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24th November 2016

BG's Wake Up Call

	Last close	Daily chg (%)	Chg YTD (%)
Indices			
Dow Jones	19083.18	+0.31%	+9.52%
S&P 500	2204.72	+0.08%	+7.87%
Nasdaq	5380.68	-0.11%	+7.45%
Nikkei	18333.41	+0.94%	-4.57%
Stoxx 600	340.768	-0.07%	-6.85%
CAC 40	4529.21	-0.42%	-2.33%
Oil /Gold			
Crude WTI	46.61	-0.26%	+25.30%
Gold (once)	1187.31	-1.85%	+11.76%
Currencies/Rates			
EUR/USD	1.0532	-0.55%	-3.05%
EUR/CHF	1.07185	-0.05%	-1.43%
German 10 years	0.197	+33.31%	-68.90%
French 10 years	0.796	+10.74%	-18.89%
Euribor	-	+-%	+-%

Economic releases :

Date	
24th-Nov	8h00 DE - GDP y/y 3Q (1.7%A as Exp.) 10h00 DE - IFO expectations Nov. 13h00 GfK Consumer Confidence survey Dec.

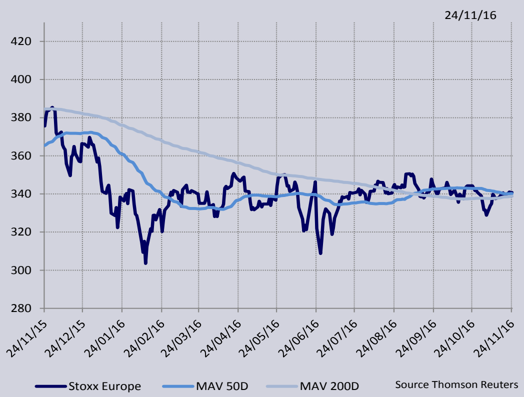
Upcoming BG events :

Date	
24th-Nov	CAP GEMINI (BG Lunch with IR)
24th-Nov	IMERYS (BG London roadshow with IR)
24th-Nov	IMERYS (BG London roadshow with IR)
28th-Nov/ 29th-Nov	2nd Paris Consumer Conference
30th-Nov	VALEO (BG Lunch with IR)
5th-Dec	Reverse roadshow in Paris / Construction

Recent reports :

Date	
23rd-Nov	SPIRITS : Rising to the Generation Y challenge
22nd-Nov	ORPEA More than ever a BUY
21st-Nov	Car Parts -What if market went too far down on auto suppliers?
21st-Nov	Innate - Still time to jump on the bandwagon
18th-Nov	FOCUS FRESENIUS Steady as she goes
18th-Nov	FOCUS ACTELION Several upsides to play in an exciting 2017 year

List of our Reco & Fair Value : Please click here to download



ROYAL UNIBREW — NEUTRAL vs. BUY, Fair Value DKK306 vs. DKK325 (+3%)

Solid 9m results priced in

After a solid set of 9 month figures we are fine tuning our estimates through lowering operating profit and EPS forecasts for 2016 and 2017 by 1% as there is a touch less margin expansion than previously anticipated. We are also adjusting our fair value to DKK306 from DKK325 (-6%) which reflects us using a beta of 1 compared to 0.85 previously. Given the limited upside for the stock (and reflecting its strong performance vs other brewers), we downgrade the recommendation to Hold from Buy.

INFINEON — BUY, Fair Value EUR18.5 vs. EUR17.5 (+10%)

Investment case intact, best positioned to benefit from Auto/Industrial secular trends

Yesterday, Infineon reported FY16 results in line with expectations but also came out with surprisingly low growth guidance for FY17 (+6% vs. cons. at +8%). Nevertheless, the message shared during the conference call was reassuring and we believe this guidance is full of caution. We update our model and lift our FV to EUR18.5. We reiterate our Buy recommendation since our investment case remains intact: Infineon 1/ is one of the best players worldwide to play secular trends including the pervasion of electronic content in cars (electric vehicle + autonomous driving) and industrial automation, 2/ has potential to improve its adj. EBIT margin by 200bps over the next two years, and 3/ trades at virtually no premium vs. IDMs peers with IFX 2017e P/E of 19.9x.

RÉMY COINTREAU — BUY-Top Picks, Fair Value EUR84 (+13%)

7% organic EBIT growth in H1

H1 2016/17 EBIT increased 15.9% to EUR123.9m, pointing to a margin of 24.1%, up 270bps YoY. This is above expectations (consensus: EUR119.3m and our estimate: EUR122.7m) thanks to FX. Organically EBIT grew 7% in H1 as the increase in communication investment was offset by favourable volumes and mix effects.

SOFTWARE AG — BUY, Fair Value EUR40 (+19%)

Reiterating our Buy case: a look at what could be 2017

We reiterate our Buy recommendation and our DCF-derived Fair Value of EUR40. We have shaved our adj. EPS ests. by 2% for 2016 and 1% for 2017-18, with slightly more cautious assumptions on opex, offset by fx tailwinds for 2017 (+1.9ppt). While the acceleration in growth looks to be the "icing on the cake", we consider reaching the top-end of non-IFRS op. margin guidance is enough to drive the share price upwards, while the transformation of the sales model is well engaged in our view.

