Zacks Small-Cap Research

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Neurocrine Biosciences, Inc.

(NBIX-NASDAQ)

NBIX: Preliminary 4Q17 Results Highlights Continued Strength From INGREZZA®…

Based on our probability adjusted DCF model that takes into account potential future revenues from INGREZZA® in TD and TS along with elagolix in endometriosis and UF, NBIX is valued at $90/share. This model utilizes a 11% discount rate and is highly contingent upon continued clinical and commercial success of both INGREZZA® and elagolix. It will be adjusted accordingly based upon future clinical results.

Current Price (01/24/18)	$87.87
Valuation	**$90.00**

OUTLOOK

On January 7, 2018, Neurocrine Biosciences, Inc. (NBIX) announced preliminary results for the fourth quarter and full year 2017. Preliminary net product sales for INGREZZA® totaled $64 million in the fourth quarter of 2017, which again was ahead of our estimate of $50 million. Since its launch on May 1, 2017, INGREZZA® sales have totaled approximately $116 million on approximately 14,900 total prescriptions. We have increased our sales estimates for INGREZZA® based on better than anticipated sales in the first 8 months following its launch.

Neurocrine will have a number of milestones upcoming in 2018, including Phase 3 data for elagolix in uterine fibroids in 1Q18, a PDUFA decision for elagolix in endometriosis in 2Q18, an FDA meeting to determine the path forward for opicapone in Jan18, and Phase 2 data for INGREZZA® in Tourette syndrome in late 2018.

SUMMARY DATA

52-Week High	**$87.87**
52-Week Low	**$38.84**
One-Year Return (%)	**119.02**
Beta	**0.35**
Average Daily Volume (sh)	**937,448**
Shares Outstanding (mil)	**88**
Market Capitalization ($mil)	**$7,776**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**5**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2018 Estimate	**81.4**
P/E using 2019 Estimate	**62.3**

Risk Level	**Above Avg.,**
Type of Stock	**Large-Growth**
Industry	**Med-Drugs**

ZACKS ESTIMATES

Revenue

(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	15.0 A	0 A	0 A	0 A	15.0 A
2017	0 A	6.3 A	60.8 A	94.0 E	161.1 E
2018					420.0 E
2019					648.0 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-$0.22 A	-$0.46 A	-$0.43 A	-$0.51 A	-$1.05 A
2017	-$0.90 A	-$0.68 A	-$0.13 A	$0.18 E	-$1.52 E
2018					$0.37 E
2019					$2.34 E

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WHAT'S NEW

Financial Update

On January 7, 2018, Neurocrine Biosciences, Inc. (NBIX) announced preliminary financial results for the fourth quarter and full year 2017. Preliminary revenues for INGREZZA® in the fourth quarter were $64 million, which continued to surpass all expectations (our estimate was $50 million). The company also received a $30 million milestone payment from AbbVie during the fourth quarter of 2017 due to filing a new drug application (NDA) for elagolix for endometriosis. For the full year 2017, Neurocrine reported preliminary revenues for INGREZZA® of $116 million (it was launched on May 1, 2017).

Approximately 14,900 total prescriptions of INGREZZA® were sold since its launch, with 9,100 of those in the fourth quarter of 2017. By all accounts, INGREZZA® has had a very strong launch and there is no sign of it letting up. This is particularly evident considering that during the fourth quarter of 2017 the average price per prescription dropped as the 80 mg tablet was approved and patients were beginning to be transitioned to it.

Based on these results we are increasing our estimates for 2018 and 2019 INGREZZA® sales to $390 million and $630 million, respectively. We believe it is too early to draw definitive conclusions about increases to potential peak sales estimates for INGREZZA® based on the robust launch, thus we continue to call for peak sales of $1.2 billion.

Business Update

Numerous Milestones Ahead in 2018

Neurocrine enjoyed a very successful 2017 and will look to keep the momentum going in 2018 with a number of important milestones throughout the year.

