

Rating: **OUTPERFORM\***  
 Price (9 May 14, US\$): 129.45  
 Target Price (US\$): 170.00  
 52-Week Price Range: 55.28 – 174.98  
 Market Cap. (US\$ m): 8,196.0  
 Enterprise Value (US\$ m): 9,089.5

\*Target Price is for 12 months.

Research Analysts:  
 Peter Sullivan, Ph.D.  
 Seth Davis, M.D.  
 John Tuld, M.D.



Figure 1 - JAZZ Stock Price Performance

## Jazz Pharmaceuticals (JAZZ)

ACCUMULATE RECOMMENDATION / COMPANY UPDATE

### Strong Q1 FY14 & Multiple Catalysts Ahead

- Q1 Results:** Jazz Pharmaceuticals reported strong Q1 results on Thursday, with revenue of \$247 million vs. \$196 million in Q1 of FY 13, representing 26% YoY growth. The GAAP Net Loss was \$93 million vs. GAAP Net Income of \$43 million in Q1 of FY 13, but \$127 million of that was due to an upfront license fee and milestone payment for JZP-110. Adjusted Net Income was \$101 million vs. \$84 million in Q1 of FY 13. These figures were slightly ahead of Goldman Stanley estimates of \$240 million in revenue and \$95 million in Adjusted Net Income.
- FY 14 Guidance:** The Company reaffirmed its FY 14 guidance across the board, with revenue of \$1.10 billion – \$1.16 billion, Xyrem sales of \$755 – \$755 million, Erwinaze at \$185 – \$200 million, Defitelio at \$42 – \$52 million, and Adjusted Net Income of \$496 – \$520 million. While we believe the market has already priced in these expectations, we continue to see Jazz as an undervalued, high-growth story going forward, and we believe that its longer-term revenue, EPS, and EBITDA are likely to exceed consensus estimates in FY 15, FY 16, and beyond.
- Catalysts:**
  - Possible price increases for Xyrem** – Given the historical price increases and the price ranges for comparable orphan drugs, we believe the company is likely to announce another round of price increases at the end of FY 14 or early FY 15, and that there is significant room to grow pricing beyond the current levels.
  - Launch of new marketing campaigns for Xyrem** – Jazz management is in the process of launching awareness campaigns for narcolepsy patients in key geographies, and has already reported 11,400 Xyrem patients in Q1, above our FY 14 estimate of ~11,300.
  - Settlement of Roxane lawsuit** – We believe this will be decided in Jazz's favor, resulting in a delayed entrance for Xyrem generics. Current market expectations point to generics in FY 19 or FY 20, but we believe FY 21 is more likely (with peak sales of ~\$3.0 billion in FY 20).
- Our **\$170.00** target price is based on an FY 14 EV / EBITDA multiple of 20.7x and an FY 15 EV / EBITDA multiple of 15.3x, vs. median peer company multiples of 21.8x and 15.3x, respectively. Given Jazz's higher revenue growth, margins, and EBITDA growth, we believe this is still quite conservative. A DCF analysis with our long-term FCF projections, a discount rate of 8.07%, and a Terminal FCF growth rate of 0.3% also produces an implied share price of \$168.71.

#### Financial and Valuation Metrics

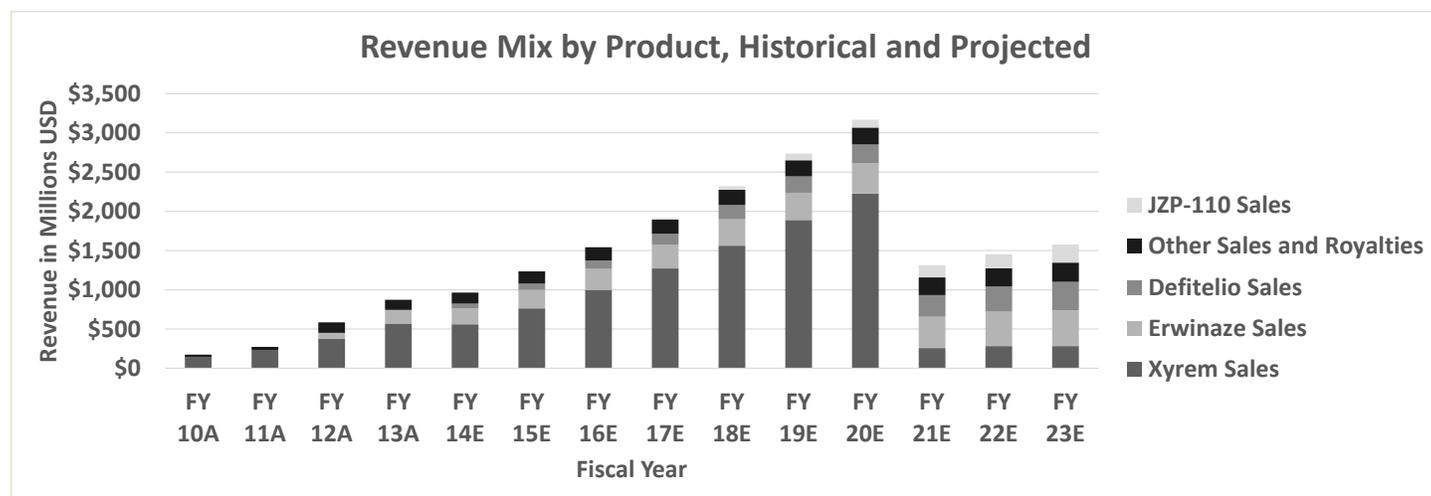
Year	12/12A	12/13A	12/14E	12/15E
GAAP EPS (US \$)	4.79	3.51	3.40	7.85
GAAP P / E (x)	27.0	36.8	39.1	17.0
Revenue (US \$m)	586.0	872.4	1,090.4	1,421.9
EV / Revenue (x)	15.5	10.4	8.3	6.4
EBITDA (US \$m)	272.1	426.4	565.1	760.7
EV / EBITDA (x)	33.4	21.3	16.1	11.9

Number of shares (m)	63.3	Enterprise Value (US\$ m)	9,089.5
BV / Share (US \$)	19.73	Market Cap (US\$ m)	8,196.0
Net Debt (US\$ m)	893.5		
Net Debt / Total Cap. (%)	9.8		

Source: Company data, Goldman Stanley estimates.

