Please find our Research on Bloomberg BRYG <GO>)

15th June 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	17674.82	-0.33%	+1.43%
S&P 500	2075.32	-0.18%	+1.54%
Nasdaq	4843.55	-0.10%	-3.27%
Nikkei	15919.58	+0.38%	-16.68%
Stoxx 600	320.53	-1.92%	-12.38%
CAC 40	4130.33	-2.29%	-10.93%
Oil /Gold			
Crude WTI	48.55	-0.49%	+30.51%
Gold (once)	1285.88	+0.30%	+21.04%
Currencies/Rates			
EUR/USD	1.121	-0.80%	+3.19%
EUR/CHF	1.08025	-1.05%	-0.66%
German 10 years	0	-98.27%	-99.93%
French 10 years	0.419	+0.46%	-57.25%
Euribor	-	+-%	+-%

Economic releases :

Date	
15th-Jun	GB - Jobless Claims Change May. (0.0K E)
	US - Industrial Production May (-0.2% E)
	US- Capacity Utilisation May (75.2% E)
	US- DOE oil inventories
	US - FOMC rate Decision

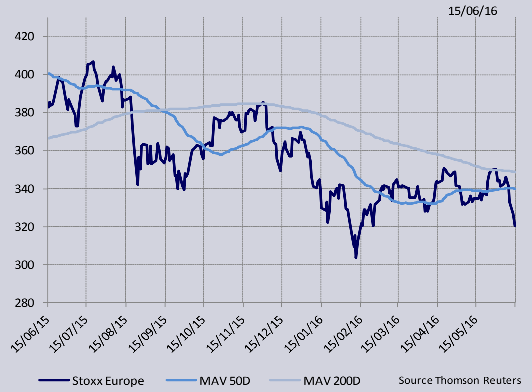
Upcoming BG events :

Date	
15th-Jun	GENMAB (BG Paris roadshow)
27th-Jun	IMERYS (BG Luxembourg with CFO)

Recent reports :

Date	
13th-Jun	MORPHOSYS Back for MORe
10th-Jun	UNILEVER Well priced Quality
9th-Jun	GLAXOMSITHKLINE : ViiV likely to impact GSK beyond dolutegravir
8th-Jun	IMERYS : Stronger than Kryptonite
7th-Jun	AB INBEV Already Gone
3rd-Jun	GENEURO : The GeNesis of a disruptive treatment for MS

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



DANONE — BUY, Fair Value EUR71 vs. EUR70 (+18%)

Stronger margin increase thanks to fewer investments in emerging markets

The company has indicated that the EBIT margin should grow 50-60bps organically this year, while the organic sales growth should be at the low end of the group's guidance (3-5%). Emerging countries, especially China, are weaker than expected and, consequently, the group has decided to allocate less resources to these markets. We now expect EBIT margin to increase 52bps vs our previous forecast of +30bps. We have also adjusted downwards our organic sales growth forecast, from +4% to +3.2%. Our Fair Value is upgraded from EUR70 to EUR71.

LUXOTTICA — BUY, Fair Value EUR58 vs. EUR61 (+32%)

Cloudy trading, but fundamentals remain intact

It seems that Luxottica's soft start to the sun peak season was solely due to a rainy May across Europe and in some parts of the US. Consequently, we anticipate slower FX-n sales growth in Q2 (+4%e vs. +5%e) and in 2016 (+4.5%e vs. +5%e), slightly shy of the group's "rule-of-thumb" (+5-6%). We believe the market has already anticipated these soft trends, which do not call into question our investment case over the MT/LT. FV adjusted to EUR58 vs. EUR61 but Buy recommendation confirmed.

MELIA HOTELS — BUY-Top Picks, Fair Value EUR15 (+45%)

The best place to be under the sun (FOCUS released today)

Sum The short- and medium-term results perspectives look positive with an operating improvement clearly identifiable. Moreover, with new-found financial health, the group's expansion should be boosted with new selective fully-owned property beyond the current pipeline, which is almost entirely under management contracts. We are confirming our positive opinion with a FV of EUR15.

