

Regeneron (REGN)

Overview

Price: \$514.07

52 Week Range: \$328.12 - 664.64

Forward P/E: 18.7

Beta: .4

5 Year CAGR: 15.06%

Background

Regeneron is a pharmaceutical company with successful drugs treating a range of conditions. Its most successful drugs treat macular degeneration, eczema, and asthma, though its portfolio and pipeline are broad. The company has little long term debt and no debt payments before 2030, contributing to a very strong financial position.

Thesis

Recommendation: **BUY** at a price of \$640.77 ~25.4% upside

Regeneron has some core brands that have strong reputations and continue to grow due to various factors including an aging population in the Americas. The company also has many candidates to treat a variety of afflictions in its pipeline.

Growth Drivers

Regeneron is undervalued relative to its peers, which creates an opportunity for stronger returns. The company currently has 9 candidates in Phase III trials. Regeneron is also awaiting FDA approval on a fourth indication for its drug Dupixent which could bring in billions more in revenue.

Financial Background

Regeneron has over \$3.2 billion in cash and no payments on debt before 2030. The company has revenues of over \$7.8 billion with about 38.6% of this being spent on R&D. This R&D ratio is significantly higher than many of its peers, signaling the company's commitment to innovation and future growth. REGN has a P/E of about 18.7 which is favorable compared to its peers.

Risks and Considerations

Eylea is Regeneron's biggest drug and it accounts for about 60% of sales in the U.S. While this reliance poses some risks, the drug's key patent does not expire until 2023. Furthermore, we believe that Eylea will continue to grow with the market and that the company's robust pipeline will diversify its revenue streams. One risk that is unavoidable in the industry is the risk of failed

phase trials. While Regeneron currently has many drugs in trials, several are in the promising Phase III. Furthermore, Regeneron has a strong track record of success with FDA approvals.

Discounted Cash Flow (DCF) Analysis: REGN US EQUITY

(\$ in millions)

Discounted Cash Flow	Trailing 12M from Last Fiscal Quarterly Report					DCF Assumptions
	2020	2021	2022	2023	2024	
EBIT	\$2,938.9	\$3,379.8	\$3,886.8	\$4,469.8	\$5,140.2	Tax Rate 35.0%
Less: Taxes	1,028.6	1,182.9	1,360.4	1,564.4	1,799.1	Terminal Growth Rate 2.0%
Unlevered earnings	1,910.3	2,196.9	2,526.4	2,905.3	3,341.2	WACC 4.70%
Plus: Depreciation and Amortization	274.9	316.1	363.6	418.1	480.8	
Less: Capital Expenditures	723.4	831.9	956.7	1,100.3	1,265.3	
Less: Change in Net Working Capital	159.4	381.8	439.0	504.9	580.6	
Unlevered Free Cash Flow	1,302.4	1,299.3	1,494.2	1,718.3	1,976.0	
Discount Period	1.000	2.000	3.000	4.000	5.000	
Discount Factor	1.047	1.0962	1.1477	1.2017	1.2582	
Present Value of Unlevered Free Cash Flow	1,243.9	1,185.2	1,301.8	1,429.9	1,570.6	
					59,333.1	
Total Enterprise Value (TEV)	66,064.6		89.81%			
Less: Total Debt	\$737.5					
Less: Preferred Stock	0.0					
Less: Minority Interest	0.0					
Plus: Cash	6,471.1					
Market Value of Equity	71,798.2					
Fully Diluted Shares	114.6					
Equity Value Per Share	626.5					

Current 560.51
Target 626.5
Return 11.78%

Bentley Investment Group - Valuation Training

All figures in \$USD millions except for per share amounts

Public Comparables for Relative Valuation

Scenario Inputs	
Company Name	REGN US EQUITY
Date	11/16/2020 <-- =TODAY()
Current Price	\$560.51
Market Capitalization	64,233.9 <-- =C10*C21
Enterprise Value	58,500.3
Financial Data:	
LTM EPS	26.6
LTM EBITDA	2,955.3
LTM EBIT	2,745.0
LTM Sales	7,863.4
Total Debt	737.5
Cash	6,471.1
Total Book Equity	11,089.7
Shares Outstanding	114.6
Book Value	96.8 <-- =C20/C21

Market Multiples	
Price/Earnings	21.1x <-- =C10/C14
EV/EBITDA	19.8x <-- =C\$12/C15
EV/EBIT	21.3x <-- =C\$12/C16
EV/Sales	7.4x <-- =C\$12/C17
Price/Book	5.8x <-- =C10/C22

*if foreign

input ticker	US EQUITY	LN EQUITY	GR EQUITY
	VRTX	CTLT	BMY
			AMGN

Public Comparables					
Company Name	VRTX US EQUITY	CTLT US EQUITY	BMY US EQUITY	AMGN US EQUITY	
Current Price	\$223.93	\$105.36	\$64.50	\$236.62	
LTM EPS	8.13	1.59	1.83	12.56	
Price/Earnings	27.6x	66.4x	35.3x	18.8x	
EV/EBITDA	34.8	20.6	15.4	13.5	
EV/EBIT	37.5	32.9	18.4	16.8	
EV/Sales	10.9	5.1	4.1	6.8	
Price/Book	7.2	5.6	2.9	12.6	
book shares	6,085.2	2,898.8	51,598.0	9,673.0	
	260.0	164.7	2,259.8	582.2	

Industry Multiples		
Metric	Mean	Median
Price/Earnings	37.0x	31.4x
EV/EBITDA	21.1x	18.0x
EV/EBIT	26.4x	25.7x
EV/Sales	6.7x	6.0x
Price/Book	7.1x	6.4x

Implied Equity Value for REGN US EQUITY		
Metric	Mean	Median
Price/Earnings	\$984.35	\$835.56
EV/EBITDA	\$593.87	\$514.06
EV/EBIT	\$682.53	\$664.77
EV/Sales	\$511.21	\$459.30
Price/Book	\$684.95	\$619.72
Mean Price	\$691.38	
Median Price	\$618.68	\$655.03
Current Price	\$560.51	
Mean % Undervaluation	23%	16.86%
Median % Undervaluation	10%	

Method	Price
DCF G Model weight	\$626.51 <i>50%</i>
	313.26
Comp Analysis weight	\$655.03 <i>50%</i>
	327.52
Target Price	640.77
Current Price	560.51
Return	14.32%