHD expected by YE

Management highlighted focus in advancing the MPN/GHVD pipeline with the expected approval of axatilimab in 3L+ cGVHD by YE and initiation of a phase 3 trial for their BETi+ruxolitinib in 2H. They also continue to evaluate the ALK2i+rux' program with POC data expected in mid-24. The company reiterated they continue to work on development of the ruxolitinib XR formulation following FDA feedback and they expect a potential approval in two years. We continue to look for further clinical validation from these programs ahead of the LOE for Jakafi in 2028.

sNDA to expand Opz' to pediatric AD expected in mid-24

On dermatology, the company noted positive ph 2 data for rux' cream in HS which could support ph 3 studies. Additionally, the company is planning to submit an sNDA for rux' cream in pediatric AD in mid-24. Management also highlighted recent ph 2 data for povorcitinib in HS showing sustained improvements through 52 weeks. The company noted 2 phase 3 trials evaluating povor' in HS are ongoing. On oncology, INCY highlighted the recent acquisition of global rights for tafasitamab. The company noted tafa' is being evaluated in ph 3 trial in FL/MZL and 1L DLBCL, which could expand the commercial opportunity.

Model changes

In our DCF-based model, we update for FY23 results, cash and share count. We also adjust our revenue estimates for Opzelura and Jakafi, as well as the rest of the pipeline, and operating expense estimates based on company guidance.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.52	2.65	3.39	3.68	4.86
EPS Change (YoY)	-64.4%	74.3%	27.9%	8.6%	32.1%
Consensus EPS (Bloomberg)			4.55	5.50	6.51
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	38.1x	21.8x	17.1x	15.7x	11.9x
EV / EBITDA*	13.6x	12.8x	10.6x	9.9x	7.5x
Free Cash Flow Yield*	6.9%	5.7%	7.4%	8.0%	10.3%

* For full definitions of *IQmethod™* measures, see page 5.

13 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	3,624.1	3,922.7
2025E Rev (m)	3,799.3	4,040.5
2026E Rev (m)	NA	4,408.5
2024E EPS	2.76	3.39
2025E EPS	3.59	3.68
2026E EPS	NA	4.86

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Stock Data

Price	57.84 USD
Price Objective	69.00 USD
Date Established	31-Oct-2023
Investment Opinion	B-2-9
52-Week Range	50.27 USD - 80.22 USD
Mkt Val (mn) / Shares Out (mn)	12,969 USD / 224.2
Free Float	82.8%
Average Daily Value (mn)	91.00 USD
BofA Ticker / Exchange	INCY / NAS
Bloomberg / Reuters	INCY US / INCY.OQ
ROE (2024E)	13.7%
Net Dbt to Eqty (Dec-2023A)	-69.9%
ESGMeter™	High

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".

See inside for abbreviations

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iQprofileSM Incyte Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.5%	8.8%	9.7%	9.1%	11.0%
Return on Equity	8.4%	12.6%	13.7%	12.5%	14.1%
Operating Margin	21.1%	19.6%	22.5%	23.8%	29.0%
Free Cash Flow	892	738	953	1,039	1,337

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.8x	1.4x	1.3x	1.3x	1.3x
Asset Replacement Ratio	1.1x	1.0x	0.9x	0.8x	0.7x
Tax Rate	35.6%	28.4%	23.8%	22.8%	18.5%
Net Debt-to-Equity Ratio	-66.8%	-69.9%	-72.8%	-74.9%	-76.9%
Interest Cover	NM	NM	NM	NM	NM

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,747	3,165	3,376	3,460	3,781
% Change	18.3%	15.2%	6.7%	2.5%	9.3%
Gross Profit	3,188	3,441	3,714	3,839	4,207
% Change	12.4%	7.9%	8.0%	3.4%	9.6%
EBITDA	647	689	828	893	1,168
% Change	0.6%	6.5%	20.1%	7.8%	30.9%
Net Interest & Other Income	(50)	214	253	255	258
Net Income (Adjusted)	341	598	771	832	1,104
% Change	-64.1%	75.4%	29.0%	8.0%	32.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	341	598	771	832	1,104
Depreciation & Amortization	68	69	69	70	71
Change in Working Capital	199	(56)	(61)	(67)	(74)
Deferred Taxation Charge	57	0	0	0	0
Other Adjustments, Net	306	198	237	261	287
Capital Expenditure	(78)	(70)	(63)	(57)	(51)
Free Cash Flow	892	738	953	1,039	1,337
% Change	56.9%	-17.2%	29.1%	9.0%	28.7%
Share / Issue Repurchase	35	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(33)	(33)	(33)	(33)	(33)