BIOTECHNOLOGY

JCAR015's safety issues back under the spotlight. Read-across for ALCLS and NVS

Juno shares fell by more than 25% yesterday following the announcement of a voluntary clinical hold on its ROCKET 2 trial (Phase II evaluating JCAR019, an anti-CD19 CAR-T, in B ALL) following two patient deaths from cerebral oedema. We believe these safety issues are company/product-specific… And consequently, 1/ any pronounced pressure on ALCLS' shares could be an opportunity to revisit the case; 2/ we see a positive read-across for NVS' CTL019 as JCAR015's filing for approval could be further delayed… or even cancelled.

PHARMACEUTICALS

LLY's solanezumab fails in mild dementia due to AD. Negative for MOR, ROG and GFS, but positive for AZN

Food & Beverages

Royal Unibrew

Price DKK296.80

Solid 9m results priced in

Fair Value DKK306 vs. DKK325 (+3%) **NEUTRAL vs. BUY**

Bloomberg	RBREW DC
Reuters	RBREW.CO
12-month High / Low (DKK)	334.0 / 252.7
Market Cap (DKK)	16,057
Ev (BG Estimates) (DKK)	16,126
Avg. 6m daily volume (000)	74.10
3y EPS CAGR	8.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-8.6%	-6.9%	4.2%	6.0%
Food & Bev.	-8.1%	-10.3%	-6.3%	-10.0%
DJ Stoxx 600	-1.0%	-0.8%	1.2%	-6.8%

YEnd Dec. (DKKm)	2015	2016e	2017e	2018e
Sales	6,032	6,386	6,395	6,508
% change		*5.9%*	*0.1%*	*1.8%*
EBITDA	1,225	1,285	1,311	1,348
EBIT	917.0	974.7	1,000	1,038
% change		*6.3%*	*2.6%*	*3.8%*
Net income	711.4	770.5	791.7	821.2
% change		*8.3%*	*2.8%*	*3.7%*

	2015	2016e	2017e	2018e
Operating margin	15.2	15.3	15.6	15.9
Net margin	11.8	12.1	12.4	12.6
ROE	24.2	27.2	29.5	32.2
ROCE	20.2	22.7	24.0	25.4
Gearing	40.3	39.4	44.2	48.3

(DKK)	2015	2016e	2017e	2018e
EPS	12.93	14.40	15.28	16.39
% change	-	*11.4%*	*6.1%*	*7.2%*
P/E	23.0x	20.6x	19.4x	18.1x
FCF yield (%)	6.3%	6.0%	5.6%	6.1%
Dividends (DKK)	1.80	1.80	1.80	1.80
Div yield (%)	0.6%	0.6%	0.6%	0.6%
EV/Sales	2.7x	2.5x	2.5x	2.5x
EV/EBITDA	13.4x	12.5x	12.2x	11.9x
EV/EBIT	17.9x	16.5x	16.0x	15.4x

After a solid set of 9 month figures we are fine tuning our estimates through lowering operating profit and EPS forecasts for 2016 and 2017 by 1% as there is a touch less margin expansion than previously anticipated. We are also adjusting our fair value to DKK306 from DKK325 (-6%) which reflects us using a beta of 1 compared to 0.85 previously. Given the limited upside for the stock (and reflecting its strong performance vs other brewers), we downgrade the recommendation to Hold from Buy.

Royal Unibrew published this morning a solid set of results with revenues in Q3 up by 1.7% and 5.7% for the 3 months ytd. EBIT in the quarter increased by 2% and for the 9 months by 6.5%. 9 month figures are positively impacted by the much better weather in q2 this year compared to last year.

ANALYSIS

- Net revenue for 9m 2016 increased by 6% to DKK 4,874m compared to DKK 4,610m in 2015 as net revenue was positively affected by the expanded cooperation with PepsiCo in Denmark and the Baltic countries as well as an extraordinary campaign activity in Finland. EBIT for 9m 2016 was DKK 825 million, which was DKK 50 million above the 2015 figure. EBIT margin increased by 0.1 percentage point to 16.9% for the period.
- The 0.1% increase is slightly below our expectation of a 0.3% increase which lead us to review downwards our full year expectation of EBIT margin increase to 0.1% (new operating profit forecasts are 1% lower than previously). As a result our 2016 EPS expectation is revised down by 1% to 14.4 (vs 14.5) and our 2017 EPS by 1% to 15.3 (vs 15.4).
- The previously announced net revenue and earnings outlook for the year is maintained. Earnings for 2016 are now expected in the upper end of the ranges indicated: Net revenue: DKK 6,275-6,450 million EBITDA: DKK 1,240-1,290 million EBIT: DKK 935-985 million

VALUATION

- Our fair value for the stock of DKK325, is based on DCF using risk free of 1.6%, risk premium of 7% and beta of 0.85. Reflecting the trend in the stock market that has put the share prices of consumer staples under pressure, we are increasing the beta for Royal Unibrew to 1 (from 0.85) which lowers our fair value for the stock to DKK306 vs DKK321 (risk free remains at 1.6% and risk premium at 7%). The limited upside to fair value lead us to review the rating of the stock to Hold from Buy.

