June 2024

GALDERMA

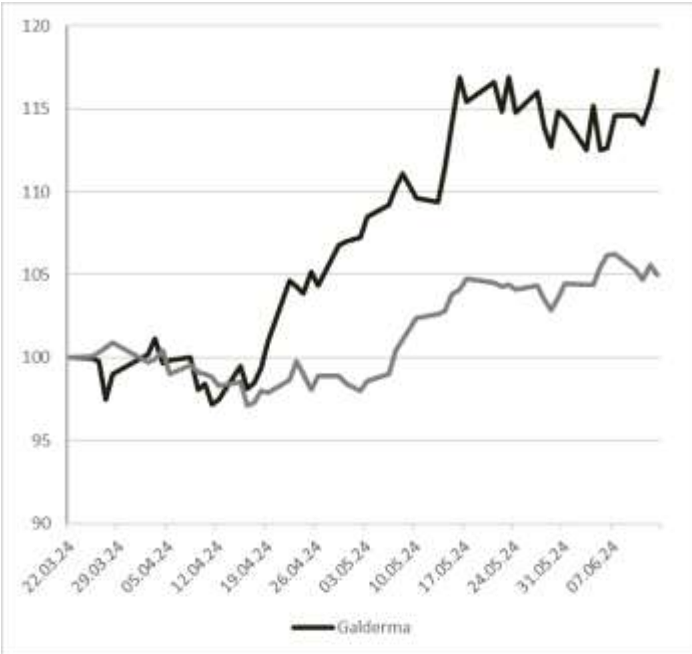
Market profile

Country	Switzerland
Sector	Specialty & Generic Pharma
Market cap (CHF million)	17'694
52-week high / low (CHF)	75.09/ 62.2
Price per share (CHF)	74

Key metrics (CHF)

	2024e	2025e	2026e
EPS	2.03	2.97	3.98
PE	40.54	27.74	20.71
P/Book	2.51	2.35	2.19
Dividend yield	0.05%	0.34%	0.58%

Evolution of stock price with respect to benchmark (rebased)
Source: IAM



Company description

Galderma is the largest pure-play dermatology company in the world. It was founded in 1981 as a joint venture between L'Oréal and Nestlé. In 2014, Nestlé acquired L'Oréal's 50% stake to create its skin health business. Since its separation from Nestlé in 2019, Galderma was privately held by a consortium of shareholders led by the Swedish private equity firm EQT and including ADIA, GIC and PSP, amongst others. In March 2024 the consortium sold 18.13% of Galderma's capital which was listed on the Swiss Stock Exchange SIX.

Galderma is organized around three divisions: Injectable Aesthetics, Dermatological Skincare, and Therapeutic Dermatology.

Investment case

Galderma has a presence in over 90 countries and operates four production sites. The dermatology market benefits form strong secular growth drivers including a rising middle-class with better purchasing power and shifting toward premium brands, a growing consumer awareness and sensitivity to both skin health and skin beauty, and a rising focus on prevention, increasing aesthetics consciousness, and acceptance of non-invasive treatments. The company's broad product portfolio means it engages with the breadth of market participants in this space, from medical practitioners at one end, through to the consumer directly at the other end. Galderma intends to spend approximately 6%of its sales in R&D to maintain and expand its leading position. In addition, following its capital raise, the company will be able to quickly deleverage its balance sheet, establishing a very solid base for future growth.

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Olivier Aeschlimann, Senior Financial Analyst — June 2024

Company description and history

Galderma is the largest pure-play dermatology company in the world. It was founded in 1981 as a joint venture between L'Oréal and Nestlé. In 2014, Nestlé acquired L'Oréal's 50% stake to create its skin health business. Since its separation from Nestlé in 2019, Galderma was privately held by a consortium of shareholders led by the Swedish private equity firm EQT and including ADIA, GIC and PSP, amongst others. In March 2024 the consortium sold 18.13% of Galderma's capital which was listed on the Swiss Stock Exchange SIX.

