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# CSL Limited (CSL)

## Margin Recovery to Drive Earnings

**Recommendation**
Buy (Initiation)
Price
$300.58
Target (12 months)
$345.00

**Sector**

**Pharmaceuticals & Biotechnology**

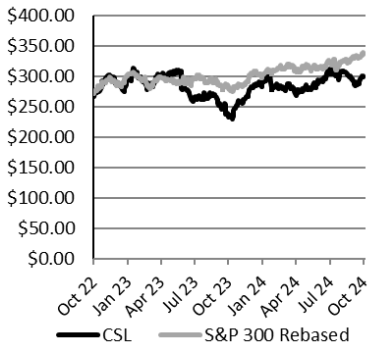
| Expected Return | |
|---|---|
| Capital growth | **14.8%** |
| Dividend yield | **1.5%** |
| Total expected return | **16.2%** |

| Company Data & Ratios | |
|---|---|
| Enterprise value | **A$161.8b** |
| Market cap | **A$146.1b** |
| Issued capital | **484.2m** |
| Free float | **99.9%** |
| Avg. daily val. (52wk) | **A$224.5m** |
| 12m price range | **$228.65 - $313.55** |

**Price Performance**

| | (1m) | (3m) | (12m) |
|---|---|---|---|
| Price (A$) | 296.69 | 308.56 | 239.90 |
| Absolute (%) | 0.95 | -2.93 | 24.85 |
| Rel market (%) | -1.14 | -6.30 | 6.94 |

**Absolute Price**




SOURCE: IRESS

## Behring to continue the heavy lifting

CSL is a global biotechnology company holding the #1 or #2 position in its three key markets: **(1)** plasma-derived therapies (Behring), **(2)** flu vaccines (Seqirus) and **(3)** iron products (Vifor). Behring is CSL's largest division (72% of revenue) and we expect it will continue to do the heavy lifting in the near-term, both in topline growth and margin expansion. CSL's FY25 revenue guidance of 5%-7% (BPe 6.5%) is comprised of "high single digit" growth for Behring and "flattish" growth for Seqirus and Vifor. Behring's more favourable outlook, coupled with its gross margin recovery to pre-pandemic levels (which we expect in FY28), results in confidence that CSL will be able to achieve its guidance of "annual double-digit earnings growth" over the mid-term, despite more challenging near-term prospects for Seqirus and Vifor.

## Double-digit mid-term earnings growth, as per guidance

For FY25, our NPATA forecast of US$3.28b at CC (or US$3.23b on a reported basis) is toward the top end of the US$3.2b-$3.3b CC guidance range. We incorporate the guided $50m FX headwind into our reported figure. Looking to the mid-term, we expect NPATA to grow at a 3-year CAGR of 14% from FY25 to FY27 (VA cons also 14%). The double-digit earnings growth outlook is driven by Behring's margin recovery despite the near-term headwinds facing Vifor (generic iron competition) and Seqirus (lower flu vaccine demand), which together represent only 28% of CSL revenue.

## Investment view: Initiate with BUY; $345.00 PT

Our price target for CSL is $345 which is determined through a combination of DCF and PE ratio methodologies. The PT is a 15% premium to the current share price and combined with the expected dividend yield of 1.5%, results in a total expected return of 16%. This is greater than 15% hence we initiate with a BUY recommendation. In our view the stock looks undervalued on a PE ratio 18%/8% below 5yr/10yr historical averages and is set for double-digit earnings growth driven by the core Behring division. Short-term catalysts include the R&D investor update on 22 October and potential garadacimab HAE approval in the current quarter.

**Earnings Forecast**

| June Year End | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|
| Revenue (US$m) | 14,800 | 15,759 | 16,765 | 17,893 |
| EBIT (US$m) | 3,812 | 4,285 | 4,875 | 5,546 |
| NPAT (US$m) | 2,642 | 2,972 | 3,488 | 4,062 |
| NPATA (US$m) | 2,907 | 3,232 | 3,748 | 4,322 |
| EPS pre-abnormals (diluted) (US$) | 5.99 | 6.66 | 7.72 | 8.91 |
| EPS growth (%) | 11% | 11% | 16% | 15% |
| PE pre-abnormals (x) | 33.6 | 30.2 | 26.1 | 22.6 |
| Price/CF (x) | 35.2 | 26.9 | 21.9 | 19.1 |
| EV/EBIT (x) | 28.4 | 25.3 | 22.2 | 19.6 |
| Dividend (US$/sh) | 2.64 | 2.95 | 3.25 | 3.55 |
| Dividend yield (%) | 1.3% | 1.5% | 1.6% | 1.8% |
| Franking (%) | 10.0% | 10.0% | 10.0% | 10.0% |
| ROE (%) | 15.2% | 15.6% | 16.4% | 17.1% |

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Contents

# Introduction and Industry Background

## Company Description

CSL Limited is a global biotechnology company that develops, manufactures and commercialises medicines in over 100 countries. Founded in 1916 as Commonwealth Serum Laboratories, CSL has grown to become one of the largest company's listed on the ASX by market value. The company was wholly owned by the Australian federal government until its privatisation and listing on the ASX in 1994.

CSL is headquartered in Melbourne however generates half of its revenue from the USA and roughly a quarter from Europe/UK. The company reports all financial figures in US$.

CSL operates three key business divisions: Behring, Seqirus and Vifor, described below:

**Figure 1 - CSL Business Units**

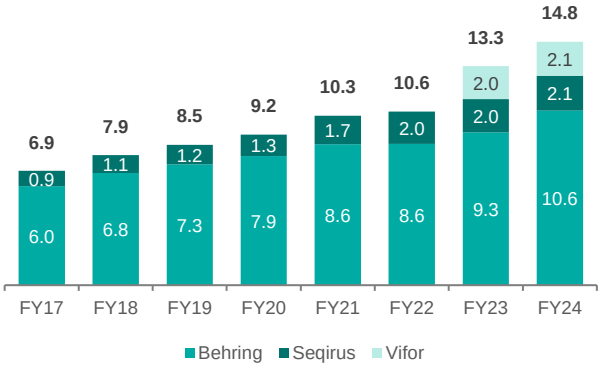
| | CSL | CSL Behring | CSL Seqirus | CSL Vifor |
|---|---|---|---|---|
| | | Biotherapies & Rare Disease | Vaccines | Iron Deficiency & Nephrology |
| **Revenue (FY24)** | | 72% of revenue (US$10.6b). | 14% of revenue (US$2.1b). | 14% of revenue (US$2.1b). |
| **Operating income (FY24)** | | 68% of operating income (US$4.4b). | 17% of operating income (US$1.1b) | 15% of operating income (US$1.0b) |
| **Description** | | Manufactures and distributes plasma products, gene therapies and recombinants for patients with rare & serious diseases. Includes the plasma collection business, 'CSL Plasma'. | Manufactures and distributes influenza vaccines to 20+ countries and provides pandemic services to governments. Boosted by 2014 acquisition of Novartis flu business. | Manufactures and distributes products for iron deficiency and nephrology. Acquired in Aug 2022 for US$11.7b. |
| **Key products** | | Immunoglobulin (Ig), Albumin, Haemophilia and specialty products. | Fluad, Flucelvax, Afluria. | Ferinject/Injectafer, Mircera, Venopher |
| **Key peers** | | Grifols, Takeda, Octapharma. | Sanofi, GSK. | Sanofi, Covis (AMAG), American Regent. |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES

CSL has 32,000+ staff and a broad network of vertically integrated infrastructure, including:

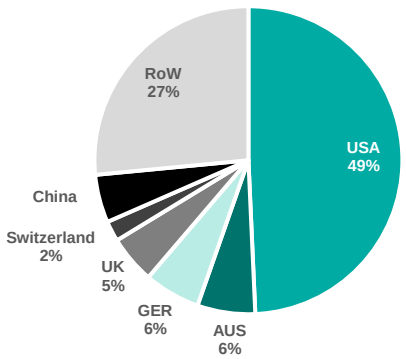
- 340+ plasma collection centres, the majority of which are in the US;
- R&D capabilities, including 2k staff and US$5.6b of R&D spend over the last 5yrs;
- 11 manufacturing facilities across Australia, USA, Europe and UK;
- Commercialisation and distribution.

**Figure 2 - CSL Annual Revenue (US$b)**




SOURCE: COMPANY DATA. FY23 INCLUDES 11 MONTHS' VIFOR CONTRIBUTION.

**Figure 3 – Geographic Revenue Split (FY24)**



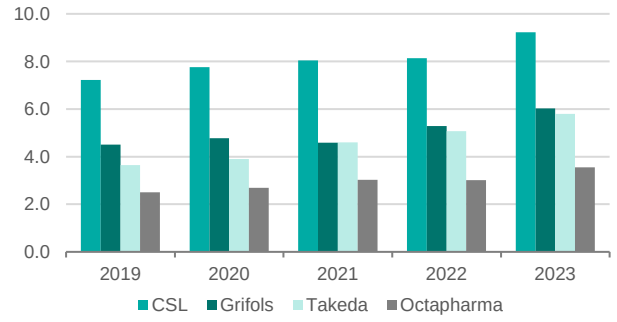

SOURCE: COMPANY DATA

## Behring Industry Overview

CSL is the market leader in the ~US$25b global plasma market. CSL, Takeda, Grifols and Octapharma are the four dominant players, providing >94% of the US Ig market.

**Figure 4 - Plasma revenues of top 4 players (US$b)**

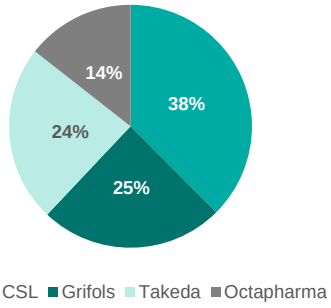
***CSL is the global leader in plasma product sales.***




SOURCE: RESPECTIVE COMPANY ANNOUNCEMENTS. CALENDAR YEAR END (EXCEPT TAKEDA). CONVERTED TO USD AT FX RATES IN JUNE OF EACH YEAR.

**Figure 5 - Share of revenue of top four plasma competitors**

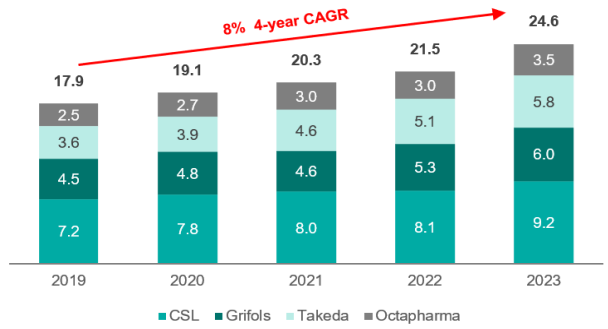
***CSL had ~38% of combined plasma sales from the top 4 players (2023).***




SOURCE: RESPECTIVE COMPANY ANNOUNCEMENTS. CALENDAR YEAR END. CONVERTED TO USD AT FX RATES AS AT JUNE 2023.

**Figure 6 - Combined plasma product sales (US$b)**

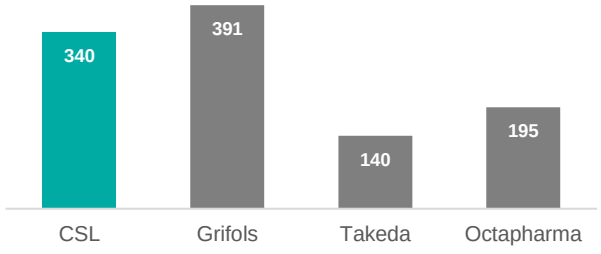
***Plasma product sales have grown at 8% CAGR over last 4 years.***




SOURCE: RESPECTIVE COMPANY ANNOUNCEMENTS. CALENDAR YEAR END (EXCEPT TAKEDA). CONVERTED TO USD AT FX RATES IN JUNE OF EACH YEAR.

**Figure 7 - Plasma global collection centres**

***CSL has 340+ collection centres, 322 of which are in the US.***



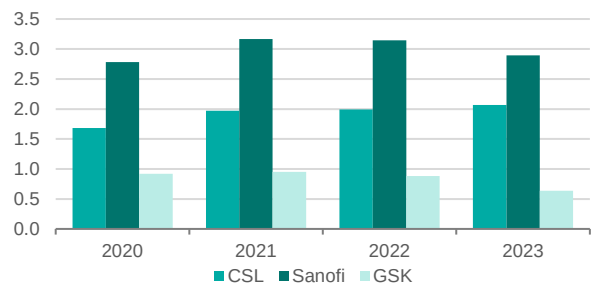

SOURCE: RESPECTIVE COMPANY ANNOUNCEMENTS.

The plasma market has two major barriers distinguishing it from conventional pharmaceutical drugs: **(1)** requiring plasma collection centres; and **(2)** requiring large, complex manufacturing capabilities. As a result, plasma-derived products are not subjected to conventional patent protection but face limited competition due to these barriers.

## Seqirus and Vifor Industry Overview

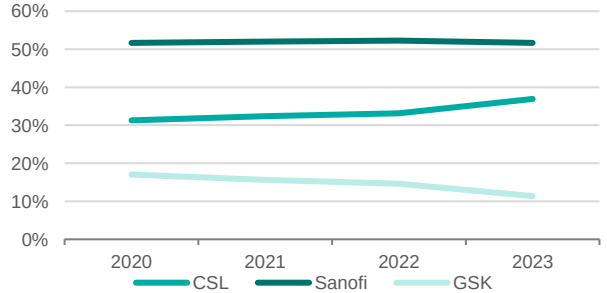
CSL Seqirus is the number two competitor in the ~US$6b global influenza market, with Sanofi the leader and GSK third; however, CSL has been catching up to Sanofi recently, largely by capturing market share from GSK.

