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3rd June 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17838.56	+0.27%	+2.37%
S&P 500	2105.26	+0.28%	+3.00%
Nasdaq	4971.36	+0.39%	-0.72%
Nikkei	16642.23	+0.48%	-12.98%
Stoxx 600	344.35	+0.07%	-5.87%
CAC 40	4466	-0.21%	-3.69%
Oil /Gold			
Crude WTI	49.2	0.00	+32.26%
Gold (once)	1210.55	+0.04%	+13.95%
Currencies/Rates			
EUR/USD	1.116	-0.11%	+2.73%
EUR/CHF	1.1046	+0.09%	+1.58%
German 10 years	0.113	-15.77%	-82.26%
French 10 years	0.47	-2.15%	-52.11%

Economic releases :

Date	
3rd-Jun	US - Fed's Evans speaks on Eco Policy in London FR - Markit composite PMI May (51.1E) DE - Services PMI May (55.2E) Gb - MARKIT Composite PMI May (52.3E) EUZ - Retail Sales Apr. (2.1% E) US - ISM non-Manuf composite May (55.4E)

Upcoming BG events :

Date	
7th-Jun	Cahiers Verts de l'Economie (BG Paris Lunch)
8th-Jun	Cahiers Verts de l'Economie (BG Paris Lunch)
13th-Jun	NOVARTIS (BG Paris roadshow with IR)
15th-Jun	GENMAB (BG Paris roadshow)
27th-Jun	IMERYS (BG Luxembourg with CFO)

Recent reports :

Date	
1st-Jun	Luxury goods Reduced visibility in the short term: be selective!
1st-Jun	Luxury goods Reduced visibility in the short term: be selective!
31st-May	SEB The kitchen is now bigger and well-equipped!
30th-May	SANOFI A more focused Sanofi is on the way
27th-May	Business Services : Worth being selective
27th-May	Business Services : Worth being selective

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



GENEURO

BUY Coverage initiated, Fair Value EUR18,2 (+89%)

The GeNesis of a disruptive treatment in MS (full report released today)

GeNeuro has taken a completely innovative and disruptive approach to treating a number of autoimmune diseases including multiple sclerosis, based on a technology that allows acting on the underlying process and potentially on one of the causes of the disease. If it came through, this approach would constitute a breakthrough and the product would probably become the new standard treatment for MS, a growing market segment that is worth USD20bn.

INSURANCE

Reinsurance: natcats are normalising

National Oceanic and Atmospheric Administration (NOAA) is forecasting a "near-normal" hurricane season (45% probability), suggesting we could see more hurricane activity than we have seen in the last 3 years, which were way below-normal. We calculate that normalised natcat levels, which started in Q2 2016 (earthquakes in Japan and Ecuador, Fort McMurray fire, current flooding in Europe) might lead to a c. EUR2.2bn overall lower operating profit pool for the 4 reinsurers we cover (c. 17% of total 2015 operating profit). Bottom line, the potential for good surprises is minimum on earnings and dividends, which makes the segment unattractive. Sell on Hannover Re and Munich Re, Buy on Scor.

In brief...

DASSAULT SYSTÈMES, Acquisition of Ortems in supply chain planning and scheduling

Yesterday Dassault Systèmes announced the acquisition of Ortems. Founded in 1989 and based in Lyon (France) with subsidiaries in Germany and Spain, Ortems specialises in advanced supply chain planning and scheduling software.

SHIRE PLC, "Shiraxalta" to be born! Our FV is lifted upward to GBp6,500

So Baxalta has been acquired by Shire... and consequently: 1/ Baxalta shareholders received USD18.0 in cash and the equivalent of 0.45 Shire ordinary shares (or 0.15 ADS) for each BXL share (acquisition price: USD45.6); 2/ Baxalta shares ceased trading on the NASDAQ; 3/ the trading of Shire's new shares should commence as soon as the market opens (and importantly, the stock should be included in the FTSE100); 4/ the total number of ordinary shares in issue will be 906.5m. So based upon the latest closing price, Shire will have a market capitalization of GBP40bn

Healthcare 3rd June 2016

GENEURO

Price EUR9.63

The GeNesis of a disruptive treatment in MS (full report released today)

Fair Value EUR18,2 (+89%)

BUY

Coverage initiated

Bloomberg	GNRO.FP
Reuters	GNRO.PA
12-month High / Low (EUR)	13.0 / 9.4
Market Cap (EURm)	141
Ev (BG Estimates) (EURm)	0
Avg. 6m daily volume (000)	4.10
3y EPS CAGR	ns

GeNeuro has taken a completely innovative and disruptive approach to treating a number of autoimmune diseases including multiple sclerosis, based on a technology that allows acting on the underlying process and potentially on one of the causes of the disease. If it came through, this approach would constitute a breakthrough and the product would probably become the new standard treatment for MS, a growing market segment that is worth USD20bn.