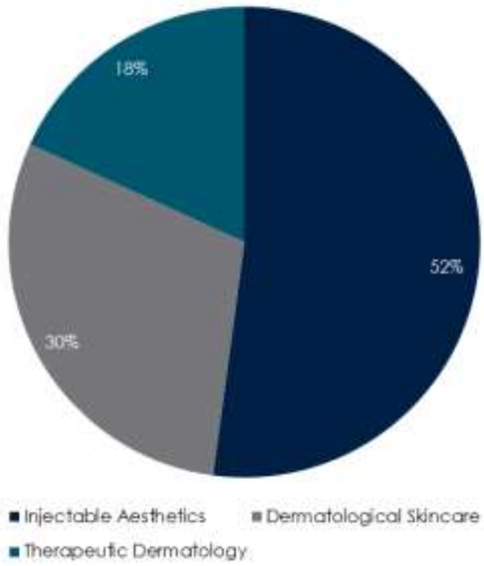
Group Structure

Galderma is organized around three divisions: Injectable Aesthetics, Dermatological Skincare, and Therapeutic Dermatology.

Injectable Aesthetics

This division is the largest net sales contributor with leading market positions in both subdivision: Neuromodulators and Fillers & Biostimulators.

Fig.2: Sales by divisions, 2023
Source: Galderma



Neuromodulators are a synthetic substance made from botulinum toxin type A, purified, and attenuated, which are administered by injection. It is the method par excellence for the treatment of so-called dynamic facial wrinkles. Galderma's main product is Dysport®, a prescrip-

Fig. 1: Company's milestones
Source: Galderma

1974:	Invention of Cetaphil
1981:	Founded as L'Oréal-Nestlé joint venture following the invention of Cetaphil
2011:	Expansion into Injectable Aesthetics with the acquisition of Restylane *via acquisition of Q-MED*
2014:	Nestlé Skin Health created Galderma as a wholly-owned subsidiary
2019:	Stand-alone company, follwing the acqusition of Galderma *Consortium included EQT, ADIA, GIC, PSP Investments*
2020+:	The pure-play dermatology category leader

tion injection for temporary improvement in the appearance of moderate to severe frown lines between the eyebrows (glabellar lines) in adults less than 65 years of age. Dysport has extensive clinical evidence of safety and efficacy. It is also marketed as Azzalure® in Europe for the treatment of glabellar lines and lateral canthal lines. Dysport is one of the world's leading brands of aesthetic neuromodulators with over 100 million treatments delivered in aesthetics indications to date. Galderma's second product is Alluzience®, the first and only liquid ready-to-use neuromodulator in Europe with rapid onset and effects lasting for up to six months. This ready-to-use liquid formulation has the potential to improve safety and dosing accuracy compared to existing neuromodulators that require reconstitution, thus enabling greater precision.

Filters and biostimulators

Injectable hyaluronic acid is a type of temporary dermal filler. Hyaluronic acid is found naturally throughout the body, with the highest concentrations in the joints, eyes, and skin. In the skin hyaluronic acid attracts water, which allows the skin to become more hydrated. As we age, the fat, muscles, bone, and skin in our face begins to thin. This loss of volume leads to either a sunken or sagging appearance of the face, fine lines, wrinkles, folds, and thin lips. Injectable HA is used to reduce the appearance of fine lines and wrinkles, facial folds, and to create structure, framework, and volume to the face and lips. Galderma's main product is Restylane®, which was launched more than 25 years ago. It was the first stabilized hyaluronic acid-based dermal filter, created for reliable aesthetic treatments and with a proven safety record. Since then, Galderma has continued to develop a versatile range of filters, based on two complementary technologies NASHA® and OBT™. In 2023, the US FDA approved Restylane Eyelight™ for the treatment of under-eye hollows, also known as dark shadows, in adults over the age of 21.