NEXT CATALYSTS

- 8 March 2017: Full year figures

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TMT

Infineon

Price EUR16.80

Investment case intact, best positioned to benefit from Auto/Industrial secular trends

Fair Value EUR18.5 vs. EUR17.5 (+10%) **BUY**

Bloomberg	IFX GY
Reuters	IFXGn.DE
12-month High / Low (EUR)	16.8 / 10.5
Market Cap (EURm)	19,030
Ev (BG Estimates) (EURm)	18,141
Avg. 6m daily volume (000)	4,264
3y EPS CAGR	12.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.8%	9.1%	32.6%	24.4%
Semiconductors	4.8%	8.8%	36.8%	30.4%
DJ Stoxx 600	-1.0%	-0.8%	1.2%	-6.8%

YEnd Sept. (EURm)	09/16	09/17e	09/18e	09/19e
Sales	6,473	6,877	7,520	8,154
% change		*6.2%*	*9.4%*	*8.4%*
EBITDA	1,823	1,945	2,269	2,489
EBIT	982.0	1,120	1,291	1,429
% change		*14.0%*	*15.3%*	*10.7%*
Net income	854.0	929.8	1,082	1,208
% change		*8.9%*	*16.4%*	*11.6%*

	09/16	09/17e	09/18e	09/19e
Operating margin	15.2	16.3	17.2	17.5
Net margin	13.2	13.5	14.4	14.8
ROE	14.8	14.5	15.5	15.5
ROCE	16.8	15.4	17.5	19.1
Gearing	-9.4	-15.8	-24.4	-32.2

(EUR)	09/16	09/17e	09/18e	09/19e
EPS	0.76	0.82	0.96	1.07
% change	-	*8.9%*	*16.4%*	*11.5%*
P/E	22.2x	20.4x	17.5x	15.7x
FCF yield (%)	2.5%	3.4%	4.8%	5.5%
Dividends (EUR)	0.20	0.20	0.22	0.24
Div yield (%)	1.2%	1.2%	1.3%	1.4%
EV/Sales	2.9x	2.6x	2.3x	2.0x
EV/EBITDA	10.2x	9.3x	7.7x	6.7x
EV/EBIT	18.9x	16.2x	13.5x	11.7x

Yesterday, Infineon reported FY16 results in line with expectations but also came out with surprisingly low growth guidance for FY17 (+6% vs. cons. at +8%). Nevertheless, the message shared during the conference call was reassuring and we believe this guidance is full of caution. We update our model and lift our FV to EUR18.5. We reiterate our Buy recommendation since our investment case remains intact: Infineon 1/ is one of the best players worldwide to play secular trends including the pervasion of electronic content in cars (electric vehicle + autonomous driving) and industrial automation, 2/ has potential to improve its adj. EBIT margin by 200bps over the next two years, and 3/ trades at virtually no premium vs. IDMs peers with IFX 2017e P/E of 19.9x.

ANALYSIS

- **Yesterday, IFX reported FQ4 in line but came out with disappointing FY17 growth guidance of 6%** (vs. 8% expected, see our first take). **However, we continue to see IFX as a long term growth story** and remain confident that the current stock price is an opportunity.

- **During the conference call, the message was reassuring and confirmed a solid outperformance story (vs. peers) over the LT.** Note that the group forecasts 6% growth for FY16 but is maintaining its 8% through-cycle growth target (i.e. normative). While the semiconductor industry is decreasing in 2016, Infineon has posted 12% growth over FY16 (7% organically). And the 6% growth anticipated for FY17 should be compared with low single digit growth expected for the overall market in 2017. Again, this is mainly due to a strong footprint in the Automotive (electro-mobility and autonomous driving) and Industrial sectors (smart factories, industrial automation, renewables).

- **EV and ADAS should become more visible through FY17:** The car market is said to be strong in America, Western Europe and China but the anticipated strong growth in Automotive (c. 40% of group sales) will stem from strong demand and a strong leadership in power components for EV but also a strong technology lead in radar/lidar sensors for ADAS (autonomous driving systems). Regarding sensors, the group expects shipments for 24Ghz radars (used for blind spot detection) to more than double over FY17 while 77Ghz radars are also expected to show a very strong traction. In addition to that, the group also recently strengthened its position with the introduction of Lidar (from Innoluce) making IFX a strong leader on behalf of STMicroelectronics (Neutral, FV EUR7.3) and NXP. In Electric cars, IFX continues to benefit from its leading position in power and we expect FY17 to benefit from the numerous recent design wins of FY16 : over EUR750m worth of IGBT design wins in FY16 including a three-digit million business (IGBT) for mass deployment of (H)EV at a leading Tier 1 and EUR500m for low voltage MOSFET. In addition, the group also secured a position for its AURIX MCU family with a leading Japanese Tier 1 for engine management system.

- **Industrial business keeps going, no bumps ahead.** In the Industrial sector (IPC: 17% of total sales) the group continues to see strong traction in renewables, especially IGBT modules for solar investors. We understand that demand for home appliances also helps momentarily although segment remains volatile in relative terms. Chinese overstocking, impacting previous quarters, is said to be cleared. As such, we expect to see this division progress in line with the group average growth over FY17.