UBISOFT — BUY, Fair Value EUR34 (+9%)

Good strategy, strong fundamentals, and speculation as the "cherry on this delicious cake"

Ubisoft's management held an investor meeting yesterday in Los Angeles. It was all on fundamentals and the group's capacity to deliver strong topline growth, profit margin improvement, and thus value creation for shareholders. We believe UBI's lineup shown at E3 fully validates its FY guidance, and the group is well on track to benefit from the current cycle and to reach its 3-year financial targets. The clear leverage is in digital and stems especially from extra contents. The share price is currently not far from our FV (based on FY16/17 fundamentals), but we find the speculation surrounding the stock convincing. As a result, we advise investors to play the good momentum.

In brief...

GALAPAGOS, *Ambitious plan released ahead of R&D day*

SHIRE PLC, *In-licensing agreement with Pfizer to expand its gastrointestinal portfolio*

Food & Beverages

Danone

Price EUR60.00

Bloomberg	BN FP
Reuters	DANO.PA
12-month High / Low (EUR)	66.3 / 53.1
Market Cap (EUR)	39,354
Ev (BG Estimates) (EUR)	46,534
Avg. 6m daily volume (000)	1 551
3y EPS CAGR	7.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.1%	-6.1%	-1.6%	-3.7%
Food & Bev.	-3.0%	-2.9%	-3.4%	-6.1%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	22,412	21,661	22,834	24,271
% change		*-3.4%*	*5.4%*	*6.3%*
EBIT	2,892	2,989	3,245	3,518
% change		*3.4%*	*8.6%*	*8.4%*
Net income	1,791	1,852	2,031	2,234
% change		*3.4%*	*9.7%*	*10.0%*

	2015	2016e	2017e	2018e
Operating margin	12.9	13.8	14.2	14.5
Net margin	8.0	8.6	8.9	9.2
ROE	10.2	15.4	15.7	15.9
ROCE	10.7	10.8	11.6	12.4
Gearing	61.6	55.5	46.8	38.8

(EUR)	2015	2016e	2017e	2018e
EPS	2.93	3.04	3.33	3.66
% change	-	*3.6%*	*9.6%*	*10.0%*
P/E	20.5x	19.8x	18.0x	16.4x
FCF yield (%)	4.2%	4.4%	4.6%	4.9%
Dividends (EUR)	1.60	1.66	1.82	2.00
Div yield (%)	2.7%	2.8%	3.0%	3.3%
EV/Sales	2.1x	2.1x	2.0x	1.9x
EV/EBIT	16.3x	15.6x	14.1x	12.8x

Stronger margin increase thanks to fewer investments in emerging markets

Fair Value EUR71 vs. EUR70 (+18%) **BUY**

The company has indicated that the EBIT margin should grow 50-60bps organically this year, while the organic sales growth should be at the low end of the group's guidance (3-5%). Emerging countries, especially China, are weaker than expected and, consequently, the group has decided to allocate less resources to these markets. We now expect EBIT margin to increase 52bps vs our previous forecast of +30bps. We have also adjusted downwards our organic sales growth forecast, from +4% to +3.2%. Our Fair Value is upgraded from EUR70 to EUR71.

ANALYSIS

- **Guidance is now for 50/60bps organic increase in 2016 EBIT margin.** Previously the group was expecting a "solid" improvement, with "solid" meaning higher than in 2015 (+17bps in organic). Our estimate is for 52bps organic improvement vs +30bps before. **The company has decided to allocate fewer resources in emerging countries (Russia, Brazil, Argentina, China) which are weaker than expected. We think the new difficulties the group are facing concern much more China** (7% of group's sales) than Russia (7% of group's sales), Brazil (4% of group's sales), and Argentina (6% of group's sales) which have been difficult for some time.
- **Waters and Baby Food are tough in China. The group appears more cautious than before about the recovery of the Chinese brand Mizone in H2.** It had previously indicated that destocking would be over in the second half of the year and Mizone would return to a pace of growth in line with the non-alcoholic beverages market (5-10%). **Besides, the regulation of Baby Food in China is ongoing.** It should come into force in May 2017 for C2C e-commerce and Danone needs to rebalance its business model towards cross-border B2C.
- **CFO said that 2016 organic sales growth should be in the low end of the group's guidance (3-5%).** We revise downwards our estimate to +3.2% vs +4% previously. Organic sales growth in Q2 should be above Q1 driven by yoghurts and Baby Food. But H2 should post a material deceleration. We maintain our estimate of 5.6% organic sales growth in 2017.
- **Targets for 2020 are maintained.** The group continues to expect organic sales growth above 5% by 2020, with Yoghurts between 3-5%, Waters and Baby between 7-10% and Medical nutrition between 6-8%. The EBIT margin of Yoghurts is still expected to grow more than 200bps in organic over the 2015-2020 period.