Injectable biostimulators typically contain calcium hydroxyapatite, poly-L-lactic acid, or polycaprolactone (PLLA-SCA). They stimulate the body's own collagen production in the areas of injection. They can cause a natural increase in volume in larger areas of the face and have positive effects on the skin. Sculptra®, Galderma's main product in this segment, helps stimulate natural collagen production to smooth wrinkles and improve skin qualities. It is indicated for use in people with healthy immune systems for the correction of shallow to deep nasolabial fold contour deficiencies, fine lines and wrinkles in the cheek region, and other facial wrinkles. Recent research shows that, in addition to the well-known collagen stimulation, Sculptra's PPLA-SCA has an effect on more components of the extracellular matrix, including elastin, indicating regenerative properties.

Fig3.: Galderma's main products by division
Source: Galderma

Dermatological Skincare

The Dermatological Skincare market segment comprises branded health and beauty products which are backed by science. Cetaphil® and Alastin® brands offer science based, dermatologist-recommended solutions that hold leading market positions. The aim of Galderma's Dermatological Skincare product category is to provide consumers with innovative, science-based treatments to maintain healthy skin throughout their lives. From formulations and packaging to therapeutic areas and channels, Galderma is always looking for ways to innovate. The company's top Dermatological Skincare brand is Cetaphil. With its wide range of skincare products for all ages and focus on skin sensitivity, Cetaphil reached the USD 1 billion net sales mark in 2023. Alastin, the second brand, is the fastest growing brand in the physician-dispensed sub-segment, offering a range of innovative, clinically tested skincare products that correct, protect, and maintain healthy skin for a lifetime.