## Operations

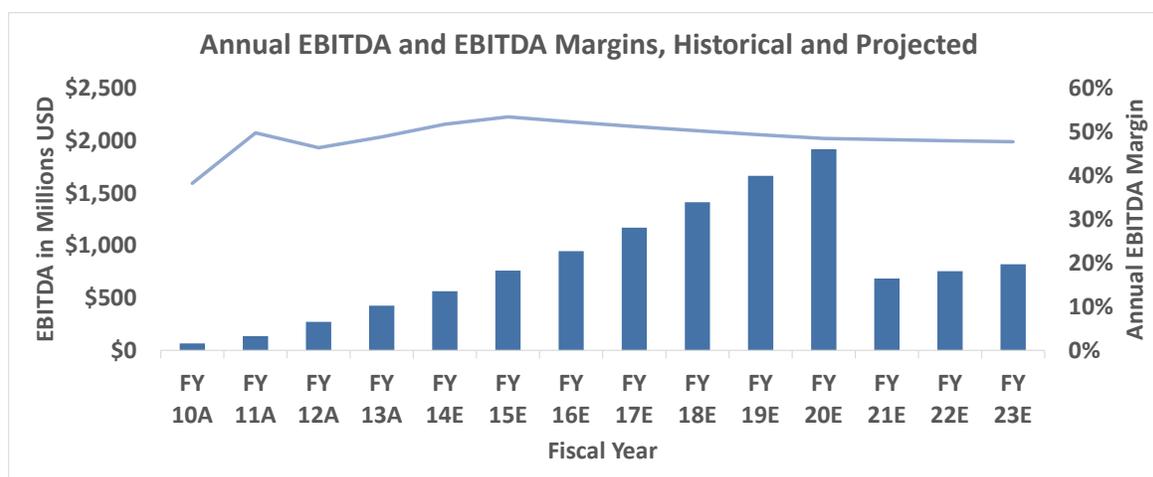
Figure 2 – Jazz Historical and Projected Revenue Mix by Product



Source: Company data, Goldman Stanley estimates.

- Q1 Results:** The company announced results largely in-line with market expectations, so Goldman Stanley forecasts for future periods have not been updated.
- Generics:** We see Xyrem generics entering the market in FY 21, based on company-disclosed data, conversations with legal professionals, and the fact that in all 3 ongoing lawsuits with generics companies, the burden of proof is on the other company. The revenue mix becomes significantly more diversified in FY 21 and beyond.
- Outlook:** We see revenue growing to ~\$4.0 billion by FY 20, well-ahead of consensus estimates. Annual results for FY 14 will largely be in-line with company guidance, but FY 15 revenue may come in ahead of company guidance and consensus estimates. FY 15 revenue largely depends on whether the company announces a Xyrem price increase in-line with historical levels (30-60%), a more modest price increase in-line with current market expectations (10-15%), or no price increase at all.

Figure 3 – Jazz Historical and Projected EBITDA and EBITDA Margins

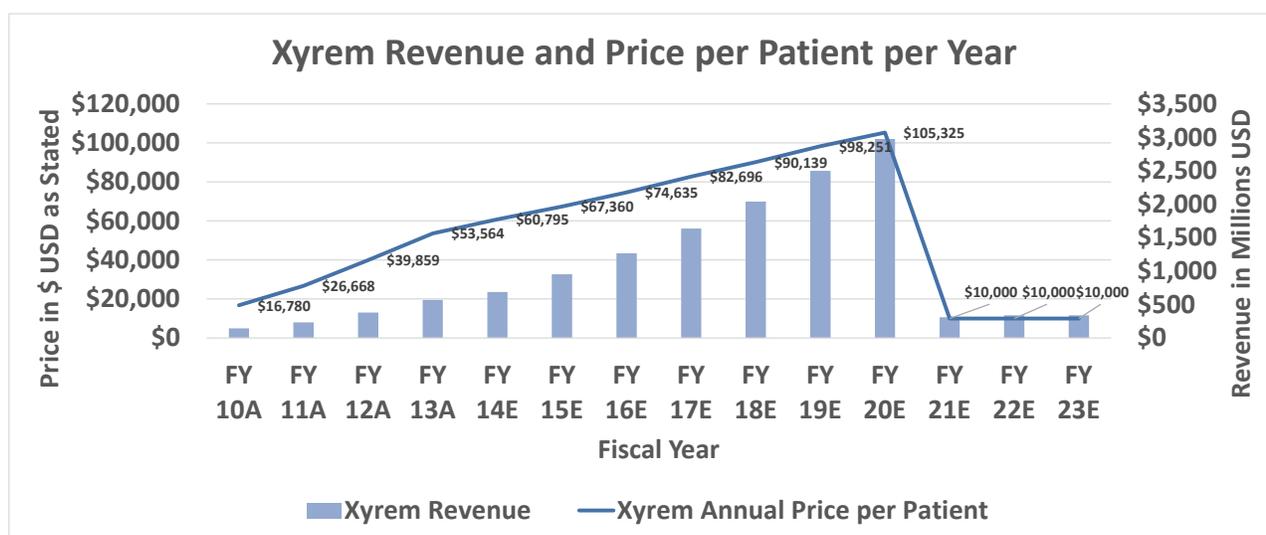


Source: Company data, Goldman Stanley estimates.