**Figure 8 – Flu vaccine sales - Top 3 Players (US$b)**




SOURCE: RESPECTIVE COMPANY ANNOUNCEMENTS. CALENDAR YEAR END. CONVERTED TO USD AT FX RATES IN JUNE OF EACH YEAR.

**Figure 9 - Share of influenza vaccine sales (top 3)**



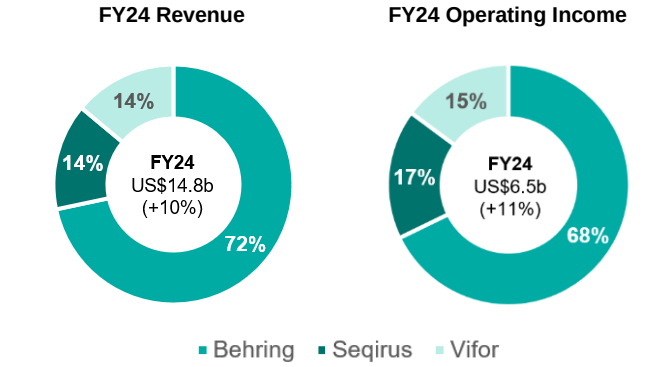

SOURCE: RESPECTIVE COMPANY ANNOUNCEMENTS. CALENDAR YEAR END.

Lastly, Vifor is the #1 player in the global iron industry, valued at ~US$5b as per CSL.

# Investment Thesis and Key Risks

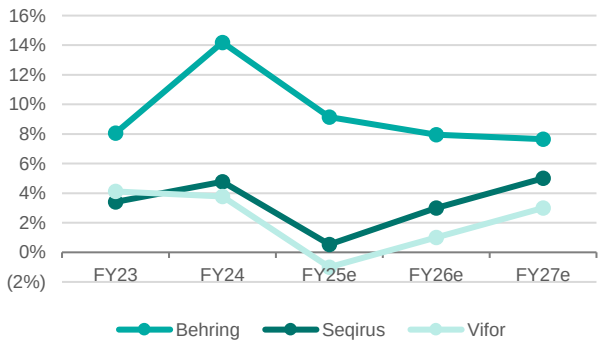
We initiate coverage on CSL Limited (CSL) with a BUY recommendation and price target of $345 per share. Our investment thesis is driven by the following key charts.

**Figure 10 – Behring is 72% of CSL's revenue and 68% of operating income…**



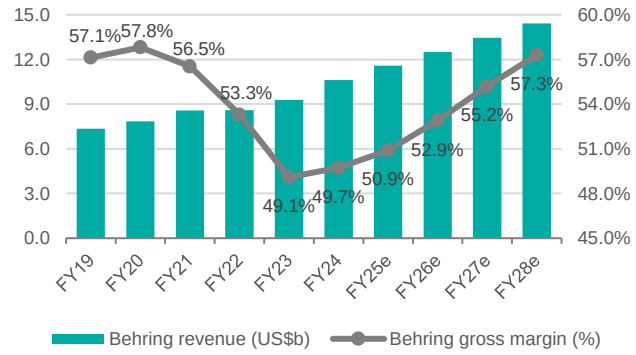

SOURCE: COMPANY DATA. 10% ANNUALISED GROWTH BASED11 MONTHS VIFOR FY23 CONTRIBUTION

**Figure 11 - …and Behring will continue to do the heavy lifting for CSL's near-term topline growth.**



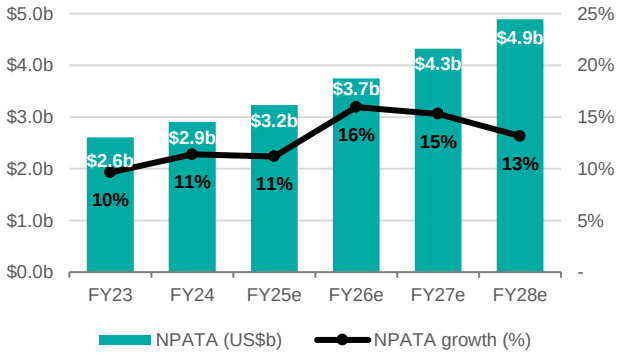

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 12 – Behring gross margin is recovering post the Covid-induced decline. We expect >57% gross margin in FY28.**



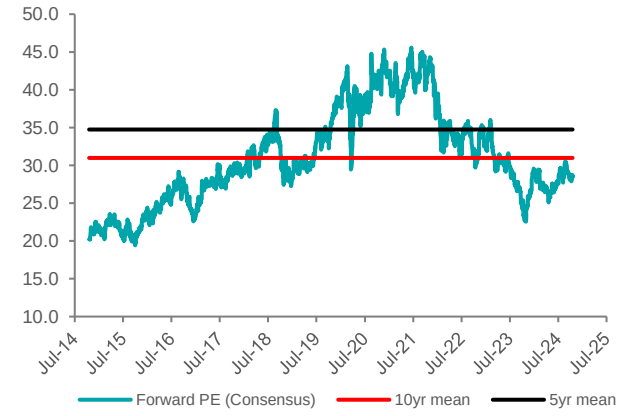

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 13 – Expecting CSL to achieve guidance of annual double-digit earnings growth over the mid-term, driven by Behring.**



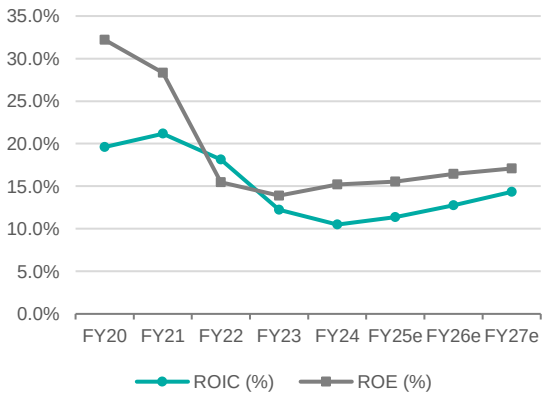

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 14 - Trading at a 12m forward PE of 29x, an 18% discount to the 5yr avg (35x) and 8% discount to the 10yr avg (31x).**




SOURCE: BELL POTTER SECURITIES ESTIMATES, BLOOMBERG

**Figure 15 – ROIC and ROE expected to improve alongside earnings growth.**




SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Additional investment thesis points

- **Looks undervalued**. Our $345 price target is comprised of a DCF and PE valuation. Our PT is a 15% premium to the current share price and, combined with the forecast dividend yield of ~1.5%, equates to total expected return of 16%. In our view the stock looks undervalued on a PE ratio 18%/8% below 5yr/10yr historical averages, with a double-digit earnings growth outlook and PEG ratio below select local peers.
- **Margin recovery underway**. Covid caused significant supply and cost disruptions to the plasma industry, evident in Behring's gross margin decline from FY20 to FY23. The margin nadir is now in the rear view, and the recovery is underway. Multiple levers are coming into effect (cost per litre reductions, manufacturing yield improvements, new products) that we expect will lift gross margin from 50% in FY24 to >57% in FY28.
- **Growth outlook driven by Ig.** Immunoglobulin (Ig) sales have reached US$5.6b (38% of company sales) and grown at 21% and 16% in FY24 and FY23, respectively. While we expect the Ig growth rate will come down as supply constraints ease, we expect high single-digit growth in the near-term. Regarding FcRn competitors, they will only compete with roughly one-third of Ig sales, and we foresee limited near-term impact based on data in the MG indication to date.
- **Seqirus performing well in challenged market**. While total flu vaccinations are expected to come down again in FY25, we continue to expect CSL will outperform peers, as it did in FY24. Beyond FY25, as historical flu vaccination growth rates return, we expect CSL will continue to outcompete peers, driven by limited near-term threat from clinical-stage mRNA entrants and CSL's next generation cell-based vaccine.
- **Vifor outlook challenging**. Vifor headwinds, particularly on key iron products, limit our growth expectations in the near-term; however, as Vifor is only ~15% of total earnings, it is not enough to offset confidence in overall double-digit earnings growth.
- **Near-term catalysts.** Short-term catalysts include CSL's R&D investor presentation (22 Oct 2024), garadacimab approval (BPe 4Q CY24), and half-year results.

## Key risks include but are not limited to:

- **Slower margin recovery**. If Behring's gross margin recovery is lower or slower than forecast, earnings growth will be negatively impacted. However, we are comforted by our forecast which is at the back end of the FY26-FY28 guidance (BPe FY28).
- **Greater impact from competitive threats**. If competition from new entrants - such as FcRns for Behring or mRNA vaccines for Seqirus – is greater than expected, our revenue growth forecasts would be negatively impacted.
- **New product launches**. If new product launches, such as garadacimab and Hemgenix, fail to meet commercial expectations, our forecasts would be negatively impacted. However, we expect negligible contributions for these products in FY25 before ramping up from FY26.
- **Biotechnology drug development risk**. CSL invests heavily in new product R&D. There is no assurance that clinical or regulatory outcomes of new drug candidates (e.g. garadacimab) will be positive, as evidenced with the large-scale Phase 3 failure of CSL112 in Feb 2024.
- **Plasma collection**. External factors impacting the collection, manufacturing or commercialisation of human plasma and its products would negatively impact CSL's core franchise, as evidenced by the Covid-19 pandemic.
- **Currency risk**. CSL reports in USD. While USD is CSL's predominant operating currency, the company remains subject to currency fluctuation impacts which have been up to a US$240m headwind in recent years.

# Behring

**Behring is 72% of CSL revenue and 68% of operating income.**

Our summary of key Behring considerations is below. Further details are in the Appendix.

- **Behring has been - and will continue to be - CSL's biggest revenue growth driver.**

  FY24 revenue growth was +14% for Behring vs. +5% for Seqirus and -5% for Vifor (annualised). And Behring will continue to be the key near-term driver for CSL. FY25 Behring guidance is "high single digit growth" vs. "flattish" for Vifor/Seqirus.

**Behring will continue to be the near-term growth driver for CSL, led by its core Ig franchise.**

- **Ig growth expected to moderate but will remain the driver in FY25-FY26.**

  We expect Ig growth will normalise in FY25 after two years of heightened demand following covid-induced supply constraints (Ig sales +21% in FY24 and +16% in FY23). We forecast +11.5% Ig growth in FY25 before reverting to high single digits thereafter, driven by continued CPI-like price increases and mid to high single digit volume growth.

- **Limited impact from FcRn entrants expected in the near-term.**

  Much has been made of potential Ig market share loss to the new, promising class of FcRn inhibitor drugs. FcRns will compete with up to roughly one-third of Ig sales (or ~9% of CSL total revenue). Experience to date in MG has indicated that increased awareness/diagnosis rates from FcRns are offsetting any loss in patient share.

  Considering the above and other factors, we forecast 9%/8%/8% revenue growth for the Behring unit across FY25/26/27.

**Expecting gross margin recovery to >57% in FY28 (from 50% in FY24).**

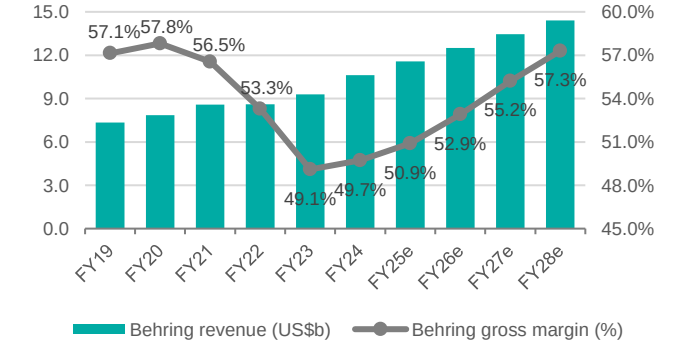
- **Speed of Behring's gross margin (GM) recovery is likely to be the biggest determinant of near- and mid-term company performance.**

  We are confident Behring will return to the >57% pre-covid GM levels, albeit towards the end of the FY26-FY28 guidance window (Figure 16). Management's FY25 guidance implies a ~51% GM in FY25 (up from 49.7% in FY24), leaving a significant ~600bp lift still required to reach the >57% mark. Multiple factors will drive the GM recovery, including lower plasma collection costs, centre efficiencies, the sales mix of existing products, new high-margin product launches, and manufacturing yield improvements. These factors are in various stages of implementation, and we expect they will begin stacking, particularly from FY26-FY27 as Rika is fully implemented and new products ramp up.

- **Hemgenix ramp-up and garadacimab launch to materialise from FY26.**

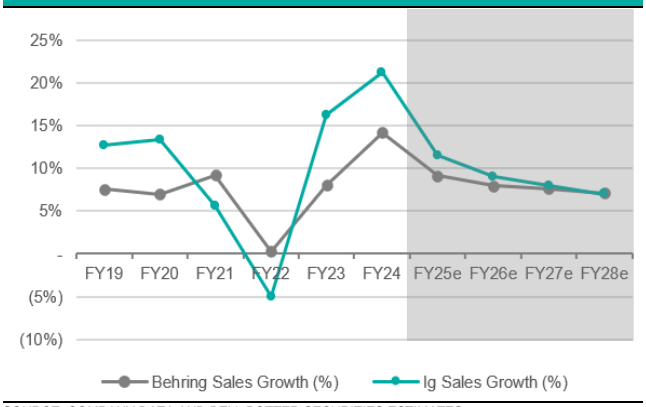
  Hemgenix had negligible sales in its first year (12 pt's treated in FY24). We expect minimal contribution again in FY25 before more material ramp-up FY26. Additionally, garadacimab is a key new pipeline product with approval expected in Q4 CY24. Garadacimab ramp-up in FY26 should result in market share gains at improved margins in what is a competitive US$3b HAE market.

