



DE ZILVEREN RIJDER



## **Analysis of Genmab**

*A thorough analysis of a biotechnology company combating forms of cancer through immunotherapy*

### **Group 5**

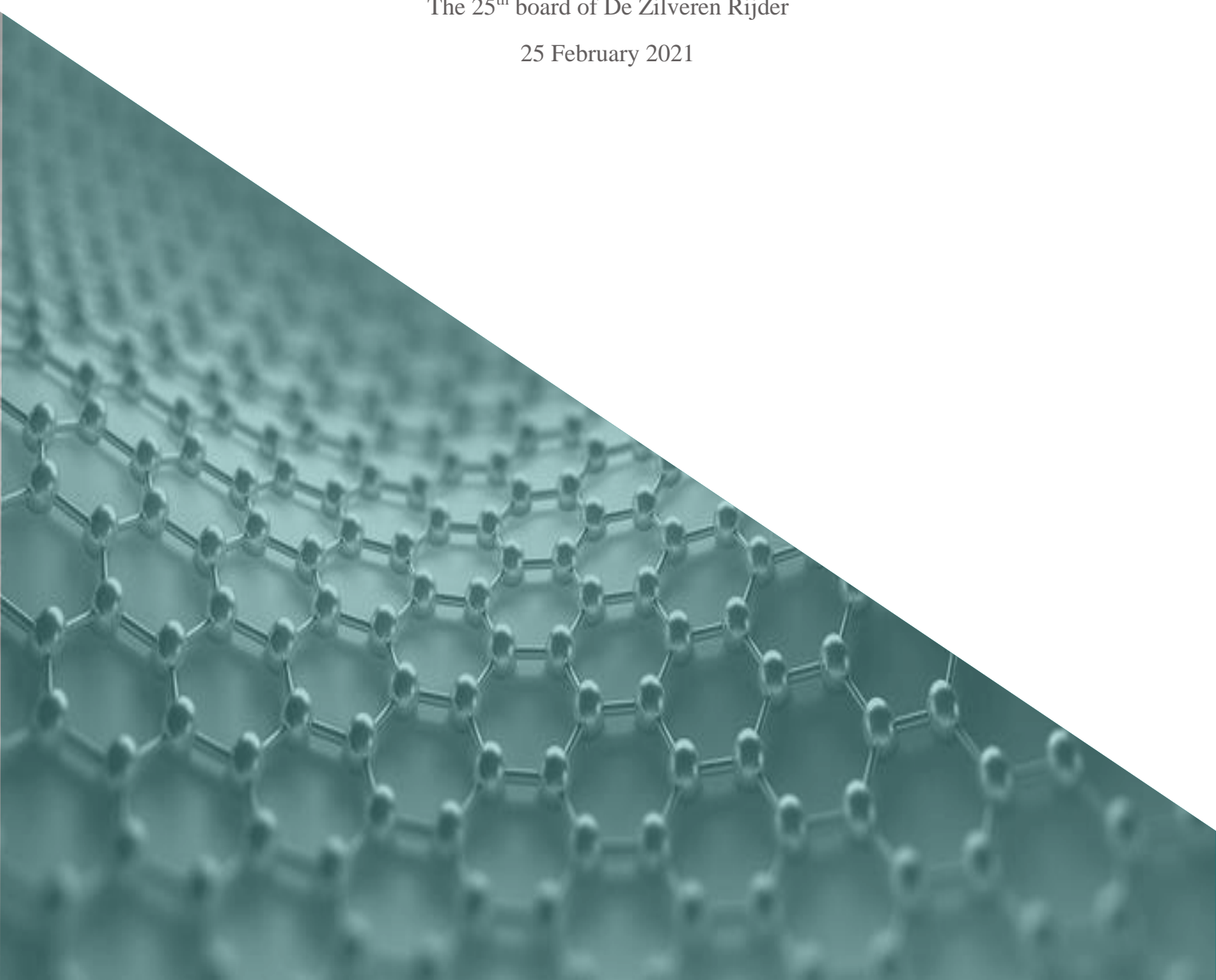
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The Market Analyst Program – February 2021