VALUATION

- Our DCF now points to a Fair Value of EUR71. At yesterday's share price, the stock is trading at 19.8x P/E 2016e vs 20.4x for Nestlé and 20.1x for Unilever.

NEXT CATALYSTS

- H1 results due on July 28th

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Luxury & Consumer Goods

Luxottica

Price EUR43.95

Bloomberg	LUX IM
Reuters	LUX.MI
12-month High / Low (EUR)	67.5 / 44.0
Market Cap (EUR)	21,264
Ev (BG Estimates) (EUR)	21,978
Avg. 6m daily volume (000)	965.3
3y EPS CAGR	11.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-7.8%	-13.2%	-24.4%	-27.2%
Consumer Gds	-3.9%	-4.7%	-4.3%	-8.0%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

YEnd Dec. (€m)	2015 *	2016e	2017e	2018e
Sales	8,837	9,325	9,927	10,574
% change		*5.5%*	*6.5%*	*6.5%*
EBITDA	1,853	2,018	2,183	2,369
EBIT	1,376	1,517	1,648	1,800
% change		*10.2%*	*8.7%*	*9.2%*
Net income	804.1	916.5	1,017	1,121
% change		*14.0%*	*10.9%*	*10.3%*

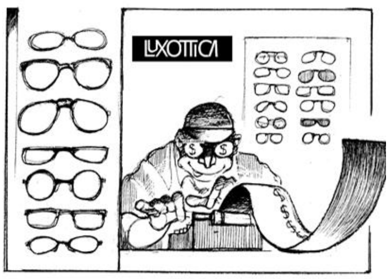
** Reported figures*

	2015 *	2016e	2017e	2018e
Operating margin	15.6	16.3	16.6	17.0
Net margin	9.1	9.8	10.2	10.6
ROE	14.6	15.4	15.9	16.2
ROCE	12.0	13.2	14.3	15.8
Gearing	18.2	12.0	5.0	-3.8

** Reported figures*

(€)	2015 *	2016e	2017e	2018e
EPS	1.68	1.91	2.12	2.33
% change	-	*13.9%*	*10.9%*	*10.3%*
P/E	26.2x	23.0x	20.8x	18.8x
FCF yield (%)	3.5%	4.1%	4.8%	6.0%
Dividends (€)	0.89	1.00	1.10	1.22
Div yield (%)	2.0%	2.3%	2.5%	2.8%
EV/Sales	2.5x	2.4x	2.2x	2.0x
EV/EBITDA	12.0x	10.9x	9.9x	8.9x
EV/EBIT	16.2x	14.4x	13.0x	11.6x

** Reported figures*



Cloudy trading, but fundamentals remain intact

Fair Value EUR58 vs. EUR61 (+32%) BUY

It seems that Luxottica's soft start to the sun peak season was solely due to a rainy May across Europe and in some parts of the US. Consequently, we anticipate slower FX-n sales growth in Q2 (+4% vs. +5%e) and in 2016 (+4.5%e vs. +5%e), slightly shy of the group's "rule-of-thumb" (+5-6%). We believe the market has already anticipated these soft trends, which do not call into question our investment case over the MT/LT. FV adjusted to EUR58 vs. EUR61 but Buy recommendation confirmed.

