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18th May 2016

## BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
<b>Indices</b>			
Dow Jones	17529.98	-1.02%	+0.60%
S&P 500	2047.21	-0.94%	+0.16%
Nasdaq	4715.73	-1.25%	-5.82%
Nikkei	16644.69	-0.05%	-12.51%
Stoxx 600	334.721	0.00	-8.50%
CAC 40	4297.57	-0.34%	-7.32%
<b>Oil /Gold</b>			
Crude WTI	48.55	+1.55%	+30.51%
Gold (once)	1279.47	+0.32%	+20.43%
<b>Currencies/Rates</b>			
EUR/USD	1.1336	+0.04%	+4.35%
EUR/CHF	1.10625	-0.03%	+1.73%
German 10 years	0.132	-5.26%	-79.14%
French 10 years	0.477	-4.12%	-51.37%
Euribor	-	+-%	+-%

### Economic releases :

Date	
18th-May	St ERIC DAY JP - GDP annualized 1Q (1.7% A, 0.3% E) GB - Labour market Report (Claimant count change 4K E) US- FOMC minutes US - DOE Oil Inventories

### Upcoming BG events :

Date	
18th-May	Melia (BG Luxembourg Roadshow with IR)
19th-May	Melia (BG Paris roadshow with IR)
24th-May	Petit Déjeuner Thématique avec J. Zelmanovitch, WIMPELCOM
25th-May	Luxtottica (BG Paris Roadshow with IR)
7th-Jun	Cahiers Verts de l'Economie (BG Paris Lunch)
8th-Jun	Cahiers Verts de l'Economie (BG Paris Lunch)

### Recent reports :

Date	
13th-May	ROYAL UNIBREW Camp Blue Lake
10th-May	SOFTWARE AG French Flair at work
3rd-May	Rémy cointreau The glass is filling up
2nd-May	Moncler Good protection from chilly conditions
11th-Apr	ALTICE NUMERICABLE SFR : The time of Marketing?
8th-Apr	Nicox A visible decrease in pressure... (CORPORATE, FV EUR14)

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



### NOVARTIS

**NEUTRAL, Fair Value CHF89 vs. CHF88 (+21%)**

*LEE011 so successful in trial that DMC calls for an early ending*

DMC is recommending early termination of MONALEESA-2 phase III trial investigating LEE011+letrozole vs letrozole alone in HR+/HER2- BC patients following convincing interim efficacy results. This could accelerate filing of LEE011 in this setting. Our FV is adjusted by CHF1.

### PERNOD RICARD

**NEUTRAL vs. BUY, Fair Value EUR107 (+13%)**

*Strong fundamentals overshadowed by short-term weakness*

There is no doubt that the fundamentals of the group are strong: the US and Western Europe are accelerating, while India remains a growth driver in Asia. But there is weakness in the short-term: organic sales in China should be down 10% this year and there is uncertainty regarding the extent of a recovery in 2016/17. Our estimates and our Fair Value of EUR107 are unchanged, but we downgrade our recommendation to Neutral. We think that the stock will be dead money for some time.

### SABMILLER

**NEUTRAL, Fair Value 4400p (+5%)**

*2015/16 results highlight big negative currency impact*

SABMiller reported this morning EBITA slightly (1%) ahead of consensus while the revenue figures was already communicated on the 21st of April. Both revenue and EBITA performance delivered organic growth of 5% and 8% respectively confirming that it is business as usual for the majority of the company (despite AB InBev bid). However, the impact of currencies on net revenue is a negative 13% and it is 17% on EBITA, which clearly increases the relative price that AB InBev is paying (fixed at GBP44 per share).

### SAP

**NEUTRAL, Fair Value EUR73 (+7%)**

*Feedback from Sapphire Now 2016 (Day 1): behind the S/4HANA story...*

On 17-19th May, SAP is holding its Sapphire Now 2016 users' conference and Investors Day in Orlando. The first day of this event provided us with an opportunity to talk to customers and partners. Our key takeaways were that: 1). S/4HANA goes fast in terms of customer adoption on the Finance part, while the Logistics is promising; 2). A lot of existing SAP ERP customers will take their time to migrate to S/4HANA, but 2025 will be a sort of deadline for them; 3). SAP is starting to embrace new "hot topics" such as machine learning, artificial intelligence, and augmented reality.

### PAYMENTS

*Safran is officially entering the Morpho sale process*

### In brief...

**ARM HOLDINGS, ARM acquires Apical for USD350m cash and seeks to accelerate opportunities in imaging**

**ASTRAZENECA, Lynparza fails in gastric cancer**

**SAFILO, New CEO of North America and early renewal of Jimmy Choo**

**ZEALAND, Q1 numbers have little significance; all eyes on upcoming AdCom**

**LUXURY GOODS, Burberry FY 2016 results in line with estimates and significant three-year cost savings plan**

**PHARMACEUTICALS, Lose-lose for AstraZeneca and Novartis**

Healthcare

**Novartis**

Price CHF73.35

LEE011 so successful in trial that DMC calls for an early ending

Fair Value CHF89 vs. CHF88 (+21%)

NEUTRAL

Bloomberg	NOVN.VX
Reuters	NOVN.VX
12-month High / Low (CHF)	102.3 / 68.5
Market Cap (CHFm)	192,699
Ev (BG Estimates) (CHFm)	196,264
Avg. 6m daily volume (000)	6,046
3y EPS CAGR	5.7%

DMC is recommending early termination of MONALEESA-2 phase III trial investigating LEE011+letrozole vs letrozole alone in HR+/HER2- BC patients following convincing interim efficacy results. This could accelerate filing of LEE011 in this setting. Our FV is adjusted by CHF1.

