BRYAN, GARNIER & CO

LONDON • PARIS • MUNICH • NEW YORK • GENEVA • NEW DELHI

Please find our Research on Bloomberg BRYG <GO>)

4th March 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	16943.9	+0.26%	-2.76%
S&P 500	1993.4	+0.35%	-2.47%
Nasdaq	4707.42	+0.09%	-5.99%
Nikkei	16960.16	+1.28%	-10.89%
Stoxx 600	339.424	-0.45%	-7.21%
CAC 40	4416.08	-0.20%	-4.77%
Oil /Gold			
Crude WTI	34.67	+0.03%	-6.80%
Gold (once)	1256.44	+1.70%	+18.27%
Currencies/Rates			
EUR/USD	1.0932	+0.96%	+0.64%
EUR/CHF	1.08535	+0.19%	-0.19%
German 10 years	0.174	-19.00%	-72.63%
French 10 years	0.551	-0.89%	-43.85%
Euribor	-	+-%	+-%

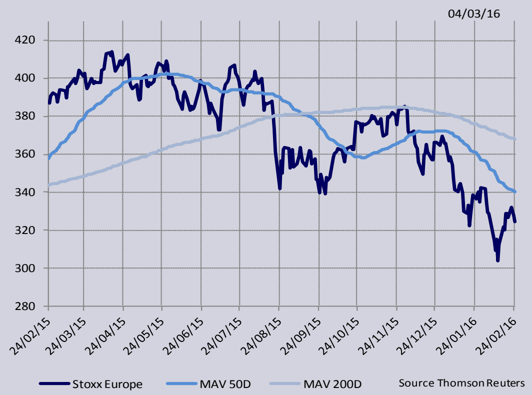
Upcoming BG events :

Date	
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)
8th-Apr	VINCI (BGLuxembourg roadshow with CFO)
12th-Apr	DBV TECH. (BG Paris roadshow with CEO)

Recent reports :

Date	
19th-Feb	CASINO With hindsight: a real Catch-22!
17th-Feb	LAFARGEHOLCIM Everything can't be that bad.
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

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



ADIDAS GROUP — BUY, Fair Value EUR104 (+7%)

adidas ready to muscle up growth this year

At the conference call yesterday, management expressed optimism for 2016. The main drivers that spurred growth in 2015 should still play in 2016 and be completed by the ramp up of new engines such as North America and Running (both are expected to grow in double-digits). Robust momentum is set to remain in Western Europe, Greater China and MEAA. On top of solid profit headwinds (price/product/channel/geo mix), management is also confident about offsetting the negative impact of the "USD cliff" and rising input costs. Last but not least, the strategic review on golf is underway and should be completed by the end of Q1, as planned. Catalysts are not missing this year, stay tuned! Buy recommendation and FV of EUR104 confirmed.

GEMALTO — NEUTRAL, Fair Value EUR69 (+17%)

FY sales and PFO in line, rest. EPS 6.8% below our estimate – FY17 guidance PFO challenging

Gemalto has posted FY sales broadly in line with our estimate and that of the consensus but with lower than expected lfl growth. Payment, M2M, Security and e-Government showed growth but no improvement was seen in the SIM business and related services. Profit from operations (PFO) was in line with estimates but at the low-end of the vague "double digit growth" guidance (+10.4% reported). However, IFRS current EBIT, EBIT, net profit and restated EPS were significantly below our forecasts (by 2%, 18%, 27% and 7% respectively). Management gave its first annual PFO guidance, which is still vague, stating that it expects to generate a 1.5% point increase in adjusted gross margin, accelerating its PFO expansion towards its 2017 objective of over EUR660m. Pending the conference call today at 3pm (Paris time), we maintain our Neutral rating and FV of EUR69.

WIRECARD — BUY-Top Picks, Fair Value EUR52 (+36%)

Small acquisition in Romania

Wirecard has recently announced the acquisition of Romanian payment services provider Provus Group. Following this operation (~1.3% of WCD's revenue), we have upgraded our 2016-17e EPS sequence by a slight 0.9% on average (+0.8% in 2016e and +1.0% in 2017e). We maintain our Buy rating and FV of EUR52 (Q1 Top Pick List).

