

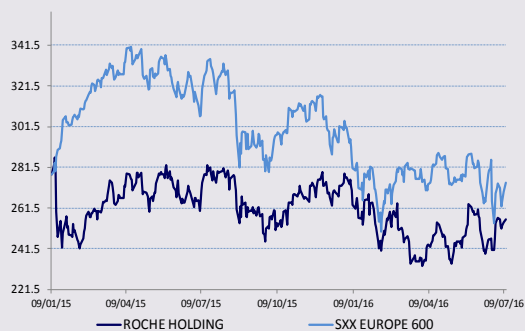
INDEPENDENT RESEARCH  
UPDATE

13th July 2016

Healthcare

Bloomberg	ROG.VX
Reuters	ROG.VX
12-month High / Low (CHF)	282.5 / 233.2
Market capitalisation (CHFm)	179,505
Enterprise Value (BG estimates CHFm)	191,948
Avg. 6m daily volume ('000 shares)	1,498
Free Float	91.5%
3y EPS CAGR	6.3%
Gearing (12/15)	60%
Dividend yield (12/16e)	3.46%

YE December	12/15	12/16e	12/17e	12/18e
Revenue (CHFm)	48,145	50,762	51,908	53,128
EBIT (CHFm)	13,821	17,114	18,644	19,499
Basic EPS (CHF)	10.28	13.63	15.05	15.88
Diluted EPS (CHF)	13.49	14.71	15.92	16.18
EV/Sales	4.02x	3.78x	3.64x	3.48x
EV/EBITDA	10.0x	9.4x	8.8x	8.5x
EV/EBIT	14.0x	11.2x	10.1x	9.5x
P/E	18.9x	17.4x	16.1x	15.8x
ROCE	28.1	27.9	28.7	28.6



# Roche

Tough to perform until APHINITY delivers

Fair Value CHF293 (price CHF255.50)

**BUY**

Big pharma companies are never big enough when their main drugs are being copied. Roche's Rituxan and Herceptin (CHF14bn in sales) are exposed to that risk in 2017 and markets require plenty of innovative new drugs to offset this impact. But, in the end, it looks like one single trial (APHINITY) will make the difference between a resilient growth profile and a flattish and uninspiring one.

Roche is first to recognise that APHINITY's phase III results will have a major impact on determining the growth profile of the company in the next few years. With positive results, Roche is likely to maintain top-line growth similar to what was achieved over the last five years, i.e. c.5% annual growth with, as a result, profitability very much sustained or further increased; with negative results, the most likely scenario is flat sales momentum thus translating into pressurised margins. In the first case, Roche is back with a must-have status in the universe, whereas in the second, it is dead money until it finds new opportunities to grow, including maybe a sizeable acquisition.

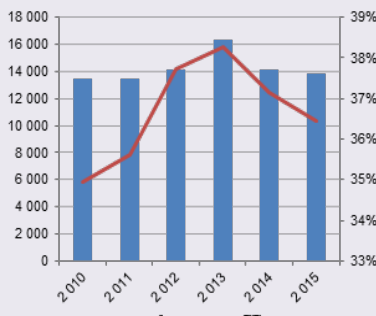
APHINITY is assessing the value of adding Perjeta to SoC in HER2-positive adjuvant breast cancer and is expected to deliver results around the turn of the year. Like GALLIUM (and maybe GOYA too) with rituximab, APHINITY carries the power to largely reduce the impact from biosimilars on trastuzumab, adding to subcutaneous formulations of the two drugs. Its impact on the top-line is probably somewhere between CHF4bn and CHF6bn considering the size of adjuvant in the BC market and the price, which means that 80% to 90% of this amount would drop in the bottom-line.

Sadly, all eyes are turned towards APHINITY, although Roche enters a new period of strong innovation with several other drugs which have just been launched (Tecentriq, Venclexta), are ending their regulatory phase (Ocrevus) or their clinical development (lampalizumab, ACE910). In 2022, cumulative sales from all five drugs (actually four since venetoclax is not booked in sales) are in excess of CHF8bn.

