

Adocia

Price EUR51.86

Adocia takes a ticket to participate into the attractive basal-GLP1 segment

Fair Value EUR90 (+74%)

BUY

Bloomberg	ADOC.FP
Reuters	ADOC.FR
12-month High / Low (EUR)	87.9 / 44.4
Market Cap (EURk)	355,034
Ev (BG Estimates) (EURk)	339,682
Avg. 6m daily volume (000)	25.90
3y EPS CAGR	-2.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.9%	-11.2%	-7.4%	-29.2%
Healthcare	-3.6%	-1.1%	3.8%	-7.5%
DJ Stoxx 600	2.4%	2.1%	2.2%	-4.5%

YEnd Dec. (EURk)	2015	2016e	2017e	2018e
Sales	36,936	31,771	37,884	51,974
% change		-14.0%	19.2%	37.2%
EBITDA	10,571	3,571	12,884	26,974
EBIT	10,103	3,071	12,384	26,474
% change		-69.6%	NM	113.8%
Net income	12,554	5,189	-9,921	11,710
% change		-58.7%	NM	NS

	2015	2016e	2017e	2018e
Operating margin	27.4	9.7	32.7	50.9
Net margin	34.0	16.3	-26.2	22.5
ROE	26.7	9.9	-23.4	21.7
ROCE	NM	NM	NM	NM
Gearing	-153.2	-29.4	12.7	-165.2

(EUR)	2015	2016e	2017e	2018e
EPS	1.84	0.76	-1.45	1.71
% change		-58.7%	NM	NS
P/E	28.3x	68.4x	NS	30.3x
FCF yield (%)	NM	NM	NM	26.7%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	7.7x	10.7x	9.5x	5.1x
EV/EBITDA	26.8x	95.1x	28.0x	9.9x
EV/EBIT	28.0x	110.6x	29.1x	10.0x

Yesterday Adocia announced that it was developing two basal insulin-GLP1 combinations: glargine-dulaglutide and glargine-liraglutide. One of the two is expected to enter clinics in 2017. Adocia now needs to convince that it can transform another platform into a new partnership in 2017.

ANALYSIS

- Adocia is obviously looking into a very “fashionable” new class of drugs as iGlarLixi and iDegLira were two of the more obvious stars at the past ADA congress and are, as commercial opportunities, two highly expected drugs soon to be approved by the FDA, by the end of the year.
- That said, we believe Adocia might benefit from a situation that makes the two products not ideally designed for current market trends. On one hand, lixisenatide can be criticised as a weak GLP1 component in Sanofi’s combination whereas on the other, Novo is struggling to give Xultophy a reasonable price considering the price of the two individual components. From that perspective, Trulicity and Victoza can be seen as the two most successful GLP1s in the market place and as such are very good candidates for combinations with glargine, which remains standard among basals.
- What are the pros and cons of each of the two projects? Well, it seems like they are not on par in terms of freedom and flexibility to operate for Adocia. On the one hand, liraglutide has patent protection until the early part of the next decade and as such is very likely to be free of IP rights by the time a combination is ready to be filed. By the time it eventually reaches the market however, the question is whether liraglutide will still be standard or to what extent Novo-Nordisk – for many reasons including the patent protection of its franchise – will have made everything possible to make semaglutide its priority and its flagship product. In any case, combining glargine with liraglutide would create a very effective product. On the other hand, using dulaglutide will probably require an agreement with Lilly as the drug has long-lasting patent protection. It would also require a bit more work and a more complex study design to compare a daily combination with a single-arm weekly GLP1 analogue.
- It seems reasonable to say that either Adocia reaches an agreement with Lilly, not only to agree on the combination but to help finance the development (as a reminder, Lilly is the only one of the Big3 insulin players not to have such a combination in development), or the simplest project of glargine with liraglutide is likely to be favoured for further development. However, it is less clear to determine who could be the right partner for a glargine-liraglutide combination since both Sanofi and Novo-Nordisk have alternatives. A challenger in the diabetes field might be the partner of choice, although at the price of weaker financial conditions for Adocia.
- And this is where the challenge is for Adocia because investing in diabetes has to be thought about twice these days as market conditions are deteriorating. Adocia’s intention is clearly to offer a very competitive combination as a reasonable price but in doing so, despite a fairly expensive cost of development anyway, it is more difficult to attract interest from partners.

VALUATION

- After the focus, the strengthening of the portfolio in diabetes is continuing at Adocia. The company has created a lot of partnering opportunities but none of the candidates looks so easy and obvious to partner in a tougher market environment in diabetes (cf. BC Combo).
- It is too early to give value to the new basal/GLP1 combination project and we will wait until the decision to move one of the two candidates into clinics in 2017 before doing so. Now, Adocia needs to convince that it can partner another BC platform beyond lispro to rerate. We do not see one before 2017. However, BC lispro still and always provides support to the valuation as it is worth EUR56 per share. With BC Glucagon and now BC basal/GLP1, we have to understand if it means anything about BC Combo and HinsBet, which account for EUR48 in our current FV.

NEXT CATALYSTS

- 12-16thth September 2016: EASD meeting



Analyst :
Eric Le Berrigaud
33(0) 1 56 68 75 33
eleberrigaud@bryangarnier.com

Sector Team :
Mickaël Chane Du
Hugo Solvet

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
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Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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