## Goldman Stanley

- **Q1 Results:** Again, the company announced results largely in-line with previous guidance and market expectations, so we have not updated our projections.
- **Outlook:** While Jazz has higher margins than almost any other biotech/pharmaceutical company of its size, we see limited potential for margin expansion going forward, given greater R&D spending as the company develops Xyrem replacements, and ever-increasing sales & marketing expenses as the company hires more sales reps and raises average compensation.
- **Assumptions:** We used the following assumptions for modeling the company's expenses and margins:
  - **Cost of Goods Sold (COGS):** Remains stable at 9.5% of revenue (based on historical average over the past 4 years).
  - **# Sales Reps:** The total count grows from 215 today to 465 by FY 20. Sales rep productivity doubles, but the SG&A expense per sales rep also doubles in that same time period.
  - **Research & Development (R&D):** This starts out at 7.1% of revenue in FY14, but climbs to 10.0% of revenue by the end of the 10-year projection period to reflect higher spending on possible candidates to replace and/or supplement Xyrem revenue.

Figure 4 – Xyrem Revenue and Price per Patient per Year



Source: Company data, Goldman Stanley estimates.

- **Q1 Results:** The biggest surprise was that the company indicated 11,400 patients in Q1, implying an FY 14 average patient count well-above our estimate of 11,300. We have not updated our own projections for Xyrem revenue or annual price increases, but we increasingly believe that the company will out-perform consensus expectations in FY 15 based on this.
- **Outlook:** A maximum long-term price for Xyrem might be approximately \$100,000 – \$110,000 USD, based on prices for similar orphan drugs and the fact that companies such as Alexion [ALXN] have been able to raise prices substantially more than Jazz over similar time frames. We see the patient count increasing to ~14,000 by the end of FY 15, based on the company's unexpected Q1 strength and a long-term patient count between 25,000 and 30,000 before generics enter the market.
- **Assumptions:** We used the following assumptions to forecast Xyrem revenue:
  - **# Patients:** In FY 13, Jazz had an average of ~10,600 patients on Xyrem, representing 7% of the total addressable market. In our forecasts, this increases to 18% of the market by FY 20, with 1-2% increases per year; the total implied patient count in FY 20 is ~28,000.
  - **Pricing:** We forecast a 13.5% price increase by the end of FY 14, meaning that the price per patient per year increases from ~\$54,000 in FY 13 to ~\$61,000 in FY 14. Prices continue to rise by approximately 9-10% per year until FY 20, when they reach ~\$105,000 right before generics enter the market.

Goldman Stanley

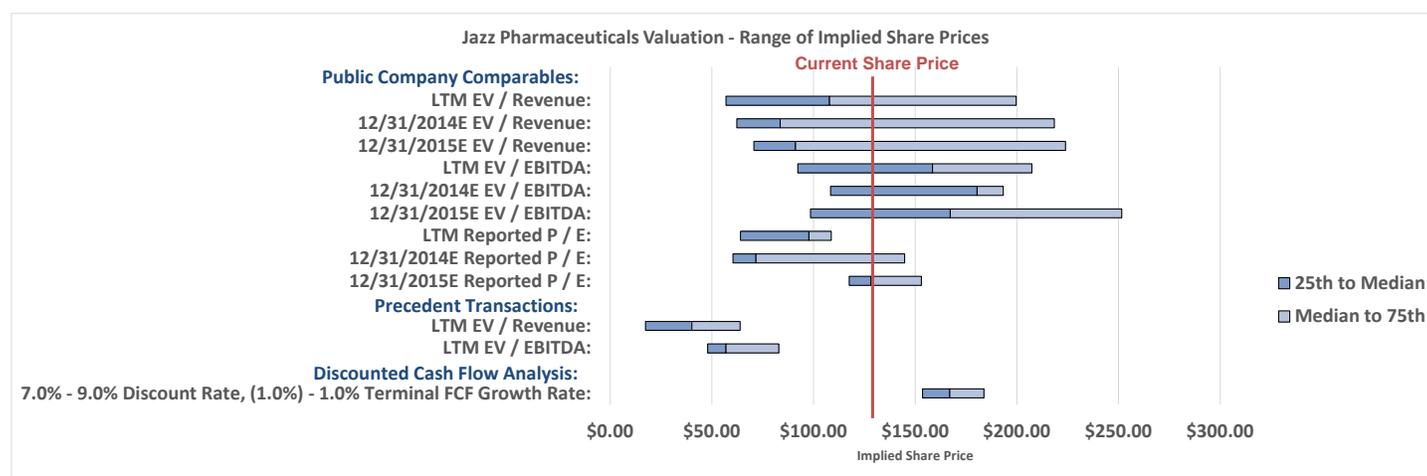
# Valuation

## Summary

Our target price is based on a combination of:

- **Multiples:** FY 14E EV / EBITDA of 20.7x, and FY 15E EV / EBITDA of 15.3x, both in-line with comparable public companies.
- **Discounted Cash Flow Analysis:** Our base case analysis, with a Discount Rate of 8.07% based on WACC for the comparable public companies and a Terminal FCF Growth Rate of 0.3%, produced an implied share price of \$168.71.

