



Krause Fund Research FALL 2019

Incyte Corporation (NASDAQ:INCY)
Healthcare – Biotechnology

Nov. 15th, 2019
Stock Rating: **HOLD**

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Key Stats:

Target Range: \$85-\$95
DCF Model: \$91
DDM Model: \$61

Price Data

Current Price: \$86.70
52wk Range: \$57.00 - \$89.30

Share Highlights

Market Cap (B): 18.675
Shares Outstanding(M): 214.2
Beta: 1.09
Est. 5yr Revenue CAGR: 11%
Forward P/E: 40.15
EPS 2019E: \$2.07

Industry Metrics

R&D (% of sales): 52%
ROE (2019E): 19%
Drugs in Development: 9

Investment Thesis:

We recommend a HOLD rating for Incyte because of a favorable shift in US demographics, the positive outlook for firms holding patent exclusivity in the coming years, and the firm's historically strong balance sheet.

Drivers of Thesis:

- **Demographic shift and correlated medical expenses:** Incyte's patient base for their main drugs will grow due to an increased proportion of the population aging past 65. This causes minimum initial revenue growth of 17% for previously commercialized treatments.
- **FDA approval trend and sales at risk:** FDA approvals reached an all-time high in 2018 and there is a forecasted patent cliff from 2022-2025. This boosts earnings forecasts for treatments with patent exclusivity. Jakafi revenue growth will decelerate by **only** 1% per year during this period.
- **Absence of debt and upward trending free cash flow (FCF):** Relative to its peers, Incyte consistently remains unlevered and free of debt obligations. This allows the firm to either invest would-be interest expense into R&D, M&A activities, or increase FCF. This is demonstrated within our model through consistent high levels of R&D in relation to sales. While forecasting M&A is difficult, it is an important factor to note.

Risks to Thesis:

- **Potential for dramatic health care reform could reduce earnings:** Through an enactment of Medicare-For-All or price regulation, Incyte could see reduced earnings.
- **Heavy revenue reliance could cause damage prior to patent expiration:** Although Jakafi has seen consistent revenue streams, outside factors such as innovation in non-pharmaceutical oncology treatments could cause a sharp decline in the drug's sales. With a revenue reliance on Jakafi >70%, this would be detrimental to the firm.

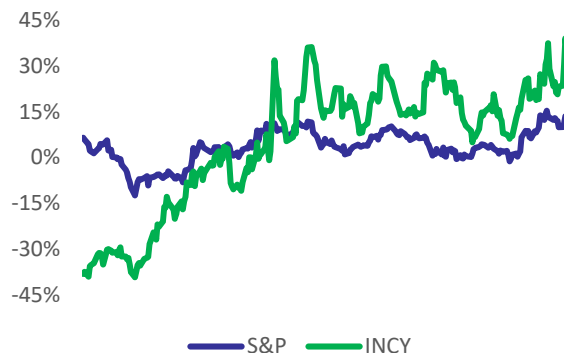
Company Description

Incyte Corp is a biopharmaceutical research company founded in 1991 that specializes in the development of proprietary oncology and hematology therapeutics. The company's primary product is Jakafi, a drug that acts as an inhibitor for blood cell production in patients with polycythemia vera(PV) and myelofibrosis(MF), both rare forms of blood cancer. Incyte also has several drugs currently in the development pipeline, including a topical cream form of Jakafi and a new treatment for graft versus host disease (GVHD).

Earnings Estimates

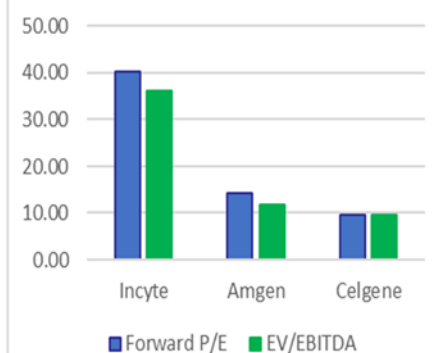
Year	EPS	Growth
2018	\$.51	135%
2019	\$ 2.07	303%
2020	\$ 2.74	33%
2021	\$ 2.98	9%
2022	\$ 3.23	9%
2023	\$ 3.76	16%

12 Month Performance



Source: Yahoo Finance³⁶

Relative Financial Performance



Source: Factset Databases²⁵

Executive Summary

Our team is issuing Incyte (NASDAQ: INCY) a “Hold” rating. We believe that Incyte will continue to have strong operating profits for the next several years due to aging demographics, no patent expirations until at least 2027, and a solid balance sheet to invest in innovation and expansion in its drug portfolio. The risks associated with Incyte include potential reduced earnings as a result of U.S. legislation and the reliance on one product for 80% of revenues.

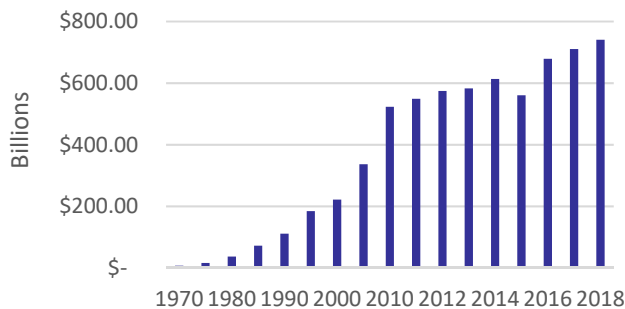
We valued Incyte using a discounted cash flow and economic profit analysis, which yielded an intrinsic value of \$91 per share. The target price range we have set is \$85-\$95, which represents -2% to 10% growth in the current price of the stock. This leads us to issue the “Hold” rating, as we believe that the stock is currently fairly valued by the market.

Economic Analysis

Government

Government involvement is key to growth within the Healthcare sector in many ways. Most involvement comes in the form of regulation and funding. The National Institute of Health (NIH) is a government entity that provides funding for research through grants and other awards; however, it makes up a small amount of the funding spent annually on research and development. The federal government also, through Medicare and Medicaid, spent close to \$1.1 Trillion last year on healthcare.²

Annual Medicare Expenditures



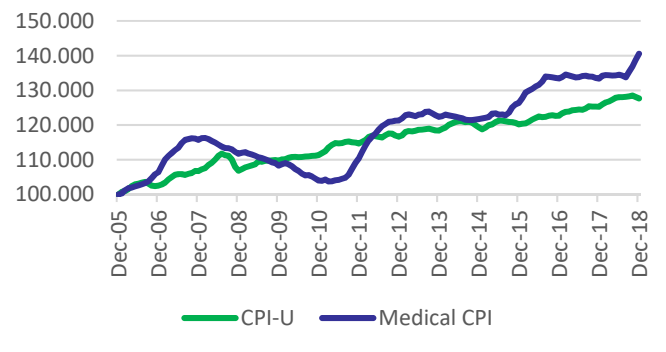
Source: Statista Databases²

Medicare spending has grown significantly over the last 50 years, with growth over the last 10 years experiencing a CAGR of 4.33%.² Medicare-For-All (MFA), which would

accelerate federal healthcare spending immensely, is a prominent talking point among Democratic presidential candidates and is therefore a relevant development within the sector. MFA would have unpredictable effects on the Healthcare sector and the way biotechnology companies like Incyte operate, as 50% of Incyte's revenue comes from Medicare.¹

The government is also the sole regulator for the Healthcare sector through price regulation, drug approvals, and patent issuances.²⁵ The former has not been used extensively in practice, and therefore US drug prices, and the price of medical care in totality, are reaching all-time highs. The Medical CPI when compared to the CPI-U (urban inflation) is shown below. This chart demonstrates aggressive price increases occurring over the last decade in comparison to overall inflation.⁴ Pressure has been put on the government to step in and regulate. If regulation were to occur, biotechnology stocks like Incyte are at risk of decreased revenues.

Medical CPI vs CPI-U



Source: Bureau of Labor Statistics Database⁴

In lieu of these governmental developments showing potential for great impact within the sector, we do not foresee significant changes to Medicare spending or to the current trend of FDA approvals over the short or long-term. As the number of Democratic candidates running for election decreases there is potential for volatility due to a more cemented rhetoric regarding a dramatic health care reform.

This rate of medical inflation is not sustainable long-term and at some point, if it persists, regulation will be imposed. It is impossible to forecast when that may be as it will rely on the responses of the American public both through voting and public opinion; therefore, we left this out of our model for the sake of accuracy. We forecast minimal chance of the changes necessary for MFA Washington DC post 2020 presidential election and

represented this in our model by not adjusting for major healthcare reform.

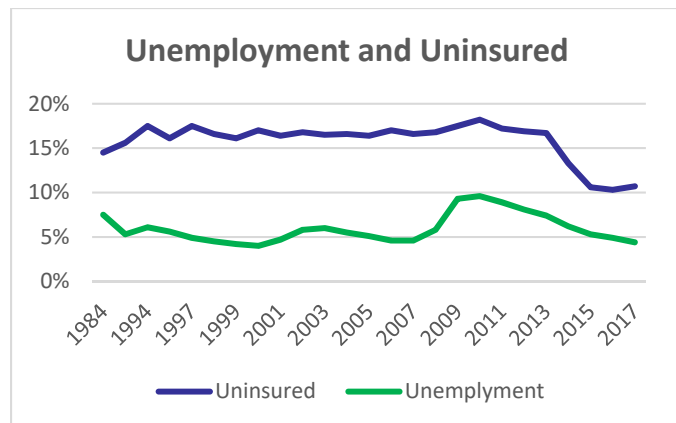
Unemployment

Unemployment is a major driver regarding the Healthcare Sector because many full-time employees receive health benefits as part of their job compensation. There are two main types of health insurance: Private health insurance, which is obtained as piece of job compensation and is not typically obtainable for someone who is unemployed and Public health insurance, which is offered by the federal government through Medicare and Medicaid and more recently through the ACA.⁶

The affordable care act (ACA) has had a significant impact on the healthcare sector since going into effect in 2014. These impacts are widely a result of the increase in accessibility of health insurance and thus a smaller number of uninsured citizens. There are various legal battles regarding the repeal of the ACA taking place. A case is currently being heard by the 5th Circuit Court of Appeals and chances of the appellate court upholding the previous ruling that the legislation was in fact unconstitutional are very high.¹⁷

It should be noted that this does not mean the immediate or even eventual repeal of the legislation¹⁷; however, if the ACA were to, be repealed negative impacts would be felt throughout the sector due to an increase in the number of uninsured. Biotechnology firms like Incyte would risk a contraction of their customer base due to the expensive nature of their drugs and the inability of uninsured citizens to pay for their drugs.

Those who are unemployed and unable to obtain public health insurance are considered uninsured and must pay for their medical expenses out of pocket or go without care. Below is a chart demonstrating the relationship between the unemployment rate and the uninsured rate from 1985-2017.



Source: Bureau of Labor Statistics Database^{10 & 5}

The percentage of Americans in 2018 that were privately insured, publicly insured, and uninsured were 68.9%, 19.4%, and 13.3% respectively.⁵ These data points represent a strong decrease in the proportion of uninsured in the US resulting from the ACA. The proportion of those uninsured was larger than those with public health insurance for every year on record prior to the enactment of the ACA in 2014.⁵ As you can see in the graph above, this legislation caused a sharp decline in the uninsured population.

