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7th April 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17716.05	+0.64%	+1.67%
S&P 500	2066.66	+1.05%	+1.11%
Nasdaq	4920.72	+1.59%	-1.73%
Nikkei	15749.84	+0.22%	-17.43%
Stoxx 600	330.654	+0.76%	-9.61%
CAC 40	4284.64	+0.81%	-7.60%
Oil /Gold			
Crude WTI	37.75	+4.89%	+1.48%
Gold (once)	1222.22	-0.58%	+15.05%
Currencies/Rates			
EUR/USD	1.13745	-0.01%	+4.71%
EUR/CHF	1.0887	-0.04%	+0.12%
German 10 years	0.116	+10.98%	-81.77%
French 10 years	0.377	+3.73%	-61.57%

Economic releases :

Date	
7th-Apr	EUZ - ECB account of the monetary ploicy meeting US - Initial Jobless claims (270K exp.) US - continuing claims (2170K E) US - Consumer Credit US - Fed's Yellen in New York with Greenspan, Bernanke and Volcker

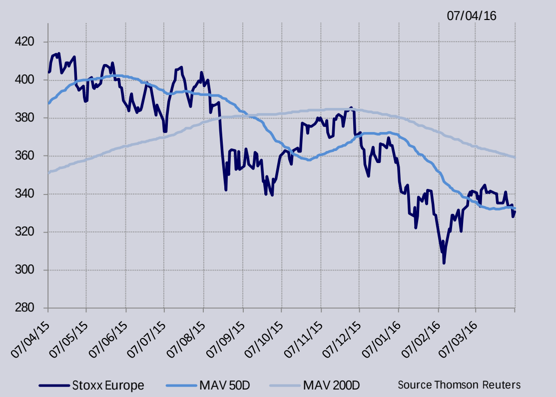
Upcoming BG events :

Date	
8th-Apr	VINCI (BGLuxembourg roadshow with CFO)
12th-Apr	DBV TECH. (BG Paris roadshow with CEO)
20th-Apr	REMY COINTREAU (BG Paris breakfast with CFO)
22nd-Apr	PERNOD RICARD (BG Paris roadshow with Head of IR)
28th-Apr	ORPEA (BG Luxembourg with IR)
28th-Apr	ORPEA (BG Luxembourg with IR)

Recent reports :

Date	
6th-Apr	EDP Renovaveis : Renewables, what else?
4th-Apr	GAMELOFT : Nothing to gain by tendering your GFT shares now!
29th-Mar	IPSEN Cabozantinib makes Ipsen a different story
23rd-Mar	AMOEBA It's getting closer!
23rd-Mar	Feedback from our TMT Conference in Paris
22nd-Mar	LUXOTTICA : Turbulence almost over, make the most of it!

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



IPSEN — BUY-Top Picks, Fair Value EUR60 (+16%)

Standard-of-care in RCC will change a lot - don't be afraid!

In order to avoid any misunderstanding, we would like to use the announcement by Pfizer and Merck of a phase III start in first-line RCC as an opportunity to reassess the underlying assumption supporting our call on Ipsen as far as cabozantinib is concerned. We've put ourselves on the safe side.

KERING — BUY, Fair Value EUR176 vs. EUR180 (+15%)

Sales momentum set to slow slightly in Q1 2016 vs Q4 2015

Kering is due to report Q1 2016 sales on 21st April (after market closure). We expect revenues to reach EUR2.78bn with 5.8% organic sales growth (+8% in Q4 2015 and +4.6% in 2015) including +4.7% for the Luxury businesses. We remain at Buy on the stock with a new FV of EUR176 (EUR180 previously).

WIRECARD — BUY-Top Picks, Fair Value EUR52 (+53%)

Strong FY15 earnings results, FY16 guidance maintained

Wirecard has just published its audited 2015 earnings. Revenues (EUR771.3m) and EBITDA margin (29.5%) were already known thanks to preliminary figures on 28th January. The group registered a 32% yoy increase in transaction volumes processed (+24.8% outside Europe, +51.4% yoy), a 23.2% organic revenue growth, a 25.6% underlying EBIT margin and EUR142.6m in net income. Management is maintaining its recently upgraded 2016 EBITDA guidance of EUR290-310m. Wirecard's PEG has never been this appealing (P/E 18.5x vs. EPS +38%). The stock is on our Q2 Top Pick List. Conference call today at 1pm.

CONSUMER GOODS

Q2 16 TOP PICKS: we continue with Essilor and Ahold

INSURANCE

Top Pick Q2 2016: AXA

SEMICONDUCTORS

February sales in line with seasonal factors, no surprise expected for March

In February, the environment remained stable compared to January and the deterioration stopped as we expected. According to WSTS data, unadjusted global semiconductor sales stood at USD24.9bn, down 4.0% on a sequential basis and down 4.5% on a yearly basis. This decline was in line with our 5-y historical benchmark pointing to a sequential decline of 4.2%. With an improving environment in the Automotive segment and supportive macroeconomic indices, we also expect March sales to be in line with historical seasonality pointing to a sequential increase of 19.4%. This scenario points to a YoY decease in global semiconductor sales of 3.0% in Q1 2016 (vs. -4.5% over 2 months).

SOFTWARE AND IT SERVICES

Syntec Numérique analysts' meeting: growth intact for French IT

Yesterday the French association of IT companies Syntec Numérique held an analysts' meeting in Paris, and confirmed that 2016 market growth rates should accelerate slightly. CIO confidence is improving, led by transformation projects, digital, cloud, automation and offshoring. As this speech is in line with what IT firms have said recently, we expect no impact on the stocks we cover.

In brief...

DBV TECHNOLOGIES, *FY2015 results*

GALAPAGOS, *GLPG1690 in IPF in phase IIa, development can be fast*

Healthcare

Ipsen

Price EUR51.88

Standard-of-care in RCC will change a lot - don't be afraid!

Fair Value EUR60 (+16%) **BUY-Top Picks**

Bloomberg	IPN FP
Reuters	IPN.PA
12-month High / Low (EUR)	62.0 / 44.4
Market Cap (EUR)	4,319
Ev (BG Estimates) (EUR)	4,417
Avg. 6m daily volume (000)	81.70
3y EPS CAGR	11.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.9%	-13.3%	-6.4%	-15.0%
Healthcare	0.3%	-9.4%	-7.5%	-10.6%
DJ Stoxx 600	-3.3%	-6.7%	-8.3%	-9.6%

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	18.7x	18.4x	16.3x	13.4x
FCF yield (%)	4.1%	4.4%	5.1%	6.4%
Dividends (€)	0.85	0.85	1.04	1.16
Div yield (%)	1.6%	1.6%	2.0%	2.2%
EV/Sales	2.9x	2.8x	2.6x	2.3x
EV/EBITDA	11.5x	11.1x	9.9x	8.1x
EV/EBIT	13.1x	13.3x	11.8x	9.5x

In order to avoid any misunderstanding, we would like to use the announcement by Pfizer and Merck of a phase III start in first-line RCC as an opportunity to reassess the underlying assumption supporting our call on Ipsen as far as cabozantinib is concerned. We've put ourselves on the safe side.