Figure 5 – Jazz Valuation Summary and Current Share Price



Source: Company data, Goldman Stanley estimates.

- **Current Share Price:** At \$129.45, Jazz appears substantially undervalued relative to its peer companies as well as to the implied intrinsic value from our discounted cash flow (DCF) analysis. As shown above, we believe a share price closer to \$170.00 would be more in-line with the median EBITDA multiples from the comps and the DCF output.
- **Other Methodologies:** We do not view Precedent Transactions as meaningful due to the overly broad selection criteria as well as the lack of truly comparables deals; the public markets have also changed substantially in the past year, and the M&A transactions, many of which are from 3-5 years ago, do not reflect current market conditions.
- **Other Cases:** If Jazz raises Xyrem prices and grows its patient count ahead of market expectations, resulting in FY 20 revenue that is nearly 2x higher than consensus estimates, our target price is **\$190.00**; if the company delivers results largely in-line with current expectations, our target price is **\$150.00**. We focus on the “Base Case” numbers below, which imply a target price of **\$170.00**.

## Comparable Public Companies

To value Jazz, we use a set of comparable public companies with a focus on EV / EBITDA multiples, given the wide variances in non-recurring and non-cash charges and tax rates:

# Goldman Stanley

## Figure 6 – Jazz Comparable Public Companies and Valuation Output

### Comparable Companies - Specialty Pharmaceutical Companies That Sell Primarily *Branded* Drugs, with LTM Revenue Between \$500 Million and \$2 Billion

(\$ in Millions Except Per Share and Per Unit Data)

Operating Statistics Company Name	Capitalization		LTM	Revenue		LTM	EBITDA		LTM	Reported Net Income		Projected Revenue Growth	Projected EBITDA Growth	EBITDA Margin		
	Equity Value <sup>(1)</sup>	Enterprise Value <sup>(1)</sup>		12/31/2014	12/31/2015		12/31/2014	12/31/2015		12/31/2014	12/31/2015			12/31/2014	12/31/2015	12/31/2014
Alexion Pharmaceuticals, Inc.	\$ 31,143	\$ 29,697	\$ 1,779	\$ 2,171	\$ 2,569	\$ 697	\$ 1,074	\$ 1,306	\$ 330	\$ 472	\$ 1,123	18.3%	21.6%	39.2%	49.5%	50.8%
Vertex Pharmaceuticals Inc.	15,689	14,079	1,002	574	1,211	(331)	(478)	164	(369)	(538)	119	111.0%	(134.3%)	(33.0%)	(83.3%)	13.5%
BioMarin Pharmaceutical Inc.	9,103	8,769	572	655	905	(96)	(80)	65	(175)	(142)	47	38.2%	(181.3%)	(16.7%)	(12.2%)	7.2%
Salix Pharmaceuticals, Ltd.	7,774	9,324	1,116	1,649	1,995	281	680	957	77	361	444	21.0%	40.6%	25.2%	41.3%	48.0%
Cubist Pharmaceuticals, Inc.	5,866	6,038	1,086	1,206	1,483	233	259	295	(0)	26	48	22.9%	13.7%	21.5%	21.5%	19.9%
United Therapeutics Corporation	5,861	4,781	1,161	1,255	1,387	463	629	690	250	400	441	10.5%	9.7%	39.9%	50.1%	49.7%
The Medicines Company	1,699	1,533	709	775	823	96	70	166	22	(0)	106	6.1%	136.6%	13.6%	9.1%	20.2%
Maximum	\$ 31,143	\$ 29,697	\$ 1,779	\$ 2,171	\$ 2,569	\$ 697	\$ 1,074	\$ 1,306	\$ 330	\$ 472	\$ 1,123	111.0%	136.6%	39.9%	50.1%	50.8%
75th Percentile	12,396	11,702	1,138	1,452	1,739	372	655	823	163	380	443	30.6%	31.1%	32.2%	45.4%	48.9%
Median	\$ 7,774	\$ 8,769	\$ 1,086	\$ 1,206	\$ 1,387	\$ 233	\$ 259	\$ 295	\$ 22	\$ 26	\$ 119	21.0%	13.7%	21.5%	21.5%	20.2%
25th Percentile	5,863	5,410	856	715	1,058	0	(5)	165	(88)	(71)	77	14.4%	(62.3%)	(1.6%)	(1.6%)	16.7%
Minimum	1,699	1,533	572	574	823	(331)	(478)	65	(369)	(538)	47	6.1%	(181.3%)	(33.0%)	(83.3%)	7.2%