ANALYSIS

- Considering that the MSR-Env envelope protein is highly expressed in the white matter of patients with MS lesions and after having characterised the pro-inflammatory and neurodegenerative modes of action of this protein, a causal relationship seems to be, if not demonstrated, at least likely. As a result, GeNeuro has developed an antibody that specifically targets this protein and that is intended to have an anti-inflammatory and remyelinating effect.
- The antibody is currently entering Phase IIb (260 patients) for RRMS with the financial support of a partner, Servier, which will bear the resulting costs. Earlier this week, GeNeuro announced officially that first patient had been recruited. At the end of that phase, Servier will be able to exercise an option to acquire ex-US and ex-Japan selling rights for the drug as a treatment for MS, while GeNeuro will retain its selling rights for the US and Japanese markets and for all other indications.
- In view of the trends and geographic distribution of the MS market, there is very significant sales potential for GeNeuro. MS is already a USD20bn market that has been profoundly changed over the last few years by innovative oral drugs and that is likely to be transformed again by upcoming very effective anti-CD20 treatments ocrelizumab (Roche, filed) and ofatumumab (Novartis, in phase III). Because Ocrevus will open the new segment in PPMS, we see the MS market growing up to USD25bn in the coming few years, before generics come in on Gilenya or Aubagio.
- Back to GeNeuro, partner Servier could make milestone payments for a total of up to EUR325m, and it is likely to pay royalties of between 8 and 15% on its sales. In the US, GeNeuro will be free to choose what it considers to be the best strategy for maximising the value of its asset: either operating on its own or through a partnership. A decision is once again likely to be made once the phase IIb data are available i.e. during 2018. In the US still, we are waiting for the FDA decision to agree on the IND for GNBAC1 to allow for the addition of a small cohort of patients in the phase IIb trial that has just started and that is so far limited to European centers. Although it would be good to have a few US patients treated with GNBAC1 as early as in phase IIb, the design is such that the trial will not depend at all upon those patients so that the timing of the IND and speed of recruitment in the US is not a risk for the phase IIb and will not delay the outcome of results.

VALUATION

- Based on the information currently available, we deemed it appropriate to base our valuation of GeNeuro exclusively on the MS indication. With a probability of success estimated at between 25% (in Europe where Servier will be in charge) and 30% (in the US where we have considered a stand-alone strategy although we do not consider it as likely), a peak penetration rate of 10% in RRMS and a price in line with today's most effective treatments, our **median FV stands at EUR18.2**.
- Note that at the end of the first quarter, GeNeuro had net cash position of about EUR15m and later on raised EUR33m through its IPO. This is more than enough to fill the gap until the end of the phase IIb trial.

NEXT CATALYSTS

- The two significant pieces of news flow for GeNeuro this year are the IND for the phase IIb trial in the US and the announcement of further clinical trial initiations for GNBAC1 in non-MS indications.

