

INDEPENDENT RESEARCH
UPDATE

13th July 2016

Healthcare

Bloomberg	IPN FP
Reuters	IPN.PA
12-month High / Low (EUR)	62.0 / 47.1
Market capitalisation (EURm)	4,437
Enterprise Value (BG estimates EURm)	4,525
Avg. 6m daily volume ('000 shares)	88.00
Free Float	32.0%
3y EPS CAGR	13.7%
Gearing (12/15)	-8%
Dividend yield (12/16e)	1.59%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (€m)	1,444	1,568	1,715	1,865
EBIT (€m)	322.48	341.94	390.52	465.61
Basic EPS (€)	2.31	2.81	3.09	3.76
Diluted EPS (€)	2.78	2.90	3.40	4.09
EV/Sales	3.00x	2.89x	2.59x	2.29x
EV/EBITDA	11.8x	11.1x	9.6x	7.9x
EV/EBIT	13.4x	13.2x	11.4x	9.2x
P/E	19.2x	18.4x	15.7x	13.0x
ROCE	22.6	17.7	19.6	22.8




Ipsen

Oncology is an increased focus

Fair Value EUR64 vs. EUR63 (price EUR53.30) **BUY-Top Picks**

With David Meek appointed as new CEO, Ipsen is moving one step closer to an oncology-focused company. Under this new leadership, we expect Ipsen to make another transforming deal in the field of oncology, this time including US rights to build on Somatuline's success there. This should make the story even more attractive.

- Decapeptyl was the cornerstone, Somatuline is the growth driver and Cabometyx is still debated but could be a good surprise.
- Of course, in the context of the emergence of IO therapies, the feeling is that PD-1/PD-L1 agents will take the lion's share of most of the non-hormone dependent cancers. Indeed, Opdivo reported very good results in RCC, whereas Pfizer and Roche look very excited and are moving quickly to develop combinations of avelu/Inlyta and atezo/Avastin respectively. However, assuming IO takes most of 1L RCC, this leaves significant room for cabo in 1L sub-segments (like in advanced stages with metastases) and in 2L more broadly to achieve sales in the area of USD300m. This would make the deal with Exelixis more than rewarding and drive core earnings growth in the 13-14% CAGR range, while keeping 1L RCC, 2L HCC and other indications as free options.
- Beyond this opportunity, we now expect the new CEO David Meek, who was the architect behind the oncology franchise at Baxalta, to finalise another structuring M&A deal, with the support of the Board. We assume it will be in the same field but this time including US rights to build on Somatuline's success there because Ipsen needs a further boost to balance its business better while increasing profitability. Now competition is fierce and Ipsen must pay attention not to overpay for a target.
- If Ipsen is successful in its attempt, then endocrino-oncology would jump again from slightly more than 50% in 2015 to over two-thirds of revenues in 2020. Margins and status are likely to follow, hence our BUY rating with a slightly adjusted FV of EUR64 to factor in new FX rates.

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Income Statement (EURm)	2013	2014	2015	2016e	2017e	2018e	2019e
Revenues	1,225	1,275	1,444	1,568	1,715	1,865	2,003
Change (%)	0.5%	4.1%	13.3%	8.6%	9.4%	8.7%	7.4%
Adjusted EBITDA	236	311	366	408	463	544	615
EBIT	211	261	322	342	391	466	531
Change (%)	7.4%	23.8%	23.8%	6.0%	14.2%	19.2%	14.0%
Pre-Tax profits	201	206	237	322	353	429	498
Tax	(59.3)	(53.8)	(49.8)	(90.1)	(98.8)	(120)	(140)
Profits from associates	0.0	1.9	2.5	0.0	0.0	0.0	0.0
Net profit	142	155	190	232	254	309	359
Restated net profit	115	183	228	238	278	335	386
Change (%)	-25.1%	58.3%	24.9%	4.4%	16.9%	20.4%	15.3%

Cash Flow Statement (EURm)	2013	2014	2015	2016e	2017e	2018e	2019e
Operating cash flows	209	240	305	268	325	386	442
Change in working capital	(21.1)	5.3	(81.1)	(8.2)	(20.5)	(21.4)	(19.7)
Capex, net	(42.0)	(47.4)	(50.0)	(66.1)	(72.0)	(78.1)	(83.7)
Dividends	0.79	0.77	0.84	1.0	1.2	1.1	1.2
Net debt	(25.4)	(70.5)	(102)	88.1	(2.9)	(159)	(359)
Free Cash flow	146	198	174	194	233	287	338

