Chugai Pharmaceutical (4519)

Key takeaways from CEO/CFO meeting

Overweight

4519.T, 4519 JP
Price (09 Sep 26):¥6,476
Price Target (Dec-26):¥11,000

Japan Equity Research
Biotechnology & Pharmaceuticals/ Medical Technologies & Services

Seiji Wakao, Ph.D. [AC]
(81-3) 6736-8612
seiji.wakao@jpmorgan.com

Yugo R. Kamimura, Ph.D.
(81-3) 6736-8635
yugo.kamimura@jpmorgan.com

Naoko Saito
(81-3) 6736-8693
naoko.saito@jpmorgan.com
JPMorgan Securities Japan Co., Ltd.

We hosted a meeting with Chugai Pharmaceutical's CEO Mr. Osamu Okuda and CFO Mr. Iwaaki Taniguchi on September 9. The meeting discussed post-launch trends for Foundayo, good market penetration for Nemluvio, and the next-generation pipeline centered on NXT007, DONQ52, and development products that use SnipeTide technology. Chugai expects Foundayo and Nemluvio to drive earnings growth in the short to medium term, and looks for NXT007 and DONQ52, along with multiple programs derived from SnipeTide, to contribute to longer-term value creation. Chugai is also actively pursuing external partnerships supported by ample cash.

While market attention is focusing mainly on Foundayo, Chugai is making steady progress with pipeline products responsible for longer-term value creation. We believe the near-term share price could continue to be affected by prescription trends for Foundayo, but see good fundamentals for Chugai's business and pipeline beyond Foundayo. In addition, as we expect Chugai to provide data updates for DONQ52 and other early-stage development products, we believe the stock market could eventually reassess its valuation.

- **Foundayo:** Chugai started recording royalty income from 2Q. It said it launched sales after obtaining approval in April, and insurance coverage is expanding steadily. It used the Commissioner's National Priority Voucher (CNPV) program to launch sales sooner than expected in the obesity market. Chugai said it also has data for diabetes and expects this to lead to a regulatory filing and approval. In addition to the US obesity market, Chugai thinks a diabetes indication and geographical expansion outside the US could contribute to longer-term growth.
- **Short- to medium-term growth drivers:** Following Foundayo, the out-licensed drug Nemluvio is making steady progress in market penetration (in light of this progress, Galderma raised its peak sales estimate from $2 billion to $4 billion). New patient share has reached 9% for atopic dermatitis and 40% for nodular prurigo, and prescriptions are expanding among patients with no prior experience in using biologics.
- **NXT007:** NXT007 is a next-generation bispecific antibody to follow Hemlibra and has just started Phase 3 trials. Chugai is conducting three global trials excluding pediatric patients, and aims to submit an application in 2028. **Concept:** The objective is to increase blood coagulation capacity to the same level as healthy adults, and the concept has already been confirmed in Phase 1 and Phase 2 trials. While Hemlibra produces sufficient effects in some patients, there are others with higher activity levels who require coagulation capacity comparable with healthy adults, and Chugai positions NXT007 as a response to this unmet need. **Phase 3 trials:** One is a comparative study with Factor VIII products and another is a comparative study with Hemlibra. **Commercial outlook:** Chugai does not expect NXT007 to cannibalize sales for Hemlibra, but rather to increase sales and generate synergies. It expects some patients to switch from Hemlibra, but plans to target patients whose current treatment is inadequate, especially younger patients with higher

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activity levels.