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Sector View

Insurance

Reinsurance: natcats are normalising

	1 M	3 M	6 M	31/12/15
Insurance	1.0%	-0.2%	-15.4%	-12.2%
DJ Stoxx 600	0.9%	1.0%	-10.4%	-5.9%

*Stoxx Sector Indices

Companies covered

AEGON	NEUTRAL	EUR6
Last Price	EUR4.553	Market Cap. EUR9,775m
ALLIANZ	BUY	EUR180
Last Price	EUR145	Market Cap. EUR66,265m
AXA	BUY	EUR29
Last Price	EUR22.315	Market Cap. EUR54,203m
CNP ASSURANCES	NEUTRAL	EUR15
Last Price	EUR15.085	Market Cap. EUR10,358m
COFACE	NEUTRAL	U.R.
Last Price	EUR6.865	Market Cap. EUR1,080m
EULER HERMES	BUY	EUR99
Last Price	EUR78.07	Market Cap. EUR3,329m
HANNOVER RE	SELL	EUR110
Last Price	EUR99.86	Market Cap. EUR12,043m
MUNICH RE	SELL	EUR185
Last Price	EUR163.45	Market Cap. EUR26,324m
SCOR	BUY	EUR38
Last Price	EUR29.475	Market Cap. EUR5,659m
SWISS RE	NEUTRAL	CHF100
Last Price	CHF87.95	Market Cap. CHF32,604m
ZURICH INSURANCE GROUP	NEUTRAL	CHF270
Last Price	CHF237.6	Market Cap. CHF35,765m

National Oceanic and Atmospheric Administration (NOAA) is forecasting a “near-normal” hurricane season (45% probability), suggesting we could see more hurricane activity than we have seen in the last 3 years, which were way below-normal. We calculate that normalised natcat levels, which started in Q2 2016 (earthquakes in Japan and Ecuador, Fort McMurray fire, current flooding in Europe) might lead to a c. EUR2.2bn overall lower operating profit pool for the 4 reinsurers we cover (c. 17% of total 2015 operating profit). Bottom line, the potential for good surprises is minimum on earnings and dividends, which makes the segment unattractive. Sell on Hannover Re and Munich Re, Buy on Scor.

ANALYSIS

- In its just-issued 2016 Atlantic hurricane season outlook, the US National Oceanic and Atmospheric Administration’s (NOAA) Climate Prediction Center said this season (June-November) will most likely be near-normal (45%), and highlights that “uncertainty in the climate signals that influence the formation of Atlantic storms make predicting this season particularly difficult”. More precisely, NOAA is predicting a 70% likelihood of 10 to 16 named storms (winds of 39mph or higher), of which 4 to 8 could become hurricanes (winds of 74mph or higher), including 1 to 4 major hurricanes (winds of 111mph or higher). These ranges are centered broadly in line with the 1981-2010 period averages of 12 named storms, 6 hurricanes and 3 major hurricanes.
- The probability of an above-normal season is 30%, the probability of below-normal is 25%.
- One of the main factors to predict a more active hurricane season is that El Niño is dissipating, and NOAA’s Climate Prediction Center is forecasting a 70% chance that La Niña (which favors more hurricane activity) will be present during the peak months of the hurricane season (Aug.-Oct.).
- This near-normal prediction suggests we could see more hurricane activity than we have seen in the last 3 years, which were way below-normal. Of course, this outlook does not mean that the 2016 hurricane season will certainly have a higher impact on the reinsurers’ claims experience. As we have seen in the past, it is not that simple, and even below-normal seasons can still produce catastrophic events, just like the 1992 season in which only 7 named storms formed, yet the first one was Andrew, a category 5 major hurricane that devastated South Florida (at the time of its occurrence in August 1992, Andrew was the costliest hurricane in US history, ranking #5 today). In the final analysis, claims costs also depend on where hurricanes hit (wealth concentration or not).
- True, Q1 2016 was once again way below natcat budgets (only 0.5 pt on average for the 4 reinsurers we cover). However, Q2 2016 should be more in line with budgets following the earthquakes in Japan and Ecuador, the Fort McMurray fire and the current flooding in Europe. Assuming Q3 is also in line with budget in a scenario of a near-normal hurricane season, the spread between FY 2015 (2.2 pt on average) and FY 2016 (6.5 pt expected on average) could lead to a c. EUR2.2bn overall lower operating profit pool (c. 17% of total 2015 operating profit), all other things being equal. Of course, this is already priced in by consensus, with 2016 earnings’ expectations below 2015 levels, but this means that the potential for good surprise is minimum. Similarly, dividends are solid at last year’s level, but the potential for good surprise is minimum.
- This would theoretically be good for natcat prices. The current unbalance between risk and capacity would require more than a normalised natcat claims experience to resolve.
- We remain cautious on reinsurers, with Sell recommendations on Hannover Re and Munich Re, and only Scor rated as Buy.

VALUATION

- The reinsurers we cover are trading with a 5-10% premium to major primary insurers,
- We expect the development of natcats over the next few months to have an impact on the relative performance of both segments.

