19th October 2016

Healthcare

Roche

Price CHF233.60

Tecentriq approved in the US in 2L/3L NSCLC

Fair Value CHF293 (+25%) **BUY**

Bloomberg	ROG VX
Reuters	ROG.VX
12-month High / Low (CHF)	279.3 / 232.7
Market Cap (CHFm)	164,119
Ev (BG Estimates) (CHFm)	176,784
Avg. 6m daily volume (000)	1 192
3y EPS CAGR	7.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.7%	-7.7%	-6.4%	-15.5%
Healthcare	-2.8%	-6.6%	-2.7%	-10.5%
DJ Stoxx 600	1.4%	1.1%	-0.5%	-6.4%

YEnd Dec. (CHFm)	2015	2016e	2017e	2018e
Sales	48,145	50,441	51,591	52,784
% change		*4.8%*	*2.3%*	*2.3%*
EBITDA	19,430	19,890	22,218	22,452
EBIT	13,821	16,659	18,218	19,052
% change		*20.5%*	*9.4%*	*4.6%*
Net income	11,626	13,613	14,282	14,492
% change		*17.1%*	*4.9%*	*1.5%*

	2015	2016e	2017e	2018e
Operating margin	28.7	33.0	35.3	36.1
Net margin	24.1	27.0	27.7	27.5
ROE	43.7	49.3	46.0	41.7
ROCE	28.1	29.7	29.9	29.7
Gearing	60.4	45.5	32.2	19.4

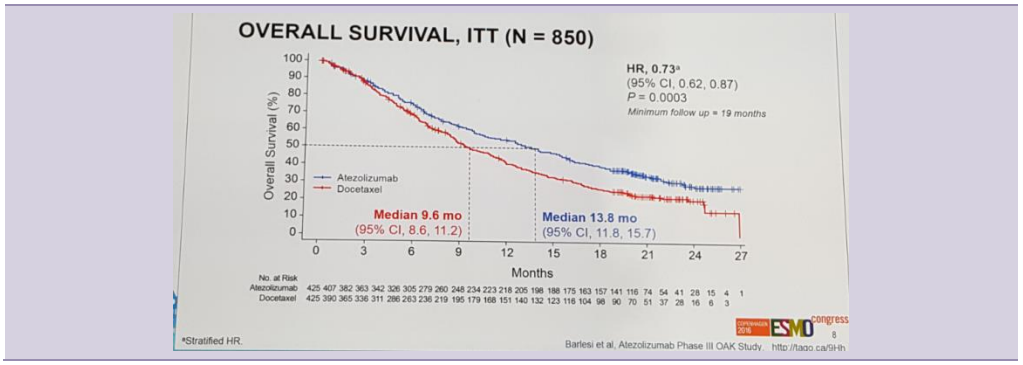
(CHF)	2015	2016e	2017e	2018e
EPS	13.49	15.79	16.57	16.81
% change	-	*17.1%*	*4.9%*	*1.5%*
P/E	17.3x	14.8x	14.1x	13.9x
FCF yield (%)	5.9%	4.8%	5.7%	6.3%
Dividends (CHF)	8.10	9.48	9.95	10.10
Div yield (%)	3.5%	4.1%	4.3%	4.3%
EV/Sales	3.7x	3.5x	3.4x	3.2x
EV/EBITDA	9.2x	8.9x	7.9x	7.6x
EV/EBIT	12.9x	10.6x	9.6x	9.0x

We have referred a lot to the OAK trial in our ESMO report that is out today because it was one of the most significant presentations that took place during the widely-attended Presidential session on the Sunday. So yesterday evening's approval of Tecentriq in 2L/3L NSCLC by the FDA, based on the POPLAR and OAK results, is the logical conclusion of undisputed good data for the drug in the advanced setting of NSCLC across the various subgroups. This is the second approval for Tecentriq after 1L bladder cancer and we are very comfortable with our PS of CHF3.1bn in 2024.

ANALYSIS

- Atezolizumab clearly showed superiority over docetaxel across the board in OAK, i.e. irrespectively of patient characteristics and subgroup analysis, notably between squamous and non-squamous NSCLC, with or without CNS mets, whatever the smoking status and between PD-L1 + and -.

OS results from first OAK phase III data analysis – source: ESMO 2016



- Curves separated early and in the end atezolizumab demonstrated a median OS of 13.8 months vs 9.6 months for docetaxel (HR=0.73, p=0.0003) and this came with an overall good safety profile with 15% grade 3-4 adverse events related to the treatment vs 43% for the taxane. We would note that, like other PD-1 drugs previously, PFS did not show statistical difference between arms.
- As said, the benefit was seen across all subgroups irrespective of the level of PD-L1 expression. It may come as a surprise to see how well patients with TC0 and IC0 responded with monotherapy PD-L1 but Roche was firm in saying that this did not come from the assay used and that 0.0 were true 0.0. So, in a context when, in real life, patients are unlikely to be tested several times for the PD-L1 status of their tumour across the treatment lines, having a drug that works irrespective of the PD-L1 level of expression in 2L/3L is a key advantage.
- When looking at the other end of the spectrum, i.e. the highest PD-L1 expressers, this is however where atezo delivered the strongest efficacy results with a median OS of 20.5 months and an HR of 0.41. And here, it is interesting to make a comparison with what Merck reported with pembro earlier this year in *The Lancet* from the KEYNOTE-010 trial. Although stratification based on PD-L1 expression is not identical, median OS was 14.9 and 17.3 months in the 2mg/kg and 10mg/kg arms respectively in high expressers compared to 8.2 months in the docetaxel arm. In OAK, the docetaxel arm reported a median survival of 8.9 months, which is close, but atezo did better.
- In conclusion, we would say that atezolizumab appears to be at least as effective as PD-1 drugs already approved in the same setting of 2L/3L NSCLC with maybe a clearer advantage in terms of persistence of efficacy (interaction with B7.1?), across various populations (including 0.0 and high expressers), obtained from one large trial with 1,225 patients and with a Q3w treatment interval scheme (vs Q2W for nivo).

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