ANALYSIS

- **What has changed since the Q1 sales? The wet weather…** At the Q1 sales conference call (29 April), management was satisfied by the acceleration in April after the soft Q1. However, it did not continue into May due to very wet weather conditions across Europe and in some parts of the US, limiting reorders from wholesalers. Note that European Wholesale accounts for approx. 42% of the Wholesale Division and ~18% of total sales. These unfavourable weather conditions are also partly impacting Sunglass Hut (100% exposed to the sunglasses category).
- **Luxottica still guides on a robust H2 16.** Even if the month of May was softer than the group's expectations, it remains quite optimistic on the strong acceleration expected in H2 as the latter was be mainly driven by the **contribution from optical store openings across the U.S.** (~80 LensCrafters stores at Macy's and 80 Target Optical) **which should bring ~2-4pp on Luxottica's H2 FX-n top line growth** and ~1-2pp over FY16. Last but not least, the **calendar effect** that played negatively in H1 will be positive in H2. Should LUX report a 3% FX-n growth in H1 (o/w +4%e FX-n in Q2), +7% in H2 would be required to reach the lower end of the FY guidance (+5%), which is a bit challenging in our view.
- **Implications of our assumptions.** The group has often insisted on the importance of the months of May, June and July, which represent the sun peak season. Since the weather has not shown any improvement over the first days of June (BG ests: ~10% of FY sales), we prefer to adopt a more cautious stance: for Q2, we now anticipate a FX-n growth of ~4% vs. ~5% previously whilst leaving our H2 forecast unchanged at +6%. We expect the contribution from new stores to be at the lower end of the range (i.e. +2pp in H2 and +1pp in FY16). **Our new FY16 assumption (+4.5%e vs. +5% initially) would then become slightly more conservative than the group's guidance of +5-6%.**
- **Luxottica is also comfortable on margin upside potential.** Despite this expected softer top line performance, the group can still benefit from its scale effect (BG ests: >+3% FX-n) and efficiency gains and it is continuously identifying new areas of opex reduction. Hence the group is quite optimistic about achieving its "rule-of-thumb" over 2016-18, but as indicated in the table below, we remain more prudent at this stage.

Our forecasts vs. guidance (≥1.5x sales growth in 2016 and >1.5x sales growth in 2017-18):

FX-n	2016e	2017e	2018e
Sales growth (%)	4.5	6.5	6.5
EBIT growth (%)	5.1	8.7	9.2
Ratio (x)	**1.1x**	**1.3x**	**1.4x**

Source: Bryan, Garnier & Co ests.

VALUATION

- Our new FV of EUR58 vs. EUR61 reflects our revised assumptions over 2016-18.
- Following the significant derating of the stock in February-March mostly caused by governance issues, the share price (1M: -8%/ 3M: -13%) performed globally in line with the FTSE MIB index (-8.3% and -14.3% respectively). Despite these ST headwinds, we are still convinced by the group's sound fundamentals (ability to capture the industry's structural drivers, improving sales and earnings momentum thanks to the EUR1.5bn capex plan, etc.), supported by an attractive valuation (2017e EV/EBIT of 13x => 20% discount to 2004-16 historical average).

NEXT CATALYSTS: H1 16 Results on 25 July. ***Click here to download***

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Hotels

Melia Hotels

Price EUR10.31

The best place to be under the sun (FOCUS released today)

Fair Value EUR15 (+45%) **BUY-Top Picks**

Bloomberg	MEL SM
Reuters	MELL.MC
12-month High / Low (EUR)	13.7 / 8.4
Market Cap (EURm)	2,368
Ev (BG Estimates) (EURm)	2,857
Avg. 6m daily volume (000)	732.7
3y EPS CAGR	44.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.6%	1.0%	-13.7%	-15.4%
Travel&Leisure	-4.0%	-7.8%	-10.7%	-15.1%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,738	1,837	1,981	2,126
% change		*5.7%*	*7.8%*	*7.3%*
EBITDA	293	280	318	354
EBIT	164.1	174.0	202.0	227.7
% change		*6.1%*	*16.1%*	*12.7%*
Net income	36.1	78.1	113.9	135.4
% change		*116.4%*	*45.8%*	*18.9%*

	2015	2016e	2017e	2018e
Operating margin	9.4	9.5	10.2	10.7
Net margin	2.1	4.3	5.8	6.4
ROE	3.1	4.9	6.9	7.8
ROCE	5.2	5.3	5.9	6.4
Gearing	58.5	28.9	30.1	29.2

(EUR)	2015	2016e	2017e	2018e
EPS	0.19	0.34	0.50	0.59
% change	-	*75.5%*	*45.8%*	*18.9%*
P/E	53.2x	30.3x	20.8x	17.5x
FCF yield (%)	4.6%	1.0%	2.0%	3.1%
Dividends (EUR)	0.03	0.05	0.06	0.06
Div yield (%)	0.3%	0.5%	0.5%	0.6%
EV/Sales	1.8x	1.6x	1.5x	1.4x
EV/EBITDA	10.7x	10.2x	9.1x	8.2x
EV/EBIT	19.1x	16.4x	14.3x	12.7x

Sum The short- and medium-term results perspectives look positive with an operating improvement clearly identifiable. Moreover, with new-found financial health, the group's expansion should be boosted with new selective fully-owned property beyond the current pipeline, which is almost entirely under management contracts. We are confirming our positive opinion with a FV of EUR15.

