

Rating: **OUTPERFORM***
 Price (9 May 14, US\$): 129.45
 Target Price (US\$): 170.00
 52-Week Price Range: 55.28 – 174.98
 Market Cap. (US\$ m): 8,196.0
 Enterprise Value (US\$ m): 9,089.5

*Target Price is for 12 months.

Research Analysts:
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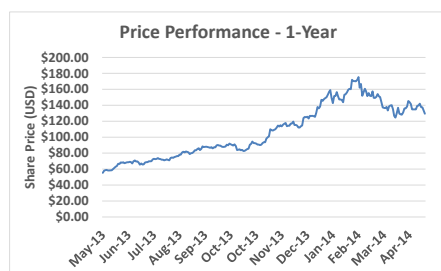


Figure 1 - JAZZ Stock Price Performance

Jazz Pharmaceuticals (JAZZ)

ACCUMULATE RECOMMENDATION / COMPANY UPDATE

Strong Q1 FY14 & Multiple Catalysts Ahead

- **Q1 Results:** Jazz Pharmaceuticals reported strong Q1 results on Thursday, with revenue of \$247 million vs. \$196 million in Q1 of FY 13, representing 26% YoY growth. The GAAP Net Loss was \$93 million vs. GAAP Net Income of \$43 million in Q1 of FY 13, but \$127 million of that was due to an upfront license fee and milestone payment for JZP-110. Adjusted Net Income was \$101 million vs. \$84 million in Q1 of FY 13. These figures were slightly ahead of Goldman Stanley estimates of \$240 million in revenue and \$95 million in Adjusted Net Income.
- **FY 14 Guidance:** The Company reaffirmed its FY 14 guidance across the board, with revenue of \$1.10 billion – \$1.16 billion, Xyrem sales of \$755 – \$755 million, Erwinaze at \$185 – \$200 million, Defitelio at \$42 – \$52 million, and Adjusted Net Income of \$496 – \$520 million. While we believe the market has already priced in these expectations, we continue to see Jazz as an undervalued, high-growth story going forward, and we believe that its longer-term revenue, EPS, and EBITDA are likely to exceed consensus estimates in FY 15, FY 16, and beyond.
- **Catalysts:** 1) **Possible price increases for Xyrem** – Given the historical price increases and the price ranges for comparable orphan drugs, we believe the company is likely to announce another round of price increases at the end of FY 14 or early FY 15, and that there is significant room to grow pricing beyond the current levels. 2) **Launch of new marketing campaigns for Xyrem** – Jazz management is in the process of launching awareness campaigns for narcolepsy patients in key geographies, and has already reported 11,400 Xyrem patients in Q1, above our FY 14 estimate of ~11,300. 3) **Settlement of Roxane lawsuit** – We believe this will be decided in Jazz's favor, resulting in a delayed entrance for Xyrem generics. Current market expectations point to generics in FY 19 or FY 20, but we believe FY 21 is more likely (with peak sales of ~\$3.0 billion in FY 20).
- Our **\$170.00** target price is based on an FY 14 EV / EBITDA multiple of 20.7x and an FY 15 EV / EBITDA multiple of 15.3x, vs. median peer company multiples of 21.8x and 15.3x, respectively. Given Jazz's higher revenue growth, margins, and EBITDA growth, we believe this is still quite conservative. A DCF analysis with our long-term FCF projections, a discount rate of 8.07%, and a Terminal FCF growth rate of 0.3% also produces an implied share price of \$168.71.

Financial and Valuation Metrics

Year	12/12A	12/13A	12/14E	12/15E
GAAP EPS (US \$)	4.79	3.51	3.40	7.85
GAAP P / E (x)	27.0	36.8	39.1	17.0
Revenue (US \$m)	586.0	872.4	1,090.4	1,421.9
EV / Revenue (x)	15.5	10.4	8.3	6.4
EBITDA (US \$m)	272.1	426.4	565.1	760.7
EV / EBITDA (x)	33.4	21.3	16.1	11.9

Number of shares (m)	63.3	Enterprise Value (US\$ m)	9,089.5
BV / Share (US \$)	19.73	Market Cap (US\$ m)	8,196.0
Net Debt (US\$ m)	893.5		
Net Debt / Total Cap. (%)	9.8		

Source: Company data, Goldman Stanley estimates.

