



Bullish Action in Takeda Following Shire Acquisition

Ticker/Price: TAK (\$19.55)

Analysis:

Takeda Pharma (TAK) with unusual 7,500 April \$20 calls opening on 1/10 at \$1.45 to \$1.60, a recent new ADR listing following its large \$62B acquisition of Shire (SHPG). The large Pharma Company based in Japan trades 2.4X EV/Sales, 6.4X FY19 Earnings and has a 6.7% dividend yield with an 11.8% FCF yield. The company is expected to make \$32.4B in revenues next year, a 71% increase with the deal. The deal increases Takeda's footprint in rare diseases and in the US, and cements it as a top 10 global drug maker. One of the key drivers for the acquisition was to gain further exposure to the U.S., the world's most profitable drug market. Japan hasn't become a dependable source for growth, because of a shrinking population and regulatory pressure that has pushed down drug prices nearly every year. Takeda took on debt with the deal with Debt/EBITDA above 4.5X now, but targets less than 2X by 2023. With the new ADR listing we should see some Analyst initiations in coming weeks. Expectations are for \$1.4B in run-rate synergies and for the deal to be significantly accretive to EPS while offering an attractive ROIC. The portfolio is mainly focused on Neuro, Oncology and GI. It sees significant EBITDA margin expansion over the next few years.

Hawk Vision:



Trading Strategy: TAK currently has limited information available as a new issue but the parent Co. provides plenty of detail. It looks like a smart deal for SHPG and the options flow gives confidence TAK could be a great value post-deal.

Confidence Ranking: \$\$