

Incyte Corporation

KOL feedback from dermatology update

Reiterate Rating: NEUTRAL | PO: 67.00 USD | Price: 59.33 USD

PN data is encouraging but we look for color on oppy

INCY presented ph 2 data for povorcitinib in PN and ruxolitinib cream in mild-to-moderate HS at AAD. Povor' met the primary endpoint of proportion of pts achieving NRS4 improvement at week 16, showing up to 54.1% vs 8.1% with placebo. Importantly, povor' demonstrated a fast median onset of response of 17 days at the highest dose. On rux' cream in HS, the study also met the primary endpoint showing significant reduction in AN count at week 16, but we note there was a high placebo rate and secondary endpoints did not show benefit. Mgmt noted this is likely due to the milder patient population studied in the trial and highlighted modified clinical endpoints would likely be needed. We think this introduces additional uncertainty for the regulatory path forward for the program. In our view, povor's results in PN are encouraging but we look for additional color on the commercial opportunity based on initial KOL feedback (more below). We therefore lower our pipeline value to \$2.5bn (prev. \$3bn), resulting in our new \$67 (prev. \$69). We reiterate our Neutral rating.

KOL thinks potential JAKi side effects could limit uptake

Our KOL was encouraged by the efficacy and the rapid onset of response of povor' in PN, which compared favorably to Dupixent. However, they noted they remain cautious on the safety profile of an oral systemic JAK inhibitor given the known side effect profile of the class despite not seeing any safety signals in the trial. They highlighted PN is associated with several comorbidities and is typically seen in older adults, which he thinks would limit uptake of a JAKi based on potential safety risk. He noted Dupixent has a highly favorable safety profile, which is their main concern in this patient population. They noted they would use povor' younger patients, which they estimate are around 20-30% of pts, if the efficacy profile holds in registrational trials. However, they caveated that PN pts are typically on other background medications and often refuse to go on additional systemic treatments. We will continue to look for further clinical validation and KOL feedback to inform the commercial opportunity for povor' in PN.

KOL thinks differentiation in HS is unclear

Our KOL highlighted that despite meeting the primary endpoint, they are cautious on the efficacy of rux' cream in HS given the high placebo response and lack of supportive secondary endpoint. They noted that while the data support some benefit, there is no clear differentiation over other topical treatments. In their view, the key unmet need remains on more efficacious systemic therapies for more severe pts. They also noted that povor's data in HS is not competitive compared to other agents like sonelokimab.

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)			4.56	5.40	6.33
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	39.0x	22.4x	17.5x	16.1x	12.2x
EV / EBITDA*	14.1x	13.3x	11.0x	10.2x	7.8x
Free Cash Flow Yield*	6.7%	5.6%	7.2%	7.8%	10.1%

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

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12669884

Timestamp: 13 March 2024 05:00AM EDT

13 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	69.00	67.00

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Stock Data

Price	59.33 USD
Price Objective	67.00 USD
Date Established	13-Mar-2024
Investment Opinion	B-2-9
52-Week Range	50.27 USD - 76.04 USD
Mkt Val (mn) / Shares Out (mn)	13,303 USD / 224.2
Free Float	82.8%
Average Daily Value (mn)	103.69 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 TM	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 page 3 for definitions of abbreviations used in the report.

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 1,747,715

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

AAD: American Academy of Dermatology

AN: abscess and inflammatory nodule

HS: Hidradenitis suppurativa

INCY: Incyte

JAKi: Janus kinase inhibitor

KOL: Key opinion leader

Mgmt: management

PN: Prurigo nodularis

pts: patients

Price objective basis & risk

Incyte Corporation (INCY)

Our PO of \$67 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, -\$21/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

I, Tazeen Ahmad, 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 - 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

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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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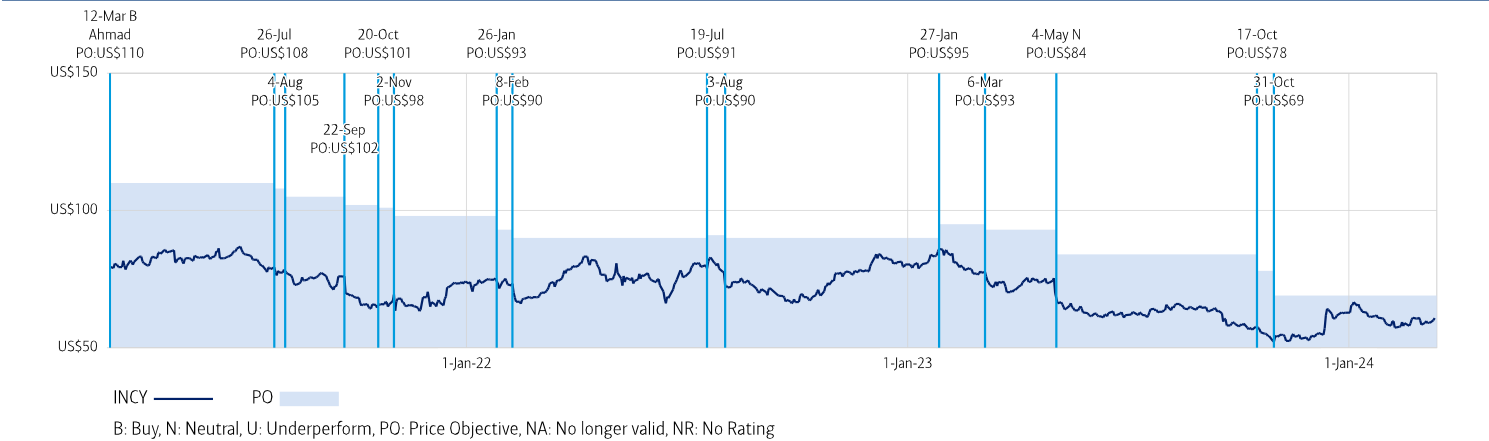
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Incyte (INCY) Price Chart



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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%
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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