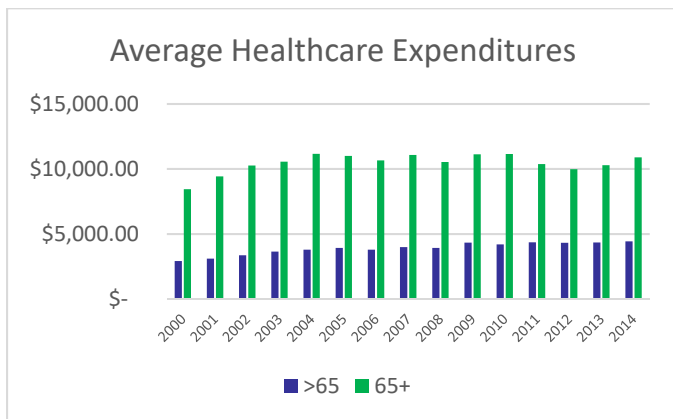
Unemployment also affects the Healthcare sector by making it more difficult to hire employees at a profitable wage. The US is currently experiencing the lowest unemployment on record since 1969 at 3.7%.¹⁰ There is a phenomenon that results in decreasing marginal returns for new jobs, and at some point, each job creates less value than the costs associated with it. This is very impactful to many industries within the sector; however, biotechnology firms are less susceptible due to their reliance on IP over labor. Incyte specifically is even less at risk due to their robust outsourcing strategy which keeps fixed employment costs low.

We predict that there will be no significant movement in the unemployment rate in the next 6 months. We have identified the potential for recession in the next 18-24 months indicated by an inverted treasury yield curve and all-time market highs in P/E ratios; however, we caution that the former may be flawed due to the prevalence of negative interest rates around the world. As we saw in 2009, recession would cause an increase in unemployment, but we predict the increase will be less dramatic. We foresee an increase in the unemployment rate from 3.7% to approximately 5.5% in the next three years and represented this in our model by adjusting for a minor contraction in revenue growth relative to times of economic expansion.

The Healthcare sector has fared well in times of economic recession historically. The unemployment rate rose to a high of 10% in October of 2009 which reflected losses across many sectors and industries. In contrast, healthcare employment continued to grow¹⁰. This was also the case during the previous two recessions (1990-91 & 2001). Historical data would suggest that Healthcare is highly resistant to economic recession.

Demographics

Demographics will affect the healthcare sector in a multitude of ways in the coming years. First, the United States population skews heavily towards the “baby boomer” age group which are now reaching an age that requires significant increase in medical care needed. Second, life expectancy is continuing to trend upward, growing from 76.5 in 2000 to 78.5 in 2019.⁴⁰ Lastly, the US fertility rate has continued to decline, falling from 2.12 in 2007 to 1.72 in 2017 (a steady decline since rate of 3.7 in 1964).³⁹ The combination of these three factors results in a population that heavily skews to the elderly. This can be a good trend for the Healthcare sector, as those over the age of 65 consistently outspend those under 65 on medical care.³ This relationship can be seen in the graph below. Since 2000, those over 65 have spent on average 175% more on healthcare per year than their younger counterparts.



Interest rates

Treasury yields in the United States have been low for the past few years. This drives growth of investment and capital expenditures because cost of capital is low. Low interest rates allow for an increased activity in the M&A space which drives much of the healthcare sector, especially pharmaceutical and biotechnology stocks.

Industry Overview

Incyte is a part of the Biotechnology industry, which is an industry that primarily focuses on using living organisms or molecular and cellular techniques to provide chemicals, food and services that meet human needs. The majority of biotech companies research and develop products for the healthcare market; products from this segment account for an estimated 68.2% of industry revenue.²⁰

The industry contains large companies with dominant market share, including Amgen, Novartis, AbbVie, and Biogen. The industry also has many smaller firms that have yet to turn a profit while they develop drugs. Often small biotech firms sell IP or license drugs to large biotech or pharmaceutical companies. These large companies provide means for smaller firms to get capital when they struggle to attract investors. Pharmaceutical manufacturers are a major market for the biotech industry as they use organisms, processes, or other tech that has been developed by Biotech in their manufacturing.²²

FDA & Patent Cliff

The government is also responsible for running the FDA, the governing body over food and drugs within the country. The FDA has one of the strictest drug approval systems in the world. Only 9.6% of total drugs make it from Phase I to approval; however, FDA novel drug approvals have increased each of the last three years, hitting an all-time high of 58 in 2018. Additionally, drug sales at risk from patent expiration will decrease over the next two years before spiking in 2022.²² This combination results in a bullish outlook on sales and earnings in the short to medium-term throughout the industry and we reflected this lack of short-term headwind in our revenue projections.

After this dip in sales at risk, expiration of intellectual property patents beginning in 2022 are projected to spike. Nearly \$125 Billion, approximately 4% of the entire market share, in global prescription drug sales are at risk between 2022 and 2025 due to expiring patents.²²

The industry experienced a similar patent cliff from 2011-2016. These cliffs have proven to have strong negative impacts on revenues of large companies and can often

lead to unique cost cutting measures. Examples of drugs facing patent expiration this year are:

- Pfizer’s Lyrica
- GlaxoSmithKline’s Advair
- Roche’s Rituxan and Gilead’s Harvon³⁸

This outlook will impact Incyte directly through revenue and indirectly through their competitors. Incyte has heavy revenue reliance on a drug with an exclusive patent extending to 2027. This will allow it to maintain consistent revenue through the spike of sales at risk because it will not affect their revenues. While it will affect many of their competitors, Incyte will have an increased ability to invest in developing other drugs relative to firms facing immediate risk of sale loss. Coupled with the trend in FDA approvals, Incyte has potential to develop a drug to assist in the replacement of sales of Jakafi while other companies cut costs.

Business Segments

Two of the main fields in the biotech industry are Biologics and Pharmacogenomics. Biologics are drugs that are produced from living organisms or their components. Pharmacogenomics is the study of how a patient’s genes dictate responses to drugs and the creation of specific targeted therapies to treat patients. It is difficult for generic companies to imitate these treatments as they must replicate the structure of the organisms or compounds in the drug exactly. The intensive development and opportunity to address previously untreatable conditions allows companies to command high prices for these drugs.²⁰

Several prominent companies dominate these spaces. AbbVie sells Humira to treat arthritis, psoriasis, and Chron’s disease. Amgen, a more direct competitor for Incyte, operates in the field of therapeutics for cancer. Their top drug, Enbrel, treats moderate to severe rheumatoid arthritis. Biogen, another direct competitor, focuses on cancer and inflammation treatments. Their top drug, Revlimid, treats myeloma and mantle cell lymphoma (MCL), which are both forms of blood cancer. Gilead Sciences specializes in products that treat difficult illnesses like HIV, cancer, and Hepatitis. Celgene develops therapies for cancer and inflammatory diseases. The next chart below provides a brief overview of basic financial metrics on these firms.²³

Company	Market Cap	Price	Revenue
AbbVie	126,676	85.66	32,624
Amgen	131,136	220.7	23,303
Biogen	53,075	294.14	12,605
Gilead	81,779	64.64	22,255
Celgene	77,982	109.57	16,899
Incyte	18,278	84.86	2,107

Source: Factset Databases²⁵

Porter’s Five Forces

Barriers to entry – High

There are significant barriers to entry in the biotech industry because of the vitality of strong IP assets. Startups are usually spin-offs that have discovered innovative treatments or processes. These companies begin with high fixed costs and little to no profit and therefore struggle to raise funding.

FDA regulations are strict with long and costly trials needed to gain approval. There are three phases that drugs must pass before the FDA will consider approval. The whole process can take upwards of 10 years. Some large biotech firms outsource some R+D functions and this creates a channel of entry into the market for smaller firms.²⁰

Power of suppliers –Medium

A lot of the value of biotech companies is based on IP, so suppliers have limited influence. Business expenses like scientific equipment and computers come from specialized suppliers that do not have a big influence on the biotech business.

Many younger biotech firms rely on third parties to manufacture their drugs as it would be much more expensive to manufacture drugs itself. These third-party manufacturers can have significant negotiating power since they are the route to profitability for firms like Incyte.²³

Power of buyers –Low

In the world of prescription drugs, end consumers have almost no negotiating power. For some lifesaving drugs, demand can be near-inelastic so drug companies can charge very high prices. The high prices are also what keeps biotech companies continuing to research and develop. Lower prices will result in lower revenues which will limit innovation and further new drug development.

There is still some negotiating power in the supply chain. Third-party payers typically determine how much, reimbursement is provided for dispensed drugs. If a drug is too expensive, private third-party payers can typically

deny reimbursement. In addition, PBMs create lists of medicines that may be prescribed by health care providers or services, so they have some influence on these companies.

Threat of substitutes – Medium

In the biotech industry, there is always a risk for biosimilars/generics to enter the market once patents have expired, putting revenues at risk. Biotech companies must compete with other industries and alternate methods of production. For example, biologic drugs compete with chemical drugs which are typically less costly to develop. There is also outside innovation that the industry will have to compete with, such as gene therapy which has over 300 treatments in clinical trials.

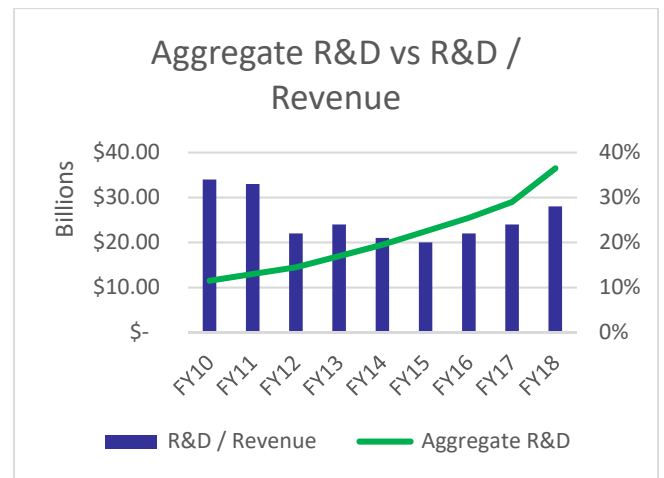
Rivalry among existing competitors – High

IP plays a huge role in the rivalry among existing competitors. Patents are granted for 20 years from the date the application is filed; but, drugs can take 10+ years to develop and bring to the market.²⁴ Companies will do anything they can to prevent competitors from developing biosimilar drugs, including litigation to protect patents or applying for additional patents. For a drug to capture any market share, the company must show that there are significant quality advantages over existing products.

Research and Development

R&D spending is crucial for biotech companies. Not only do they have to spend on R&D for their drugs that gain FDA approval, they also can incur a lot of expenses for drugs that do not make it through the approval process. R&D spending has to be robust, as innovation is a key differentiator for biotech firms that must constantly be innovating against the threat of biosimilars entering the market for their most profitable drugs.

R&D and subsequent innovation are critical drivers of growth within all sectors but even more critical to the health-care sector and specifically the biotech industry. At least 7 biopharmaceutical developers contributed over \$1 billion each to R&D activities.¹⁶ This applies pressure for biotech companies to see greater rates of return on capital invested in research.



Source: NetAdvantage Report²²

R&D expenses are closely tied to economic prosperity and therefore will fall if recession occurs; however, health care R&D is more essential than research in other sectors and therefore any response to recession would be less dramatic. This effect can be shown in relative reductions across sectors during the 2008 recession.¹¹

This outlook will cause an overall deceleration of growth within the health care sector, but intensity will vary by sub-industries due to how critical R&D is in the business model. R&D is most important to the biotech industry, which accounted for over 50% of total US R&D spending in 2016.¹¹

Biotech R&D expenses have traditionally been extremely large when looked at as a factor of revenue but that has slowed in the past decade as industry revenues have skyrocketed. Potential economic recession could result in further deceleration or even a decrease in R&D spending; however, when analyzing how recession affected R&D expenses during the 2008 crisis, Healthcare was affected to a much lesser extent than other sectors.