ANALYSIS

- There could not be better piece of news to offset the bad taste left by the announcement of the departure of David Epstein (see sector mail) than the early interruption of the MONALEESA-2 trial based on interim results at the request of the DMC. The overwhelming efficacy of CDK4/6 inhibitor LEE011 in HR+/HER2- breast cancer in combination with letrozole vs letrozole alone was so strong at the pre-planned interim analysis that the committee has recommended that the trial be stopped as the primary endpoint (PFS) had already been met. Safety-wise, LEE011 was very much as expected as we understand it.
- That said, the positive nature of clinical results with LEE011 was in little doubt, as palbociclib (Ibrance, Pfizer) had already demonstrated the benefits of the mechanism in a similar setting in PALOMA-1 and is already on the market. Note that PALOMA-3, investigating palbociclib in combination with fulvestrant, was also stopped early due to efficacy. So, CDK 4/6 inhibition looks definitely like a very interesting approach to HR+/HER2- BC and part of future SOC, as illustrated by the strong ramp-up of Ibrance in its first year (USD429m in sales in Q1 2016 o/w USD422m in the US alone).
- As a consequence of these positive interim results, Novartis will start discussing with healthcare authorities about filing of LEE011, which may come earlier than expected i.e. some time in Q3. As to whether it is differentiated from Ibrance, unlike past statements, this is unclear to us. We do not see superior selectivity for CDK4/6 receptors vs palbociclib, whereas Pfizer is moving quickly forward with aggressive clinical programme, including in adjuvant breast (PALLAS, 4,600 patients, FPI August 2015), offering it 12-15 months head start vs Novartis. Note, however, that Novartis has long experience in this area with Femara and Afinitor.
- Let's see – maybe at ESMO – the PFS results of MONALEESA-2 and how they compare to Ibrance's similar results in PALOMA-1 i.e. 20.2m median PFS (vs 10.2m for comparator), HR=0.488 (see below)

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.3%	0.8%	-18.2%	-15.5%
Healthcare	-2.4%	1.1%	-12.1%	-11.0%
DJ Stoxx 600	-2.4%	1.8%	-11.9%	-8.5%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	49,414	50,145	52,551	55,856
% change		1.5%	4.8%	6.3%
EBITDA	13,119	12,996	13,822	15,372
EBIT	7,544	7,496	8,322	9,872
% change		-0.6%	11.0%	18.6%
Net income	6,017	6,568	7,603	9,133
% change		9.2%	15.8%	20.1%

	2015	2016e	2017e	2018e
Operating margin	15.3	14.9	15.8	17.7
Net margin	12.2	13.1	14.5	16.4
ROE	8.1	8.5	9.9	11.6
ROCE	14.4	13.4	14.6	16.9
Gearing	21.4	22.5	20.8	16.4

(USD)	2015	2016e	2017e	2018e
EPS	5.01	4.96	5.28	5.92
% change	-	-1.1%	6.5%	12.1%
P/E	15.0x	15.2x	14.2x	12.7x
FCF yield (%)	0.6%	3.2%	4.8%	5.2%
Dividends (USD)	2.75	3.00	2.64	2.96
Div yield (%)	3.7%	4.0%	3.5%	3.9%
EV/Sales	4.1x	4.0x	3.8x	3.5x
EV/EBITDA	15.3x	15.5x	14.5x	12.8x
EV/EBIT	26.6x	26.8x	24.0x	19.9x

Table 8. Efficacy Results – Study 1 (Investigator Assessment, Intent-to-Treat Population)

	IBRANCE plus Letrozole (N=84)	Letrozole (N=81)
Progression-Free Survival (PFS)		
Number of PFS Events (%)	41 (48.8%)	59 (72.8%)
Hazard ratio (95% CI)	0.488 (0.319, 0.748)	
Median PFS [months] (95% CI)	20.2 (13.8, 27.5)	10.2 (5.7, 12.6)

CI=confidence interval; N=number of patients.

VALUATION

- As a consequence of today's announcement, we are increasing our PoS for LEE011 from 60% to 90% and, based on Ibrance's early success. We are also betting on a stronger take-off in 2016-17. The impact on our FV is CHF1.

NEXT CATALYSTS

- 24-25 May 2016: Meet The Management Meeting in Basel

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## Food &amp; Beverages

## Pernod Ricard

Price EUR94.95

## Strong fundamentals overshadowed by short-term weakness

Fair Value EUR107 (+13%)

NEUTRAL vs. BUY

There is no doubt that the fundamentals of the group are strong: the US and Western Europe are accelerating, while India remains a growth driver in Asia. But there is weakness in the short-term: organic sales in China should be down 10% this year and there is uncertainty regarding the extent of a recovery in 2016/17. Our estimates and our Fair Value of EUR107 are unchanged, but we downgrade our recommendation to Neutral. We think that the stock will be dead money for some time.

