

CELGENE (CELG)

RATING: BUY

PRICE: \$56.10

PRICE TARGET: \$75

Specialty Biotechnology

Update

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CELG: Acceleron collaboration expands footprint in cancer-induced bone loss; BUY

- **Celgene gains access to privately held Acceleron's ACE-011 (and three discovery programs) for cancer-induced bone loss.** We view today's deal as a successful leverage of Celgene's formidable presence in multiple myeloma. Celgene paid \$50 M up front and agreed to pay \$510 M for development, regulatory and commercial milestones for ACE-011 and up to \$437 M for each of three discovery-stage programs. Celgene will co-promote ACE-011 in North America and pay Acceleron a royalty on worldwide net sales. Once-monthly injections of ACE-011 may restore osteoblast numbers to heal bone lesions, the most common co-morbidity in patients with multiple myeloma (approximately 80% of myeloma patients have osteolytic disease).
- **ACE-011 binds the activin receptor, preventing activin from stimulating osteoclasts and inhibiting osteoblasts.** The result is a non-PTH-based mechanism of a simultaneous increase in bone formation and reduction in bone degradation.
- **ACE-011 Phase IIa trial in multiple myeloma set to begin mid-2008.** In a Phase 1b trial, ACE-011 increased biomarkers of bone formation with favorable tolerability (no SAEs). A Phase IIa trial will likely explore varying doses of ACE-011 on top of bisphosphonates, which are only moderately effective and target only one aspect of disease: preventing bone resorption. We have not included ACE-011 in our revenue estimates pending results from Phase IIa trials.
- **Catalysts:** PHRM shareholder vote 3/6/08; Dacogen EORTC data April 2008.
- **Risk:** Slow uptake of Revlimid in Europe; delayed front-line myeloma, CLL/NHL label expansion.
- **Maintain BUY and price target of \$75 on CELG.** We apply our LCM standard 1.7 PEG to our three-year EPS CAGR of 27% (2008-2011) to arrive at our 46x P/E multiple, applied to our 2011E EPS of \$2.81, discounted by 3.0 years at 20%.

Key Data	FY: Dec	EPS*	2007	2008E	2008E	2009E	2009E
				Prior	Current	Prior	Current
NASDAQ Biotech	794	1Q	\$0.20		\$0.32		NM
NASDAQ	2,306	2Q	\$0.26		\$0.32		NM
		3Q	\$0.29		\$0.33		NM
Market Cap	\$24.3 B	4Q	\$0.31		\$0.40		NM
Book Value/Share	\$5.91	Year	\$1.05		\$1.38		\$1.88
52 Week Range	\$75-\$46	P/E	53.5x		40.6x		29.9x
Avg. Daily Vol (000)	3,125	Options Exp.	NM		NM		NM
Shares Outstanding (M)	433	Rev (M)	2007	2008E	2008E	2009E	2009E
				Prior	Current	Prior	Current
3-Yr. EPS CAGR	31%	1Q	\$293.4		\$429.6		NM
Total Debt/Cap	0%	2Q	\$347.9		\$450.3		NM
FCF Yield	NM	3Q	\$349.9		\$556.3		NM
Dividend	\$0.00	4Q	\$414.6		\$648.3		NM
Yield	0.0%	Year	\$1,405.8		\$2,084.4		\$2,921.2
		P/S	17.3x		11.6x		8.3x

* Excludes options expense.

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UPCOMING MILESTONES

Event Date	Product	Event
1Q08	CC-11006	Initiate trials for MDS
1Q08	Revlimid	Initiate Phase 3 study in non-5q-minus MDS (MDS-005) results expected 2H09
1Q08	CC-4047	Initiate Phase II trial in SCLC and soft-tissue sarcoma
1Q08	CC-4047	Data from Phase 2/3 trials in myelofibrosis and SCLC, sickle cell anemia and beta-thalassemia
1Q08	Revlimid	Possible data from Phase 3 registration trial in R/R CLL
1Q08	Revlimid	"Go/no-go" decision regarding Rev in AL amyloidosis
Mar-2008	Other	Shareholder vote for PHRM acquisition
Mar-2008	Other	Complete PHRM acquisition
April 10-12	Dacogen	Possible Dacogen survival data in MDS at EORTC Leukemia Group Meeting
mid-2008	ACE-011	Initiation Phase 2a trial in multiple myeloma
mid-2008	Revlimid	Possible interim data from MM-015 in front-line myeloma
mid-2008	Revlimid	Approval in Spain and Italy for multiple myeloma
mid-2008	Revlimid	CLL-001 study results, could form the basis for accelerated approval
1H08	Revlimid	Begin FIRST trial enrollment (MM-020) for front-line myeloma, Rev/dex vs. Thal MP
1H08	CC-930	File IND for JNK inhibitor for oncology
1H08	PDA-001	File IND from placental stem cell program
1H08	Revlimid	Begin FIRST trial enrollment (MM-020) for front-line myeloma, Rev/dex vs. Thal MP
1H08	Apremilast	Initiate Phase 3 trial for moderate to severe psoriasis
Jun-2008	Revlimid	At ASCO, response rate data from ECOG trial front-line MM (blood urine response rates)
3Q08	Revlimid	Data for MDS-004, the European study in 5q-MDS, placebo controlled
4Q08	Revlimid	Submit Revlimid sNDA for front-line multiple myeloma
4Q08	Revlimid	NHL-003 data in NHL
4Q08	Revlimid	Initiate registration trials under SPA in CLL and NHL
2H08	CC-11050	Complete Phase 1 for anti-inflammatory disease
2H08	Apremilast (CC-10004)	Initiate Phase 2 trial in psoriatic arthritis, and other inflammatory indication (other than psoriasis)
1Q09	Revlimid	CHMP positive opinion for 5q- MDS
1H09	Revlimid	MM-015 data for front-line myeloma (Rev MP vs. MP alone)
1H09	Revlimid	Submit for approval in Japan for multiple myeloma