Drug Prices

Drug prices play a major role in the outlook of the biotech industry. Legislators focusing on lowering drug prices could reduce revenues and investment in R&D as it would be more difficult for companies to see a return on their investment. In the current environment, companies like Incyte can charge very high prices for the life-saving drugs they produce. President Trump has outlined a plan to pass on rebates that go to Pharmacy Benefit Managers (PBMs) to customers, but Bipartisan legislation is nearly impossible with a divided congress until at least 2021.²²

In addition, Democrats attempting to win the White House have also weighed in on high prescription drug prices. Elizabeth Warren’s website indicates that she would have the Department of Health and Human Services step in to create generic, affordable drugs and use MFA to negotiate lower drug prices with companies.³² On the flip side, Drug manufacturers have blamed the PBMs for the significant rise in drug prices because of the increased rebates they demand.

The noise about drug price regulation does pose a threat to valuations. They are part of the reason valuations of the NASDAQ and S&P biotech indices fell approximately 10% over the last year. While the attacks are strong and coming from both parties, legislation appears unlikely to occur soon.²⁶

Key Industry Metrics

R&D as a Percentage of Sales

R&D expenses account for the largest expense for many biotech firms. The companies identified earlier, like AbbVie and Amgen, are currently spending around 15-20% of total revenues on R&D.²⁵ Younger companies such as Incyte can spend over 100% of total revenues on R&D. The largest firms have an advantage in that they can afford to hire top scientists and conduct elaborate clinical research. For younger companies, it is important that they are spending in areas that will lead to breakthroughs in technology and therapeutics. New drugs that provide similar treatments are unlikely to be a commercial success.

Drug Portfolio/Pipeline and Patent Expirations

Related to R&D expenses, a biotech firm’s current product portfolio and drug pipeline are critical to building a valuation model. The intrinsic value should be a function of earnings to be gained from approved products as well as the probability of successfully developing pipeline candidates. In general, companies with technologies that are innovative and patentable will appear more favorable than companies that are developing drugs in competitive areas. In addition, companies with multiple drug candidates in late stages of clinical development tend to be more valuable as they have a high potential for future revenue. On the other hand, it is important to consider that companies with too many drugs in development may be chasing marginally beneficial or “me-too” drugs in areas that are already well served.

Company	Phase III Trials	Pre-Registration
AbbVie	12	5
Amgen	11	4
Biogen	6	1
Gilead	7	0
Celgene	15	2
Incyte	8	1

Source: Factset Databases²⁵

The large biotech firms have strong pipelines and can afford elaborate clinical trials, while Incyte is also trying to position itself for future growth with 9 drugs in Late stage development.

It is also important to identify the patent details for a biotech’s portfolio. Standard issue drug patents are good for 20 years, but there are a variety of factors that can change that number. For example, a drug can have both a patent and an exclusivity right, which refers to certain delays and prohibitions on approval of competitor drugs. The timeline on the patents and the exclusivity rights may or may not overlap, and they may cover different areas of the drug. Patent rights in foreign markets can be especially volatile, as there are fewer ways to protect IP in the world market.²⁴

Return on Equity

Return on Equity (ROE) is a metric that tells how well a company is using its shareholder equity to generate profit. This is an important metric for young biotech firms because most do not use debt financing to help develop drugs. Most of the capital comes from issuing common stock and partnerships with larger, already profitable companies. As shown in the graph below, Incyte has a lower ROE and higher R&D percentage than more established biotech firms, but the positive ROE is a good sign for a younger company.

Company	ROE(2018)	R&D % of Rev(2018)
AbbVie	N/A	16%
Amgen	62%	15%
Biogen	42%	21%
Gilead	27%	19%
Celgene	13%	40%
Incyte	19%	88%

Source: Factset Databases²⁵

Company Analysis

Incyte is a biopharmaceutical firm with a focus on discovery, development, and commercialization of therapeutic compounds. They believe the future of cancer treatment lies in the use of targeted therapies, which aim to block the effects of cancer-causing mutations. Incyte's global headquarters are in Wilmington, DE. The company generated nearly \$2B in revenue and \$109M in net income for FY 2018, the third year of profitability since the commercialization of its main drug, Jakafi.¹

With an array of strategic business partnerships including suppliers, researchers, packagers, and a few joint ventures/partnerships, Incyte has aligned itself with an outsourcing strategy. There are inherent risks involved with this which will be expanded upon later.

Revenue Sources

The main sources of revenue for Incyte are commercialized products called Jakafi and Iclusig, with the former representing 80% of overall revenue generation. Incyte also receives revenue in the form of royalties and contract payments, which generated 234 and \$180 million respectively in 2018.¹

Segment	2016	2017	2018
JAKAFI	\$ 852.80	\$ 1,133.40	\$ 1,387.00
ICLUSIG	\$ 29.60	\$ 66.90	\$ 79.90
Total Product Revenues	\$ 882.40	\$ 1,200.30	\$ 1,466.90
JAKAVI	\$ 110.71	\$ 151.70	\$ 194.70
OLUMIANT	\$ -	\$ 9.10	\$ 40.10
Total Licensing Revenues	\$ 110.71	\$ 160.80	\$ 234.80
Total Contract Revenues	\$ 112.51	\$ 175.00	\$ 180.00
Other Revenues	\$ 92.00	\$ -	\$ -
Total Revenues	\$ 1,105.62	\$ 1,536.10	\$ 1,881.70

Source: 2018 Incyte 10-K¹

Jakafi

Jakafi is Incyte's largest revenue generator with overall sales of the drug totaling \$785M for Q1 and Q2 FY 2019 and \$1.39B for all of FY 2018. The drug was approved for sale in the US in 2011 for the treatment of patients with intermediate or high-risk myelofibrosis, a rare form of blood cancer. It was additionally approved for treatment of patients with Polycythemia Vera who have had an inadequate response to or are intolerant to hydroxyurea – myelofibrosis (MF) and polycythemia (PV) in December of 2014. Incyte has three patents on Jakafi – which expire in 2027 and 2031.³¹

The median age range of patients with MF and PV is 60-67 and 60-65 respectively. There are currently between 16,000-19,000 US adults with MF and around 100,000 with PV.²⁶ Jakafi's patient base and sales will continue to grow as it gains clinical approval for additional treatments and as the baby boomer generation enters retirement age.

There are risks associated with Jakafi. These include but not limited to, the number of patients diagnosed with MF and PV as well as the ability of these patients to pay for the drug, as a 60-tablet supply that lasts 30 days can cost over \$14,000.³⁰

Jakavi

Jakavi is the name for the version of Jakafi which is sold outside of the United States. Incyte has entered a licensure agreement with *Novartis* to develop and commercialize rights to this drug in any country outside of the USA. The agreement currently states that Incyte will receive tiered, worldwide royalties on future sales ranging from upper-teens to mid-twenties percent until the expiration of the last valid patent or a termination by either country if certain agreements are breached.¹

Iclusig

Ariad Pharmaceuticals, INC.'s European operations were acquired by Incyte in 2016 and this acquisition gave Incyte the right to develop and commercialize Iclusig in the European Union. The drug acts as a kinase inhibitor targeting abnormal forms of chronic myeloid leukemia (CML) and Philadelphia-chromosome positive acute lymphoblastic leukemia (Ph+ ALL). Incyte has obligations to pay back tiered royalties on sales of Iclusig to Ariad's parent, Takeda, as well as up to \$135 million in future milestone payments.¹

Olumiant

Incyte recently partnered with Eli Lilly and Company in order to gain exclusive rights to a drug called Olumiant which treats rheumatoid arthritis (RA). Incyte receives tiered royalties of 20 to 29% on the drug but pulled out of future development on it earlier this year. The RA market is highly competitive and Incyte chose to focus on more promising opportunities.¹

Pipeline Drugs

Drug In Development	Status as of Q4 2019	Potential Patients
Jakafi Topical Cream	Phase III Trial results	12+ million
Pemigatinib	Phase II/III	100,000+/year
Itacitinib	Phase III	15,000 new/year

Source: 2018 Incyte 10-K¹

Incyte has potential for several new drug approvals in the coming years. Ruxolitinib is the drug compound in Jakafi, and it is currently being tested to treat skin conditions as a topical cream. The company aims to report Phase III data in 2020 and potential approval in 2021. Incyte estimates that there are 12 million potential customers for this cream from a variety of skin conditions including dermatitis and vitiligo. While this treatment would face stronger competition in this market, management appears keen to commercialize the treatment after strong Phase II results in which there were no safety issues and over 50% of participants saw major improvements in the vitiligo severity scale.²⁸

Pemigatinib is a compound that is being tested to treat various types of cancers. The FDA has granted pemigatinib a breakthrough therapy designation for bile duct cancer. Additionally, in June, a Phase III trial of the drug as a first-line treatment for FGFR2, a protein linked with breast cancer, began and a Phase II trial for bladder cancer is likely to be completed by the end of 2019.¹

Itacitinib is a drug that is being tested in two Phase III programs as a potential treatment for GVHD, a condition in which donor bone marrow attacks the recipient.¹ If data comes back positive, management said it will seek approval for in the United States, Europe, and Japan. If the drug is approved, sales could possibly reach over \$200 million by 2024, depending on its effectiveness, as there is already a relatively inexpensive first-line steroid treatment on the market.²⁶

Operations

Incyte employs their outsourcing / partnership strategy in nearly all facets of their business. Third party responsibilities range from manufacturing raw materials, active pharmaceutical ingredients (API), and finished dosage form for clinical and commercial use.

There are inherent risks involved with outsourcing such vital business components. These risks cause potential for shortage of raw materials, drug candidates, API's, or finished goods resulting from the reliance on third party manufacturers. Management has disclosed that they foresee a continued reliance on third parties for manufacturing.¹

Competitive Environment

Incyte's competitive environment is unique compared to many of its peers due to its strong focus / reliance on Jakafi as a revenue stream. This would seem inherently risky, however, Jakafi is currently the only drug on the market which treats MF and Incyte will maintain exclusive patent rights through 2027. This presents an opportunity for Incyte to continue to gain clinical approval of the drug to treat a wider market of patients and thus increase sales.

While we have touched on Incyte's strong drug pipeline, it will be difficult to predict the future revenue potentials as some of the drugs being developed are already in established markets and are not certain to get through the approval process.

SWOT Analysis

Strengths

Incyte has no patent expirations until 2027, which is a positive for valuation over the next 5-10 years. In addition, Jakafi has seen strongly increasing sales since 2014, and management expects sales to reach \$3 Billion a year in the future.²⁸ It is uncommon for younger biotech firms to already have a very profitable drug and a positive ROE.

Weaknesses

While Incyte has a strong revenue generator in Jakafi, it does constitute over 80% of sales and the other drugs in its portfolio do not have the potential to reach the level of success of Jakafi. Incyte is also 50% revenue dependent on Medicare, and while we do not foresee drastic changes in the U.S. government, there is always political uncertainty that affects healthcare companies, especially when Incyte's main drug costs over \$14,000 for a 30-day subscription.

Opportunities

There is potential for further expansion of approved treatments for already commercialized drugs, as Jakafi is currently undergoing testing for GVHD. The US population is also aging, and the main users of Incyte's products are people over 60, so the customer base will continue to grow over time.

Threats

Incyte's heavy reliance on outsourcing poses some risk involved as they must ensure that quality standards are

met while maintaining strong relationships with the companies. In addition, Incyte must continue to see the medical community accepting its treatments and drugs. It is important that Incyte continues to hold itself to high innovative and safety standards to minimize consumer and regulatory scrutiny in the strict U.S. system.

Valuation

Methods of valuation

We used three different valuation models including a Discounted Cash Flow (DCF) Model, an Economic Profit (EP) Model, and a Relative Valuation Model. The estimate from the Discounted Dividend Model is less applicable since Incyte does not currently pay out any dividends. We also determined the target price range after considering company financials, growth strategies, healthcare industry trends, and political policy effects that would influence the intrinsic equity value of Incyte.

