

## Sector View

## Healthcare

## Top Picks Q2. FRESENIUS, IPSEN and ABLYNX join ACTELION while ASTRAZENECA, GENMAB and BONE THERAPEUTICS are out

	1 M	3 M	6 M	31/12/15
Healthcare	-2.0%	-12.4%	-10.1%	-12.7%
DJ Stoxx 600	-4.0%	-8.6%	-8.4%	-10.3%

\*Stoxx Sector Indices

## Companies covered

Company	Recommendation	Target Price
<b>ABLYNX</b>	<b>BUY</b>	<b>EUR17 vs. 18</b>
Last Price	EUR13,02	Market Cap. EUR720m
<b>ACTELION</b>	<b>BUY</b>	<b>CHF163 vs. 166</b>
Last Price	CHF143,9	Market Cap. CHF16,423m
<b>ADOCIA</b>	<b>BUY</b>	<b>EUR93 vs. 100</b>
Last Price	EUR62,56	Market Cap. EUR428m
<b>ASTRAZENECA</b>	<b>BUY</b>	<b>5360p vs 5520p</b>
Last Price	3951p	Market Cap. GBP49,960m
<b>BAYER</b>	<b>NEUTRAL</b>	<b>EUR108 vs. 113</b>
Last Price	EUR100	Market Cap. EUR82,695m
<b>BIOMERIEUX</b>	<b>BUY</b>	<b>EUR115 vs. 118</b>
Last Price	EUR102,45	Market Cap. EUR4,042m
<b>BONE THERAPEUTICS</b>	<b>BUY</b>	<b>EUR30</b>
Last Price	EUR18,2	Market Cap. EUR125m
<b>CELLECTIS</b>	<b>BUY</b>	<b>EUR37</b>
Last Price	EUR25,64	Market Cap. EUR902m
<b>CELYAD</b>	<b>BUY</b>	<b>EUR77</b>
Last Price	EUR38,76	Market Cap. EUR361m
<b>DBV TECHNOLOGIES</b>	<b>BUY</b>	<b>EUR89 vs. 92</b>
Last Price	EUR59,7	Market Cap. EUR1,439m
<b>ERYTECH</b>	<b>BUY</b>	<b>EUR48 vs. 51</b>
Last Price	EUR26,58	Market Cap. EUR211m
<b>FRESENIUS MED.CARE</b>	<b>BUY</b>	<b>EUR94 vs. 97</b>
Last Price	EUR76,91	Market Cap. EUR23,562m
<b>FRESENIUS SE</b>	<b>BUY</b>	<b>EUR70 vs. 68</b>
Last Price	EUR63,21	Market Cap. EUR34,501m
<b>GALAPAGOS</b>	<b>BUY</b>	<b>EUR62 vs. 63</b>
Last Price	EUR37,25	Market Cap. EUR1,460m
<b>GENMAB</b>	<b>BUY</b>	<b>DKK1225</b>
Last Price	DKK913	Market Cap. DKK54,486m
<b>GLAXOSMITHKLINE</b>	<b>BUY</b>	<b>1670p</b>
Last Price	1419p	Market Cap. GBP69,116m
<b>INNATE PHARMA</b>	<b>BUY</b>	<b>EUR18 vs. 19</b>
Last Price	EUR12,23	Market Cap. EUR658m
<b>IPSEN</b>	<b>BUY</b>	<b>EUR60</b>
Last Price	EUR50,92	Market Cap. EUR4,239m
<b>LDR HOLDING</b>	<b>BUY</b>	<b>USD38 vs. 41</b>
Last Price	USD26,84	Market Cap. USD784m
<b>NOVARTIS</b>	<b>NEUTRAL</b>	<b>CHF95</b>
Last Price	CHF69,4	Market Cap. CHF185,783m
<b>NOVO NORDISK</b>	<b>NEUTRAL</b>	<b>DKK400 vs. 416</b>
Last Price	DKK362,7	Market Cap. DKK748,092m
<b>QIAGEN</b>	<b>NEUTRAL</b>	<b>EUR22</b>
Last Price	EUR19,93	Market Cap. EUR4,777m

## LOOKING BACK AT Q1 2016

The Healthcare sector significantly derated in Q1 amid concerns over the pricing power of innovation from pharmaceutical companies while entering an election year in the US. Several consecutive years with a dense flow of drug approvals have raised concern about adoption rates and coverage of healthcare costs going forward with a variety of new initiatives being implemented as a consequence. The increasing incidence of pay-for-performance pricing models, the rising level of rebates, increasing use of exclusive contracting etc... is raising the bar to reach commercial success with innovative drugs.