## ANALYSIS

- Strong fundamentals. The group's performance in the US is improving.** The spirits market in the country continues to grow strongly, at around 6.4% over 9M 2015/16 (Nielsen data), and Pernod Ricard is closing the gap with the market. Management said that organic sales growth over the year should be between 3% and 4% (our estimate: +3%), accelerating vs last year when sales were flat. The company is multiplying initiatives in the US. Between 2014 and 2015, it has tripled its dedicated salesforce. The price of Absolut has been repositioned in order to better face the competition and new packaging has been introduced. Pernod Ricard is also streamlining the flavours, premiumising the brand with Absolut Elyx (an halo effect is expected) and strengthening its quality credentials, notably with a new marketing campaign which was launched at the beginning of April and is focused on authenticity. The lifting of the embargo on Cuba remains a positive catalyst. The US accounts for as much as 40% of the global rum market and Pernod Ricard should benefit from the rebellious Cuban image of Havana Club. **In Asia, India remains very strong**, with organic sales up 14% in Q3. Pernod Ricard generates volumes that are four times lower, but profits three times higher than its closest competitor in the region. Its market share now reaches 47% vs 33% six years ago. **Western markets are picking up**, in particular Spain which grew high single digit every quarter since the beginning of this fiscal year. The country represents 4% of the group's sales and has a margin in the mid forties (i.e. the same as in the US). The recovery is driven by gin which accounts for 40% of the market, but whiskies are also better. The UK is also doing well, as is Germany.

- Yet short-term weakness. We forecast 1% organic sales decline in Q4 (+2.5% in 9M)** due to: 1/ the reversal of shipment loading in the US in Q3, 2/ an unfavourable comparison base in France as the group overshipped in Q4 2014/15 before the merger of Pernod's and Ricard's IT systems, 3/ an organic sales decline of 10% in China, in line with what the group indicated, and 4/ destocking in South East Asia (Vietnam, Indonesia, Malaysia...). Over the year, organic sales should grow 1.7% with +1.5% in Asia/ROW, +3.3% in Americas and +0.6% in Europe. **We expect EBIT to grow 1% organically over the year, at the low end of the group's guidance (1/3%). We think that 2016/17 should accelerate only slightly vs 2015/16.** There is uncertainty regarding the extent of a recovery in China. The effects of the anti-extravagance policy is proving to be longer than expected and the macroeconomic environment is not helping. Besides, around 20% of Pernod Ricard's China sales are generated by scotch, a category which is still declining in the high double digits. We expect organic sales in 2016/17 to rise 2.6% (China: -5%).

## VALUATION

- We downgrade our recommendation to Neutral**, but we maintain our estimates and our Fair Value of EUR107. The stock is relatively inexpensive vs its peers. At yesterday's share price, it is trading at 15.0x EV/EBIT 2015/16e and 14.8x EV/EBIT 2016/17e, 17% and 10% below the peer average. **We think that it will be dead money for some time.** We maintain our preference for Rémy Cointreau and Campari.

## NEXT CATALYSTS

- Conference call on Asia on May 31<sup>st</sup>
- 2015/16 results in August

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Bloomberg	RI FP
Reuters	PERP.PA
12-month High / Low (EUR)	114.4 / 88.3
Market Cap (EUR)	25,202
Ev (BG Estimates) (EUR)	33,756
Avg. 6m daily volume (000)	517.6
3y EPS CAGR	2.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.1%	-1.9%	-12.2%	-9.7%
Food & Bev.	-1.7%	0.5%	-7.0%	-4.0%
DJ Stoxx 600	-2.4%	1.8%	-11.9%	-8.5%

YEnd Jun. (EURm)	06/15	06/16e	06/17e	06/18e
Sales	8,558	8,693	8,797	9,089
% change		1.6%	1.2%	3.3%
EBITDA	2,456	2,595	2,583	2,663
EBIT	2,238	2,247	2,249	2,336
% change		0.4%	0.1%	3.9%
Net income	1,329	1,343	1,365	1,443
% change		1.0%	1.6%	5.7%

	06/15	06/16e	06/17e	06/18e
Operating margin	26.2	25.8	25.6	25.7
Net margin	10.1	14.7	14.8	15.2
ROE	6.6	9.1	9.0	9.1
ROCE	8.8	10.9	10.7	10.9
Gearing	67.9	60.0	55.1	50.0

(EUR)	06/15	06/16e	06/17e	06/18e
EPS	4.99	5.04	5.13	5.42
% change	-	1.1%	1.6%	5.7%
P/E	19.0x	18.8x	18.5x	17.5x
FCF yield (%)	4.6%	4.6%	4.5%	4.7%
Dividends (EUR)	1.80	1.83	1.86	1.97
Div yield (%)	1.9%	1.9%	2.0%	2.1%
EV/Sales	4.0x	3.9x	3.8x	3.6x
EV/EBITDA	13.9x	13.0x	12.9x	12.4x
EV/EBIT	15.3x	15.0x	14.8x	14.1x



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Food & Beverages

**SABMiller**

Price 4,210p

2015/16 results highlight big negative currency impact

Fair Value 4400p (+5%)

NEUTRAL

Bloomberg	SAB LN
Reuters	SAB.L
12-month High / Low (p)	4,286 / 2,878
Market Cap (GBPm)	68,262
Ev (BG Estimates) (GBPm)	66,295
Avg. 6m daily volume (000)	2,385
3y EPS CAGR	1.9%

SABMiller reported this morning EBITA slightly (1%) ahead of consensus while the revenue figures were already communicated on the 21<sup>st</sup> of April. Both revenue and EBITA performance delivered organic growth of 5% and 8% respectively confirming that it is business as usual for the majority of the company (despite AB InBev bid). However, the impact of currencies on net revenue is a negative 13% and it is 17% on EBITA, which clearly increases the relative price that AB InBev is paying (fixed at GBP44 per share).

