BRYAN, GARNIER & CO

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16th February 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	15973.84	0.00	-8.33%
S&P 500	1864.78	0.00	-8.77%
Nasdaq	4337.51	0.00	-13.38%
Nikkei	16054.43	+0.2%	-15.82%
Stoxx 600	321.763	+2.99%	-12.04%
CAC 40	4115.25	+3.01%	-11.25%
Oil /Gold			
Crude WTI	29.76	+1.99%	-20.00%
Gold (once)	1205.38	-2.30%	+13.46%
Currencies/Rates			
EUR/USD	1.11445	-0.88%	+2.59%
EUR/CHF	1.1014	+0.27%	+1.29%
German 10 years	0.239	-9.30%	-62.32%
French 10 years	0.617	-3.98%	-37.10%
Euribor	-	+-%	+-%

Economic releases :

Date	
16th-Feb	CN - New yuan Loans (2510b A, 1900B E) GB - CPI JaN; (0.3% E) GB - CPI core (1.3% E) DE- ZEW survey Current situation Feb. (55 E) DE - ZEW Eco Sentiment Feb. US - Empire Manuf. Feb. (-10.5 E)

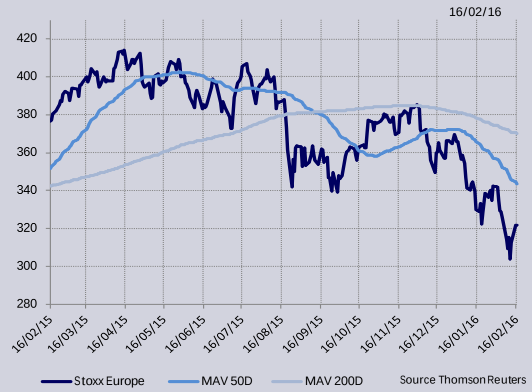
Upcoming BG events :

Date	
18th-Feb	INNATE (BG Paris roadshow with CEO)
2nd-Mar	ALBIOMA (BG Paris Lunch CEO)
10th-Mar/ 11th-Mar	BG TMT Conference
15th-Mar	ABLYNX (BG Paris roadshow with CEO)
18th-Mar	CNP (BG Paris roadshow with CEO, CFO)
23rd-Mar	EIFFAGE (BG Luxembourg with IR)

Recent reports :

Date	
11th-Feb	Pennon : At any price?
2nd-Feb	French toll roads: safe harbour in difficult times
1st-Feb	An aisle-end stock, but not a bargain
27th-Jan	Worldpay : An aisle-end stock, but not a bargain
25th-Jan	BioTechnology Last mark down on biotech!
20th-Jan	SAINT GOBAIN : France likely to be a positive catalyst in 2016

List of our Reco & Fair Value : Please click here to download



EDF — BUY, Fair Value EUR14,5 (+41%)

A new reality. 2015-earnings, first take.

EDF has reported 2015 operating performance in line with expectations while showing a miss for its net income due to higher than expected exceptionals. The 2015 dividend cut was a surprise as the market was expecting a cut in 2016 and not this year (-). As for outlook, 2016 guidance is in line with market expectations (+) and 2018 guidance was confirmed (+) even if we struggle to see how EDF will deliver it given the extent of uncertainty on French power prices. At the current price we think most of the fears on EDF are already priced in. We remain positive.

HEIDELBERGCEMENT — BUY-Top Picks, Fair Value EUR86 (+30%)

Q4 2015 EBITDA 7% above consensus. Positive outlook in key zones. ITC deal on track.

HeidelbergCement has published 2015 revenues at EUR13.465bn, in line with the consensus, up 6.7% (-0.2% l-f-l), with cement volumes almost flat (-0.9% o/w -0.3% in Q4). 2015 EBITDA stood at EUR2.613bn (2% above consensus but 7% above Q4 2015 estimates only), up 14.2% (8.2% l-f-l). Margin was 19.4%, up 130bp y/y. Positive outlook for key markets (US, Western Europe, Indonesia). EUR400m Italcementi deal synergies confirmed. Ongoing anti-trust discussions in the US and Europe.