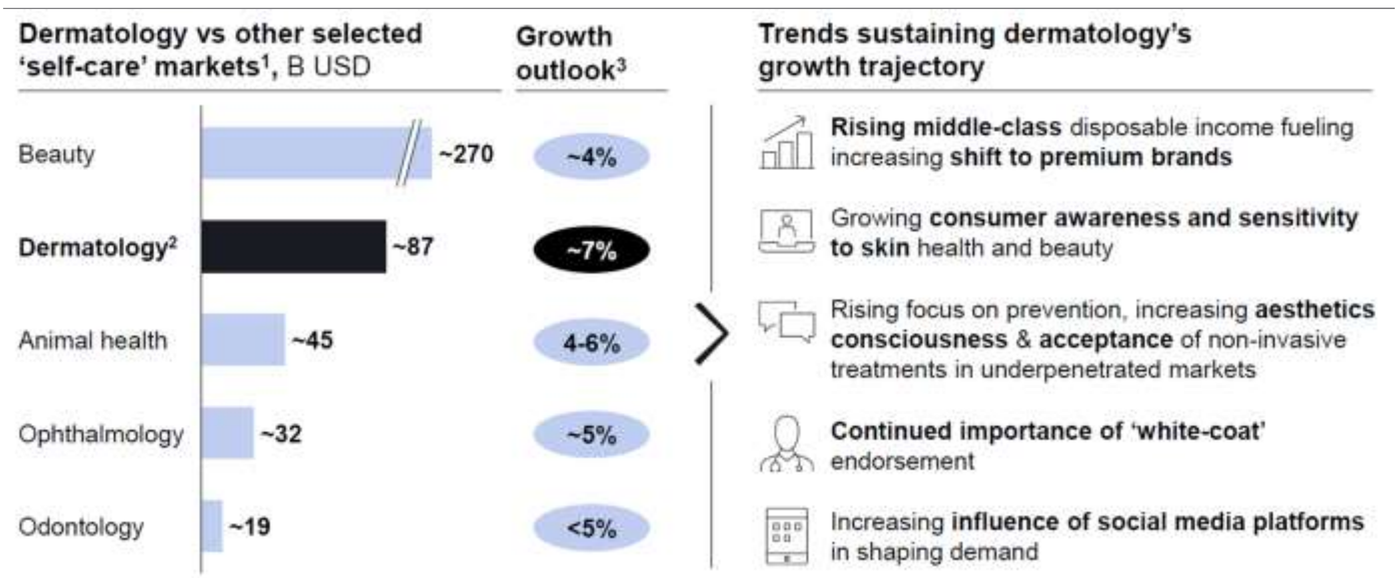
Therapeutic Dermatology

The Therapeutic Dermatology market segment encompasses prescription treatments that target moderate to severe skin conditions, from acne to skin cancer. Galderma has a broad portfolio and a commitment to developing new therapies in diverse disease areas with unmet medical needs. The company holds leading positions in acne, rosacea, and non-melanoma skin cancer treatments – and nemolizumab is set to enhance Galderma's portfolio further. A first-in-class investigational monoclonal antibody, nemolizumab targets the interleukin-31 alpha receptor and has blockbuster potential in both prurigo nodularis (PN) and atopic dermatitis (AD). Continuous innovation is key for the company to become the leading dermatology company in the world. Galderma's R&D team works relentlessly with a focus on biotechnologies for injectable and oral products. Galderma has developed a best-in-class pipeline and track record of first-to-market innovation. A key priority is advancing the development of nemolizumab, Galderma's first-in-class investigational monotherapy for patients with atopic dermatitis, prurigo nodularis and chronic kidney disease-associated pruritus. In Phase III clinical trials, nemolizumab demonstrated significant improvement in both itch and skin lesions. The company is actively investigating other indications within and beyond dermatology. In February 2024, the US Food and Drug Administration (FDA) accepted the Biologics License Applications for nemolizumab for the treatment of prurigo nodularis and for adolescents and adults with moderate to severe atopic dermatitis and granted Priority Review for the treatment of prurigo nodularis.

The Dermatology Market

The dermatology market ranks as one of the fastest-growing segments within the broader self-care market, with a growth outlook of approximately 7% (it may vary

Fig.4: Relative attractiveness of the dermatology market



by sources) and it represents a total addressable market (TAM) of USD 87 billion.

Key secular growth drivers at a market level include five main factors.

1) A rising middle-class with rising affordability and income levels, fueling a shift toward premium brands.

2) The increasing influence of social media platforms in shaping demand patterns.

3) “White-coat” endorsement.

4) A growing consumer awareness and sensitivity to both skin health and skin beauty.

5) A rising focus on prevention, increasing aesthetics consciousness, and acceptance of non-invasive treatments in underpenetrated markets.

The Injectable Aesthetics Business

According to McKinsey’s 2021 report “From extreme to mainstream: the future of aesthetics injectables”, the global aesthetics injectables market was expected to grow by 12%-14% through to 2026. Additionally, per Galderma’s NEXT industry report, by 2028, the aesthetics market is expected to nearly double in value, reaching USD 25.9 bn, driven by three core macro movements:

Increasing accessibility, noting improvements in convenience, affordability, and inclusivity, as well as an expansion in the number of outlets providing such services.

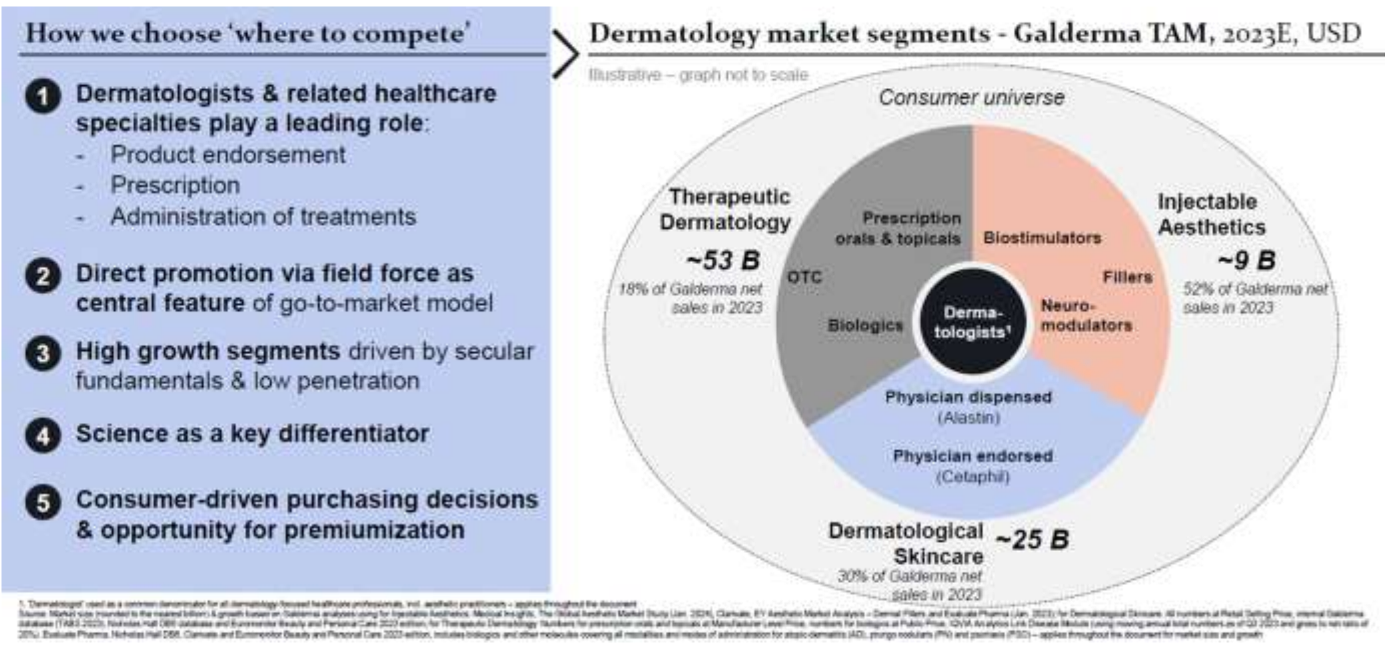
Advancements in scientific innovation and technology, noting greater variety of treatment options (i.e., indication expansions, longer-lasting efficacy, rapid onset, ready-to-use formulations) and wider use of AI and augmented reality.

