

22nd July 2016

Healthcare

**Actelion**

Price CHF170.00

Uptravi and R&D expenses questioned during the call

Fair Value CHF180 vs. CHF173 (+6%)

NEUTRAL vs. BUY

**After careful consideration, we believe that momentum is weakening despite the strong numbers reported in Q2. We see limited catalysts for coming months and have therefore adopted a Neutral recommendation, despite a FV increase, although this leaves little upside in any case.**

**ANALYSIS**

- Curiously after publishing such a strong set of quarterly numbers earlier yesterday, Actelion faced a wave of questions addressing two unclear elements: 1) a meaningful rate of discontinuations with Uptravi seen in the US that explains why all patients initiated were not under treatment at the end of June, 2) growth in core R&D expenses of 30% in H1.
- The topic of discontinuations with Uptravi was raised during the call when Otto Schwarz mentioned that the number of patients under treatment at the end of Q1 was corrected downwards from the initial 650 to 600 because of discontinuations. This immediately prompted the question of whether this was a "normal" rate, especially in light of the short timing since initiation. However, Actelion is not in a position to answer this question yet because it is not unusual to see initial discontinuations at the start of a new treatment (this was also the case at the time of Tracleer's launch). The reasons behind discontinuations are not fully known yet either although Otto Schwarz said that up-titration was not unlikely to be the origin. When asking about what happened in GRIPHON, the answer was that the discontinuation rate was 14%, but over the duration of the trial, while the sequence is not available to compare over the same period of time. Lastly, 50 less patients out of 650 would suggest a discontinuation rate of 8%, which is not high, but raises the question of how much it could be over time once the doses have been increased up to the maximum tolerated dose.
- Another topic concerning Uptravi could have played against the drug too namely the recall about the difference in price between the initiation pack and the maintenance pack i.e. respectively USD21,000 and USD14,000.
- As such, the call left us with a quite negative feeling that numbers are not fully extrapolable for Uptravi although they are very strong. Moreover, the first qualitative elements suggesting that 45% of patients would not have been prostacyclins users, that 25% have class II PAH or that only 20% are not simultaneously ERA users are very good indicators for Actelion. In the context of a drug with peak sales of CHF1.7bn in consensus numbers, we understand that any unclear influence like this one could raise questions. Because we are more cautious with PS of CHF1.35bn, we make no change but increase the ramp-up and 2016 sales from CHF135m to CHF171m.
- The second recurring question during the call was about R&D expenses since they grew 30% over the first half of the year while management has always said that it would keep them under control despite anticipations of pipeline progress. It was also reiterated during the call that Actelion would remain disciplined in terms of R&D expenses and that H2 costs would be lower than H1 although this has usually not been the case historically. Instead of considering that Q4 is always a peak, it could be said this time that Q4 2015 was the first quarter at the new level and therefore represents an already more favourable comparison base going forward.

**VALUATION**

- We have increased both our estimates for Opsumit in Japan and ROW after a significant acceleration in revenue recognition in Q2 and for Uptravi in the US, while slightly reducing Tracleer's US and European sales. With no more operating expenses, this points to an upgrade in FV (based on SOTP) to CHF180.
- We are still convinced about the long-term opportunity of having Actelion in the portfolio but momentum looks less strong for the coming quarter. We have therefore adopted a Neutral recommendation.

**NEXT CATALYSTS**

- 20th October 2016: Third-quarter results [Click here to download](#)

|                            |               |
|----------------------------|---------------|
| Bloomberg                  | ATLN VX       |
| Reuters                    | ATLN.VX       |
| 12-month High / Low (CHF)  | 173.8 / 115.9 |
| Market Cap (CHF)           | 19,402        |
| Ev (BG Estimates) (CHF)    | 18,483        |
| Avg. 6m daily volume (000) | 386.5         |
| 3y EPS CAGR                | 5.5%          |

|                | 1 M  | 3 M   | 6 M   | 31/12/15 |
|----------------|------|-------|-------|----------|
| Absolute perf. | 9.5% | 7.4%  | 30.9% | 21.8%    |
| Healthcare     | 6.3% | 3.9%  | 5.2%  | -3.7%    |
| DJ Stoxx 600   | 0.2% | -2.6% | 3.7%  | -6.9%    |