ANALYSIS

- A couple of days ago, Pfizer and German group Merck announced that they had recruited a first patient into the JAVELIN Renal 101 phase III trial that compares the combination of their anti-PD-L1 avelumab and Pfizer's TK inhibitor Inlyta (one of the current standards in second-line) vs the standard of care, Sutent, in first-line renal cell carcinoma (RCC). This may cast doubt on Ipsen's recent acquisition of cabozantinib's rights for the European markets as it could suggest that, after nivolumab (Opdivo), which has already been approved in 2L RCC and is under investigation in 1L RCC, another IO agent is moving forward in RCC. Different players in the oncology field look interested in testing their IO drugs in RCC. The fact is that BMS and Pfizer have virtually unlimited financial resources to test their drugs in various settings which could raise the bar in terms of accumulated clinical data supporting an efficacy claim. We are talking here about a 583-patient large phase III trial that will recruit in 170 different sites. As a reminder, BMS is currently testing the combination nivolumab/ipilimumab in 1L RCC too and so we might see the SoC in 1L RCC moving to this type of combination of drugs if the trials are successful by the end of the decade.
- Clearly, this evolving paradigm in RCC could raise concern about the ability of smaller players to impact clinical practise, and this definitely includes Ipsen and its recent deal with Exelixis that has meaningful upfront components to it. First of all, this is going to be data-driven. So players with deep pockets can do more and faster but they cannot impact the results. Second, it is very fair to say that the US and Europe might behave differently re innovation in oncology because of pricing and incentives to prescribe. Third, the call behind cabozantinib as developed in our recent note is not – and Ipsen shares the view – that we expect "cabo" to beat IO agents in RCC, but to see the two sharing most of the market over the coming years. By the way, what we are mainly talking about with "cabo" so far is 2L RCC and not 1L RCC which is a free option. A phase II trial called CABOSUN is running that will report data by year-end but there are no estimates in our model. As such, if IO agents move into 1L RCC this would keep 2L RCC open for another active agent. Should IO/IO combinations be too expensive and/or toxic or involve only a fraction of the overall population, then this could leave some room for alternatives like "cabo" to take a share anyway. Where CABOSUN could be instructive, beyond first-line, is if "cabo" proves superior to Sutent and Sutent therefore moves to 2L because of IO agents moving to 1L, then "cabo" could remain a preferred product in 2L over Sutent and other TKis. Lastly, it is also worth mentioning that JAVELIN Renal 101 and Checkmate-214 are expected to report results in 2018 and 2019 respectively, thereby offering "cabo" some time to convince everyone of its benefit-risk profile in 2L. As a reminder, the drug is expected to be approved in the US in June and in Europe in September.

VALUATION

- In terms of valuation, same recipe, same consequences. The sales model we have built estimates on for "cabo" is based on an addressable market limited to 2L RCC: so, around 20,000 patients, a market share of 25% at peak in 2024 onwards, a duration of treatment limited to the median PFS (i.e. 7.4 months) and an annual price of EUR60,000. Everything else is a free option, which includes 1L RCC (if phase II CABOSUN is positive, we might have to reconsider our call), combinations in RCC (including with IO, considering a phase I trial is ongoing) and 2L HCC (with phase III data expected in late 2016/early 2017), not to mention lung (phase II ongoing) or NET (high interest for Ipsen for obvious reasons).
- In short, our estimates already include layers of caution re competition in RCC.

NEXT CATALYSTS

- 28th April 2016: First-quarter sales - *Click here to download*

Analyst :
Eric Le Berrigaud
33(0) 1 56 68 75 33
eleberrigaud@bryangarnier.com

Sector Team :
Mickael Chane Du
Hugo Solvet

Luxury & Consumer Goods

Kering

Price EUR153.30

Sales momentum set to slow slightly in Q1 2016 vs Q4 2015

Fair Value EUR176 vs. EUR180 (+15%) **BUY**

Bloomberg	PP FP
Reuters	PRTP.PA
12-month High / Low (EUR)	181.5 / 139.1
Market Cap (EUR)	19,357
Ev (BG Estimates) (EUR)	23,187
Avg. 6m daily volume (000)	313.8
3y EPS CAGR	5.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.3%	2.0%	-0.4%	-2.9%
Pers & H/H Gds	-0.6%	1.4%	-1.0%	-1.8%
DJ Stoxx 600	-3.3%	-6.7%	-8.3%	-9.6%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	10,037	11,584	12,210	12,800
% change		*15.4%*	*5.4%*	*4.8%*
EBITDA	2,044	2,056	2,305	2,510
EBIT	1,664	1,646	1,885	2,070
% change		*-1.1%*	*14.5%*	*9.8%*
Net income	1,177	1,017	1,238	1,403
% change		*-13.6%*	*21.7%*	*13.3%*

	2014	2015e	2016e	2017e
Operating margin	16.6	14.2	15.4	16.2
Net margin	11.7	8.8	10.1	11.0
ROE	10.5	8.7	9.6	10.2
ROCE	6.7	5.8	6.9	7.4
Gearing	39.0	37.7	27.1	21.9

(EUR)	2014	2015e	2016e	2017e
EPS	9.31	8.05	9.79	11.01
% change	-	*-13.6%*	*21.7%*	*12.4%*
P/E	16.5x	19.1x	15.7x	13.9x
FCF yield (%)	2.9%	1.5%	3.6%	4.7%
Dividends (EUR)	4.00	4.00	4.40	5.00
Div yield (%)	2.6%	2.6%	2.9%	3.3%
EV/Sales	2.3x	2.0x	1.8x	1.7x
EV/EBITDA	11.3x	11.3x	9.6x	8.6x
EV/EBIT	13.9x	14.1x	11.8x	10.5x

Kering is due to report Q1 2016 sales on 21st April (after market closure). We expect revenues to reach EUR2.78bn with 5.8% organic sales growth (+8% in Q4 2015 and +4.6% in 2015) including +4.7% for the Luxury businesses. We remain at Buy on the stock with a new FV of EUR176 (EUR180 previously).

ANALYSIS

- **Kering is due to report its Q1 2016 sales on 21st April** (after trading). We expect sales to reach EUR2.78bn, implying a 4.9% increase including 5.8% organic sales growth after +8% in Q4 2015 and +4.6% over 2015. **Kering Luxury** should deliver 4.7% organic sales growth in Q1 following +7.2% in Q4 2015 and +4.2% over 2015. Puma's recent positive momentum should continue in our view with an expected 8% organic sales increase.
- **The Gucci brand (63% of Group EBIT), which enjoyed a recovery in Q4 with a 4.8% organic sales increase, should again report positive momentum in Q1,** partly thanks to a clearly undemanding comparison basis (-8% in Q1 2015) and also the confirmed success of the new collection of Alessandro Michelle whose weight among brand sales is increasing progressively (30% in Q4 but likely 50% in Q1) that should also help the brand's sales growth, although the transition is taking longer for leather goods than for RTW. Nevertheless, the current environment for the luxury goods industry is still challenging: lower tourists flows in Europe for instance in Q1 that should weigh on European sales momentum, slowdown in Japan, and a clear deterioration in the US vs Q4 (-1%). This is why we remain relatively cautious with an anticipation for 4.5% organic sales growth, almost in line with Q4 despite undemanding comps. **Bottega Veneta's** momentum in Q1 should also deteriorate vs Q4 (-4.5% vs-3%) given the weight of consumers from Asia (70% of sales) with 16% of sales alone generated in HK/Macau while the brand is in a transition period (fewer leather goods and more ready-to-wear...). On the other hand, **YSL's** revenue momentum should remain strong in Q1 (+20%, following the 25.8% registered in 2015 and +27.5% in Q4). Actually the positive catalysts for the French brand are still there in our view. In the "others brands" division, we argue that Q1 should be difficult for the watch brands (see FHS exports 5% decline on first two months) after the Q4 rebound due to watch shipments to the trade and for Brioni (due to a lack of Russian clientele) while some others fashion and soft luxury brands (Stella Mc Cartney, Balenciaga...) are still relatively well oriented, hence a 2% sales increase expected in Q1 for this division (+3.1% on FY 15).

Quarterly organic sales growth

in %	Q3 15	9m 15	Q4 15	FY 15	Q1 16e
Gucci	-0.4	-1.2	4.8	0.4	4.5
Bottega Veneta	4.3	5.6	-3.1	3.2	-4.0
YSL	26.5	25.1	27.5	25.8	22.0
others	-1.1	0.3	10.6	3.1	2.0
Total Luxe	**3.1**	**3.0**	**7.2**	**4.1**	**4.7**
PUMA	3.9	5.2	11.5	6.8	8.0
Kering Group	**3.1**	**3.4**	**8.0**	**4.6**	**5.8**

Source : Company Data; Bryan Garnier & Co. ests.