Nyenrode Business University

The 25<sup>th</sup> board of De Zilveren Ridder

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Welcome to our first group stock analysis. We chose Healthcare, more specifically Biotechnology as our industry and Genmab as our company. We chose biotechnology as this is a thriving industry. Genmab combats forms of cancer through the use of immunology. According to le Deu and da Silva (2019), the cell and gene as well as the immunotherapy biotechnology companies are the fastest growing ones in the biotechnology industry. Other industries that are diminishing or in a recession, such as the tourism industry or airline industry, were not valuable for us at this moment in time. We also wanted to learn about a different industry we did not know much about beforehand. We came up with Genmab as it is a financial stable company in the immunotherapy sector, and thus could be worth investing. This will be shown through an industry analysis, fundamental analysis and technical analysis discussed below.

### **Business overview**

Genmab is a publicly traded, international biotechnology company trading on the Copenhagen Market and since 2019 on the NASDAQ exchange as well. They operate from their headquarters in Copenhagen - Denmark, with research centers and offices in Utrecht - The Netherlands, Tokyo - Japan and Plainsboro - United States of America. Genmab's core purpose is to "improve the lives of patients with cancer by creating and developing innovative and differentiated antibody products" (Genmab, 2021). That purpose is definitely shown through the number of products they released since their founding in 1999. Genmab has currently developed four products and is co-developing 26 products with their broad partnership network consisting of large players in the field (e.g., AbbVie, Roche and Novartis Pharma AG). Genmab's number of employees increased with 42.5% to 781 employees over the past year (Genmab, 2020). Their management team is constituted of highly skilled people who have extremely much knowledge about biotechnology, with Jan G.J. van de Winkel, Ph.D. as Genmab's CEO. Van de Winkel also holds a professorship of immunotherapy,

indicating the knowledge the CEO possesses. Additionally, Brigitte Stephenson is senior vice president of IPR & Legal at Genmab with over 10 years of experience in the field of patents. A promising fact is that BlackRock Inc. holds more than 5% of Genmab's shares. BlackRock Inc. is the world's largest asset manager with \$7.3 trillion assets under management at the end of 2020 (ADV Ratings, 2021).

### Industry analysis

The total biotechnology industry is expected to grow with an average of 7% per year for the coming six years (Fior Markets, 2020) and companies that focus on cell, gene and/or immunotherapy are expected to grow faster (le Deu & da Silva, 2019). Through a SWOT analysis the industry's strengths, weaknesses, opportunities and threats are identified, see Figure 1. Partnerships are mentioned as both a strength and a weakness, good partnerships are a strength as the companies can share information and R&D together. However, when there is no partnership, R&Ding will not be efficient. Therefore, the biotechnology companies are highly partnership dependent. Moreover, whenever a product is successfully produced and launched, the biotechnology company enters a blue ocean, meaning that there are no other competitors in the market. The benefits of such a situation eventually outweighs the weaknesses and threats. Thus, since the biotechnology industry is highly innovative, their competitive advantage over other industries is that they enter blue oceans consistently if a product is produced and launched successfully. A further detailed analysis of the industry Genmab is operating with regards to Genmab's competitors is discussed in Appendix A.

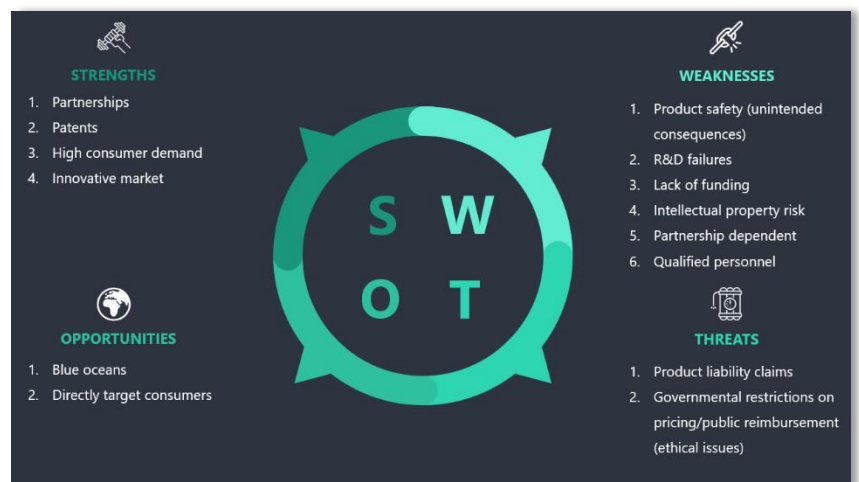


Figure 1. SWOT analysis of the biotechnology industry.