**Figure 16 - Gross margin expected to recover to >57% in FY28.**




SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 17 - Ig to continue driving growth, albeit moderating.**




SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Behring Segment Forecast

Our Behring forecast over the next 3 years (FY25-FY27) is shown below.

**Figure 18 - Behring Underlying Segment Forecast (US$m)**

| Behring (US$m) | FY22 | FY23 | FY24 | FY25e | FY26e | FY27e | Comment |
|---|---|---|---|---|---|---|---|
| Ig | 4,024 | 4,675 | 5,666 | 6,317 | 6,885 | 7,436 | |
| Albumin | 1,072 | 1,109 | 1,209 | 1,282 | 1,346 | 1,413 | |
| Haemophilia | 1,166 | 1,193 | 1,313 | 1,418 | 1,517 | 1,608 | |
| Specialty | 1,792 | 1,831 | 1,940 | 2,037 | 2,180 | 2,376 | |
| Other | 544 | 482 | 480 | 523 | 570 | 621 | |
| **Total revenue** | **8,598** | **9,290** | **10,608** | **11,577** | **12,498** | **13,454** | |
| Consensus | | | | 11,548 | 12,484 | 13,469 | |
| *BPe vs consensus ($m)* | | | | *29* | *14* | *(16)* | *Revenue forecast largely in line w Consensus over FY25-FY27e.* |
| *BPe vs consensus (%)* | | | | *0.2%* | *0.1%* | *(0.1%)* | |
| **Gross profit** | **4,582** | **4,561** | **5,275** | **5,893** | **6,611** | **7,426** | |
| Consensus | | | | 5,893 | 6,674 | 7,483 | |
| *BPe vs consensus* | | | | *(1)* | *(62)* | *(56)* | *…slightly offset by slower GM recovery expectations.* |
| *BPe vs consensus (%)* | | | | *(0.0%)* | *(0.9%)* | *(0.8%)* | |
| S&M expense | (774) | (804) | (903) | (984) | (1,063) | (1,148) | |
| Consensus | | | | (1,014) | (1,083) | (1,166) | |
| *BPe vs consensus* | | | | *(30)* | *(20)* | *(18)* | |
| *BPe vs consensus (%)* | | | | *(2.9%)* | *(1.9%)* | *(1.6%)* | *S&M expense forecast is 2%-3% below Consensus.* |
| **Operating result** | **3,808** | **3,757** | **4,372** | **4,908** | **5,548** | **6,278** | |
| Consensus | | | | 4,769 | 5,487 | 6,206 | |
| *BPe vs consensus ($m)* | | | | *139* | *61* | *73* | |
| *BPe vs consensus (%)* | | | | *2.9%* | *1.1%* | *1.2%* | *Operating result ~3% above Consensus for FY25 due to lower S&M expense.* |
| **Margins:** | | | | | | | |
| *Gross margin (BPe)* | *53.3%* | *49.1%* | *49.7%* | *50.9%* | *52.9%* | *55.2%* | |
| *Consensus* | | | | *51.0%* | *53.5%* | *55.6%* | |
| *Operating result margin (BPe)* | *44.3%* | *40.4%* | *41.2%* | *42.4%* | *44.4%* | *46.7%* | |
| *Consensus* | | | | *41.3%* | *44.0%* | *46.1%* | |
| **Growth, yoy (%)** | | | | | | | |
| *Ig* | *(5.0%)* | *16.2%* | *21.2%* | *11.5%* | *9.0%* | *8.0%* | *Expect Ig will remain key growth driver in FY25-FY26.* |
| *Albumin* | *0.1%* | *3.5%* | *9.0%* | *6.0%* | *5.0%* | *5.0%* | *Expect steady mid-single digit growth.* |
| *Haemophilia* | *5.3%* | *2.3%* | *10.1%* | *8.0%* | *7.0%* | *6.0%* | *Increasingly competitive market. Hemgenix slow to ramp in FY24.* |
| *Specialty* | *1.2%* | *2.2%* | *6.0%* | *5.0%* | *7.0%* | *9.0%* | *Garadacimab launch expected in FY25/FY26.* |
| *Other* | *40.2%* | *(11.4%)* | *(0.4%)* | *9.0%* | *8.9%* | *8.9%* | |
| ***Total revenue (BPe)*** | *0.3%* | *8.0%* | *14.2%* | ***9.1%*** | ***8.0%*** | ***7.6%*** | ***Revenue growth largely in line w Consensus.*** |
| *Consensus* | | | | *8.9%* | *8.1%* | *7.9%* | |
| ***Operating result (BPe)*** | *-* | *(1.3%)* | *16.4%* | ***12.3%*** | ***13.0%*** | ***13.2%*** | |
| *Consensus* | | | | *9.1%* | *15.1%* | *13.1%* | |

SOURCE: COMPANY DATA, BELL POTTER SECURITIES ESTIMATES, VISIBLE ALPHA

Key takeaways are:

- **FY25 revenue growth of +9.1% (vs. "high single digit" guidance)**. BPe is largely in line with VA consensus.
- **FY25 gross margin (GM) of 50.9%** vs. VA cons of 51.0%. CSL guided to "100 and a bit bp increase" on FY24 GM of 49.7%.
- **GM increasing to 55.2% by FY27** (slightly below VA cons 55.6%) and therefore towards the back end of the FY26-FY28 guidance for recovery to >57%.
- Regarding specific product forecasts:
  1. In FY25 we forecast Ig to once again be the largest growth contributor before normalising back to high single digit growth in FY26.
  2. The ongoing launch of Hemgenix (under 'Haemophilia' category) has been slower than expected and we expect limited contribution once again in FY25.
  3. Garadacimab will help drive growth of 'Specialty' products, mostly from FY26.
- Operating margin (pre-R&D/G&A expenses) expected to increase alongside gross margin expansion.

# Seqirus

Our summary of Seqirus key points is below. Further details can be found in the Appendix.

- **Expecting similar in FY25 as FY24: gaining share in declining market.**

  Seqirus revenue grew +5% in FY24 by increasing share in a declining flu market. The declining market was largely due to vaccine fatigue from covid and new RSV launches. We expect a similar trend in FY25 as US flu vaccinations are projected to continue declining (Figure 20), while CSL continues to gain share vs peers with steady pricing.

- **Beyond FY25, we forecast reversion to low single digit overall market growth.**

  In the 10 years between the H1N1 (2009) and Covid (2019) pandemics, US flu vaccinations grew at 3%-4% annually. We expect the US market will stabilise and revert to these historical low single digit growth rates from FY26, driven by the increase in >65yr population and reduced RSV/Covid impacts.

- **Next gen vaccine provides clear differentiation vs peers, launch in ~FY27.**

  Seqirus are developing the aTIVc flu vaccine for the crucial older adult population utilising a cell-based (rather than egg-based) manufacturing process. No competing products utilise this technology, which provides better antigen matching capabilities and fewer egg-caused mutations; however, specific approval/launch timing remains unclear, BPe is for commercial launch in ~FY27.

- **Not expecting near-term impact from mRNA or combo vaccines.**

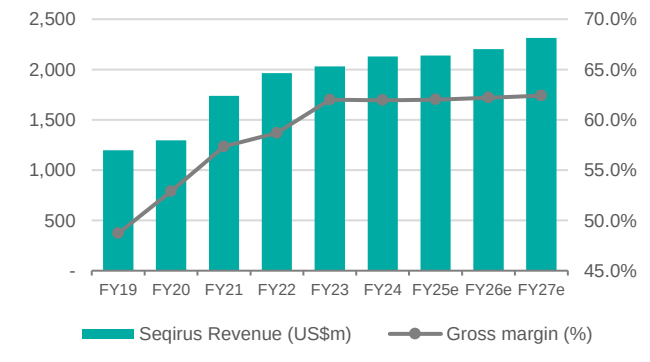
  While potential competitors in the form of mRNA flu vaccines and mRNA combo vaccines (flu + Covid/RSV) are in various stages of clinical development, multiple peers (Moderna, Pfizer, GSK, Novavax) have faced several setbacks in 2024, resulting in confidence the flu vaccine market will continue to be dominated by incumbent players/products in the near-term.

- **Covid-19 vaccine looks promising but US/EU launch plans remain unclear.**

  Japanese approval of the CSL/Arcturus Covid-19 vaccine in Nov 2023 was a significant accomplishment; however, we expect minimal sales contribution until EU and/or US commercialisation, which looks like FY26 at the earliest and is pending approval/ submissions in EU/US. Timing and launch plans remain unclear, therefore we have not materially factored sales into our near- and mid-term forecasts.

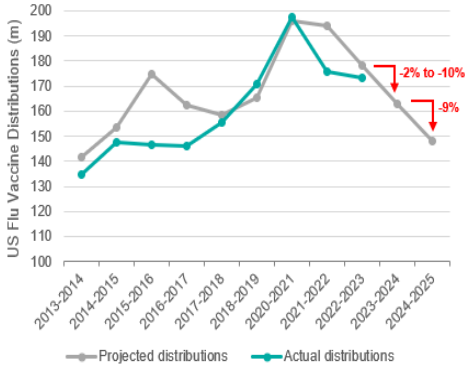
In conclusion, we forecast FY25 revenue growth of 0.5% (vs “flattish” guidance) as the flu market continues to face volume headwinds, offset by anticipated share gains for Seqirus. Thereafter, we expect a reversion to low single digit market growth, with Seqirus again well poised to out-compete peers, particularly via the aTIVc launch from ~FY27.

**Figure 19 - Seqirus revenue and gross margin forecast**




SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

**Figure 20 - US flu vaccine market projected to decline in FY25 before reverting to low-single digit historical growth trends.**




US flu vaccine distributions are projected to decline again in the FY25 flu season (per CDC data).

SOURCE: CDC.GOV. ACTUAL DISTRIBUTIONS DATA FOR 2023-24 SEASON NOT YET PUBLISHED.

## Seqirus Segment Forecast

Our Seqirus forecast over the next 3 years (FY25-FY27) is shown below:

**Figure 21 - Seqirus Underlying Segment Forecast (US$m)**

| Seqirus (US$m) | FY22 | FY23 | FY24 | FY25e | FY26e | FY27e | Comment |
|---|---|---|---|---|---|---|---|
| **Total revenue** | **1,964** | **2,031** | **2,128** | **2,139** | **2,204** | **2,314** | |
| Consensus | | | | 2,172 | 2,248 | 2,333 | |
| *BPe vs consensus ($m)* | | | | *(32)* | *(44)* | *(19)* | |
| *BPe vs consensus (%)* | | | | *(1.5%)* | *(2.0%)* | *(0.8%)* | *Revenue forecast ~1%-2% below Consensus…* |
| **Gross profit** | **1,152** | **1,259** | **1,318** | **1,326** | **1,371** | **1,444** | |
| Consensus | | | | 1,341 | 1,392 | 1,446 | |
| *BPe vs consensus ($m)* | | | | *(14)* | *(22)* | *(2)* | |
| *BPe vs consensus (%)* | | | | *(1.1%)* | *(1.6%)* | *(0.2%)* | *…resulting in lower gross profit expectations.* |
| S&M expense | (187) | (187) | (196) | (206) | (216) | (227) | |
| Consensus | | | | (204) | (207) | (213) | |
| *BPe vs consensus ($m)* | | | | *(2)* | *(9)* | *(14)* | |
| *BPe vs consensus (%)* | | | | *1.1%* | *4.4%* | *6.6%* | |
| **Operating result** | **965** | **1,072** | **1,122** | **1,121** | **1,155** | **1,217** | |
| Consensus | | | | 1,138 | 1,194 | 1,247 | |
| *BPe vs consensus ($m)* | | | | *(17)* | *(39)* | *(30)* | *Operating result ~1%-3% below Consensus due to lower topline.* |
| *BPe vs consensus (%)* | | | | *(1.5%)* | *(3.3%)* | *(2.4%)* | |
| **Margins:** | | | | | | | |
| *Gross margin (BPe)* | *58.7%* | *62.0%* | *61.9%* | *62.0%* | *62.2%* | *62.4%* | *Expecting slight gross margin beat vs Conensus.* |
| *Consensus* | | | | *61.7%* | *61.9%* | *62.0%* | |
| *Operating result margin (BPe)* | *49.2%* | *52.8%* | *52.7%* | *52.4%* | *52.4%* | *52.6%* | |
| *Consensus* | | | | *52.4%* | *53.1%* | *53.5%* | |
| **Growth, yoy (%)** | | | | | | | |
| *Total revenue (BPe)* | | *3.4%* | *4.8%* | *0.5%* | *3.0%* | *5.0%* | *FY25 topline growth forecast below consensus.* |
| *Consensus* | | | | *2.0%* | *3.5%* | *3.8%* | |
| *Gross profit (BPe)* | | *9.3%* | *4.7%* | *0.6%* | *3.3%* | *5.3%* | |
| *Consensus* | | | | *1.7%* | *3.9%* | *3.9%* | |
| *Operating result (BPe)* | | *-* | *4.8%* | *(0.1%)* | *3.0%* | *5.4%* | |
| *Consensus* | | | | *1.4%* | *4.9%* | *4.5%* | |

SOURCE: COMPANY DATA, BELL POTTER SECURITIES ESTIMATES, VISIBLE ALPHA

Key takeaways from our forecasts are:

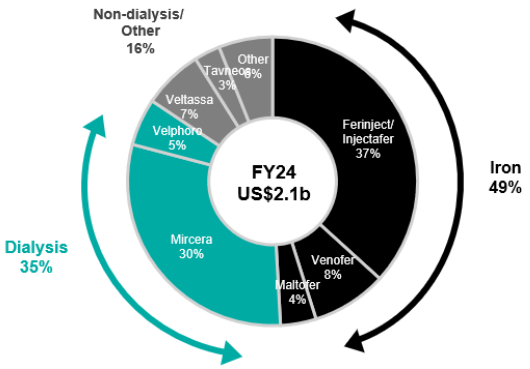
- **FY25 revenue growth of 0.5% (vs. "flattish" guidance)** is below VA Cons of +2%. We expect Seqirus will continue to gain market share albeit in a total market facing volume headwinds in FY25.
- **In FY26/FY27, we anticipate a reversion to low-to-mid single digit sales growth (3%/5%)** in line with pre-pandemic trends. We foresee limited near-term impact on Seqirus from potential mRNA entrants, whether stand-alone or combo approaches. Seqirus will also benefit from the unique differentiation of aTIVc which should drive continued market share increases from ~FY27 onwards.
- **We forecast flat to minor increases in gross margin over FY25-27**, in comparison to Consensus' largely flat expectations. Seqirus consistently improved gross margins in the 5 years to FY23, with FY24 the first sign of slowdown (see Figure 19). We foresee new cell-based vaccines and manufacturing efficiencies driving the stabilisation and modest margin growth in the near- to medium-term.
- The net result is operating margin 1%-3% below Consensus due to lower near-term topline growth expectations.