Greater social awareness and influence of aesthetic procedures, potentially driving the future trend of preventive, rather than corrective treatments.

Furthermore, as indicated in McKinsey’s 2024 report:” Here to stay: an attractive future for medical aesthetics” the industry is particularly resilient in period of economic uncertainties, as exemplified during the 2008 financial crisis. The most recent dip happened during Covid-19 due to lockdown-related access challenges.

Key listed peers in this market include AbbVie, Revance, Evolus, Ipsen, Hugel, MedyTox, and Daewoong. Given the maturity and high growth of Galderma’s Injectable Aesthetics business, as well as the product category having less patent expiration exposure and increased exposure to consumer spending trends, we can also include

Fig.5: Where to compete
Source: Galderma



Align Technology and Essilor Luxottica, and Alcon as relevant peers.

The Dermatological Skincare Business

This is a competitive market with exposure to strong secular growth. Galderma sees Dermatological Skincare as a a USD 25 bn market with an estimated 2023-2027 CAGR of 6% - 7%. Notably the bolstering prevalence of e-commerce has been a key theme in recent history as brick and mortar loses share alongside an increasing social media influence (approximately 67% of customers use social media to inform purchase decisions). From a competitive standpoint, key peers operating in the Dermatological Skincare market include L'Oréal, Unilever, Estée Lauder, LVMH, Shiseido, Procter and Gamble, Johnson & Johnson and Beiersdorf.

One of Galderma's key growth drivers is new product launches and new product innovations (NPIs). Through 2019-2022, Galderma launched 66 NPIs, enabling the portfolio to be restaged and expanded into attractive subsegments, including facial moisturizers, brightening products, anti-aging, premium, and therapeutic ranges.

The Therapeutic Dermatology Business

The therapeutic dermatology business was worth USD 53bn in 2023 and is expected to grow at a c.6% - 7% CAGR through 2023-27, based on data from IQVIA, Evaluate Pharma and DRG. Within this, Prescription (orals & topicals only), which accounted for 8% of the market last year (USD 4 bn), is expected to grow at a 2% CAGR over 2023-27, OTC, which accounted for c.21% of the market (USD 11bn), is expected to grow at a 5% CAGR over the same period, and biologics which accounted for 72% of the market last year (USD 38bn) and is expected to grow 8% over the same period.