Revenue Decomposition & Growth

We forecasted the revenue based on a decomposition into Incyte's four main revenue sources: Jakafi, Iclusig, Jakavi, and Olumiant. The segmentation is in accordance with the same formatting of the company's 10-K. We predicted the revenue of each segment by referencing the company's historical performance, the management's projection in 10-K and 10-Q, industry trends, macroeconomic factors, as well as our own analysis. Incyte's drugs will continue to see increasing sales, but at a decreasing rate as the number of patients is limited. Based on this analysis, we expect Incyte to reach over \$4 Billion in revenues by 2024 and \$5 Billion by 2027.

Continuing Value (CV) growth

We forecasted CV growth to be 3.25% based on estimates about future GDP growth and Inflation. Incyte's future NOPLAT growth will slow down and become proportional to real GDP and Inflation. We believe that Inflation will stay around 1.5-1.75% and GDP growth will lower to around 1.5% as the economy continues in its late cycle.

Cost of Sales (COGS) as Percent of Sales

Our forecasted Cost of Sales, besides the FY2019 forecast from management, is based off a five-year average of COGS as a percentage of revenues. We believe that Incyte will continue to spend around 4% of total revenues on COGS as the costs are related to royalty

payments and product costs, which will increase as Incyte expands its business.

Research and Development (R&D) as a Percent of Sales

R&D expenses are critical to the continued success of Incyte. The company will continue to spend on new products as well as expanding the treatments for already-commercialized products. Historically, Incyte has been spending over 50% of its revenues on R&D. We forecast that Incyte will spend around 50% of revenues for the current year and then the percent will begin to drop as sales increase. Management has indicated that they will continue to invest "aggressively" in new developments, so we decelerated R&D as a percent of sales by 1% per year until 2027.¹

Selling, General, and Administration Expense (SG&A)

Selling, general, and administrative expenses for Incyte are primarily driven by salaries and efforts to commercialize drugs. We used a five-year historical average of SG&A as a percentage of revenues to forecast future expenses. We do not anticipate volatility in SG&A expense, as it never deviated more than 3% from the average in the last five years. As Incyte continues in its strategies to develop and commercialize drugs, we expect SG&A remain constant in the future.

Capital Expenditures

We forecasted Capital Expenditures for 2019 as a historical 5-year average. For the remainder of our forecasting period, we grew our 5-year average by 3.25% to keep up with inflation and GDP growth.

Long-term Debt

In 2013, Incyte issued \$750 million of private-placement convertible notes with maturities in 2018 and 2020. As of November 2019, the book value of the remaining notes is \$17.4 million.¹ Both issuances have a conversion price of \$51.76, so we believe that Incyte will meet the conversion prices when the notes are due. We do not anticipate Incyte needing to issue more notes in the future, as the earlier issuances were before the company had ever turned a profit. As such, we did not forecast Incyte to take on debt in the future as it will not need additional cash to finance operations.

Income Taxes

Incyte has a total accumulated net loss of \$2,587 million since its incorporation in 1991. As of 2019, Incyte still has 1,750 million of tax-loss credits to use, with varying

expiration dates from state, federal, and foreign entities. We estimate that the company will keep carrying the loss until 2021, where we project Incyte's profitability will wipe out the rest of the credits. After that, we forecasted Incyte's marginal tax rate at 21%.

Weighted Average Cost of Capital (WACC)

We calculated Incyte's weighted average cost of capital to be 7.25%. The WACC is used in the Discounted Cash Flow (DCF) Model and the Economic Profit (EP) Model to calculate Incyte's intrinsic value.

We firstly calculated the weight of equity and debt in Incyte's capital structure. With a market value of \$17,975.63 million for equity, the lack of both short-term and long-term debt resulting in a weight of 99.86% for equity and a weight of 0.14% for debt. Then we multiplied the two weights accordingly with their rates of cost to arrive to the WACC.

Cost of Equity

Risk-free rate (10-yr treasury): 1.8%²³

Market Risk Premium: 4.69%³⁵

Beta (5 year weekly): 1.092

Cost of Equity: 7.26%

We calculated the cost of equity using the Capital Asset Pricing Model (CAPM), which utilizes the risk-free rate, market risk premium, and company estimated beta. We used the yield of U.S 10-year treasury as the risk-free rate to ensure it is in consistency with our forecasting horizon. We estimated the beta to be 1.092 based on Bloomberg's 5 year weekly raw data³⁴. We found the Market Risk Premium by taking the difference of the geometric averages of S&P 500 and 10-year Treasury bonds from 1928 to 2018.³⁵

Cost of Debt

We calculated the cost of debt by using an industry average for Biotechnology. The convertible notes that Incyte issued in 2013 were privately placed and not rated. Almost all the \$750 million issuance has matured, and we do not forecast Incyte taking on any more debt. Therefore, using an industry average of 5.43% is appropriate and will have minimal impact on our model.³³

Valuation Models

We calculated an intrinsic value range for Incyte of \$85-\$95. This range comes from our discounted cash flow (DCF) model and economic profit (EP) model which produced an intrinsic value of \$91.

Discounted Cash Flow (DCF) and Economic Profit (EP) Models

We calculated Incyte's intrinsic stock price to be using DCF and EP calculations. We believe these two valuation models are the most accurate reflection of the company's stock price as it includes our firm-specific assumptions about WACC, Revenue growth, and expenses that produce Free-cash flow and economic profit values. We assumed a terminal 3.25% growth rate, a 36.33% Return on Invested Capital, and a 7.25% WACC to discount our cash flows.

Relative Valuation Model

There are only a few pure play competing companies in the biotechnology industry, therefore we expanded the criteria by geography and market capital and decided on six companies to use in the relative valuation. All the companies are major competitors in the healthcare industry and have similar size of enterprise value with positive earnings. The model predicts a range of \$35.79-\$40.63 of intrinsic value using P/E multiple for 2019 and 2020. The result is highly skewed since Incyte has a much greater P/E ratio (approximately 2.5 times higher) than the average of the other companies. We determined that the valuation can be unrealistic given a limited number of comparable companies that have similar scope or financial performance.

Dividend Discount Model (DDM)

Incyte does not currently issue dividends and management has indicated that it does not foresee dividend payments in the future. Our DDM model returned a price of \$60.50, well below our DCF and EP models. As Incyte does not issue dividends, we believe this is an inaccurate representation of Incyte's intrinsic value and thus it was not considered in our target price range.

Sensitivity Analysis

We performed various sensitivity analyses on key assumptions within our model using excels data tables function. We chose to focus all our analyses on the DCF and EP model due to Incyte's lack of dividends. The sensitivity analysis results are as follows:

Terminal Growth vs. Contraction of R&D (Δ % of Sales)

We decided to compare the effects of these two inputs in the same table due to the compounding nature of each. Our current forecasts include a 3.25% terminal growth rate and R&D expenditures contracting by 1% per year after managements guidance of 52% in 2019.

As terminal growth rate increases, the continuing value increases and this is reflected by an increased intrinsic value. The increased contraction of R&D as a % of sales also increases the intrinsic value, falls due to an increase in profit margins. Given our range of reasonable outcomes, R&D had a stronger influence on intrinsic value. This makes sense due to our firms large forecasted investments R&D.

Equity Risk Premium vs. Beta

Beta measures company volatility in relation the market. We used Bloomberg's 5-year weekly raw beta of 1.092 for forecasting purposes. We have forecasted the equity risk premium to be 4.96% from historical data and the Henry Fund's guidance.

Both inputs impact the intrinsic value of Incyte by influencing WACC. As either increases so will the Cost of Equity, which will thusly increase the company's WACC. Given our range of reasonable outcomes, ERP had a stronger influence on intrinsic value than beta.

Marginal Tax Rate vs. SGA expense (% of sales)

We chose these variables to compare the effects of a non-constant piece of our model (taxes due to large carryforwards) to a 100% constant variable (SGA % of sales). Our forecasts included MTR of 21% and a constant SGA proportion of 21.31%.

A reduction in the tax rate means less taxes a company must pay, and therefore a higher intrinsic value. Similarly, when constant SGA expense as a % of sales decreases profit margin expands and increases intrinsic value. Given our range of reasonable outcomes, our constant variable, SGA, greatly out influenced our non-constant variable of MTR. This makes sense if one

analyzes the common size income statement and realizes the proportion SGA as a % of sales is much greater than income taxes as a % of sales.

Capex Growth vs. 2020 Jakafi Growth

We chose to compare these variable due to the inverse relation of their impacts on revenue as well as a shared compounding effect. Capex growth refers to the YOY increase in capital expenditures which we currently have forecasted at 3.25%. 2020 Jakafi Revenue growth is the first forecasted year of growth outside of managements guidance.

Decreasing the initial growth rate of a product line which results for 72% of all forecasted revenue inherently has a large negative influence on stock price by decreasing revenues. On the other hand, decreasing the growth rate of capital expenditures results in an increase in the intrinsic value through a reduction in expenses.

Given our range of reasonable outcomes, the variable with a negative relationship with revenue had a larger impact than the inverse. We attribute this to the heavy reliance on Jakafi.

Normal Cash (% of sales) vs. Risk-Free Rate

We chose to compare the effects of these inputs on the intrinsic value of Incyte due to the strong potential for each of them to shift away from our forecasts. Normal cash reserves for biotech stocks vary widely, with some firms coming in below 10% and others with cash reserves above 50%. Incyte belongs to the latter with 62.2% of sales in cash reserves. The risk-free rate is a function of the federal funds rate which currently has a 69.5% probability to change before December 2020.³⁷

As normal cash grows invested capital increases and therefore intrinsic value decreases. Similarly, intrinsic value falls when we increase the risk-free rate due to its positive influence on WACC.

Important Disclaimer

This report was created by students enrolled in the Applied Equity Valuation (FIN:4250) class at the University of Iowa. The report was originally created to offer an internal investment recommendation for the University of Iowa Krause Fund and its advisory board. The report also provides potential employers and other interested parties an example of the students' skills, knowledge and abilities. Members of the Krause Fund are not registered investment advisors, brokers or officially licensed financial professionals. The investment advice contained in this report does not represent an offer or solicitation to buy or sell any of the securities mentioned. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Krause Fund may hold a financial interest in the companies mentioned in this report.