**ANALYSIS**

- 2016 group net revenue increased organic by with organic volume growth of 2% and net revenue per hl increasing by 3%. This was already communicated on the 21<sup>st</sup> of April and we believed that it was a sign that the looming change in ownership to AB InBev has not had much of a disruptive impact on its operations, which is good news for AB InBev. Indeed, net revenue growth for q4 of 7% compared to 4% in the first half despite macro-economic conditions worsening in its emerging markets. EBITA grew organic by 8% and EBITA margin3 increased by 60 basis points. EBITA of USD5,810 was ahead of consensus of USD5,749 which again is confirmation that on the ground, SABMiller continues to function as normal.
- We also note the strong negative impact of the weakening emerging market currencies as net revenue, EBITA and adjusted EPS declined by 8%, 9% and 6%, respectively – delivering a negative currency impact of 13% on net revenue and 17% on EBITA. The currency impact on EBITA was the largest in Africa (-21%), followed by Latin America (-19%) and Asia Pacific was -15%.
- However, the significant adverse foreign exchange transactional impact on EBITA was mitigated by the company's continued cost reduction/programme as reported EBITA margins for the group were down only 10bps (-40bps in Africa, -100bps in Latin America and +70bps in Latin America)

**VALUATION**

- We value the stock at 4,400p which is the AB InBev offer price

**NEXT CATALYSTS**

- Agreement from South African/European regulators for the AB InBev bid to go ahead.

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	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.8%	0.8%	5.0%	3.5%
Food & Bev.	-1.7%	0.5%	-7.0%	-4.0%
DJ Stoxx 600	-2.4%	1.8%	-11.9%	-8.5%

YEnd Mar. (USDm)	03/15	03/16e	03/17e	03/18e
Sales	22,130	20,335	21,101	22,371
% change		-8.1%	3.8%	6.0%
EBITDA	5,690	5,150	5,413	5,826
EBIT	4,459	3,994	4,227	4,592
% change		-10.4%	5.8%	8.6%
Net income	3,835	3,433	3,692	4,061
% change		-10.5%	7.5%	10.0%

	03/15	03/16e	03/17e	03/18e
Operating margin	27.0	26.2	26.7	27.3
Net margin	23.2	22.5	23.3	24.1
ROE	16.6	14.1	14.4	15.0
ROCE	7.4	6.5	6.8	7.3
Gearing	48.3	41.6	34.6	26.2

(USD)	03/15	03/16e	03/17e	03/18e
EPS	2.37	2.12	2.28	2.51
% change		-10.5%	7.5%	10.0%
P/E	25.7x	28.8x	26.7x	24.3x
FCF yield (%)	3.4%	3.0%	3.5%	4.3%
Dividends (USD)	1.13	1.19	1.31	1.44
Div yield (%)	1.9%	1.9%	2.1%	2.4%
EV/Sales	4.4x	4.7x	4.5x	4.1x
EV/EBITDA	17.1x	18.6x	17.5x	15.9x
EV/EBIT	21.8x	24.0x	22.4x	20.2x



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TMT

SAP

Price EUR68.18

Feedback from Sapphire Now 2016 (Day 1): behind the S/4HANA story...

Fair Value EUR73 (+7%)

NEUTRAL

Bloomberg	SAP GR
Reuters	SAPG.DE
12-month High / Low (EUR)	74.9 / 55.9
Market Cap (EURm)	83,759
Ev (BG Estimates) (EURm)	86,488
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	1 M	3 M	6 M	31/12/15
Absolute perf.	1.1%	5.1%	-7.8%	-7.1%
Softw. & Comp.	0.9%	9.8%	-3.6%	-5.0%
DJ Stoxx 600	0.6%	10.3%	-11.6%	-8.5%

ANALYSIS

- Beneath the S/4HANA story.** Our checks find that, until the 15-11 version launched in November 2015, SAP S/4HANA was Simple Finance on top of the former ECC (Business Suite, SAP 6.0) architecture. Since 15-11, S/4HANA is a full fledged S/4HANA including Simple Finance and Simple Logistics. We had the confirmation that the jump in the S/4HANA customer count in Q4 15 (+1,400 to 2,700) was related to bundles and year-end promotions on licences or maintenance. In some cases, SAP sold S/4HANA ahead of projects in order to secure the customer, which is causing a 'shelfware' effect, i.e. software products are bought, but not yet installed or used. We are not really concerned by this as partners we talked to see strong demand for Simple Finance and solid potential for Simple Logistics - which is just at its beginning, yet the number of certified experts on S/4HANA struggle to meet the demand as testified by growth acceleration of the Consulting & Systems Integration business of IT Services companies. We understand that bigger adoption of S/4HANA is essentially in the hands of partners (Deloitte, Capgemini, EY, Wipro, Accenture, IBM, PwC...), as they build industry-specific solutions and business cases.