# Vifor

CSL's US$11.7b acquisition of Vifor in 2022 was predicated on diversifying and driving growth; however, initial double-digit revenue growth expectations over the medium term were downgraded in FY24, driven by sooner-than-expected generic iron competitors in EU, step-edit pressures in the US, and reimbursement bundling for Korsuva.

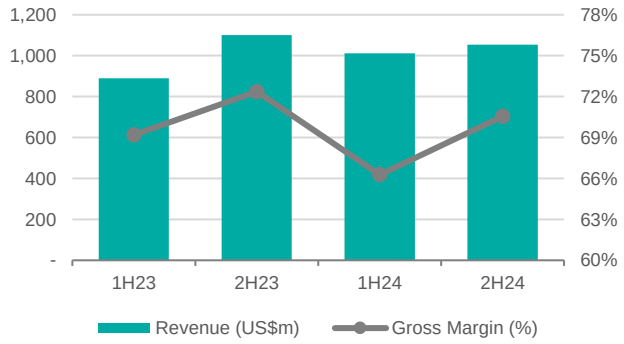
Company guidance is for "flattish" performance in FY25, and more broadly we continue to see a challenged near-term outlook for Vifor, as highlighted below.

**Figure 22 - Vifor FY24 Sales Breakdown**




SOURCE: COMPANY DATA

**Figure 23 - Vifor Half-Yearly Revenue and Gross Margin**




*Note: 1H23 includes ~5 months contribution only.*

SOURCE: COMPANY DATA

## Iron franchise facing near-term headwinds

Half of Vifor's sales come from iron deficiency products ($1.0b in FY24), of which high-dose product Ferinject/Injectafer is US$759m and low-dose product Venofer US$173m (see Figure 24). Vifor's largest product Ferinject/Injectafer experienced headwinds in FY24 across two fronts: **(1)** EU generic competition and **(2)** US step-edit pressure from payors, resulting in an 8% sales decline yoy on an annualised basis.

**Figure 24 - Vifor Sales (US$m)**

| Product | Therapy area | FY23[1] US$m | FY24 US$m | FY24 Growth (%) |
|---|---|---|---|---|
| **Ferinject/Injectafer** | **Iron (high dose)** | **828** | **759** | ***-8%*** |
| Mircera | Dialysis | 581 | 619 | *6%* |
| Venofer | Iron (low dose) | 188 | 173 | *-8%* |
| Velphoro | Dialysis | 191 | 109 | *-43%* |
| Veltassa | Non dialysis | 122 | 138 | *13%* |
| Maltofer | Iron | 82 | 82 | *0%* |
| Tavneos | Non dialysis | 0 | 60 | - |
| Other | - | 178 | 124 | *-30%* |
| **Total** | | **2,170** | **2,064** | *-5%* |
| *Growth (%)* | | *14%* | *-5%* | |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES
(1) REPRESENTS ANNUALISED FIGURES ASSUMING THE CSL'S REPORTED FIGURES WERE 11 MONTHS' CONTRIBUTION.

**Degree of EU generic competition key to Vifor outlook.**

Across Europe, Ferinject/Injectafer faced varying degrees of price discounting (~15-20%) in FY24 due to early generic competition from Teva and Sandoz. Positively, pricing pressures have been at least partially offset by volume increases. We anticipate tender-based pricing headwinds will continue in Europe, and that Vifor will maintain its dominant position versus new entrants particularly as supply assurances make up a key differentiating factor; nevertheless, we see a challenged EU outlook as price erosion likely intensifies in the near-term.

In the US, Injectafer generic entry will commence in FY27 (Sandoz, Viatris have settled on 1 July 2026 entry, others could follow). Vifor does *not* directly commercialise Injectafer in the US, rather receiving a share of revenue from commercial partner American Regent (owned by Daiichi Sankyo). The US represents ~10% of total Injectafer/Ferinject income to Vifor, hence we see the EU generic impact having far more significant impact to Vifor.

While we don't expect traditional generic style price erosion in either US or EU markets due to the limited number of entrants, we do see ongoing annual pricing headwinds for the US$759m Ferinject/Injectafer franchise, as multiple players compete near-term. Generic/biosimilar experience has historically shown tendering price declines usually more than offset volume growth but are dependent on the intensity of competition.

**Step edit pressures in the US appear to have stabilised.**

In FY24, US iron sales were negatively impacted by step-edit pressures, whereby payers effectively shifted reimbursement preferences to prioritise oral iron, followed by low-dose IV iron, then high-dose IV iron. As a result, Vifor's low-dose Venofer (which is lower margin) was prioritised ahead of high-dose Injectafer (higher margin). Management is confident these impacts have now played out and should stabilise moving forward.

**Broadening Vifor's geographic reach via Behring commercial infrastructure.**

While the iron franchise faces the abovementioned headwinds in existing US/EU markets, CSL are leveraging Behring's commercial footprint to expand the iron products into new geographies, such as Canada and China, as well as in the newer indication of heart failure in the US. We expect these expansions and ongoing ramp-up of nephrology products such as Mircera, Filspari and Tavneos will largely offset headwinds facing the iron franchise. We note Korsuva has effectively become commercially immaterial in the US (but not EU) following the expiration of the CMS two-year add-on payment on April 1, 2024[1].

**Forecasting flat to low single digit growth near-term**

Considering the above dynamics, we forecast -1%/1%/3% topline growth in FY25/26/27. While long-term growth synergies are still evident, particularly for geographic expansion and the use of iron products in patient blood management, we struggle to see the near-term growth drivers significantly outweighing headwinds faced by the iron franchise.

Nevertheless, Vifor remains a high-margin business that we expect will continue making up ~12%-13% of CSL revenue and 11%-14% of operating income across FY25-FY27.

Vifor segment forecast on the next page.

[1] Cara Therapeutics (NASDAQ:CARA) out-licensed Korsuva to Vifor and reported US sales by Vifor of US$27m and US$35m in CY23 and CY22, respectively. After the 1 April 2024 add-on payment expiration, Cara stated: "we expect no meaningful revenue contribution from Korsuva injection". Source 2023 10-K report.

## Vifor Segment Forecast

Our Vifor forecast over the next 3 years (FY25-FY27) is shown below:

**Figure 25 - Vifor Underlying Segment Forecast (US$m)**

| Vifor (US$m) | FY22 | FY23 | FY24 | FY25e | FY26e | FY27e | Comment |
|---|---|---|---|---|---|---|---|
| **Total revenue** | | **1,989** | **2,064** | **2,043** | **2,064** | **2,126** | |
| Consensus | | | | 2,074 | 2,147 | 2,211 | |
| *BPe vs consensus ($m)* | | | | *(31)* | *(83)* | *(85)* | |
| *BPe vs consensus (%)* | | | | *(1.5%)* | *(3.9%)* | *(3.8%)* | *Revenue forecast 2%-4% below Consensus…* |
| **Gross profit** | | **1,411** | **1,413** | **1,389** | **1,383** | **1,403** | |
| Consensus | | | | 1,419 | 1,459 | 1,497 | |
| *BPe vs consensus ($m)* | | | | *(30)* | *(76)* | *(94)* | |
| *BPe vs consensus (%)* | | | | *(2.1%)* | *(5.2%)* | *(6.3%)* | *… resulting in lower gross profit expectations.* |
| S&M expense | | (490) | (457) | (443) | (461) | (479) | |
| Consensus | | | | (453) | (469) | (490) | *Expecting additional cost-out synergies of ~$10m in FY25.* |
| *BPe vs consensus ($m)* | | | | *10* | *8* | *10* | |
| *BPe vs consensus (%)* | | | | *(2.2%)* | *(1.8%)* | *(2.1%)* | |
| **Operating result** | | **921** | **956** | **946** | **922** | **924** | |
| Consensus | | | | 911 | 937 | 965 | *Consensus figures don't sum, perhaps reflecting wide variance.* |
| *BPe vs consensus ($m)* | | | | *35* | *(16)* | *(41)* | |
| *BPe vs consensus (%)* | | | | *3.9%* | *(1.7%)* | *(4.3%)* | |
| **Margins:** | | | | | | | |
| *Gross margin (BPe)* | | *70.9%* | *68.5%* | *68.0%* | *67.0%* | *66.0%* | *Forecast gross annual margin decline of 50-100bps, below Consensus.* |
| *Consensus* | | | | *68.4%* | *67.9%* | *67.7%* | |
| *Operating result margin (BPe)* | | *46.3%* | *46.3%* | *46.3%* | *44.7%* | *43.4%* | |
| *Consensus* | | | | *43.9%* | *43.7%* | *43.6%* | |
| **Growth, yoy (%)** | | | | | | | |
| *Total revenue (BPe)* | | | *3.8%* | *(1.0%)* | *1.0%* | *3.0%* | *Topline growth forecast below Consensus.* |
| *BPe vs consensus ($m)* | | | | *0.5%* | *3.5%* | *3.0%* | |
| *Gross profit (BPe)* | | | *0.1%* | *(1.7%)* | *(0.5%)* | *1.5%* | |
| *BPe vs consensus ($m)* | | | | *0.4%* | *2.8%* | *2.7%* | |
| *Operating result (BPe)* | | | *3.8%* | *(1.0%)* | *(2.6%)* | *0.2%* | |
| *Consensus* | | | | *(4.7%)* | *2.9%* | *2.9%* | |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES, VISIBLE ALPHA

Key takeaways from our forecasts are:

- **FY25 revenue growth of -1.0% (vs. "flattish" guidance)** is below VA Cons of +0.5%. We expect continued headwinds in the EU iron franchise, partially offset by geographic expansion and new indications/product launches.
- **In FY26/FY27 we anticipate a reversion to low single digit sales growth (1%/3%)** as US step edit pressures stabilise, Korsuva bundling impacts are digested, and geographic expansion continues to ramp-up.
- We **forecast 50-100bps gross margin declines annually across FY25-27** as iron pricing pressures persist in the EU and commence from FY26 in the US. Soft guidance for FY25 is for gross margins to be "broadly stable". We are slightly below consensus, which also forecasts modest gross margin declines.

# Financials

## Profit & Loss Forecast

Our forecast P&L for CSL over the next three years is shown below. Figures are in USDm.