- **PMM is a mixed view.** Note that the Power Management & Multimarket division (c. 32% of sales) is a mix of many products designed for very different applications and markets. However, it is fair to assume that 35-45% stems from the mobile phone market. Here, the group sees solid traction in some specific devices such as barometric sensors and RF components thanks to the new smartphone ramp up, but this is offset by the decline in other product lines, which does not prevent IFX from broadening its customer portfolio with Chinese OEMs. We also believe IFX is losing ground in chargers due to high competition (collateral of DLG new rapid charging ASIC's success?). In addition, in other product lines including RF power amplifier for cellular base station which was particularly disappointing in FQ3 2016, visibility remains low. Hopefully, this is balanced by good momentum in Power MOSFET for xEV charging, low to medium voltage MOSFETs and DC/DC converters for server platforms. As such, we expect the division to grow at a slower pace than the overall group.

- **IoT Security to help Chip Card & Security business** (c. 11% of sales). Despite returning to growth, chip card traction and growth patterns should be lower in FY17 than previously observed, impacting negatively the business of this division. Nevertheless, traction for embedded security controllers for IoT is strong and we have heard that the group has secured a strategic project win at a leading device manufacturer for smart home devices. As such, and as for PMM, we expect the division to grow at a slower pace than the overall group.

- **Margin improvement as 300mm fab ramps-up and the group continues to improve operating efficiency.** During FY17, the group should continue to improve its operating margin thanks to 1/ the continuous ramp up of the 300mm fab which is expected to break even by end-2017, 2/ further benefits from integration of IR and the acquisition of Wolfspeed, 3/ higher volumes triggering higher margins. As such, the target of 16% for FY17 appears to be easily achievable to us (given the current supportive environement) and we believe the group has the chance of beating this target, closing the gap with the new 17% through-cycle target. Note that the 300mm fab weight alone is equal to about 100bps on current operating margin.

VALUATION

- **We update our model.** We have updated our model and the EUR/USD exchange rate. Indeed last time we updated our model (28/09/2016), the spot rate was at 1.11 whereas it is now at 1.06. Finally, we have also applied a roll-over of our valuation (DCF and SOTP). Our new FV is EUR18.5 vs. EUR17.5.
- **We reiterate our Buy recommendation**. Overall, we see the group's low guidance as additional room for IFX to positively surprise over FY17, especially since the details given during the conference call confirm our view regarding the strong leadership of IFX in the Auto and Industrial sectors (which remain two of the most dynamic end-markets) and should be increasingly visible catalysts. We continue to see Infineon as a very attractive story while valuation metrics remain at decent levels. Based on our estimates, IFX trades on 2017e P/E of 19.9x and PEG of 1.6, i.e. a very limited premium compared to IDM peers trading at 2017e P/E 18.7x on average.

NEXT CATALYSTS

- 2nd February 2017, FQ1 2017 results (preliminary date).
- 16th February 2017, Annual General Meeting.

Detailed P&L

[EURm]	1Q17e	2Q17e	3Q17e	4Q17e	FY17e	FY18e	FY19e	CAGR
Total Group	**1616**	**1690**	**1782**	**1787**	**6877**	**7520**	**8154**	**+8.0%**
Seq. growth	*-3.5%*	*+4.6%*	*+5.4%*	*+0.3%*	*+6.2%*	*+9.4%*	*+8.4%*	
Y/Y growth	*+3.9%*	*+4.9%*	*+9.2%*	*+6.7%*	*+6.2%*	*+9.4%*	*+8.4%*	
Cost of goods sold	-1031	-1068	-1091	-1097	-4287	-4557	-4942	
Gross margin	**36.2%**	**36.8%**	**38.8%**	**38.6%**	**37.7%**	**39.4%**	**39.4%**	
SG&A	-204	-201	-228	-225	-858	-902	-938	
R&D	-186	-186	-178	-179	-729	-865	-938	
Other operating income*	36	29	16	37	117	96	92	
Adj. EBIT	**232**	**264**	**301**	**323**	**1120**	**1291**	**1429**	**+13.3%**
adj. operating margin	*14.3%*	*15.6%*	*16.9%*	*18.1%*	*16.3%*	*17.2%*	*17.5%*	
EBIT	192	232	282	282	990	1182	1322	
operating margin	*11.9%*	*13.7%*	*15.8%*	*15.8%*	*14.4%*	*15.7%*	*16.2%*	
Net financial result	-14	-12	-10	-16	-51	-48	-41	
Income tax	-23	-29	-35	-35	-122	-147	-167	
tax rate	*-13.0%*	*-13.0%*	*-13.0%*	*-13.0%*	*-13.0%*	*-13.0%*	*-13.0%*	
Net income (loss)	155	191	237	232	815	987	1115	
Adj. Net income (loss)	190	219	254	268	930	1082	1208	
Adj. Dil. EPS (in EUR)	**0.17**	**0.19**	**0.22**	**0.24**	**0.82**	**0.96**	**1.07**	**+12.2%**

Source: Bryan Garnier & Co. ests.