- **GYM329:** Chugai expects to obtain clinical trial results within the year, and will decide on future development plans based on the data received. As the product is out-licensed to Roche, Chugai said it has no comment on Roche's strategy.
- **DONQ52:** DONQ52 is a multispecific antibody targeting celiac disease. The mechanism of action is to inhibit T-cell activation via gluten peptides. Chugai said Phase 1a/b/c trials confirmed the biological concept (early proof of concept, ePoC). Phase 1 trial results show the effective functioning of the expected mechanism of action, and also provided some confirmation of safety and efficacy. Chugai is considering at which conference to present Phase 1 data. A Phase 2a trial is already underway. **Market opportunities:** Celiac disease affects about 1% of the total population, with an estimated 80 million patients. The US and Europe are especially large markets. Some 20–30% of patients continue to experience chronic symptoms even while maintaining a gluten-free diet, and about 50% of patients experience occasional symptoms even though symptoms are generally controlled. Accordingly, 70-80% of the total patient pool are potential targets for DONQ52. As there are currently no treatments beyond a gluten-free diet, Chugai sees blockbuster potential as a completely new treatment option for patients. **Out-licensing strategy:** Chugai decided to move forward with independent Phase 2 trials after conducting Phase 1b/c trials, and said it could search again for a partner after obtaining Phase 2a data. Regarding differences with competing products, Chugai is pursuing development while focusing on differentiation with Teva's IL-15 inhibitor.
- **SnipeTide:** SnipeTide is Chugai's proprietary macrocyclic peptide modality platform based on cyclic peptides containing non-natural amino acids. **Features:** SnipeTide features a molecular weight of around 1,500, higher than that of small molecules, and combines (1) an ability for oral administration, (2) penetration into cells, and (3) high binding affinity and specificity. Antibodies face difficulty for intracellular target access and oral administration, while small molecules face limitations for selectivity and issues with off-target binding. Chugai said SnipeTide combines advantages in both of these areas. **Clinical validation:** The above three concepts were confirmed in humans in LUNA18 (PAN RAS inhibitor). Chugai discontinued LUNA18 development due to side effects, but said it gained a large amount of knowledge. **Platform expansion:** The two products AQUA07 (ALK-positive non-small cell lung cancer) and AUBE00 (pan-KRAS inhibitor) are currently at the clinical stage. There are also three other products in pre-clinal stage and about 20 projects at the discovery stage. Chugai said it has reached a stage where it can apply SnipeTide to various targets and continuously create projects. **Disease areas:** SnipeTide is not limited to a specific disease area. Oncology accounts for 40–50% and inflammation and immunology for 20–30%. Chugai is also pursuing a broad range of projects in other areas such as muscular and cardiovascular systems.
- **AQUA07:** AQUA07 is an allosteric inhibitor targeting ALK fusion proteins, and is a macrocyclic peptide compound created using the SnipeTide platform. Compared with existing ALK inhibitors that bind to a deep pocket in the ATP binding site, Chugai explained that a differentiating point for AQUA07 is that it binds to different sites on the surface of ALK fusion proteins, making it less likely to produce the resistance mutations induced by existing drugs and allowing it to be effective even after existing drugs have induced resistance. Although it is still at an early stage, Chugai sees blockbuster potential considering the size of the ALK inhibitor market. **Out-licensing timeframe:** Chugai will offer AQUA07 to Roche after confirming ePoC, and if efficacy is confirmed in Phase 1 trials, out-licensing would be a possibility at this stage. However, Chugai will adopt a flexible approach, given that early out-licensing can be worthwhile depending on the project.
- **AUBE00L:** AUBE00L is a pan-KRAS inhibitor that acts on the GTP-bound RAS-OFF mechanism. When asked whether AUBE00L has fallen in priority due to Revolution Medicines' release of daraxonrasib, Chugai clearly stated that its priority order is

unchanged. While progress may seem slow because clinical trials take a certain amount of time, Chugai indicated that its development stance is unchanged.

- **R&D strategy and resources:** Five years have passed since Chugai launched the TOP I 2030 growth strategy, and it is making steady progress in shifting resources to research and early-stage development as one core strategy. R&D spending and headcount have both increased, and Chugai said it has accumulated experience as an organization as the number projects has expanded. Regarding efforts to enhance development speed for individual projects, Chugai said it sets decision criteria for all projects and has established a system for clearly understanding efficacy and safety signals while maintaining data quality. For human resources, Chugai is working to optimize the probability of success, development speed, and clinical trial design by acquiring specialized personnel. One example is the recruitment of key US opinion leaders on celiac disease as part of DONQ52 development.
- **Pipeline sufficiency and launch outlook:** Chugai cites the release of one product on average each year from 2030 as one target in the TOP I 2030 growth strategy, but this applies to in-house projects and does not include external assets. Specifically, NXT007, GYM329, and DONQ52 coming in succession. Chugai emphasized that the target should be viewed as an average pace, not as exactly one launch every year—for example, it envisions launching around five products over 2030–35. When asked whether a weak late-stage pipeline was the reason for establishing a strategic investment division, Chugai said the establishment of this division was not directly linked to the current pipeline, but rather a response to the key management issue of effectively using cash.
- **Capital policy and growth investment: Capital allocation:** Cash has increased to over ¥1 trillion, and Chugai views the effective use of this cash as a key management issue. Strengthening basic technologies for drug discovery is the main priority for growth investment, and Chugai intends to bolster its technological capabilities via M&A and investment. It said capex is also important to ensure production capacity as projects increase. **Strategic investment division:** Chugai's policy is to flexibly determine the scale of investment based on conditions and opportunities, rather than a specific budget. It presented an approach of making necessary investments in-house, rather than one premised on M&A at a scale of several hundred billion yen. It aims to first build relationships through joint research and technology transfers, and then consider M&A and other options. Specific examples of external collaboration include Araris (subsequently acquired by Otsuka Holdings) in the area of antibody drug conjugates (ADC), Rani Therapeutics as a developer of oral administration devices, and Gero in the area of modality. Chugai also said it established a partnership office in the US to pursue licensing and research collaboration, and is building a system to enable early access to promising technologies through corporate venture capital.
- **Shareholder returns:** Chugai said its basic policy is a dividend payout ratio of 45%, and now is not the time to review this policy. While it may also pay special dividends beyond a dividend payout ratio of 45%, its basic policy on shareholder returns is unchanged.
- **Response to Chinese innovation:** Chugai said it views pharmaceutical innovation in China as both (1) a competitive threat and (2) partnership opportunity. On the threat side, Chinese companies are releasing me-better products at a delay of 3–5 years for validated targets and modalities, and Chugai is holding internal discussions on how to respond. It reiterated its strategy of creating only differentiated products. For partnerships, Chugai is watching trends in China from Japan and the US, and will consider joint efforts if opportunities arise.
- **Use of AI:** Chugai prepared the Chugai AI Strategy in late 2025, and under the slogans of AI Everyday, AI Everywhere, and AI Transformation, it aims to improve operational efficiency by deploying AI across all business processes. As a specific initiative, Chugai cited the acceleration of documentation work related to clinical trials.