In brief...

GALAPAGOS, *With EUR1bn in cash, the pipeline looks undervalued*

GAMELOFT, *Everything remains possible*

Luxury & Consumer Goods

adidas Group

Price EUR96.88

adidas ready to muscle up growth this year

Fair Value EUR104 (+7%) **BUY**

Bloomberg	ADS GY
Reuters	ADSG.F
12-month High / Low (EUR)	100.9 / 63.7
Market Cap (EURm)	20,269
Ev (BG Estimates) (EURm)	21,201
Avg. 6m daily volume (000)	1 182
3y EPS CAGR	19.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.3%	7.0%	44.0%	7.8%
Consumer Gds	0.1%	-5.9%	2.8%	-4.7%
DJ Stoxx 600	3.0%	-8.8%	-6.3%	-7.2%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	14,534	16,915	18,302	19,553
% change		*16.4%*	*8.2%*	*6.8%*
EBITDA (rep.)	1,205	1,442	1,632	1,852
EBIT (rep.)	961.0	1,059	1,211	1,402
% change		*10.2%*	*14.3%*	*15.8%*
Net income (rep.)	490.0	630.0	809.7	943.1
% change		*28.6%*	*28.5%*	*16.5%*

	2014	2015e	2016e	2017e
Operating margin	6.6	6.3	6.6	7.2
Net margin	3.4	3.7	4.4	4.8
ROE	8.7	11.7	15.5	16.4
ROCE	9.7	10.5	12.2	13.5
Gearing	3.3	17.3	26.6	19.8

(EUR)	2014	2015e	2016e	2017e
EPS	2.72	3.32	4.02	4.68
% change	-	*22.0%*	*21.0%*	*16.5%*
P/E	35.6x	29.2x	24.1x	20.7x
FCF yield (%)	0.5%	0.8%	2.4%	3.2%
Dividends (EUR)	1.50	1.60	1.85	2.15
Div yield (%)	1.5%	1.7%	1.9%	2.2%
EV/Sales	1.4x	1.3x	1.2x	1.1x
EV/EBITDA	17.0x	14.7x	13.3x	11.6x
EV/EBIT	21.3x	20.0x	17.9x	15.3x

At the conference call yesterday, management expressed optimism for 2016. The main drivers that spurred growth in 2015 should still play in 2016 and be completed by the ramp up of new engines such as North America and Running (both are expected to grow in double-digits). Robust momentum is set to remain in Western Europe, Greater China and MEAA. On top of solid profit headwinds (price/product/channel/geo mix), management is also confident about offsetting the negative impact of the "USD cliff" and rising input costs. Last but not least, the strategic review on golf is underway and should be completed by the end of Q1, as planned. Catalysts are not missing this year, stay tuned! Buy recommendation and FV of EUR104 confirmed.

ANALYSIS

- **North America: ADS brand ramps up (+12% FX-n in Q4).** We knew that Lifestyle was a significant driver there but it is worth noting that Performance was also up 10% FX-n driven by Football and the first signs of acceleration in US sports which will be at the forefront of the 2016 performance with Running (double-digit growth expected). **Retail** will be a key driver with the opening of ADS' first flagship store in NYC (~34k sq ft or ~3k sqm) and new stores in key cities like Los Angeles, Chicago or Miami. Relationships with key **US retailers** will also be strengthened: for instance Foot Locker will host up to 300 ADS shop-in-shops in 2016 vs. 200 in 2015 (and 20 in 2014). **RBK** (-5%) is still affected by the streamlining of the factory outlet store network, but a gradual recovery should occur throughout the year. **Hence management confirmed a double-digit growth in group sales in North America for 2016 (BG ests: +8%e) and profitability should improve despite incremental marketing investments this year.**

- **Golf: strategic review to be completed by end of Q1.** In the meantime, the group continued to turn around the business after restructuring the manufacturing and commercial activities. The TM brand increased its presence again with golf pros and consumers reacting positively to the latest launches (M1 / M2 ranges, KALEA ladies line) while the brand carefully monitors sell-through trends. Management already declared that adidas-Golf (footwear, apparel and accessories) would remain within the group irrespective of the conclusions of the strategic review. The TMaG division is expected to be close to break-even point before any further restructuring costs (vs. operating losses of ~EUR100m in 2015).