ILIAD — BUY, Fair Value EUR270 (+28%)

Read across from Orange FY2015 publication

This morning Orange SA published full year 2015 results. For the first time since the arrival of Free Mobile, EBITDA was up +0.1% yoy and revenues were virtually stable at -0.1%. Orange posted a very high commercial performance in very high speed landline. No major learnings for Iliad, although mobile performance should be quite good, since Orange only had a 20% market share on post paid net adds over the quarter. ARPUs are still under pressure, showing the intensity of promotions over the Christmas period. No news on the Orange – Bouygues merger, Stephane Richard reiterated his aim to strike a deal within a few weeks.

LUXOTTICA — BUY, Fair Value EUR65 (+27%)

New rumours of large transactions and governance changes…

Yesterday morning Italian newspaper "Il Sole 24 Ore" mentioned that the current management shake-up could lead to the resurgence of market speculation over LUX being tempted by a merger with Essilor or by the acquisition of Carl Zeiss Vision Care. As for us, we continue to believe that large transactions within the optical industry are not likely in the ST, especially since Mr Del Vecchio has announced other priorities for LUX including (i) a group-wide simplification plan (not really compatible with a big deal…) and (ii) a succession plan which has crystallised most investor concerns recently. All eyes will be on the Investor Day on 2nd March!

In brief...

IPSEN, *Some expected and some less-expected changes at the Corporate Governance level*

Utilities

EDF

Price EUR10.30

A new reality. 2015-earnings, first take.

Fair Value EUR14,5 (+41%) **BUY**

Bloomberg	EDF FP
Reuters	EDF.PA
12-month High / Low (EUR)	23.8 / 10.2
Market Cap (EURm)	19,777
Ev (BG Estimates) (EURm)	81,500
Avg. 6m daily volume (000)	2 506
3y EPS CAGR	-23.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-13.2%	-28.4%	-48.6%	-24.1%
Utilities	-1.1%	-7.8%	-12.0%	-7.7%
DJ Stoxx 600	-2.4%	-12.9%	-16.7%	-12.0%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	72,874	75,765	76,950	78,165
% change		*4.0%*	*1.6%*	*1.6%*
EBITDA	17,279	17,411	16,514	16,141
EBIT	7,984	5,211	7,867	6,932
% change		*-34.7%*	*51.0%*	*-11.9%*
Net income	4,464	4,043	2,725	2,103
% change		*-9.4%*	*-32.6%*	*-22.8%*

	2014	2015e	2016e	2017e
Operating margin	11.0	6.9	10.2	8.9
Net margin	6.1	5.3	3.5	2.7
ROE	11.0	9.6	6.5	5.0
ROCE	3.4	2.4	3.3	2.9
Gearing	139.8	142.7	153.1	160.0

(EUR)	2014	2015e	2016e	2017e
EPS	2.40	2.11	1.42	1.10
% change	-	*-12.2%*	*-32.6%*	*-22.8%*
P/E	4.3x	4.9x	7.2x	9.4x
FCF yield (%)	NM	0.4%	NM	1.5%
Dividends (EUR)	1.25	1.25	1.04	0.84
Div yield (%)	12.1%	12.1%	10.1%	8.2%
EV/Sales	1.1x	1.1x	1.1x	1.1x
EV/EBITDA	4.4x	4.7x	5.2x	5.5x
EV/EBIT	9.6x	15.6x	10.9x	12.8x

EDF has reported 2015 operating performance in line with expectations while showing a miss for its net income due to higher than expected exceptionals. The 2015 dividend cut was a surprise as the market was expecting a cut in 2016 and not this year (-). As for outlook, 2016 guidance is in line with market expectations (+) and 2018 guidance was confirmed (+) even if we struggle to see how EDF will deliver it given the extent of uncertainty on French power prices. At the current price we think most of the fears on EDF are already priced in. We remain positive.