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	20,798	21,724	23,154	24,744
% change		4.5%	6.6%	6.9%
EBITDA	6,884	7,066	7,440	8,039
EBIT	4,251	5,077	5,624	6,183
% change		19.4%	10.8%	9.9%
Net income	4,660	4,991	5,250	5,611
% change		7.1%	5.2%	6.9%

- S/4HANA and existing ERP customers.** Half of the 3,200 S/4HANA customers are new customers, and the other half is existing customers. The migration from SAP ERP will take a long time as many existing SAP ERP customers (25-30,000), who remember a painful migration from SAP R/2 to SAP R/3 and from SAP R/3 to SAP ERP 6.0, prefer to make the transition through Business Suite on HANA, but they will have to move to S/4HANA by 2025 when SAP will stop supporting the Business Suite. Finally, while SAP's strategy on S/4HANA is to use HANA as a database and the HANA Cloud Platform as its integration platform, every existing SAP ERP customer which migrates to S/4HANA is likely to consider dropping its Oracle, IBM or Microsoft relational database soon or later when relevant.

	2015	2016e	2017e	2018e
Operating margin	30.5	29.9	29.5	29.9
Net margin	14.8	17.6	18.2	18.4
ROE	13.2	14.9	14.8	14.5
ROCE	18.5	18.7	19.5	21.2
Gearing	24.7	10.6	-2.0	-13.1

- Embracing the machine learning wave.** While last year SAP announced some initiatives in the Internet of Things, this year the new topics introduced at the conference were machine learning, artificial intelligence, and augmented reality. We understand that SAP embraced the bandwagon of machine learning and artificial intelligence very recently (after IBM with Watson and Salesforce through acquisitions for instance), and wants to benefit from it during the next 5-10 years by using these technologies for invoice matching, CV matching, social media and customer services, automated sales forecasts, and real-time recommendations. All areas of SAP (S/4HANA, CRM, HR, procurement, travel and expense management, etc) would be impacted by new innovations.

(€)	2015	2016e	2017e	2018e
EPS	3.69	3.96	4.16	4.45
% change	-	7.1%	5.2%	6.9%
P/E	18.5x	17.2x	16.4x	15.3x
FCF yield (%)	3.6%	5.6%	5.9%	6.3%
Dividends (€)	1.15	1.20	1.30	1.40
Div yield (%)	1.7%	1.8%	1.9%	2.1%
EV/Sales	4.3x	4.0x	3.6x	3.2x
EV/EBITDA	13.0x	12.2x	11.2x	9.9x
EV/EBIT	14.1x	13.3x	12.2x	10.8x

VALUATION

- SAP's shares are trading at est. 13.3x 2016 and 12.2x 2017 EV/EBIT multiples.
- Net debt on 31<sup>st</sup> March 2016 was EUR3,365m (net gearing: 15%).

NEXT CATALYSTS

Sapphire Now 2016 continues today. Q2 16 results on 20<sup>th</sup> July before markets open.

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Sector View

Payments

Safran is officially entering the Morpho sale process

	1 M	3 M	6 M	31/12/15
Softw. & Comp. SVS	-1.1%	3.7%	-4.2%	-5.0%
DJ Stoxx 600	-2.4%	1.8%	-11.9%	-8.5%
*Stoxx Sector Indices				

Companies covered

<b>GEMALTO</b>	<b>NEUTRAL</b>	<b>EUR62</b>
<i>Last Price</i>	<i>Market Cap.</i>	
<b>INGENICO GROUP</b>	<b>BUY</b>	<b>EUR144</b>
<i>Last Price</i>	<i>Market Cap.</i>	
<b>WIRECARD</b>	<b>BUY</b>	<b>EUR52</b>
<i>Last Price</i>	<i>Market Cap.</i>	
<b>WORLDLINE</b>	<b>BUY</b>	<b>EUR29</b>
<i>Last Price</i>	<i>Market Cap.</i>	
<b>WORLDPAY</b>	<b>NEUTRAL</b>	<b>278p</b>
<i>Last Price</i>	<i>Market Cap.</i>	



ANALYSIS

- Philippe Petitcolin, Safran CEO, has started the process regarding its subsidiary specialized in security. According to numerous sources, candidates have to submit their offers during the second half of June to Lazard and Société Générale (advisory banks). Then, due diligence will open to give them access to more information. As a reminder, Morpho (revenue of EUR1.7bn and 8,600 employees) is courted by some French manufacturers (Atos, Gemalto and Oberthur) but also by Bpifrance (1st shareholder of Ingenico and in the share capital of Gemalto), some French funds (Eurazeo, Astorg, PAI, Wendel) and some foreign funds (KKR, CVC, Apollo, Carlyle and Bain Capital). The Japanese NEC, the Swedish HID and the German G&D would also be interested in this business. Philippe Petitcolin seems determined to refocus Safran on aerospace, and he expects to sell the whole of Morpho at 10x Ebitda (i.e. over EUR2bn).
- As a reminder, the French state owns 15.5% of the share capital and 24% of the voting rights, and two of its representatives on the board of directors are following the issue closely. The French authorities are sensitive to the profile of buyers of Morpho, which is quite logical in the current context (fight against terrorism, trafficking in arms, drugs and human beings...). And, of course, there are advanced technologies involved such as identification by iris, fingerprints or face recognition, and other biometric identity solutions. Note that Morpho only does 10% of its revenue in France, and only 1% with the French government. France is 15-20% of its industrial base and workforce. The French state is ready to put in place protection mechanisms so that jobs, technologies, research and intellectual property of sensitive activities do not leave the territory.
- We have begun to write on that subject in our BGeek last December following an article in La Lettre A (which is often well informed about the defence industry) saying that the declining profitability of Morpho was pushing Safran to consider the possibility of a sale. Not forgetting that Safran needs to cover its costs as it has made large investments to build its security division. So, this is more an officialisation than an information. In our view, a sale to a direct competitor would make sense. In embedded software & Products, 78% of the market is owned by 4 players (Gemalto 40%, Giesecke & Devrient 15%, Oberthur Technologies 15%, and Morpho 8%) and the remaining 22% breaks down between small local players (especially Asian groups such as Eastcompeace Technology, Watchdata, Datang Telecom Technology & Industry Group, Wuhan Tianyu Information Industry and Kona). Finally, note that the 10x EV/EBITDA multiple cited by Safran's CEO for Morpho is not far from the 9.4x we calculate for Gemalto in 2016e. In our view, Oberthur and Gemalto are the best placed in the race to acquire Morpho.