- Lastly, we expect **Puma** to report a strong Q1 2016 (+8% expected). For 2016, Puma's management expects to achieve "high single digit" sales growth and we think this should also be the case for Q1 and even for Q2.

VALUATION

- We are maintaining our **Buy** recommendation on the stock with a new EUR176 FV vs EUR180 previously, due to the new risk free rate (1.6% vs 2%) and risk premium (7% vs 6.4%) in our DCF model. At 11.8x 2016 EV/EBIT, the stock is trading almost in line with sector average.

NEXT CATALYSTS

- Q1 sales due out on 21st April (after market closure).

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Analyst :
Loïc Morvan
33(0) 1 70 36 57 24
lmorvan@bryangarnier.com

Sector Team :
Nikolaas Faes
Antoine Parison
Cédric Rossi
Virginie Roumage

TMT

Wirecard

Price EUR33.92

Strong FY15 earnings results, FY16 guidance maintained

Fair Value EUR52 (+53%) **BUY-Top Picks**

Bloomberg	WDI GR
Reuters	WDIG.DE
12-month High / Low (EUR)	47.4 / 31.2
Market Cap (EUR)	4,191
Ev (BG Estimates) (EUR)	3,789
Avg. 6m daily volume (000)	844.8
3y EPS CAGR	32.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-12.3%	-26.6%	-21.5%	-27.1%
Softw.& Comp.	0.6%	-2.0%	9.9%	-4.5%
DJ Stoxx 600	-3.3%	-6.7%	-8.3%	-9.6%

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	33.6x	26.1x	18.5x	14.6x
FCF yield (%)	1.6%	1.8%	2.7%	4.0%
Dividends (EUR)	0.12	0.13	0.14	0.15
Div yield (%)	0.4%	0.4%	0.4%	0.4%
EV/Sales	6.0x	4.9x	3.7x	2.9x
EV/EBITDA	20.8x	16.7x	12.4x	9.5x
EV/EBIT	23.9x	19.1x	14.0x	10.8x

Wirecard has just published its audited 2015 earnings. Revenues (EUR771.3m) and EBITDA margin (29.5%) were already known thanks to preliminary figures on 28th January. The group registered a 32% yoy increase in transaction volumes processed (+24.8% outside Europe, +51.4% yoy), a 23.2% organic revenue growth, a 25.6% underlying EBIT margin and EUR142.6m in net income. Management is maintaining its recently upgraded 2016 EBITDA guidance of EUR290-310m. Wirecard's PEG has never been this appealing (P/E 18.5x vs. EPS +38%). The stock is on our Q2 Top Pick List. Conference call today at 1pm.

ANALYSIS

- **2015 performance: revenues of EUR771.3m** (+28.3% Y/Y, +23.2% lfl) **and EBITDA of EUR227.3m i.e. a margin up 70bp to 29.5%** (incl. margin of 29.9% in Q4; FY guidance range was EUR223-232m) **were already known**. Given, the transaction volumes processed last year (EUR45.2bn, +31.8% Y/Y), **the average commission fee received by Wirecard was 1.7%** (driven by e-commerce, mobile payment and the rising exposure to emerging markets). **EBIT came out at EUR172.8m** (vs. BG est. EUR176.3m and Thomson Reuters cons. EUR181m), **adjusted EBIT at EUR197.4m** i.e. margin up 60bp to 25.6% (vs BG est. EUR198.7m, i.e. margin of 25.8%), **and net profit at EUR142.6**m i.e. margin of 18.5% (vs BG est. EUR141.6m and cons. EUR150.5m). **Net cash position of EUR536m** (vs. BG est. EUR402m and cons. EUR388m)**.** The Board will propose this year's AGM a **dividend of EUR0.14 per share.**
- **What to expect in 2016?** Regarding the current year, **on 30th March, Wirecard increased its 2016 EBITDA guidance range from EUR280-300m to EUR290-310m** (strong start to the year, newly consolidated subsidiaries in Brazil and Romania and higher than expected EBITDA from GI Technology). As a reminder, we have FY revenue of EUR1,016.3m (+20.3% lfl) vs. cons. of EUR996.2m, EBITDA of EUR306.4m (margin of 30.1%, +60bp) vs. cons. of EUR300.8m, and net income of EUR200.8m vs. cons. of EUR207.6m. And we are forecasting a net cash position of EUR403.4m at end-2016e (our estimate does not include the positive impact of Wirecard's stake in Visa Europe) vs. cons. of EUR359.0m.
- **Good positioning and leverage to topline and profitability: Wirecard boasts the best fundamentals in the sector thanks to its positioning in e-commerce** (pure-player in online payments) **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. **As the group has a fixed cost structure** (~55% of its sales) **we believe it should deliver the high-end of its EBITDA guidance range in FY16** (EUR290-310m). Note that the profitability improvement is also driven by the **growing proportion of medium/large merchants in the group's revenue mix** (the transaction volumes processed more than offset the decline in the commission rate, and Wirecard's standardised and mutualised platform generates economies of scale).
- **Wirecard aims to become a real global player within 12-18 months**: 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**, just after Worldpay. In contrast, we believed it could no longer remain outside the Americas. As such, **we expect 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

- **Wirecard's PEG has never been this appealing:** PE of 18.5x vs. EPS growth of 38% in 2016e.
- **We maintain our Buy rating and FV of EUR52**. The stock is **on our Q2 Top Pick list**.

NEXT CATALYSTS

- **Q1 sales:** 19th May (before trading).

Management track-record from 2010 to 2015: reported EBITDA vs. initial guidance

Year	2010		2011		2012		2013		2014		2015	
EURm	**Init. Guid.**	**Rep. Fig.**	**Init. Guid.**	**Rep. Fig.**	**Init. Guid.**	**Rep. Fig.**	**Init. Guid.**	**Rep. Fig.**	**Init. Guid.**	**Rep. Fig.**	**Init. Guid.**	**Rep. Fig.**
EBITDA	70-75	73.3	81-89	84.4	103-115	109.2	120-130	126.0	160-175	172.9	205-225	227.2
Mid-point	72.5	73.3	85.0	84.4	109.0	109.2	125.0	126.0	167.5	172.9	215.0	227.2
Reported vs. mid-point		*+1.1%*		*-0.7%*		*+0.2%*		*+0.8%*		*+3.2%*		*+5.7%*
Reported vs. upper range		*-2.3%*		*-5.2%*		*-5.0%*		*-3.1%*		*-1.2%*		*+1.0%*

Source: Bryan, Garnier & Co.

- **In recent years, the group has regularly raised its EBITDA guidance** (several times during the year).
- **On average, it has reported a figure 2% higher than the middle of its initial range** (6% higher in 2015).
- Every year, it moves slightly closer to the top-end of its initial range, and **above the range for the first time in 2015e**. **We expect a similar scenario in 2016e** (BG est. EUR306.4 vs. initial guidance range of EUR280-300m).