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Food & Beverages

Rémy Cointreau

Price EUR74.34

Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	80.4 / 58.1
Market Cap (EUR)	3,694
Ev (BG Estimates) (EUR)	4,129
Avg. 6m daily volume (000)	93.30
3y EPS CAGR	12.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-4.7%	-5.6%	3.5%	12.6%
Food & Bev.	-8.1%	-10.3%	-6.3%	-10.0%
DJ Stoxx 600	-1.0%	-0.8%	1.2%	-6.8%

YEnd Mar. (EURm)	03/16	03/17e	03/18e	03/19e
Sales	1,051	1,076	1,145	1,227
% change		*2.5%*	*6.4%*	*7.1%*
EBITDA	200	227	250	282
EBIT	178.4	206.5	227.6	256.3
% change		*15.7%*	*10.2%*	*12.6%*
Net income	110.4	126.0	145.3	165.8
% change		*14.1%*	*15.3%*	*14.1%*

	03/16	03/17e	03/18e	03/19e
Operating margin	17.0	19.2	19.9	20.9
Net margin	10.5	11.7	12.7	13.5
ROE	9.9	11.6	13.7	15.2
ROCE	16.5	17.3	18.0	18.3
Gearing	41.2	39.9	37.9	31.9

(EUR)	03/16	03/17e	03/18e	03/19e
EPS	2.27	2.46	2.84	3.24
% change	-	*8.6%*	*15.3%*	*14.1%*
P/E	32.8x	30.2x	26.2x	22.9x
FCF yield (%)	2.1%	2.6%	3.0%	3.5%
Dividends (EUR)	1.60	1.60	1.60	1.60
Div yield (%)	2.2%	2.2%	2.2%	2.2%
EV/Sales	4.0x	3.8x	3.6x	3.3x
EV/EBITDA	20.8x	18.2x	16.3x	14.3x
EV/EBIT	23.3x	20.0x	18.0x	15.8x

7% organic EBIT growth in H1

Fair Value EUR84 (+13%) **BUY-Top Picks**

H1 2016/17 EBIT increased 15.9% to EUR123.9m, pointing to a margin of 24.1%, up 270bps YoY. This is above expectations (consensus: EUR119.3m and our estimate: EUR122.7m) thanks to FX. Organically EBIT grew 7% in H1 as the increase in communication investment was offset by favourable volumes and mix effects.

ANALYSIS

- H1 2016/17 EBIT rose 15.9% to EUR123.9m, pointing to a margin of 24.1%, up 270bps YoY. This is ahead of expectations (consensus: EUR119.3m and our estimate: EUR122.7m) thanks to FX. Organically, EBIT grew 7% in H1 (consensus: +6.6% and our estimate: +7.3%) driven by Cognac and Liqueurs & Spirits which respectively rose by 9.1% (consensus: +7.4% and our estimate: +8%) and 8.6% (consensus: +6.3% and our estimate: +5%). The group stepped up its communication expenditures but this was offset by favourable volume and mix effects (with the success of the group's high-end products). Partner Brands dropped 15.8% on an organic basis as a result of the loss of the EPI distribution contracts in a number of European markets. Excluding non-recurring items, net EPS came out at EUR1.57, up 11.3% on a reported basis. Net debt declined EUR10.5m to EUR447.7m, pointing to a net debt/EBITDA ratio of 2.16x vs 2.29x at end-March 2016 and 2.53x at end-September 2015.
- The group released its Q2 sales on 18th October. They increased 6.2% to EUR294.8m, 4% above forecasts. Organic growth stood at 7.4% (consensus: +4.3% and our estimate: +3.3%), implying a strong improvement vs Q1 (flat sales). Cognac (62% of group's sales) grew 9.3% in Q2 after -0.5% in Q1 thanks to a 1/ return to growth in Greater China (marketing initiatives on Louis XIII) and a 2/ strong performance in the United States fuelled by the intermediary product 1738 Accord Royal. The performance of Liqueurs & Spirits (26% of sales) was also good, with organic sales up 10.1% in Q2 (-0.8% in Q1) thanks to Cointreau, Metaxa and the Islay Spirits. Finally, sales of Partner brands (12% of group's sales) fell 10.7% over the quarter because of the loss of the distribution contract for the EPI champagne brands in France, Benelux and Travel Retail.
- **Guidance confirmed**. The group reiterated its objective to achieve organic EBIT growth over the year. Our current estimates for the year call for sales and EBIT to grow 3.7% and 7.7% respectively. We are making no changes before the analyst meeting at 9am CET.

VALUATION

- Our Buy recommendation and Fair Value of EUR84 remain unchanged.