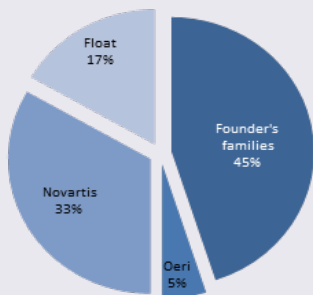
	Analyst:	Sector Analyst Team:
	Eric Le Berrigaud	Mickael Chane Du
	33(0) 1 56 68 75 33	Hugo Solvet
	eleberrigaud@bryangarnier.com	Marion Levi (associate)

Roche

Roche - EBIT growth



Roche - Voting shares



Company description

Roche describes itself as the world leader in biotechnology. True is that most of its revenues in the pharmaceuticals division come from biological, including three drugs that are among the biggest in oncology worldwide: Avastin, Rituxan and Herceptin. They revolutionized their respective markets. When Roche bought Genentech's minority interests, it took full control of those assets, including a very promising R&D pipeline that looks close to delivering again. Besides pharma, Roche is also the world leader in Diagnostics which offers a balance to its portfolio of activities but also leverage to try to implement and develop companion diagnostic tests. Biosimilars clearly represent the biggest threat to Roche's business.

Income Statement (CHFm)

	2013	2014	2015	2016e	2017e	2018e
Revenues	46,780	47,462	48,145	50,762	51,908	53,128
Change (%)	2.8%	1.5%	1.4%	5.4%	2.3%	2.4%
EBITDA	19,779	19,558	19,430	20,345	21,444	21,699
EBIT	16,376	14,090	13,821	17,114	18,644	19,499
Change (%)	15.9%	-14.0%	-1.9%	23.8%	8.9%	4.6%
Core EBIT	17,904	17,636	17,542	18,457	19,744	19,999
Financial results	(1,699)	(1,575)	(1,834)	(1,183)	(930)	(825)
Pre-Tax profit	14,677	12,515	11,987	15,931	17,713	18,674
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0
Tax	(3,304)	(2,980)	(2,931)	(3,983)	(4,517)	(4,762)
Profits from associates	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	209	203	193	200	220	220
Net profit	11,164	9,332	8,863	11,748	12,976	13,692
Core Net Income	12,317	12,329	11,626	12,677	13,722	13,947
Change (%)	5.8%	0.1%	-5.7%	9.0%	8.2%	1.6%

Cash flow Statement (CHFm)

	2013	2014	2015	2016e	2017e	2018e
Operating Cash flows	17,458	16,885	16,542	15,614	17,193	16,996
Change in working capital	209	258	431	1,536	1,056	370
Capex, net	2,386	2,902	3,423	3,200	2,800	2,800
Financial investments, net	401	368	636	0.0	0.0	0.0
Dividends	7,661	7,694	7,921	7,055	7,693	8,327
Net debt	6,708	14,011	14,080	12,443	9,316	5,421
Free Cash flow	13,321	12,964	11,783	9,876	11,750	13,047

Balance Sheet (CHFm)

	2013	2014	2015	2016e	2017e	2018e
Shareholders' funds	21,241	21,558	23,300	28,193	33,696	39,281
+Provisions	3,245	4,243	4,636	4,636	4,636	4,636
+Net debt	6,708	14,011	14,080	12,443	9,316	5,421
=Invested Capital	31,194	39,812	42,016	45,272	47,648	49,338
Fixed assets	27,660	41,007	44,375	45,295	45,815	46,335
+ Working Capital	5,837	5,135	3,826	5,362	6,418	6,788
+ Other	(2,303)	(6,330)	(6,185)	(5,385)	(4,585)	(3,785)
=Capital Employed	31,194	39,812	42,016	45,272	47,648	49,338