**Figure 26 - Forecast P&L (US$m).**

| Year end 30th June | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| **Total revenue** | **13,310** | **14,800** | **15,759** | **16,765** | **17,893** |
| *Growth (%)* | *26.0%* | *11.2%* | *6.5%* | *6.4%* | *6.7%* |
| VA consensus | | | 15,801 | 16,898 | 18,036 |
| Gross profit | 7,231 | 8,006 | 8,608 | 9,365 | 10,273 |
| *Gross margin (%)* | *54.3%* | *54.1%* | *54.6%* | *55.9%* | *57.4%* |
| Operating expenses | -3,331 | -3,256 | -3,338 | -3,456 | -3,641 |
| *% of revenue* | *25.0%* | *22.0%* | *21.2%* | *20.6%* | *20.3%* |
| **EBITDA** | **3,900** | **4,750** | **5,270** | **5,909** | **6,632** |
| D&A | -831 | -938 | -985 | -1,034 | -1,086 |
| **EBIT (reported)** | **3,069** | **3,812** | **4,285** | **4,875** | **5,546** |
| Net interest expense | -406 | -437 | -423 | -393 | -363 |
| **EBT (reported)** | **2,663** | **3,375** | **3,862** | **4,482** | **5,183** |
| Tax expense | -419 | -661 | -759 | -863 | -991 |
| Non-controlling interests | -50 | -72 | -131 | -131 | -131 |
| **NPAT** | **2,194** | **2,642** | **2,972** | **3,488** | **4,062** |
| Adjustments for NPATA | 416 | 265 | 260 | 260 | 260 |
| **NPATA** | **2,610** | **2,907** | **3,232** | **3,748** | **4,322** |
| *Growth (%)* | *9.6%* | *11.4%* | *11.2%* | *16.0%* | *15.3%* |
| VA consensus | | | 3,275 | 3,815 | 4,350 |
| *EBITDA margin (%)* | *29.3%* | *32.1%* | *33.4%* | *35.2%* | *37.1%* |
| *NPATA margin (%)* | *19.6%* | *19.6%* | *20.5%* | *22.4%* | *24.2%* |
| *Effective tax rate (%)* | *15.7%* | *19.6%* | *19.7%* | *19.3%* | *19.1%* |
| NPAT per share (diluted) | 4.53 | 5.45 | 6.13 | 7.19 | 8.37 |
| *Growth (%)* | *-5.5%* | *20.1%* | *12.5%* | *17.4%* | *16.5%* |
| **NPATA per share (diluted)** | **5.39** | **5.99** | **6.66** | **7.72** | **8.91** |
| *Growth (%)* | *6.5%* | *11.1%* | *11.2%* | *16.0%* | *15.3%* |
| Dividend per share (USD) | 2.36 | 2.64 | 2.95 | 3.25 | 3.55 |
| *Franking (%)* | *10.0%* | *10.0%* | *10.0%* | *10.0%* | *10.0%* |
| *Payout ratio on diluted NPAT/share* | *52.0%* | *48.5%* | *48.2%* | *45.2%* | *42.4%* |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES, VISIBLE ALPHA
(1) FY25 VA CONSENSUS FIGURE IS UNDERSTOOD TO INCLUDE CONSTANT CURRENCY AND REPORTED FIGURE INPUTS FROM VARIOUS SOURCES

Key takeaways are:

- **Double digit mid-term earnings growth consistent with guidance**. We forecast NPATA[2] to grow at a 3-year CAGR of 14.1% (VA cons 14.4%). Specifically, our NPATA forecast is 11%/16%/15% growth in FY25/FY26/FY27.
- **FY25 revenue growth of 6.5% towards top of 5%-7% guidance range.** We are slightly below VA cons revenue growth of 6.8%.
- **FY25 NPATA of US$3.28b (at CC) or US$3.23b (reported) is toward the top end of US$3.2b-$3.3b (at CC) guidance.** We assume a US$50m FX headwind in our reported NPATA in line with company guidance.
- **Expecting stable growth of minor dividend.** The FY24 dividend payout ratio was ~49% and we expect it to remain within ~40%-50% in the near-term, broadly consistent with company guidance. Dividends are only 10% franked due to predominantly offshore profits. Dividend yield has been 1.0%-1.3% in the last 5 years; we forecast 1.5% yield based on FY25 forecasts.

[2] Underlying net profit after tax (NPATA) is statutory net profit after tax before impairment and amortisation of acquired intellectual property, business acquisition and integration costs and the unwind of the inventory fair value uplift resulting from business acquisitions.

## Balance sheet

CSL's historical balance sheet is below.

**Figure 27 - CSL Balance Sheet (US$m)**

| Balance Sheet (US$m) | FY22 | FY23 | FY24 |
|---|---|---|---|
| **Year Ending 30 June** | | | |
| Cash and cash equivalents | 10,436 | 1,548 | 1,657 |
| Receivables | 1,657 | 2,214 | 2,895 |
| Inventories | 4,333 | 5,466 | 5,964 |
| Other current assets | 34 | 31 | 252 |
| PPE | 7,017 | 7,797 | 8,148 |
| Right-of-use assets | 1,292 | 1,555 | 1,510 |
| Intangibles | 2,638 | 16,446 | 16,346 |
| Deferred tax assets | 518 | 902 | 911 |
| Other non-current assets | 421 | 275 | 339 |
| **Total assets** | **28,346** | **36,234** | **38,022** |
| | | | |
| Payables | 2,301 | 2,947 | 3,345 |
| Borrowings - current | 4,494 | 1,055 | 944 |
| Tax liabilities - current | 132 | 296 | 176 |
| Provisions - current | 182 | 310 | 475 |
| Other current liabilities | 0 | 0 | 10 |
| Borrowings - non-current | 5,164 | 11,172 | 11,239 |
| Deferred tax liabilities | 670 | 1,464 | 1,514 |
| Other non-current liabilities | 826 | 1,164 | 918 |
| **Total Liabilities** | **13,769** | **18,408** | **18,621** |
| **Net Assets** | **14,577** | **17,826** | **19,401** |
| | | | |
| Contributed capital | 484 | 517 | 557 |
| Reserves | 590 | 648 | 794 |
| Retained earnings | 13,503 | 14,621 | 16,012 |
| **Total equity (CSL shareholders)** | **14,577** | **15,786** | **17,363** |
| Non-controlling interests | 0 | 2,040 | 2,038 |
| **Total Equity** | **14,577** | **17,826** | **19,401** |
| | | | |
| **Leverage ratios:** | | | |
| Net debt/(cash) (US$m) | -778 | 10,679 | 10,526 |
| Net debt/equity (%) | (5%) | 60% | 54% |
| Gearing (ND/(ND + equity)) (%) | (6%) | 37% | 35% |
| Net debt/assets (%) | (3%) | 29% | 28% |
| Net debt/EBITDA (x) | -0.2 | 2.7 | 2.2 |
| Net interest cover (x) | 19.8 | 7.6 | 8.7 |

SOURCE: COMPANY DATA

Key takeaways are:

- **US$10.5b net debt as at 30 June 2024**. The increase in non-current borrowings from FY22 to FY24 largely reflects the US$6b debt financing as part of the Vifor acquisition. Likewise the decrease in cash balance from FY22 to FY23 was due to the acquisition.
- **Net debt/EBITDA expected to reach below 2x in FY25**. Net debt/EBITDA was 2.2x in FY24, we expect this to reduce to ~1.8x in FY25 through both a reduction in net debt and increase in EBITDA, consistent with company guidance.
- **US$8b in Property, Plant & Equipment (PPE)**. Largely related to the large-scale infrastructure necessary for the collection, manufacture and distribution of plasma products and vaccines. Capex guidance in FY25 is ~US$700m-$800m.
- **US$16b in intangible assets**. Consisting predominantly of US$8b in goodwill and US$8b in IP/other intangibles. Again, the increase from US$3b in FY22 to US$16b in FY24 was largely due to acquired intangibles from the Vifor acquisition.

## Performance ratios

Analysis of CSL's key performance ratios is included below:

**Figure 28 - Performance ratios**

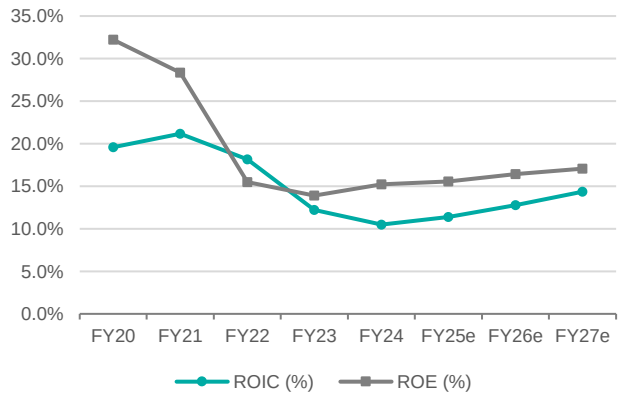
| Performance Ratios | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| **Year Ending 30 June** | | | | | |
| Revenue growth | 26.0% | 11.2% | 6.5% | 6.4% | 6.7% |
| Gross margin | 54.3% | 54.1% | 54.6% | 55.9% | 57.4% |
| EBITDA margin | 29.3% | 32.1% | 33.4% | 35.2% | 37.1% |
| EBT margin | 20.0% | 22.8% | 24.5% | 26.7% | 29.0% |
| NPAT margin | 16.5% | 17.9% | 18.9% | 20.8% | 22.7% |
| NPATA margin | 19.6% | 19.6% | 20.5% | 22.4% | 24.2% |
| Effective tax rate | 15.7% | 19.6% | 19.7% | 19.3% | 19.1% |
| | | | | | |
| ROE (%) | 13.9% | 15.2% | 15.6% | 16.4% | 17.1% |
| ROA (%) | 6.1% | 6.9% | 7.3% | 8.2% | 8.9% |
| **ROIC (%)** | **12.2%** | **10.5%** | **11.4%** | **12.8%** | **14.3%** |
| Dividend payout ratio (%) | 52.0% | 48.5% | 48.2% | 45.2% | 42.4% |

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Key takeaways are:

- The combination of mid-to-high single digit revenue growth and improving gross margins leads to our forecast of double-digit earnings growth over the mid-term.
- CSL is expected to grow its already healthy profit margins, which in FY24 were a 32% EBITDA margin and 18% NPAT margin.
- As per Figure 29 below, ROIC and ROE both reduced in FY22 following the debt and equity financing to fund the Vifor acquisition and gross margin decline. Nevertheless, we expect ROIC to improve toward 15% in FY27 (from 10.5% in FY24) largely due to increasing profitability.

**Figure 29 - ROIC and ROE**




SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

# Valuation

We apply both DCF and PE valuation methodologies to derive our CSL price target.

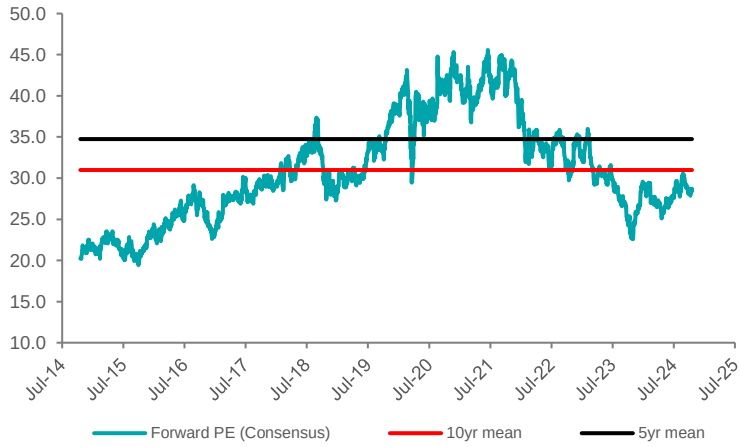
CSL reports all figures in USD but is listed on the ASX with an AUD share price. Therefore, we convert both the DCF cashflow forecast and EPS used in the PE valuation from USD to AUD at a 0.67 FX rate.

## PE ratio

CSL lacks ASX-listed peers that operate in the plasma, vaccine or novel therapeutic space at similar scale. Regarding international peers, CSL's closest plasma competitors are Takeda and Grifols. Takeda's plasma business is only 20% of total company revenue while Grifols is a far smaller market cap of €6b compared to CSL's ~A$145b. We therefore look predominantly to CSL's historical trading ranges to derive our target PE multiples.

Bloomberg consensus has CSL currently trading at a 12month forward PE ratio of ~29x, representing an 8% discount to the 10-year average (31x) and 18% discount to the 5-year average (35x). See Figure 30 below.

**Figure 30 - CSL 10-year historical forward PE**




| | Premium/Discount: |
|---|---|
| **5yr mean = 34.8** | -18% |
| **10yr mean = 31.0** | -8% |
| **Current = 28.6** | |

SOURCE: BLOOMBERG

Based on the above historical averages, in our view, a PE target multiple of 32x is appropriate considering CSL's margin recovery is now underway and the double-digit mid-term earnings growth outlook. We note CSL has historically traded at a premium to large pharmaceutical peers, which, in our view, is justified due to the large barriers to entering the plasma market (i.e. collection centres, manufacturing scale and lack of generic competition) as well as economies of scale applicable to both the plasma and vaccine businesses.

We choose to apply our PE multiple to the average of FY25/FY26 estimates, considering we are already in 2Q FY25 and to be consistent with a one-year price target.

The PE ratio valuation for CSL is shown below:

**Figure 31 - PE ratio valuation of CSL**

| Year | FY23 | FY24 | FY25e | FY26e | FY25/26 avg |
|---|---|---|---|---|---|
| Normalised EPS (diluted, US$) | 5.39 | 5.99 | 6.66 | 7.72 | 7.19 |
| Normalised EPS (diluted, A$) | 8.05 | 8.94 | 9.94 | 11.53 | 10.74 |
| Applied PE multiple | | | 32.0 | 32.0 | 32.0 |
| **Implied price (A$)** | | | **$318** | **$369** | **$344** |

SOURCE: BELL POTTER SECURITIES ESTIMATES

## DCF

We consider a DCF valuation approach is appropriate to use in combination with the PE methodology due to CSL's large cashflow generation with reasonable line of sight on the near- and mid-term outlook.

Our DCF is shown below along with the WACC calculation. The valuation begins in FY26 to be consistent with our one-year price target and spans a five-year forecast period.

