

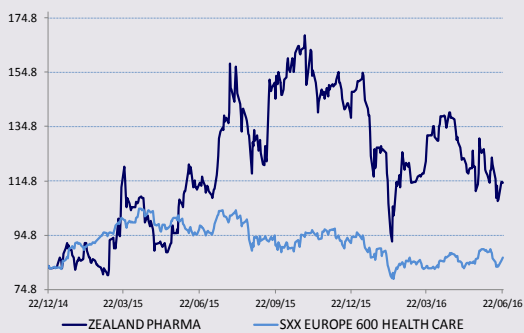
UPDATE
INDEPENDENT RESEARCH

24th June 2016

Healthcare

| | |
|--------------------------------------|--------------|
| Bloomberg | ZEAL DC |
| Reuters | 22Z.F |
| 12-month High / Low (DKK) | 168.5 / 92.5 |
| Market capitalisation (DKKm) | 2,797 |
| Enterprise Value (BG estimates DKKm) | 2,859 |
| Avg. 6m daily volume ('000 shares) | 121.1 |
| Free Float | 81.0% |
| 3y EPS CAGR | |
| Gearing (12/15) | -50% |
| Dividend yields (12/16e) | NM |

| YE December | 12/15 | 12/16e | 12/17e | 12/18e |
|-------------------|--------|--------|--------|--------|
| Revenue (DKKm) | 165.41 | 474.65 | 332.60 | 791.89 |
| EBIT(DKKm) | -81.33 | 225.69 | 35.95 | 451.40 |
| Basic EPS (DKK) | -4.82 | 6.32 | 0.53 | 14.34 |
| Diluted EPS (DKK) | -4.82 | 6.32 | 0.53 | 14.34 |
| EV/Sales | 16.1x | 6.0x | 8.2x | 3.3x |
| EV/EBITDA | NS | 12.3x | 65.4x | 5.7x |
| EV/EBIT | NS | 12.7x | 76.3x | 5.8x |
| P/E | NS | 18.0x | NS | 8.0x |
| ROCE | NM | NM | NM | NM |



Zealand


Double or quits with lixisenatide in the US

Fair Value DKK176 (price DKK114.00)

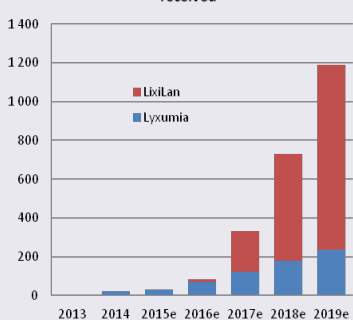
BUY

We anticipate maximum stress for Zealand ahead of the FDA's decision on whether or not to approve lixisenatide in monotherapy and in combination with glargine. Since the AdCom panel voted 12-2 in favour of approval, doubts have not been fully removed and thus we expect the uncertainty to prevail until the last minute. More than two-thirds of our FV derive from lixi-based products and 60% of this comes from the US. Volatility is expected to be high on Zealand.

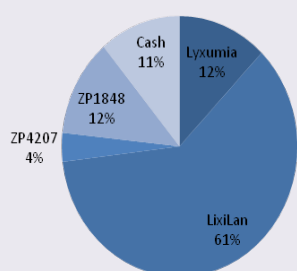
- Zealand is trading at a significant discount to its year high, due not only to market conditions but to remaining doubts on iGlarLixi approval despite a 12-2 vote in favour. The efficacy data, on which a detailed presentation was made at the ADA congress, are very convincing. However, anaphylactic reactions, drug-antibody formation and pen device defaults are dampening the enthusiasm and are likely to do so until the final FDA decision i.e. late July for lixi and August for iGlarLixi.
- If and once it is approved, we are increasingly convinced that Sanofi will deploy the maximum available resources to ensure iGlarLixi's success because this is its best weapon when it comes to winning share in the injectable diabetes market. With a more aggressive pricing strategy than Novo's for Xultophy, we expect Sanofi not only to target the insulin intensification segment (once Lantus has failed) but also that of preferred injectable (after OADs).
- Although price will limit the overall penetration of the class, we witnessed a high level of excitement surrounding the concept of combining basal insulin with a GLP-1 analogue at the ADA congress. Zealand will have a direct interest in the success of iGlarLixi since it receives a 10% royalty on sales.
- A major setback threatening the product could see the FV fall to around DKK50 whereas outright dual approval would propel this towards or even above DKK200. Once this is in the bag, the market will pay increasing attention to the other two major and proprietary assets ZP4207 (glucagon analogue) and ZP4818 (short bowel syndrome). These two should in any case gain more value in the coming months, especially since a deal has been inked with Beta Bionics to develop an artificial pancreas in T1D.

| | | |
|---|-------------------------------|-----------------------------|
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Cumulative Lyxumia+LixiLan royalties received



What the FV is made of



Company description

Zealand Pharma, created in 1998, describes itself as a biotech company which has leading expertise in peptides. It currently has several partnership agreements with pharma companies and a first product marketed by Sanofi in diabetes. After changes to the Board and Executive Committee, the new strategy focuses on value creation through a mix of partnerships and proprietary developments.

