

27th April 2016

Healthcare

AstraZeneca

Price 3,999p

US rights to lesirunad sold to Ironwood

Fair Value 5360p (+34%)

BUY

Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	4,706 / 3,890
Market Cap (GBPm)	50,567
Avg. 6m daily volume (000)	2 562

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.4%	-9.4%	-2.3%	-13.4%
Healthcare	5.0%	-3.7%	-8.4%	-8.7%
DJ Stoxx 600	3.6%	2.4%	-7.6%	-5.1%

	2015	2016e	2017e	2018e
P/E	13.7x	14.8x	15.2x	14.2x
Div yield (%)	4.8%	4.8%	4.8%	4.8%

ANALYSIS

- When we had to consider which products could be good candidates for new externalisation deals within AstraZeneca's portfolio, lesirunad was an obvious one as gout does not belong to the list of targeted diseases and strategic therapeutic areas. Approved in the last days of 2015 by the FDA and in February by the European Commission, we had expected the drug to be either partnered or sold to a third party.
- The final deal actually takes the the form of a licensing agreement with Ironwood Pharmaceuticals for the drug's US rights only, alone and in combination with allopurinol, an FDC that is expected to be submitted to the regulator during H2 2016. The transaction is expected to be completed during Q2.
- Ironwood will pay AstraZeneca USD100m upfront when the deal is completed next quarter, then another USD165m including USD15m if and when the FDC with allopurinol is approved, and USD150m in commercial milestones contingent upon the achievement of certain net sales thresholds in the US over the term of the agreement. Note that the first USD100m upfront payment will be paid and booked in Q2 cash-wise but will be recognised over several years accounting-wise (about 10) so that the impact on externalisation revenues, including in Q2 2016, will be minimal. Ironwood will also pay AstraZeneca tiered single-digit royalties.

VALUATION

- We were expecting Zurampic and associated products to generate around USD100m in sales worldwide at peak. We are removing the US part of this estimate i.e. slightly more than half and adding about USD15m in externalisation per annum. The difference is not material to the value of the company.
- Externalisation revenues are something investors will have to live with when dealing with AstraZeneca as they are a full part of the group's strategy to focus its resources. Q1 2016 will illustrate clearly the point as we anticipate externalisation revenues of USD420m (including USD310m on Plendil Chinese rights and USD70m for Moventig EU rights). The core EBIT expected for the quarter means the period is not going to be an easy one.

NEXT CATALYSTS

- 29 April 2016: First-quarter results - [Click here to download](#)

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