Galderma's Therapeutic Dermatology base business is broadly focused on two main conditions, acne, and rosacea, with leading market positions and presence in both the prescription and OTC market. It also has a portfolio of products targeting other indications including non-melanoma skin cancer, psoriasis, and other skin conditions. For molecules that have lost exclusivity, Galderma has a successful lifecycle management strategy, exemplified by the fact that its legacy brands continue to perform well, even if they have lost exclusivity a long time ago.

In this market, the peer group includes mature pharma businesses and earlier lifecycle companies, to reflect Galderma's mature therapeutic dermatology base business, and the upcoming nemolizumab asset. Key listed peers include Novartis, Roche, Sanofi, GSK Hikma, Almirall, Ipsen as well as Genmab, Argenx, Regeneron, Biomarin, Beigene, Alnylam, Neurocrine Biosciences, and Exelixis.

Fig 6: Themarketing pyramid
Source: Galderma

Corporate strategy - Innovation

The previous sections of this paper showed that the businesses Galderma is in are highly competitive. However, most of the competitors are only partially involved in the dermatology sector. Galderma is the only truly scaled pure-play dermatology company and can therefore leverage a best-in-class R&D pipeline to streamline its growth. Galderma is uniquely positioned to undertake ambitious projects that target unmet needs in strategic therapeutic areas in dermatology. One of the company's priorities is the continued development of nemolizumab, an investigational therapy for atopic dermatitis and prurigo nodularis. In 2023, Galderma showcased positive data from four pivotal phase III trials for the treatment of these conditions. Beyond nemolizumab, Galderma continues to bring new science and deliver positive data across its Therapeutic Dermatology portfolio.

Corporate Strategy - Manufacturing

Galderma's rapid growth is supported by superior manufacturing technologies and high-performance operations. The company has four manufacturing plants globally, where over 1'600 team members uphold the highest standards of quality, safety, and efficiency. The manufacturing plants are located in Sweden, France, Canada and Brazil, and each has its own specialization. All Galderma manufacturing plants are regularly audited by health authorities in their respective countries. They have also earned multiple certifications, such as ISO 14001 and ISO 45001, which reflect environmental, health and safety vigilance.

Sustainability

A tight control over the manufacturing process has enabled Galderma to progress towards its sustainability goals. Reducing water consumption and limiting greenhouse gas emissions are among the company's priorities. Out of the four factories, three operate an 100% renewable electricity and the fourth plant is on track to be 100% renewable by 2025. There are two certified carbon-neutral facilities, and all the four plants send zero waste to landfills. Across the sites, employee's safety is an integral part of the efficiency processes, and continuous improvement is key to the approach. Active prioritization has led to a constant and significant reduction in the number and frequency of injuries.