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Incyte Corporation
Revenue Decomposition

<i>Fiscal Years Ending Dec. 31</i>	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027CV
JAKAFI	852.80	1,133.40	1,387.00	1,665.00	1,948.05	2,220.78	2,487.27	2,760.87	3,036.96	3,310.28	3,508.90	3,579.08
% Growth	33%	22%	20%	17%	17%	14%	12%	11%	10%	9%	6%	2%
ICLUSIG	29.60	66.90	79.90	95.80	112.09	127.78	141.83	153.18	160.84	164.06	166.52	168.18
% Growth	126%	19%	20%	17%	17%	14%	11%	8%	5%	2%	2%	1%
Total Product Revenues	\$ 882.40	\$ 1,200.30	\$ 1,466.90	\$ 1,760.80	\$ 2,060.14	\$ 2,348.56	\$ 2,629.10	\$ 2,914.05	\$ 3,197.80	\$ 3,474.34	\$ 3,675.42	\$ 3,747.26
JAKAVI	110.71	151.70	194.70	237.53	277.91	311.26	342.39	366.36	384.68	396.22	400.18	400.18
% Growth	37%	28%	22%	17%	17%	12%	10%	7%	5%	3%	1%	0%
OLUMIANT	-	9.10	40.10	69.37	106.14	157.09	215.21	275.47	330.56	380.15	418.16	449.53
% Growth		341%	73%	53%	48%	37%	28%	20%	15%	10%	8%	
Total Licensing Revenues	\$ 111.08	\$ 161.08	\$ 235.02	\$ 307.08	\$ 384.23	\$ 468.47	\$ 557.70	\$ 641.90	\$ 715.29	\$ 776.40	\$ 818.35	\$ 849.70
Total Contract/Other Revenues	\$ 112.51	\$ 175.00	\$ 180.00	\$ 180.00	\$ 207.00	\$ 238.05	\$ 273.76	\$ 314.82	\$ 362.04	\$ 416.35	\$ 478.80	\$ 550.62
Other Revenues	56%	3%	0%	15%	15%	15%	15%	15%	15%	15%	15%	
	92.00											
Total Revenues	1,105.99	1,536.38	1,881.92	2,247.88	2,651.36	3,055.08	3,460.56	\$3,870.77	\$4,275.13	\$4,667.09	\$4,972.57	\$5,147.59
Total Revenue Growth Rate	39%	22%	19%	18%	15%	13%	12%	10%	9%	7%	4%	

Incyte Corporation
Income Statement

<i>Fiscal Years Ending Dec. 31</i>	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027
Sales	1,105.7	1,536.2	1,881.9	2,247.9	2,651.4	3,055.1	3,460.6	3,870.8	4,275.1	4,667.1	4,972.6	5,147.6
COGS excluding D&A	45.6	58.0	72.6	92.5	102.3	117.9	133.5	149.4	165.0	180.1	191.9	198.6
Depreciation	14.2	24.6	32.3	32.0	34.8	37.6	40.3	42.9	45.5	48.0	50.6	53.1
Amortization of Intangibles	44.2	27.6	22.7	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5
Gross Income	1,001.7	1,426.1	1,754.3	2,101.9	2,492.7	2,878.1	3,265.2	3,657.0	4,043.2	4,417.4	4,708.6	4,874.4
Operating Expenses												
Research & Development	581.9	1,326.4	1,198.0	1,170.0	1,325.7	1,497.0	1,661.1	1,819.3	1,966.6	2,100.2	2,187.9	2,213.5
Other SG&A	255.8	335.7	400.9	479.0	565.0	651.0	737.4	824.9	911.0	994.6	1,059.7	1,097.0
Total Operating Expense	837.7	1,662.1	1,598.9	1,649.0	1,890.7	2,148.0	2,398.5	2,644.1	2,877.6	3,094.7	3,247.6	3,310.4
EBIT (Operating Income)	164.0	-236.0	155.4	452.9	602.0	730.1	866.7	1,012.9	1,165.6	1,322.7	1,461.0	1,563.9
Nonoperating Interest Income	4.6	17.5	0.0	11.5	15.8	20.5	25.9	31.7	38.8	46.7	55.6	67.3
Other Income (Expense)	-0.2	0.0	31.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Expense	38.7	6.9	1.5	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unusual Expenses												
Exceptional Provisions	17.4	7.7	26.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring Expense	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment Loss	3.3	24.3	44.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	54.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Non-Operating Expenses	-22.3	-86.9	-70.3	-10.6	-15.8	-20.5	-25.9	-31.7	-38.8	-46.7	-55.6	-67.3
Pretax Income	107.4	-312.3	115.3	463.4	617.8	750.6	892.6	1,044.5	1,204.3	1,369.4	1,516.7	1,631.3
Total Taxes	3.2	1.7	6.3	19.5	25.9	97.8	187.4	219.3	252.9	287.5	318.5	342.5
Total Deferred Taxes	0.0	-0.8	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	104.2	-313.1	109.5	444.0	591.9	652.8	705.2	825.2	951.4	1,081.8	1,198.2	1,288.7
Per Share	0.55	-1.48	0.51	2.07	2.74	3.02	3.24	3.78	4.34	4.91	5.37	5.74
Total Shares Outstanding	188.8	211.3	213.3	214.2	215.7	216.5	217.3	218.6	219.3	220.1	223.3	224.5

All figures in millions of U.S. Dollar except per share items.

Incyte Corporation
Balance Sheet

<i>Fiscal Years Ending Dec. 31</i>	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Assets												
Cash Only	652.4	899.5	1,164.0	1,693.2	2285.1	2950.3	3665.6	4547.9	5536.4	6649.0	8105.6	9462.3
Total Short Term Investments	156.2	270.1	274.3	278.7	283.2	287.7	292.3	297.0	301.8	306.6	311.5	316.5
Short-Term Receivables	148.8	266.3	307.6	314.7	371.2	427.7	484.5	541.9	598.5	653.4	696.2	720.7
Inventories	4.1	6.5	7.0	5.6	6.6	7.6	8.7	9.7	10.7	11.7	12.4	12.9
Other Current Assets	32.8	62.4	79.4	45.0	53.0	61.1	69.2	77.4	85.5	93.3	99.5	103.0
Total Current Assets	994.2	1,504.9	1,832.3	2,337.2	2999.1	3734.4	4520.3	5474.0	6532.9	7714.0	9225.1	10615.3
Net Property, Plant & Equipment	167.7	259.8	319.8	348.3	375.9	402.8	429.1	455.0	480.5	505.7	530.8	555.9
Total Investments and Advances	32.9	135.3	100.2	117.7	138	163	191	224	264	310	364	428
Goodwill	155.6	155.6	155.6	155.6	155.6	155.6	155.6	155.6	155.6	155.6	155.6	155.6
Other Intangible Assets	270.4	236.9	215.4	193.9	172.4	150.9	129.4	107.9	86.4	64.9	43.4	21.9
Other Assets	17.8	10.2	22.6	39.3	46.4	53.5	60.6	67.7	74.8	81.7	87.0	90.1
Total Assets	1,638.6	2,302.6	2,645.8	3,192.0	3,887.7	4,659.7	5,486.0	6,484.6	7,593.8	8,831.7	10,406.0	11,866.5
Liabilities & Shareholders' Equity												
ST Debt & Curr. Portion LT Debt	0.0	7.4	0.0	17.4	0	0	0	0	0	0	0	0
Accounts Payable	75.6	67.7	103.8	115.8	136.5	157.3	178.2	199.3	220.2	240.4	256.1	265.1
Accrued Payroll	50.9	74.6	60.2	89.9	106.1	122.2	138.4	154.8	171.0	186.7	198.9	205.9
Miscellaneous Current Liabilities	147.0	225.8	261.3	327.1	385.8	444.5	503.5	563.2	622.0	679.1	723.5	749.0
Total Current Liabilities	273.5	375.4	425.3	550.1	628.4	724.1	820.2	917.4	1013.2	1106.1	1178.5	1220.0
Long-Term Debt	651.5	16.6	17.4	0.0	0	0	0	0	0	0	0	0
Provision for Risks & Charges	281.5	260.2	255.2	234.7	216.0	198.7	182.8	168.2	154.7	142.3	131.0	120.5
Deferred Tax Liabilities	0	0	0.0	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Liabilities (excl. Deferred Income)	12.7	19.8	21.9	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5
Deferred Income	0	0	0.0	0.0	0	0	0	0	0	0	0	0
Total Liabilities	1,219.1	672.0	719.8	812.4	871.8	950.2	1030.4	1113.0	1195.4	1275.9	1337.0	1368.0
Common Stock Par/Additional Paid-In Capital	2,097.1	3,627.6	3,813.9	3,823.6	3868.0	3908.8	3949.6	4040.5	4115.9	4191.4	4506.5	4647.3
Retained Earnings	-1,674.8	-1,990.0	-1,877.8	-1,433.8	-841.9	-189.2	516.0	1,341.2	2,292.7	3,374.5	4,572.7	5,861.4
Unrealized Gain/Loss Marketable Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Appropriated Reserves	-2.9	-7.0	-10.2	-10.2	-10.2	-10.2	-10.2	-10.2	-10.2	-10.2	-10.2	-10.2
Total Shareholders' Equity	419.5	1,630.6	1,926.0	2,379.6	3015.9	3709.5	4455.5	5371.5	6398.4	7555.7	9069.0	10498.5
Total Equity	419.5	1,630.6	1,926.0	2,379.6	3015.9	3709.5	4455.5	5371.5	6398.4	7555.7	9069.0	10498.5
Total Liabilities & Shareholders' Equity	1,638.6	2,302.6	2,645.8	3,192.0	3887.7	4659.7	5485.9	6484.5	7593.8	8831.6	10406.0	11866.5

All figures in millions of U.S. Dollar except per share items.

0.0 0.0 0.0 0.0 0.0 0.0 0.0 0.0

Incyte Corporation
Cash Flow Statement

<i>Fiscal Years Ending Dec. 31</i>	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Operating Activities									
Net Income	444.0	591.9	652.8	705.2	825.2	951.4	1081.8	1198.2	1288.7
Depreciation	32.0	34.8	37.6	40.3	42.9	45.5	48.0	50.6	53.1
Amortization	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5	21.5
Change in Working Capital									
Receivables	-7.1	-56.5	-56.5	-56.8	-57.4	-56.6	-54.9	-42.8	-24.5
Inventories	1.3	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-0.8	-0.4
Other Current Assets	34.4	-8.1	-8.1	-8.1	-8.2	-8.1	-7.8	-6.1	-3.5
Accounts Payable	11.9	20.8	20.8	20.9	21.1	20.8	20.2	15.7	9.0
Accrued Payroll	29.7	16.1	16.1	16.2	16.4	16.2	15.7	12.2	7.0
Other Assets	-16.7	-7.1	-7.1	-7.1	-7.2	-7.1	-6.9	-5.3	-3.1
Other Liabilities	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long Term Debt	-17.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provision for Risks and Charges	-20.4	-18.8	-17.3	-15.9	-14.6	-13.5	-12.4	-11.4	-10.5
Miscellaneous Current Liabilities	65.8	58.7	58.7	59.0	59.7	58.8	57.0	44.4	25.5
Net Operating Cash Flow	584.6	652.4	717.6	774.2	898.4	1028.0	1161.4	1276.3	1362.8
Investing Activities									
Total Short Term Investments	-4.4	-4.5	-4.5	-4.6	-4.7	-4.8	-4.8	-4.9	-5.0
Total Investments and Advances	-17.5	-20.6	-24.2	-28.4	-33.4	-39.3	-46.1	-54.2	-63.7
Capex	-60.5	-62.5	-64.5	-66.6	-68.8	-71.0	-73.3	-75.7	-78.1
Net Investing Cash Flow	-82.4	-87.5	-93.2	-99.6	-106.9	-115.0	-124.3	-134.8	-146.8
Financing Activities									
Proceeds from Issuance of Common Stock	9.7	44.4	40.8	40.8	90.8	75.5	75.5	315.1	140.8
Short-term debt	17.4	-17.4	0	0	0	0	0	0	0
Net Financing Cash Flow	27.1	27.0	40.8	40.8	90.8	75.5	75.5	315.1	140.8
Increase in Cash	529.2	591.9	665.2	715.4	882.3	988.5	1112.6	1456.6	1356.7
Cash, Beginning of Period	1,163.98	1,693.21	2,285.08	2,950.27	3,665.63	4,547.95	5,536.43	6,648.99	8,105.57
Cash, End of Period	1,693.21	2,285.08	2,950.27	3,665.63	4,547.95	5,536.43	6,648.99	8,105.57	9,462.31

All figures in millions of U.S. Dollar except per share items.

