

# QIAGEN

Price EUR20.92

**Top to bottom beat! Upgrade to BUY on strong growth prospect now set free**

Fair Value EUR22 (+5%)

BUY vs. NEUTRAL

Bloomberg	QIA GR
Reuters	QGEN.DE
12-month High / Low (EUR)	26.0 / 17.8
Market Cap (EURm)	5,013
Ev (BG Estimates) (EURm)	5,587
Avg. 6m daily volume (000)	423.7
3y EPS CAGR	8.7%

	1 M	3 M	6 M	31/12/15
Absolute perf.	12.6%	3.1%	2.1%	-16.7%
Healthcare	6.1%	5.3%	5.5%	-3.5%
DJ Stoxx 600	7.2%	-2.7%	1.4%	-7.2%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	1,281	1,331	1,412	1,517
% change		3.9%	6.1%	7.4%
EBITDA	438	440	482	520
EBIT	314.5	317.4	359.3	397.0
% change		0.9%	13.2%	10.5%
Net income	249.3	255.5	286.5	315.5
% change		2.5%	12.1%	10.1%

	2015	2016e	2017e	2018e
Operating margin	24.6	23.9	25.5	26.2
Net margin	19.5	19.2	20.3	20.8
ROE	5.0	4.4	5.2	5.8
ROCE	23.0	19.5	18.7	24.3
Gearing	38.8	22.4	15.8	9.0

(USD)	2015	2016e	2017e	2018e
EPS	1.05	1.08	1.22	1.35
% change	-	3.0%	12.7%	10.7%
P/E	22.1x	21.4x	19.0x	17.2x
FCF yield (%)	7.1%	7.1%	6.5%	7.0%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	5.1x	4.7x	4.3x	3.9x
EV/EBITDA	15.0x	14.1x	12.5x	11.2x
EV/EBIT	20.8x	19.5x	16.8x	14.7x

**QIAGEN released strong Q2 numbers beating the consensus all the way down the PnL. US HPV headwinds are fading and will marginally impact MDx sales going forward while Life Sciences sales benefited from improving trends that should be sustained. Profitability should continue to improve sequentially throughout the year. A USD200m share buy-back programme expected by early-2017 represents ~22 days of trading. We upgrade QIAGEN from NEUTRAL to BUY.**

QIA (USDm exc. PS)	Q2 2015	Q2 2016	Q2 2016 cs	Δ	Q3 2016	Q3 2016 cs	Δ
Revenue	319,5	334,4	326,9	2%	338,2	333,8	1%
% growth		5%	2%			0%	
Operating Income (adj.)	78,9	69,2	66,6	4%			
% margin	24,7%	20,7%	20,4%				
EPS	0,26	0,24	0,22	9%	0,27	0,29	-7%

Source : Company Data; Vara Research.

## ANALYSIS

- QIAGEN released strong Q2 numbers. **Net sales growth came in at 6% CER (5% reported) to USD326.9m, ahead of 1/ consensus by 2pp and 2/ the group's guidance (4% CER anticipated).** Excluding the US HPV sales decrease, which had a 2pp and 4pp negative impact on total turnover and sales from the MDx division, all divisions contributed to growth. **MDx (50% of sales) grew 4% CER (8% CER exc. US HPV)** driven by 1/ dynamic QuantiFERON TB sales which reported a >25% CER growth rate (despite the warning letter) and 2/ strong QIASymphony demand for both placements and test sales. Personalised Healthcare sales within MDx declined due to volatility on recognition of milestones from Pharma Cie. On the Life Science Side, improving trend benefitted to QIAGEN's which has intensified its commercialisation operations. **Applied testing sales (9% of sales) grew 9% CER** with NA recovering after a weak Q1. Positive **Pharma division (20% of sales) which grew 9% at CER.** The budget increase started to kick-in and positively impacted consumable sales in **Academia (21% of sales) which grew 6%.** We would expect this trend to persist in H2. From a geographic standpoint, all regions performed well with the growth rate improving sequentially. Americas grew 3% CER or 6% CER excluding US HPV, EMEA sales are up 13% CER and APAC sales are up 7% CER. Note that top EM grew at 20% CER.

Profitability-wise, Q2 is a cornerstone for QIAGEN and we are pleased to see the company delivering. On a sequential basis, **adj. operating margin rose from 17.9% to 20.7% at USD69.2m, 4% ahead of consensus expectations, despite the increase in both R&D and S&M expenses.** EPS comes at USD0.24/share.

- The main point of interest is Q3 guidance, which was slightly ahead of expectations as management is guiding for 8-9% sales growth at CER (7-8% reported) while EPS is expected to stand at USD0.28 at CER (USD0.27 as reported), slightly below consensus. Having proven its ability to accelerate growth, Q2 over Q1, we would give the benefit of the doubt to the company in its ability to deliver the announced back-end loaded leverage with a FY EPS guidance reiterated. Note that 1/ increased sales force, 2/ roll-out of new products expected in H2 and a higher YoY sales increase in terms of absolute numbers in Q4 should provide further leverage.
- FY 2016 guidance sales is upgraded from 6% at CER to 6-7% at CER to reflect the consolidation of Exiqon, EPS is still expected in the EUR1.08-1.09 range inc. USD0.02 negative FX effect (Exiqon not profitable yet). Moreover, QIA fuels its initial USD100m share buy-back program not initiated yet with another USD200m. Hence **USD200m of share are expected to be bought by early 2017, i.e. 22 days of trading,** while another USD100m should be bought 2017 year-end.

## VALUATION

- We have upgraded our recommendation from NEUTRAL to BUY but would wait for the conference call before adjusting our estimates.

## NEXT CATALYSTS

- Today 9.30amET/3.30pmCET : Confcall on Q2 results (US +1 631 302 6547, UK +44 203 059 8128)

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## Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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