ANALYSIS

- **An improvement in operating results is clearly identifiable:** For the next three years, we estimate an operating results CAGR of c. 13%. The improvement in the operating results should come not only mainly from **Spanish cities** (EUR30m), but also from **Asia** (EUR10m) where short-term pipeline should improve Asia's EBIT contribution substantially, the area having now reached critical mass and breakeven, and **Cuba** (EUR10m) benefiting from the reopening relations with USA where Melia is definitely the leading resort hotel company with a 21% market share in number of rooms (27% of the total number of stays).
- **A new-found financial health:** Based on our estimates, taking into account cash flow generation and the early redemption of the convertible bonds finalised in mid-May, the net debt/EBITDA w/o asset rotation should be 1.7x, compared with 3.1x at the end of 2015 and management's objective of lower than 3x at the end of 2016.
- **Yet again, new opportunities for the expansion of hotels in fully-owned property:** Assuming that normal financial leverage should be around 2.5x and taking into account that management estimates that there is EUR300m worth of non-core assets, Melia has potentially EUR500m for new development in fully-owned property (not yet included in our forecasts) ahead of the current pipeline mostly under management contracts.

VALUATION

- Using a DCF with a WACC of 6.7%, an ERP of 7%, a risk-free rate of 1.6% with a beta of 0.9 (two years historical adjusted vs. Stoxx), long-term growth of 2.5% and an EBIT margin of 10% (9.5% in 2015), we are confirming our FV of EUR15.
- At the current share price, the stock is trading 10.2x EV/EBITDA 2016e and 9.1x 2017e compared with European peers of respectively 10.5x and 10x.

NEXT CATALYSTS

- H1 results on 1st August

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TMT

Ubisoft

Price EUR31.10

Good strategy, strong fundamentals, and speculation as the "cherry on this delicious cake"

Fair Value EUR34 (+9%) **BUY**

Bloomberg	UBI.FP
Reuters	UBIP.PA
12-month High / Low (EUR)	33.6 / 14.9
Market Cap (EUR)	3,458
Ev (BG Estimates) (EUR)	3,252
Avg. 6m daily volume (000)	311.8
3y EPS CAGR	37.1%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.6%	15.8%	17.7%	16.6%
Softw.& Comp.	-2.0%	-3.6%	-3.3%	-7.0%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	1,394	1,706	1,945	2,200
% change		*22.4%*	*14.0%*	*13.1%*
EBITDA	600	731	903	1,089
EBIT	156.1	219.0	319.0	429.0
% change		*40.3%*	*45.7%*	*34.5%*
Net income	116.0	148.9	221.6	301.5
% change		*28.3%*	*48.8%*	*36.1%*

	03/16	03/17e	03/18e	03/19e
Operating margin	11.2	12.8	16.4	19.5
Net margin	6.7	8.7	11.4	13.7
ROE	9.2	12.8	16.0	17.8
ROCE	11.0	15.7	23.3	31.6
Gearing	4.3	-17.7	-31.1	-43.6

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	1.02	1.29	1.92	2.62
% change	-	*27.2%*	*48.8%*	*36.1%*
P/E	30.6x	24.1x	16.2x	11.9x
FCF yield (%)	NM	7.0%	6.3%	8.5%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	2.5x	1.9x	1.6x	1.2x
EV/EBITDA	5.8x	4.4x	3.4x	2.5x
EV/EBIT	22.4x	14.9x	9.5x	6.3x

Ubisoft's management held an investor meeting yesterday in Los Angeles. It was all on fundamentals and the group's capacity to deliver strong topline growth, profit margin improvement, and thus value creation for shareholders. We believe UBI's lineup shown at E3 fully validates its FY guidance, and the group is well on track to benefit from the current cycle and to reach its 3-year financial targets. The clear leverage is in digital and stems especially from extra contents. The share price is currently not far from our FV (based on FY16/17 fundamentals), but we find the speculation surrounding the stock convincing. As a result, we advise investors to play the good momentum.