**Figure 32 - DCF valuation**

| WACC calculation | |
|---|---|
| Risk free rate | 4.0% |
| Market risk premium | 5.5% |
| Beta | 0.90 |
| Borrowing rate | 4.3% |
| Tax rate | 30.0% |
| Target gearing | 30.0% |
| Cost of equity | 9.0% |
| Cost of debt | 3.0% |
| **WACC** | **7.17%** |
| Terminal value? | Yes |
| Terminal growth rate | 3.0% |

| Company DCF | | FY25e | FY26e | FY27e | FY28e | FY29e | FY30e |
|---|---|---|---|---|---|---|---|
| EBITDA | | 5,270 | 5,909 | 6,632 | 7,381 | 7,998 | 8,550 |
| Tax paid | | (759) | (863) | (991) | (1,117) | (1,219) | (1,309) |
| Capex | | (750) | (800) | (900) | (1,000) | (1,020) | (1,040) |
| Change in NWC | | (464) | (199) | (171) | (160) | (350) | (469) |
| **Free cash flow** | | 3,297 | 4,047 | 4,571 | 5,104 | 5,410 | 5,732 |
| Terminal value | | - | - | - | - | - | 147,377 |
| Discount factor | | *0.00* | *1.07* | *1.15* | *1.23* | *1.32* | *1.41* |
| PV of explicit cash flows | | - | 3,777 | 3,981 | 4,147 | 4,102 | 4,056 |
| PV of terminal value | | - | - | - | - | - | 104,277 |
| Total PV of explicit cash flows | *USDm* | 20,062 | 16% | | | | |
| Total PV of discounted terminal value | *USDm* | 104,277 | 84% | | | | |
| **Enterprise value** | ***USDm*** | **124,339** | **100%** | | | | |
| Plus: Net cash/(debt) | *USDm* | (10,526) | | | | | |
| **Equity value** | ***USDm*** | **113,813** | | | | | |
| AUD to US$ | | 0.67 | | | | | |
| **Equity value** | ***AUDm*** | **169,870** | | | | | |
| Total shares on issue | *# millions* | 484.21 | | | | | |
| **Equity value per share** | ***AUD*** | **350.82** | | | | | |

**Sensitivity analysis – Equity value per share:**

| | | WACC | | | | |
|---|---|---|---|---|---|---|
| | | 8.0% | 7.5% | 7.2% | 7.0% | 6.5% |
| **Terminal Growth** | 2.0% | 244.5 | 269.4 | 288.6 | 299.3 | 335.8 |
| | 2.5% | 264.1 | 293.5 | 316.4 | 329.3 | 374.0 |
| | 3.0% | 287.8 | 322.9 | 350.8 | 366.7 | 423.0 |
| | 3.5% | 316.6 | 359.6 | 394.6 | 414.9 | 488.5 |
| | 4.0% | 352.7 | 406.9 | 452.3 | 479.1 | 580.0 |

SOURCE: BELL POTTER SECURITIES ESTIMATES

The figure shows a DCF valuation of $351 which is largely in line with the valuation derived from our PE approach ($344).

## PEG comparison with ASX peers

As a final sense check, we compare the PEG ratios of a selection other large-cap ASX listed Healthcare peers. As per Figure 33 below, CSL is trading at a PEG ratio of 1.9x, which is below several peers such as RMD, COH and FPH.

**Figure 33 - Selection of ASX Healthcare PEG ratios**

| Company | Ticker | EPS FY1 | EPS FY2 | EPS FY3 | Growth (FY1>FY3) | 12m fwd PE (BBG cons) | PEG |
|---|---|---|---|---|---|---|---|
| CSL | CSL | 6.74 | 7.85 | 8.94 | 15% | 28 | **1.9** |
| ResMed | RMD | 0.92 | 1.01 | 1.09 | 9% | 25 | **2.8** |
| Cochlear | COH | 6.44 | 7.19 | 8.17 | 13% | 43 | **3.4** |
| Fisher and Paykel | FPH | 0.60 | 0.72 | 0.87 | 20% | 53 | **2.7** |
| Pro Medicus | PME | 1.03 | 1.31 | 1.65 | 26% | 165 | **6.3** |

SOURCE: REFINITIV, DATA FROM 17 OCT 2024

## Price Target

Our PT is derived from a 50:50 blend of our PE and DCF valuation approaches. We think this is reasonable and captures both the near-term and longer-term outlook for the company.

**Figure 34 - Price target calculation**

| Valuation Methodology | A$/share | Weighting (%) |
|---|---|---|
| DCF | 350.82 | 50% |
| PE | 343.54 | 50% |
| **Final valuation** | **347.18** | 100% |
| **Final price target (rounded)** | **345.00** | |

SOURCE: BELL POTTER SECURITIES ESTIMATES

The resulting price target is $345, which is a 15% premium to the current share price. When combined with the 1.5% expected dividend yield, the total expected return is 16%. We therefore initiate coverage with a BUY recommendation.

# Board and Management

CSL's directors are listed below:

**Figure 35 - Board of Directors**

| Director | Title | First Appointed | Shares owned |
|---|---|---|---|
| 1) Dr. Brian McNamee | Non-executive Chair | 2018 (CEO from 1990-2013) | 126k (~$36.9m) |
| 2) Paul McKenzie | CEO and Managing Director | 2022 (appointed CEO in 2023) | 22k (~$6.6m) |
| 3) Dr. Megan Clark | Non-executive Director | 2016 | 5.1k (~$1.5m) |
| 4) Prof. Andrew Cuthbertson | Non-executive Director | 2018 | 70.5k (~$20.6m) |
| 5) Carolyn Hewson | Non-executive Director | 2019 | 2.0k (~$0.6m) |
| 6) Samantha Lewis | Non-executive Director | 2024 | 1.9k (~$0.6m) |
| 7) Prof. Duncan Maskell | Non-executive Director | 2021 | 1.4k (~$0.4m) |
| 8) Marie McDonald | Non-executive Director | 2013 | 4.1k (~$1.2m) |
| 9) Elaine Sorg | Non-executive Director | 2024 | N/A |
| 10) Alison Watkins | Non-executive Director | 2021 | 3.5k (~$1.0m) |

SOURCE: COMPANY DATA

Key points:

- **Predominantly non-executive directors**. All directors except the CEO & Managing Director are non-executives. This is unsurprising given the large, mature company such as CSL.
- **Mix of past company executives and external directors**. The Board includes three current or past company executives, alongside the remaining seven directors. This provides a strong balance of internal insight and external experience/perspective. Additionally, there is a good range of tenure on the Board, from 1-11 years.
- **Majority (6/10) female directors**.
- **Directors own 0.05% of outstanding shares**, reflecting ~$74m in current market value, concentrated mostly in the three current/past company executives.

The management team of CSL is listed below:

**Figure 36 - Key Management Personnel**

| Director | Title | First Appointed | Shares owned |
|---|---|---|---|
| 1) Paul McKenzie | CEO and Managing Director | Appointed CEO in 2023. | 22k (~$6.6m) |
| 2) Joy Linton | CFO | Appointed CFO in 2020. | 12k (~$3.5m) |
| 3) Andy Schmeltz | EVP, CSL Behring | Appointed in 2023. | 2k (~$0.6m) |
| 4) Greg Boss | EVP, Legal & General Counsel | Appointed in 2009. | - |
| 5) Hervé Gisserot | SVP and General Manager, CSL Vifor | Appointed in 2022. | - |
| 6) Mark Hill | Chief Digital Information Officer | Appointed in 2020. | - |
| 7) Ken Lim | EVP and Chief Strategy Officer | Appointed in 2013. | - |
| 8) Bill Mezzanotte | EVP, Head of R&D | Appointed in 2018. | - |
| 9) Roanne Parry | Chief Human Resources Officer | Appointed in 2024. | - |
| 10) Kate Priestman | Chief Corporate & External Affairs Officer | Appointed in 2023. | - |
| 11) Dave Ross | SVP & General Manager CSL Seqirus | Appointed in 2024. | - |

SOURCE: COMPANY DATA

Key points are:

- **CEO appointed in March 2023**. Paul McKenzie joined CSL as Chief Operating Officer in 2019 before being appointed CEO in 2023. Prior to CSL, Mr McKenzie held roles including EVP Pharmaceutical Operations & Technology at Biogen, and various R&D roles at large pharma companies J&J, Bristol-Myers Squibb and Merck.
- **CFO appointed in Oct 2020.** Joy Linton joined CSL as CFO in 2020 having worked previously at Bupa (CFO & Executive Director) and National Foods Limited (CFO).

# Appendix: Behring, Seqirus Further Detail

## Behring Gross Margin (GM) Recovery

The extent and speed of Behring's GM recovery post the Covid-induced decline is one of the biggest swing factors determining the company's near- and mid-term performance.

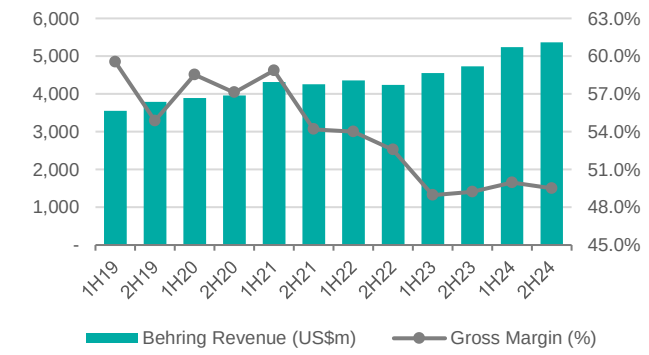
Guidance on gross margins (GM) is as follows:

- Medium-term: Return to pre-covid >57% gross margins by FY26-FY28.
- Short-term: FY25 expected to be "100 and a bit bp increase" on FY24 GM of 49.7% (or 50.3% at cc).

As seen in Figures 37 and 38, FY23 was the GM nadir (49.1%). However, there is still a large >700bp lift required from 49.7% GM in FY24 back up to >57% by FY26-FY28.

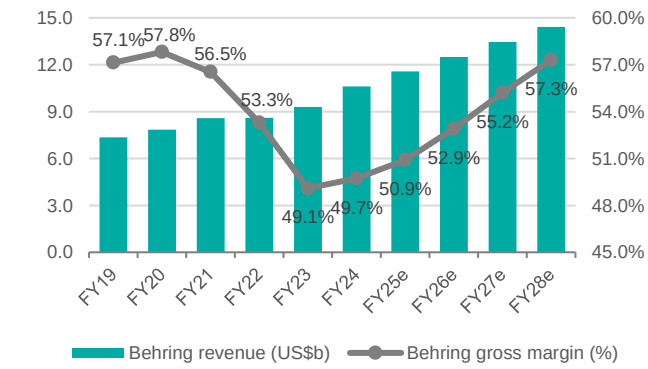
We forecast Behring GM will recover to >57% gross margin, albeit not until FY28, as the multiple factors described below begin to stack and new products gain more traction.

**Figure 37 - Behring Revenue & GM, Historical, Half-yearly**




SOURCE: COMPANY DATA

**Figure 38 - Behring Revenue & GM, Forecast, Annual**




SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

There are three key drivers to the Behring GM recovery, detailed below with our key highlights.

**1) REDUCTION IN COST PER LITRE (CPL) OF PLASMA COLLECTIONS**

CPL stabilised in 2H24 but management remains confident in continued reductions in FY25, driven largely by the roll out of Rika devices and I-Nomogram collections:

- **Rika[3] rollout accelerating**. Rika collection devices were active in ~25% (84 centres) of CSL's ~340 collection centres as at end-FY24. Rollout to the remaining 75% is on track to complete by end-FY25.
- **I-Nomogram[4]**. Was FDA cleared in May 2024 and is being validated across collection centres in parallel to the Rika rollout. It start to be activated from the end of CY24 across sites where Rika has been deployed.
- **Other CPL factors**: Optimising donor fees, digital questionnaires via app (4m downloads to date) to free up time in centre.

**2) PRODUCT MIX**

- **Existing product mix:** A significant portion of Ig growth in FY24 was from ex-US geographies such as Europe where lower margin IV Ig is more prevalent. Hence we

[3] The Rika Plasma Donation System results in a ~30% reduction in time on bed for a plasma donation. Source: https://www.cslplasma.com/news/304

[4] I-Nomogram is estimated to improve average donation yield by ~10%. Source: CSL FY24 Results Presentation.

expect more even growth across both low and high margin Ig products from FY25 as supply constraints ease.

- **New higher-margin product launches** are likely to benefit GM in the medium-term. High-margin product Hemgenix (~US$3m/pt gene therapy for Haemophilia B) has had negligible early sales (12pts treated in FY24), hence impact on GM so far is minimal. Garadacmiab is expected to launch in 1H CY25 (assuming it's approved end-CY24) and should drive market share gains with improved margins due to being recombinant-made as opposed to the existing plasma-derived product Haegarda ($491m sales in FY24).

**3) MANUFACTURING YIELD IMPROVEMENTS**

- **Horizon 1:** A ~5% incremental increase in mostly Ig/albumin manufacturing yield from process changes. Currently being implemented across various fractionation facilities.
- **Horizon 2:** A further ~10-15% incremental increase in yield from more significant process changes that will require updated regulatory approvals (unlike Horizon 1). But not expected to be rolled out until towards the end of the decade and therefore not factored into medium-term GM recovery guidance.

## Behring Growth Expectations

Behring did the heavy lifting for CSL revenue growth in FY24, up +14.2% to US$10.3b compared to 4.8% growth for Seqirus and a ~5% annualised decline for Vifor.

And Behring will continue to be the key driver of CSL's near-term growth. FY25 guidance for total CSL revenue growth is 5%-7% at CC and comprised of:

- Behring: "**High single digit growth**"; and
- Vifor & Seqirus: "**Flattish**".

