

## Ipsen

Price EUR59.44

## Decision to prioritise mid-term growth over 2016 operating margin makes sense

Fair Value EUR66 vs. EUR64 (+11%)

BUY-Top Picks

Bloomberg	IPN FP
Reuters	IPN.PA
12-month High / Low (EUR)	62.0 / 47.1
Market Cap (EURm)	4,954
Ev (BG Estimates) (EURm)	5,042
Avg. 6m daily volume (000)	89.50
3y EPS CAGR	13.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.4%	12.4%	11.3%	-2.6%
Healthcare	6.1%	5.3%	5.5%	-3.5%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,444	1,566	1,714	1,866
% change		8.5%	9.4%	8.9%
EBITDA	366	407	462	544
EBIT	322.5	340.9	390.0	466.3
% change		5.7%	14.4%	19.5%
Net income	228.0	237.3	278.0	335.6
% change		4.1%	17.2%	20.7%

	2015	2016e	2017e	2018e
Operating margin	22.3	21.8	22.8	25.0
Net margin	12.5	14.0	14.1	15.9
ROE	15.5	16.9	16.7	17.8
ROCE	22.6	17.6	19.6	22.8
Gearing	-8.3	6.4	-0.2	-9.2

(€)	2015	2016e	2017e	2018e
EPS	2.78	2.89	3.39	4.09
% change	-	4.1%	17.2%	20.7%
P/E	21.4x	20.5x	17.5x	14.5x
FCF yield (%)	3.6%	4.0%	4.8%	5.9%
Dividends (€)	0.85	0.85	1.10	1.20
Div yield (%)	1.4%	1.4%	1.9%	2.0%
EV/Sales	3.4x	3.2x	2.9x	2.6x
EV/EBITDA	13.3x	12.4x	10.7x	8.8x
EV/EBIT	15.0x	14.8x	12.7x	10.3x

Ipsen has decided to use the excess of profits generated by stronger-than-expected growth in Specialty Care this year to reinvest in its fastest growing products Somatuline and Dysport and also to prepare for the launch of cabozantinib that may take place in first markets by year-end. This is a very sensible choice that should bring more value to shareholders over the medium term. We have revised some of our numbers including Somatuline's peak sales, up from EUR700m to EUR800m and this is what drives our FV up to EUR66, hence our reiterated BUY recommendation.

## ANALYSIS

- From our discussions in Boulogne yesterday, we emerged with the conviction that the decision not to increase operating margin guidance of 21% for 2016 despite an upward revision in Specialty Care sales (80% of Ipsen's total sales) is related to the aim to maximize the value of growth assets, starting with Somatuline of course, but also Dysport and indeed newcomer cabozantinib. And so there is no question that giving priority to drugs that are still highly sensitive to promotional and marketing efforts and represent significant value ahead of shareholders over several years is what can be expected from a management that thinks long-term rather than short-term.
- Starting with Somatuline, Marc de Garidel clearly stressed that the drug was now addressing a NET market that in the US alone represents about USD1bn, therefore leaving a sizeable opportunity for Ipsen that has only captured about 10-15% market share. The aim is to capture a growing part of a growing market and for that, Ipsen needs to invest more to be present in an increasing number of centers. Because it is also growing double-digit outside the US, Somatuline could now think of approaching USD1bn in sales globally, including acromegaly of course. Given the very favorable mix effect of the product, this would represent an outstanding profit and margin opportunity for Ipsen. It very much supports the case for investing in the drug.
- Moving to Dysport, the underlying market is also growing nicely here, in both indications and Ipsen is arriving with two new medical indications in AUL (launched recently) and PLL (excepted by tomorrow) and with these, it expects to close the gap with Botox somewhat if some support is also provided to the product.
- Lastly and maybe more importantly: cabozantinib. The opportunity is also significant for Ipsen since data presented in 2L and 1L RCC suggest a meaningful role to play for the drug in this disease. But, Ipsen knows also that competition will be fierce from I.O. compounds, starting with Opdivo from BMS but also from other players to come in the coming years. Because Ipsen wants to attract the more talented people as quickly as possible, this has a cost. If possible, the company is not completely ruling out the possibility of launching cabozantinib earlier than originally expected i.e. in Q4 2016 in Germany or in the UK as the drug is expected to be approved in Europe in September. And time matters.

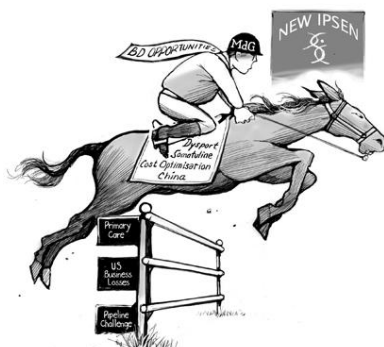
## VALUATION

- We fully back the decision to invest any extra benefit earned in 2016 behind new drugs to fuel mid and long-term growth. This has a lower impact on our FV because it is difficult to say how much and how profoundly it will impact sales and profits going forward, but it is nevertheless revised slightly upwards as we believe Somatuline can reach EUR800m at peak (vs EUR700m so far). We are maintaining our BUY recommendation and maintain Ipsen in our Top Pick List.

## NEXT CATALYSTS

- 30th July 2016: PDUFA date for Dysport in PLL

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