ANALYSIS

- **Main 2016 metrics:** EBITDA came out at **EUR17.6bn**, up **1.9%** compared with last year and up **3.9%** when excluding the 2012 tariff catch-up effect. Consensus was at **EUR17.45bn**, in line with our expectations (*EUR17.4bn*). Most of this solid operating performance came from **1/** solid nuclear generation (*production target exceeded*), **2/** the continued development of the group in renewables, **3/** the successfull finalisation of the Libyan gas contract arbitration with a 2015 EBITDA positive impact of **EUR855m** and **4/** the **1.4%** opex decrease (first opex decrease in 5 years). EBIT after exceptionals (EUR3.6bn due to impairments on thermal assets, to increase in CIGEO provions and to RAG adjustment) came out at **EUR4.28bn**, down 46.4% compared with last year, while net income (group-share) declined by **68%** to **EUR1.2bn** whereas we were expecting **EUR1.4bn**. Excluding exceptionals, net income was flat at **EUR4.8bn**. Net financial debt increased by **EUR3.2bn to EUR37.4bn**, in line with expectations. The 2015 dividend has been cut from **EUR1.25** to **EUR1.1** with an option for payment in shares for the final dividend (the French government will take this option, allowing the group to save a further EUR900m). **Consensus was still at EUR1.25/share for 2015.**
- **What to retain from this publication? 1/** initial 2015 guidance was beaten, at the EBITDA level (+), **2/** the underperformance in the group's net income performance compared with both consensus and BG estimates was due to the higher level of exceptionals and not to a poorer operating performance, **3/** 2016 guidance (EBITDA between EUR16.3 & EUR16.8bn) **is in line with market expectations**, implying very limited negative earnings adjustments to expect (+), **4/** with the 2015 first opex reduction, and with the higher level of annual departure, **it is fair to assume cost reductions will continue over the 2016-18 period** (+), **5/** the dividend cut is clearly a negative signal (-), and reflects the difficult financial equation the group had and has to work with (lower margin combined with still important investments), yet with an **implied yield >12%** it is fair to assume this cut was expected by the market. **6/** risks linked to Hinkley Point remain high. Only a cancellation of this project could avoid a capital increase (-).
- **Conclusion**: It is important to note that 2015 operating performances were good, especially compared with other European integrated utilities. The group's financial equation remains clearly under pressure, especially with the far lower French power prices, yet we see the cut in dividend, and in capex, combined with further opex reductions as positive levers that will allow the group to further optimise its balance sheet. **We stick to our EUR14.5 FV, which still implies 41% upside**.

VALUATION

- At the current share price, EDF trades at 5.2x its 2016e EBITDA and offers a 10.1% yield
- Buy, FV @ EUR14.5

NEXT CATALYSTS

- Conference call @ 08.45am CET (+33(0)1 76 77 22 22)

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Construction & Building Materials

Heidelbergcement

Price EUR66.26

Q4 2015 EBITDA 7% above consensus. Positive outlook in key zones. ITC deal on track.

Fair Value EUR86 (+30%) **BUY-Top Picks**

Bloomberg	HEI GY
Reuters	HEIG.F
12-month High / Low (EUR)	77.0 / 60.1
Market Cap (EURm)	12,451
Ev (BG Estimates) (EURm)	19,304
Avg. 6m daily volume (000)	671.9
3y EPS CAGR	38.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.2%	-6.5%	-5.6%	-12.4%
Cons & Mat	-0.6%	-8.9%	-11.9%	-10.1%
DJ Stoxx 600	-2.4%	-12.9%	-16.7%	-12.0%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	12,614	13,373	17,703	19,110
% change		*6.0%*	*32.4%*	*8.0%*
EBITDA	2,117	2,371	3,356	3,884
EBIT	1,424	1,621	2,206	2,734
% change		*13.9%*	*36.1%*	*23.9%*
Net income	498.4	689.8	960.2	1,392
% change		*38.4%*	*39.2%*	*45.0%*

