

Ipsen

Price EUR49.85

What if changes are more profound than they appear?

Fair Value EUR63 (+26%)

BUY

Bloomberg	IPN.FP
Reuters	IPN.PA
12-month High / Low (EUR)	62.0 / 43.4
Market Cap (EUR)	4,150
Ev (BG Estimates) (EUR)	4,067
Avg. 6m daily volume (000)	71.20
3y EPS CAGR	18.6%

Our objective with this short note is to share our understanding of the situation. Briefly, we would say that the position of chairman Marc de Garidel looks uncertain and this overhang may be a drag on the stock's performance. That said, at the current level, we keep our BUY rating.

ANALYSIS

- We return to the topic of Corporate Governance changes at Ipsen because we would like to be sure that we have an accurate view and analysis of the current situation.
- From Ipsen's press release issued on Monday, there is one part that is easy to read: the departure of deputy CEO Christel Bories, who various sources say was difficult to work with. Not only did she not come from the industry and so had not the right profile for the job, but she was also criticised by many within the company for the way she managed and interacted with people.
- Similarly, separating the chairman and CEO functions looks very much like a good decision for best practice in terms of corporate governance. And the time may have come to make some changes now that underlying business is in a much better shape.
- What is much less clear, however, is the role that Marc de Garidel is supposed to play. The question is whether he has been involved in the decision and is fully happy with it. We understand that the departure of Christel Bories should be a relief – and possibly even a victory of sorts. Similarly, we assume he could have been happy with the role of chairman once a new CEO is found. However, the wording of the press release looks strange when it comes to the functions of non-executive chairman for Marc de Garidel once the new CEO has been appointed. "Leading and animating the Board of Directors" or sharing "his deep understanding of the sector" does not sound like an exciting new role.
- And so the question is did Marc de Garidel agree to steer the boat single-handed until new CEO comes and then leave the company with all the credit for having driven and executed a full recovery and put Ipsen back on the right track? We think this is possible.
- But if so, the investment community faces a period of uncertainty until a new CEO and a new chairman have been found. And what guarantee do we have that the current strategy will be pursued? Reiterating 2020 guidance is not a tremendous help when the market (and ourselves) expect Ipsen to achieve a 26% operating margin at least two years earlier ahead of schedule.

VALUATION

- Overall, we are in a very tricky situation because it is all about the interpretation of a press release. Depending on Marc de Garidel's future and what it says about the way the Board works, confidence in Ipsen's prospects may vary greatly.
- We are not suggesting that the company cannot thrive without Marc de Garidel, but he has been the main architect of the turnaround and a disagreement with the Board would raise a lot of questions – including if the incoming CEO has a clear mandate.
- So how comfortable are we with a BUY rating in this context? We are fairly evenly balanced, but we nevertheless opt for the *status quo* and we maintain our recommendation as: (i) the story of an underlying strong development of operations is intact and core EPS growth is expected to be 14% on average by 2020; (ii) Marc de Garidel will do the job until very last minute and nothing is likely to happen before late 2016; (iii) the valuation is attractive.

NEXT CATALYSTS

- 1 March 2016: FY results

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	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.8%	-16.9%	-15.5%	-18.3%
Healthcare	-3.3%	-13.1%	-16.3%	-12.0%
DJ Stoxx 600	-0.3%	-13.5%	-15.1%	-10.1%

YEnd Dec. (€m)	2014	2015e	2016e	2017e
Sales	1,275	1,430	1,533	1,650
% change		12.1%	7.2%	7.7%
EBITDA	311	395	440	502
EBIT	260.5	334.6	375.8	432.8
% change		28.4%	12.3%	15.2%
Net income	182.5	215.9	255.8	303.7
% change		18.3%	18.5%	18.7%

	2014	2015e	2016e	2017e
Operating margin	20.4	23.4	24.5	26.2
Net margin	11.6	14.6	16.6	18.3
ROE	14.5	18.5	19.9	20.8
ROCE	18.5	22.5	24.5	27.3
Gearing	NM	NM	NM	NM

(€)	2014	2015e	2016e	2017e
EPS	2.22	2.63	3.12	3.70
% change	-	18.6%	18.5%	18.7%
P/E	22.5x	18.9x	16.0x	13.5x
FCF yield (%)	4.8%	4.5%	6.2%	7.3%
Dividends (€)	0.85	0.90	1.00	1.10
Div yield (%)	1.7%	1.8%	2.0%	2.2%
EV/Sales	3.2x	2.8x	2.6x	2.4x
EV/EBITDA	13.1x	10.3x	9.1x	7.8x
EV/EBIT	15.7x	12.2x	10.7x	9.0x



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Distribution of stock ratings

BUY ratings 63.4%

NEUTRAL ratings 28.4%

SELL ratings 8.2%

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