| YEnd Dec. (CHFm) | 2015  | 2016e | 2017e  | 2018e |
|------------------|-------|-------|--------|-------|
| Sales            | 2,042 | 2,345 | 2,264  | 2,390 |
| % change         |       | 14.9% | -3.5%  | 5.6%  |
| EBITDA           | 769   | 908   | 766    | 836   |
| EBIT             | 655.6 | 788.5 | 645.3  | 713.5 |
| % change         |       | 20.3% | -18.2% | 10.6% |
| Net income       | 693.5 | 832.5 | 708.6  | 773.0 |
| % change         |       | 20.0% | -14.9% | 9.1%  |

|                  | 2015  | 2016e | 2017e | 2018e |
|------------------|-------|-------|-------|-------|
| Operating margin | 40.7  | 45.7  | 42.1  | 45.2  |
| Net margin       | 34.0  | 35.5  | 31.3  | 32.3  |
| ROE              | 52.6  | 45.1  | 31.4  | 28.2  |
| ROCE             | 77.0  | 88.5  | 84.7  | 98.9  |
| Gearing          | -30.7 | -49.7 | -63.5 | -72.0 |

| (CHF)           | 2015  | 2016e | 2017e  | 2018e |
|-----------------|-------|-------|--------|-------|
| EPS             | 6.17  | 7.64  | 6.57   | 7.24  |
| % change        | -     | 24.0% | -14.1% | 10.2% |
| P/E             | 27.6x | 22.2x | 25.9x  | 23.5x |
| FCF yield (%)   | 3.4%  | 3.9%  | 3.9%   | 4.1%  |
| Dividends (CHF) | 1.50  | 1.50  | 1.50   | 1.50  |
| Div yield (%)   | 0.9%  | 0.9%  | 0.9%   | 0.9%  |
| EV/Sales        | 9.3x  | 7.9x  | 7.9x   | 7.3x  |
| EV/EBITDA       | 24.7x | 20.4x | 23.5x  | 20.9x |
| EV/EBIT         | 29.0x | 23.4x | 27.8x  | 24.4x |



**Analyst :**  
 Eric Le Berrigaud  
 33(0) 1 56 68 75 33  
 eleberrigaud@bryangarnier.com

**Sector Team :**  
 Mickael Chane Du  
 Hugo Solvet

# Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

## Stock rating

|         |   |
|---------|---|
| BUY     | Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.      |
| NEUTRAL | Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.                     |
| SELL    | Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion. |

## Distribution of stock ratings

BUY ratings 55.7%

NEUTRAL ratings 33.6%

SELL ratings 10.7%

# Research Disclosure Legend

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

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

| <b>London</b>                     | <b>Paris</b>                              | <b>New York</b>          | <b>Munich</b>        | <b>New Delhi</b>           |
|-----------------------------------|---|--------------------------|----------------------|----------------------------|
| Beaufort House                    | 26 Avenue des Champs Elysées              | 750 Lexington Avenue     | Widenmayerstrasse 29 | The Imperial Hotel Janpath |
| 15 St. Botolph Street             | 75008 Paris                               | New York, NY 10022       | 80538 Munich         | New Delhi 110 001          |
| London EC3A 7BB                   | Tel: +33 (0) 1 56 68 75 00                | Tel: +1 (0) 212 337 7000 | Germany              | Tel +91 11 4132 6062       |
| Tel: +44 (0) 207 332 2500         | Fax: +33 (0) 1 56 68 75 01                | Fax: +1 (0) 212 337 7002 | +49 89 2422 62 11    | +91 98 1111 5119           |
| Fax: +44 (0) 207 332 2559         | Regulated by the                          | FINRA and SIPC member    |                      | Fax +91 11 2621 9062       |
| Authorised and regulated by the   | Financial Conduct Authority (FCA) and the |                          |                      | <b>Geneva</b>              |
| Financial Conduct Authority (FCA) | Autorité de Contrôle prudentiel et de     |                          |                      | rue de Grenus 7            |
|                                   | resolution (ACPR)                         |                          |                      | CP 2113                    |
|                                   |   |                          |                      | Genève 1, CH 1211          |
|                                   |   |                          |                      | Tel +4122 731 3263         |
|                                   |   |                          |                      | Fax+4122731 3243           |
|                                   |   |                          |                      | Regulated by the FINMA     |

#### **Important information**

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

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

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

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

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

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

Disclosures specific to clients in the United Kingdom

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

Notice to US investors

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

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

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

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