

## **Title: Horizon Therapeutics Added to Healthcare Sector**

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In March 2022, the CUSP managers voted to add Horizon Therapeutics (HZNP) to the CUSP Healthcare sector. The purchase comes at an interesting time for the sector given we are entering the second full year of the COVID-19 pandemic era. The upheaval caused by the pandemic has made it difficult to find firms in this sector that weren't drastically affected by COVID-19. Many had significant one-time revenue changes, making it a challenge to value them, or were vastly overpriced by a variety of common multiples.

The class identified three main investment risks within the Healthcare sector in the current economy. The first risk comes from COVID-era significant one-time revenue increases, abnormal short-term growth rates and volatility in margins. In many cases, these items differed radically from historical reporting, making analysis and forecasting a challenge. The second risk is regulation from the FDA. Companies must be able to successfully bring products to market by gaining FDA approval. While this risk isn't new, much of the FDA's focus has been pandemic-related, delaying the normal approval process. Lastly, the company must be able to bring its products to market. Horizon appears to have largely escaped these risks. It didn't produce any products related to COVID-19, so it didn't experience much of the financial reporting volatility. Because of Horizon's approach of acquiring drugs, government regulation hasn't been the issue it has for other firms. Horizon also has a track record of success in bringing its products to market.

Moving beyond the broader sector-related risks, the CUSP managers believe Horizon is a notable company within the sector for a variety of reasons. First, we believe that the company is well positioned in the rare disease space and is poised for long-term success. Flagship medicines such as Tepezza, a treatment for Thyroid Eye Disease (TED), have been growth catalysts for the company and are some of the only treatment options available for patients. Additionally, the addressable patient base for several of the firm's existing treatments is growing. It's believed that there will be 70,000 patients post-diagnosis for TED over the next few years, strong numbers for the rare disease space and a boost for Horizon.

Second, we believe the company has strong prospects for future growth. Horizon has a large and expanding R&D pipeline, with plans to launch 10 new medicines in 2025 and beyond. These offerings will boost the firm's inflammation business segment to further diversify its portfolio of treatments. Also, the company has a history of successful acquisitions and proven ability to integrate them into existing operations. The firm's most notable acquisition was River Vision Dev Corp for \$150.3 million in May of 2017, in which the firm acquired the rights for Tepezza. The company also bought Viela Bio for \$342 million in March 2021, acquiring rights for Uplinza. This drug is poised for a full relaunch under Horizon after being slightly delayed by the pandemic. The company bought EirGen Phara LTD in June 2021. Horizon will use its facilities to produce key treatments such as Tepezza, Uplinza, and Krystexxa, allowing the company to further vertically integrate and control production costs.

Finally, we believe the company to be attractively valued compared to peers across the sector. Horizon's Price to Equity (P/E) ratio is 29.79, which is well below the Biotech median P/E of 70.1. The firm's

EV/EBITDA at 19.64 compares favorably to 21.1 for its closest peers. Horizon was strong in other metrics as well, boasting a 17.71% net profit margin, compared to a peer value of 13.25%. Finally, Horizon has an operating margin of 22.27%, which slightly exceeds its biotech comps at 22%. Putting all of this together, we believe the firm is reasonably valued, has favorable margins that are expected to improve, has a unique operating model and array of promising drugs and demonstrates a steady track record of past successes.