Incyte Corporation
Cash Flow Statement

<i>Fiscal Years Ending Dec. 31</i>	2013	2014	2015	2016	2017	2018
Operating Activities						
Net Income / Starting Line	-83.15	-48.48	6.53	104.22	-313.14	109.49
Depreciation, Depletion & Amortization	29.21	41.41	44.88	58.43	52.18	54.97
Deferred Taxes	-	-	-	0.00	0.00	-0.46
Other Funds	67.60	62.44	69.97	117.36	232.21	218.76
Funds from Operations	13.66	55.38	121.38	280.00	-28.76	382.77
Changes in Working Capital	-4.48	-29.12	-34.85	24.75	-64.23	-46.54
Receivables	35.58	-22.56	-56.52	-23.95	-117.54	-41.30
Inventories	-6.59	-4.09	0.10	4.05	4.85	4.04
Accounts Payable	5.14	5.36	5.62	43.76	-7.93	36.16
Other Accruals	27.19	35.53	25.25	26.48	87.76	-12.03
Other Assets/Liabilities	-65.80	-43.36	-9.30	-25.58	-31.37	-33.41
Net Operating Cash Flow	9.18	26.26	86.54	304.76	-92.99	336.23
Investing Activities						
Capital Expenditures	-4.27	-27.88	-26.00	-120.28	-111.02	-73.48
Net Assets from Acquisitions	0.00	0.00	0.00	-142.86	0.00	0.00
Purchase/Sale of Investments	-33.13	-110.56	-79.01	30.65	-238.96	-12.94
Net Investing Cash Flow	-37.40	-138.44	-105.01	-232.49	-349.98	-86.42
Financing Activities						
Change in Capital Stock	73.2	92.8	86.4	50.0	716.2	29.9
Sale of Common & Preferred Stock	73.2	92.8	86.4	50.0	716.2	29.9
Proceeds from Sale of Stock	0.0	0.0	0.0	0.0	649.4	0.0
Proceeds from Stock Options	73.2	92.8	86.4	50.0	66.8	29.9
Issuance/Reduction of Debt, Net	217.2	-0.3	-1.7	-0.4	0.0	0.0
Change in Long-Term Debt	217.2	-0.3	-1.7	-0.4	0.0	0.0
Issuance of Long-Term Debt	717.2	-0.3	0.0	0.0	0.0	0.0
Reduction in Long-Term Debt	-500.0	0.0	-1.7	-0.4	0.0	0.0
Other Funds	-14.8	0.5	2.9	9.1	-17.0	-15.3
Other Uses	-15.0	0.0	-	-4.9	-17.0	-15.3
Other Sources	0.2	0.5	2.9	14.0	0.0	0.0
Net Financing Cash Flow	275.6	93.1	87.6	58.6	690.2	14.7
Exchange Rate Effect	-	-0.006	0.000	-0.009	-0.039	0.091
Net Change in Cash	247.4	-19.1	69.1	130.9	247.2	264.6
Free Cash Flow	4.91	-1.62	60.53	184.48	-204.01	262.74

All figures in millions of U.S. Dollar except per share items.

Incyte Corporation
Income Statement

<i>Fiscal Years Ending Dec. 31</i>	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
COGS excluding D&A	4.12%	3.77%	3.86%	4.11%	3.86%	3.86%	3.86%	3.86%	3.86%	3.86%	3.86%	3.86%
Depreciation	1.28%	1.60%	1.72%	1.42%	1.31%	1.23%	1.16%	1.11%	1.06%	1.03%	1.02%	1.03%
Amortization of Intangibles	4.00%	1.80%	1.20%	0.96%	0.81%	0.70%	0.62%	0.56%	0.50%	0.46%	0.43%	0.42%
Gross Income	90.59%	92.83%	93.22%	93.51%	94.02%	94.21%	94.36%	94.48%	94.57%	94.65%	94.69%	94.69%
Operating Expenses					0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Research & Development	52.62%	86.34%	63.66%	52.05%	50.00%	49.00%	48.00%	47.00%	46.00%	45.00%	44.00%	43.00%
Other SG&A	23.14%	21.85%	21.31%	21.31%	21.31%	21.31%	21.31%	21.31%	21.31%	21.31%	21.31%	21.31%
Total Operating Expense	75.76%	108.19%	84.96%	73.36%	71.31%	70.31%	69.31%	68.31%	67.31%	66.31%	65.31%	64.31%
EBIT (Operating Income)	14.83%	-15.36%	8.26%	20.15%	22.71%	23.90%	25.05%	26.17%	27.26%	28.34%	29.38%	30.38%
Nonoperating Interest Income	0.42%	1.14%	0.00%	0.51%	0.59%	0.67%	0.75%	0.82%	0.91%	1.00%	1.12%	1.31%
Other Income (Expense)	-0.02%	0.00%	1.69%									
Interest Expense	3.50%	0.45%	0.08%	0.04%								
Unusual Expenses												
Exceptional Provisions	1.58%	0.50%	1.39%	0.00%								
Restructuring Expense	0.14%	0.00%	0.00%	0.00%								
Investment Loss	0.65%	3.22%	3.99%	0.00%								
Other	0.00%	7.28%	0.00%	0.00%								
Total Non-Operating Expenses	-4.36%	-11.52%	-6.35%	0.47%	0.70%	0.91%	1.15%	1.41%	1.72%	2.08%	2.48%	3.00%
Pretax Income	9.71%	-20.33%	6.13%	20.62%	23.30%	24.57%	25.79%	26.98%	28.17%	29.34%	30.50%	31.69%
Total Taxes	0.29%	0.11%	0.34%	0.87%	0.98%	3.20%	5.42%	5.67%	5.92%	6.16%	6.40%	6.65%
Total Deferred Taxes	0.00%	-0.05%	-0.02%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net Income	9.43%	-20.38%	5.82%	19.75%	22.32%	21.37%	20.38%	21.32%	22.26%	23.18%	24.10%	25.04%

All figures in millions of U.S. Dollar except per share items.

Incyte Corporation

Common Size Balance Sheet % of Sales

<i>Fiscal Years Ending Dec. 31</i>	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Assets															
Cash Only	133%	88%	69%	59%	59%	62%	75.32%	86.19%	96.57%	105.93%	117.49%	129.50%	142.47%	163.01%	183.82%
Total Short Term Investments	11%	29%	25%	14%	18%	15%	12.40%	10.68%	9.42%	8.45%	7.67%	7.06%	6.57%	6.26%	6.15%
Short-Term Receivables	10%	11%	15%	13%	17%	16%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%
Inventories	0.11%	0.07%	0.24%	0.37%	0.42%	0.37%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
Other Current Assets	3%	8%	2%	3%	4%	4%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Total Current Assets	157%	137%	112%	90%	98%	97%	103.97%	113.12%	122.24%	130.62%	141.42%	152.81%	165.28%	185.52%	206.22%
Net Property, Plant & Equipment	8%	16%	11%	15%	17%	17%	15.49%	14.18%	13.19%	12.40%	11.75%	11.24%	10.84%	10.68%	10.80%
Total Investments and Advances	4%	3%	7%	3%	9%	5%	5.24%	5.22%	5.32%	5.52%	5.80%	6.17%	6.64%	7.32%	8.31%
Goodwill	0%	0%	0%	14%	10%	8%	6.92%	5.87%	5.09%	4.50%	4.02%	3.64%	3.33%	3.13%	3.02%
Other Intangible Assets	0%	-	-	24%	15%	11%	8.62%	6.50%	4.94%	3.74%	2.79%	2.02%	1.39%	0.87%	0.42%
Other Assets	9%	7%	4%	2%	1%	1%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%
Total Assets	177.37%	162.28%	133.66%	148.19%	149.89%	140.59%	142.00%	146.63%	152.52%	158.53%	167.53%	177.63%	189.23%	209.27%	230.53%
Liabilities & Shareholders' Equity															
ST Debt & Curr. Portion LT Debt	0%	17%	0%	0%	0%	0%	0.77%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Accounts Payable	5%	5%	4%	7%	4%	6%	5.15%	5.15%	5.15%	5.15%	5.15%	5.15%	5.15%	5.15%	5.15%
Accrued Payroll	8%	7%	5%	5%	5%	3%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Miscellaneous Current Liabilities	17%	15%	13%	13%	15%	14%	14.55%	14.55%	14.55%	14.55%	14.55%	14.55%	14.55%	14.55%	14.55%
Total Current Liabilities	30%	43%	22%	25%	24%	23%	24.47%	23.70%	23.70%	23.70%	23.70%	23.70%	23.70%	23.70%	23.70%
Long-Term Debt	186%	118%	82%	59%	1%	1%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Provision for Risks & Charges	0%	0%	-	25%	17%	14%	10.44%	8.15%	6.50%	5.28%	4.34%	3.62%	3.05%	2.63%	2.34%
Deferred Tax Liabilities	0%	0%	-	-	-	-	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other Liabilities (excl. Deferred Income)	8%	11%	6%	1%	1%	1%	1.22%	1.04%	0.90%	0.79%	0.71%	0.64%	0.59%	0.55%	0.53%
Deferred Income	7%	2%	0%	-	-	-	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Liabilities	231.77%	178.24%	110.95%	110.26%	43.74%	38.25%	36.14%	32.88%	31.10%	29.78%	28.76%	27.96%	27.34%	26.89%	26.57%
Common Stock Par/Additional Paid-In Capital	434%	333%	259%	190%	236%	203%	170.10%	145.89%	127.94%	114.13%	104.38%	96.28%	89.81%	90.63%	90.28%
Retained Earnings	0%	-349%	-236%	-151%	-130%	-100%	-63.78%	-31.75%	-6.19%	14.91%	34.65%	53.63%	72.30%	91.96%	113.87%
Unrealized Gain/Loss Marketable Securities	0%	0%	0%	0%	0%	0%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other Appropriated Reserves	1%	0%	0%	0%	0%	-1%	-0.45%	-0.38%	-0.33%	-0.29%	-0.26%	-0.24%	-0.22%	-0.21%	-0.20%
Total Shareholders' Equity	-54.40%	-15.96%	22.71%	37.94%	106.15%	102.34%	105.86%	113.75%	121.42%	128.75%	138.77%	149.67%	161.89%	182.38%	203.95%
Total Equity	-54.40%	-15.96%	22.71%	37.94%	106.15%	102.34%	105.86%	113.75%	121.42%	128.75%	138.77%	149.67%	161.89%	182.38%	203.95%
Total Liabilities & Shareholders' Equity	177.37%	162.28%	133.66%	148.19%	149.89%	140.59%	142.00%	146.63%	152.52%	158.53%	167.53%	177.63%	189.23%	209.27%	230.52%

All figures in millions of U.S. Dollar except per share items.

