

## Grifols

Price EUR18.27

Acquisition of HOLX's share in their NAT JV. Not the deal we expected, but still a smart one

Fair Value EUR21 vs. EUR19 (+15%)

NEUTRAL vs. SELL

Bloomberg	GRF.SM
Reuters	GRF.MC
12-month High / Low (EUR)	21.6 / 16.8
Market Cap (EUR)	11,671
Ev (BG Estimates) (EUR)	15,228
Avg. 6m daily volume (000)	794.8
3y EPS CAGR	13.2%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-0.9%	-4.1%	-4.1%	-14.3%
Healthcare	2.4%	-3.6%	0.4%	-11.6%
DJ Stoxx 600	5.8%	5.4%	10.9%	-1.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	3,935	4,014	4,232	4,414
% change		2.0%	5.4%	4.3%
EBITDA	1,163	1,150	1,386	1,492
EBIT	970.3	949.1	1,170	1,262
% change		-2.2%	23.3%	7.9%
Net income	532.1	560.4	711.7	774.8
% change		5.3%	27.0%	8.9%

	2015	2016e	2017e	2018e
Operating margin	24.7	23.6	27.7	28.6
Net margin	13.5	14.0	16.8	17.6
ROE	16.1	15.4	17.2	16.7
ROCE	6.9	7.1	8.9	9.6
Gearing	112.6	97.5	77.3	61.0

(EUR)	2015	2016e	2017e	2018e
EPS	0.78	0.82	1.04	1.13
% change	-	5.0%	27.0%	8.9%
P/E	23.5x	22.4x	17.6x	16.2x
FCF yield (%)	3.8%	4.8%	4.9%	5.5%
Dividends (EUR)	0.32	0.31	0.33	0.41
Div yield (%)	1.7%	1.7%	1.8%	2.3%
EV/Sales	3.9x	3.8x	3.5x	3.3x
EV/EBITDA	13.2x	13.2x	10.7x	9.7x
EV/EBIT	15.9x	16.0x	12.7x	11.5x

GFS announced the acquisition of Hologic's stake in their NAT joint venture for a total amount of USD1.85Bn. The deal really makes sense from a financial standpoint, as we expect it to be c.15% accretive to our EPS estimates assuming a 3% interest rate on the incremental USD1.7Bn debt. But from a strategic standpoint, we would have preferred a transaction involving the Bioscience division, especially since 1/ the current pipeline is not that comprehensive in our view; 2/ we anticipate increasing competition from subcutaneous immunoglobulins potentially from 2017e.

## ANALYSIS

- **An acquisition to reinforce the Diagnostics division.** GFS announced the acquisition of Hologic's stake in their Nucleic Acid Testing (NAT) joint-venture for a total amount of USD1.85Bn (funded by the existing cash on the balance sheet, as well as an USD1.7Bn term loan). As a reminder, such business contributed to c.55% of the Diagnostic division's revenues... and due to a lower number of blood transfusions in mature countries (particularly in the US), its top line has rather been under pressure (at least until Q3 16).

## Diagnostic business – Breakdown of sales

	Nucleic acid testing	Immunoassay	Blood typing, others
Products	Assays, instruments	HCV and HIV antigens	Genotyping, instruments
Partner	Hologic (formerly 50-50% revenue sharing)	Ortho Clinical (50-50% profit sharing)	None
% sales	c.55%	c.25%	c.20%

- **A highly accretive deal.** The deal is c.15% accretive on our EPS assuming a 3% interest rate on the incremental debt. So the acquisition makes sense from a financial standpoint as GFS further reinforces its Diagnostic franchise (c.16% of the group's sales) and even boosts the group's EBITDA margin by +350 bps (HOLX's EBITDA share was USD160m – hence an EV/EBITDA multiple of c.12x). But as the company already booked all revenues, the direct impact is restricted to the bottom line.

