

QIAGEN

Price EUR22.06

Strong Q3 and increased visibility...*rendez-vous* in two weeks at the IR DAY!

Fair Value EUR28 vs. EUR26 (+18%)

BUY-Top Picks

Bloomberg	QIA GR
Reuters	QGEN.DE
12-month High / Low (EUR)	25.3 / 17.8
Market Cap (EURm)	5,287
Ev (BG Estimates) (EURm)	5,862
Avg. 6m daily volume (000)	391.0
3y EPS CAGR	9.7%

QIAGEN has released a strong set of results for Q3. As well as confirming both the inflexion point seen in Q2 and the growth trajectory for the year with maintained sales guidance (6-7% CER and adjusted EPS exc one-off restructuring charges), management offered a reassuring 2017 outlook. Following a heavy investment period, QIAGEN has reshaped itself successfully. Our Fair Value is up EUR2 to EUR28.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-10.0%	-8.1%	12.7%	-12.2%
Healthcare	-7.5%	-13.5%	-6.3%	-16.1%
DJ Stoxx 600	-2.2%	-1.3%	-1.8%	-8.3%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	1,281	1,347	1,433	1,535
% change		5.1%	6.4%	7.1%
EBITDA	438	442	492	531
EBIT	314.5	318.7	369.2	407.9
% change		1.3%	15.9%	10.5%
Net income	249.3	257.2	295.5	325.5
% change		3.2%	14.9%	10.2%

	2015	2016e	2017e	2018e
Operating margin	24.6	23.7	25.8	26.6
Net margin	19.5	19.1	20.6	21.2
ROE	5.0	4.5	5.5	6.1
ROCE	23.0	19.6	19.1	24.7
Gearing	38.8	22.3	15.4	8.4

(USD)	2015	2016e	2017e	2018e
EPS	1.05	1.09	1.25	1.39
% change	-	3.4%	15.3%	10.6%
P/E	23.2x	22.4x	19.4x	17.6x
FCF yield (%)	6.8%	6.8%	6.3%	6.8%
Dividends (USD)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	5.3x	4.8x	4.4x	4.0x
EV/EBITDA	15.6x	14.7x	12.8x	11.5x
EV/EBIT	21.7x	20.3x	17.1x	15.0x

QIA (USDm)	Q3 15 act	Q3 2016 act	Q3 2016 CSS	delta	FY 2016 Co	FY 2016 CSS	delta
Revenue	314,6	339	337	1%	1348	1345,0	0%
% growth		8%	7%				
Operating	78,3	87	82	6%		318,6	
% margin	24,9%	25,6%	24,3%				
EPS	0,27	0,29	0,28	4%	1,08-1,13	1,09	
% growth		7%					