- **ADS is constantly improving its retail expertise.** In 2015 net sales were up 11% FX-n to EUR4.2bn, including comparable store sales growth of 3%, or approx. +7-8% excl. Russia. In this market, which now only accounts for ~4% of total sales vs. 8% a year ago, the group closed 167 stores in 2015 which helped offset the significant margin pressure from lower sales (-10% FX-n) and the negative FX impact. As such, GM was only down 260bp to 56% in 2015. Overall, the retail channel improved its profitability: GM expanded 240bp (to 61.8%) and Op margin was up 280bp to 20.3%.

- **Upbeat current trading and backlog trends.** The group is targeting 10-12% FX-n sales growth for 2016 and H1 will naturally benefit from the traction observed in H2 (+12%) and an easier comparison base (H1: +7% FX-n). However, as the group has just closed a solid backlog over Q3 16, CEO Herbert Hainer guided on a balanced performance over 2016, all the more since the retail channel is set to benefit from three major sporting events this summer: the Copa America (3rd-26th June), the Euro Championship (10th June – 10th July) and, to a lesser extent, the Rio Summer Olympics (3rd-21st August).

VALUATION

- We have left our assumptions unchanged after minor adjustments following the pre-announced publication (11th February). Some profit-taking might occur but we consider that the stock will remain more resilient in this current volatile environment.

NEXT CATALYSTS

- adidas Group is due to release Q1 results on 29th April

Click here to download

Analyst:
Cédric Rossi
33(0) 1 70 36 57 25
crossi@bryangarnier.com

Consumer Analyst Team:
Nikolaas Faes
Loïc Morvan
Antoine Parison
Virginie Roumage

TMT

Gemalto

Price EUR59.09

FY sales and PFO in line, rest. EPS 6.8% below our estimate – FY17 guidance PFO challenging

Fair Value EUR69 (+17%) **NEUTRAL**

Bloomberg	GTO FP
Reuters	GTO.PA
12-month High / Low (EUR)	84.9 / 50.5
Market Cap (EUR)	5,259
Ev (BG Estimates) (EUR)	5,594
Avg. 6m daily volume (000)	419.8
3y EPS CAGR	14.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	7.8%	1.7%	-5.1%	6.9%
Softw.& Comp.	-0.6%	-5.2%	10.4%	-5.7%
DJ Stoxx 600	3.0%	-8.8%	-6.3%	-7.2%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	2,465	3,122	3,338	3,539
% change		*26.6%*	*6.9%*	*6.0%*
EBITDA	359	345	528	633
EBIT	327.3	313.3	451.7	549.5
% change		*-4.3%*	*44.2%*	*21.7%*
Net income	269.8	226.3	339.8	412.5
% change		*-16.1%*	*50.1%*	*21.4%*

	2014	2015e	2016e	2017e
Operating margin	13.3	10.0	13.5	15.5
Net margin	9.0	4.2	8.9	10.5
ROE	9.2	5.4	10.8	12.1
ROCE	11.3	7.1	10.3	12.4
Gearing	-20.6	13.4	3.2	-7.4

(EUR)	2014	2015e	2016e	2017e
EPS	3.05	2.53	3.77	4.58
% change	-	*-16.9%*	*49.0%*	*21.4%*
P/E	19.4x	23.3x	15.7x	12.9x
FCF yield (%)	3.2%	3.2%	5.7%	7.3%
Dividends (EUR)	0.42	0.47	0.51	0.55
Div yield (%)	0.7%	0.8%	0.9%	0.9%
EV/Sales	1.9x	1.8x	1.6x	1.4x
EV/EBITDA	13.3x	16.2x	10.1x	7.9x
EV/EBIT	14.6x	17.9x	11.8x	9.2x

Gemalto has posted FY sales broadly in line with our estimate and that of the consensus but with lower than expected lfl growth. Payment, M2M, Security and e-Government showed growth but no improvement was seen in the SIM business and related services. Profit from operations (PFO) was in line with estimates but at the low-end of the vague "double digit growth" guidance (+10.4% reported). However, IFRS current EBIT, EBIT, net profit and restated EPS were significantly below our forecasts (by 2%, 18%, 27% and 7% respectively). Management gave its first annual PFO guidance, which is still vague, stating that it expects to generate a 1.5% point increase in adjusted gross margin, accelerating its PFO expansion towards its 2017 objective of over EUR660m. Pending the conference call today at 3pm (Paris time), we maintain our Neutral rating and FV of EUR69.

