

## Ipsen

Price EUR48.15

## Cabozantinib makes Ipsen a different story (full report released today)

Fair Value EUR60 vs. EUR63 (+25%)

BUY vs. UNDER REVIEW

Bloomberg	IPN FP
Reuters	IPN.PA
12-month High / Low (EUR)	62.0 / 43.4
Market Cap (EURm)	4,008
Ev (BG Estimates) (EURm)	4,107
Avg. 6m daily volume (000)	78.80
3y EPS CAGR	11.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.3%	-18.1%	-20.5%	-21.1%
Healthcare	-2.2%	-12.3%	-10.4%	-13.1%
DJ Stoxx 600	2.6%	-8.5%	-4.1%	-8.4%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,444	1,552	1,683	1,823
% change		7.5%	8.4%	8.3%
EBITDA	366	398	438	517
EBIT	322.5	332.1	367.2	441.0
% change		3.0%	10.6%	20.1%
Net income	228.0	230.8	261.1	316.9
% change		1.2%	13.1%	21.4%

	2015	2016e	2017e	2018e
Operating margin	22.3	21.4	21.8	24.2
Net margin	12.5	13.7	13.4	15.3
ROE	15.5	16.4	15.7	17.0
ROCE	22.6	17.1	18.4	21.4
Gearing	NM	NM	NM	NM

(€)	2015	2016e	2017e	2018e
EPS	2.78	2.81	3.18	3.86
% change	-	1.2%	13.1%	21.4%
P/E	17.3x	17.1x	15.1x	12.5x
FCF yield (%)	4.4%	4.8%	5.5%	6.9%
Dividends (€)	0.85	0.85	1.04	1.16
Div yield (%)	1.8%	1.8%	2.2%	2.4%
EV/Sales	2.7x	2.6x	2.4x	2.1x
EV/EBITDA	10.7x	10.3x	9.2x	7.5x
EV/EBIT	12.1x	12.4x	11.0x	8.8x

A combination of full-year results with structuring a deal with Exelixis in early March led us put our rating under review until further analysis. We are now back with the output of this reassessment of perspectives and although the short-term cost base and earnings growth are going to be negatively impacted by the deal, which obviously changes Ipsen's investment case, it makes it different but no less attractive in our view. If core EPS are expected to be more or less flat in 2016 vs 2015, they should grow by 15.5% on average from 2016 to 2020 on a base case, with cabozantinib offering even more upside if successful in HCC. Our new FV of EUR60 offers 25% upside: BUY reinstalled.

## ANALYSIS

- Deal with Exelixis gives ex-US/Japan rights to cabozantinib to Ipsen for USD200m upfront and USD110m regulatory milestones plus royalties. This is a lot of money considering that Ipsen also has to build up a new sales-force in oncology but this asset has two strengths: (i) it is already very advanced in development as it is marketed in a niche indication, filed in a more significant one with strong data (2L RCC) and is ending phase III in a third one (2L HCC); (ii) data collected so far are very encouraging and promising and we see cabozantinib as relatively competitive in RCC and HCC, i.e. on its way to potentially become SoC although the environment is moving very quickly with immuno-oncology drugs as threat number 1.
- Of course, because Ipsen has to invest about EUR50m in a new oncology sales-force to support cabozantinib's launch, some pressure will be put on the cost base in 2016 and 2017 and guidance now implies a 130bp core EBIT margin decline (including currencies). This could nevertheless leave little room for (marginal) core EPS growth in 2016 under a conservative scenario. Now from 2016 to 2020, core EPS would grow even faster at a pace of 15.6% p.a., which is more than attractive considering today's P/E that equals a PEG ratio of 1.1x.
- News flow should remain dense across 2016, including for cabozantinib with OS data in 2L RCC (likely at ASCO), 2L RCC European approval, 2L HCC phase III data and 1L RCC phase II data all expected by year-end. We are hopeful this will increase confidence in the deal and offset short-term pain with long-term value.

## VALUATION

- Our valuation is based on a DCF. Note that two metrics are being adjusted this morning as BG is moving its risk-free rate from 2% to 1.6% and its equity risk premium from 6.4% to 7.0%. As a consequence, the cost of equity moves from 8.4% to 8.6%. Together with the slight decrease in earnings resulting from the deal with Exelixis (downpayments + recruitment of an European sales force), our FV is revised downwards to EUR60 from EUR63.
- The new FV of EUR60 represents about 25% upside potential compared to the current share price. Because of the absence of growth in 2016 is well understood and offset in our view by the rich news flow related to cabozantinib (OS phase III data in 2L RCC likely at ASCO, approval in Europe in 2L RCC in September, phase III data in 2L HCC in Q4, phase II data in 1L RCC in Q4), this could/should increase the degree of confidence in what Ipsen already described as its future fourth pillar.

## NEXT CATALYSTS

- 28 April 2016: First-quarter sales

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