As seen in Figure 39 below, Behring remains 72% of CSL's total revenue, with Ig sales (US$5.7b) the largest component (38% of total company revenue). Various 5-year revenue outlooks were provided in Oct 2023 with no changes/revisions since, as detailed below:

**Figure 39 - Behring FY24 Product Sales Breakdown and Guidance**

| | FY24 | | | |
|---|---|---|---|---|
| Product Group | Sales (US$m) | Growth (%) | % of total | 5-year guidance commentary (as at Oct 2023) |
| Ig | 5,666 | 21.2% | 38.3% | *"High single-digit" 5-year CAGR as Privigen/Hizentra continue to gain share and outpace the overall Ig market growth of 6%-8%.* |
| Albumin | 1,209 | 9.0% | 8.2% | *No specific guidance. Continued "high single digit growth" expected in China.* |
| Haemophilia | 1,313 | 10.1% | 8.9% | *"High single-digit" 5-year CAGR as CSL Hemgenix/Idelvion outpace overall Haem B market growth of 4%-6%.* |
| Specialty | 1,940 | 6.0% | 13.1% | *"High single digit" 5-year CAGR for HAE products (~$730m sales) driven largely by garadacimab launch in CY25 (assuming approval by end-CY24).* |
| Other | 480 | -0.4% | 3.2% | *No specific guidance.* |
| **Behring total** | **10,608** | **14.2%** | **71.7%** | ***FY25 "high single digit" growth. No 5-year guidance.*** |

SOURCE: COMPANY DATA

**Ig expectations: Impact from FcRns?**

Ig was the biggest growth contributor to Behring (and CSL) in FY24 (+21% yoy) and FY23 (+16% yoy) as pent-up demand post-Covid, particularly in Europe, was met due to easing supply limitations.

Much has been made of potential market share loss to the new, promising class of FcRn inhibitor drugs. Broadly speaking, FcRns will compete in certain Ig indications relating to autoimmune diseases such as MG, CIDP and ITP[5] (which made up ~25-33% of CSL's

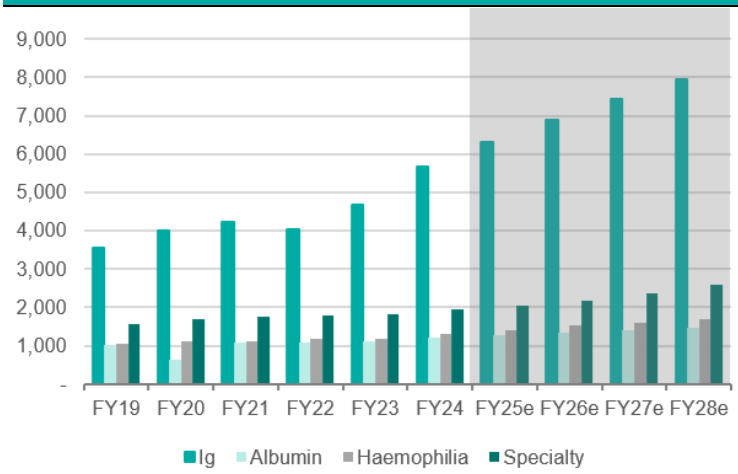
[5] MG: Myasthenia gravis; CIDP: Chronic inflammatory demyelinating polyneuropathy; ITP: Chronic immune thrombocytopenic purpura.

FY23 Ig sales). FcRns will not compete against the remaining ~70% of Ig sales in immunodeficiency indications.

Since FcRn drugs first launched in the MG indication in 2022, CSL has maintained constant volume in this indication (~4% of total Ig), indicating the increased awareness/ diagnosis rates from FcRns are offsetting any loss in patient share. Argenx's more recent CIDP approval in June 2024 will compete with another ~23% of CSL's Ig sales, however, the company is better placed to compete in this indication than in MG as CIDP is an approved on-label indication for CSL whereas MG is used off-label.

In conclusion, looking ahead, we forecast Ig growth of 11.5% in FY25 before reverting back towards high single digit growth (see Figure 40), driven by continued CPI-like price increases and high single digit volume growth. We foresee relatively minor impact from FcRns in MG/CIDP indications (~9% of company revenue) in the near-term.

**Figure 40 - Behring product sales, historical and forecast (US$m)**



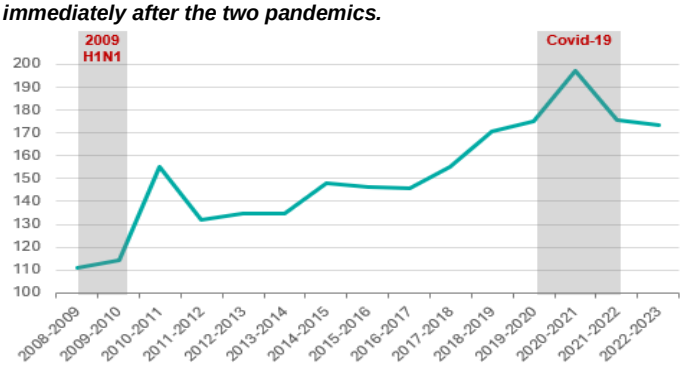

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Seqirus: Gaining share in a near-term declining market

The US is CSL's largest flu vaccine market (>50% total sales). Historically, the number of influenza vaccines distributed in the US increased 3% pa on average over the least ~15 years (Figure 41). Flu vaccinations spiked after the onset of the 2009 H1N1 and Covid-19 pandemics, with ~3%-4% annual growth in between.

**Figure 41 - US Influenza Vaccine Doses Distributed in the US**

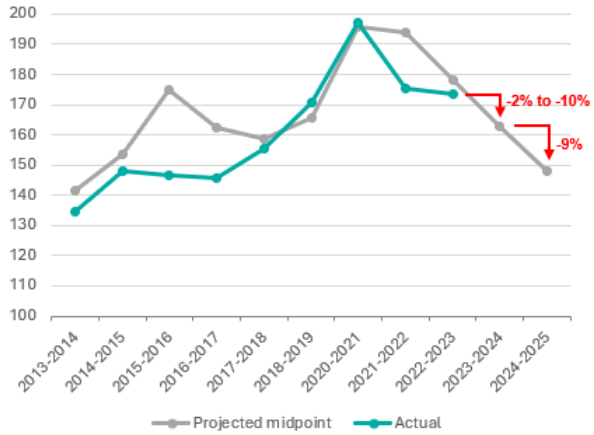
***US flu vaccine distributions have increased by 3%-4% pa over the last 15 years with spikes immediately after the two pandemics.***




SOURCE: CDC.GOV

However, as shown in Figure 42 below, the projected supply of US flu vaccines was expected to decline by 2%-10% in the 2023-24 season and by ~9% in the upcoming 2024-25 season, as per the CDC.

**Figure 42 - US Influenza Vaccine Distributions Projected to Decline in 2024-25 Season**




US flu vaccine distributions projected to decline by 9% in 2024-25 after declining by 2% to 10% in 2023-24.

SOURCE: CDC.GOV. DATA FOR 2023-24 SEASON NOT PUBLISHED.

It's against this declining market backdrop that **Seqirus grew sales by 4.8% in FY24** by gaining market share vs competitors. We expect total flu vaccinations will continue facing headwinds in FY25 as the second season of RSV vaccine availability continues to impact demand and a degree of residual Covid vaccine fatigue persists.

Nevertheless, Seqirus showed its adjuvanted egg-based product, Fluad (+16.5% growth in FY24), is driving meaningful market share gains and is now a >$1b sales product. **We expect a similar trend in FY25** where Fluad will continue to drive market share increases in a declining market.

Beyond FY25, we expect the total US market will stabilise and revert to low single digit growth, driven by the increase in >65yr population and reduced RSV/Covid hangover.

Regarding pricing, in FY24, lower demand increased price competition. We expect similar pricing dynamics to continue in FY25 based on US CMS price data showing similar US price increases for FY25 as FY24 (+8% for Fluad and +8-14% for Flucelvax)[6].

Outside the US, WHO forecasts (Jan 2024) global flu vaccine demand will increase at ~1% annually. Against this market dynamic we forecast CSL will achieve low single digit growth ex-US over the medium term.

## Flu vaccine competitive threats: mRNA and combos

While mRNA stand-alone flu vaccines and mRNA combo vaccines (flu + Covid/RSV) are in various stages of clinical development, multiple peers (Moderna, Pfizer, GSK) have faced several setbacks in 2024, resulting in confidence the flu vaccine market will continue to be dominated by traditional (mostly egg- and small portion of cell-based vaccines) in the near-term.

**Stand-alone mRNA flu vaccines – peers finding it tough.**

Several mRNA flu vaccines are in development, however, they have not yet demonstrated superior efficacy/safety profiles over the currently available products, particularly in relation to Flu B strains. A summary of recent peer developments is below:

- **Moderna**'s second generation mRNA flu vaccine was de-prioritised in Sep 2024 in favour of the company's flu/covid combo vaccine. Note Moderna's 'first generation' mRNA vaccine failed to meet FluB endpoints
- **Pfizer** have various 'second generation' flu vaccine candidates that completed Phase 2 clinical trials in a relatively small number of subjects in 2024. Hence Phase 3 trials are still necessary. These are a follow-on to the failed flu/Covid combo vaccine (see below).

[6] https://www.cms.gov/medicare/payment/part-b-drugs/vaccine-pricing

- **GSK**/**CureVac** failed to demonstrate adequate FluB responses in Phase 2 trials in April 2024. GSK subsequently took full ownership of the mRNA assets and are continuing to push into Phase 3 trials.

**What about combos of flu + Covid/RSV vaccines?**

- **Moderna** recently prioritised the flu/covid combo vaccine (mRNA-1083) over the stand-alone flu vaccine (mRNA-1010). The combo vaccine could be approved in CY25 but is unlikely to materially compete in the FY26 season. We also note that, in a Phase 3 trial, Moderna's combo vaccine arm experience higher rates of Grade 2 and Grade 3 adverse events rates vs currently licensed products. Hence we see limited near-term risk until more favourable data is reported.
- **Pfizer**/BioNTech's flu/Covid vaccine combo failed to meet one of two Phase 3 primary immunogenicity endpoints (non-inferiority to FluB strain) in Aug 2024. Hence the future of this asset looks uncertain as they "discuss next steps with regulators".
- **Sanofi** in May 2024 in-licensed rights to develop and commercialise various vaccines from Novavax, including flu/Covid combos, however these are in early-stage clinical development.

## Covid-19 vaccine could provide minor upside, likely from FY27.

CSL in-licensed exclusive commercial rights to Arcturus's self-amplifying mRNA (sa-mRNA) vaccine technology for various respiratory diseases, including influenza and Covid-19. First to be commercialised will be Covid-19. The technology is truly differentiated from peers; recent Phase 3 Covid-19 data in Japan (n=828) indicates CSL's vaccine generates superior immune responses to Pfizer's, both in terms of magnitude and durability of response, with only one-sixth of the dose used[7]. The approval status for the sa-mRNA Covid-19 vaccine and launches is as follows:

- Japan: Approved, first in Nov 2023 and updated version in Sep 2024. Meiji Seika will distribute the vaccine in Japan in time for the Oct 2024 Covid-19 vaccine campaign.
- Europe: Under EMA review with decision expected by end-CY24.
- USA: Not submitted to FDA.

In conclusion, we expect minimal Covid-19 sales contribution until EU and/or US commercialisation, which is looking most likely to be from FY27, pending approvals. Specific timing and launch plans remain unclear, therefore we have not materially factored such sales into our overall low single digit growth forecasts for Seqirus in the near- and mid-term.

## Next gen Flu products: aTIVc and sa-mRNA

**aTIVc**

Fluad is the adjuvanted **egg-based** vaccine that has become the pillar of CSL's vaccine franchise ($1.0b sales or 49% of total Seqirus revenue) and helped drive recent outperformance over peers.

The 'next gen' version of this product, called **aTIVc**, is currently undergoing Phase 3 trials and uses the faster cell-based manufacturing method (rather than egg-based manufacture). The shorter manufacturing timeline helps reduce the lag between WHO/ACIP strain recommendations in February/March until vaccination from ~October, therefore allowing better matching between the vaccine and circulating strains. It also removes any potential egg-caused mutations which potentially hinder efficacy.

[7] CSL Press Release, 30th September 2024

No competing flu vaccines in the US currently use cell-based manufacture. aTIVc therefore provides a clear differentiating factor in this regard and we envision it being a key driver for Seqirus to outcompete peers in the space in the near-term.

Specific timelines for aTIVc launch/approval remain unclear, however we expect potential approval and launch in ~FY27.

**sa-mRNA**

Utilising the in-licensed sa-mRNA technology for flu vaccines (in addition to Covid) could be a source of long-term differentiation but remains in early-stage Phase 1 clinical development. If the clinical trials succeed, we estimate approval would not be until ~FY29. Hence no impact on our forecasts until greater clarity on Phase 3 and approvals is evident.

## Flu vaccine Supply considerations

Surety of supply is an important consideration in the influenza market and a strength of CSL. The company is increasing cell-based vaccine manufacturing capacity by >50% for the FY27 season when the new Tullamarine facility comes online in early CY26. This provides greater confidence aTIVc will become a material growth driver from FY27 onwards with both product differentiation and confidence of supply.

