

## Fresenius SE

Price EUR70.40

Daptomycin could well be at the source of another surprisingly strong quarter at KABI

Fair Value EUR78 (+11%)

BUY-Top Picks

Bloomberg	FRE GR
Reuters	FREG.DE
12-month High / Low (EUR)	72.9 / 53.1
Market Cap (EUR)	38,507
Ev (BG Estimates) (EUR)	53,701
Avg. 6m daily volume (000)	1,104
3y EPS CAGR	13.4%

**Daptomycin (IV Gx launched in September) could enable Fresenius KABI to report a strong Q4. Only KABI and TEVA have been marketing generic versions of the drug so far. We estimates this drug alone could add approx. EUR60m in sales and boost Q4 and FY 2016 EPS by 5-6% and 1-2% respectively.**

## ANALYSIS

- October 2016 IMS data showed that Fresenius KABI derived USD21m (EUR20m) in sales from Daptomycin. The launch pace is significantly stronger than we anticipated in our previous note ([Sept 23<sup>rd</sup> – FRE KABI diluted but ST outlook still strong](#)). Although monthly sales reported by IMS should be carefully extrapolated and first month sales include a stocking effect from distributors, an update to our estimates shows that Fresenius KABI might stream close to EUR60m in sales from the product in 2016. As a reminder, Daptomycin is an antibiotic indicated in the treatment of serious and/or complicated, skin, blood or bone joints infections. The branded product, Cubicin, marketed by Merck & Co following its USD9.5bn buyout of Cubist in 2014 lost its patent in June 2016. While several drug makers have filed ANDAs, TEVA and Fresenius KABI are the two only companies offering generic Daptomycin since September 2016 (approved on the 15<sup>th</sup> and 20<sup>th</sup> respectively). No other Gx drug maker has entered the US market yet to our knowledge; despite having been approved by the FDA, Crane Pharma and Hospira's Gx Daptomycin are not available.

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.5%	1.8%	10.0%	6.7%
Healthcare	-0.5%	-5.2%	-5.0%	-13.8%
DJ Stoxx 600	4.8%	3.4%	6.3%	-3.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	27,626	28,960	33,608	35,919
% change		4.8%	16.1%	6.9%
EBITDA	4,990	5,448	6,277	6,823
EBIT	3,875	4,289	4,933	5,387
% change		10.7%	15.0%	9.2%
Net income	1,358	1,638	1,904	2,106
% change		20.6%	16.3%	10.6%

	2015	2016e	2017e	2018e
Operating margin	14.0	14.8	14.7	15.0
Net margin	4.9	5.7	5.7	5.9
ROE	7.2	7.9	8.4	8.5
ROCE	3.8	4.4	4.9	5.2
Gearing	118.4	106.9	100.3	90.8

(EUR)	2015	2016e	2017e	2018e
EPS	2.62	3.00	3.45	3.81
% change	-	14.6%	15.0%	10.6%
P/E	26.9x	23.5x	20.4x	18.5x
FCF yield (%)	1.9%	4.0%	2.0%	4.7%
Dividends (EUR)	1.69	1.95	2.26	2.50
Div yield (%)	2.4%	2.8%	3.2%	3.6%
EV/Sales	1.9x	1.9x	1.8x	1.7x
EV/EBITDA	10.4x	9.9x	9.5x	8.8x
EV/EBIT	13.4x	12.5x	12.1x	11.2x