Jazz Pharmaceuticals plc	\$ 8,196	\$ 9,089	\$ 923	\$ 1,090	\$ 1,422	\$ 423	\$ 565	\$ 761	\$ 80	\$ 210	\$ 483	30.4%	34.6%	45.8%	51.8%	53.5%
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Valuation Statistics Company Name	Capitalization		Enterprise Value / Revenue <sup>(1)</sup>		Enterprise Value / EBITDA <sup>(1)</sup>		P / E Multiple <sup>(1)</sup>				
	Equity Value <sup>(1)</sup>	Enterprise Value <sup>(1)</sup>	LTM	12/31/2014	12/31/2015	LTM	12/31/2014	12/31/2015	LTM	12/31/2014	12/31/2015
Alexion Pharmaceuticals, Inc.	\$ 31,143	\$ 29,697	16.7 x	13.7 x	11.6 x	42.6 x	27.7 x	22.7 x	94.4 x	66.0 x	27.7 x
Vertex Pharmaceuticals Inc.	15,689	14,079	14.1 x	24.5 x	11.6 x	NM	NM	85.8 x	NM	NM	NM
BioMarin Pharmaceutical Inc.	9,103	8,769	15.3 x	13.4 x	9.7 x	NM	NM	NM	NM	NM	NM
Salix Pharmaceuticals, Ltd.	7,774	9,324	8.4 x	5.7 x	4.7 x	33.2 x	13.7 x	9.7 x	NM	21.5 x	17.5 x
Cubist Pharmaceuticals, Inc.	5,866	6,038	5.6 x	5.0 x	4.1 x	25.9 x	23.3 x	20.5 x	NM	NM	NM
United Therapeutics Corporation	5,861	4,781	4.1 x	3.8 x	3.4 x	10.3 x	7.6 x	6.9 x	23.5 x	14.7 x	13.3 x
The Medicines Company	1,699	1,533	2.2 x	2.0 x	1.9 x	15.9 x	21.8 x	9.2 x	76.9 x	NM	16.1 x
Maximum	\$ 31,143	\$ 29,697	16.7 x	24.5 x	11.6 x	42.6 x	27.7 x	85.8 x	94.4 x	66.0 x	27.7 x
75th Percentile	12,396	11,702	14.7 x	13.5 x	10.6 x	33.2 x	23.3 x	22.2 x	85.6 x	43.8 x	20.1 x
Median	\$ 7,774	\$ 8,769	8.4 x	5.7 x	4.7 x	25.9 x	21.8 x	15.1 x	76.9 x	21.5 x	16.8 x
25th Percentile	5,863	5,410	4.8 x	4.4 x	3.8 x	15.9 x	13.7 x	9.4 x	50.2 x	18.1 x	15.4 x
Minimum	1,699	1,533	2.2 x	2.0 x	1.9 x	10.3 x	7.6 x	6.9 x	23.5 x	14.7 x	13.3 x

Jazz Pharmaceuticals plc	\$ 8,196	\$ 9,089	9.8 x	8.3 x	6.4 x	21.5 x	16.1 x	11.9 x	NM	39.1 x	17.0 x
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Source: Company data, Goldman Stanley estimates.

(1) Market data as of May 9, 2014.

- Metrics and Multiples:** Since all of these companies generate revenue and most are profitable and cash flow-positive, we do not view revenue multiples as meaningful. We also place less weight on P / E multiples, given the high amount of non-recurring charges, the wide variance in effective tax rates, and so on.
- Target EV / EBITDA Multiples:** The median FY 14 EV / EBITDA multiple is currently 21.8x, with a median 15.1x multiple for FY 15. Given that Jazz's revenue growth, EBITDA growth, and EBITDA margins all exceed the median metrics of those for the comparable public companies, we think that EBITDA multiples more in-line with *at least* the median of the set are justified.
- Target Price:** As a result, we selected an FY 14 multiple of 20.7x and an FY 15 multiple of 15.3x, and applied them to Jazz, both of which resulted in an implied share price of approximately \$170.00.

## Precedent Transactions

We do not view Precedent Transactions as a meaningful methodology for Jazz, but, nevertheless, the selected set is shown below:

Figure 7 – Jazz Precedent Transactions

**Precedent Transactions - North American Pharmaceutical Sellers with Between \$200 Million and \$2 Billion In LTM Revenue, Announced Between January 1st, 2009 and May 9th, 2014**

(\$ in Millions Except Per Share and Per Unit Data)

Jazz Pharmaceuticals plc - Comparable M&A Transactions							Operating Metrics		Valuation Multiples	
Acquirer Name	Target Name	Date	Transaction Equity Value	Transaction Enterprise Value	LTM Revenue	LTM EBITDA	EV / LTM Revenue	EV / LTM EBITDA		
Mallinckrodt plc	Questcor Pharmaceuticals, Inc.	04/07/2014	\$ 5,291	\$ 4,802	\$ 891	\$ 517	5.4 x	9.3 x		
Forest Laboratories Inc.	Aptalis Holdings Inc.	01/08/2014	2,900	2,900	688	315	4.2 x	9.2 x		
Shire Pharmaceutical Holdings Ireland Limited	ViroPharma Inc.	11/11/2013	4,200	4,097	430	59	9.5 x	69.0 x		
Salix Pharmaceuticals, Inc.	Santarus, Inc.	11/07/2013	2,600	1,980	338	82	5.9 x	24.3 x		
Endo Health Solutions Inc.	Paladin Labs Inc.	11/05/2013	1,600	1,348	264	93	5.1 x	14.5 x		
Akorn, Inc.	Hi-Tech Pharmacal Co., Inc.	08/27/2013	640	536	231	48	2.3 x	11.3 x		
Valeant Pharmaceuticals International, Inc.	Medicis Pharmaceutical Corporation	09/03/2012	2,600	2,329	764	191	3.1 x	12.2 x		
TPG Capital, L.P.	Par Pharmaceutical Companies Inc.	07/16/2012	1,900	1,976	1,035	237	1.9 x	8.3 x		
Novartis AG	Fougera Pharmaceuticals Inc.	05/02/2012	1,525	1,525	429	173	3.6 x	8.8 x		
Takeda Pharmaceuticals U.S.A., Inc.	URL Pharma, Inc.	04/11/2012	800	800	600	76	1.3 x	10.5 x		
Genomma Lab Internacional SAB de CV	Prestige Brands Holdings, Inc.	02/21/2012	834	1,263	403	119	3.1 x	10.6 x		
Nestlé Health Science S.A.	Prometheus Laboratories Inc.	05/24/2011	745	659	519	139	1.3 x	4.7 x		
Pfizer Inc.	King Pharmaceuticals LLC	10/12/2010	3,600	3,225	1,565	349	2.1 x	9.2 x		
Endo Pharmaceuticals Holdings Inc.	Qualitest Pharmaceuticals	09/28/2010	1,200	1,176	309	58	3.8 x	20.2 x		
Celgene Corporation	Abraxis BioScience, Inc.	06/30/2010	2,923	2,789	397	(23)	7.0 x	NM		
Astellas US Holding, Inc.	OSI Pharmaceuticals Inc.	05/16/2010	4,000	3,414	441	176	7.7 x	19.4 x		
Dainippon Sumitomo Pharma America Holdings, Inc.	Sepracor, Inc.	09/03/2009	2,600	2,347	1,334	306	1.8 x	7.7 x		
GlaxoSmithKline plc	Stiefel Laboratories, Inc.	04/20/2009	3,050	3,450	900	288	3.8 x	12.0 x		
	Maximum			\$ 4,802	\$ 1,565	\$ 517	9.5 x	69.0 x		
	75th Percentile			3,144	859	275	5.3 x	14.5 x		
	<b>Median</b>			<b>\$ 2,154</b>	<b>\$ 480</b>	<b>\$ 156</b>	<b>3.7 x</b>	<b>10.6 x</b>		
	25th Percentile			1,284	399	78	2.1 x	9.2 x		
	Minimum			536	231	(23)	1.3 x	4.7 x		