ANALYSIS

- **FY earnings: revenue came in at EUR3,121.6m, up 27% Y/Y and 6.3% lfl (Q1 +7%, Q2 +14%, Q3 +4% and Q4 +2%)**, i.e. roughly in line with our EUR3,137.5m and consensus of EUR3,119m but with weaker lfl growth than we expected (BG: +7.8%). This broke down into +18% in M2M, +12% in Payment & Identity (o/w +23% in Payments, +10% in e-Government, +3/4% in Security), but -15% in SIM and related services (o/w -17% in SIM, with -23% in Q4). Its organic top-line growth was negatively impacted by lower sales to mobile operators (the already known closure of the US mobile payment service Softcard) and lower SIM demand in LatAm and Asia (since Q3). **PFO reached EUR422.6m, up 10.4% but with a margin down 220bps Y/Y at 13.5%** (BG: EUR421.0m i.e. margin of 13.4%; cons.: EUR423m i.e. margin of 13.6%; guidance: double digit growth) because of SafeNet's operating expenses level (higher than those of Gemalto), currency translation effects, which outweighed the absence of variable pay-out to management and employees related to PFO. After stock-based compensation, Gemalto generated a **current EBIT of only EUR313.3m (margin of 10.0%, -330bps)** vs. our EUR318.8m (margin of 10.2%) **and EBIT of EUR203.3m (margin of 6.5%, -450bps)** vs. our EUR249.2m (margin of 7.9%). The main difference with our expectations was higher-than-expected depreciation and amortization of intangibles resulting mainly from SafeNet and non-current operating charges during the period (acquisitions and restructuring of the Mobile Platforms & Services business and data centers). **IFRS net profit therefore decreased by 38% Y/Y to EUR136.9m**, i.e. a margin reduced by more than half at 4.4% (vs BG and consensus at EUR188m, i.e. margin of 6.0%). **The FCF was flat at EUR170m** (FCF/current EBIT ratio of 54%) with **net debt of EUR334.7m** i.e. gearing of 13% (vs. BG: EUR367.7m; cons.: EUR329m). The group will distribute a **dividend of EUR0.47/share** in cash (payout of 30.8%).

- **Management's FY16 guidance:** with positive trends in Enterprise, Government Programs, M2M and the US EMV ramp-up effort completed, **Gemalto expects to generate a 1.5% point increase in adjusted gross margin, accelerating its PFO expansion towards its 2017 objectives (i.e. >+10.4% in 2016).** However, the SIM business is still worrying: revenue derived from **SIM products represents less than 25% of total sales but is still about 30% of the group's PFO.** We will be looking for more details about FY16 guidance at today's conference call.

- **What about the FY17 PFO target?** This guidance for **over EUR660m in PFO for next year is not unreachable but has never been so tight… It suggests a strong acceleration in the following two years, with a CAGR 2015/17 of at least 25%.** Even with the dynamics registered in payment, M2M, e-government and cybersecurity, the business lost in the SIM segment is always very profitable and momentum is clearly not encouraging. **We maintain our FY17e PFO at about EUR600m, i.e. almost 10% below management's target.**

VALUATION

- **2015 restated EPS was 6.8% below our expectation.**

- Pending the conference call today at 3pm (Paris time), **we maintain our Neutral rating and Fair Value of EUR69** (SOTP of EUR71.9, DCF of EUR67.9, and 3-year historical multiples of EUR67.1).

NEXT CATALYSTS

- **Q1 2016 sales:** on 29th April, 2016 (before trading).

