8th January 2016

Healthcare

Roche

Price CHF270.00

Encouraging update for atezolizumab in bladder cancer

Fair Value CHF338 (+25%) **BUY**

Bloomberg	ROG VX
Reuters	ROG.VX
12-month High / Low (CHF)	286.2 / 241.7
Market Cap (CHFm)	189,692
Avg. 6m daily volume (000)	1,360

	1 M	3 M	6 M	31/12/14
Absolute perf.	-1.6%	7.8%	3.8%	0.0%
Healthcare	-3.1%	2.2%	-3.5%	10.6%
DJ Stoxx 600	-7.0%	-4.0%	-7.0%	1.2%

	2014	2015e	2016e	2017e
P/E	18.9x	19.1x	17.1x	15.9x
Div yield (%)	3.0%	3.0%	3.3%	3.6%

ANALYSIS

- Roche presented updated data from the phase II study IMvigor210 that has been investigating atelizumab, the group's PD-L1 targeting agent, in metastatic urothelial bladder cancer (mUBC), at the ASCO GU meeting. Compared to what had already been disclosed at the ECC meeting last September, the key element is the median overall survival for the high PD-L1 expressers that reached 11.4 months compared to 7.9 months for the overall population. With a median follow-up of 11.7 months, it has also been established that 84% of the responders (from 15% to 26% depending on the level of expression) continued to respond, this time irrespectively of the level of expression and the median duration of response was not yet reached in any PD-L1 subgroup. To note also is that the level of complete responses ranged from 5% to 11% across the various subgroups.
- Based on this more mature data, Roche's statement about regulatory review has progressed and the company is no longer mentioning discussions with the authorities but submission to the FDA under BTD designation "imminently". We would then expect atezolizumab to be filed during Q1 2016 in its first indication, i.e. mUBC.

VALUATION

- In our sales estimates for Roche, atezolizumab gets first reported revenues in late 2016 as we anticipate a filing in mUBC and advanced NSCLC in Q1 2016. So the first part of this schedule is today validated by the company.
- The question in mUBC is whether the label and then the use in practice of atezolizumab will cover the whole spectrum of the indication or preferentially the so-called high-PD-L1 expressers. Our expectation is that it may cover the IC1/2/3 part of the population but not the IC0 which would represent about two-thirds of the 35,000 patients with mUBC in the US and Top5 Europe annually. Considering an average USD80,000 net annual price for the drug and a duration of treatment beyond one year, the underlying targeted market would be close to USD2bn. We would expect atezolizumab to reach at least 50% of it, therefore translating into USD950m peak sales for the drug in this single indication by 2021-22. This is about 45% of the sales estimates we have for the drug in total in 2021, leaving potentially too little for the other indications it is running after, starting with lung which is however a more competitive space.

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BUY ratings 58.5% NEUTRAL ratings 33.1% SELL ratings 8.5%

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