Player trends in each main vertical and their market shares

Sectors	Gemalto	Giesecke & Devrient	Oberthur Tech	Morpho	TOP 4	Local players
Telecoms	PPP	PPP	PP	P		
eGovernment	PPP	P	P	PPP		
Banks	PPP	PP	PPP			
Enterprise	PPP					
M2M	P					
<b>Total market share</b>	<b>40%</b>	<b>15%</b>	<b>15%</b>	<b>8%</b>	<b>78%</b>	<b>22%</b>

PPP Excellent; PP Good; P Weak

Source: Bryan, Garnier & Co ests.

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## TMT

**ARM Holdings**

Price 928.00p

**ARM acquires Apical for USD350m cash and seeks to accelerate opportunities in imaging**

Fair Value 1340p (+44%)

BUY

Bloomberg	ARM.LN
Reuters	ARM.L
12-month High / Low (p)	1,168 / 848.5
Market Cap (GBPm)	13,063
Avg. 6m daily volume (000)	3,736

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.3%	-0.2%	-12.0%	-10.7%
Semiconductors	-6.4%	4.2%	-10.4%	-8.5%
DJ Stoxx 600	-2.4%	1.8%	-11.9%	-8.5%

	2015	2016e	2017e	2018e
P/E	30.7x	26.4x	22.7x	20.1x
Div yield (%)	0.8%	1.2%	1.5%	1.6%

**ANALYSIS**

- **Today, ARM announces the acquisition of Apical, a UK company specialised in imaging and computer vision.** We believe the aim of this acquisition is to reinforce ARM's IP portfolio to better serve high-growth markets such as the automotive, industrial sector and IoT. It should also help the group to add content into historic market of smartphone since Apical's technology is said to be used in more than 1.5bn smartphones and 300m of other devices. As a result, this acquisition targets three Apical's technology: 1/ Spirit, a computer vision technology (allowing converting raw sensor data or video into a machine-readable representation of an image) which will complement the current ARM Mali offering (graphic, display, video), 2/ Assertive Display which enables better screen performance and is currently being used by large OEM (Huawei, LG and Samsung), and 3/ Assertive Camera which enhance camera module performance and targets the smartphone and the automotive markets.
- **A USD350m deal.** The deal is worth USD350m (c. GBP242m) and will be paid cash. We note that the net cash position of ARM was GBP812m by the end of March. It worth noting that the two companies used to work together on next gen image computing products. At first take, this acquisition make sense since it will reinforce ARM's portfolio while technological overlaps appears to be very limited and Apical's technologies seem to fit in ARM's Mali offering. We mainly sees opportunities in the field of automotive and especially the fashionable driverless features. Finally, Apical is said to be a strong growing business however no details are made public.

**VALUATION**

- **Based on our estimates, ARM's shares are trading on 2016e P/E of 26.4x, well below its 5y historical average of 39.3x.**

**NEXT CATALYSTS**

- 27th July 2016: Q2 results

[Click here to download](#)Dorian Terral, [dterral@bryangarnier.com](mailto:dterral@bryangarnier.com)

Healthcare

**AstraZeneca**

Price 3,931p

**Lynparza fails in gastric cancer**

Fair Value 5100p (+30%)

**BUY**

Bloomberg	AZN LN
Reuters	AZN.L
12-month High / Low (p)	4,628 / 3,799
Market Cap (GBPm)	49,703
Avg. 6m daily volume (000)	2 626

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.2%	-8.2%	-10.6%	-14.9%
Healthcare	-2.4%	1.1%	-12.1%	-11.0%
DJ Stoxx 600	-2.4%	1.8%	-11.9%	-8.5%

	2015	2016e	2017e	2018e
P/E	13.3x	14.2x	14.9x	14.4x
Div yield (%)	4.9%	4.9%	4.9%	4.9%

**ANALYSIS**

- AstraZeneca today announced that Lynparza missed OS primary endpoint in the GOLD phase III trial investigating the PARP inhibitor in advanced gastric cancer patients. There was a numerical survival trend, but that did not reach statistical significance, be it in the overall population or in those whose tumour was tested negative for ATM protein (18% of the total), in combination with paclitaxel. The phase III trial was the only one conducted in gastric cancer and had recruited in Asia where prevalence is high.
- As a consequence, this is likely the end for Lynparza in gastric cancer, which was one among many indications targeted but obviously not one of the key ones based on the knowledge about PARP inhibitors. Currently marketed in advanced lines of BRCAm ovarian cancer, main goal is to move Lynparza forward in earlier stages of ovarian cancer and to show benefit in breast and in prostate cancer where chances of success are obviously higher.