- In January 2018, the company will be meeting with the FDA to determine the path forward for opicapone, which the company acquired an exclusive license to for the United States and Canada from BIAL in February 2017. Opicapone was approved in the EU in June 2016 as an adjunct therapy along with levodopa/DOPA decarboxylase inhibitors for adults with Parkinson's disease. We believe the FDA will require an additional Phase 3 clinical trial conducted in the U.S. prior to Neurocrine filing an NDA, however if the company is able to file without conducting another trial that could represent upside to our model.

- AbbVie is expected to release Phase 3 data for elagolix in the treatment of uterine fibroids in the first quarter of 2018. Based on strong Phase 2 data we anticipate positive results from the Phase 3 study. In addition, we expect a PDUFA decision for elagolix in the treatment of endometriosis in the second quarter of 2018.

- Late in 2018 we anticipate results from the Phase 2 T-Force GOLD study of INGREZZA® in pediatric patients with Tourette syndrome (TS). This is a multicenter, randomized, double blind, placebo controlled Phase 2b study that expects to enroll approximately 120 pediatric patients ages 6-18. While the T-Force GREEN study did not meet the primary endpoint (change in the Yale Global Tic Severity Scale, YGTSS), we believe the T-Force GREEN study has a higher probability of being positive as the company will be using a higher dose of INGREZZA® based on exposure-response analysis from the T-Force GREEN study.

Conclusion

Neurocrine continues to impress with the launch of INGREZZA® and we have made additional upward adjustments to our revenue forecasts for 2018 and 2019. There was some concern that revenues would lag in the fourth quarter of 2017 due to converting patients over to the 80 mg capsule, however this was more than offset by the strong growth in prescriptions. Following our revenue forecast revisions, we have increased our valuation to $90 per share, and believe that Neurocrine would make a solid core holding for any biopharmaceutical investor.

PROJECTED FINANCIALS

Neurocrine Bio	2016 A	Q1 A	Q2 A	Q3 A	Q4 E	2017 E	2018 E	2019 E
R&D / Milestones & Fees	**$15.0**	**$0**	**$0**	**$15**	**$30**	**$45.0**	**$30.0**	**$0.0**
YOY Growth	-	-	-	-	-	-	-	-
elagolix Royalties	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$18**
YOY Growth	-	-	-	-	-	-	-	-
NBI-640756	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth	-					-	-	-
NBI-98854 (VMAT2)	**$0**	**$0**	**$6**	**$46**	**$64**	**$116**	**$390**	**$630**
YOY Growth	-	-	-	-	-	-	-	-
Total Revenues	**$15.0**	**$0**	**$6**	**$61**	**$94**	**$161.1**	**$420.0**	**$648.0**
YOY Growth	-	-	-	-	-	*974.1%*	*160.7%*	*54.3%*
CoGS / Royalties	$0	$0	$0	$0	$3	$3	$38	$58
Gross Margin	-	-	*99.0%*	*99.3%*	*96.8%*	*97.8%*	*91.0%*	*91.0%*
SG&A	$68.1	$28.1	$41.7	$43.9	$47.0	$160.6	$215.0	$240.0
R&D	$94.3	$51.9	$21.9	$22.5	$22.0	$118.2	$120.0	$125.0
Operating Income	($147.4)	($79.9)	($57.3)	($6.0)	$22.0	($121.2)	$47.0	$225.0
Operating Margin	-	-	-	-	-	-	-	-
Interest / Other Income	$6.3	$1.6	($2.7)	($5.1)	($6.0)	($12.2)	($14.0)	($14.0)
Pre-Tax Income	($141.1)	($78.3)	($60.0)	($11.1)	$16.0	($133.4)	$33.0	$211.0
Taxes	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*30.0%*	*0%*	*0%*	*0%*	*0%*	*30.0%*	*30.0%*	*30.0%*
Net Income	($141.1)	($78.3)	($60.0)	($11.1)	$16.0	($133.4)	$33.0	$211.0
YOY Growth	-	-		-	-	-	-	-
Net Margin	-	-	-	-	-	-	-	-
Reported EPS	**($1.63)**	**($0.90)**	**($0.68)**	**($0.13)**	**$0.18**	**($1.52)**	**$0.37**	**$2.34**
YOY Growth	-	-	-	-	-	-	-	-
Shares Outstanding	86.7	87.3	88.1	88.3	88.5	88.0	89.0	90.0