Fundamentals remain strong as long as innovation drives performance but we are simply at a point in the cycle when pressure is exacerbated by the aim of public representatives whoever they are to please patients/voters. And with the Supreme election coming in the US, we do not see this pressure slowing-down by any means. Beyond environment issues, we also see more competition.

As such, the STOXX600 Healthcare dropped 13% in Q1, underperforming the EUROSTOXX 50 index by 500bp (-8% in Q1), the worst relative quarterly performance since 2011. This was particularly well reflected by one of the worst performers in the quarter i.e. heavy weight Novartis that plummeted 20% amid concerns over the take-off of its highly advertised CHF drug Entresto.

## WHAT WE EXPECT FOR Q2 2016

Entering Q2 2016, we see some signs of stabilization in the biotech segment if only because valuations have come down a lot, creating some M&A opportunities. The same should apply to pharmaceuticals where price-to-growth ratios like PEG have fallen significantly. That said, momentum continues to appear uncertain because these tough times for drug launches are likely to be reflected in disappointing quarterly sales reports for Q1. Moving closer to the US elections is unlikely to help and debate around the need for new healthcare reform that would favour generic/biosimilar use and limit price increases is very likely to strengthen. Mainly because of this adverse environment, we have decided not to include any large cap pharmaceutical stock in our Top Pick list for the ongoing quarter.

In order to drive through the quarter safely, we have also decided to exclude names with a low free float and too small market capitalisation.

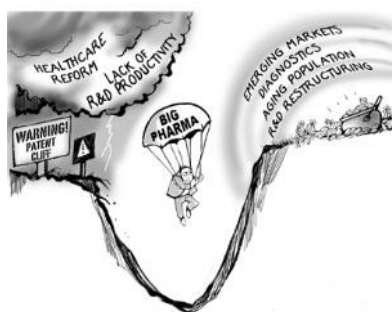
Our selection nevertheless comprises four names as in the previous quarter with one that is reiterated (Actelion) and three new ideas. Self-help stories should outperform. However, it is also fair to remind that Q2 is specific given that it includes very popular medical congresses like ASCO and ADA that may drive stock performances to some extent. That said, we won't play any recovery idea until the second half of the year. Please note also that our FVs have been affected by the new risk-free rate and equity risk premium implemented for all our covered stocks, these now standing at 7.0% and 1.6% respectively vs. 7.4% and 2.0% previously.

## CONCLUSIONS AND TOP PICKS

**Actelion (BUY – FV CHF163 vs CHF166) stays in.** The group was the best performer in the universe during Q1 (+3% in absolute terms) and clearly outperformed the healthcare sector mainly because the company delivered full-year guidance above expectations. Although for obvious reasons it was not easy for Actelion to comment, the origin of the beat concerned the delayed launch of generic bosentan in the US. Precise timings remain uncertain as the agenda is managed by an independent party that is entitled by the FDA to act as a rapporteur between all involved players but it seems fair to assume that the first half of 2016 should be risk-free. Tracleer still represents about USD100m in quarterly sales and margin is estimated close to 90%. So each month that remains generic-free provides significant upside to earnings for Actelion (about 10% on core EBIT for each quarter saved).

The reason why we are maintaining the stock for Q2 is because we are quite confident in the numbers to be reported for Q1 on 21st April 2016 and we see a reasonable chance of a guidance upgrade. This is all the more likely in that Actelion is suggesting a nice start for Uptravi in the US although it is too early to call for a surprise because it could simply be the reflection of the easiest patients being captured. However, we see good feedbacks to report in any case at this stage during the conference call. Last but not least, Actelion looks more secured than many other names re environmental issues in the sector.

