1st March 2016

Healthcare

UCB

Price EUR68.46

Adjusting our estimates post FY2015 results

Fair Value EUR82 vs. EUR78 (+20%) **NEUTRAL**

Bloomberg	UCB BB
Reuters	UCBBt.BR
12-month High / Low (EUR)	85.6 / 61.5
Market Cap (EURm)	13,316
Ev (BG Estimates) (EURm)	12,899
Avg. 6m daily volume (000)	311.8
3y EPS CAGR	37.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-12.9%	-19.0%	1.4%	-17.7%
Healthcare	-3.9%	-12.1%	-9.4%	-10.3%
DJ Stoxx 600	-2.4%	-13.4%	-8.0%	-8.7%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	3,344	3,876	4,117	4,689
% change		*15.9%*	*6.2%*	*13.9%*
EBITDA	609	821	982	1,248
EBIT	379.0	577.0	720.7	947.0
% change		*52.2%*	*24.9%*	*31.4%*
Net income	229.0	322.0	417.0	589.2
% change		*40.6%*	*29.5%*	*41.3%*

	2014	2015e	2016e	2017e
Operating margin	11.3	14.9	17.5	20.2
Net margin	6.8	8.3	10.1	12.6
ROE	4.1	12.2	7.9	11.0
ROCE	5.3	6.2	7.4	9.9
Gearing	33.3	7.5	7.2	8.1

(EUR)	2014	2015e	2016e	2017e
EPS	1.69	2.17	3.13	4.40
% change	-	*28.8%*	*44.3%*	*40.4%*
P/E	40.6x	31.5x	21.8x	15.6x
FCF yield (%)	3.3%	1.3%	3.0%	3.1%
Dividends (EUR)	0.91	1.10	1.63	2.29
Div yield (%)	1.3%	1.6%	2.4%	3.3%
EV/Sales	3.5x	3.3x	3.1x	2.7x
EV/EBITDA	19.2x	15.7x	13.1x	10.3x
EV/EBIT	30.9x	22.4x	17.9x	13.6x

After the publication of 2015 results slightly ahead of our estimates, we are updating our numbers with regards to the ambitious guidance set for 2016, viewed as management's commitment to mid-termtargets. In terms of pipeline, management communicated extensively on romosozumab's FRAME results. However, the path to filing appears clear as we would have considered, with potential delays as UCB might be willing to wait for the BRIDGE and ARCH trials to readout.

ANALYSIS

- The conference call focused on the recent publication of romosozumab FRAME phase III results which should support filing in the US. As a reminder, Romosozumab phase III results met the primary endpoint of reducing the incidence of new vertebral fractures at 12 and 24 months in women with PMO. However secondary the endpoint of reduction in non-vertebral fracture through 12 and 24 months was not met. CMO, Iris Low-Friedrich gave detailed explanations for those results, viewed as mixed by investors. Among the reasons invoked note that 1/since romosozumab is an innovative treatment, 12 months was considered the maximum time of exposure to the drug and ending study at 24 months might not be enough to assess the full effect of treatment. 2/ the patient population included in the trial did not focus on severe post-menopausal osteoporotic patients with a low event rate in the placebo arm (placebo for severe patients hardly conceivable). Although management was reassuring on results, the path to filling is not straight forward in our view. Indeed, with the BRIDGE and ARCH studies reporting results in H1 2016 and 2017 respectively, both UCB and AMGEN might wait for them to file in the US. As a reminder, the BRIDGE trial should support filing in Japan (inc. of men population) and will assess BMD as a primary endpoint while the ARCH study compares romosozumab to alendronate in a more severe population and should support European filing. On top of that, two cases of osteonecrosis of the jaw might cast doubt over the future safety label of the drug although the overall safety profile appears clear with no hearing loss or cardiovascular events.
- Despite a mixed outlook for romosozumab, we were pleased to see that management reiterated its 2018 target for rEBITDA at 30% of sales, with 2016 guidance as a clear sign of confidence. From 21% rEBITDA margin in 2015, we should reach 24% in 2016 (BGe EUR982m). Towards 2018, we have lifted our rEBITDA margin from 28.5% to 30%. This should be enabled by both the internalisation of Cimzia and OPEX growing at a slower pace than topline. We estimate a 10% 2015-18 CAGR for the topline while EPS should grow far faster at 35% CAGR.
- UCB is delivering on profitability which should accelerate in the next two years. However, having divested its US Generic business, it is now a pure specialty pharma for which pipeline development does not appear as clear as we would have considered a few months ago. M&A and/or a licensing agreement to bring in-house a mid/late stage asset might be key to sustain long term growth. Cimzia is performing well and the next key clinical update should be the H2H study versus Humira, should offer support to sales in the light of increasing price pressure from biosimilars. We would remain on the sideline at the moment.

VALUATION

- We have adjusted our 2016 numbers upward in the light of both a good set of results in 2015 and ambitious 2016 guidance. As a reminder, the later came as followed. Sales EUR4.0-4.1bn (BGe EUR4.12bn), rEBITDA EUR970-1,010m (BGe EUR982m) and Core EPS EUR2.9-3.2 (BGe EUR3.13)
- Our Fair Value is up from EUR78 to EUR82.

NEXT CATALYSTS

- H1 2016: BRIDGE study results (osteoporosis in men) and EXXELERATE study results (Cimzia H2H trial vs. Humira)

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