



CAIRN
INVESTMENT
GROUP

COMPANY SPOTLIGHT:

Biogen Inc.

COMPANY DESCRIPTION

Headquartered in Cambridge, MA, Biogen is a biopharmaceutical company that specializes in the discovery and development of drugs for people suffering from neurological and autoimmune diseases. Their core business is a portfolio of medicines to treat multiple sclerosis (MS) and spinal muscular atrophy. Their CEO since 2017, Michel Vounatsos, was previously with Merck for 20 years.

COMPANY HIGHLIGHTS AND FINANCIALS

According to NeurologyToday, neurological diseases are the leading cause of disability worldwide. Founded in 1978, Biogen rapidly became a global leader in developing

medicines to treat serious neurological diseases. They have the largest portfolio of treatment options for MS, and an estimated 35% of MS patients globally use Biogen medicines. Their core MS medicine business coupled with continuous development of drugs for other neurological diseases including dementia provides them with robust growth potential moving forward. Within the next few years, the company intends to expand their neurological portfolio to better address neuromuscular diseases, strokes, and movement disorders. Biogen's disciplined capital allocation framework and high research and development spending (19% of revenue) provides the potential for consistent growth.

VALUATION AND RISKS

Biogen is trading at a large discount compared to their historical operating performance. Investor concerns caused the price move in March of 2019 after the company abandoned a late stage Alzheimer's drug. While disappointing, and given the current

price, we feel we are buying their still-expanding core MS business for free, and benefiting from future growth potential on their remaining portfolio. Even with modest growth assumptions over the next business cycle, the company is trading at a 20-30% discount to fair value. If our assumptions turn out to be incorrect, we believe this provides a margin of safety.

KEY POINTS

- :: Robust growth opportunities in medicines for stroke and dementia
- :: Healthy balance sheet
- :: Steady research and development strategies
- :: Consistent returns on capital and free cash flow generation
- :: Compelling valuations based on historical operating metrics and future growth projections

Risks that we intend to monitor going forward involve regulation of drug prices and pipeline development. Weighing both potential rewards and risks, we are optimistic that Biogen is a good long-term investment.

—Patrick Mason, Investment Analyst, Cairn Investment Group



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