NEXT CATALYSTS

- Diageo: conference call about North America on 1st December
- Pernod Ricard: conference call about Americas on 6th December

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Software AG

Price EUR33.55

Reiterating our Buy case: a look at what could be 2017

Fair Value EUR40 (+19%) **BUY**

Bloomberg	SOW GR
Reuters	SOWG.DE
12-month High / Low (EUR)	38.9 / 25.3
Market Cap (EUR)	2,650
Ev (BG Estimates) (EUR)	2,541
Avg. 6m daily volume (000)	202.7
3y EPS CAGR	5.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.8%	-6.7%	-2.5%	27.0%
Softw.& Comp.	-4.5%	-1.3%	6.7%	2.9%
DJ Stoxx 600	-1.0%	-0.8%	1.2%	-6.8%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	873.1	874.0	918.9	957.2
% change		*0.1%*	*5.1%*	*4.2%*
EBITDA	278	283	301	321
EBIT	209.4	223.0	249.2	273.8
% change		*6.5%*	*11.7%*	*9.9%*
Net income	188.0	190.9	203.6	217.4
% change		*1.5%*	*6.7%*	*6.8%*

	2015	2016e	2017e	2018e
Operating margin	30.2	31.1	31.6	32.4
Net margin	16.0	16.9	18.1	19.3
ROE	12.8	12.4	12.7	12.7
ROCE	17.7	18.4	19.9	21.7
Gearing	1.3	-9.2	-19.9	-29.4

(€)	2015	2016e	2017e	2018e
EPS	2.33	2.37	2.52	2.69
% change	-	*1.5%*	*6.7%*	*6.8%*
P/E	14.4x	14.2x	13.3x	12.5x
FCF yield (%)	6.5%	7.1%	7.6%	8.3%
Dividends (€)	0.55	0.60	0.65	0.70
Div yield (%)	1.6%	1.8%	1.9%	2.1%
EV/Sales	3.1x	2.9x	2.6x	2.3x
EV/EBITDA	9.6x	9.0x	7.9x	6.9x
EV/EBIT	10.1x	9.3x	8.2x	7.2x

We reiterate our Buy recommendation and our DCF-derived Fair Value of EUR40. We have shaved our adj. EPS ests. by 2% for 2016 and 1% for 2017-18, with slightly more cautious assumptions on opex, offset by fx tailwinds for 2017 (+1.9ppt). While the acceleration in growth looks to be the "icing on the cake", we consider reaching the top-end of non-IFRS op. margin guidance is enough to drive the share price upwards, while the transformation of the sales model is well engaged in our view.

ANALYSIS

Back to the margin guidance corridor for 2016. Whereas after Q3 results we believed in Software AG's ability to exceed its FY16 non-IFRS operating margin guidance range of 30.5-31.5% (vs. 29.7% in 2015), we now expect the FY16 margin to come out at 31.4% (implying Q4 -2.3ppt to 33.5%) vs. 32.1%, with 2.2% lfl sales growth vs. +2.7%: 1) on DBP (Digital Business Platform), we now expect sales up 5% lfl to EUR445.3m (o/w +8% lfl for Q4 with +13% lfl on licence sales) vs. EUR449.1m and a margin up 4.5ppt to 33.5% (o/w -3.2ppt to 41% for Q4) vs. 34.3%, with large IoT deals delayed to October from September (Bosch, Octo Telematics…) partly offset by high comps (Q4 2015 was up 11% lfl, o/w +17% lfl on licences); 2) on A&N (Adabas & Natural), we are comfortable with a 4% lfl sales dip to EUR233.9m (o/w +2% lfl for Q4) and a margin down 1.6ppt to 68.4% (o/w -0.7ppt to 64.2% for Q4); 3) in Consulting, sales will be dented by the downsizing of services related to third-party products (o/w Spain) and fx headwinds in the UK, so we now forecast sales up 3% lfl to EUR194.8m (o/w -5% lfl for Q4) vs. EUR198.3m and now estimate the margin to be down 1.5ppt to 9.8% (with Q4 down 4.4ppt to 9.4%) vs. 11.1%; 4) G&A costs are likely to rise sharply in Q4 (BG est.: +20%) due to a catch-up in salary increases.

We bank on a 31.5-32% non-IFRS operating margin for 2017. For 2017, we adopt a more cautious stance on the non-IFRS operating margin (31.9% vs. 32.4%) and consider Software AG may guide for DBP sales up 5-10% lfl, A&N sales down 2-6% lfl, and a non-IFRS operating margin range of 31.5-32%. Our lfl sales growth scenario remains virtually unchanged, at +3.2% vs. +3.3%, but we estimate fx tailwinds at +1.9ppt on sales (vs. +0.2ppt previously). We consider a lfl sales growth acceleration could be enabled by a mix effect, with DBP (est. 53% of sales for 2017, vs. an est. 51% for 2016) leading the growth. On DBP (BG est.: sales +8% lfl, margin +3.1ppt to 36.6%), while 2016 is likely to reach the bottom-end of the 5-10% growth range, we consider sales productivity gains and a higher average deal size will allow for 8% lfl growth in 2017. In A&N (BG est.: sales -5% lfl, margin -0.6ppt to 67.8%), a trend change is unlikely as the commitment to support A&N products beyond 2050 will not prevent licence sales from falling over time. In Consulting (BG est.: sales +2% lfl, margin +1.8ppt to 11.6%), we still expect modest lfl growth as the shift to strategic services related to topics like IoT from product-related projects will be achieved.

No reason to reconsider the 32-35% margin scenario for 2020. In early 2015, management announced its aim to deliver a 32-35% non-IFRS op. margin scenario for 2020. While we doubt the bottom-end of this range will be achieved in 2016 or even in 2017, we are comfortable it will be reached in 2018. Our sequence of progression is: +1.7ppt to 31.4% for 2016, +0.5ppt to 31.9% for 2017, +0.8ppt to 32.7% for 2018, +0.8ppt to 33.5% for 2019, and +0.9ppt to 34.4% for 2020. This will be, in our view, driven by sales of business digital solutions with a higher average deal size, the expansion of the ecosystem of partners, and extended sales coverage.