	2014	2015e	2016e	2017e
Operating margin	11.3	12.1	12.5	14.3
Net margin	5.5	6.9	6.5	8.6
ROE	3.8	5.1	6.5	8.9
ROCE	6.4	5.3	5.9	7.4
Gearing	48.6	35.2	51.9	43.7

(EUR)	2014	2015e	2016e	2017e
EPS	2.66	3.68	4.85	7.03
% change	-	*38.4%*	*31.8%*	*45.0%*
P/E	24.9x	18.0x	13.7x	9.4x
FCF yield (%)	5.3%	5.8%	9.4%	10.2%
Dividends (EUR)	0.75	1.10	1.50	2.80
Div yield (%)	1.1%	1.7%	2.3%	4.2%
EV/Sales	1.7x	1.4x	1.3x	1.2x
EV/EBITDA	10.1x	8.1x	6.9x	5.7x
EV/EBIT	15.0x	11.9x	10.5x	8.1x

HeidelbergCement has published 2015 revenues at EUR13.465bn, in line with the consensus, up 6.7% (-0.2% l-f-l), with cement volumes almost flat (-0.9% o/w -0.3% in Q4). 2015 EBITDA stood at EUR2.613bn (2% above consensus but 7% above Q4 2015 estimates only), up 14.2% (8.2% l-f-l). Margin was 19.4%, up 130bp y/y. Positive outlook for key markets (US, Western Europe, Indonesia). EUR400m Italcementi deal synergies confirmed. Ongoing anti-trust discussions in the US and Europe.

ANALYSIS

- Most of the geographical zones were in line with or slightly above expectations, except Asia-Pacific (27% of EBITDA), where revenues were down 5.6% l-f-l and EBITDA margin down 50bps at 25.9%.
- North America (31% of EBITDA) remained very strong, with good momentum in Q4. Revenues increased by 6.7% for the FY and by 9.6% in Q4, with ongoing EBITDA margin improvement (+210bps for the FY). Cement volumes were healthy with a 4.6% increase in Q4 and 1.9% for the FY).
- Europe was resilient, both in western Europe (thanks positive trends in the UK) and in eastern Europe thanks to Poland, Czech Republic and Romania, whereas Russia and Ukraine were difficult. EBITDA margin improved by 200bps to 16% in western Europe whereas it fell by 60bp to 18.9% in eastern Europe. However, eastern European EBITDA only accounts for 8% of consolidated EBITDA, vs 25% for western Europe.
- Outlook: North America is expected to perform well in 2016, thanks to dynamism in the construction sector. Positive comments concerned western Europe as well, thanks to a solid UK sector in particular. Eastern Europe contries are set to benefit from the EU infra programme. Heidelberg expects good trends in Indionesia thanks to higher infrastructure investments.

Preliminary figures

EURm Revenues	Q4 15	FY 15	l-f-l % Q4 15	l-f-l % FY 15
Western & Northern Europe	1074	4196	-0.6	0.1
Eastern Europe-Central Asia	248	1097	1.8	1.1
North America	943	3746	9.6	6.7
Asia-Pacific	716	2775	-8.9	-5.6
Africa-Mediterranean Basin	244	1008	5.6	11.4
Group Services	270	1060	-	-
Reconciliation	-106	-417	-	-
Total	**3389**	**13465**	**-2.0**	**-0.2**
EBITDA	**Q4 15**	**FY 15**	**Q4 15**	**FY 15**
Western & Northern Europe	192	672	25.8	17.3
Eastern Europe-Central Asia	49	207	25.9	-4.4
North America	214	829	25.0	19.5
Asia-Pacific	188	719	-16.1	-8.1
Africa-Mediterranean Basin	68	260	29.9	23.9
Group Services	7	25	-	-
Eliminations	-22	-99	-	-
Total	**696**	**2613**	**10.5**	**8.2**

Source : Company Data; Bryan Garnier & Co. ests.