<b>ROCHE HOLDING</b>	<b>BUY</b>	<b>CHF294 vs. 303</b>
Last Price	CHF235,8	Market Cap. CHF165,664m
<b>SANOFI</b>	<b>NEUTRAL</b>	<b>EUR87</b>
Last Price	EUR72,26	Market Cap. EUR94,350m
<b>UCB</b>	<b>NEUTRAL</b>	<b>EUR80 vs. 82</b>
Last Price	EUR68,19	Market Cap. EUR13,263m
<b>ZEALAND</b>	<b>BUY</b>	<b>DKK180 vs. 200</b>
Last Price	DKK129,5	Market Cap. DKK3,160m



### Removing AstraZeneca and Genmab

**AstraZeneca (BUY – GBp vs. GBp5,520):** clearly the group did not perform well in Q1 and because our thesis is intact, it could well have stayed in the list in Q2, all the more so that PT003 and ZS-9 should be approved during the quarter. But we are too uncomfortable with the environment to make a call on AZN for a short period of time. We would like to see how things stabilize before we return more aggressively in the second part of the year. From a longer-term view, it remains a clear BUY however.

**Genmab (BUY – DKK1,225)** performed well thanks to 1/ encouraging guidance for the very first year of sales of daratumumab (250-300 MUSD); 2/ the publication of positive Phase III results in combination with ibrutinib and dexamethasone (CASTOR study); 3/ the announcement of a collaboration between JNJ and Roche to test “dara” along with a PD-L1 checkpoint blocker in myeloma but also in a solid tumor. Besides, we remain positive on the outcome of the POLLUX study (which involves a combo with lenalidomide)... But we have to admit that short-term momentum is less engaging following the announcement that Morphosys is suing them and their partner for patent infringement.

**We remove Bone Therapeutics (BUY – FV EUR30)** from the list as we do not want to overweight healthcare. That said, one of the two expected catalysts occurred in Q1, namely interim results from the osteoporosis phase II trial. In Q2, we remain convinced that value creation should be triggered by the efficacy readout from the 2nd cohort enrolled in the Delayed-Union study. It should be followed by a DSMB review which would have the authority to prematurely stop the trial.

### Adding Fresenius SE, Ipsen and Ablynx

**Fresenius SE (BUY – FV EUR70 vs EUR68)** enters our Top Pick list. Kabi should continue to drive the share price. Management has guided for low single-digit growth for the division in 2016, which we view as a floor in the light of 1/ our estimates pointing to 5% growth and 2/ management being conservative at the beginning of the year (meet and beat strategy). Following the approval of two new IV Gx with an upcoming launch as well as the launch of one approved in 2015. ANDA's backlog suggests that in 2016, Fresenius SE should have no difficulty in reaching the high range of its launch guidance (6-10). By playing the parent company, investors could also benefit from both strong topline at FMC and to a lesser extent, increased profitability from EPO and higher than communicated GEP gains while cushioning the risk of any major dilutive acquisition in the Care Coordination field.

**Ablynx (BUY – FV EUR17 vs EUR18)** jumps into our Top Pick list, ahead of key milestones for the biotech. Firstly, the phase I/IIa results expected in Q2 should provide additional insight as to the rationale of administration via nebulization in RSV infants. We would point out that Ablynx' platform may have the potential to be administered in uncommon ways (nebulization, cream, ocular) thanks to its robustness. Secondly, we believe that the current share price significantly undervalues the deal with AbbVie for which phase IIb results and potential opt-in are expected in Q3 and H2 2016 respectively.

**Ipsen (BUY – FV EUR60)** is included in the list for Q2 because we highlighted in our recent note on the stock that the recent correction was a clear opportunity to play mid-term double-digit growth at a reasonable price but also interesting short-term catalysts that should reassure re the recent acquisition.