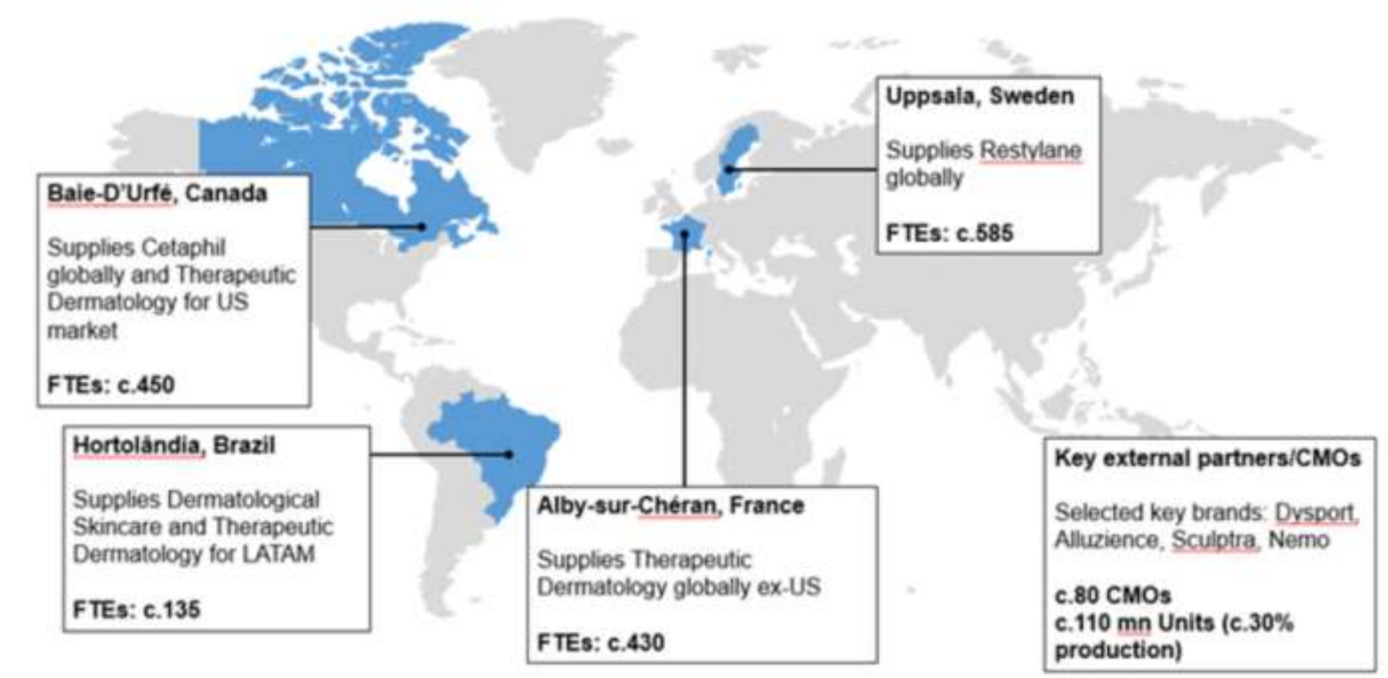
Financial analysis

Revenues have steadily increased over the last few years and according to the company guidance, should progress by 7% to 11% in 2024 at constant currency. The platform transformation to streamline the corporate setup, and commercial effectiveness through Galderma's premiumization and integrated dermatology strategy should contribute to an acceleration of sales' growth through 2027.

Group Profitability

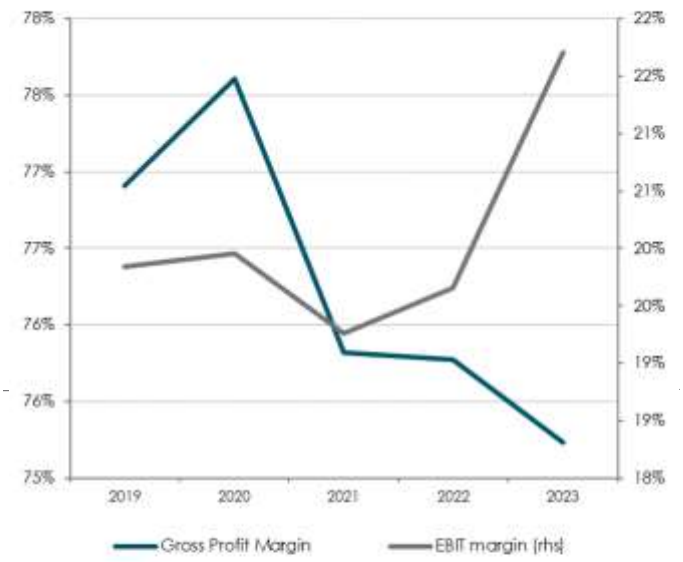
The gross profit margin should stabilize at around 75%, the sales and marketing expenses should stay at about 33% as marketing is always important to maintain brand awareness in a sector which is quite competitive. However, there is room for improvement in the General, Administrative and Distribution spending to decrease in relation to sales, from 13% in 2023 to an optimum of 10% by 2027. The R&D spending should remain high but de-

Fig.7: Manufacturing footprint
Source: Galderma



crease in proportion of sales following the successful launch of nemolizumab. Finally, Galderma shood be able to generate a sustainable EBITDA margin well above of 25% by 2027.