### Fundamental analysis

Genmab's share can currently be valued at 3,321 DKK. This is derived from using the Discounted Cash Flow (DCF) method by using a 5.37% discount rate on estimated cash flows (the average of up to 7 analysts are taken into account) from 2021 to 2030. On 25<sup>th</sup> of February around 10 a.m. the share price was at 2.150 DKK, this results in an undervaluation of 35%. This is supported by the fact that Genmab has announced a share buyback program the 23<sup>th</sup> of February. Genmab plans to repurchase up to 200.000 outstanding shares, which indicates that Genmab's management feels the share is currently undervalued for the expected cash flows in the future (Mamtora, 2021).

Additionally, based on the P/E ratio, Genmab is performing better than the industry average (24.8 versus 33), see Figure 2. This indicates an undervaluation as well. Next to that, the earnings and revenue growth forecast is displayed. This is comprised from 22 analysis estimates. As the next products are expected in a few years, revenue is expected to boom after 2022.



Figure 2. P/E Ratio & expected revenue.

Genmab distinguishes itself through their healthy financial status. Having 18.5 billion DKK in equity and no debt, Genmab has no risk bearing liabilities. As it has never paid out dividend, Genmab clearly shows to have maintained a strong financial management over the years.

### *Risks*

Genmab is highly dependent on approval of their products by governmental medical agencies like the FDA and EMA. Health risks should always be taken into account as well, as production may be terminated consequently. Genmab's healthy financial situation does allow for some setbacks, but no problems have arisen so far and development looks promising. Additionally, Genmab has established various committees dedicated to the selection of disease targets and formats (Genmab, 2019).

With experienced legal board members (Peter Kristensen and Birgitte Stephenson), pressing legal matters are monitored and handled well. One example is the arbitration case against Janssen about whether Genmab should pay royalties to a third party together with Janssen. It looks like a lawsuit will be avoided and an agreement will be reached (Mayani, 2020). With the healthy financial position, no large impacts are expected. Another important aspect is the intellectual properties on the products. Genmab actively monitors third party patent positions in the respective fields and defends their own. Birgitte Stephenson has a senior vice president of IPR & legal at Genmab over 10 years of experience in this field.

### *Future*

Genmab has currently three medicines on the market. DARZALEX (developed by Janssen under an exclusive worldwide license from Genmab to develop, manufacture and commercialize), Kesimpta (commercialized by Novartis) and TEPEZZA (developed and by manufactured by Horizon) from which Genmab receives royalties. All of these three medicines are the first and only in their field. Seven other medicines are currently in the pipeline which are around phase 2 and 3 of the development process. Approvals may take another few years. However, this product pipeline is expected to ensure a consistent financial growth in the future.

## Technical analysis

The technical analysis should be used as a method to help one analyze to buy a stock and make predictions about the future, however a buy decision should not be made, using solely a technical analysis. The technical analysis was conducted using 4 steps: 1. Drawing tools. 2. Chart patterns. 3. Candlestick patterns. 4. Indicator.



Figure 3. General trend of Genmab's stock price.

In the first step the general trend and area of value was identified. As seeing from Figure 3, the stock is growing on a long-term basis. The area of value between 2019 and 2020 was conducted by connecting the higher highs and lower lows. One can see the chart was steadily in between without any outbreaks. During the corona crisis (just like all stocks) the stock made an outbreak downwards, but quickly recovered, breaking the higher high line.

In the second step the chart pattern was analyzed, which is short-term based. Firstly, one can see that the lower lows between the end of 2020 till now are constant, which is not a good indicator. Secondly, the graph shows a shoulder, head, and shoulder, which is a sign of weakness. The buyer power was not strong enough to keep the head and build up on it.