Source: Company reports and LCM research

Exhibit 1: Celgene Income Statement 2005-11E (\$ in thousands, except per-share data)

						2006-2008		2006-2009		2007-2010		2008-2011												
						2yr EPS CAGR		3yr EPS CAGR		3yr EPS CAGR		3yr EPS CAGR												
						64%		54%		31%		26.7%												
						2008E		2009E		2010E		2011E												
						1QE		2QE		3QE		4QE												
						2005 (4)		2006 (4)		2007														
Net Product Sales	\$	445,625	\$	811,605	\$	1,303,441	\$	403,075	\$	425,075	\$	535,275	\$	627,275	\$	1,990,700	\$	2,847,200	\$	3,367,300	\$	3,956,400		
Thalomid U.S.		387,772		433,004		447,300		113,000		110,000		108,000		105,000		436,000		350,000		280,000		225,000		225,000
Thalomid ex-U.S.		-		-		-		-		-		25,000		27,000		52,000		110,000		145,000		160,000		160,000
Revimid		-		320,563		773,500		265,000		290,000		323,000		410,000		1,288,000		2,000,000		2,500,000		3,000,000		3,000,000
Vidaza		-		-		-		-		-		53,500		59,500		113,000		285,000		340,000		425,000		425,000
amrubicin		-		-		-		-		-		-		-		-		-		-		44,000		44,000
Rifludan/innohep		-		-		-		-		-		4,200		4,200		8,400		17,000		17,000		17,000		17,000
Focalin		6,816		8,567		7,891		3,300		3,300		3,300		3,300		13,200		14,000		14,000		14,000		14,000
Alkeran		49,703		48,502		73,700		21,500		21,500		18,000		18,000		79,000		70,000		70,000		70,000		70,000
Other		1,334		969		1,050		275		275		275		275		1,100		1,200		1,300		1,400		1,400
Collaborative agreements and other revenue		41,334		17,374		20,289		5,500		5,200		1,000		1,000		12,700		4,000		3,500		3,000		3,000
Royalty Revenue		49,982		69,894		82,090		21,000		20,000		20,000		20,000		81,000		70,000		71,000		72,000		72,000
Total Revenue		536,941		898,873		1,405,820		429,575		450,275		556,275		648,275		2,084,400		2,921,200		3,441,800		4,031,400		4,031,400
Cost of goods sold		80,727		125,087		129,088		40,308		55,260		96,350		112,910		304,826		484,024		572,441		672,588		672,588
Gross Profit		456,214		773,786		1,276,732		389,268		395,015		459,926		535,366		1,779,574		2,437,176		2,869,359		3,358,812		3,358,812
Research and Development		190,834		245,881		340,855		97,000		105,000		125,000		135,000		462,000		626,384		707,133		783,367		783,367
Selling, general and administrative		181,796		268,315		407,527		125,000		128,000		155,000		175,000		583,000		740,272		791,316		913,928		913,928
Total Operating Expenses		451,588		639,283		877,470		262,308		288,260		376,350		422,910		1,349,826		1,850,680		2,070,890		2,369,884		2,369,884
Gain (loss) from operations		85,353		259,590		528,350		167,268		162,015		179,926		225,366		734,574		1,070,520		1,370,911		1,661,516		1,661,516
Interest & other Income (expense), net		17,048		36,684		101,243		28,500		29,000		30,000		31,000		118,500		145,000		185,000		200,000		200,000
Equity in losses of affiliated company		-		-		(732)		-		-		-		-		-		-		-		-		-
Income Before Taxes		92,904		296,274		628,861		195,768		191,015		209,926		256,366		853,074		1,215,520		1,555,911		1,861,516		1,861,516
Income Tax		(20,556)		(85,827)		(176,144)		(54,815)		(51,574)		(55,630)		(67,937)		(229,956)		(334,268)		(427,875)		(511,917)		(511,917)
Net Income (Loss)		72,348		210,447		452,717		140,953		139,441		154,295		188,429		623,118		881,252		1,128,035		1,349,599		1,349,599
EPS (basic)	\$	0.22	\$	0.60	\$	1.18	\$	0.36	\$	0.35	\$	0.36	\$	0.44	\$	1.51	\$	2.01	\$	2.50	\$	2.90	\$	2.90
EPS (diluted)	\$	0.20	\$	0.52	\$	1.05	\$	0.32	\$	0.32	\$	0.33	\$	0.40	\$	1.38	\$	1.88	\$	2.37	\$	2.81	\$	2.81