Goldman Stanley

Figure 8 – Jazz Projected P&L

Income Statement:	Projected									
	FY 14E	FY 15E	FY 16E	FY 17E	FY 18E	FY 19E	FY 20E	FY 21E	FY 22E	FY 23E
Revenue:										
Existing Products:										
Xyrem Sales:	\$ 687.2	\$ 951.8	\$ 1,265.5	\$ 1,635.9	\$ 2,037.9	\$ 2,498.9	\$ 2,976.5	\$ 310.9	\$ 339.1	\$ 339.1
Erwinaze Sales:	203.4	234.2	266.6	300.7	336.7	346.8	385.8	397.3	439.6	452.7
Defitelio Sales:	57.8	79.8	107.1	140.7	182.0	209.3	240.7	276.9	318.4	366.1
Other Sales and Royalties:	142.0	156.2	168.7	182.1	193.1	204.7	214.9	225.6	234.7	244.0
Risk-Adjusted Pipeline Drug Sales:										
JZP-110 Sales:	-	-	-	24.5	61.1	112.5	133.9	210.6	242.1	319.0
JZP-386 Sales:	-	-	-	-	-	-	-	-	-	-
Total Revenue:	1,090.4	1,421.9	1,807.8	2,284.0	2,810.8	3,372.2	3,951.8	1,421.3	1,573.9	1,721.1
Revenue Growth:	25.0%	30.4%	27.1%	26.3%	23.1%	20.0%	17.2%	(64.0%)	10.7%	9.4%
Operating Income (EBIT):	304.2	627.4	813.3	1,033.2	1,273.0	1,534.7	1,778.6	569.7	636.1	699.6
Operating (EBIT) Margin:	27.9%	44.1%	45.0%	45.2%	45.3%	45.5%	45.0%	40.1%	40.4%	40.6%
Net Income:	\$ 209.6	\$ 483.2	\$ 635.7	\$ 832.4	\$ 1,029.0	\$ 1,258.3	\$ 1,458.5	\$ 467.1	\$ 521.6	\$ 573.7
Effective Tax Rate:	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Weighted Average Diluted Shares Outstanding:	61.6	61.6	61.6	61.6	61.6	61.6	61.6	61.6	61.6	61.6
Diluted Earnings Per Share (EPS):	\$ 3.40	\$ 7.85	\$ 10.32	\$ 13.52	\$ 16.71	\$ 20.44	\$ 23.69	\$ 7.59	\$ 8.47	\$ 9.32
EBITDA:	\$ 565.1	\$ 760.7	\$ 946.0	\$ 1,171.0	\$ 1,413.7	\$ 1,665.7	\$ 1,918.8	\$ 686.0	\$ 755.7	\$ 822.6
EBITDA Margin:	51.8%	53.5%	52.3%	51.3%	50.3%	49.4%	48.6%	48.3%	48.0%	47.8%

Source: Company data, Goldman Stanley estimates.

We then calculated Unlevered Free Cash Flow as follows:

Figure 9 – Jazz Projected Unlevered Free Cash Flow

Unlevered Free Cash Flow Projections:	Projected									
	FY 14E	FY 15E	FY 16E	FY 17E	FY 18E	FY 19E	FY 20E	FY 21E	FY 22E	FY 23E
Revenue:	\$ 1,090.4	\$ 1,421.9	\$ 1,807.8	\$ 2,284.0	\$ 2,810.8	\$ 3,372.2	\$ 3,951.8	\$ 1,421.3	\$ 1,573.9	\$ 1,721.1
Annual / Annualized Revenue Growth Rate:	25.0%	30.4%	27.1%	26.3%	23.1%	20.0%	17.2%	(64.0%)	10.7%	9.4%
Operating Income (EBIT):	304.2	627.4	813.3	1,033.2	1,273.0	1,534.7	1,778.6	569.7	636.1	699.6
Annual / Annualized Operating Margin:	27.9%	44.1%	45.0%	45.2%	45.3%	45.5%	45.0%	40.1%	40.4%	40.6%
Less: Taxes, Excluding Effect of Interest:	(54.8)	(112.9)	(146.4)	(186.0)	(229.1)	(276.2)	(320.2)	(102.5)	(114.5)	(125.9)
Net Operating Profit After Tax (NOPAT):	249.5	514.5	666.9	847.3	1,043.9	1,258.5	1,458.5	467.1	521.6	573.7
Total Adjustments for Non-Cash Charges:	323.2	213.3	233.3	263.8	294.9	315.2	355.4	196.3	207.7	219.1
Total Changes in Operating Assets & Liabilities:	(20.3)	(50.1)	(44.0)	(54.1)	(60.4)	(65.7)	(66.9)	287.0	(18.6)	(18.3)
Less: Capital Expenditures:	(13.1)	(18.5)	(25.3)	(34.3)	(45.0)	(57.3)	(71.1)	(27.0)	(31.5)	(36.1)
Annual Unlevered Free Cash Flow:	539.3	659.2	830.9	1,022.7	1,233.5	1,450.6	1,675.9	923.5	679.2	738.3
Unlevered Free Cash Flow for Remaining Quarters:	459.1	659.2	830.9	1,022.7	1,233.5	1,450.6	1,675.9	923.5	679.2	738.3
Net Present Value of Free Cash Flow:	447.7	603.1	703.4	801.2	894.1	973.0	1,040.1	530.4	361.0	363.1
Normal Discount Period:	0.647	1.647	2.647	3.647	4.647	5.647	6.647	7.647	8.647	9.647
Mid-Year Discount Period:	0.323	1.147	2.147	3.147	4.147	5.147	6.147	7.147	8.147	9.147
Annual Free Cash Flow Growth Rate:	58.4%	22.2%	26.1%	23.1%	20.6%	17.6%	15.5%	(44.9%)	(26.4%)	8.7%
Annual EBITDA:	565.1	760.7	946.0	1,171.0	1,413.7	1,665.7	1,918.8	686.0	755.7	822.6
Annual EBITDA Growth Rate:	32.5%	34.6%	24.4%	23.8%	20.7%	17.8%	15.2%	(64.3%)	10.2%	8.9%