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

Sector Team :
Thomas Coudry
Gregory Ramirez
Dorian Terral

Sector View

Consumer

	1 M	3 M	6 M	31/12/15
Pers & H/H Gds	-0.2%	1.3%	2.9%	-1.5%
DJ Stoxx 600	-2.1%	-6.2%	-3.8%	-8.6%

*Stoxx Sector Indices

Companies covered

ADIDAS GROUP	BUY	EUR108 vs.
BEIERSDORF	NEUTRAL	EUR80 vs. 82
BIC	NEUTRAL	EUR119 vs.122
CHRISTIAN DIOR	BUY	EUR175 vs 177
ESSILOR	BUY	EUR130 vs.
GRANDVISION	BUY	EUR28 vs. 29
GROUPE SEB	BUY	EUR102 vs.105
HERMES Intl	BUY	EUR355 vs.360
HUGO BOSS	NEUTRAL	EUR80 vs. 87
KERING	NEUTRAL	EUR176 vs.
L'OREAL	BUY	EUR177 vs.182
LUXOTTICA	BUY	EUR61 vs. 63
LVMH	BUY	EUR177 vs.182
PRADA	NEUTRAL	HKD37 vs. 41
RICHEMONT	BUY	CHF81
SAFILO	BUY	EUR12 vs. 12.5
SALVATORE FERRAGAMO	BUY	EUR25.8vs.26.
THE SWATCH GROUP	NEUTRAL	CHF410 vs. 420
TOD'S GROUP	NEUTRAL	EUR78 vs.82
AB INBEV	NEUTRAL	EUR109 vs 111
DANONE	BUY	EUR70 vs. 71
CAMPARI	BUY	EUR9.3 vs. 9.4
CARLSBERG	SELL	DKK500 vs.
DIAGEO	NEUTRAL	1790p
HEINEKEN	BUY	EUR79 vs. 83
NESTLE	NEUTRAL	CHF72 vs. 73
PERNOD RICARD	BUY	EUR113
REMY COINTREAU	BUY	EUR72
SABMILLER	NEUTRAL vs. BUY	4400p
MOLSON COORS	NEUTRAL vs. BUY	USD97 vs 101
AHOLD	BUY	EUR21
CARREFOUR	BUY	EUR31
CASINO GUICHARD	BUY	EUR69
DELHAIZE	BUY	EUR94
DIA	NEUTRAL	EUR7.5
JERONIMO MARTINS	NEUTRAL	EUR13.5
METRO AG	SELL	NOK24
RALLYE	BUY	EUR18.5
TESCO	NEUTRAL	166p

Q2 16 TOP PICKS: we continue with Essilor and Ahold

LOOKING BACK ON Q1 2016

Our **Consumer** "Top Picks" report encompasses all our global Consumer franchises: **Luxury**, **Consumer goods**, **Retail** and **Food & Beverages**. In Q1 16, our Consumer stocks sample delivered a very modest global performance (+0.5%), but nevertheless outperformed the DJ Stoxx index by 7%.

Luxury goods stocks share price remained almost unchanged during the period but **Prada** rebounded by 5.5%, whilst **LVMH** was up 4% (+13% vs DJ Stoxx) and even **Ferragamo** (+3%) which can appear as a great performance with the challenging luxury goods industry environment (still poor activity in HK, negative impact of the attacks in November in Paris and in Brussels on 22nd March for tourists flows in Europe). **Tod's** (-14%) and **Hugo Boss** (-25%) were the worst performers amongst the sample, the HB share price has suffered from the PW on 2016 outlook and the departure of the CEO last February.

Our **Optical & Eyewear sample** was impacted by profit-takings after the strong run over 2015 and disappointments with the profitability outlook as the four groups are spending significant capex investments to achieve a sustainable MT growth, which is particularly true for **Safilo** (-27%). **Luxottica** (-20%) was heavily impacted by the surprising departure of CEO for Markets Adil Khan last February, raising concerns about the governance structure and the succession plan on which Mr Del Vecchio is currently working on. **GrandVision** (-9%) and **Essilor** (-6%) resisted quite well, confirming their defensive profiles in a volatile environment.

Within the **HPC/Consumer Goods** sample, we highlight the **adidas** share price rally (+15%), fuelled by strong momentum, a supportive 2016 outlook and the appointment of Mr Rorsted as CEO from October. **SEB** remained broadly flat (-4%) whilst **BIC** (-13%) was impacted by conservative 2016 guidance. It is worth noting the outperformance of **L'Oréal** (+1%) vs. **Beiersdorf** (-6%).

Food & Beverages, in Q1 2016, with a global 1% increase, our Food & Beverages sample has outperformed the DJ Stoxx by almost 9%. The top three were **Campari** (+19% vs DJ Stoxx), **SAB Miller** (+13.3%), and **Molson Coors** (+11%). **Danone**, with a slight 0.4% increase, has outperformed DJ Stoxx by 9%. On the other hand, **Nestlé** has only outperformed the index by 4%.

Lastly, it is worth noting the clear rebound of our **Retail** sample (+3%) thanks to Casino which did very well (+19%) after several quarters of underperformance. Ahold and Delhaize were also very resilient during the period (close to +2%), but Carrefour was down 9%.

WHAT WE SEE FOR Q2 2016

With regards to luxury groups, we remain cautious on the Q1 1 publications at least concerning the organic sales growth performances. Following the terrorist attacks in Paris on November 13th and the one in Brussels on March 22nd, activity in Paris for luxury goods brands has not recovered the levels pre- attacks and we argue that the trend has even likely recently deteriorated (Brussels impact) while since January 2016, the trend was progressively improving. On average, France accounts for 7% of the luxury goods industry and Paris alone 5%, being the world's second biggest city for the sector after NY (10%). It also appears that the situation is not improving in Hong Kong and in Macau (double digits sales decline) while it is normalizing in Mainland China (close to 10% Luxury Goods sales). In others Asia countries, the momentum is well oriented, particularly in Korea and Singapore, as it is also the case in Japan thanks to local consumers and Chinese tourists. On the other hand, revenues momentum in US is somewhat deteriorating (negative impact of strong USD for tourist's flows, despite recent weakness, poor financial markets and US elections to come…). Ahead of Q1 sales release, we are cautious, and anticipate some slowdown vs Q4 15. For instance, LVMH Q1 sales should be up close to 4% vs +5% in Q4 15 (+2% for F&L vs +3% in Q4 15) and Kering revenues should grow 5.8% organically vs +8% with Gucci at almost the same trend than in Q4 (+4.8% despite very undemanding comps (-8% in Q1 15).

Food retail sector remains penalised by the deflationary wave in Europe. This trend exacerbates a more fundamental issue which is the dilution of the growth potential in a fixed costs industry (structurally, the environment is that of a sluggish demography, deflation and very high penetration rate of modern food retail). So far, we do not foresee any reversing trend in 2016: 1/ deflation is still there in several major markets (France and UK especially) while 2/ there is no obvious thinning on the horizon in emerging markets (Brazil especially).

Food & Beverages: This is likely not to be the best quarter of all for the food and spirits companies in terms of organic sales growth. Their performance should be dragged down by the tough macro background in emerging countries (especially China and Brazil) and a number of technical effects. One exception is Rémy Cointreau which is likely to report an improving performance in its last fiscal quarter, with organic sales expected to be up 7.6% after +3.2% in Q3.

Consumer Groups: some opportunities after Q1 publications… Indeed **GrandVision** faces a difficult comparison base in Q1 given successful promotional campaigns in G4 last year (SSSG: +6.8%), but we are convinced that this stock share numerous catalysts with Essilor and has an interesting

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defensive profile. **Luxottica** has already insisted on the tough comparison base this quarter. As this negative base effect is included in FY16 rule-of-thumbs, it implies a clear improvement in the sales and earnings momentum afterwards. **adidas Group**'s Q1 results will be marked by a strong top line performance and even if the USD and higher input costs hamper the profitability, the risk profile improves. Hence we nudge down our beta assumption (5-yr average), justifying our slight increase in our FV to EUR108.