Balance Sheet (EURm)	2013	2014	2015	2016e	2017e	2018e	2019e
Tangible fixed assets	508	556	623	835	875	915	955
Intangibles assets	456	485	505	558	558	558	558
Cash & equivalents	131	186	226	7.4	98.4	255	455
current assets	602	672	810	677	809	1,007	1,246
Total assets	1,565	1,713	1,938	2,070	2,241	2,480	2,759
L & ST Debt	374	419	450	449	469	489	508
Shareholders' funds	974	1,068	1,226	1,371	1,522	1,740	2,000
Total Liabilities	592	645	712	699	719	740	759
Capital employed	963	1,042	1,128	1,393	1,433	1,473	1,513

Financial Ratios	2013	2014	2015	2016e	2017e	2018e	2019e
Operating margin	17.19	20.43	22.33	21.81	22.77	24.97	26.50
Tax rate	29.47	26.07	20.97	28.00	28.00	28.00	28.00
Net margin	11.07	11.60	12.51	14.01	14.11	15.83	17.14
ROE (after tax)	14.57	14.47	15.52	16.90	16.69	17.77	17.95
ROCE (after tax)	15.41	18.49	22.59	17.68	19.63	22.76	25.27
Gearing	(2.61)	(6.60)	(8.29)	6.43	(0.19)	(9.16)	(17.98)
Pay out ratio	43.25	35.89	30.70	36.00	36.50	27.00	25.40
Number of shares, diluted	84.60	82.22	82.00	82.00	82.00	82.00	82.00

Data per Share (EUR)	2013	2014	2015	2016e	2017e	2018e	2019e
EPS	1.84	1.87	2.31	2.81	3.09	3.76	4.37
Restated EPS	1.85	2.22	2.78	2.90	3.40	4.09	4.71
% change	5.8%	19.9%	25.3%	4.4%	16.9%	20.4%	15.3%
BVPS	11.51	12.99	14.95	16.71	18.56	21.22	24.39
Operating cash flows	2.47	2.92	3.72	3.27	3.96	4.71	5.39
FCF	1.73	2.41	2.12	2.36	2.84	3.50	4.13
Net dividend	0.80	0.85	0.85	0.85	1.10	1.20	1.26

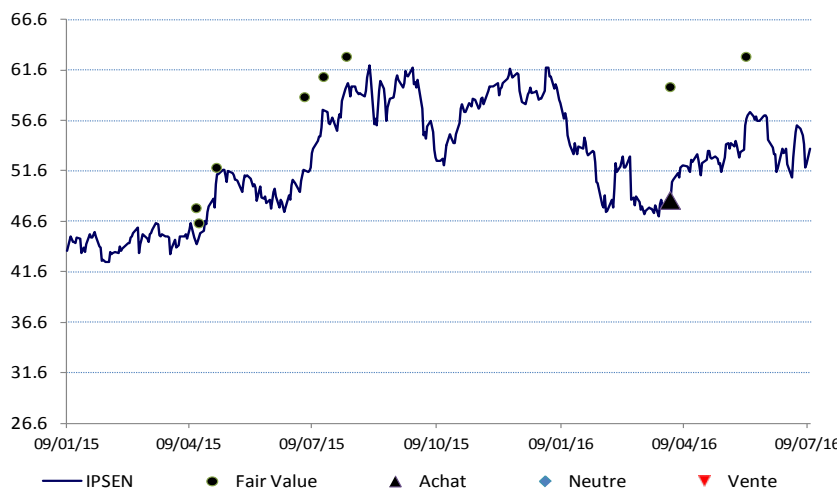
Source: Company Data; Bryan, Garnier & Co ests.

Company description

Ipsen is a global specialty-driven pharmaceutical company with total sales exceeding €1.4 billion in 2015. Ipsen's ambition is to become a leader in specialty healthcare solutions for targeted debilitating diseases. Its development strategy is supported by 3 franchises: neurology / Dysport®, endocrinology / Somatuline® and uro-oncology / Decapeptyl®. Moreover, the Group has an active policy of partnerships. At the beginning of 2016, it acquired ex-US rights of cabozantinib from Exelixis which could become a meaningful growth driver in oncology (2L renal cell carcinoma), strengthening even further an already attractive core EPS CAGR for 2016-2020. New CEO coming from the field of oncology should work in the same direction and make other deals in the field.

Price Chart and Rating History

Ipsen



Ratings Date	Ratings	Price
29/03/16	BUY	EUR48.75
01/03/16	Under review	EUR53.02
04/11/14	BUY	EUR29.01
02/09/13	NEUTRAL	EUR28

Target Price Date	Target price
24/05/16	EUR63
29/03/16	EUR60
03/08/15	EUR63
17/07/15	EUR61
03/07/15	EUR59
29/04/15	EUR52
16/04/15	EUR46.5
14/04/15	EUR48
17/12/14	EUR46
01/09/14	EUR41
11/04/14	EUR36
07/01/14	EUR33

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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 56.8%

NEUTRAL ratings 33.8%

SELL ratings 9.5%

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