

Sanofi

Price EUR74.59

Medivation in confidentiality agreements with companies including Sanofi

Fair Value EUR83 (+11%)

NEUTRAL

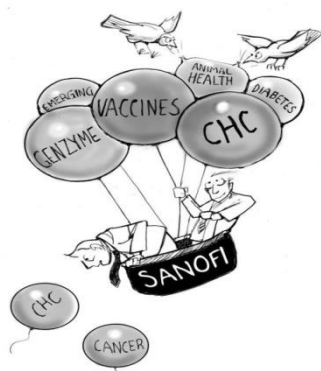
Bloomberg	SAN FP
Reuters	SASY.PA
12-month High / Low (EUR)	100.7 / 67.3
Market Cap (EURm)	95,996
Ev (BG Estimates) (EURm)	103,391
Avg. 6m daily volume (000)	3 129
3y EPS CAGR	2.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.9%	3.2%	-5.0%	-5.1%
Healthcare	1.4%	8.2%	-5.2%	-5.4%
DJ Stoxx 600	-5.0%	-1.2%	-9.7%	-11.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	36,575	35,970	36,779	38,358
% change		-1.7%	2.2%	4.3%
EBITDA	11,237	10,722	10,472	10,731
EBIT	9,948	9,595	9,620	9,942
% change		-3.5%	0.3%	3.3%
Net income	7,371	6,995	7,080	7,796
% change		-5.1%	1.2%	10.1%

	2015	2016e	2017e	2018e
Operating margin	27.2	26.7	26.2	25.9
Net margin	20.2	19.4	19.3	20.3
ROE	12.9	12.0	11.9	12.6
ROCE	11.9	11.2	11.0	11.2
Gearing	12.7	12.7	9.8	6.1

(EUR)	2015	2016e	2017e	2018e
EPS	5.64	5.47	5.54	6.10
% change	-	-3.0%	1.2%	10.1%
P/E	13.2x	13.6x	13.5x	12.2x
FCF yield (%)	4.6%	6.1%	5.6%	6.5%
Dividends (EUR)	2.93	3.00	3.15	3.50
Div yield (%)	3.9%	4.0%	4.2%	4.7%
EV/Sales	2.8x	2.9x	2.8x	2.6x
EV/EBITDA	9.2x	9.6x	9.7x	9.3x
EV/EBIT	10.4x	10.8x	10.6x	10.0x



Pressure on Medivation's Board and the increased offer by Sanofi – although once again rejected – have prompted the US company to enter into confidentiality agreements with several parties having expressed interest in considering the acquisition of Medivation, including Sanofi. As a consequence, the latter has decided to terminate its consent solicitation. In short, we are coming to the end of this story and should shortly see if anybody comes up with a better offer for the target. Obviously, recently-published phase III data with another PARP inhibitor may have increased appetite for similar compounds from competition, all the more so that talazoparib is often considered as a potential best-in-class. We still see a final offer in the USD65-70 range.

ANALYSIS

- Sanofi yesterday confirmed that it has entered into a confidentiality agreement with Medivation, an opportunity that has been given to other companies too that had previously expressed an interest in exploring a transaction. As a consequence, considering that Sanofi previously told Medivation that upon signing such an agreement and being provided information it would increase its offer to USD58 in cash + USD3 in the form of a contingent value right (CVR) based on talazoparib sales performance, this new offer is now fully valid. That said, Medivation's Board already rejected it as "not in the best interests of the company and its shareholders". Medivation's press release adds that Sanofi's part of the offer related to the CVR actually links the maximum USD3 per share additional value to a payment in 2022. It has been Sanofi's attempt to sweeten its offer and open the door to negotiations, which delivered a successful outcome, but it is not delivering full value in our view as it is still not based on internal information. This is why we believe that it is not the final price offered for Medivation by any company that is likely to get a majority of shareholders' support. After meeting with US-based investors last week, we confirm that the final price should be in the USD65-70 range to get shares tendered and up to USD80 should a battle start since this is roughly the maximum price to pay to keep the deal value-creative.
- We must say that last week's release from Tesaro helped Medivation a lot and not bidders. Tesaro unveiled simply outstanding phase III data for its PARP inhibitor niraparib in BRCA mutated ovarian cancer. Although Tesaro determined a high level for statistical significance, all endpoints were easily reached with p values below 0.0001 and HR ranking between 0.27 and 0.45. Presented in the number of months, median PFS was almost quadrupled from 5.5 to 21 months in gBRCA ovarian cancer patients whereas in not-gBRCA it was brought from 3.8-3.9 months up to between 9.3 and 12.9 months. As in previously disclosed studies, NOVA showed similar safety concerns i.e. of a hematological nature with thrombocytopenia, anemia and neutropenia being most frequently reported grade 3-4 side effects with incidences of 28%, 25% and 11% respectively. The discontinuation rate was 14.7% for niraparib compared to 2.2% with placebo. These results are indeed highly supportive of the class overall, all the more so that the initial clinical data comparing all the PARP inhibitors currently in development suggest comparability between olaparib (first-in-class, AstraZeneca) and niraparib (Tesaro) but maybe superiority and best-in-class status for Medivation's talazoparib. So, for other contenders for Medivation, the main interest is talazoparib more than Xtandi probably although it helps make the deal rapidly accretive. Of course, calculation of accretion will depend on sales expectations for Xtandi and talazoparib but also on synergies to be extracted from a combination.

VALUATION

- In our recent note on Sanofi ([Click here to download \(full report\)](#)), we highlighted that Sanofi was engaged in a transformation of its three key pillars (CHC, vaccines, Genzyme). Medivation is a key component to make Genzyme bigger and better positioned for the future in oncology. Should this acquisition come reality and it would be a major step forward for new Sanofi.

NEXT CATALYSTS

- 29th July 2016: First-half results (and lixisenatide PDUFA date ?)



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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

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