CONCLUSIONS AND TOP PICKS: Essilor and Ahold once again

Consumer Goods: Essilor (Buy, FV: EUR130) reiterated. We continue to favour **Essilor** since we have not identified major threats ahead of the Q1 publication, unlike Luxottica and GrandVision which cope with challenging comparison bases. The visibility remains good as we expect another slight LFL growth acceleration (BG: +5% in 2016 vs. +4.6% in 2015) supported by innovation, marketing campaigns and emerging markets (we are more cautious on Brazil). The market is now aligned with the group's prudent contribution margin outlook ("at least 18.8%" vs. 18.8% in 2015), leaving a limited downside risk for the remainder of the year. ***Next publication:*** *Q1 16 Sales on 21st April.*

Food Retailing: Against the sector backdrop, size provides a key asset for large players which can dilute fixed costs over a far denser store network and obtain additional ammunition for nurturing their price and non-price competitiveness (for as long as productivity gains are wisely reinvested back into the value proposition). In that respect, **Ahold** (Buy, FV: EUR22) and **Delhaize**, which are to merge in mid-2016, appear to be the best compromise within the sector as they are getting bigger. Moreover, both have: 1/ a very limited exposure to the emerging markets/forex together with a strong footprint in US (between 60% and 75% of the groups' respective EBIT); and 2/ a higher-than-average profit-to-cash conversion, we keep Ahold in our Top Picks list for Q2 2016, which, objectively, is to take the lead.

Food & Beverages: Regarding brewers, on the back of the changed BG research risk free rate and risk premium, we are lowering our DCF-based FV for brewers stocks (see table on page 1). For SABMiller the FV of GBp4,400 is driven by the ABI offer price and remains unchanged. As a result of these FV adjustments we have limited upside for the brewers. AB InBev Heineken and Molson Coors are trading at FV, SABMiller has an upside of 3% to FV and Carlsberg has a significant downside, in our view. Following on from that we lower our recommendation for SABMiller to Neutral (from Buy) and for Molson Coors to Neutral (from Buy). Although there is no upside to FV for Heineken shares and that's why we do not put it in our top pick list, we believe this stock is still worthwhile buying. Organically the company is growing well with last year delivering 3.5% organic sales growth. But on top of that HEIA is most likely to be the next brewer to make a significant acquisition. And acquisitions are the big value creator (or destructor in some cases) in the sector. With deals like FEMSA Cerveza and Asia Pacific Breweries, Heineken's recent acquisition track record has been good. Furthermore with net debt/EBITDA of 2.2xe at end of 2016, the company has the capability to gear up. If external growth opportunities would not come along, we can expect, Heineken to start buying back to 20% that FEMSA has in the company. FEMSA has always made it clear that although it is a happy shareholder of Heineken, the stake could be sold if an opportunity in its retail and bottling business would arrive. We neither chose a top pick in the sample of spirits and food stocks as the groups' releases should show a subdued performance in Q1. We think that the improving organic sales growth of Rémy Cointreau is partly already factored into market expectations.

Luxury Goods: Again we do not include any Luxury goods stocks this quarter. The visibility remains poor ahead of Q1 16 publications, as the situation in Europe has certainly deteriorated vs Q4 15 while the environment remains tough in H-K and Macau.

NEXT CATALYSTS

- **Luxury Goods: LVMH** (Q1 sales) on April 11 and **Kering** (Q1 sales) on April 21st.
- **Consumer Goods (April): Essilor** (Q1 sales) on 21st / **BIC** (Q1 Results) on 27th / **SEB** (Q1 Sales) on 28th / **GrandVision** (Q1 Trading update) on 29th / **Luxottica** (Q1 Results) on 29th.
- **Food & Beverages: Nestlé** (Q1 16 sales) on Apr 14th**, Rémy Cointreau** (Q4 16 sales) on Apr 19th, **Danone** (Q1 16 sales) on Apr 19th**, Heineken** (Q1 16 sales) on Apr 20th, **Pernod Ricard** (T3 16 sales) on Apr 21st, **SAB** (Q4 16 sales) on Apr 21st**, ABI** on May 4th (Q1 16 results), **Campari** (Q1 16 results) on May 9th, **Carlsberg** (Q1 16 sales) on May 11th

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Analyst:
Loïc Morvan
33(0) 1 70 36 57 24
lmorvan@bryangarnier.com

Consumer Analyst Team:
Nikolaas Faes
Antoine Parison
Cédric Rossi
Virginie Roumage

Sector View

Insurance

Top Pick Q2 2016: AXA

	1 M	3 M	6 M	31/12/15
Insurance	2.3%	-13.3%	-2.0%	-13.6%
DJ Stoxx 600	1.1%	-8.1%	-1.9%	-8.4%

*Stoxx Sector Indices

Companies covered

AEGON		**NEUTRAL vs. BUY**	**EUR6 vs. 6.4**
Last Price	EUR4.915	*Market Cap.*	EUR10,553m
ALLIANZ		**BUY**	**EUR180 vs.195**
Last Price	EUR142.6	*Market Cap.*	*EUR65,168m*
AXA		**BUY**	**EUR29 vs.31**
Last Price	EUR20.64	*Market Cap.*	*EUR50,109m*
CNP ASSURANCES		**NEUTRAL**	**EUR15**
Last Price	EUR13.345	*Market Cap.*	*EUR9,163m*
COFACE		**NEUTRAL**	**EUR10 vs.10.5**
Last Price	EUR7.114	*Market Cap.*	*EUR1,127m*
EULER HERMES		**BUY**	**EUR96 vs. 100**
Last Price	EUR79.25	*Market Cap.*	*EUR3,593m*
HANNOVER RE		**SELL**	**EUR110 vs.107**
Last Price	EUR100.8	*Market Cap.*	*EUR12,156m*
MUNICH RE		**SELL**	**EUR185 vs.200**
Last Price	EUR176.65	*Market Cap.*	*EUR29,473m*
SCOR		**BUY**	**EUR38 vs. 38.5**
Last Price	EUR30.7	*Market Cap.*	*EUR5,914m*
SWISS RE		**NEUTRAL**	**CHF100 vs.110**
Last Price	CHF88.35	*Market Cap.*	*CHF32,752m*
ZURICH INSURANCE GROUP		**NEUTRAL**	**CHF270 vs. 295**
Last Price	CHF220.9	*Market Cap.*	*CHF33,231m*

LOOKING BACK AT Q1 2016

Excluding Aegon and Zurich, Q4/FY 2015 numbers were in line or ahead of expectations. Operating performances were strong again, driven by underwriting results in most business lines (pricing discipline in primary insurance, lower-than-budgeted natcats, an ongoing shift from traditional life towards unit-linked and protection products) and some capital gains (although most companies continue to suffer ongoing pressure on recurring RoIs).

Most companies passed the Solvency II test with flying colours. As expected, the winners were companies with very diversified business models. We would especially mention AXA (205%), Allianz (200%) and the reinsurers (Hannover Re 246%, Munich Re 302%, Scor 211%, Swiss Re 205%). We had one positive surprise with CNP (192% vs. c. 180% expected) and one negative one with Euler Hermes (173% vs. c. 190% expected).

We continued to witness a degree of volatility on the financial markets, driven by i/ oil price weakness and its implications/consequences, ii/ the global economic slowdown, and iii/ political issues. Interest rates fell sharply (10Y Euro rate at 0.61% at end-March vs. 1.07% at end-December, 10Y US rate at 1.78% vs. 2.27%). Corporate spreads rose a little overall (iTraxx Main down 4bps and iTraxx Senior Financials up 14bps). Equity markets were more under pressure (DJ Stoxx50 down 10%).

Considering the structure of insurers' investment portfolios, these movements are globally positive for asset valuations, pushing insurers' NAVs up further. Note that the stress we experienced in some corporate spreads until mid-February has also allowed companies to invest in more satisfactory conditions. Yet the Q1 environment was clearly negative from a Solvency II perspective, with the margin probably down at end-March vs. end-December.

We see this as one key item justifying the underperformance of the sector in Q1 (-13.1% vs. -7.7% for the Stoxx600), with growing fears that dividends might be at risk if solvency margins fall below optimal areas due to lower interest rates. The other item justifying the sector's underperformance is the growing stress on corporate defaults, fuelled by issues in the oil sector and the global economic slowdown. We believe these fears have been overplayed: the sensitivity of Solvency II margins to interest rates is not new, and investors' fears clearly underestimate management actions over time, while bond portfolios are of high quality (mainly OECD govies and investment grade corporates). Yet in this context, reinsurers performed better than most primary insurers.