Source: Company data, Goldman Stanley estimates.

## Discounted Cash Flow (DCF) Analysis

To project Free Cash Flow and complete the Discounted Cash Flow analysis, we relied upon our “Base Case” financial projections:

# Goldman Stanley

**Figure 8 – Jazz Projected P&L**

Income Statement:	Projected									
	FY 14E	FY 15E	FY 16E	FY 17E	FY 18E	FY 19E	FY 20E	FY 21E	FY 22E	FY 23E
<b>Revenue:</b>										
Existing Products:										
Xyrem Sales:	\$ 687.2	\$ 951.8	\$ 1,265.5	\$ 1,635.9	\$ 2,037.9	\$ 2,498.9	\$ 2,976.5	\$ 310.9	\$ 339.1	\$ 339.1
Erwinaze Sales:	203.4	234.2	266.6	300.7	336.7	346.8	385.8	397.3	439.6	452.7
Defitelio Sales:	57.8	79.8	107.1	140.7	182.0	209.3	240.7	276.9	318.4	366.1
Other Sales and Royalties:	142.0	156.2	168.7	182.1	193.1	204.7	214.9	225.6	234.7	244.0
Risk-Adjusted Pipeline Drug Sales:										
JZP-110 Sales:	-	-	-	24.5	61.1	112.5	133.9	210.6	242.1	319.0
JZP-386 Sales:	-	-	-	-	-	-	-	-	-	-
<b>Total Revenue:</b>	<b>1,090.4</b>	<b>1,421.9</b>	<b>1,807.8</b>	<b>2,284.0</b>	<b>2,810.8</b>	<b>3,372.2</b>	<b>3,951.8</b>	<b>1,421.3</b>	<b>1,573.9</b>	<b>1,721.1</b>
Revenue Growth:	25.0%	30.4%	27.1%	26.3%	23.1%	20.0%	17.2%	(64.0%)	10.7%	9.4%
<b>Operating Income (EBIT):</b>	<b>304.2</b>	<b>627.4</b>	<b>813.3</b>	<b>1,033.2</b>	<b>1,273.0</b>	<b>1,534.7</b>	<b>1,778.6</b>	<b>569.7</b>	<b>636.1</b>	<b>699.6</b>
Operating (EBIT) Margin:	27.9%	44.1%	45.0%	45.2%	45.3%	45.5%	45.0%	40.1%	40.4%	40.6%
<b>Net Income:</b>	<b>\$ 209.6</b>	<b>\$ 483.2</b>	<b>\$ 635.7</b>	<b>\$ 832.4</b>	<b>\$ 1,029.0</b>	<b>\$ 1,258.3</b>	<b>\$ 1,458.5</b>	<b>\$ 467.1</b>	<b>\$ 521.6</b>	<b>\$ 573.7</b>
Effective Tax Rate:	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
Weighted Average Diluted Shares Outstanding:	61.6	61.6	61.6	61.6	61.6	61.6	61.6	61.6	61.6	61.6
<b>Diluted Earnings Per Share (EPS):</b>	<b>\$ 3.40</b>	<b>\$ 7.85</b>	<b>\$ 10.32</b>	<b>\$ 13.52</b>	<b>\$ 16.71</b>	<b>\$ 20.44</b>	<b>\$ 23.69</b>	<b>\$ 7.59</b>	<b>\$ 8.47</b>	<b>\$ 9.32</b>
EBITDA:	\$ 565.1	\$ 760.7	\$ 946.0	\$ 1,171.0	\$ 1,413.7	\$ 1,665.7	\$ 1,918.8	\$ 686.0	\$ 755.7	\$ 822.6
EBITDA Margin:	51.8%	53.5%	52.3%	51.3%	50.3%	49.4%	48.6%	48.3%	48.0%	47.8%

Source: Company data, Goldman Stanley estimates.