VALUATION

- EUR86 FV derived from the application of historical multiples to our 2017 figures.

NEXT CATALYSTS

- Conference call at 1.30pm today
- Complete consolidated results to be published on 17th March 2016.

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TMT

Iliad

Price EUR210.15

Read across from Orange FY2015 publication

Fair Value EUR270 (+28%) **BUY**

Bloomberg	ILD FP
Reuters	ILD.PA
12-month High / Low (EUR)	235.1 / 175.5
Market Cap (EURm)	12,332
Ev (BG Estimates) (EURm)	13,455
Avg. 6m daily volume (000)	98.20
3y EPS CAGR	27.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.8%	4.5%	-3.0%	-4.5%
Telecom	-9.5%	-16.0%	-19.4%	-12.4%
DJ Stoxx 600	-9.0%	-16.1%	-18.4%	-14.6%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	4,168	4,428	4,782	5,149
% change		*6.2%*	*8.0%*	*7.7%*
EBITDA	1,284	1,507	1,761	2,062
EBIT	0.0	0.0	0.0	0.0
% change		*NM*	*NM*	*NM*
Net income	278.4	350.2	426.8	582.6
% change		*25.8%*	*21.9%*	*36.5%*

	2014	2015e	2016e	2017e
Operating margin	13.7	15.6	17.0	20.9
Net margin	6.7	7.9	8.9	11.3
ROE	12.3	13.3	14.1	16.2
ROCE	9.7	10.5	10.3	12.1
Gearing	46.9	42.5	46.1	32.7

(EUR)	2014	2015e	2016e	2017e
EPS	4.73	5.85	7.13	9.73
% change	-	*23.7%*	*21.9%*	*36.4%*
P/E	44.4x	35.9x	29.5x	21.6x
FCF yield (%)	NM	0.5%	NM	2.8%
Dividends (EUR)	0.36	0.38	0.38	0.38
Div yield (%)	0.2%	0.2%	0.2%	0.2%
EV/Sales	3.2x	3.0x	2.9x	2.6x
EV/EBITDA	10.5x	8.9x	7.8x	6.6x
EV/EBIT	NS	NS	NS	NS

This morning Orange SA published full year 2015 results. For the first time since the arrival of Free Mobile, EBITDA was up +0.1% yoy and revenues were virtually stable at -0.1%. Orange posted a very high commercial performance in very high speed landline. No major learnings for Iliad, although mobile performance should be quite good, since Orange only had a 20% market share on post paid net adds over the quarter. ARPUs are still under pressure, showing the intensity of promotions over the Christmas period. No news on the Orange – Bouygues merger, Stephane Richard reiterated his aim to strike a deal within a few weeks.

ANALYSIS

- **Overall results: Q4 revenues came out at EUR10,395bn, up +0.1% yoy** (vs consensus: EUR10,415bn with +0.3% yoy), compared with +0.5% yoy in Q3. France revenues were down -0.1% yoy vs consensus -0.9%, compared with -0.6% in Q3, showing a good trend. **Restated EBITDA reached EUR3.063bn** (vs cons EUR2995bn), **up 1.4% yoy** compared with +1.1% in Q3 and consensus -0.8%. **France Restated EBITDA reached EUR3761bn in H2** (vs cons EUR3.689bn), **up 2.7% yoy** compared with -0.7% in H1.
- In France, mobile postpaid net adds reached 179k in Q4, vs 234k in Q3, and 256k in Q4 2014. Sosh net adds reached 121k in Q4, vs 95k in Q3, and 167k in Q4 2014. Mobile postpaid net adds market share was 20% over Q4, vs 33% in Q3 and 30% in Q4 2014. Postpaid ARPU was EUR26.5 in Q4, down 5.4% yoy vs -5.6% in Q3.
- In France, broadband net adds reached 121k in Q4, vs 116k in Q3, and 96k in Q4 2014. FTTH net adds reached 133k in Q4, vs 107k in Q3, and 82k in Q4 2014. Broadband ARPU was EUR26.9 in Q4, down 0.9% yoy vs -0.9% in Q3.
- Orange market share in mobile postpaid was around 20%, below last year and the last quarter. This should leave room for good commercial performance from Iliad on the mobile side, although we know SFR also had a good performance. The commercial performance from Orange was strong on the landline side, but we still expect Free to be around 60k.