Incyte Corporation
Value Driver Estimation

Fiscal Years Ending Dec. 31	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
NOPLAT													
Operating Revenues	753.8	1105.7	1,536.22	1,881.88	2,247.88	2,651.36	3,055.08	3,460.56	3,870.77	4,275.13	4,667.09	4,972.57	5,147.59
(COGS)	4.5	45.6	57.98	72.62	92.50	102.32	117.90	133.55	149.38	164.98	180.11	191.89	198.65
(SG&A)	174.2	255.8	335.73	400.94	479.02	565.01	651.04	737.45	824.86	911.03	994.56	1,059.66	1,096.95
(R & D)	479.5	581.9	1,326.36	1,197.96	1,170.00	1,325.68	1,496.99	1,661.07	1,819.26	1,966.56	2,100.19	2,187.93	2,213.46
(Depreciation Expense)	11.3	14.2	24.60	32.30	31.98	34.83	37.59	40.28	42.91	45.50	48.05	50.57	53.08
(Amortization of Intangibles)	33.6	44.2	27.58	22.67	21.50	21.50	21.50	21.50	21.50	21.50	21.50	21.50	21.50
Implied Interest on Operating Leases	0.0	0.9	1.05	1.40	0.42	0.18	0.11	0.05	-	-	-	-	-
EBITA	50.7	164.9	(234.98)	156.80	453.30	602.21	730.17	866.77	1,012.86	1,165.56	1,322.69	1,461.02	1,563.94
Income Tax Provision	0.0	3.2	1.66	6.31	19.46	25.95	97.83	187.44	219.33	252.88	287.54	318.47	342.54
Tax Shield on Interest Expense	16.0	13.6	2.42	0.32	0.20	-	-	-	-	-	-	-	-
Tax on Non-Operating Income	2.5	1.5	6.13	6.67	2.42	3.31	4.31	5.44	6.65	8.14	9.81	11.69	14.14
Total Adjusted Taxes	13.5	15.2	(2.05)	(0.03)	17.25	22.63	93.52	182.00	212.68	244.75	277.74	306.79	328.40
Deferred Tax Liability	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-
Deferred Tax Asset	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-
Change in Deferred Tax	0.0	0.0	-	-	-	-	-	-	-	-	-	-	-
NOPLAT	37.2	149.7	(232.93)	156.83	436.05	579.58	636.65	684.77	800.18	920.82	1,044.95	1,154.23	1,235.54
IC													
Operating Current Assets													
Normal Cash	452.30	652.4	899.5	1,164.0	1,398.2	1,649.1	1,900.3	2,152.5	2,407.6	2,659.1	2,902.9	3,092.9	3,201.8
Short-Term Receivables	114.45	148.8	266.3	307.6	314.7	371.2	427.7	484.5	541.9	598.5	653.4	696.2	720.7
Inventories	1.78	4.1	6.5	7.0	5.6	6.6	7.6	8.7	9.7	10.7	11.7	12.4	12.9
Other Current Assets	17.84	32.8	62.4	79.4	45.0	53.0	61.1	69.2	77.4	85.5	93.3	99.5	103.0
Total Operating Current Assets	586.37	838.0	1,234.7	1,557.9	1,763.5	2,080.0	2,396.7	2,714.8	3,036.6	3,353.8	3,661.3	3,901.0	4,038.3
Operating Current Liabilities													
Accounts Payable	30.09	75.6	67.7	103.8	115.8	136.5	157.3	178.2	199.3	220.2	240.4	256.1	265.1
Accrued Payroll	38.12	50.9	74.6	60.2	89.9	106.1	122.2	138.4	154.8	171.0	186.7	198.9	205.9
Miscellaneous Current Liabilities	99.81	147.0	225.8	261.3	327.1	385.8	444.5	503.5	563.2	622.0	679.1	723.5	749.0
Total Operating Current Liabilities	168.01	273.5	368.0	425.3	532.7	628.4	724.1	820.2	917.4	1,013.2	1,106.1	1,178.5	1,220.0
Net Operating WC	418.37	564.5	866.7	1,132.6	1,230.7	1,451.6	1,672.7	1,894.7	2,119.2	2,340.6	2,555.2	2,722.5	2,818.3
NetPPE	86.01	167.7	259.8	319.8	348.3	375.9	402.8	429.1	455.0	480.5	505.7	530.8	555.9
Other Long Term Operating Assets													
Other Intangible Assets	-	270.4	236.9	215.4	193.9	172.4	150.9	129.4	107.9	86.4	64.9	43.4	21.9
PV of OL	0.01	16.6	19.3	25.8	29.3	31.6	33.8	36.0	38.2	40.4	42.5	44.6	46.7
Other Assets	29.83	17.8	10.2	22.6	39.3	46.4	53.5	60.6	67.7	74.8	81.7	87.0	90.1
Total Other Long Term Operating Assets	29.85	304.9	266.4	263.8	262.5	250.3	238.2	226.0	213.8	201.5	189.0	175.0	158.6
Other Liabilities	48.39	12.7	19.8	21.9	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5
Total Other Long Term Operating Liabilities	48.39	12.7	19.8	21.9	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5	27.5
Invested Capital	485.83	1,024.38	1,373.09	1,694.23	1,813.95	2,050.37	2,286.14	2,522.26	2,760.54	2,995.14	3,222.47	3,400.79	3,505.33
Economic Profit	-5.77	106.00	-325.12	33.25	313.28	448.13	488.07	519.10	617.40	720.77	827.90	920.71	989.09
FCF from operating activities	28.52	-388.82	-581.63	-164.31	316.34	343.15	400.89	448.65	561.90	686.22	817.62	975.91	1,130.99
ROIC	8%	30.82%	-22.74%	11.42%	25.74%	31.95%	31.05%	29.95%	31.72%	33.36%	34.89%	35.82%	36.33%

Incyte Corporation*Weighted Average Cost of Capital (WACC) Estimation***Cost of Equity**

Risk-free rate (10 yr treasury yield)	1.8%
Market Risk Premium	4.96%
Beta (5 year weekly)	1.092
Cost of Equity	7.26%

Cost of Debt

Pre-tax	5.43%
Tax rate	21%
After-tax Cost of debt	4.29%

Market Value of Equity

Share Price	\$86.70
Shares Outstanding(Includes Convertible Debt)	214.20
Market Value of Equity	18,571.10

Market Value of Debt

STD & Current Portion LTD	0
LTD	0
PV Op. Leases	25.81
Market Value of Debt	25.81

Market Weights

% Equity	99.86%
% Debt	0.14%

WACC	7.25%
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Incyte Corporation

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:

CV Growth	3.25%
CV ROIC	36.33%
WACC	7.25%
Cost of Equity	7.26%

Fiscal Years Ending 0.0325

	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
DCF Model									
NOPLAT	436.05	579.58	636.65	684.77	800.18	920.82	1,044.95	1,154.23	1,235.54
CapEx	119.72	236.43	235.76	236.12	238.28	234.60	227.33	178.32	104.55
FCF	316.34	343.15	400.89	448.65	561.90	686.22	817.62	975.91	1,130.99
CV									28,148.69

Cash Flow to Discount	316.34	343.15	400.89	448.65	561.90	686.22	817.62	975.91	28,148.69
Discount Periods	1	2	3	4	5	6	7.00	8.00	8.00
PV of Cash Flows	294.96	298.34	324.99	339.14	396.04	450.98	501.03	557.62	16,083.75

Value of Operating Assets	19,246.86
Add: Excess Cash	-
Add: Marketable Securities	274.34
Add: Long Term Investments	117.74
Add: Other Non-operating assets	22.60
Less: PV of Op Leases	(25.81)
Less: Convertible Debt	(900.62)
Less: Pension Liability	(9.60)
Less: ESOP	(507.88)
Value of Equity	18,217.62
Shares Outstanding	214.20
Intrinsic Value (per share)	85.05

Intrinsic Value with Partial Year Adjustment 90.69

	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
EP Model									
NOPLAT	436.05	579.58	636.65	684.77	800.18	920.82	1,044.95	1,154.23	1,235.54
Beginning Invested Capital	1,694.23	1,813.95	2,050.37	2,286.14	2,522.26	2,760.54	2,995.14	3,222.47	3,400.79
ROIC	25.74%	31.95%	31.05%	29.95%	31.72%	33.36%	34.89%	35.82%	36.33%
WACC	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%
Economic Profit	313.28	448.13	488.07	519.10	617.40	720.77	827.90	920.71	989.09
CV									24,747.91

Cash Flow to Discount	313.28	448.13	488.07	519.10	617.40	720.77	827.90	920.71	24,747.91
Discount Periods	1	2	3	4	5	6	7	8.00	8.00
PV of Cash Flows	292.11	389.61	395.67	392.39	435.16	473.69	507.33	526.08	14,140.59

Value of EP	17552.63
Beginning IC	1,694.23
Value of Op Assets	19246.86
Add: Excess Cash	0
Add: Marketable Securities	274.343
Add: Long Term Investments	117.74
Add: Other Non-operating assets	22.60
Less: PV of Op Leases	(25.81)
Less: Convertible Debt	(900.62)
Less: Pension Liability	(9.60)
Less: ESOP	(507.88)
Value of Equity	18,217.62
Shares Outstanding	214.20
Intrinsic Value (per share)	85.05

Intrinsic Value with Partial Year Adjustment 90.69

Incyte Corporation

Relative Valuation Models

Ticker	Company	Price	EPS		P/E 19	P/E 20	Est. 5yr			Enterprise Value	EBIT	EBITDA	Enterprise Value/ EBIT	Enterprise Value/ EBITDA
			2019E	2020E			EPS gr.	PEG 19	PEG 20					
AMGN	Amgen Inc.	\$217.95	\$14.42	\$15.67	15.11	13.91	7.9	1.91	1.76	138926	9910	11904	14.02x	11.67x
ALXN	Alexion Pharmaceuticals	\$109.38	\$10.37	\$11.15	10.55	9.81	16.2	0.65	0.61	24845.6	1864.6	2261.6	13.32x	10.99x
CELG	Celgene	\$108.53	\$11.06	\$12.43	9.81	8.73	14.7	0.67	0.59	86414.3	8094	8749	10.68x	9.88x
ZTS	Zoetis Inc.	\$125.34	\$3.57	\$4.46	35.11	28.10	11.2	3.12	2.50	64728.1	1919	2300	33.73x	28.14x
REGN	Regeneron Pharmaceuticals	\$310.48	\$23.33	\$24.97	13.31	12.43	7.1	1.89	1.76	32161.6	2140.6	2321.9	15.02x	13.85x
ROG-CH	Roche Holding	\$301.57	\$19.73	\$20.33	15.28	14.83	6.7	2.28	2.21	271318	17934.5	21865	15.13x	12.41x
			Average											
					16.53	14.64		1.75	1.57					14.49x
INCY	Incyte Corporation	\$86.70	\$2.07	\$2.74	41.8	31.6	47.1	0.9	0.7	16090.9	413	468.4	38.96x	34.35x

Implied Relative Value:

P/E (EPS19)	\$ 34.26
P/E (EPS20)	\$ 40.17
PEG (EPS19)	\$ 171.05
PEG (EPS20)	\$ 203.08

Sensitivity Analysis

CV GROWTH

	90.69	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%
R&D	0.25%	\$ 61.11	\$ 63.51	\$ 66.18	\$ 69.18	\$ 72.59	\$ 76.49	\$ 80.98
	0.50%	\$ 67.27	\$ 69.96	\$ 72.97	\$ 76.35	\$ 80.19	\$ 84.58	\$ 89.64
	0.75%	\$ 73.42	\$ 76.41	\$ 79.76	\$ 83.52	\$ 87.79	\$ 92.67	\$ 98.30
	1.00%	\$ 79.57	\$ 82.86	\$ 86.55	\$ 90.69	\$ 95.39	\$ 100.76	\$ 106.95
	1.25%	\$ 85.72	\$ 89.32	\$ 93.34	\$ 97.86	\$ 102.99	\$ 108.85	\$ 115.61
	1.50%	\$ 91.87	\$ 95.77	\$ 100.13	\$ 105.03	\$ 110.58	\$ 116.93	\$ 124.26
	1.75%	\$ 98.02	\$ 102.22	\$ 106.91	\$ 112.20	\$ 118.18	\$ 125.02	\$ 132.92

Beta

	90.69	0.7	0.8	0.9	1.092	1.1	1.2	1.3
ERP	3.00%	\$ 596.55	\$ 410.51	\$ 311.33	\$ 210.59	\$ 207.73	\$ 177.29	\$ 154.21
	3.50%	\$ 389.99	\$ 287.82	\$ 226.90	\$ 159.66	\$ 157.66	\$ 136.13	\$ 119.42
	4.00%	\$ 287.82	\$ 220.15	\$ 177.29	\$ 127.61	\$ 126.10	\$ 109.61	\$ 96.62
	4.96%	\$ 189.19	\$ 149.74	\$ 123.17	\$ 90.69	\$ 89.67	\$ 78.45	\$ 69.47
	5.50%	\$ 157.66	\$ 126.10	\$ 104.39	\$ 77.38	\$ 76.52	\$ 67.06	\$ 59.43
	6.00%	\$ 136.13	\$ 109.61	\$ 91.12	\$ 67.80	\$ 67.06	\$ 58.81	\$ 52.13
	6.50%	\$ 119.42	\$ 96.62	\$ 80.55	\$ 60.09	\$ 59.43	\$ 52.13	\$ 46.21

