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## ANALYST QUICK NOTES

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**Incyte Corp. (NGS: INCY: BUY)**

**Target Price: \$156**

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**4/18/2017**

### Overview

- Shares of Eli Lilly (LLY) and Incyte (INCY) fell 4% and 11%, respectively, by midday on April 17 after the FDA rejected baricitinib for the treatment of moderate-to-severe rheumatoid arthritis. Incyte entered into a worldwide licensing and collaboration agreement with Lilly in 2009 in which Lilly develops and commercializes baricitinib -- paying Incyte milestone and royalty payments.
  - The FDA said that more information was needed on baricitinib's safety and effectiveness. They also want more data on potential safety concerns seen at different dose levels.
  - Lilly and Incyte plan to resubmit baricitinib for another attempt at approval, although no timeline for resubmission has been announced.
  - According to a release by the two companies, the timing for resubmission will depend on future discussions with the FDA.
  - The drug has already been approved in Europe, which suggests that there is still hope for approval in the U.S. once necessary safety concerns are met. The drug is still pending approval in Japan.
- The news is particularly negative for Incyte, which relies heavily on the sales of a single drug -- Jakafi. The global approval of baricitinib was widely anticipated to be a major source of revenue to reduce reliance on Jakafi as sales peak.
  - Management has in the past described baricitinib as a 'best-in-class' drug with the potential to be a 'second variable source of income.'
  - In the near-term, Incyte will miss out on \$100-\$150 million in milestone payments in 2017 paid by Lilly. These milestone payments represent approximately 6%-9% of our FY17 revenue estimate.
  - Lilly reiterated earnings guidance for 2017 and the long-term outlook for the remainder of the decade. Incyte is currently reviewing the impact on FY17 results and will provide an update on the 1Q earnings call.

- For Incyte, Jakafi still has room to grow, with the potential for \$2 billion in peak sales, compared to FY16 revenue of \$850 million. However, much of INCY's valuation is based on the strength of its late stage pipeline -- especially in the potential for baricitinib.
  - Potential beneficiaries of this development include Pfizer, whose drug Xeljanz will now remain the only oral JAK inhibitor in the U.S. (at least in the near-term); in addition to Regeneron (REGN) and Amgen (AMGN), who both have their own competing products in development.
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