2015 reported, consensus and BG estimates (old and new) for 2016/17e

Return to front page

EURm	2014 (reported)	2015 (reported)	BG 2015e	Cons. 2015	BG 2016e	Cons. 2016	BG 2017e	Cons. 2017
Sales	**2,465.2**	**3,121.6**	**3,137.5**	**3,119**	**3,338.3**	**3,355**	**3,538.6**	**3,583**
Y/Y change	*3.4%*	*26.6%*	*27.3%*	*26.5%*	*6.0%*	*7.6%*	*¨6.0%*	*6.8%*
Y/Y change (lfl)	*5.0%*	*6.0%*	*7.8%*		*6.0%*		*6.0%*	
PFO	**382.7**	**422.6**	**421.0**	**423**	**496.1**	**493**	**600.6**	**571**
Margin	*15.5%*	*13.5%*	*13.4%*	*13.6%*	*14.9%*	*15.0%*	*17.0%*	*16.1%*
EBIT	**270.2**	**203.3**	**249.2**		**398.3**	**11.9%**	**495.5**	**14.0%**
Margin	*11.0%*	*6.5%*	*7.9%*		*11.9%*		*14.0%*	
Current EBIT	**327.3**	**313.3**	**318.8**		**451.7**		**549.5**	
Margin	*13.3%*	*10.0%*	*10.2%*		*13.5%*		*15.5%*	
Net profit	**221.2**	**136.9**	**188.0**	**188**	**297.8**	**309**	**371.2**	**365**
Margin	*9.0%*	*4.4%*	*6.0%*	*6.0%*	*8.9%*	*9.2%*	*10.5%*	*10.2%*
Attrib. net profit	**220.7**	**134.1**	**187.4**		**297.6**		**371.0**	
Margin	*9.0%*	*4.3%*	*6.0%*		*8.9%*		*10.5%*	
Rest. attrib. net profit	**269.8**	**226.3**	**244.5**		**339.8**		**412.5**	
Margin	*10.9%*	*7.3%*	*7.8%*		*10.2%*		*11.7%*	
Net debt	**-493.4**	**334.7**	**367.7**	**329**	**87.8**	**96**	**-228.6**	**-80**
Gearing	*-20.6%*	*13.4%*	*14.4%*		*3.2%*		*-7.4%*	

Sources: Bryan, Garnier & Co ests; Company's consensus (11/12/15).

Click here to download

Analyst :
Richard-Maxime Beaudoux
33(0) 1.56.68.75.61
rmbeaudoux@bryangarnier.com

Sector Team :
Thomas Coudry
Gregory Ramirez
Dorian Terral

TMT

Wirecard

Price EUR38.30

Small acquisition in Romania

Fair Value EUR52 (+36%) **BUY-Top Picks**

Bloomberg	WDI GR
Reuters	WDIG.DE
12-month High / Low (EUR)	47.4 / 33.4
Market Cap (EUR)	4,733
Ev (BG Estimates) (EUR)	4,331
Avg. 6m daily volume (000)	673.9
3y EPS CAGR	32.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-14.5%	-16.0%	4.2%	-17.6%
Softw.& Comp.	-0.6%	-5.2%	10.4%	-5.7%
DJ Stoxx 600	3.0%	-8.8%	-6.3%	-7.2%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	601.0	771.6	1,016	1,259
% change		*28.4%*	*31.7%*	*23.9%*
EBITDA	173	227	306	385
EBIT	150.4	198.7	270.8	341.2
% change		*32.1%*	*36.3%*	*26.0%*
Net income	123.0	160.7	226.0	287.4
% change		*30.7%*	*40.7%*	*27.1%*

	2014	2015e	2016e	2017e
Operating margin	25.0	25.8	26.6	27.1
Net margin	18.0	18.3	19.8	20.3
ROE	10.1	11.8	14.5	15.8
ROCE	27.6	21.7	24.0	26.7
Gearing	-55.6	-33.5	-29.1	-31.6

(EUR)	2014	2015e	2016e	2017e
EPS	1.01	1.30	1.83	2.33
% change	-	*28.8%*	*40.7%*	*27.1%*
P/E	38.0x	29.5x	20.9x	16.5x
FCF yield (%)	1.4%	1.6%	2.4%	3.5%
Dividends (EUR)	0.12	0.13	0.14	0.15
Div yield (%)	0.3%	0.3%	0.4%	0.4%
EV/Sales	6.9x	5.6x	4.3x	3.4x
EV/EBITDA	23.9x	19.1x	14.1x	11.0x
EV/EBIT	27.5x	21.8x	16.0x	12.4x

Wirecard has recently announced the acquisition of Romanian payment services provider Provus Group. Following this operation (~1.3% of WCD's revenue), we have upgraded our 2016-17e EPS sequence by a slight 0.9% on average (+0.8% in 2016e and +1.0% in 2017e). We maintain our Buy rating and FV of EUR52 (Q1 Top Pick List).