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

ANALYSIS

- Q3 sales came in at USD338.7m, up 9%CER**, in line with both the consensus (EUR337m) and the group's guidance (8-9%CER growth). Excluding US-HPV which represented 2% of total group sales, net sales would have risen 10%CER. MDx sales, which account for 50% of QIA's turnover continued to accelerate over the quarter with sales up 9%CER (12%CER exc. US-HPV). Growth in the business segment was driven by strong **QuantiFERON-TB sales delivering a more than 25%CER growth rate, which we expect to be maintained in coming quarters with the US grade-B recommendation** that the product should now benefit from. In 2016, our model points to >250bp contribution from QuantiFERON-TB to total group sales growth which we expect to land at 6.5%CER. Applied Testing (9% of sales) grew 12%CER driven by both consumables and instruments with strong contribution from the APAC region. Pharma (20% of sales) grew at 8%CER in the quarter helped by recognition of revenues from CDx. Academia (21% of sales) up 7%CER is keeping up with good momentum in 2016.
- On a geographical basis, **APAC (21% of sales) growing 21%CER** drove growth over the quarter with a strong China and a management shake-up in Japan in late 2015 bearing fruits. **America (49% of sales) grew 11%CER...14%CER exc. US-HPV**. We noted a more **mixed picture in Europe up 1%CER** where weak sales in Acamedia offset gains in other businesses despite a good start to the year (7% and 13% CER growth in Q1 and Q2 respectively).
- From a profitability standpoint, **adj. operating margin came in at 130bp or 6% ahead of consensus estimates at 25.6% of sales** (USD87m) with increased S&M and R&D efforts fading in H2 2016. Note that adj. operating margin was 17.9% and 20.7% of sales in Q1 and Q2 respectively. **EPS stands at USD0.29/share for the quarter** which was ahead of the consensus and the group's guidance (EPS of USD0.28 exc. USD0.01 of negative FX impact).
- Q4 2016 sales guidance confirmed the FY 2016 outlook which was reiterated i.e. 6-7%CER growth** (exc. negative 1-2pp FX impact). Adjusted EPS for the year was also reiterated and expected to total USD1.10-1.11 per share (exc. negative USD0.01-0.02 FX impact). Note that the latter does not take into account the effect of a **USD75m one-time restructuring charge to be booked in Q4, otherwise it would have been USD0.87-0.88**. The remaining USD10m of the plan is to be booked in Q1 2017. Q4 sales guidance is for 8%CER growth and EPS USD0.38 per share (USD0.15-0.16 per share including the impact of restructuring plan; no currency impact expected in Q4).
- Bottom line, a USD85m pre-tax restructuring charge is to be booked**. The bulk part being in Q4 this year. This plans aims at 1/ closing two sites, one in California, and spinning off activities at an engineering site in Switzerland before closing it. 2/ Streamlining the organisational structure and marketing activities to better include digitalisation while 3/ optimising sales channels and looking for economies of scale.



- **Confidence in resuming GeneReader sales in the US in 2017.** The company is moving “full speed” according to management and is already providing updates to customers outside of the US. We believe that what management mentioned as small delays in the development of applications for the GeneReader was prompted by the acceleration of R&D activities on the chemistry, not to potentially infringe Illumina’s patent anymore.
- **Reassuring FY 2017 guidance.** Initial 2017 sales guidance fell within consensus expectations. Following a strong FY 2016, management expects to deliver **6-7% CER growth in 2017 (BGe6.5% CER)**. QuantiFERON-TB is likely to be the main driver of this growth, primarily boosted by grade B in the US, but also by the ability of the group to open new markets for the product e.g. monitoring of the conversion risk from latent to active TB. As a reminder, commercial activities have been stepped-up for the product in H1 2016 and sales are likely to be fully efficient in 2018, which bodes well with our next scenario for a growth rate at or above 20% until 2018 for the product.
- **What’s left for the remainder of the quarter?** The next catalyst should be the AMP meeting to be held in Charlotte on 10-12th November. The latter should provide positive insight and feedback with regards to QIAGEN’s new end-to-end solutions for labs. The IR Day on 15th November should offer: **1/ an in-depth review of the GeneReader** as well as more colour on the chemistry update for the instrument. **2/ Details on the share repurchase program** expected to be completed for its biggest portion on January 2017 (synthetic share repurchase), **3/ additional comments on 2017 guidance.** **4/** Our tough is that the management could also share **visibility beyond 2017** at the IR Day with a long term growth trajectory (2020 sales target?).

VALUATION

- We reiterate our BUY recommendation. QIAGEN is in our top pick list for Q4 2016. We expect the share price to react positively to these results (QIAGEN was up >7% in after market yesterday in the US)
- Adjustments to our model includes a lower than anticipated impact of FX for the year (+EUR1) as well as LT growth revision for QuantiFERON-TB which we see able to deliver over 20% growth rate until 2018 (+EUR1).
- Our Fair Value is up from EUR26 to EUR28.

NEXT CATALYSTS

- 10-12 November: AMP meeting (Association for Molecular Pathology)
- 15 November, 2016: IR DAY

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