VALUATION

Software AG's shares are trading at est. 9.3x 2016 and 8.2x 2017 EV/EBIT multiples.

Net cash position on 30th September 2016 was EUR93.4m (net gearing: -8%).

NEXT CATALYSTS

FY16 results on 26th January 2017 before markets open.

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Sector View

Biotechnology

JCAR015's safety issues back under the spotlight. Read-across for ALCLS and NVS

	1 M	3 M	6 M	31/12/15
Healthcare	-5.6%	-9.4%	-7.3%	-15.8%
DJ Stoxx 600	-1.0%	-0.8%	1.2%	-6.8%

*Stoxx Sector Indices

Companies covered

ABLYNX		**BUY**	**EUR16**
Last Price	EUR8.97	*Market Cap.*	EUR546m
ADOCIA		**BUY**	**EUR82**
Last Price	EUR51.42	*Market Cap.*	*EUR352m*
BONE THERAPEUTICS		**BUY**	**EUR30**
Last Price	EUR7.601	*Market Cap.*	*EUR52m*
CELLECTIS		**BUY**	**EUR37**
Last Price	EUR16.8	*Market Cap.*	*EUR594m*
CELYAD		**NEUTRAL**	**EUR21**
Last Price	EUR17.655	*Market Cap.*	*EUR164m*
DBV TECHNOLOGIES		**BUY**	**EUR91**
Last Price	EUR67.25	*Market Cap.*	*EUR1,621m*
ERYTECH		**BUY**	**EUR30**
Last Price	EUR13.34	*Market Cap.*	*EUR106m*
GALAPAGOS		**BUY**	**EUR64**
Last Price	EUR54.91	*Market Cap.*	*EUR2,535m*
GENEURO		**BUY**	**EUR18.2**
Last Price	EUR7.34	*Market Cap.*	*EUR108m*
GENMAB		**BUY**	**DKK1900**
Last Price	DKK1251	*Market Cap.*	*DKK75,498m*
INNATE PHARMA		**BUY**	**EUR23**
Last Price	EUR14.65	*Market Cap.*	*EUR790m*
MORPHOSYS		**BUY**	**EUR65**
Last Price	EUR46.09	*Market Cap.*	*EUR1,344m*
NICOX		**No rating**	**U.R.**
Last Price	EUR7.679	*Market Cap.*	*EUR192m*
TRANSGENE			**EUR5**
Last Price	EUR2.61	*Market Cap.*	*EUR147m*
ZEALAND		**BUY**	**DKK223**
Last Price	DKK126.5	*Market Cap.*	*DKK3,298m*

Juno shares fell by more than 25% yesterday following the announcement of a voluntary clinical hold on its ROCKET 2 trial (Phase II evaluating JCAR019, an anti-CD19 CAR-T, in B ALL) following two patient deaths from cerebral oedema. We believe these safety issues are company/product-specific… And consequently, 1/ any pronounced pressure on ALCLS' shares could be an opportunity to revisit the case; 2/ we see a positive read-across for NVS' CTL019 as JCAR015's filing for approval could be further delayed… or even cancelled.

ANALYSIS

- **JCAR015's trial once again put on hold due to safety issues.** Juno yesterday voluntarily placed on hold its ROCKET 2 trial evaluating JCAR015 (CD19 CAR-T) in adults with relapsed/refractory B acute lymphoblastic leukaemia following two patients deaths from cerebral oedema earlier this week. Obviously, the company is trying to better understand the reasons behind these cases. And once done, we'll see if this specific programme will be resumed or even discontinued…
- **Towards more scepticism?** A few months ago, the FDA put a clinical hold on the very same trial because of several patient deaths (also due to severe neurological side effects). Juno explained such adverse events could be related to the pre-conditioning regimen (fludarabine + cyclophosphamide), and the trial was resumed after a few changes to the trial design. Since then, the street has been increasingly worried about this development… and some even wondered if such issues are CART-related or not. And unfortunately, this news might provide material for the most sceptics.
- **A company-specific issue.** For our part, we believe these safety issues could be candidate-specific as 1/ no other CAR-T cells have reported similar problems, whether Novartis, Kite or Bellicum… And even Juno apart from JCAR015; 2/ cerebral oedema is one of the adverse events known to be associated with the administration of fludarabine. So any pronounced pressure on ALCLS shares should be seen as an opportunity to revisit the case in our view (especially since key clinical data is to be published in H1 2017). Also, we see a positive read-across for NVS' CTL019 as JCAR015's filing for approval could be further delayed, or even cancelled in a best-case scenario.

VALUATION

- We remain at Buy on Cellectis (FV EUR37) while reiterating our neutral stance on Novartis (FV CHF81). But note that CTL019 is quite a small candidate within NVS' portfolio as we foresee peak sales of c.USD400m by 2022.

NEXT CATALYSTS

- H1 2017: Cellectis - UCART19 interim Phase I/II data in ALL/CLL (at ASCO for the latest).
- 2017: CLT019 BLA submission in both paediatric ALL and DLBCL.

