

Ipsen

Price EUR53.02

FY2015 in-line, Licensing deal likely to impact mid-term profitability

Fair Value Under Review

Under Review vs. BUY

Bloomberg	IPN FP
Reuters	IPN.PA
12-month High / Low (EUR)	62.0 / 43.4
Market Cap (EURm)	4,414
Ev (BG Estimates) (EURm)	4,331
Avg. 6m daily volume (000)	69.70
3y EPS CAGR	18.6%

Ipsen released FY2015 results with sales standing at EUR1,444m growing 21.3% CER (22.3% reported), 2% ahead of consensus estimates. Specialty care sales grew 25.8% CER to EUR289.7m while Primary care sales grew 8.4% CER to EUR85.5m. 2016 guidance came in line with consensus when adjusted for the agreement to develop and commercialize Cabozantinib. However, Ipsen should invest heavily to support sales growth in 2016 and 2017, which might delay leverage by 12-18months.

ANALYSIS

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.2%	-12.8%	-11.3%	-13.1%
Healthcare	-3.9%	-12.1%	-9.4%	-10.3%
DJ Stoxx 600	-2.4%	-13.4%	-8.0%	-8.7%

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	23.9x	20.1x	17.0x	14.3x
FCF yield (%)	4.5%	4.3%	5.8%	6.9%
Dividends (€)	0.85	0.90	1.00	1.10
Div yield (%)	1.6%	1.7%	1.9%	2.1%
EV/Sales	3.4x	3.0x	2.8x	2.5x
EV/EBITDA	14.0x	11.0x	9.7x	8.3x
EV/EBIT	16.7x	12.9x	11.4x	9.6x

- Ipsen released FY2015 results with sales standing at EUR1,444m growing 21.3% CER (22.3% reported), 2% ahead of consensus estimates. Specialty care sales grew 25.8% CER to EUR289.7m while. All of Ipsen's three key products within Specialty Care came above estimates. Somatuline sales growth accelerated to EUR110m (44.4% CER) following NA launch of the neuroendocrine tumour indication, Europe boosted sales growth to a lesser extent. Decapeptyl sales amounted to EUR83.2m (11% CER) and were impacted in 2015 by slowdown and pricing pressure in China as well as price cuts in Europe. In Neurology, Dysport sales reached EUR70.7m (26.1% CER). Primary care sales grew 8.4% CER to EUR85.5m
- Profitability in 2015 came at 22.3%, in-line with expectations as is diluted core EPS which stands at EUR2.78
- Alongside its FY2015 numbers, Ipsen announces that it entered into an agreement to commercialize and develop Cabozantinib outside North America and Japan for USD200m upfront plus up to USD655m in regulatory and commercial milestones. The drug is already available for patients the 1,500 European patients suffering from advanced or metastatic medullary thyroid (MTC). Phase III in renal cell carcinoma (readout mid-2016) and HCC are ongoing. Preliminary data suggest that cabozantinib could be superior a PD-1 checkpoint blocker such as nivolumab in RCC, at least in terms of median PFS improvement for both drugs when compared to everolimus (HR of 0.58 vs 0.88 respectively).
- We believe that a EUR300-400m peak sales should be reached for the drug upon positive results and approval in Europe in renal and prostate cancer.
- Turning to 2016, EUR25m should be invested to support sales growth (-150bp impact on core EBIT margin) while FX should represent a -100bp drag. All in all, core EBIT margin is expect to be at 21% vs 22.3% in 2015. This disruption in leverage trend at Ipsen is likely to be seen in 2017 also as further investment might be necessary, (-300/400bp impact on margins). While this should be offset to maintain flat margins, areas of gains have not been identified yet.
- Together with the questions around corporate governance, this in-licensing deal is making Ipsen's investment case less clear as it delays by at least 18 months the return to a growth trend. Hence our decision to put our FV and rating under review until we make a full assessment of the new situation. The main question for us is 2017 because we think the market would accept one year of flat EPS but 2017 looks uncertain too. And if EUR60-70m extra costs are required next year to build a sales force in Oncology (about 120 people), we are not sure at all that Ipsen will be able to absorb that while maintaining core EBIT margin flat at 21% because this would represent 300-400bp diluted impact if not offset by cost cutting or other M&A transaction.

VALUATION

- We move our Fair Value Under Review

NEXT CATALYSTS

- Today 2.30pm conference call on FY2015 results (FR +33 1 70 99 32 09, UK +44 207 1312 711, US +1 646 461 1757, ID: 957325)

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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