# CSL Limited
as at 18 October 2024

| | |
|---|---|
| Recommendation | Buy |
| Price | $300.58 |
| Target (12 months) | $345.00 |

## Table 1 - Financial summary

**CSL Limited**

*All figures in USD unless stated otherwise.*
*Year ending 30 June.*

| | | | |
|---|---|---|---|
| **Share price (A$):** | $300.58 | **Target Price (A$):** | $345.00 |
| **No. of issued shares:** | 484.2m | **Market cap (A$b):** | $146.1b |

| Profit & Loss (US$m) | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| **Year Ending 30 June** | | | | | |
| **Total revenue** | **13,310** | **14,800** | **15,759** | **16,765** | **17,893** |
| *Growth (%)* | *26.0%* | *11.2%* | *6.5%* | *6.4%* | *6.7%* |
| Gross profit | 7,231 | 8,006 | 8,608 | 9,365 | 10,273 |
| Operating expenses | -3,331 | -3,256 | -3,338 | -3,456 | -3,641 |
| **EBITDA** | **3,900** | **4,750** | **5,270** | **5,909** | **6,632** |
| D&A | -831 | -938 | -985 | -1,034 | -1,086 |
| **EBIT (reported)** | **3,069** | **3,812** | **4,285** | **4,875** | **5,546** |
| Net interest expense | -406 | -437 | -423 | -393 | -363 |
| **EBT (reported)** | **2,663** | **3,375** | **3,862** | **4,482** | **5,183** |
| Tax expense | -419 | -661 | -759 | -863 | -991 |
| Non-controlling interests | -50 | -72 | -131 | -131 | -131 |
| **NPAT** | **2,194** | **2,642** | **2,972** | **3,488** | **4,062** |
| Adjustments for NPATA | 416 | 265 | 260 | 260 | 260 |
| **NPATA** | **2,610** | **2,907** | **3,232** | **3,748** | **4,322** |
| *Growth (%)* | *9.6%* | *11.4%* | *11.2%* | *16.0%* | *15.3%* |
| Weighted avg basic shares (m) | 482.2 | 483.0 | 483.0 | 483.0 | 483.0 |
| Weighted avg diluted shares (m) | 483.9 | 485.2 | 485.2 | 485.2 | 485.2 |
| NPAT per share (diluted, US$) | 4.53 | 5.45 | 6.13 | 7.19 | 8.37 |
| **NPATA per share (diluted, US$)** | **5.39** | **5.99** | **6.66** | **7.72** | **8.91** |
| *Growth (%)* | *6.5%* | *11.1%* | *11.2%* | *16.0%* | *15.3%* |
| Dividend per share (US$) | 2.36 | 2.64 | 2.95 | 3.25 | 3.55 |

| Valuation Ratios (US$m) | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| **Year Ending 30 June** | | | | | |
| Normalised EPS (diluted, US$) | 5.39 | 5.99 | 6.66 | 7.72 | 8.91 |
| Normalised EPS (diluted, A$) | 8.05 | 8.94 | 9.94 | 11.53 | 13.29 |
| *EPS growth (%)* | *7%* | *11%* | *11%* | *16%* | *15%* |
| **P/E ratio (NPATA) (x)** | **37.3** | **33.6** | **30.2** | **26.1** | **22.6** |
| Reported EPS (diluted, US$) | 4.53 | 5.45 | 6.13 | 7.19 | 8.37 |
| Reported EPS (diluted, A$) | 6.77 | 8.13 | 9.14 | 10.73 | 12.49 |
| *EPS growth (%)* | *-5%* | *20%* | *12%* | *17%* | *16%* |
| **P/E ratio (NPAT) (x)** | **44.4** | **37.0** | **32.9** | **28.0** | **24.1** |
| EV/Revenue (x) | 8.1 | 7.3 | 6.9 | 6.5 | 6.1 |
| EV/EBITDA (x) | 27.8 | 22.8 | 20.6 | 18.4 | 16.3 |
| EV/EBIT (x) | 35.3 | 28.4 | 25.3 | 22.2 | 19.6 |
| Dividend per share (US$) (US$) | 2.36 | 2.64 | 2.95 | 3.25 | 3.55 |
| **Dividend yield (%)** | **1.2%** | **1.3%** | **1.5%** | **1.6%** | **1.8%** |
| Franking (%) | 10.0% | 10.0% | 10.0% | 10.0% | 10.0% |
| FCF per share (US$) | 3.69 | 4.87 | 6.81 | 8.36 | 9.44 |
| FCF Yield (%) | 1.8% | 2.4% | 3.4% | 4.1% | 4.7% |
| NTA/share (US$) | 41.02 | 44.85 | 50.65 | 54.41 | 60.14 |
| Price/NTA (x) | 10.9 | 10.0 | 8.9 | 8.2 | 7.5 |

| Cash Flow (US$m) | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| EBITDA | 3,900 | 4,750 | 5,270 | 5,909 | 6,632 |
| Change in NWC | -389 | -827 | -464 | -199 | -171 |
| **Gross cashflow** | **3,511** | **3,923** | **4,807** | **5,710** | **6,462** |
| Tax paid | -504 | -722 | -759 | -863 | -991 |
| Net interest (expense)/benefit | -406 | -437 | -423 | -393 | -363 |
| **Net operating cash flow** | **2,601** | **2,764** | **3,624** | **4,454** | **5,108** |
| Capex | -1,228 | -849 | -750 | -800 | -900 |
| Disposal of PPE | 111 | 2 | 0 | 0 | 0 |
| Payments for intangibles | -464 | -409 | -450 | -473 | -496 |
| Payments for acquisitions | -10,534 | 0 | 0 | 0 | 0 |
| Sale of financial assets & other | 272 | -3 | 0 | 0 | 0 |
| **Net investing cash flows** | **-11,843** | **-1,259** | **-1,200** | **-1,273** | **-1,396** |
| Proceeds from issue of shares | 34 | 40 | 0 | 0 | 0 |
| Dividends paid | -1,239 | -1,266 | -1,354 | -1,501 | -1,646 |
| Net proceeds/(repayment) of borrowings | 1,741 | 41 | 1,000 | -500 | 0 |
| Other | -80 | -99 | 0 | 0 | 0 |
| **Net financing cash flow** | **456** | **-1,284** | **-354** | **-2,001** | **-1,646** |
| **Net change in cash** | **-8,786** | **221** | **2,070** | **1,180** | **2,065** |
| Cash at start of period | 10,334 | 1,509 | 1,643 | 3,713 | 4,893 |
| Exchange rate impact | -39 | -87 | 0 | 0 | 0 |
| **Cash at end of period** | **1,509** | **1,643** | **3,713** | **4,893** | **6,958** |
| Bank overdraft | -39 | -14 | -14 | -14 | -14 |
| **Reconciled cash** | **1,548** | **1,657** | **3,727** | **4,907** | **6,972** |

| Performance Ratios | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| Gross margin | 54.3% | 54.1% | 54.6% | 55.9% | 57.4% |
| EBITDA margin | 29.3% | 32.1% | 33.4% | 35.2% | 37.1% |
| EBT margin | 20.0% | 22.8% | 24.5% | 26.7% | 29.0% |
| NPAT margin | 16.5% | 17.9% | 18.9% | 20.8% | 22.7% |
| NPATA margin | 19.6% | 19.6% | 20.5% | 22.4% | 24.2% |
| Effective tax rate | 15.7% | 19.6% | 19.7% | 19.3% | 19.1% |
| ROE (%) | 13.9% | 15.2% | 15.6% | 16.4% | 17.1% |
| ROA (%) | 6.1% | 6.9% | 7.3% | 8.2% | 8.9% |
| **ROIC (%)** | **12.2%** | **10.5%** | **11.4%** | **12.8%** | **14.3%** |
| Dividend payout ratio (%) | 52.0% | 48.5% | 48.2% | 45.2% | 42.4% |

| Balance Sheet (US$m) | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1,548 | 1,657 | 3,727 | 4,907 | 6,972 |
| Receivables | 2,214 | 2,895 | 3,152 | 3,353 | 3,579 |
| Inventories | 5,466 | 5,964 | 6,293 | 6,512 | 6,706 |
| Other current assets | 31 | 252 | 252 | 252 | 252 |
| PPE | 7,797 | 8,148 | 8,344 | 8,561 | 8,850 |
| Right-of-use assets | 1,555 | 1,510 | 1,510 | 1,510 | 1,510 |
| Intangibles | 16,446 | 16,346 | 16,366 | 16,386 | 16,407 |
| Deferred tax assets | 902 | 911 | 911 | 911 | 911 |
| Other non-current assets | 275 | 339 | 339 | 339 | 339 |
| **Total assets** | **36,234** | **38,022** | **40,893** | **42,732** | **45,526** |
| Payables | 2,947 | 3,345 | 3,467 | 3,688 | 3,936 |
| Borrowings - current | 1,055 | 944 | 944 | 944 | 944 |
| Tax liabilities - current | 296 | 176 | 176 | 176 | 176 |
| Provisions - current | 310 | 475 | 475 | 475 | 475 |
| Other current liabilities | 0 | 10 | 10 | 10 | 10 |
| Borrowings - non-current | 11,172 | 11,239 | 12,239 | 11,739 | 11,739 |
| Deferred tax liabilities | 1,464 | 1,514 | 1,514 | 1,514 | 1,514 |
| Other non-current liabilities | 1,164 | 918 | 918 | 918 | 918 |
| **Total Liabilities** | **18,408** | **18,621** | **19,743** | **19,464** | **19,712** |
| **Net Assets** | **17,826** | **19,401** | **21,150** | **23,267** | **25,814** |
| Contributed capital | 517 | 557 | 557 | 557 | 557 |
| Reserves | 648 | 794 | 794 | 794 | 794 |
| Retained earnings | 14,621 | 16,012 | 17,761 | 19,878 | 22,425 |
| **Total equity (CSL shareholders)** | **15,786** | **17,363** | **19,112** | **21,229** | **23,776** |
| Non-controlling interests | 2,040 | 2,038 | 2,038 | 2,038 | 2,038 |
| **Total Equity** | **17,826** | **19,401** | **21,150** | **23,267** | **25,814** |

| Leverage Ratios | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| Net debt/(cash) (US$m) | 10,679 | 10,526 | 9,456 | 7,776 | 5,711 |
| Net debt/equity (%) | 60% | 54% | 45% | 33% | 22% |
| Gearing (ND/(ND + equity)) (%) | 37% | 35% | 31% | 25% | 18% |
| Net debt/assets (%) | 29% | 28% | 23% | 18% | 13% |
| Net debt/EBITDA (x) | 2.7 | 2.2 | 1.8 | 1.3 | 0.9 |
| Net interest cover (x) | 7.6 | 8.7 | 10.1 | 12.4 | 15.3 |

| Segmentals (US$m) | FY23 | FY24 | FY25e | FY26e | FY27e |
|---|---|---|---|---|---|
| **Behring** (underlying) | | | | | |
| Total revenue | 9,290 | 10,608 | 11,577 | 12,498 | 13,454 |
| *Growth (%)* | *8.0%* | *14.2%* | *9.1%* | *8.0%* | *7.6%* |
| Gross profit | 4,561 | 5,275 | 5,893 | 6,611 | 7,426 |
| *Gross margin (%)* | *49.1%* | *49.7%* | *50.9%* | *52.9%* | *55.2%* |
| Operating result | 3,757 | 4,372 | 4,908 | 5,548 | 6,278 |
| *Operating margin (%)* | *40.4%* | *41.2%* | *42.4%* | *44.4%* | *46.7%* |
| **Seqirus** (underlying) | | | | | |
| Total revenue | 2,031 | 2,128 | 2,139 | 2,204 | 2,314 |
| *Growth (%)* | *3.4%* | *4.8%* | *0.5%* | *3.0%* | *5.0%* |
| Gross profit | 1,259 | 1,318 | 1,326 | 1,371 | 1,444 |
| *Gross margin (%)* | *62.0%* | *61.9%* | *62.0%* | *62.2%* | *62.4%* |
| Operating result | 1,072 | 1,122 | 1,121 | 1,155 | 1,217 |
| *Operating margin (%)* | *52.8%* | *52.7%* | *52.4%* | *52.4%* | *52.6%* |
| **Vifor** (underlying) | | | | | |
| Total revenue | 1,989 | 2,064 | 2,043 | 2,064 | 2,126 |
| *Growth (%)* | *4.1%* | *3.8%* | *(1.0%)* | *1.0%* | *3.0%* |
| Gross profit | 1,411 | 1,413 | 1,389 | 1,383 | 1,403 |
| *Gross margin (%)* | *70.9%* | *68.5%* | *68.0%* | *67.0%* | *66.0%* |
| Operating result | 921 | 956 | 946 | 922 | 924 |
| *Operating margin (%)* | *46.3%* | *46.3%* | *46.3%* | *44.7%* | *43.4%* |

| Interim Results | 1H24 | 2H24 | 1H25e | 2H25e |
|---|---|---|---|---|
| Revenue | 8,053 | 6,747 | 8,543 | 7,217 |
| *Growth (%)* | *12.1%* | *10.1%* | *6.1%* | *7.0%* |
| Gross Profit (underlying) | 4,494 | 3,512 | 4,798 | 3,810 |
| *Gross margin (%)* | *55.8%* | *52.1%* | *56.2%* | *52.8%* |
| EBITDA | 3,042 | 1,708 | 3,282 | 1,988 |
| *EBITDA margin (%)* | *37.8%* | *25.3%* | *38.4%* | *27.6%* |
| NPATA | 2,017 | 890 | 2,167 | 1,065 |
| *NPATA margin (%)* | *25.0%* | *13.2%* | *25.4%* | *14.8%* |
| NPAT | 1,901 | 741 | 2,047 | 925 |
| *NPAT margin (%)* | *23.6%* | *11.0%* | *24.0%* | *12.8%* |

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

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