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Sector View

Pharmaceuticals

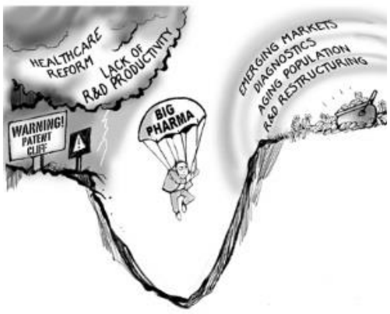
LLY's solanezumab fails in mild dementia due to AD. Negative for MOR, ROG and GFS, but positive for AZN

	1 M	3 M	6 M	31/12/15
Healthcare	-5.6%	-9.4%	-7.3%	-15.8%
DJ Stoxx 600	-1.0%	-0.8%	1.2%	-6.8%

*Stoxx Sector Indices

Companies covered

ACTELION		**BUY**	**CHF194**
Last Price	CHF155.1	*Market*	CHF16,714m
ASTRAZENECA		**BUY**	**5100p**
Last Price	4168p	*Market*	*GBP52,727m*
BAYER		**NEUTRAL**	**EUR98**
Last Price	EUR88.34	*Market*	*EUR73,053m*
GLAXOSMITHKLINE		**BUY**	**1930p**
Last Price	1505p	*Market*	*GBP73,386m*
GRIFOLS		**NEUTRAL**	**EUR20**
Last Price	EUR17.985	*Market*	*EUR11,419m*
IPSEN		**BUY**	**EUR72**
Last Price	EUR61.83	*Market*	*EUR5,156m*
NOVARTIS		**NEUTRAL**	**CHF81**
Last Price	CHF69.1	*Market*	*CHF181,534*
NOVO NORDISK		**NEUTRAL**	**DKK270**
Last Price	DKK220.7	*Market*	*DKK444,173*
ROCHE HOLDING		**BUY**	**CHF285**
Last Price	CHF222.8	*Market*	*CHF156,531*
SANOFI		**NEUTRAL**	**EUR84**
Last Price	EUR74.17	*Market*	*EUR95,637m*
SHIRE PLC		**BUY**	**6800p**
Last Price	4596p	*Market*	*GBP41,525m*
SOBI		**SELL**	**SEK90**
Last Price	EUR93.75	*Market*	*EUR25,349m*
UCB		**NEUTRAL**	**EUR80**
Last Price	EUR61.5	*Market*	*EUR11,962m*



Lilly's solanezumab (an anti-β amyloid monoclonal antibody) failed to bring a statistically significant benefit to patients with mild dementia due to Alzheimer's disease (AD) in a large Phase III study. We believe the street will increasingly question the viability of MOR/ROG's gantenerumab as well as GFS' Albutein; both being tested as treatments for Alzheimer's disease in different Phase III trials… and both targeting β amyloid. On the other hand, the read-across could be positive for AZN's BACE inhibitor as we believe LLY will probably decide to reprioritize it following solanezumab's failure.

ANALYSIS

Another failed anti-β amyloid trial. Lilly's solanezumab (an anti-β amyloid monoclonal antibody) failed to bring a benefit in patients with mild dementia due to Alzheimer's disease (AD) in a large Phase III study (EXPEDITION 3). Patients treated with solanezumab did not experience a statistically significant slowing in cognitive decline compared to patients treated with placebo (p=0.095), as measured by the ADAS-Cog (Alzheimer's Disease Assessment Scale-Cognitive subscale). And while the study results (including a range of different secondary clinical endpoints) directionally favoured solanezumab, the magnitudes of treatment differences are said to be quite small.

Lilly to discontinue solanezumab's development for the whole AD indication? Admittedly, this development involved a condition related to AD… But we believe the potential impact of this failure could be broader than what the street actually expects, especially since LLY's management clearly stated during its Q3 2016 conference call that they would re-evaluate all the "sola" programs should EXPEDITION 3 be a failure (and that might include the developments in prodromal AD).

VALUATION

Negative for MOR/ROG, GFS. As underlined in our reports dealing with Morphosys ("Back for MORe") and Grifols (¡El consenso al borde de un ataque!), we were/are quite pessimistic about the different options developed in AD, and especially the ones targeting the β amyloid protein… So our base-case scenarios are unchanged. Having said that, we believe the street will increasingly question the viability of MOR/ROG's gantenerumab as well as GFS' Albutein; both being tested as AD treatments in different Phase III trials… and both targeting β amyloid.

Regarding GFS more specifically, we continue to ask ourselves whether the design of the ongoing AMBAR Phase III study is really satisfactory from a regulatory standpoint (less than 500 patients enrolled whereas millions of people are known to be affected by this highly heterogeneous condition).

But potentially positive for AZN. On the other hand, the read-across could be positive for AZN's BACE inhibitor as we believe LLY will probably decide to reprioritize it following solanezumab's failure.

NEXT CATALYSTS

8th December: Presentation of detailed data from the EXPEDITION 3 trial at the CTAD (Clinical Trials on Alzheimer's disease) meeting.

H1 2017: Phase III results for Grifols' Albutein in AD (AMBAR study).

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Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

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 55.7% NEUTRAL ratings 32.9% SELL ratings 11.4%

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