## Daptomycin Sales Model

in USDm	Q3 2016	Oct	Nov	Dec	Q4 2016	FY 2016
<b>Total Sales (Cubicin+Gx)</b>	<b>325</b>	<b>98</b>	<b>98</b>	<b>92</b>	<b>289</b>	<b>1263</b>
Merck&Co	320	56	51	46	154	1123
y/y %	-2%				-52%	0%
market share %	98%	57%	53%	50%	53%	89%
ms Gx Cie %	2%	43%	48%	50%	47%	11%
Discount %	30%	30%	30%	30%	30%	30%
Total sales Gx Cies	5	42	46	46	135	140
nb Gx Cie	2	2	2	2	2	2
<b>Fresenius ms</b>		<b>21%</b>	<b>24%</b>	<b>25%</b>	<b>23%</b>	<b>6%</b>
<b>Fresenius Sales (USDm)</b>	<b>3</b>	<b>21</b>	<b>23</b>	<b>23</b>	<b>67</b>	<b>70</b>
EUR/USD	1,1652	1,0633	1,0551	1,0863	1,0866	1,1098
<b>Fresenius KABI Quarterly Sales (EURm)</b>	<b>2</b>	<b>20</b>	<b>22</b>	<b>21</b>	<b>62</b>	<b>63</b>

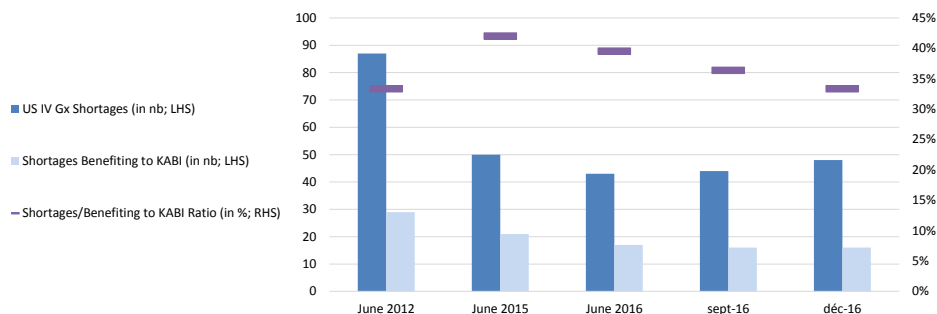
may not foot due to rounding

Source : IMS Health; Bloomberg; Bryan Garnier & Co. ests.

- KABI organic growth may potentially be boosted by 4pp to 9.5% in Q4; FY2016 CER growth for the division would be 6.5%... above the 4-6% CER range targeted by the company. In detail, Daptomycin could boost 1/ IV drug sales by 9pp to 12% CER in Q4 (40% of KABI sales), after two quarters of muted performance due to the anticipated easing of the US drug shortage situation and 2/ NA sales up by 11pp to 14% CER (35% of KABI sales). While management improved FY2016 outlook for KABI NA sales from "roughly flat" to "low- to mid-single digit"... Daptomycin would potentially bring it to 8% CER.
- At the group level, the impact on the topline would be limited as KABI represents approx. 20% of sales. However, the impact on earnings should not be overlooked as the product alone could lift our Q4 and FY 2016 EPS by 5-6% and 1-2% respectively. Indeed profitability of generic Daptomycin is likely to be above the 40% threshold as only two companies operate on the Gx market for now (we have assumed a 50% EBIT margin). This would add EUR30m to our Q4 and FY2016 EBIT. Entering 2017, it is harder to accurately predict the impact on both the top- and bottom lines as several other generic drug makers (seven) have filed ANDAs. Should the situation remained unchanged in 2017, Fresenius KABI could derive ~EUR230m from sales of Daptomycin. In a more conservative approach and assuming that all the seven companies would progressively reach the market, we estimate that Daptomycin would account for EUR110m in sales.



- **This adds weight to our scenario that the short-term outlook for KABI is not at risk despite the easing of the US drug shortage situation.** As of today, **1/** 16 IV drugs marketed by KABI are designated as being in shortage, a level unchanged since the end of Q3, **2/** nine IV generic drugs have been launched (which compares to a 6-10 drug launch guidance) and **3/** close to 50 ANDAs have been filed to the FDA. Other sources of upside for FRE in late Q4 and 2017 include higher than anticipated synergies from Quirónsalud in the hospital business and the EUR/USD decrease seen in Q4 (-7%) with 40% of sales streamed from the US.



#### VALUATION

- We reiterate our BUY recommendation on Fresenius SE, which is on our Q4 Top-Pick list.
- No change to our estimates.

#### NEXT CATALYSTS

- 22nd February: Q4/FY 2016 results

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