NEW ESTIMATES, RECOMMENDATIONS AND FAIR VALUES

We take this opportunity to update our earnings forecasts for 2016-2017. On average, both our operating profit and net income sequences are revised downwards by 2%. Overall company commitments for active cash flows / shareholders' equity base management allow companies to keep decent ROEs (c. 10% on average), slightly above our cost of equity (9.4% on average).

We release new fair values, which are based on our new 2016 estimates and include new BG valuation criteria (risk-free rate 1.6% vs. 2.0%, equity risk premium 7.0% vs. 6.4%). As a consequence, most fair values have been revised downwards.

We also take this opportunity to downgrade our recommendation on Aegon from Buy to Reduce, in view of the still below-standard quality of fundamentals and the dismal environment in both the USD and US rates.

EUR	Fair value New	Old	Theoretical upside (%)	Recommendation New	Old
Aegon	6.0	6.4	30%	Neutral	Buy
Allianz	180	195	31%	Buy	Buy
AXA	29.0	31.0	43%	Buy	Buy
CNP	15.0	15.0	9%	Neutral	Neutral
Zurich (CHF)	270	295	36%	Neutral	Neutral
Hannover Re	110	107	10%	Sell	Sell
Munich Re	185	200	6%	Sell	Sell
Scor	38.0	38.5	24%	Buy	Buy
Swiss Re (CHF)	100	110	15%	Neutral	Neutral
Coface	9.5	10.5	31%	Neutral	Neutral
Euler Hermes	96	100	22%	Buy	Buy

Source: Bryan Garnier & Co. ests.

WHAT WE EXPECT IN Q2 2016

Geopolitical/economic uncertainties remain high at the beginning of Q2 2016 and should continue to generate some volatility on the financial markets. However:

Both the FED and the ECB actions continue to create a fairly safe environment for bonds investors like insurance companies. Bonds usually represent 75% of total investments for insurance companies, with the bulk of it invested in OECD govies and investment grade corporate bonds. And the ECB has just extended its QE programme to non-financial investment grade corporate bonds, meaning that it can now act on c. 70% of bond instruments held by typical European insurers. This is good news from a default risk perspective, which is key from an economic standpoint, and remember that lower credit spreads are positive under Solvency II. True, the pressure on ROIs and investment income should remain. Should rates and spreads stay where they currently are, our calculations show that a theoretical 5-year investment portfolio made up of govies (40% Euro, 10% US) and corporate bonds (25% investment grade, 5% high yield, 20% financials) would generate a 3.3% return in 2016 vs. 3.8% in 2015 and 4.3% in 2014. Nothing new here, and active management of the investment portfolio and some kind of diversification should help mitigate this trend.

Insurance companies are due to report Q1 2016 numbers in late April and in May and these should be strong again, driven by the ongoing focus on underwriting results (primary P&C and Life + reinsurance), persistantly low natcats and insurers' ability to pass lower interest rates on to customers (traditional life). As we already said, solvency margins should be down vs. end-December, yet still comfortably within optimal areas.

As a consequence, insurers will not deviate from current strategies, i.e. focusing on underwriting profitability through better risk management and cost control, price discipline, a more favourable product-mix in Life/Protection, a prolonged focus on capital allocation and cash flow management. This strategy should help protect overall profitability in the low interest rate environment and higher-than-average shareholders' returns.

Based on these items, we continue to use a 'risk-on' sector beta, i.e. 1.1 (vs. 1.35 for the 'risk-neutral' mode and 1.6 for the 'risk-off' mode) in our models.

CONCLUSIONS AND TOP PICKS

We believe the insurance sector will continue to show strong fundamentals/earnings quality, and that investors will gradually learn how to deal with the new Solvency II environment, which should be positive for multiples.

We continue to favour diversified primary insurers vs. reinsurers, which are exposed to potential back-to-normal natcats levels. As for Q2, we continue to strongly support the AXA investment case (Buy, FV EUR29 vs. EUR31), considering: i/ the company's convincing transformational journey strategy over the last few years, ii/ the recurring quality of earnings over the last half year periods (pricing power, combined ratio, new business margin, solvency,...), iii/ managements' efforts to address shareholder returns (pay-out ratio revised upwards to 45-55%), iv/ a prolonged 10-15% discount to peers like Allianz and Zurich, and v/ the prospect of the new 2020 strategic plan, which should bring a balance between continuity (focus on underwriting profitability and capital management) and adaptation to the digital transformation. Q1 2016 sales/solvency will be reported on 3th May. Investor Day on 21st June.

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Analyst :
Olivier Pauchaut
33(0) 1 56 68 75 49
opauchaut@bryangarnier.com

Sector View

Semiconductors

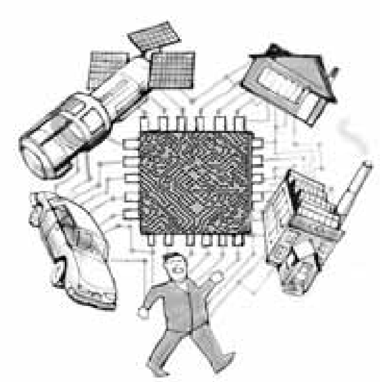
February sales in line with seasonal factors, no surprise expected for March

	1 M	3 M	6 M	31/12/15
Semiconductors	0.6%	3.2%	5.4%	-2.6%
DJ Stoxx 600	-3.3%	-6.7%	-8.3%	-9.6%

*Stoxx Sector Indices

Companies covered

ARM HOLDINGS		**BUY**	**1340p**
Last Price	1029p	*Market Cap.*	GBP14,493m
ASML		**SELL**	**EUR81**
Last Price	EUR87.8	*Market Cap.*	*EUR38,047m*
DIALOG SEMICONDUCTOR		**BUY**	**EUR39**
Last Price	EUR35.236	*Market Cap.*	*EUR2,744m*
INFINEON		**BUY**	**EUR15**
Last Price	EUR12.285	*Market Cap.*	*EUR13,899m*
SOITEC		**NEUTRAL**	**EUR0.5**
Last Price	EUR0.58	*Market Cap.*	*EUR134m*
STMICROELECTRONICS		**NEUTRAL**	**EUR6.3**
Last Price	EUR4.608	*Market Cap.*	*EUR4,198m*



In February, the environment remained stable compared to January and the deterioration stopped as we expected. According to WSTS data, unadjusted global semiconductor sales stood at USD24.9bn, down 4.0% on a sequential basis and down 4.5% on a yearly basis. This decline was in line with our 5-y historical benchmark pointing to a sequential decline of 4.2%. With an improving environment in the Automotive segment and supportive macroeconomic indices, we also expect March sales to be in line with historical seasonality pointing to a sequential increase of 19.4%. This scenario points to a YoY decease in global semiconductor sales of 3.0% in Q1 2016 (vs. -4.5% over 2 months).

ANALYSIS

- **Global semiconductor sales continued to decrease on a yoy basis with February sales down 4.5% yoy to USD24.9bn.** On a sequential basis, unadjusted global sales were down 4.0% in February compared to January. As we expected, this was in line with our benchmark based on 5-y historical data showing an historical seasonal decline of 4.2% in February vs. January. Based on the visibility we now have, we anticipate a stabilization in the environment in smartphones while signs of a recovery in automotive continue to strengthen. We also note that macro-economical indices are improving (US ISM is now above 50 and Chinese ISM is also close to 50). Overall, the environment remains soft but seems to benefit from a more positive tone. We continue to expect soft growth for FY16 of 2-3% with H2 stronger than H1 thanks to better comparison.
- **Once again, all regions, including Asia, showed a yoy decrease in sales.** February sales in Asia, which represent about 60% of semiconductor billings (~50% of which generated in China), were down by 1.6% yoy. Momentum in the US was once again particularly weak with a yoy decrease of 14.7% in February. European sales were down by 4.1% and Japanese sales were flat.
- **March and beyond: March sales expected to be in line.** Recently, we have noted that the weak environment in the smartphone market and particularly in the iPhone value chain is stabilising, in addition, we continue to see an improving environment in the automotive sector. Production of light vehicles in China rose by 5% yoy and by 11% in Europe over the two first months of 2016. The PC segment still looks to be at rock bottom with no signs of improvement. Overall, we continue to expect better momentum in H2 2016 thanks to better comparison in Automotive and Smartphones. March ISM data improved strongly again with the US PMI Manufacturing index up to 51.8 from 49.2 in February and 48.2 in January. This highlights a reacceleration in the industrial sector in the US that could boost demand for chips in this segment. This was also confirmed by March's production index which continued to improve rapidly to 55.3 from 50.2 two months ago. The Inventories Index also continued to close the gap with the "50-level" from the very low level of 43.5 in January to 47 in March. Finally, Chinese data also improved with Markit PMI Manufacturing at 49.7, to be compared to a low point at 48.0 in February.