FACTS

- **Wirecard has acquired 100% of shares in Romanian company Provus Group** (based in Bucharest, employing 114 people, serving major Romanian banks, telecommunications and retail players, and has worked with the Romanian government in the digitisation of health and payment cards) from Innova Capital (a Polish private equity fund). The current management team will remain in place.

- **Provus Group is Romania's leading payment processing and technological service provider** and is positioned in **outsourcing acquiring and card processing**, **e-commerce transactions** and **POS operations**. Through this acquisition, Wirecard: **1/** reaches broader markets in Eastern Europe (only 3% of all payments in Romania are currently made electronically), **2/** completes its global payment gateway as well as its European acquiring and issuing licence; **3/** benefits from Provus' scalable platform which features innovative technology; and **4/** continues its global expansion.

ANALYSIS

- **In 2016e, consolidated revenues from Provus Group are expected to total EUR13.3m** (i.e. lfl sales growth close to +30% Y/Y % over the next few years) **with EBITDA of EUR4m** (margin slightly higher than 30%, which is at WCD's level) **and one-off integration costs of ~0.5m.** The transaction is to be **paid for in cash for EUR32m**, without further earn-out payments. The company has a net cash position which is not material. **The price tag represents 2016 EV/EBITDA of 8x**, i.e. particularly cheap for a PSP (we usually see multiples of 10-12x EV/EBITDA for companies with a similar positioning). **This acquisition is obviously not included in WCD's FY16 EBITDA guidance of EUR280-300m** (current consensus of EUR299.4m), which is conservative according to the CEO.

- **Forecasts 2016-17e:** we have updated our figures to take into account the consolidation of Provus Group (29th February 2016). We have therefore adjusted our FY16e revenue from EUR1,005.4m to EUR1,016.3m (+20.3% lfl), EBITDA from EUR303.0m to EUR306.4m (margin of 30.1%, +60bp) and current EBIT from EUR267.8m to EUR270.8m (margin of 26.6%, +80bp). **As a result, the impact on our restated 2016-17e EPS sequence is non-significant** (+0.9% on average: +0.8% in 2016e, and +1.0% in 2017e). We are forecasting a **net cash position of EUR403.4m at end-2016e.**

- **Wirecard boasts the best fundamentals in the sector thanks to its positioning in online** (pure-player) **and emerging markets**. It is the only player to have looked for growth in e-commerce where it can be found, namely in Southeast Asia (28% of its sales). We believe the take-off in e-commerce should really start in western countries as of this year. Wirecard should benefit in Europe where it is the no. 2 player (after Worldpay). In contrast, **we believed it could no longer remain outside the Americas.** As such, we expected the group to make acquisitions or team up with a player in the region this year in North America or South America (both of which are attractive for e-commerce: 12% of all retail commerce is e-commerce in the US and 2% in Brazil) in order to obtain global presence. **The acquisition of Moip Pagamentos recently in Brazil is a first achievement. Even if it is not significant, this is a step in the right direction.**

VALUATION

- **Buy rating and FV of EUR52 maintained.** The stock is in our **Q1 Top Pick List**.

- Over FY16e: **P/E of 20.9x vs. rest. EPS growth of +40.7%.**

NEXT CATALYSTS

- **FY 2015 financial statements**: 7th April 2016.