Source: Company data, Goldman Stanley estimates.

ALLSTATE INSURANCE GROUP*
OWNERS
OHIO

CALCULATION OF LOSS DEVELOPMENT FACTORS - LINK RATIO METHOD
FIRE

		Incurred Losses †					
Fiscal Accident							
<u>Year Ending 09/30</u>	<u>12 Months</u>	<u>24 Months</u>	<u>36 Months</u>	<u>48 Months</u>	<u>60 Months</u>	<u>72 Months</u>	<u>84 Months‡</u>
2011							37,023,446
2012						39,239,110	39,239,110
2013					35,898,511	35,895,995	35,896,549
2014				42,590,482	42,618,526	42,881,672	42,919,319
2015			39,091,213	39,137,383	39,251,175	39,278,976	39,275,966
2016		38,652,353	38,866,417	38,975,205	38,920,398	38,915,341	38,915,341
2017	34,590,148	38,411,950	39,315,528	39,339,637	39,430,526	39,855,297	
2018	39,130,462	44,255,512	44,802,056	44,803,229	44,721,864		
2019	48,139,579	56,452,077	57,156,322	57,194,593			
2020	46,039,133	51,965,847	52,822,023				
2021	45,814,514	51,874,978					
2022	49,909,902						
		Link Ratios					
<u>Development</u>	<u>12 to 24</u>	<u>24 to 36</u>	<u>36 to 48</u>	<u>48 to 60</u>	<u>60 to 72</u>	<u>72 to 84</u>	
4th Prior	1.110	1.006	1.001	1.001	1.000	1.000	
3rd Prior	1.131	1.024	1.003	1.003	1.006	1.000	
2nd Prior	1.173	1.012	1.001	0.999	1.001	1.001	
1st Prior	1.129	1.012	1.000	1.002	1.000	1.000	
Latest	1.132	1.016	1.001	0.998	1.011	1.000	
5 Year Straight Avg	1.135	1.014	1.001	1.001	1.004	1.000	
Selected:	1.135	1.014	1.001	1.001	1.004	1.000	
Loss Development Period (months):	<u>12 - 84</u>	<u>24 - 84</u>	<u>36 - 84</u>	<u>48 - 84</u>	<u>60 - 84</u>		
Loss Development Factor:	1.158	1.020	1.006	1.005	1.004		

Allstate Property and Casualty Insurance Company			
Year	Incurred Loss	Factor to Ultimate	Ultimate Loss & ALAE
2018	\$15,271,855	1.004	\$15,332,942
2019	14,429,870	1.005	14,502,019
2020	10,411,166	1.006	10,473,633
2021	6,408,306	1.020	6,536,472
2022	7,382,432	1.158	8,548,856

†Includes ALAE

‡Includes supplemental reserves in addition to case reserves

*Allstate Insurance Group includes Allstate Insurance & Allstate Indemnity & Allstate Property and Casualty Insurance & Allstate Vehicle and Property Insurance Companies