## BG estimates – Before / After the transaction

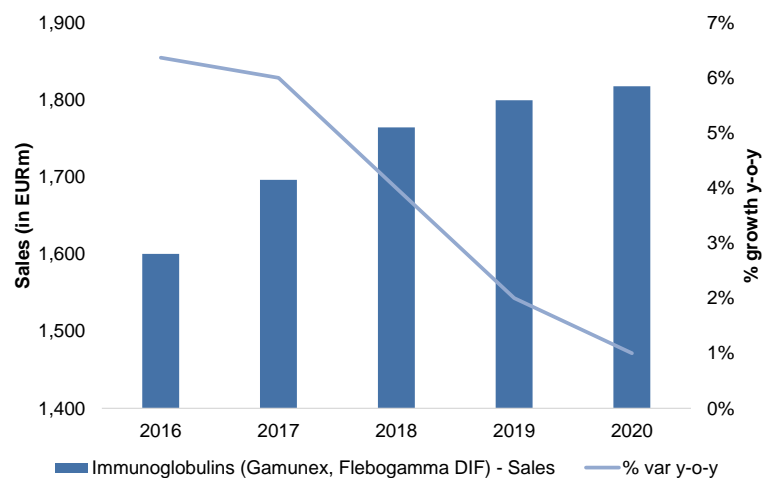
(in EURm)	2017			2018		
	Old	New	% var	Old	New	% var
Revenues	4,232	4,232	0%	4,414	4,414	0%
EBITDA	1,253	1,386	11%	1,346	1,492	11%
EBIT	1,037	1,170	13%	1,117	1,262	13%
Financial result	-232	-246	6%	-228	-243	6%
Net income	620	712	15%	675	775	15%
EPS	0.90	1.04	15%	0.98	1.13	15%

- **Not the deal we expected.** The deal is less appealing from a strategic standpoint and from our point of view, as the business is far from being a fast-growing one. An acquisition to reinforce the Bioscience Division (c.80% of sales) would have been welcomed, especially since 1/ the current development pipeline is not that exhaustive (and even more since the partial failure of Pulmaquin in non-cystic fibrosis bonchiectasis); 2/ we anticipate an increasing competition from subcutaneous immunoglobulins (e.g. CSL's Hizentra, SHP's Hyqvia) in CIDP potentially from 2017e.

## VALUATION

- **We raise our rating to NEUTRAL vs SELL with a FV of EUR21 vs EUR19** after having updated our model with this acquisition (and knowing that the transaction is likely to be closed in Q1 17, and we assumed it could be at the end of January). Based on our new figures, GFS' A shares would trade at 18-19x its 2017e earnings (implying a c.20% premium vs the EURO STOXX Pharma)... so we still see the stock as an expensive one, especially in light of the risks we foresee.
- **Immunoglobulins: watch your step.** The next catalyst is likely to be the publication of pivotal data involving CSL's Hizentra for the treatment of CIDP. We are quite optimistic about the results, especially since small studies showed that SCIG led to quite similar outcomes when compared with IVIG, and even with an improved safety profile (Hadden *et al*, 2015; Markvardsen *et al*, 2014). If approved, a substantial portion of patients currently treated with GFS' Gamunex will switch to CSL's Hizentra and SHP's Hyqvia in our view due to their convenience and improved clinical stability (steady-state IgG levels).





- Phase III data are expected for Albutein in Alzheimer's disease in the next few months, and it goes without saying that the stock will react very positively should the primary endpoint be achieved. That said, 1/ solanezumab's recent failure proved (once again) that targeting  $\beta$ -amyloid might not be the right strategy (though we admit that GFS' strategy is a bit more complex than that); 2/ we ask ourselves whether the trial design really is satisfactory (solely 350 patients being enrolled whereas AD affects millions of people worldwide). So we remain cautious about this study's outcome.

#### NEXT CATALYSTS

- Q4 2016: Phase III results for CSL's Hizentra in CIDP.
- Q1 2017: Closing of the acquisition deal.

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