Financial Ratios

	2013	2014	2015	2016e	2017e	2018e
Operating margin	35.01	29.69	28.71	33.71	35.92	36.70
Core operating margin	38.27	37.16	36.44	36.36	38.04	37.64
Tax rate	22.51	23.81	24.45	25.00	25.50	25.50
Net margin	26.33	25.98	24.15	24.97	26.43	26.25
ROE (after tax)	66.08	48.00	43.70	50.37	45.83	40.70
ROCE (after tax)	42.44	29.75	28.05	27.85	28.69	28.56
Gearing	31.58	64.99	60.43	44.13	27.65	13.80
Pay out ratio	54.65	56.00	60.06	60.06	60.06	60.06
Number of shares, diluted	863	863	862	862	862	862

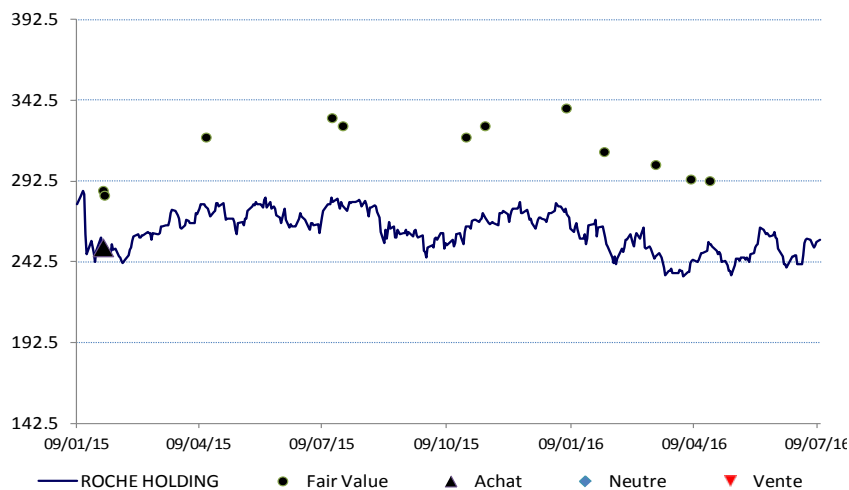
Per share data (CHF)

	2013	2014	2015	2016e	2017e	2018e
EPS	12.94	10.81	10.28	13.63	15.05	15.88
Restated EPS	12.94	10.81	10.28	13.63	15.05	15.88
Core EPS	14.27	14.29	13.49	14.71	15.92	16.18
change (%)	4.8%	0.1%	-5.6%	9.0%	8.2%	1.6%
Goodwill	0.0	0.0	0.0	1.00	2.00	3.00
BV	22.36	22.70	24.34	29.78	35.91	42.13
Operating cash flow	20.23	19.57	19.19	18.11	19.95	19.72
Free Cash flow	15.44	15.02	13.67	11.46	13.63	15.14
Net dividend	7.80	8.00	8.10	8.83	9.56	9.72

Source: Company Data; Bryan, Garnier & Co ests.

## Price Chart and Rating History

### Roche



Ratings		
Date	Ratings	Price
28/01/15	BUY	CHF257.3
30/01/13	NEUTRAL	CHF201.4
13/01/12	BUY	CHF163.3
18/07/11	NEUTRAL	CHF135.9

Target Price	
Date	Target price
20/04/16	CHF293
06/04/16	CHF294
11/03/16	CHF303
02/02/16	CHF311
28/01/16	Under review
05/01/16	CHF338
06/11/15	CHF327
23/10/15	CHF320
24/07/15	CHF327
16/07/15	CHF332
14/04/15	CHF320
29/01/15	CHF284
28/01/15	CHF287
16/01/15	Under review
03/12/14	CHF302
25/09/14	CHF275
26/08/14	CHF273

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### 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 56.8%

NEUTRAL ratings 33.8%

SELL ratings 9.5%

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## BRYAN, GARNIER & CO

London	Paris	New York	Munich	New Delhi
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