Shareholders

| | |
|-----------------------------|----|
| Sunstone BI Funds (Denmark) | 19 |
| CDC Innovation (France) | 11 |
| LD Pension (Denmark) | 10 |
| Free Float | 81 |

| Simplified Profit & Loss Account (EURm) | 2013 | 2014 | 2015 | 2016e | 2017e | 2018e |
|---|--------|--------|--------|--------|--------|--------|
| Revenues | 6.6 | 154 | 165 | 475 | 333 | 792 |
| Change (%) | -96.8% | 2 239% | 7.6% | 187% | -29.9% | 138% |
| Adjusted EBITDA | (180) | NM | (75.3) | 232 | 42.0 | 458 |
| EBIT | (186) | (73.5) | (81.3) | 226 | 36.0 | 451 |
| Change (%) | -673% | -60.4% | -10.6% | -% | -84.1% | 1 155% |
| Financial results | 1.9 | 1.0 | (38.5) | (26.4) | (19.3) | 0.51 |
| Pre-Tax profits | (184) | (72.5) | (120) | 79.2 | (49.3) | 348 |
| Exceptionals | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tax | 0.0 | 7.5 | 5.9 | 0.0 | 0.0 | 0.0 |
| Profits from associates | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Net profit | (184) | (65.0) | (114) | 79.2 | (49.3) | 348 |
| Restated net profit | (184) | (65.0) | (114) | 79.2 | (49.3) | 348 |
| Change (%) | -605% | -64.6% | -75.3% | -% | -162% | -% |

Cash Flow Statement (EURm)

| | | | | | | |
|----------------------------|-------|--------|-------|-------|--------|-------|
| Operating cash flows | (166) | (42.2) | (254) | (129) | 50.0 | 2.8 |
| Change in working capital | (3.6) | 16.8 | (140) | (208) | 99.3 | (345) |
| Capex, net | (4.6) | (4.5) | (4.5) | (5.0) | (6.0) | (8.0) |
| Financial investments, net | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 300 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net debt | (311) | (271) | (127) | 60.9 | (56.8) | (184) |
| Free Cash flow | (174) | (22.4) | (259) | (134) | 44.0 | (5.2) |

Balance Sheet (EURm)

| | | | | | | |
|-----------------------|------|-------|-------|-------|-------|-------|
| Tangible fixed assets | 18.6 | 17.6 | 15.8 | 20.8 | 26.8 | 34.8 |
| Intangibles assets | NM | NM | NM | NM | NM | NM |
| Cash & equivalents | 286 | 538 | 440 | 145 | 189 | 184 |
| current assets | 20.1 | 30.1 | 40.1 | 50.1 | 60.1 | 71.1 |
| Other assets | 13.7 | 12.1 | 34.3 | 34.3 | 34.3 | 34.3 |
| Total assets | NM | NM | NM | NM | NM | NM |
| L & ST Debt | 0.0 | 267 | 313 | 206 | 133 | 0.0 |
| Others liabilities | NM | NM | NM | NM | NM | NM |
| Shareholders' funds | 316 | 253 | 252 | 438 | 463 | 943 |
| Total Liabilities | 30.8 | 76.8 | 69.5 | 69.5 | 69.5 | 69.5 |
| Capital employed | 5.6 | (285) | (188) | (211) | (224) | (215) |

Ratios

| | | | | | | |
|---------------------------|---------|--------|---------|--------|---------|---------|
| Operating margin | NM | NM | NM | NM | NM | NM |
| Tax rate | NM | NM | NM | NM | NM | NM |
| Net margin | NM | NM | NM | NM | NM | NM |
| ROE (after tax) | NM | NM | NM | NM | NM | NM |
| ROCE (after tax) | NM | NM | NM | NM | NM | NM |
| Gearing | (98.24) | (107) | (50.45) | 13.89 | (12.27) | (19.52) |
| Pay out ratio | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Number of shares, diluted | 22,680 | 22,680 | 23,639 | 23,639 | 23,639 | 23,639 |

Data per Share (EUR)

| | | | | | | |
|----------------------|--------|--------|---------|--------|--------|--------|
| EPS | (8.10) | (2.87) | (4.82) | 6.32 | 0.53 | 14.34 |
| Restated EPS | (8.10) | (2.87) | (4.82) | 6.32 | 0.53 | 14.34 |
| % change | -606% | -64.6% | -68.3% | -% | -91.7% | -% |
| EPS bef. GDW | (8.10) | (2.87) | (4.82) | 6.32 | 0.53 | 14.34 |
| BVPS | (1.36) | (3.38) | (2.94) | (2.94) | (2.94) | (2.94) |
| Operating cash flows | (7.32) | (1.86) | (10.76) | (5.46) | 2.12 | 0.12 |
| FCF | (7.68) | (0.99) | (10.95) | (5.67) | 1.86 | (0.22) |
| Net dividend | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Source: Company Data; Bryan, Garnier & Co ests.

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| | |
|---------|---|
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Distribution of stock ratings

BUY ratings 00%

NEUTRAL ratings 0%

SELL ratings 00%

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