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	2,951	3,617	4,477	5,398	6,586
Trade Receivables	645	709	780	858	944
Other Current Assets	497	528	576	645	739
Property, Plant & Equipment	739	741	735	721	702
Other Non-Current Assets	1,009	1,035	1,066	1,104	1,149
Total Assets	5,841	6,630	7,634	8,727	10,120
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,157	1,185	1,215	1,249	1,286
Long-Term Debt	30	29	28	28	27
Other Non-Current Liabilities	284	284	284	284	284
Total Liabilities	1,471	1,498	1,528	1,560	1,596
Total Equity	4,370	5,132	6,107	7,166	8,524
Total Equity & Liabilities	5,841	6,630	7,634	8,727	10,120

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Biotechnology

Company Description

Incyte Corporation (INCY) is a biotechnology company developing oral and topical treatments for oncology and dermatology indications. The company's main asset is Jakafi for MF and PV. INCY's Opzelura (ruxolitinib cream) was recently approved for the treatment of AD and impending vitiligo sNDA submission. In addition, INCY has a broad early clinical oncology pipeline.

Investment Rationale

We rate INCY Neutral. In our view, Jakafi is fully baked into our valuation. We are encouraged by initial strong uptake of Opzelura but expect more measured growth near-term and look for clarity on the long-term opportunity. Though the early-stage pipeline has little clinical data in large indications and commands a large amount of R&D spend, positive clinical data would provide larger long-term upside.

Stock Data

Average Daily Volume 1,573,250

Quarterly Earnings Estimates

	2023	2024
Q1	0.10A	0.67E
Q2	0.90A	0.75E
Q3	0.76A	0.79E
Q4	0.89A	0.93E

Abbreviations

AD: Atopic dermatitis

ALK2i: Activin receptor-like kinase-2 inhibitor

BETi: Bromodomain and extraterminal inhibitor

CGVHD: chronic graft vs host disease

CTN: gross-to-net

DLBCL: Diffuse large B-cell lymphoma

FDA: Food and Drug administration

FL: Follicular lymphoma

GvHD: Graft-versus-host disease

HS: Hidradenitis suppurative

LOE: Los of exclusivity

MF: myelofibrosis

Mgmt: management

MPN: myeloproliferative neoplasm

MZL: Marginal zone lymphoma

Oppy: opportunity

POC: proof of concept

PV: polycythemia vera

sNDA: supplemental new drug application

XR: extended release

Price objective basis & risk

Incyte Corporation (INCY)

Our PO of \$69 for INCY consists of \$44/share for Jakafi/Jakavi, \$19/share for Ruxolitinib cream, \$3/share for Pemazyre, -\$2/share for Monjuvi, \$3/share for Olumiant royalty, \$0.2/share for Iclusig, \$0.5/share for Tabrecta royalty, -\$19/share for pipeline, and the remainder in net cash. We apply a weighted-average cost of capital (WACC) of 9% for commercial-stage assets, 10% for late-stage clinical pipeline, and 11% for earlier-stage clinical pipeline with no terminal value.

Upside risks to our PO are 1) positive data from clinical trials in the pipeline, 2) better than expected results from its marketed assets, 3) additional updates from early-stage assets.

Downside risks to our PO are 1) failure of Jakafi or Opzelura to meet our estimates, 2) business development events that investors view negatively, or 3) negative data in clinical trials.