In March, Ipsen announced it had acquired the European rights for cabozantinib from Exelixis for an upfront payment of USD200m and potential other regulatory and commercial milestones + royalties. This is a transforming deal for Ipsen, one that has negative implications in the short-term because the company needs to build an oncology sales force (cost of about EUR50m), but positive ones in the medium-term. Starting in 2018-2019, it has an accretive impact on earnings and extends the growth trajectory well into the next decade. So we see it as possible provided clinical data supports the price paid. And precisely, we see upcoming catalysts that should help increase confidence in the deal with (i) final phase III data in 2L RCC to be presented either at ASCO or ESMO; (ii) FDA action date on 2L RCC expected by the end of June; (iii) EU opinion expected sometime in September.

With underlying operations still very robust, driven by Somatuline in the US, we see also Q1 numbers as reassuring for historical business. Altogether we therefore believe that Ipsen is and remains a very attractive growth story. With a PEG ratio of about 1x-1.1x, this is a strong BUY at the current price hence our decision to enter Ipsen into our Top Pick list for the ongoing quarter.

[Click here to download](#)



**Analyst :**  
**Team Pharma**  
 33(0) 1 56 68 75 33  
[Healthcare.er@bryangarnier.com](mailto:Healthcare.er@bryangarnier.com)

**Sector Team :**  
 Mickael Chane Du  
 Eric Le Berrigaud  
 Hugo Solvet

# 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 59,6%

NEUTRAL ratings 32,4%

SELL ratings 8,1%

# Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at [www.bryangarnier.com](http://www.bryangarnier.com)

<b>London</b>	<b>Paris</b>	<b>New York</b>	<b>Geneva</b>	<b>New Delhi</b>
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	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
Authorised and regulated by the	Financial Conduct Authority (FCA) and		Regulated by the	Fax +91 11 2621 9062
Financial Conduct Authority	the Autorité de Contrôle prudentiel et de		FINMA	
(FCA)	resolution (ACPR)			

#### **Important information**

This document is classified under the FCA Handbook as being investment research (independent research). Bryan Garnier & Co Limited has in place the measures and arrangements required for investment research as set out in the FCA's Conduct of Business Sourcebook.

This report is prepared by Bryan Garnier & Co Limited, registered in England Number 03034095 and its MIFID branch registered in France Number 452 605 512. Bryan Garnier & Co Limited is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 178733) and is a member of the London Stock Exchange. Registered address: Beaufort House 15 St. Botolph Street, London EC3A 7BB, United Kingdom

This Report is provided for information purposes only and does not constitute an offer, or a solicitation of an offer, to buy or sell relevant securities, including securities mentioned in this Report and options, warrants or rights to or interests in any such securities. This Report is for general circulation to clients of the Firm and as such is not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

The information and opinions contained in this Report have been compiled from and are based upon generally available information which the Firm believes to be reliable but the accuracy of which cannot be guaranteed. All components and estimates given are statements of the Firm, or an associated company's, opinion only and no express representation or warranty is given or should be implied from such statements. All opinions expressed in this Report are subject to change without notice. To the fullest extent permitted by law neither the Firm nor any associated company accept any liability whatsoever for any direct or consequential loss arising from the use of this Report. Information may be available to the Firm and/or associated companies which are not reflected in this Report. The Firm or an associated company may have a consulting relationship with a company which is the subject of this Report.

This Report may not be reproduced, distributed or published by you for any purpose except with the Firm's prior written permission. The Firm reserves all rights in relation to this Report.

Past performance information contained in this Report is not an indication of future performance. The information in this report has not been audited or verified by an independent party and should not be seen as an indication of returns which might be received by investors. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to the risk factors stated in this Report, could cause actual results to differ materially from those in any Forward Looking Information.

Disclosures specific to clients in the United Kingdom

This Report has not been approved by Bryan Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

Notice to US investors

This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC, 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.

This Report is based on information obtained from sources that Bryan Garnier & Co Limited believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan Garnier & Co Limited and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.

Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).

Bryan Garnier Securities, LLC and/or Bryan Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available..