VALUATION

- **2016e P/E valuation improved in February.** Our semiconductor valuation table shows that overall valuation between the six sub-sectors of the industry remained broadly stable in March. On average, IP & EDA vendors, and Fabless have the highest valuation metrics with an average 2016e P/E ratio of 19.0x and 16.6x respectively (from 19.1x and 16.1x a month ago). Conversely, Memory makers have the lowest valuation with an average 2016e P/E ratio of 11.4x (up significantly from 9.6x a month ago).

BG semiconductor sub-sectors valuation table

	YTD stocks perf.		2016e			
Subsector (# of comp.)	Avg. / Median	High / Low	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Fabless (15)	1.7% / 0.4%	24.6% / -18.4%	2.3x	8.8x	11.4x	16.6x
Logic & Analog IDM (19)	-3.0% / -2.2%	7.5% / -24.8%	2.5x	7.9x	11.0x	15.4x
Memory IDM (4)	-11.7% / -13.4%	3.6% / -23.7%	0.8x	2.8x	8.0x	11.4x
Foundry (5)	1.2% / 3.6%	13.6% / -12.7%	1.4x	4.0x	12.4x	12.2x
Semi Equipmt & Materials (11)	4.0% / 4.7%	13.4% / -6.0%	2.0x	8.2x	9.7x	14.9x
Intellectual Property & EDA (10)	13.8% / 12.4%	41.2% / -2.5%	4.2x	13.1x	16.5x	19.0x

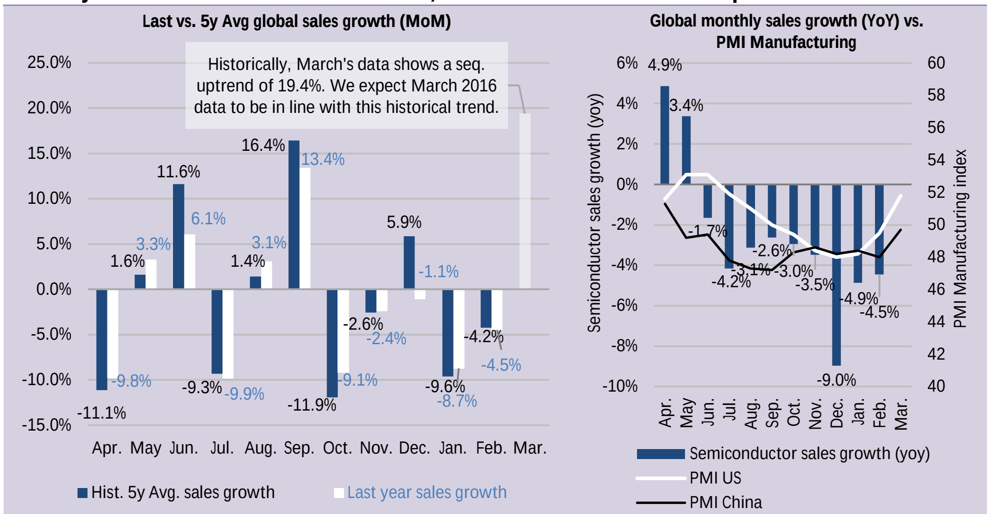
Numbers between brackets represent the number of companies in each category; green/red numbers are higher/lower data per ratio.

Sources: Thomson Reuters I.B.E.S.; Bryan Garnier & Co.

NEXT CATALYSTS

- March 2016 WSTS global billing reports, expected for early May.

February sales in line with seasonal factors, March should harbour no surprises



Sources: WSTS; Bryan Garnier & Co.

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Analyst :
Dorian Terral
33(0) 1.56.68.75.92
dterral@bryangarnier.com

Sector Team :
Richard-Maxime Beaudoux
Thomas Coudry
Gregory Ramirez

Sector View

Software and IT Services

Syntec Numérique analysts' meeting: growth intact for French IT

	1 M	3 M	6 M	31/12/15
Softw.& Comp. SVS	0.6%	-2.0%	9.9%	-4.5%
DJ Stoxx 600	-3.3%	-6.7%	-8.3%	-9.6%

*Stoxx Sector Indices

Companies covered

ALTEN		**SELL**	**EUR46**
Last Price	EUR53,8	*Market Cap.*	*EUR1,811m*
ALTRAN TECHNOLOGIES		**NEUTRAL**	**EUR13**
Last Price	EUR12,19	*Market Cap.*	*EUR2,143m*
ATOS		**BUY**	**EUR90**
Last Price	EUR71,44	*Market Cap.*	*EUR7,396m*
AXWAY SOFTWARE		**NEUTRAL**	**EUR20**
Last Price	EUR19,4	*Market Cap.*	*EUR399m*
CAPGEMINI		**BUY**	**EUR90**
Last Price	EUR80,6	*Market Cap.*	*EUR13,878m*
CAST		**NEUTRAL**	**EUR3,6**
Last Price	EUR3,43	*Market Cap.*	*EUR55m*
DASSAULT SYSTEMES		**SELL**	**EUR63**
Last Price	EUR71,29	*Market Cap.*	*EUR18,302m*
INDRA SISTEMAS		**NEUTRAL**	**EUR10**
Last Price	EUR9,991	*Market Cap.*	*EUR1,640m*
SAGE GROUP		**SELL**	**550p**
Last Price	631,5p	*Market Cap.*	*GBP6,816m*
SAP		**NEUTRAL**	**EUR73**
Last Price	EUR69,12	*Market Cap.*	*EUR84,914m*
SOFTWARE AG		**BUY**	**EUR39**
Last Price	EUR34,63	*Market Cap.*	*EUR2,736m*
SOPRA STERIA GROUP		**BUY**	**EUR113**
Last Price	EUR101,75	*Market Cap.*	*EUR2,080m*
SWORD GROUP		**BUY**	**EUR26**
Last Price	EUR23,6	*Market Cap.*	*EUR221m*
TEMENOS GROUP		**NEUTRAL**	**CHF51**
Last Price	CHF51,95	*Market Cap.*	*CHF3,610m*

Yesterday the French association of IT companies Syntec Numérique held an analysts' meeting in Paris, and confirmed that 2016 market growth rates should accelerate slightly. CIO confidence is improving, led by transformation projects, digital, cloud, automation and offshoring. As this speech is in line with what IT firms have said recently, we expect no impact on the stocks we cover.

ANALYSIS

- **2016: confidence improving constantly**. Syntec/IDC has upped its 2016 forecasts for growth in the French IT market, to 2.6% from 2.4%, with +2.5% for IT Services (vs. +2.3%), +3.6% in B2B Software (vs. +3.6%) and +2% in High-tech Consulting (vs. +1.2%). This denotes a slight acceleration compared to 2015 (+2.2%, with +2% in IT Services, +3.4% in Software and +1.6% in High-tech Consulting) although France will continue to lag compared to other major countries (US +4.6%, Western Europe +3.2%, Asia-Pacific +5.8% - source IDC). As a whole, activity in the industry (RFPs, number/size of projects, bookings…) in Q1 has been on the right track, with 49% of respondents to the survey having a positive sentiment (vs. 9% negative). The CIO confidence index peaked at 122 in March 2015 (vs. 113 in October 2015), a level not seen since 2008. 80% of CIOs consider IT budgets will increase or be stable this year, compared to 67% a year ago, thanks to transformation projects. SMACS (Social/Mobile/Analytics/Cloud/ Security) are expected to account for 16% of the market (vs. 13% in 2015), up 18.2% to EUR6.8bn.