ANALYSIS

- **Management said that it did not need Vivendi to continue to grow.** Indeed, Ubisoft boasts three of the Top 4 biggest-ever new IP launches in the video game industry (*The Division* #1, *Watch Dogs* #3 and *Assassin's Creed* #4), two of the Top 3 over the current cycle (*Watch Dogs* and *The Division*), and has been the only publisher able to regularly deliver open worlds (one in FY13/14, four in FY14/15 and three in FY15/16) thanks to its multi-studios organization.

- **Ubisoft's plan out to 2018/19** (EUR2.2bn in sales, 20% in non-IFRS EBIT margin and ~EUR300m in FCF) is based on a gross margin of more than 80% via 1/ the release of around five big AAA franchises generating a cumulative 40m units (stemming only from existing franchises, taking into account quantities that they have all already reached, and based on 130m PS4/Xbox One combined at the end of 2018), and 2/ the digital segment (45% of its FY18/19 sales vs. 32% in FY15/16: 28% in digital distribution vs. 23% and 17% in player recurring investment vs. 9%). The vast majority of the EBIT margin improvement from 12% in FY15/16 to 20% in FY18/19 will come from gross margin (~5% thanks to bigger digital) and the remainder from other P&L cost reductions (~3% thanks to bigger line up and better mix). In our view, the clear leverage in digital stems from extra contents as they are even more profitable than their most successful games (80-100% in EBIT margin, on our estimates). That's why Ubisoft intends to launch more strong multi-player titles (these include more digital live services).

- **The group is now able to operate big online games**, i.e. to attract a large community of players with high-quality games (re. the good ratings given to *The Division*), accompanied by one of the best live operations currently on the market (in terms of servers and the technology behind these services). In our view, this is a major point in making the group's FY18/19 targets credible. Moreover, note that the group is conquering new territories such as Russia, Brazil, and some Asian countries. For instance, if China, Taiwan and Hong Kong were combined, this would be Ubisoft's #8 geographical area in terms of players for the latest episodes of *Assassin's Creed* and *Rainbow Six*.

- **We particularly appreciate Ubisoft's strategy:** 1/ its in-house development, which generates significant operating leverage on its main IPs (its major AAA games are the most profitable: margin of 55%+ above the breakeven point); 2/ its digital development (organically and via small targeted acquisitions); and 3/ its entertainment vision, well above the video game segment: merchandising, films (*Assassin's Creed* in December 2016 and *Ghost Recon*, *Raving Rabbids*, *Watch Dogs* and *Splinter Cell* in the coming years), TV-series, books, the theme park… to broaden its gamer base.

Consensus vs. BG ests. for the next two fiscal years

EURm	Sales	Y/Y growth	Non-IFRS op. income	Non-IFRS op. margin	Non-IFRS net income	IFRS net income	Non-IFRS EPS	IFRS EPS	Fully diluted shares
Cons. 2016/17e	1,706.4	22.4%	234.8	13.8%	166.5	145.8	1.45	1.27	114.9
BG ests. 2016/17e	*1,706.3*	*22.4%*	*235.0*	*13.8%*	*164.9*	*148.9*	*1.43*	*1.29*	*115.2*
Cons. 2017/18e	1,833.0	7.5%	296.9	16.2%	212.4	195.3	1.84	1.69	115.4
BG ests. 2017/18e	*1,945.1*	*14.0%*	*335.0*	*17.2%*	*237.6*	*221.6*	*2.06*	*1.92*	*115.2*

Sources: last consensus from the company (3rd June 2016); Bryan, Garnier & Co ests.

VALUATION

- **We maintain our Buy rating and FV of EUR34.** We expect good newsflow in the coming months. Our valuation is derived from UBI's 12m fwd average multiples over the past two console cycles applied to our FY16/17e estimates (unreliability of a longer horizon guidance in this industry), to which we have added a 15% premium (digital sales and other entertainment revenues). Our valuation does not include any speculative premium.

NEXT CATALYSTS

- **Q1 sales 2016/17:** in July 2016.