Source: Zacks Investment Research, Inc. *David Bautz, PhD*

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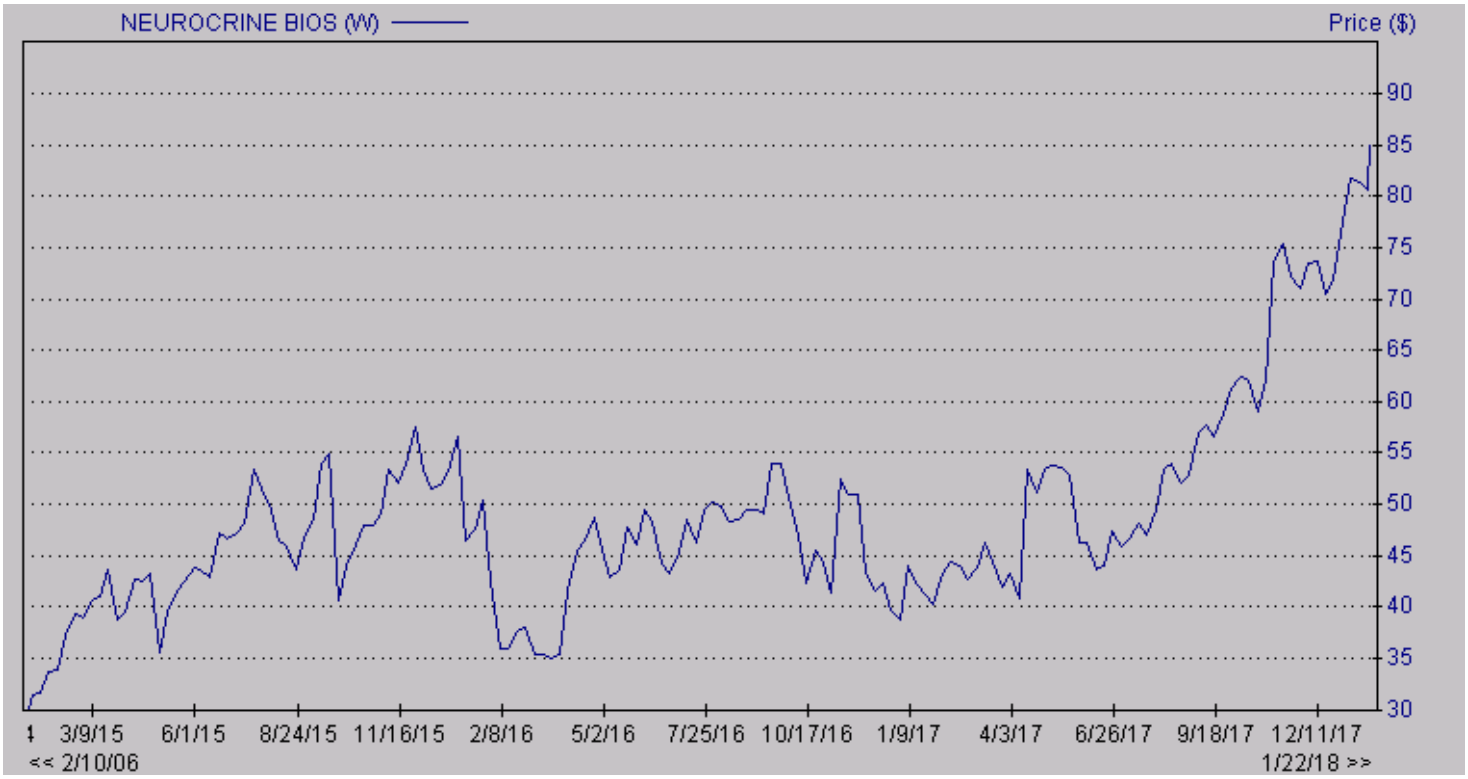

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