VALUATION

- We reiterate our BUY rating on Iliad, with FV of EUR270.

NEXT CATALYSTS

- Iliad's FY2015 results on 10th March

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Luxury & Consumer Goods

Luxottica

Price EUR51.00

New rumours of large transactions and governance changes...

Fair Value EUR65 (+27%) **BUY**

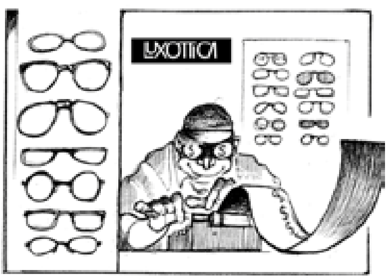
Bloomberg	LUX IM
Reuters	LUX.MI
12-month High / Low (EUR)	67.5 / 49.1
Market Cap (EUR)	24,667
Ev (BG Estimates) (EUR)	25,689
Avg. 6m daily volume (000)	812.6
3y EPS CAGR	15.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.8%	-17.9%	-21.5%	-15.6%
Consumer Gds	1.6%	-7.3%	-6.6%	-7.4%
DJ Stoxx 600	-2.4%	-12.9%	-16.7%	-12.0%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	7,652	8,837	9,550	10,209
% change		*15.5%*	*8.1%*	*6.9%*
EBITDA	1,542	1,891	2,113	2,303
Reported EBIT	1,158	1,421	1,580	1,734
% change		*22.7%*	*11.2%*	*9.7%*
Net income	642.6	843.7	967.9	1,078
% change		*31.3%*	*14.7%*	*11.4%*

	2014	2015e	2016e	2017e
Rep. EBIT margin	15.1	16.1	16.5	17.0
Net margin	8.4	9.5	10.1	10.6
ROE	13.1	16.7	17.6	18.0
ROCE	10.4	13.1	14.7	16.1
Gearing	20.6	20.2	10.4	1.6

(€)	2014	2015e	2016e	2017e
EPS	1.44	1.76	2.02	2.25
% change	-	*21.7%*	*14.7%*	*11.4%*
P/E	35.3x	29.0x	25.3x	22.7x
FCF yield (%)	2.9%	3.3%	4.2%	4.6%
Dividends (€)	0.72	0.92	1.05	1.20
Div yield (%)	1.4%	1.8%	2.1%	2.4%
EV/Sales	3.4x	2.9x	2.6x	2.4x
EV/EBITDA	16.7x	13.6x	11.9x	10.8x
EV/EBIT	22.2x	18.1x	16.0x	14.3x



Yesterday morning Italian newspaper "Il Sole 24 Ore" mentioned that the current management shake-up could lead to the resurgence of market speculation over LUX being tempted by a merger with Essilor or by the acquisition of Carl Zeiss Vision Care. As for us, we continue to believe that large transactions within the optical industry are not likely in the ST, especially since Mr Del Vecchio has announced other priorities for LUX including (i) a group-wide simplification plan (not really compatible with a big deal...) and (ii) a succession plan which has crystallised most investor concerns recently. All eyes will be on the Investor Day on 2nd March!