Analyst :
Richard-Maxime Beaudoux
33(0) 1.56.68.75.61
rmbeaudoux@bryangarnier.com

Sector Team :
Thomas Coudry
Gregory Ramirez
Dorian Terral

Healthcare

Galapagos

Price EUR40.07

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low (EUR)	58.5 / 19.8
Market Cap (EUR)	1,566
Avg. 6m daily volume (000)	295.1

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.5%	-12.3%	-24.8%	-29.4%
Healthcare	-1.7%	-10.4%	-10.5%	-11.2%
DJ Stoxx 600	3.0%	-8.8%	-6.3%	-7.2%

	2014	2015e	2016e	2017e
P/E	NS	85.8x	NS	NS
Div yield (%)	NM	NM	NM	NM

With EUR1bn in cash, the pipeline looks undervalued

Fair Value EUR63 (+57%) **BUY**

ANALYSIS

- Galapagos has reported 2015 numbers with revenues standing at EUR60.6m, derived from recognition of upfront and milestone payments. R&D expenses increased to EUR129.7m year over year compared to EUR111.1m in 2014, reflecting increased activities from both mature products as well as an acceleration in the CF pipeline with several compounds now either about to reach or already in the clinic. The increase in SG&A from EUR14.9m to EUR20.3m at end-2015 was due to non-cash items related to management's incentive plan linked to share price changes over the course of the year. The operating loss stood at EUR89.4m. Down the PnL statement, Galapagos recorded a EUR30.6m non cash adjustment on financial assets. While EUR39m reflecting the premium Gilead agreed to pay on GLPG's share price at the date of signature was booked under deferred income in the balance sheet, the EUR30.6m negative impact in the PnL reflected the decrease in Fair Value of the financial asset following appreciation in the company's share price. Likewise, a EUR57.5m non cash-adjustment should positively impact Q1 2016 financial results as a result of the decrease in the share price between 1st and 19th January (closing of the deal). The net loss was EUR118.4m.
- Cash and cash equivalents at year end totalled EUR348.2m, primarily driven by the USD275m NASDAQ IPO in Q3 2016. Note that following closing of the deal with Gilead which now has a 14.75% stake, the biotech enters 2016 with a EUR1.02bn cash position. Cash burn guidance comes at EUR100-120m, below expectations.
- The next major readout is expected in April with 20-week data for filgotinib in Crohn's disease. As a reminder, filgotinib is the most advanced JAK1 inhibitor developed in this indication and might offer an interesting lifecycle management opportunity to Gilead.
- Cystic fibrosis opportunity not taken into account in current share price! Although several phase I trials should report results throughout the year, the main update from the programme should be the SAPHIRA phase II results expected before the year-end.

VALUATION

- With market cap of EUR1.8bn and EUR1.02bn in cash, current share price does not take into account the full value of both filgotinib and the CF program.
- We reiterate our BUY recommendation and EUR63 Fair Value.

NEXT CATALYSTS

- Today 2.00pmCET: conference call on FY2015 results
- April 2016: filgotinib 20w data in Crohn's disease

Click here to download

Hugo Solvet, hsolvet@bryangarnier.com

TMT

Gameloft

Price EUR7.49

Everything remains possible

Fair Value EUR6.7 (-11%) **BUY**

Bloomberg	GFT FP
Reuters	GLFT.PA
12-month High / Low (EUR)	7.5 / 3.2
Market Cap (EURm)	640
Avg. 6m daily volume (000)	377.9

	1 M	3 M	6 M	31/12/15
Absolute perf.	53.8%	25.0%	122.3%	23.6%
Softw.& Comp. SVS	0.1%	-5.6%	14.6%	-3.9%
DJ Stoxx 600	1.9%	-11.2%	-3.6%	-6.8%