NEXT CATALYSTS

- No major identified catalysts prior to Q2 numbers (starting end-July).



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TMT

Dassault Systèmes

Price EUR70.90

Acquisition of Ortems in supply chain planning and scheduling

Fair Value EUR62 (-13%)

SELL

Bloomberg	DSY FP
Reuters	DAST.PA
12-month High / Low (EUR)	76.1 / 59.9
Market Cap (EUR)	18,219
Avg. 6m daily volume (000)	265.6

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.8%	0.9%	-6.8%	-3.9%
Softw. & Comp.				
SVS	4.2%	3.4%	-2.4%	-0.7%
DJ Stoxx 600	0.9%	1.0%	-10.4%	-5.9%
	2015	2016e	2017e	2018e
P/E	29.8x	25.9x	24.1x	21.7x
Div yield (%)	0.6%	0.7%	0.8%	0.9%

ANALYSIS

- **Yesterday Dassault Systèmes announced the acquisition of Ortems.** Founded in 1989 and based in Lyon (France) with subsidiaries in Germany and Spain, Ortems specialises in advanced supply chain planning and scheduling software. The company generated c. EUR5m revenues in 2015. More than 16,000 users in 60 countries use its solutions to schedule their daily production runs. Its Agile Manufacturing suite integrate with mainstream ERP, MES (manufacturing execution systems) and PLM software. Given its size, Ortems is unlikely to have a material impact to our forecasts.
- **Rationale of the deal.** Ortems will extend DS' 3DEXperience platform and industry solution experiences for manufacturing, supply chain and delivery, by strengthening production planning and scheduling along with Delmia Quintiq, in order to plan, execute and optimise global industrial operations in manufacturing. Ortems complements DS' Delmia brand applications, including Apriso, which offers a unified experience in digital manufacturing, manufacturing operations management, and supply chain planning and operations, built on a single referential data model.

VALUATION

- Dassault Systèmes' shares are trading at est. 17.2x 2016 and 14.8x 2017 EV/EBIT multiples.
- Net cash position on 31st March 2016 was EUR2,590.2m (net gearing: -46%).

NEXT CATALYSTSCapital Markets Day on 10th June. Q2 16 results on 21st July before markets open.[Click here to download](#)

Gregory Ramirez, gramirez@bryangarnier.com

Healthcare

Shire PLC

Price 4,449p

"Shiraxalta" to be born! Our FV is lifted upward to GBP6,500

Fair Value 6500p vs. 5900p (+46%)

BUY

Bloomberg	SHP.LN
Reuters	SHP.L
12-month High / Low (p)	5,730 / 3,480
Market Cap (GBP)	26,398
Avg. 6m daily volume (000)	2,389

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.4%	14.9%	-6.2%	-5.3%
Healthcare	5.0%	3.3%	-8.1%	-6.0%
DJ Stoxx 600	0.9%	1.0%	-10.4%	-5.9%

	2015	2016e	2017e	2018e
P/E	16.5x	18.0x	13.2x	11.1x
Div yield (%)	0.4%	0.3%	0.4%	0.5%

ANALYSIS

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- Note that: 1/ Shire already exhibited a pretty strong growth profile on a stand-alone basis; and 2/ we believe **the deal should be accretive on earnings as of 2017e** (around +1% and subsequently +4-6%) and we anticipate value creation by 2018e (knowing that the WACC we retain differ from the company's).

VALUATION

- **BUY reiterated with a FV lifted from GBP5,900 to GBP6,500** as we now integrate Baxalta into our estimates (although our figures will be fine-tuned once all the pro-forma figures will be available).
- Apart from the **very attractive valuation** (P/E 2017e: 13x vs 17x for the STOXX Europe 600 Healthcare), **we believe the stock will quickly re-rate** as: 1/ the pressure caused by the merger arbitrage strategies should cease; 2/ the stock may benefit from "technical buys" following its reweighting within the FTSE and the NASDAQ indexes.

NEXT CATALYSTS

- **July, 22 2016:** FDA answer regarding the potential approval of lifitegrast as a treatment for dry eye disease.
- **August, 2 2016:** Q2 16 results.

[Click here to download](#)Mickael Chane Du, mchanedu@bryangarnier.com

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BG's Wake Up Call

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 55.9%

NEUTRAL ratings 34.3%

SELL ratings 9.8%

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