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Healthcare

Galapagos

Price EUR46.83

Bloomberg	GLPG BB
Reuters	GLPG.BR
12-month High / Low (EUR)	58.5 / 32.7
Market Cap (EURm)	2,159
Avg. 6m daily volume (000)	218.9

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.7%	15.7%	-9.3%	-17.5%
Healthcare	-1.7%	-3.0%	-7.3%	-12.4%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

	2014	2015e	2016e	2017e
P/E	NS	NS	57.9x	39.2x
Div yield (%)	NM	NM	NM	NM

Ambitious plan released ahead of R&D day

Fair Value EUR64 (+37%) **BUY**

ANALYSIS

- Ahead of today's presentation in NY, management issued an ambitious target of 1/ one phase III program every two years (starting in 2016 with filgotinib late stage program to be initiated in Q3 in RA, CD and UC) and 2/ three PoC per year. Use of slightly less than EUR1bn in cash and cash equivalent now appears clearer. While it seemed that R&D should come internally with the disclosure of early stage programs, we do not rule out small bolt-on to keep up with the ambitious target.
- We would expect the main focus of this R&D day to be the Cystic Fibrosis program for which the company is in partnership with AbbVie. GLPG2222 (corrector) which entered phase I recently reported positive results (single ascending dose of up to 800mg and multiple ascending dose of up to 600mg) with no safety signals. Outcome from the trial support daily dosing regimen of the molecule which is expected to be tested with potentiator GLPG2451 (phase I results in late 2016). As a reminder, phase II program for the triple combination is expected to start in 2017.
- GLPG1972 in Osteoarthritis, partnered with Servier in Europe reported encouraging phase I results. Few comments as to the upcoming development timeline of the product are disclosed. Note that the product might be partnered (GLPG retaining US rights) considering the high risk linked to the development of OA compound.

VALUATION

- We reiterate our BUY rating and EUR67 fair value

NEXT CATALYSTS

- Today 2.00pmCET/8.00amET: R&D Day (US +1 212 444 0481, UK +44 20 3427 1907, FR +33 1 70 48 01 66; access code 207496)
- July 13th: Roadshow in Paris with CFO and Dir. Business Development

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Healthcare

Shire PLC

Price 4,009p

Bloomberg	SHP LN
Reuters	SHP.L
12-month High / Low (p)	5,730 / 3,480
Market Cap (GBP)	36,024
Avg. 6m daily volume (000)	2,525

	1 M	3 M	6 M	31/12/15
Absolute perf.	-3.0%	4.7%	-2.0%	-14.7%
Healthcare	-1.7%	-3.0%	-7.3%	-12.4%
DJ Stoxx 600	-4.2%	-7.0%	-8.3%	-12.4%

	2015	2016e	2017e	2018e
P/E	14.5x	15.9x	11.6x	9.8x
Div yield (%)	0.4%	0.3%	0.4%	0.6%

In-licensing agreement with Pfizer to expand its gastrointestinal portfolio

Fair Value 6500p (+62%) **BUY**

ANALYSIS

- **Yesterday, Shire announced the inking of a licensing agreement with Pfizer to get global rights to all indications for PF-00547659**, a Phase III-ready anti-MAdCAM whose primary indications are 1/ Crohn's disease (CD), and 2/ moderate-to-severe ulcerative colitis (UC)… Unfortunately, terms of the deal were not disclosed.
- **Obviously, the commercial synergies with Shire's Lialda and Pentasa (2016e sales: USD1.0Bn) are pretty strong**; these two compounds being indicated for the induction and maintenance of remission of mild-to-moderate UC… **That said, the competitive landscape is increasingly crowded to our eyes.** Admittedly, PF-00547659 looks at least as potent as Takeda's vedolizumab as an induction therapy, and may benefit from a user-friendlier route administration (SC vs IV). But we also believe oral JAK inhibitors (like Galapagos' filgotinib and Pfizer's tofacitinib) should be strong competitors due to their convenience and promising efficacy profile (see Sandborn et al, NEJM 2012).

VALUATION

- **BUY reiterated with a FV of GBp6,500**, knowing that 1/ we have not integrated yet this novel compound in our estimates; 2/ we believe this is not a game-changing deal (peak sales < USD400m in a first approach?).
- At current levels, the stock trades with a 30% discount compared to the STOXX 600 Europe Healthcare, whereas the stock is set to yield a higher-than-peers 2015-2020 EPS growth.

NEXT CATALYSTS

- July, 22 2016: Potential US approval of lifitegrast as a treatment for dry eye disease.

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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 55.8% NEUTRAL ratings 34.7% SELL ratings 9.5%

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