- **IT Services improving, led by new projects**. In IT Services, Syntec/IDC forecasts a French market up 2.5% for 2016, with Consulting up 3.6% (vs. +3%), Systems Integration up 3.5% (vs. +2.5%), Staffing up 1.4% (vs. +1.5%), Training/Support up 0.7% (vs. +0.3%), Application Outsourcing up 2.8% (vs. +3.1%), and Infrastructure Outsourcing up 0.9% (vs. +0.1%) driven by the cloud. The survey shows increasing CIO confidence (56% of net positive answers), essentially driven by SMACS (est. 13% of the IT Services market in 2016, +17.9%) with Cloud/SaaS, Mobility and Big Data/Analytics expected to account for 20%, 10% and 11% of revenues, respectively. Offshoring reached 8.2% of the market in 2015 (vs. 7.7% in 2014). In High-tech Consulting (HTC), the recovery is confirmed, albeit still modest, with improving market conditions in Aerospace & Defence (Airbus, Thales), and all the industries are in good shape more or less except Telecoms. Offshoring in HTC accounted for 3% of the market in 2015 (vs. 2.6%) and is expected to rise to 5% two or three years from now. Finally, in B2B Software, Applications and Infrastructure are expected to be up 3.7% and 3.4%, respectively, SaaS revenues are projected to be up 23% and account for 14% of the market (vs. 12% in 2015), and SMACS are expected to be up 18.6% and account for 22% of the market.

- **Reminder of our forecasts by company**. In IT Services, for 2016e, on a lfl basis, we forecast sales in France as follows: +1.3% (vs. +1.2% in 2015) for Capgemini, +1.2% (vs. +0.6%) for Atos excluding Worldline, and +1.7% (vs. +1.7%) for Sopra Steria excluding Solutions, while Indian pure players like TCS are gaining market share but from a low comparison base. In High-tech Consulting, on a lfl basis, we expect +2.1% (vs. +4.5% in 2015) for Altran and +1.6% (vs. +2.5%) for Alten. NB. We estimate revenue exposure to France for 2016e at 20% for Capgemini, 16% for Atos excluding Worldline, 46% for Sopra Steria excluding Solutions, 39% for Altran, and 49% for Alten.

VALUATION

- European Software companies: 14.7x 2016 and 14.3x 2017 EV/EBIT multiples.
- European IT Services companies: 10.5x 2016 and 8.3x 2017 EV/EBIT multiples

NEXT CATALYSTS

Infosys' FY16 results on 15th April before the Indian markets open.

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Analyst :
Gregory Ramirez
33(0) 1 56 68 75 91
gramirez@bryangarnier.com

Sector Team :
Richard-Maxime Beaudoux
Thomas Coudry
Dorian Terral

Healthcare

DBV Technologies

Price EUR62.40

FY2015 results

Fair Value EUR89 (+43%) BUY

Bloomberg	DBV FP
Reuters	DBV.PA
12-month High / Low (EUR)	81.0 / 40.6
Market Cap (EURm)	1,504
Avg. 6m daily volume (000)	50.90

	1 M	3 M	6 M	31/12/15
Absolute perf.	35.8%	-6.2%	-3.3%	-6.1%
Healthcare	0.3%	-9.4%	-7.5%	-10.6%
DJ Stoxx 600	-3.3%	-6.7%	-8.3%	-9.6%

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

ANALYSIS

- After reporting a 2015 cash position of EUR324m on 15th February (that should carry the company to its first commercialisation in 2018), DBV has reported its financial results with total income at EUR6.2m, driven primarily by an increase in the research tax credit. R&D expenses rose 62% to EUR21.1m reflecting increased activity in both early and late clinical stages as DBV has initiated its phase III trial in peanut allergy and is engaged in multiple early stage/preclinical trials with the aim of finding applications outside food allergy. The company is ramping-up its structure both in the US and in Europe and this has translated into a two-fold increase in G&A expenses to EUR16.9m. The net loss amounted to EUR44.7m.
- As a reminder, DBV should report its phase IIa, MILES, study results this quarter.

VALUATION

- We reiterate our BUY rating and EUR89 Fair Value (down from EUR92 as we have changed our equity risk premium and risk free rate assumptions).

NEXT CATALYSTS

- H1 2016: MILES phase IIa study results (Viaskin in the treatment of Milk allergy)

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Hugo Solvet, hsolvet@bryangarnier.com

Healthcare

Galapagos

Price EUR38.98

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low (EUR)	58.5 / 22.7
Market Cap (EURm)	1,528
Avg. 6m daily volume (000)	232.5

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.8%	-29.2%	-6.4%	-31.3%
Healthcare	0.3%	-9.4%	-7.5%	-10.6%
DJ Stoxx 600	-3.3%	-6.7%	-8.3%	-9.6%

	2014	2015e	2016e	2017e
P/E	NS	83.5x	NS	NS
Div yield (%)	NM	NM	NM	NM

GLPG1690 in IPF in phase IIa, development can be fast

Fair Value EUR62 (+59%) **BUY**

ANALYSIS

- Galapagos has announced the initiation of a Phase IIa trial, FLORA, for oral GLPG1690 in Idiopathic Pulmonary Fibrosis (IPF), a rare disease with ~30,000 newly diagnosed patients in Europe per year (slightly less in the US). We are pleased to see GLPG1690 advancing in GLPG's pipeline as the biotech gained back the rights from Jansen in May 2015, which might have cast doubts on the future of the product candidate.
- The study should evaluate safety and tolerability as the primary endpoint in 24 patients over a 12-week treatment course. While good target engagement was seen in phase I alongside no particular safety concerns, we would pay attention to secondary measures, namely the evaluation of lung function and quality of life as GLPG1690 features a new mode of action which inhibits autotaxin. Within the IPF space, GLPG1690 could benefit from a differentiated safety profile as Esbriet could induce both liver and GI toxicity issues. To keep in mind that Esbriet was granted orphan drug, fast track and breakthrough therapy designation and benefitted from a priority review. Topline results are expected in Q2 2017.
- The product is already integrated into our valuation and the latter news does not change the 20% probability of success we had already attached to it (EUR2/share) as well as its EUR1.3bn peak sales potential (non risk-adjusted). So far, we have modelled a partnership agreement with upfront and milestones of up to EUR350 alongside a 15% royalty rate. This was motivated by the fact that both Roche (InterMune) and Boehringer Ingelheim have launched costly supportive campaigns for Esbriet and Ofev respectively with BI engaged in a co-financing programme of up to EUR25k per year for patients who do not have adequate financial resources. However, one could argue that Roche valued InterMune at USD8.4bn and that GLPG might decide to opt for a standalone basis, at least in some European countries, to leverage its cystic fibrosis sales force. Before having more detailed data, we would stick to our scenario which leaves significant room for upside potential in our view.

VALUATION

- We are sticking to our EUR62 Fair Value and reiterate our BUY rating.
- With EUR21 cash/share i.e. more than half of the current share price, GLPG's pipeline is significantly undervalued.

NEXT CATALYSTS

- Q2 2016: filgotinib's 20w data in Crohn's disease

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Hugo Solvet, hsolvet@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 59.1% NEUTRAL ratings 32.8% SELL ratings 8%

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

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London
Beaufort House
15 St Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and l Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

New Delhi
The Imperial Hotel
Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

BRYAN, GARNIER & CO