- **Future catalysts:** During the result briefing, Chugai said it will consider introducing programs that could serve as future catalysts, including the timeframe for data acquisition. It cited upcoming data readouts not only for NXT007 and GYM329, but also Phase 1a and Phase 2c data for DONQ52, as well as data for AUBE00 and AQUA07, and for MINT91 and REVN24 at the Phase 1 stage. We expect this ongoing release of data to provide a clearer overall picture of Chugai's pipeline.

JPMorgan Securities Japan Co., Ltd.
Seiji Wakao, Ph.D. AC
(81-3) 6736-8612
seiji.wakao@jpmorgan.com

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Investment Thesis, Valuation and Risks

Chugai Pharmaceutical (4519) *(Overweight; Price Target: ¥11,000)*

Investment Thesis

We think the stock market's short-term focus is on orforglipron's market penetration speed and peak sales. Long term, we see a focus on whether Chugai can continue to create and launch in-house developed products that have enough potential to justify its relatively high valuation.

Valuation

We calculate our price target through end-December 2026 of ¥11,000 using a DCF model based on our estimates for FY2027–36, and assuming a terminal growth rate of 1.0% and WACC of 7.2%. Our ¥11,000 price target equates to a P/E of 17.1x on our FY2027 EPS estimate of ¥401 and 11.3x on our FY2031 EPS estimate of ¥606. Chugai's past five-year average P/E is 24.2x versus the sector's 17.2x. We forecast EPS CAGR of 10.8% in FY2027–31 and 5.3% in FY2027–36.

DCF Model

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	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E	FY36E
Profit before tax	917,400	1,047,200	1,152,200	1,272,500	1,384,200	1,450,300	1,506,500	1,537,400	1,501,800	1,455,900
Depreciation and Amortization	28,600	28,600	28,600	28,600	28,600	27,200	27,200	27,200	27,200	27,200
Impairment Loss	0	0	0	0	0	0	0	0	0	0
Decrease (Increase) in Working Capital	-84,680	-33,946	-27,882	-30,597	-28,333	-1,438	3,803	8,054	28,489	284,852
Income Taxes Paid	-256,900	-293,200	-322,700	-356,300	-387,600	-406,100	-421,800	-430,400	-420,500	-407,600
Capital Investment	-53,000	-53,000	-53,000	-53,000	-27,200	-27,200	-27,200	-27,200	-27,200	-27,200
Others	0	0	0	0	0	0	0	0	0	0
FCC	551,420	695,654	777,218	861,203	969,667	1,042,762	1,088,503	1,115,054	1,109,789	1,333,152
Discount rate	1.1	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.9	2.0
Present Value	514,310	605,169	630,620	651,737	684,434	686,493	668,378	638,602	592,811	664,198

Assumptions	
Shares Outstanding (excluding treasury shares,m)	1,645
Tax rate	28.7%
Terminal growth rate	1.0%
Risk-free rate	2.8%
Risk premium	4.7%
β	0.94
Cost of equity	7.2%
Cost of debt	0.0%
WACC	7.2%

Terminal Value	10,685,875
Net Present Value	6,336,752
+ Cash & Deposits at term end	593,728
+ Other adjustment items	553,094
=Enterprise value	18,169,449
-Interest-bearing debt	0
=Equity value	18,169,449
Share Price(¥)	11,000

Source: Company data, J.P. Morgan estimates

Risks to Rating and Price Target

Upside Scenario to Target Price/Rating

- Orforglipron's market penetration speed beats our expectations

Downside Scenario to Target Price/Rating

- Orforglipron's market penetration speed undershoots our expectations

JPMorgan Securities Japan Co., Ltd.
Seiji Wakao, Ph.D. AC
(81-3) 6736-8612
seiji.wakao@jpmorgan.com

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JPMorgan Securities Japan Co., Ltd.
Seiji Wakao, Ph.D. AC
(81-3) 6736-8612
seiji.wakao@jpmorgan.com

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Chugai Pharmaceutical (4519) (4519.T, 4519 JP) Price Chart



Date	Rating	Price (Y)	Price Target (Y)
28-Oct-23	OW	4468	5,300
20-Feb-24	OW	5779	6,600
05-Jun-24	OW	4787	6,000
30-Jul-24	OW	6339	6,800
03-Dec-24	OW	6605	8,500
04-Jul-25	OW	7036	9,200
08-Jan-26	OW	8400	9,500
06-Feb-26	OW	9125	10,700
27-May-26	OW	7586	11,000

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
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