ANALYSIS

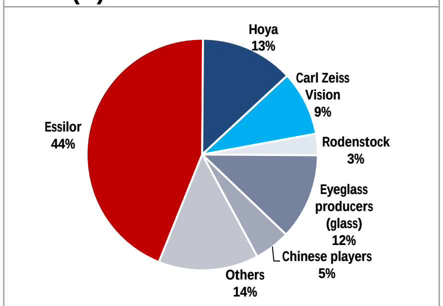
- **Essilor (bis repetita): Better to stay friends...** Admittedly the two global leaders know each other very well and have set-up many partnerships across the globe: **(i)** EI is LUX's largest lens supplier in North America (BG ests: ~30% of total lens purchases), **(ii)** EI runs the Rx lab activity of OPSM in Australia-NZ through a 70-30 JV and **(iii)** EyeMed Vision Care (LUX) chose EI as its main supplier for Rx lab services procurement and supply of products.

- **... than enter into a bad marriage...** Since the first failed attempt in 2013, this merger scenario has resurfaced several times. However, as highlighted in our Sector Report, we still believe that significant hurdles for a merger remain: **(i) governance at LUX:** this has always been the stumbling block, the new "LUX+EI" capital structure would only leave Mr Del Vecchio with a slight blocking minority whereas he is surely not ready to relinquish control of LUX, **(ii) a leadership conflict:** both groups have the most talented profiles in this industry and could face the same problems in appointing top managers within the newco than Publicis-Omnicom (failed merger) or Lafarge-Holcim; **(iii) two difficult-to-combine organisations** as supply chains supporting ophthalmic lenses and sunglasses are totally different and **(iv) antitrust risks** since "LUX+EI" would become an "all-powerful supplier" (>44% market share in lenses, >30% in frames) for their customers.

- **What about Carl Zeiss Vision Care?** First of all, LUX would certainly not acquire the entire Carl Zeiss Group (2014/15 revenue: EUR4.5bn) since the latter is 100%-owned by a foundation and operates in various activities (semiconductors, medical technology, etc.), only the Vision Care/Consumer Optics segment (sales: EUR1bn) could interest the Italian group. The acquisition of Carl Zeiss VC would enable LUX to hold the wold's third largest ophthalmic lens manufacturer whilst the Italian group only produces a small part of its sunglass lenses (close to zero concerning Rx lenses) and the size of Carl Zeiss VC would imply two main advantages vs. the Essilor deal: a very small/no dilution of family holding Delfin ownership in LUX and limited risks concerning leadership and antitrust.

- **Three main hurdles in our view. 1/** LUX would have to pay a significant price to convince Carl Zeiss to sell one of its core activities (~22% of 2014/15 total revenue and ~30-40%e of group's Op profit), representing a possible EV/sales transaction multiple of up to 1.5-2x (or EUR1.5-2bn) for the entire segment, or less if Consumer Optics is excluded from the deal; **2/** Vision Care/Consumer Optics does not seem to be in great shape as sales remained flat FX-n over FY 2014/15 (ending September), compared with a global ophthalmic market growing at 3-4% and +8.4%e FX-n for Essilor's lens activity (+4.7%e LFL) over 2015, **3/** this move would be a "declaration of war" against Essilor, calling into question some partnerships between the two groups, which have carefully avoided direct competition so far.

Ophthalmic lens market: global market share (%):



Source: Essilor, BG ests

- **Questions marks remain on governance.** While Mr Del Vecchio declared in two interviews that his successor would certainly be appointed internally, an adviser close to him (Francesco Milleri) is rumoured to be joining the Board as Executive Vice-President according to the "*Il Sole 24 Ore*". **If the rumour proves to be right, we do not think that investors would be completely reassured pending further clarification at the Investor Day.** Indeed the growing influence of Mr Milleri after Mr Guerra's departure and some "interferences" between Delfin and LUX top management were the leading causes of Mr Cavatorta's resignation in October 2014. *(To be continued next page).*

Moreover, Mr Milleri's appointment as Executive VP alongside Mr Vian (CEO for Product & Operations) would imply that Mr Del Vecchio **intends to keep the co-CEO structure model**, which is rather surprising considering his desire to simplify and accelerate the decision-making process within the group.