	2014	2015e	2016e	2017e
P/E	NS	NS	34.5x	26.7x
Div yield (%)	NM	NM	NM	NM

ANALYSIS

- At yesterday's closing price, **the stock is trading 3.9% above Vivendi's last offer of EUR7.2.** Gameloft's Board of Directors should give its decision soon. **As the approach is considered as hostile, the company is also likely to reject this bid.**
- As a reminder, our Fair Value of EUR6.7 was a minimum price in the case of a takeover offer. **The first bid (EUR6) was too low, while the new bid is attractive (EUR7.2).** However, as Vivendi is seeking to acquire Ubisoft, which has to be a friendly move, it must be generous with Gameloft (the Guillemot family runs both companies). **As a result, we believe everything remains possible**.
- **An offer of EUR7.2 represents a discount of 16% to the latest transaction multiples seen in the mobile gaming segment**, Activision Blizzard's purchase of King Digital. This is quite logical as King is 3x more profitable than our expectation for Gameloft in 2016e. **Note that if Vivendi pays 2.5x sales for Gameloft** (i.e. same multiple Activision paid for King), **this would result in an offer price of EU8.4.** We see this latter as an **absolute maximum level that Gameloft does not really deserve** (given its profitability level). As such, **the true price is probably somewhere in the middle** (i.e. between EU7.2 and EU8.4). As a reminder, EUR8.32 was the peak share price reached by Gameloft in early 2014 (22nd January 2014).
- A notice from the French financial market authority (AMF) stated that **the Guillemot family now owns** 18,241,890 shares i.e. **21.23% of the capital and 29.26% of voting rights** (vs. 17,494,935 shares before: 20.47% and 28.57% respectively). This followed the acquisition of Gameloft shares on the market on 1st and 2nd March, i.e. one and two days after the 2nd bid from **Vivendi (25,649,006 shares: 30.01% of the capital and 26.72% of the voting rights).**

NEXT CATALYSTS

- **The party is not over** (a fresh increase in the offer price from Vivendi?). Everything remains possible.

Click here to download

Richard-Maxime Beaudoux, rmbeaudoux@bryangarnier.com

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 63.4% NEUTRAL ratings 29.1% SELL ratings 7.5%

Bryan Garnier Research Team

Healthcare Team	**Pharmaceuticals**	**Eric Le Berrigaud** ***(Head of Equities)***	33 (0) 1 56 68 75 33	eleberrigaud@bryangarnier.com
	Biotech/Medtech	**Mickael Chane-Du**	33 (0) 1 70 36 57 45	mchanedu@bryangarnier.com
	Medtech/Biotech	**Hugo Solvet**	33 (0) 1 56 68 75 57	hsolvet@bryangarnier.com
Consumer Team	**Luxury/Consumer Goods**	**Loïc Morvan**	33 (0) 1 70 36 57 24	lmorvan@bryangarnier.com
	Beverages	**Nikolaas Faes**	33 (0) 1 56 68 75 72	nfaes@bryangarnier.com
	Retailing	**Antoine Parison**	33 (0) 1 70 36 57 03	aparison@bryangarnier.com
	Luxury /Consumer Goods	**Cedric Rossi**	33 (0) 1 70 36 57 25	crossi@bryangarnier.com
	Food & Beverages	**Virginie Roumage**	33 (0) 1 56 68 75 22	vroumage@bryangarnier.com
TMT	**Video Games / Payments**	**Richard-Maxime Beaudoux**	33 (0) 1 56 68 75 61	rmbeaudoux@bryangarnier.com
	Telecom	**Thomas Coudry**	33(0) 1 70 36 57 04	tcoudry@bryangarnier.com
	Software & IT Services	**Gregory Ramirez**	33 (0) 1 56 68 75 91	gramirez@bryangarnier.com
	Semiconductor	**Dorian Terral**	33 (0) 1 56 68 75 92	dterral@bryangarnier.com
Utilities		**Xavier Caroen**	33 (0) 1 56 68 75 18	xcaroen@bryangarnier.com
Insurance		**Olivier Pauchaut** ***(Head of Research)***	33 (0) 1 56 68 75 49	opauchaut@bryangarnier.com
Hotels/Business Services		**Bruno de La Rochebrochard**	33 (0) 1 56 68 75 88	bdelarochebrochard@bryangarnier.com
Construction/ Infrastructures Building Materials		**Eric Lemarié**	33 (0) 1 70 36 57 17	elemarie@bryangarnier.com
Marketing		**Sophie Braincourt**	33(0) 1 56 68 75 36	sbraincourt@bryangarnier.com
Market Data & Information Systems Manager		**Eric Monnier**	33(0) 1 56 68 75 63	emonnier@bryangarnier.com

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

London	Paris	New York	Geneva	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the Financial Conduct	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
Authorised and regulated by	Authority (FCA) and l Autorité de		Regulated by the	Fax +91 11 2621 9062
the Financial Conduct Authority	Contrôle prudential et de resolution		FINMA	
(FCA)	(ACPR)			

BRYAN, GARNIER & CO