**VALUATION**

- See on the left how AstraZeneca factored Lynparza into its 2023 target in May 2014. We assume GOLD failure is not impacting the objective in a very meaningful way. Out of the box on the right, we believe prostate cancer represents the major part.
- No change to our numbers.

**NEXT CATALYSTS**

- 26 May 2016 : PDUFA date for ZS-9

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## Luxury &amp; Consumer Goods

**Safilo**

Price EUR6.62

**New CEO of North America and early renewal of Jimmy Choo**

Fair Value EUR11 (+66%)

NEUTRAL

Bloomberg	SFL IM
Reuters	SFLG.MI
12-month High / Low (EUR)	13.6 / 6.4
Market Cap (EUR)	414
Avg. 6m daily volume (000)	133.8

	1 M	3 M	6 M	31/12/15
Absolute perf.	-13.4%	-22.0%	-40.4%	-38.2%
Consumer Gds	-1.5%	0.6%	-7.8%	-5.2%
DJ Stoxx 600	-2.4%	1.8%	-11.9%	-8.5%

	2015	2016e	2017e	2018e
P/E	59.7x	11.2x	19.1x	11.6x
Div yield (%)	NM	1.5%	2.3%	3.0%

**ANALYSIS**

- Having simplified and streamlined its US logistics and distribution network last year, Safilo has announced the appointment of **Henri Blomqvist as new CEO of Safilo North America**, effective August 1st. According to *Vision Monday*, he will also be responsible for the global sports commercial channel which concerns two proprietary brands, Carrera and Smith. Mr Blomqvist joined Safilo in December 2013 as Chief Commercial Officer and he revamped the group's commercial strategy and implemented global commercial policies.
- In his new role, Mr Blomqvist's objective is to enhance Safilo's partnership with its customers (e.g. the group has a strong footprint in the independent ECP channel) and to increase market share in the North American region which is already the group's largest market (~42% of total sales). Moreover, we believe he will also oversee the DC consolidation by midyear (closure of its Parsippany DC and operations to run entirely out of its DC in Denver), the relocation of Safilo's US headquarters (underway) and the stabilisation of the retail business (Solstice) which was down 17% FX-n in Q1 16.
- On Monday, Safilo and **Jimmy Choo** agreed to early renewal of the licensing agreement that is now extended to 31 December 2023 instead of 2018 initially. Jimmy Choo belongs to the "Rockets" category (with Fendi and Céline) which should enjoy double-digit growth each year until 2020, according to the Strategic Plan. On our estimates, this licence generates sales of approx. EUR30-35m and the growth will be driven by incremental marketing investments and distribution gains in Asia and the US.

**VALUATION**

- This new appointment is part of Safilo's numerous initiatives aimed at strengthening the commercial and go-to-market organization, which sometimes led to self-inflicted wounds (e.g.: sales down 20.5% FX-n in Asia-Pacific over 2015) but were necessary. As the first positive results from these initiatives are ultimately longer in coming and since the organic growth in Q2 should still be impacted by production bottlenecks, we maintain our Neutral recommendation.

**NEXT CATALYSTS**

- Safilo will report its H1 2016 Results on 3 August.

[Click here to download](#)

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## Healthcare

**Zealand**

Price DKK126.00

**Q1 numbers have little significance; all eyes on upcoming AdCom****Fair Value DKK176 vs. DKK180 (+40%)****BUY**

Bloomberg	ZEAL DC
Reuters	22Z.F
12-month High / Low (DKK)	168.5 / 91.5
Market Cap (DKK)	3,081
Avg. 6m daily volume (000)	96.00

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.3%	9.6%	-14.0%	-16.8%
Healthcare	-2.4%	1.1%	-12.1%	-11.0%
DJ Stoxx 600	-2.4%	1.8%	-11.9%	-8.5%

	2015	2016e	2017e	2018e
P/E	NS	19.9x	NS	8.8x
Div yield (%)	NM	NM	NM	NM

**ANALYSIS**

- There is no surprise in Q1 2016 numbers released earlier today by Zealand and despite the recent announcement of the failure of elsiglutide to achieve its primary endpoint in a phase IIb trial (agreement with Helsinn), there is no change in the annual guidance for revenues and operating loss for the full year. Obviously, this will mainly depend on the US approvals of lixisenatide and lixi-Lantus fixed-dose combination.
- To note simply is that phase II in type I diabetes has been completed with ZP4207 as a rescue therapy in severe hypoglycaemia (56 patients) in May and results are expected in Q3 2016.
- All that said, what really matters for Zealand is what is going to be said next week during the two advisory committees scheduled on May 24 and 25 to review Xultophy and LixiLan. What we will pay maximum attention to is (i) whether there will be any suggestion that these combinations should be reserved for severely ill patients that have previously tried and failed on any other type of diabetes treatment (similar wording to PCSK9's), which would be bad news, limiting the size of the target market; (ii) whether, based on any comment or simply on discussed clinical data, that Xultophy is clearly superior to LixiLan. We know that Sanofi plans a more aggressive pricing strategy, but the two propositions do not have to be too different to make price an acceptable differentiating factor.

**VALUATION**

- We make no change to our forecasts (yet). Remember that LixiLan is currently about 60% of our FV. The small change to it stems from the new number of shares computed for calculation.

