

## Ipsen

Price EUR55.72

A very solid set of quarterly numbers, upgrade to sales guidance

Fair Value EUR64 (+15%)

BUY-Top Picks

Bloomberg	IPN.FP
Reuters	IPN.PA
12-month High / Low (EUR)	62.0 / 47.1
Market Cap (EURm)	4,644
Ev (BG Estimates) (EURm)	4,732
Avg. 6m daily volume (000)	89.00
3y EPS CAGR	13.7%

Largely driven by Somatuline, Specialty Care advanced 18.6% in Q2 and made Ipsen comfortable enough to raise its FY objective, now expecting growth above 12% (vs >10%). Operating margin is still at 21% for FY (although it reached 24.7% in H1) because investments in cabozantinib are set to grow substantially in the second part of the year. Our BUY rating is reinforced.

## ANALYSIS

- Ipsen has reported first-half results that topped estimates by a significant margin from the top to the bottom-line.
- In the second quarter, sales were EUR402m i.e. about EUR11m higher than CS, largely driven by Specialty Care products Somatuline (up 37% to EUR133m), Dysport (up 12% to EUR76m) and Decapeptyl (up 7% to EUR89m). In all, Specialty Care was up 18.6% in Q2, also resulting in a far higher profit contribution with operating margin of 47% compared to 43.5% in the same period last year, despite ongoing investments to launch Somatuline and new indications of Dysport.
- Following this strong quarter, Ipsen is comfortable enough to raise its full-year guidance for sales growth in the Specialty Care division from "above 10%" to "above 12%", after 14% growth in the first half of the year.
- More quickly, the performance in Primary Care was still a bit below estimates (-7% in H1) but guidance is reiterated for the full-year i.e. flat sales as business is improving and comparison easing in H2, admittedly at the price of lower margins as it requires extra investments to launch new formulations and to adjust for new commercial models in China.
- In the end, the very good performance and guidance upgrade for Specialty Care could have induced a margin upgrade for the group too but Ipsen is keeping its target of 21% for core operating margin for the year (although it is 24.7% in H1) because it expects investments to prepare for the cabozantinib launch in Europe to increase sharply in H2 vs H1 and maybe even more than initially expected to capture as much market share as possible in the competitive RCC market. Ipsen wants to be as close as possible to BMS's efforts with Opdivo in territories where it is in charge and we can't blame the company for this since cabozantinib is key for the mid-term.
- H1 results were generally far higher than the market (and BG) anticipated but cannot be extrapolated to the full-year as operating expenses are set to be much higher in H2 compared to H1. That said, 2016 sales should be higher and therefore a small increase in numbers is likely. Note also that the H1 tax rate was 23% but is still expected to be 25-26% over the full-year so that the tax rate in H2 will be much higher too. As such, core EPS was up 16% in H1 to EUR1.74 while we were forecasting a fairly flat number vs H1 2015 but the phasing of operating expenses together with the difference in tax rate between H1 and H2 explain why it should play out differently.

## VALUATION

- So in summary, H1 numbers were pleasant ones for Ipsen but do not tell the full truth about underlying trends in 2016. The mix effect from the very good performance by Specialty Care drugs (seen for instance at the COGS level) was nevertheless noticeable and would have impacted earnings growth too if Ipsen had not decided to invest even more in cabozantinib. We could also consider profit guidance conservative. From a communication perspective, it may be good to upgrade sales now while keeping a margin surprise for a later stage.
- We will wait for this afternoon's meeting before assessing our numbers. Slight upward changes are likely anyway but note that our estimate for FY Specialty Care growth was already at 13%.

## NEXT CATALYSTS

- Today 2.30pm: Meeting in Boulogne-Billancourt

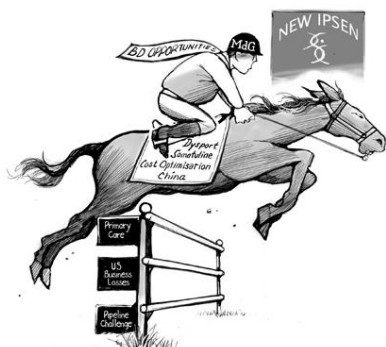
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	1 M	3 M	6 M	31/12/15
Absolute perf.	9.4%	4.0%	2.4%	-8.7%
Healthcare	9.3%	6.0%	2.5%	-3.0%
DJ Stoxx 600	11.0%	-1.6%	0.7%	-6.3%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,444	1,568	1,715	1,865
% change		8.6%	9.4%	8.7%
EBITDA	366	408	463	544
EBIT	322.5	341.9	390.5	465.6
% change		6.0%	14.2%	19.2%
Net income	228.0	238.1	278.4	335.1
% change		4.4%	16.9%	20.4%

	2015	2016e	2017e	2018e
Operating margin	22.3	21.8	22.8	25.0
Net margin	12.5	14.0	14.1	15.8
ROE	15.5	16.9	16.7	17.8
ROCE	22.6	17.7	19.6	22.8
Gearing	-8.3	6.4	-0.2	-9.2

(€)	2015	2016e	2017e	2018e
EPS	2.78	2.90	3.40	4.09
% change	-	4.4%	16.9%	20.4%
P/E	20.0x	19.2x	16.4x	13.6x
FCF yield (%)	3.8%	4.2%	5.1%	6.3%
Dividends (€)	0.85	0.85	1.10	1.20
Div yield (%)	1.5%	1.5%	2.0%	2.1%
EV/Sales	3.1x	3.0x	2.7x	2.4x
EV/EBITDA	12.4x	11.6x	10.0x	8.2x
EV/EBIT	14.1x	13.8x	11.9x	9.6x



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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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