Fig. 8: Evolution of gross and EBIT margins
Source: Galderma



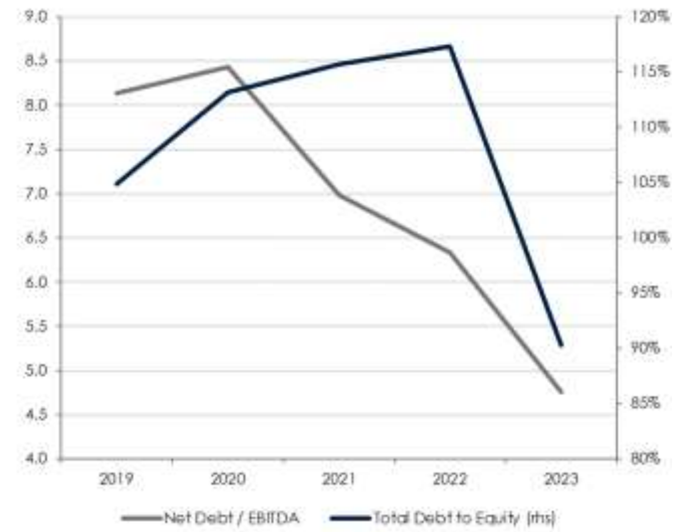
Capex and cash flow

Galderma's free cash flow has turned positive in 2023. Capex have steadily increased since 2019 as the company has invested not only in PPE and software, but also in intellectual property rights, licensing deals etc. In the foreseeable future, capex should represent approximately 3% to 4% of sales. Galderma has low working capital needs, and its operating cash flow should also improve in line with the company's core EBITDA

Capital distribution

Following its listing on the SWX, Galdema's strategy is focused on deleveraging, R&D and growth capex (intellectual property). Therefore, paying a hefty dividend is not a priority and the company should not be considered as a big cash distributor. However, one could expect, over time, a dividend-yield around 1%.

Fig.9: An improvingbalance sheet
Source: Galderma



An improving balance sheet

At the end of 2023, net debt /EBITDA was 4.75, still relatively high, but much lower than the top of 8.4 reached in 2020. Net financial leverage should decrease over the next few years as Galderma uses the proceeds from the capital raise to pay down debts. Paying down debt will also translate in less financial expenses and therefore higher profits. In addition, a stronger balance sheet will also make the company more defensive. Following its listing, Galderma is entering a virtuous circle.

Investment case

Galderma is a leading global dermatology company with a portfolio spanning Injectable Aesthetics, Dermatological Skincare and Therapeutic Dermatology. Its broad product portfolio means it engages with the breadth of market participants in this space, from medical practitioners at one end, through to the consumer directly at the other. The company has a presence in over 90 countries and four production sites. The dermatology market benefits form strong secular growth drivers including a rising middle-class with better purchasing power and shifting toward premium brands, a growing consumer awareness and sensitivity to both skin health and skin beauty, and a rising focus on prevention, increasing aesthetics consciousness, and acceptance of non-invasive treatments. Galderma intends to spend approximately 6% of its net sales in R&D to maintain and expand its leading position. Following its listing on the SWX and its successful capital raise, the company will be able to quickly deleverage its balance sheet, establishing a very solid base for future growth.

Main risks

- Higher competitive intensity
- Execution risk in the portfolio rollout
- Unforeseen global healthcare system impact
- Legal, regulatory risk
- Pipeline, R&D failures

SWOT analysis

Strengths

- A leading pure play in the structurally growing and defensive dermatology market.
- Strong R&D capabilities and a promising pipeline of innovative products.
- Differentiated and pertinent marketing strategy across all the market segments.

Weaknesses

- The company is still relatively highly indebted.

Opportunities

- Expansion of the distribution channels via social media, influencers etc.
- Multi-billion potential of nemolizumab to transform the Therapeutic Dermatology business.

Threats

- Strong economic downturn.
- Patent infringement, legal dispute.

Valuation

Galderma currently trades at a price to earning ratio of over 40, which is above most of its peers. However, considering the superior growth potential of the company, the estimated PE ratio for 2025 and 2026 decreases quickly to 28 and 21 respectively, which is cheaper than some of its competitors, namely L'Oréal and Beiersdorf.

Fig.10: Valuation in comparison to some peers
Source: Bloomberg