

# QIAGEN

Price EUR19.31

Feedback from roadshow: Setting a solid base not to starve the topline

Fair Value EUR24 (+24%)

NEUTRAL

Bloomberg	QIA GR
Reuters	QGEN.DE
12-month High / Low (EUR)	26.0 / 19.3
Market Cap (EUR)	4,629
Ev (BG Estimates) (EUR)	5,518
Avg. 6m daily volume (000)	388.7
3y EPS CAGR	5.6%

We hosted a QIAGEN roadshow in Paris yesterday with Roland Sackers (CFO) and John Gilardi (VP Cop. Com & IR). Although 2016 growth guidance of 6% at CER does not seem at risk, it also translates some weaknesses in MDx seen in H2 2015. Further operating expenses required to “not starve the topline” should mute leverage. Sequential improvement in operating margin all throughout 2016 should be back-end loaded leaving operating margin flat for the year (BGe -14bp). Too early in our view to play QIAGEN’s long term growth prospects.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-21.4%	-15.5%	-25.4%	-23.1%
Healthcare	-10.4%	-12.8%	-18.6%	-12.0%
DJ Stoxx 600	-7.8%	-13.5%	-17.6%	-10.1%

YEnd Dec. (USDm)	2014	2015e	2016e	2017e
Sales	1,346	1,281	1,323	1,403
% change		-4.8%	3.3%	6.1%
EBITDA	431	438	446	472
EBIT	312.5	314.5	322.5	349.2
% change		0.6%	2.5%	8.3%
Net income	241.6	249.3	258.4	276.7
% change		3.2%	3.7%	7.1%

	2014	2015e	2016e	2017e
Operating margin	23.2	24.6	24.4	24.9
Net margin	17.9	19.5	19.5	19.7
ROE	4.4	5.0	4.4	4.7
ROCE	22.2	23.0	20.4	18.7
Gearing	37.1	38.8	20.1	14.2

(USD)	2014	2015e	2016e	2017e
EPS	1.00	1.05	1.09	1.18
% change	-	5.2%	4.1%	7.5%
P/E	21.6x	20.5x	19.7x	18.3x
FCF yield (%)	6.0%	7.7%	7.7%	6.8%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	4.6x	4.8x	4.4x	4.0x
EV/EBITDA	14.3x	14.1x	13.0x	11.9x
EV/EBIT	19.7x	19.6x	18.0x	16.1x

## ANALYSIS

- From a topline perspective, Molecular Diagnostics (49% of sales) showed weaknesses in H2 2015 and Q1 guidance translates these issues, namely a lack of visibility on revenues recognised from companion diagnostics sales as well as a slowdown in instrument sales. As a reminder, management expects Q1 2016 revenues to grow 2% CER (-4pp FX headwinds) and EPS to be in the USD0.19-0.20 range (USD0.18-0.19 at actual rates). Growth prospects nevertheless look good for Life Sciences sales (51% of sales) with Academia (22% of sales) should benefit from the NIH budget raise. Note that 50% of Academia sales stem from the US where the NIH accounts for roughly 2/3<sup>rd</sup> of funding). QuantiFERON-TB test sales are likely to see an acceleration through 2016 underpinned by marketing investments as the company identified opportunities as being migrant inflow in Europe and the Middle East along with the increasing recognition of clinical value added of the, shortages of TST and the 4<sup>th</sup> generation launch in the US. While sales grew 20% at constant rates to USD115m, with market share of ~12%, we are not ruling out that growth might change speed i.e. to 25-30%. Note that growth in 2015 came from volumes and QIAGEN does not anticipate meaningful price pressure going forward as Oxford I.’s size does not allow the latter to slash prices.
- Turning to profitability, leverage should be muted in 2016 as management is willing to prepare a solid base for growth in 2017 and onwards. Front-end loaded investments in 2016 should focus on (i) the creation of a salesforce for the GeneReader with feedback at AMP exceeding expectations that might trigger higher commercialisation efforts than initially anticipated. Note that we expect sales from this workflow to be marginal in 2016 (BGe USD6m), reaching USD125m (7% of the group’s turnover) towards 2020e (BGe) with strong upside potential in the mid-term coming from a higher than anticipated utilization rate (BGe base case: 500 insights generated per year/instrument). Once again, we see QIAGEN as well positioned in the space as 15 collaborations with pharma cies. should enable the company to better identify and hence launch panels that are well aligned with evolution of treatments paradigm. (ii) Push to QuantiFERON-TB opportunities (see above); (iii) Digital and e-commerce for a more direct marketing approach (iv) expansion in ME and SE Asia (Dubai, Thailand). We see adj. EBIT margin growing from 20-21% to 27-28% through 2016.
- In all, investments should be significant in H1 leaving little room for visibility. And would wait for increased visibility and first signs of successful execution in preparing solid base for 2017 before revisiting the QIAGEN growth story.

## VALUATION

- Minor changes in our estimates do not prompt a change in Fair Value at EUR24. Going down the PnL for 2016, we have slightly increased our S&M expenses which are partially offset by a lower tax rate of 17% (as guided by the company) vs BGe 19% previously.
- We reiterate our NEUTRAL recommendation and EUR24 fair value.

## NEXT CATALYSTS

- 27th April: Q1 2016 results

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