Basic Shares		335,512		352,171		383,190		393,228		396,177		427,149		430,352		411,727		438,482		451,785		465,492		465,492
Diluted Shares		359,998		407,068		431,838		435,043		436,239		465,439		466,719		450,860		469,937		475,127		480,375		480,375
Cash & cash equivalents		724,159		1,982,220		2,638,726		1,882,027		2,010,943		1,452,713		1,628,617		1,628,617		2,509,869		3,637,904		4,987,503		4,987,503
Margin Analysis																								
Revenue		100.0%		100.0%		100.0%		100.0%		100.0%		100.0%		100.0%		100.0%		100.0%		100.0%		100.0%		100.0%
Gross Margin		85.0%		86.1%		90.8%		90.0%		87.0%		82.0%		82.0%		85.3%		83.0%		83.0%		83.0%		83.0%
COGS (as % of net product sales)		18.1%		15.4%		9.2%		9.4%		12.3%		17.3%		17.4%		14.6%		16.6%		16.6%		16.7%		16.7%
SG&A (as % of net product sales)		40.8%		33.1%		31.3%		31.0%		30.1%		29.0%		27.9%		29.3%		26.0%		23.5%		23.1%		23.1%
R&D (as a % of net product sales)		42.8%		30.3%		26.2%		24.1%		24.7%		23.4%		21.5%		23.2%		22.0%		21.0%		19.8%		19.8%
Operating Margin		15.9%		28.9%		37.6%		38.9%		36.0%		32.3%		34.8%		35.2%		36.6%		39.8%		41.2%		41.2%
Pretax Margin		17.3%		33.0%		44.7%		45.6%		42.4%		37.7%		39.5%		40.9%		41.6%		45.2%		46.2%		46.2%
Tax Rate		33.7%		29.8%		28.0%		28.0%		27.0%		26.5%		26.5%		27.0%		27.5%		27.5%		27.5%		27.5%
Net Margin		13.5%		23.4%		32.2%		32.8%		31.0%		27.7%		29.1%		29.9%		30.2%		32.8%		33.5%		33.5%
Percentage Change (Y/Y)																								
Revenue		42.2%		67.4%		56.4%		46.4%		29.4%		59.0%		56.4%		48.3%		40.1%		17.8%		17.1%		17.1%
Gross Profit		43.6%		69.6%		65.0%		43.2%		23.6%		45.6%		44.9%		39.4%		37.0%		17.7%		17.1%		17.1%
SG&A		59.2%		47.6%		51.9%		26.7%		23.9%		80.8%		46.0%		43.1%		27.0%		6.9%		15.5%		15.5%
R&D		18.6%		28.8%		38.6%		26.0%		21.3%		48.3%		45.1%		35.5%		35.6%		12.9%		10.8%		10.8%
Operating Income		99.8%		204.1%		103.5%		74.0%		24.9%		23.3%		44.0%		39.0%		45.7%		28.1%		21.2%		21.2%
Pretax Income		47.1%		218.9%		112.3%		64.6%		24.7%		21.8%		39.0%		35.7%		42.5%		28.0%		19.6%		19.6%
Net Income		37.1%		190.9%		115.1%		64.6%		26.5%		24.4%		41.9%		37.6%		41.4%		28.0%		19.6%		19.6%
EPS (Diluted)		31.7%		157.2%		102.8%		62.4%		25.1%		15.6%		31.9%		31.8%		35.7%		26.6%		18.3%		18.3%

N.M. - Not Meaningful.

EPS estimates excludes options expense

(1) Adjusted for 2-for-1 stock split effective October 2004

(2) 2004 results do not include the company's restatement of earnings related to the convertible preferred share and warrants received in connection with the December 2002 litigation settlement with Entremed

(3) Excludes charges for accelerated depreciation expense related to the headquarters relocation, write-down of in-process R&D development costs and estimated value of the investment in Entremed and income tax provision adjustments reflecting the projected 32% cash tax rate and excluding benefits for deferred tax assets.

(4) Adjusted for 2-for-1 stock split effective February 2006

(5) Excludes \$21 M (2Q06) and \$23 M (3Q06) and \$19 M (4Q06) related to stock option expense

Source: Corporate reports, LCM Research estimates

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OVERALL DISTRIBUTION			BANKING CLIENT DISTRIBUTION*		
BUY	HOLD	SELL	BUY	HOLD	SELL
69%	28%	3%	14%	4%	0%

* Indicates the percentage of each category in the Overall Distribution that were banking clients of Lazard Frères in the previous 12 months.

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BUY	Expected to produce a total return of 15% or better in the next 12 months.
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