Analyst Certification

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US - Biotechnology Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	4D Molecular Therapeutics, Inc.	FDMT	FDMT US	Tazeen Ahmad
	Alnylam Pharmaceuticals	ALNY	ALNY US	Tazeen Ahmad
	Amicus Therapeutics	FOLD	FOLD US	Tazeen Ahmad
	Annexon Biosciences	ANNX	ANNX US	Tazeen Ahmad
	Apellis Pharmaceuticals	APLS	APLS US	Tazeen Ahmad
	Argenx SE	ARGX	ARGX US	Tazeen Ahmad
	Arvinas	ARVN	ARVN US	Tazeen Ahmad
	Ascendis Pharma	ASND	ASND US	Tazeen Ahmad
	Biocryst Pharmaceuticals Inc	BCRX	BCRX US	Tazeen Ahmad
	BioNTech	BNTX	BNTX US	Tazeen Ahmad
	Denali Therapeutics	DNLI	DNLI US	Tazeen Ahmad
	Inozyme Pharma, Inc.	INZY	INZY US	Tazeen Ahmad
	Merus	MRUS	MRUS US	Tazeen Ahmad
	Neurocrine Biosciences	NBIX	NBIX US	Tazeen Ahmad
	Ocular Therapeutix	OCUL	OCUL US	Tazeen Ahmad
	PepGen Inc	PEPG	PEPG US	Tazeen Ahmad
	Rhythm Pharmaceuticals	RYTM	RYTM US	Tazeen Ahmad
	Sarepta Therapeutics	SRPT	SRPT US	Tazeen Ahmad
	Ultragenyx Pharmaceuticals	RARE	RARE US	Tazeen Ahmad
NEUTRAL				
	Acadia Pharmaceuticals	ACAD	ACAD US	Tazeen Ahmad
	Incyte Corporation	INCY	INCY US	Tazeen Ahmad
	Prothena Corporation	PRTA	PRTA US	Tazeen Ahmad
	SAGE Therapeutics	SAGE	SAGE US	Tazeen Ahmad
UNDERPERFORM				
	Achilles Therapeutics	ACHL	ACHL US	Tazeen Ahmad
	Fate Therapeutics	FATE	FATE US	Tazeen Ahmad
	Fulcrum Therapeutics	FULC	FULC US	Tazeen Ahmad
	Pharvaris	PHVS	PHVS US	Tazeen Ahmad
	PTC Therapeutics	PTCT	PTCT US	Tazeen Ahmad

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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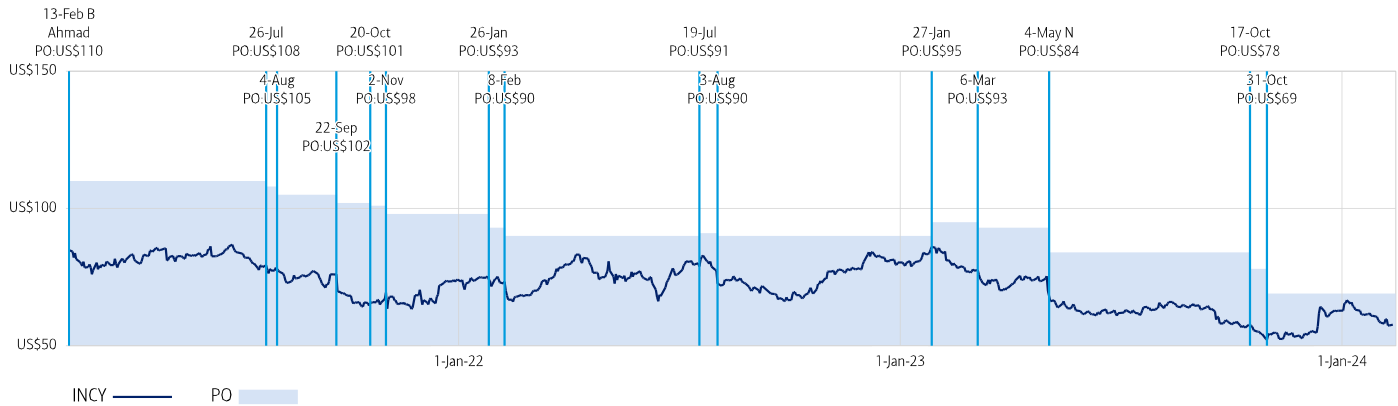
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Important Disclosures

Incyte (INCY) 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}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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