VALUATION

- These rumours, taken up by the "*Il Sole 24 Ore*" newspaper, show that there are still uncertainties about the future strategy and governance at Luxottica two weeks after the departure of Mr Khan. We will probably have to wait until the Investor Day on 2nd March to get the first answers and explanations regarding these two hot topics.
- With regards to M&A, the timing is not right in our view since LUX is about to launch a vast simplification plan in all commercial, marketing and markets functions. We clearly believe that LUX is able to accelerate its pace of growth without acquiring Carl Zeiss Vision Care, which involves a few doubts and risks.
- Last but not least, on the governance issue, we believe that Mr Milleri could be appointed to the Board without any executive functions and just to represent Delfin and/or the Delvecchio family, which could reassure the market by avoiding the risk of conflicting interests between the family and the operating performance of LUX.

NEXT CATALYSTS

- FY15 Results on 1st March // Investor Day in Turin on 2nd March.

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Ipsen

Price EUR48.73

Bloomberg	IPN FP
Reuters	IPN.PA
12-month High / Low (EUR)	62.0 / 43.4
Market Cap (EURm)	4,057
Avg. 6m daily volume (000)	70.40

	1 M	3 M	6 M	31/12/15
Absolute perf.	-9.9%	-16.2%	-17.7%	-20.1%
Healthcare	-4.2%	-11.1%	-16.4%	-12.8%
DJ Stoxx 600	-2.4%	-12.9%	-16.7%	-12.0%

	2014	2015e	2016e	2017e
P/E	22.0x	18.5x	15.6x	13.2x
Div yield (%)	1.7%	1.8%	2.1%	2.3%

Some expected and some less-expected changes at the Corporate Governance level

Fair Value EUR63 (+29%) **BUY**

ANALYSIS

- Ipsen has announced this morning that the Board of Directors has decided to separate the functions of Chairman and CEO. As a consequence, it has offered Marc de Garidel, current Chairman and CEO of the company the position of non-Executive Chairman (which he has accepted), endorsing the role of CEO until the recruitment process for a new CEO is complete. This also means that Deputy-CEO Christel Bories, who may have run for the role and who has not been elected, has decided to leave the company.
- Like every company, Ipsen needs to adapt to a new period in its history. Marc and Christel have done a great job in the recent past, resulting in a clear recovery in Ipsen's value and prospects. The company has been restructured and refocused somewhat and its development in the US has been a success that will drive its growth for a few more years. Now however, it clearly needs new impetus to take the story to the next level and this is where, maybe, Christel Bories, not coming from the industry, found limitations in her ability to become the new CEO.
- As far as Marc de Garidel is concerned, it is hard to see him in a non-Executive role because he is very much involved in the daily business of Ipsen, but this is how the vast majority of companies are managed and also provides the best chance of finding a good CEO. Two drivers in one seat usually do not work for very long.
- Lastly, to make sure there is no misunderstanding about the underlying reasons behind the changes, Ipsen has reiterated guidance for 2015 and 2020 and also clarified that the strategy will not be affected. The term "disagreement" used in the press release is very much a usual and legal one used when a top executive's contract needs to come to an end.

VALUATION

- Although they never appeared as good friends when they shared the podium in meetings, Christel and Marc did a good job over the last few years and the share price could react negatively to the news, remaining under pressure somewhat until the arrival of a new CEO. The biggest threat is to see Ipsen losing time while looking for a new CEO that will require time to adapt whereas it needs to act quite quickly to ensure that its growth will last beyond 2018. But this is what Marc de Garidel is supposed to take care of and since underlying growth momentum is strong in the short-term, we would see any overly-dramatic downside move as an opportunity to BUY.

NEXT CATALYSTS

- 1st March 2016: FY 2015 results

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Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 62.7% NEUTRAL ratings 28.4% SELL ratings 9%

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