**NEXT CATALYSTS**

- Today 9am: Conference Call - [Click here to download](#)

Eric Le Berrigaud, [eleberrigaud@bryangarnier.com](mailto:eleberrigaud@bryangarnier.com)

## Sector View

## Luxury Goods

## Burberry FY 2016 results in line with estimates and significant three-year cost savings plan

	1 M	3 M	6 M	31/12/15
Pers & H/H Gds	0.1%	4.1%	-3.1%	-0.7%
DJ Stoxx 600	-2.4%	4.5%	-9.7%	-8.5%

\*Stoxx Sector Indices

## Companies covered

CHRISTIAN DIOR	BUY	EUR175
HERMES Intl	BUY	EUR355
HUGO BOSS	NEUTRAL	EUR77
KERING	BUY	EUR174
LVMH	BUY	EUR174
MONCLER	BUY	EUR17
PRADA	NEUTRAL	HKD35
RICHEMONT	BUY	CHF81
S FERRAGAMO	BUY	EUR25
THE SWATCH GROUP	NEUTRAL	CHF410
TOD'S GROUP	SELL	EUR60

Burberry reported this morning FY results globally in line with consensus. Sales underlying declined 1% to GBP2.51bn. EBIT stood at GBP418m (consensus: GBP419m). EBIT margin declined 140bp to 16.6%. GBP100m cost saving plan over three years.

## ANALYSIS

- FY sales (preliminary sales were reported mid-April) reached GBP2.51bn, almost unchanged vs 2014/15 on reported and underlying. Retail sales were up 1.7% to GBP1.83bn. Underlying retail sales remained almost unchanged and at comparable stores, retail revenues declined slightly (-1%). By geographic area, sales were down mid-single digit in APAC (with dd decline in Hong Kong), while revenues in EMIA and in Americas remained almost unchanged. Among others, stores were opened in London and in New York during the period. DOS number gained three stores (net of closures) to 487, including 214 free standing stores (215 at end march 2015). Wholesale sales remained unchanged last year.
- Adjusted 2015/16 EBIT declined 11% underlying to GBP418m (consensus: GBP419m), implying a 16.6% EBIT margin (-140bp). Dividend up 5% to 37p with 50% pay-out ratio.
- Plan to deliver GBP100m of cost savings within three years, of which GBP20m in FY 17.

## VALUATION

- The stock, which is down 11% YTD, is trading in line with our luxury sample average on 2016 EV/EBIT (11.5x).

## NEXT CATALYSTS

- October 2016: H1 trading update.

Loic Morvan, [Imorvan@bryangarnier.com](mailto:Imorvan@bryangarnier.com)

## Sector View

## Pharmaceuticals

## Lose-lose for AstraZeneca and Novartis

	1 M	3 M	6 M	31/12/15
Healthcare	-2.5%	2.6%	-9.6%	-11.1%
DJ Stoxx 600	-2.4%	4.5%	-9.7%	-8.5%

\*Stoxx Sector Indices

## Companies covered

ACTELION	BUY	CHF173
ASTRAZENECA	BUY	5100p
BAYER	NEUTRAL	EUR110
GLAXOSMITHKLINE	BUY	1700p
IPSEN	BUY	EUR60
NOVARTIS	NEUTRAL	CHF89 vs.88
NOVO NORDISK	NEUTRAL	DKK400
ROCHE HOLDING	BUY	CHF293
SANOFI	NEUTRAL	EUR86
UCB	NEUTRAL	EUR80

We see the departure of Paul Hudson from AstraZeneca and of David Epstein from Novartis as bad news for the two companies. Obviously, Epstein had a more central role within Novartis than Hudson at AZN and his surprise departure should have a more serious impact on the stock.

## ANALYSIS

- In a short press release yesterday, Novartis reports that, as a consequence of a small reorganisation dividing its Pharmaceuticals division in two separately-managed business units, Pharmaceuticals and Oncology (whereas Oncology was previously a sub-unit of Pharma), David Epstein has decided to leave the group.
- We are surprised by both the announcement of Epstein's departure, but also by the sequence of events. We would rather believe that because of Epstein's departure, Novartis is marginally amending its organisation. Epstein is said to be "exploring new challenges from the US".
- Epstein has a long track-record of successes within Novartis, first in oncology and then as head of the pharma division. It can be easily envisaged that this has tarnished a bit in the recent past with the failed launch of key drug Entresto in rEF CHF in the US, but it's hard to imagine that this was a reason to seek his departure.
- Shortly after Ameet Nathwani left to join Sanofi, Novartis is losing a highly-respected talent. That said, as new Head of Pharmaceuticals (no longer including Oncology), Novartis announced the appointment of AstraZeneca's EVP North America Paul Hudson, whose main objective in this role had been to revive Brilinta in the US. Will see how the tandem with Joe Jimenez works.
- Obviously, this is another significant departure for AstraZeneca too during a difficult transition period with upcoming product launches.

## NEXT CATALYSTS

- AstraZeneca : 26 May 2016 – PDUFA date ZS-9
- Novartis : 24-25 May 2016 – Meet the Management Meeting (Basel)

[Click here to download](#)

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## BG's Wake Up Call

# Bryan Garnier stock rating system

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### 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 58.2%

NEUTRAL ratings 32.6%

SELL ratings 9.2%

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