SG&A

	90.69	18%	19%	20%	21%	22%	23%	24%
MTR %	9%	\$ 106.365	\$ 101.629	\$ 96.893	\$ 90.689	\$ 87.421	\$ 82.685	\$ 77.949
	13%	\$ 106.366	\$ 101.630	\$ 96.894	\$ 90.689	\$ 87.421	\$ 82.685	\$ 77.949
	17%	\$ 106.366	\$ 101.630	\$ 96.894	\$ 90.690	\$ 87.422	\$ 82.686	\$ 77.950
	21%	\$ 106.367	\$ 101.631	\$ 96.895	\$ 90.690	\$ 87.423	\$ 82.686	\$ 77.950
	25%	\$ 106.368	\$ 101.632	\$ 96.895	\$ 90.691	\$ 87.423	\$ 82.687	\$ 77.951
	29%	\$ 106.368	\$ 101.632	\$ 96.896	\$ 90.692	\$ 87.424	\$ 82.687	\$ 77.951
	34%	\$ 106.369	\$ 101.633	\$ 96.897	\$ 90.692	\$ 87.424	\$ 82.688	\$ 77.952

2020 Jakafi Revenue Growth

	90.69	8%	11%	14%	17%	20%	23%	26%
Capex Growth	1.5%	\$ 90.29	\$ 90.55	\$ 90.81	\$ 91.07	\$ 91.33	\$ 91.59	\$ 91.85
	2.0%	\$ 90.19	\$ 90.44	\$ 90.70	\$ 90.96	\$ 91.22	\$ 91.48	\$ 91.74
	2.5%	\$ 90.08	\$ 90.34	\$ 90.60	\$ 90.86	\$ 91.12	\$ 91.37	\$ 91.63
	3.3%	\$ 89.91	\$ 90.17	\$ 90.43	\$ 90.69	\$ 90.95	\$ 91.21	\$ 91.47
	3.5%	\$ 89.86	\$ 90.12	\$ 90.37	\$ 90.63	\$ 90.89	\$ 91.15	\$ 91.41
	4.0%	\$ 89.74	\$ 90.00	\$ 90.26	\$ 90.52	\$ 90.78	\$ 91.04	\$ 91.30
	4.5%	\$ 89.62	\$ 89.88	\$ 90.14	\$ 90.40	\$ 90.66	\$ 90.92	\$ 91.18

Risk Free Rate

	90.69	1.5%	1.6%	1.7%	1.8%	1.8%	2.0%	2.1%
Normal Cash	54.0%	\$ 103.08	\$ 100.02	\$ 97.11	\$ 93.29	\$ 94.35	\$ 89.23	\$ 86.85
	57.0%	\$ 102.09	\$ 99.04	\$ 96.14	\$ 92.34	\$ 93.40	\$ 88.30	\$ 85.93
	60.0%	\$ 101.09	\$ 98.06	\$ 95.18	\$ 91.39	\$ 92.44	\$ 87.37	\$ 85.01
	62.2%	\$ 100.36	\$ 97.34	\$ 94.47	\$ 90.69	\$ 91.74	\$ 86.69	\$ 84.34
	65.0%	\$ 99.44	\$ 96.42	\$ 93.56	\$ 89.80	\$ 90.85	\$ 85.82	\$ 83.48
	68.0%	\$ 98.44	\$ 95.44	\$ 92.60	\$ 88.85	\$ 89.90	\$ 84.89	\$ 82.56
	71.0%	\$ 97.45	\$ 94.46	\$ 91.63	\$ 87.90	\$ 88.94	\$ 83.95	\$ 81.64

Present Value of Operating Lease Obligations (2018)

Fiscal Years Ending Dec. 31	Operating Leases
2019	12,909.00
2020	8,589.00
2021	3,899.00
2022	2,011.00
2023	1,155.00
Thereafter	-
Total Minimum Payments	28,563.00
Less: Interest	2,750.44
PV of Minimum Payments	25,812.56

Capitalization of Operating Leases

Pre-Tax Cost of Debt	0.05
Number Years Implied by Year 6 Payment	1.00

Year	Lease Commitment	PV Lease Payment
1.00	12,909.00	12,244.14
2.00	8,589.00	7,727.06
3.00	3,899.00	3,327.06
4.00	2,011.00	1,627.63
5.00	1,155.00	886.67
6 & beyond	-	-
PV of Minimum Payments		25,812.56

Present Value of Operating Lease Obligations (2017)

Fiscal Years Ending Dec. 31	Operating Leases
2018	11,500.00
2019	6,200.00
2020	2,300.00
2021	700.00
2022	300.00
Thereafter	100.00
Total Minimum Payments	21,100.00
Less: Interest	1,782.20
PV of Minimum Payments	19,317.80

Capitalization of Operating Leases

Pre-Tax Cost of Debt	0.05
Number Years Implied by Year 6 Payment	1.00

Year	Lease Commitment	PV Lease Payment
1.00	11,500.00	10,907.71
2.00	6,200.00	5,577.80
3.00	2,300.00	1,962.62
4.00	700.00	566.55
5.00	300.00	230.30
6 & beyond	100.00	72.81
PV of Minimum Payments		19,317.80

Present Value of Operating Lease Obligations (2016)

Fiscal Years Ending Dec. 31	Operating Leases
2017	7,900.00
2018	5,600.00
2019	1,800.00
2020	1,000.00
2021	600.00
Thereafter	1,900.00
Total Minimum Payments	18,800.00
Less: Interest	2,155.11
PV of Minimum Payments	16,644.89

Capitalization of Operating Leases

Pre-Tax Cost of Debt	0.05
Number Years Implied by Year 6 Payment	3.17

Year	Lease Commitment	PV Lease Payment
1.00	7,900.00	7,493.12
2.00	5,600.00	5,038.02
3.00	1,800.00	1,535.96
4.00	1,000.00	809.36
5.00	600.00	460.61
6 & beyond	600.00	1,307.82
PV of Minimum Payments		16,644.89

Present Value of Operating Lease Obligations (2015)

Fiscal Years Ending Dec. 31	Operating Leases
2016	4.50
2017	3.70
2018	3.70
2019	1.20
2020	0.60
Thereafter	2.50
Total Minimum Payments	16.20
Less: Interest	2.34
PV of Minimum Payments	13.86

Capitalization of Operating Leases

Pre-Tax Cost of Debt	0.05
Number Years Implied by Year 6 Payment	4.17

Year	Lease Commitment	PV Lease Payment
1.00	4.50	4.27
2.00	3.70	3.33
3.00	3.70	3.16
4.00	1.20	0.97
5.00	0.60	0.46
6 & beyond	0.60	1.68
PV of Minimum Payments		13.86

Present Value of Operating Lease Obligations (2014)

Fiscal Years Ending Dec. 31	Operating Leases
2015	0.60
2016	0.60
2017	0.60
2018	0.60
2019	0.70
Thereafter	0.10
Total Minimum Payments	3.20
Less: Interest	0.48
PV of Minimum Payments	2.72

Capitalization of Operating Leases

Pre-Tax Cost of Debt	0.05
Number Years Implied by Year 6 Payment	1.00

Year	Lease Commitment	PV Lease Payment
1.00	0.60	0.57
2.00	0.60	0.54
3.00	0.60	0.51
4.00	0.60	0.49
5.00	0.70	0.54
6 & beyond	0.10	0.07
PV of Minimum Payments		2.72

Present Value of Operating Lease Obligations (2013)

Fiscal Years Ending Dec. 31	Operating Leases
2014	5.60
2015	0.20
2016	-
2017	-
2018	-
Thereafter	-
Total Minimum Payments	5.80
Less: Interest	0.31
PV of Minimum Payments	5.49

Capitalization of Operating Leases

Pre-Tax Cost of Debt	0.05
Number Years Implied by Year 6 Payment	1.00

Year	Lease Commitment	PV Lease Payment
1.00	5.60	5.31
2.00	0.20	0.18
3.00	-	-
4.00	-	-
5.00	-	-
6 & beyond	-	-
PV of Minimum Payments		5.49

VALUATION OF OPTIONS GRANTED IN ESOP

Ticker Symbol	INCY
Current Stock Price	\$86.70
Risk Free Rate	1.84%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	35.74%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	588,741	16.48	0.31	\$ 70.31	\$ 41,396,578
Range 2	1,474,120	18.31	1.09	\$ 68.75	\$ 101,351,065
Range 3	1,652,452	49.41	3.12	\$ 43.40	\$ 71,722,796
Range 4	142,566	66.34	8.70	\$ 45.96	\$ 6,551,754
Range 5	1,426,578	68.62	9.39	\$ 46.35	\$ 66,120,432
Range 6	1,234,047	73.59	4.24	\$ 32.66	\$ 40,310,096
Range 7	1,701,957	88.55	7.73	\$ 36.28	\$ 61,751,447
Range 8	1,578,528	95.62	6.09	\$ 29.95	\$ 47,279,831
Range 9	1,462,739	112.39	7.63	\$ 29.64	\$ 43,348,605
Range 10	1,023,430	128.30	8.09	\$ 27.41	\$ 28,050,855
Total	12,285,158	\$ 63.70	4.94	\$ 39.23	\$ 507,883,459

Effects of ESOP Exercise and Share Repurchases on Common Stock Balance Sheet Account and Number of Shares Outstanding

Number of Options Outstanding (shares): 12,285,158
 Average Time to Maturity (years): 4.94
 Expected Annual Number of Options Exercised: 2,484,639

Current Average Strike Price: \$ 63.70
 Cost of Equity: 7.26%
 Current Stock Price: \$86.70

	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Increase in Shares Outstanding:	588,741	1,474,120	826,226	826,226	1,234,047	789,265	789,265	3,164,696	1,165,996	0
Average Strike Price:	\$ 16.48	\$ 18.31	\$ 49.41	\$ 49.41	\$ 73.59	\$ 95.62	\$ 95.62	\$ 99.57	\$ 120.72	\$ -
Increase in Common Stock Account:	9,702,452	26,991,137	40,823,827	40,823,827	90,813,519	75,469,471	75,469,471	315,108,781	140,759,037	-
Change in Treasury Stock	0	0	0	0	0	0	0	0	0	0
Expected Price of Repurchased Shares:	\$ 86.70	\$ 92.99	\$ 99.74	\$ 106.98	\$ 114.74	\$ 123.06	\$ 131.99	\$ 141.57	\$ 151.85	\$ 162.86
Number of Shares Repurchased:	-	-	-	-	-	-	-	-	-	-
Debt Conversion	-	336,180	-	-	-	-	-	-	-	-
Expected Conversion Price	-	51.76	-	-	-	-	-	-	-	-
Increase in Common Stock Account:		17,400,686								
Shares Outstanding (beginning of the year)	213,274,660	213,863,401	215,673,701	216,499,927	217,326,153	218,560,200	219,349,465	220,138,729	223,303,425	224,469,421
Plus: Shares Issued Through ESOP	588,741	1,474,120	826,226	826,226	1,234,047	789,265	789,265	3,164,696	1,165,996	0
Plus: Shares Issued Through Debt Conversion	-	336,180	-	-	-	-	-	-	-	-
Less: Shares Repurchased in Treasury	-	-	-	-	-	-	-	-	-	-
Shares Outstanding (end of the year)	213,863,401	215,673,701	216,499,927	217,326,153	218,560,200	219,349,465	220,138,729	223,303,425	224,469,421	224,469,421