

Jazz Pharmaceuticals

4Q wrap: lots of moving parts, but story unchanged; remain Buy on Ph3 zani update

Reiterate Rating: BUY | PO: 173.00 USD | Price: 129.70 USD

4Q: oxybate mix + Phase 3 Zanidatimab setup

Jazz 4Q results and '24E guide offered a few wrinkles including unfavorable near-term revenue mix from the oxybate franchise. However, we still believe the oxybate business can achieve relative stability (-2% 2023-26 CAGR) through several competitor launches while Jazz looks poised to generate topline growth from other portfolio products. Given trading levels heading into 4Q (~7x P/E), we believe the bar for Jazz remains low and we see a clearer path to avoiding competition from multi-source generics of Xyrem (2026) given the anticipated shift of the business over to Xywav. Net-net, we make small tweaks to near-term revenues but trim near-term EPS (down) mid-SD to reflect Jazz's increased OpEx investments, thus lower our PO to \$173 (from \$184). We reiterate Buy on mid-SD bottom line growth, pipeline optionality and undemanding valuation and view Ph3 zani data (2H24) in 1L GEA cancer as a key catalyst.

Oxybate appears stable; no surprise given competition

In 4Q, Xywav, for the larger narcolepsy indication, came in light (-8% below; 25 pts added Q/Q) with the company citing a few 1x factors (free drug + more new starts early in titration). On the call, management did indicate the bulk of Xywav growth moving forward will come from the IH indication, thus we reduce our Xywav-narcolepsy 2023-26 CAGR to 2% versus 33% for the IH indication. On a combined basis, we model Jazz oxybate sales stable at \$1.9bn in 2024-25 and low-SD decline 2028+ (2033 LOE).

Pipeline: Management bullish on Zani, TBD on ET program

Around late 2024, Jazz is guiding to PFS topline data (registration endpoint) for zani in 1L GEA. We believe Ph3 data will be stacked up against MRK's KN811 in patients with PDL1 positive status whereas the zani-chemo arm will look to outperform the TOGA regimen (Herceptin/chemo). We forecast ~\$300m US peak sales (nominal) assuming zani can effectively compete in the PDL1 negative portion of the market (~half the incidence) while leaving for upside a) a broader competitive profile, irrespective of PDL1 status; and b) risk un-adjusting – we currently assume a 40% POS for 1L GEA. Importantly points of validation are zani outperforming Herceptin-based combos in other setting and prior Ph2 open label GEA data (see our preview [report](#)).

Model changes: we lower our sales forecast on 4Q trend

We lower outyear forecast for Xywav, partly offset by lower tax expense.

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	9.8x	7.1x	6.9x	6.4x	6.3x
GAAP P/E	NM	21.3x	50.7x	35.1x	33.6x
EV / EBITDA*	6.9x	5.5x	5.3x	5.0x	5.0x
Free Cash Flow Yield*	9.3%	23.5%	18.9%	19.4%	20.4%

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

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Timestamp: 28 February 2024 11:32PM EST

28 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	184.00	173.00
2024E Rev (m)	4,115.9	4,051.5
2025E Rev (m)	4,324.5	4,263.8
2026E Rev (m)	4,438.2	4,332.1
2024E EPS	19.94	18.73
2025E EPS	20.89	20.12
2026E EPS	21.72	20.45
2024E EBITDA (m)	1,863.6	1,749.3
2025E EBITDA (m)	1,912.6	1,850.2
2026E EBITDA (m)	1,967.9	1,863.4

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Stock Data

Price	129.70 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
Mrkt Val (mn) / Shares Out (mn)	7,448 USD / 57.4
Free Float	96.8%
Average Daily Value (mn)	65.72 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

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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 5.

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 506,705

Quarterly Earnings Estimates

	2023	2024
Q1	3.95A	4.42E
Q2	4.51A	4.71E
Q3	4.84A	5.02E
Q4	4.62A	4.47E

Acronyms:

Zani: zanidatimab

GEA: gastroesophageal adenocarcinoma

SD: single-digit

IH: idiopathic hypersomnia

1L: first-line

PFS: progression-free survival

TOGA: Trastuzumab for Gastric Cancer

LOE: loss of exclusivity

PDL1: Programmed death-ligand 1

ET: essential tremor

mgmt: management



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
	Tarsus Pharmaceuticals	TARS	TARS 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
	Viatis Inc.	VTRS	VTRS US	Jason M. Gerberry

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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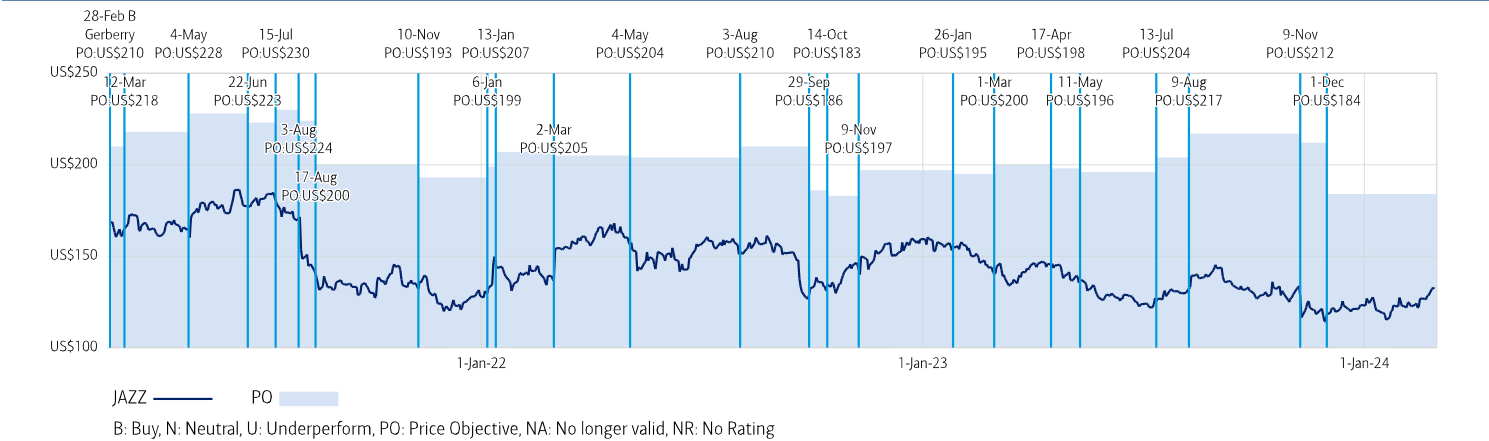
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Jazz Pharmaceuticals (JAZZ) Price Chart



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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%
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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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