We then calculated Unlevered Free Cash Flow as follows:

**Figure 9 – Jazz Projected Unlevered Free Cash Flow**

Unlevered Free Cash Flow Projections:	Projected									
	FY 14E	FY 15E	FY 16E	FY 17E	FY 18E	FY 19E	FY 20E	FY 21E	FY 22E	FY 23E
<b>Revenue:</b>	<b>\$ 1,090.4</b>	<b>\$ 1,421.9</b>	<b>\$ 1,807.8</b>	<b>\$ 2,284.0</b>	<b>\$ 2,810.8</b>	<b>\$ 3,372.2</b>	<b>\$ 3,951.8</b>	<b>\$ 1,421.3</b>	<b>\$ 1,573.9</b>	<b>\$ 1,721.1</b>
Annual / Annualized Revenue Growth Rate:	25.0%	30.4%	27.1%	26.3%	23.1%	20.0%	17.2%	(64.0%)	10.7%	9.4%
Operating Income (EBIT):	304.2	627.4	813.3	1,033.2	1,273.0	1,534.7	1,778.6	569.7	636.1	699.6
Annual / Annualized Operating Margin:	27.9%	44.1%	45.0%	45.2%	45.3%	45.5%	45.0%	40.1%	40.4%	40.6%
Less: Taxes, Excluding Effect of Interest:	(54.8)	(112.9)	(146.4)	(186.0)	(229.1)	(276.2)	(320.2)	(102.5)	(114.5)	(125.9)
<b>Net Operating Profit After Tax (NOPAT):</b>	<b>249.5</b>	<b>514.5</b>	<b>666.9</b>	<b>847.3</b>	<b>1,043.9</b>	<b>1,258.5</b>	<b>1,458.5</b>	<b>467.1</b>	<b>521.6</b>	<b>573.7</b>
<b>Total Adjustments for Non-Cash Charges:</b>	<b>323.2</b>	<b>213.3</b>	<b>233.3</b>	<b>263.8</b>	<b>294.9</b>	<b>315.2</b>	<b>355.4</b>	<b>196.3</b>	<b>207.7</b>	<b>219.1</b>
<b>Total Changes in Operating Assets &amp; Liabilities:</b>	<b>(20.3)</b>	<b>(50.1)</b>	<b>(44.0)</b>	<b>(54.1)</b>	<b>(60.4)</b>	<b>(65.7)</b>	<b>(66.9)</b>	<b>287.0</b>	<b>(18.6)</b>	<b>(18.3)</b>
Less: Capital Expenditures:	(13.1)	(18.5)	(25.3)	(34.3)	(45.0)	(57.3)	(71.1)	(27.0)	(31.5)	(36.1)
<b>Annual Unlevered Free Cash Flow:</b>	<b>539.3</b>	<b>659.2</b>	<b>830.9</b>	<b>1,022.7</b>	<b>1,233.5</b>	<b>1,450.6</b>	<b>1,675.9</b>	<b>923.5</b>	<b>679.2</b>	<b>738.3</b>
Unlevered Free Cash Flow for Remaining Quarters:	459.1	659.2	830.9	1,022.7	1,233.5	1,450.6	1,675.9	923.5	679.2	738.3
<b>Net Present Value of Free Cash Flow:</b>	<b>447.7</b>	<b>603.1</b>	<b>703.4</b>	<b>801.2</b>	<b>894.1</b>	<b>973.0</b>	<b>1,040.1</b>	<b>530.4</b>	<b>361.0</b>	<b>363.1</b>
Normal Discount Period:	0.647	1.647	2.647	3.647	4.647	5.647	6.647	7.647	8.647	9.647
Mid-Year Discount Period:	0.323	1.147	2.147	3.147	4.147	5.147	6.147	7.147	8.147	9.147
Annual Free Cash Flow Growth Rate:	58.4%	22.2%	26.1%	23.1%	20.6%	17.6%	15.5%	(44.9%)	(26.4%)	8.7%
<b>Annual EBITDA:</b>	<b>565.1</b>	<b>760.7</b>	<b>946.0</b>	<b>1,171.0</b>	<b>1,413.7</b>	<b>1,665.7</b>	<b>1,918.8</b>	<b>686.0</b>	<b>755.7</b>	<b>822.6</b>
Annual EBITDA Growth Rate:	32.5%	34.6%	24.4%	23.8%	20.7%	17.8%	15.2%	(64.3%)	10.2%	8.9%

Source: Company data, Goldman Stanley estimates.

**Assumptions:**

- **Discount Rate:** 8.07%, based on WACC for comparable public companies and targeted capital structure in-line with comparables.
- **Terminal Value:** Long-Term Free Cash Flow Growth Rate of 0.3%, or, alternatively, a Terminal EBITDA Multiple of 12.0x.
- **Other:** Mid-Year Convention used, and FCF from Q1 stub period was subtracted from all calculations.

With these assumptions and the Free Cash Flow projections above, the DCF produced the following output:

**Figure 10 – Jazz Discounted Cash Flow (DCF) Analysis Output****Sensitivity - Terminal FCF Growth Rate vs. Discount Rate and Implied Share Price from DCF Analysis:**

		Terminal FCF Growth Rate:								
		(2.0%)	(1.5%)	(1.0%)	(0.5%)	-	0.5%	1.0%	1.5%	2.0%
Discount Rate (WACC):	6.5%	\$ 193.83	\$ 199.40	\$ 205.72	\$ 212.94	\$ 221.27	\$ 230.99	\$ 242.47	\$ 256.26	\$ 273.10
	7.0%	183.56	188.34	193.71	199.81	206.78	214.81	224.19	235.27	248.57
	7.5%	174.30	178.43	183.04	188.23	194.11	200.83	208.59	217.64	228.33
	8.0%	165.91	169.50	173.48	177.93	182.94	188.62	195.11	202.59	211.32
	8.5%	158.27	161.40	164.86	168.70	173.00	177.84	183.32	189.58	196.81
	9.0%	151.27	154.02	157.04	160.38	164.09	168.24	172.91	178.20	184.25
	9.5%	144.84	147.26	149.91	152.83	156.06	159.64	163.65	168.16	173.26
	10.0%	138.90	141.04	143.38	145.94	148.76	151.88	155.34	159.21	163.56
	10.5%	133.40	135.30	137.38	139.64	142.11	144.83	147.84	151.19	154.93