In the third step, one can see the candlestick pattern highlighted by the circle. There are several bearish candlesticks in a row, meaning that the stock started higher at the opening

of the trading day compared to the end of the day. This is another sign of weakness in the short-term. Increasing the chance of a dip. This, however, is impossible to say with certainty.

In the fourth step, the moving average of 50 and 200 were chosen as an indicator. The moving average (MA) of 200 days shows the average stock price of the past 200 days and is constantly updating. One can say, as a rule of thumb, that it is a sign of strength if the stock is trading above the 200MA. From the chart (also indicated by the circle) one can see that the stock went through the 200MA, which is a sign of weakness.

Furthermore, one can see that the stock price broke down the previously made higher highs line of 2019. However, it could be a good opportunity to invest whenever the stock price bounces back on the support line at around 2162 DKK and when the stock price breaks above the 200MA. There might be more chance for growth when these two signs appear.

Combining all these findings, one can conclude that in the short-term it is not a strategic decision to invest. However, in the long-term a growing stock price can be seen, and combining the results of the fundamental analysis it can be that it is a good investment.

### **Conclusion & Recommendation**

Biotechnology is a fast growing industry, especially immunotherapy has been shown to be upcoming. Within this field, Genmab really stands out. To start, with three products on the market, seven in the pipeline and involved in many more, Genmab's portfolio is not dependent on a few (uncertain) products. Next to that, already being profitable, their strong financial health is a clear display of the experienced management of the company. This leads to an estimated undervaluation of their stock price. Lastly, the technical analysis has shown a positive trend over the long term. Given the knowledge obtained, it is expected that this trend will continue. Therefore, our recommendation is that this stock is a good buy in the long term, but it is advised to be careful in the short term and to be patient before acquiring the stock.

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## Appendix A

### Competitor analysis

Porter's five forces model is utilized to conduct the competitor analysis. The five forces are individually described with regards to the situation of Genmab.

#### *Threat of new entrants*

Since the biotechnology industry is a highly innovative market an entry to this market is quite difficult. R&D is required to develop a product, which can take a significant time period as well as significant costs. Furthermore, a highly qualified team is of importance in order to speed up the R&D process. Eventually it all depends on costs, most biotechnology companies need external investors to fund their R&D expenditures. In general, investors are more reluctant to invest in new entrants as there is no track record or whatsoever.

#### *Bargaining power of suppliers*

Genmab is primarily dependent on one outsourcing contract that produces and supplies Genmab's product candidates. Once this manufacturer and at the same time supplier decide to conduct their business that deviate from the agreements between Genmab and this company, it will have a heavily negative impact on Genmab's position. Furthermore, the clinical trials are outsourced to research organizations. Therefore, Genmab also depends on these organizations (Genmab, 2020). Whenever their outsource partners will have trouble, this could delay Genmab's processes inflicting high costs.

#### *Threat of substitutes*

There are other forms of treatment to the diseases that the products of Genmab combat, but these forms are not on the market yet. Manufacturing these forms are cost and time intensive, thus it could take a long time before substitutes are brought on the market. Additionally, Genmab's product pipeline is quite extensive which can provide revenue streams that outweigh the loss of revenue streams when a substitute is marketed.

### *Bargaining power of buyers*

Since Genmab's products are combating forms of cancer, the bargaining power of buyers is quite low, since the buyers do not have much other products to choose from. Thus, their switching power is low. Furthermore, the products help people in need and the group of people in need is only increasing as the average age of the world's population is increasing.

### *Rivalry among competitors*

The amount of cures for cancer forms are extremely limited, which makes it interesting for companies to develop a product that cures a particular form of cancer. This in return, intensifies the competition among biotechnology companies working on cancer treatments. Direct competitors of Genmab are Seagen Inc., Bavarian Nordic and subsidiaries of large pharmaceutical companies (e.g., Hoffman-La Roche, Abbvie and Novartis Pharma AG). However, Genmab also partners with many of these companies. Therefore, this rivalry is mitigated to some extent with regards to releasing and producing products. In addition, Seagen Inc. is making losses year after year (Seagen Inc., 2019) and the same applies to Bavarian Nordic (Bavarian Nordic, 2019). Bavarian Nordic is also a smaller company than Genmab.