**Sensitivity - Terminal EBITDA Multiple vs. Discount Rate and Implied Share Price from DCF Analysis:**

		Terminal EBITDA Multiple:								
		8.0 x	9.0 x	10.0 x	11.0 x	12.0 x	13.0 x	14.0 x	15.0 x	16.0 x
Discount Rate (WACC):	6.5%	\$ 171.52	\$ 178.99	\$ 186.46	\$ 193.93	\$ 201.40	\$ 208.87	\$ 216.34	\$ 223.81	\$ 231.28
	7.0%	166.24	173.38	180.52	187.66	194.80	201.94	209.08	216.22	223.36
	7.5%	161.18	168.01	174.83	181.66	188.48	195.31	202.13	208.96	215.79
	8.0%	156.32	162.84	169.37	175.90	182.42	188.95	195.48	202.01	208.53
	8.5%	151.64	157.89	164.13	170.37	176.62	182.86	189.10	195.34	201.59
	9.0%	147.16	153.13	159.10	165.07	171.04	177.01	182.99	188.96	194.93
	9.5%	142.84	148.55	154.27	159.98	165.70	171.41	177.12	182.84	188.55
	10.0%	138.69	144.16	149.63	155.09	160.56	166.03	171.50	176.97	182.44
	10.5%	134.70	139.93	145.17	150.40	155.64	160.87	166.10	171.34	176.57

Source: Company data, Goldman Stanley estimates.

## Investment Thesis, Catalysts, and Risks

We continue to believe that Jazz is undervalued and that a price correction could occur within the next 12 months for the following reasons:

- **Pricing Power:** We believe the company has the ability to raise Xyrem prices to a significantly higher level (perhaps close to ~2x current prices) with no pushback from insurance firms or regulators. Consensus views put this at a lower value, with an implied long-term price of only about 1.5x the current price.
- **Patient Expansion and Awareness Marketing Campaigns:** Initial results from pilot TV test ads have been positive, and there is reason to believe that they will continue to work well, given that the company reported a Xyrem patient count of 11,400 in Q1,

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above our own estimates for the entire year. We believe the total patient count will approach 30,000 by FY 20 vs. consensus estimates closer to 20,000 by FY 20.

- **Generics Further Away Than Expected:** While some analysts forecast Xyrem generics as early as FY 18 or FY 19, we see them entering the market only in FY 21, given that the first patents start expiring at the end of FY 19 and that the company has a significant advantage in its legal proceedings (e.g., the Roxane lawsuit and settlement slated for later this year).

Our targeted share prices are as follows:

- **Bull Case:** \$190.00, based on Xyrem patient count and pricing increasing to 31,000+ and \$110,000+, respectively, by FY 20.
- **Base Case:** \$170.00, based on Xyrem patient count and pricing increasing to 28,000+ and \$105,000+, respectively, by FY 20.
- **Bear Case:** \$150.00, based on Xyrem patient count and pricing increasing to 23,000+ and \$94,000+, respectively, by FY 20.

## Catalyst Calendar

- **Mid-2014:** Update on FDA dispute resolution proceedings re: Xyrem REMS.
- **2H 2014:** Start of Phase 3 clinical trials for JZP-110 (EDS).
- **2H 2014:** Initial patient data from JZP-386 study.
- **2H 2014:** Outcome of Roxane case and possible settlement.
- **2H 2014:** Possible re-submission of defibrotide (Defitelio) with US FDA.
- **2H 2014:** Launch of narcolepsy patient awareness campaigns into new regions.
- **Throughout 2014:** Launch of Defitelio (severe VOD) in EU.
- **Early 2015:** Potential pricing increase for Xyrem.

## Investment Risks

The following represent the greatest risks to our investment thesis:

- **Lack of Pricing Increases or Pushback from Insurance Firms / Regulators:** It is possible that insurance companies, especially, will start “pushing back” against price increases, especially since Xyrem is generously covered by many policies and employer plans. This would make it difficult to grow Xyrem prices by more than low single digit percentages each year, let alone the 10-15% growth rate we have assumed.
- **Poor Results from Marketing Campaigns:** While the initial results have been positive, there is no telling how successful the additional campaigns in other regions will be, or if there’s a “ceiling” on the total number of patients that might be on Xyrem eventually. Reaching only 20,000 patients rather than our estimates of closer to 30,000 would make a significant, negative impact on the share price.
- **Generics Get Approved and Enter the Market:** If the Roxane case goes against Jazz, or the other pending lawsuits are not settled in its favor, generics might enter the market earlier than expected and push down Xyrem pricing anywhere between 5x and 10x, which would make a significant, negative impact on the company’s share price.

Other company-specific and industry-specific risks include (1) Growing competition in the specialty pharmaceuticals space; (2) the ability of management to execute on new acquisitions (3) the ability to grow organically and keep the product pipeline robust; (4) potential regulatory delays, rejections, or failures of pipeline products; (5) economic sensitivity of any self-pay products or weakening consumer demand; (6) domestic or international pricing pressures for marketed products; and (7) failure to execute on new product launches.