

Actelion

Switzerland/Biotechnology

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UBS Research

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Neutral maintained after 1Q16 earnings updates; PT raised to CHF160

- Following 1Q16 results, we update our estimates
- We have updated our model to reflect ATLN's FY16 guidance upgrade at 1Q16
- Focus is on dynamics of Upravi launch, Tracleer generics & Opsumit in Europe
- Valuation: we maintain our Neutral rating, but increase PT to CHF160

Following 1Q16 results, we update our estimates

Actelion had a strong start to the year. It reported strong 1Q16 total net revenues of CHF589m: up 11% at CER, which was 8% ahead of consensus (Vara, April 2016). Core diluted EPS was CHF1.98: up 17% at CER and 5% above consensus. We have updated our estimates following 1Q16 results, and now estimate FY16 sales of CHF2,257m (1% above Bloomberg cons. as of 12 June 2016), and EPS of CHF6.94 (3% below Bloomberg cons.).

We have updated our model to reflect ATLN's FY16 guidance upgrade at 1Q16

Post 1Q16, we have now updated our model to factor in Actelion upgrading its previous guidance from FY15 results of core operating income of low single-digit growth to high single-digit percentage growth (at CER), given at 1Q16 results. We now estimate 8.7% core operating income growth in 2016E.

Focus is on dynamics of Upravi launch, Tracleer generics & Opsumit in Europe

The near to medium-term focus continues to be on: 1) the Upravi launch in terms of sales ramp up, reimbursement and patient switching dynamics over the rest of '16 and into '17, 2) updates on Tracleer generics progress towards the end of '16 and into '17, 3) Opsumit sales progression in Europe plus Ph II MERIT data in Chronic Thromboembolic Pulmonary Hypertension (CTEPH) due end-16/early-17 and Ph III MAESTRO data in Eisenmengers due in 1H17, 4) ponesimod clinical trial progression (Ph III should be fully recruited by end-16).

Valuation: we maintain our Neutral rating, but increase PT to CHF160

Our price target is based on our NPV/ SoTP valuation method.

| | |
|-----------------------|------------------|
| 12-month rating | Neutral |
| 12-month price target | CHF160.00 |
| Prior | CHF143.00 |
| Price | CHF159.90 |

Trading data and key metrics

| | |
|----------------------------|----------------------|
| 52-wk range | CHF166.50-115.90 |
| Market cap. | CHF17.5bn/US\$18.2bn |
| Shares o/s | 110m (ORD) |
| Free float | 90% |
| Avg. daily volume ('000) | 433 |
| Avg. daily value (m) | CHF65.1 |
| Common s/h equity (12/16E) | CHF1.44bn |
| P/BV (12/16E) | 12.1x |
| Net debt / EBITDA (12/16E) | NM |
| RIC | ATLN.VX |
| BBG | ATLN VX |

Sources: UBS, Bloomberg

EPS (UBS, diluted) (CHF)

| | From | To | % ch | Cons. |
|--------|------|------|------|-------|
| 12/16E | 5.72 | 6.94 | 21 | 7.08 |
| 12/17E | 7.96 | 7.31 | -8 | 7.53 |
| 12/18E | 8.48 | 8.21 | -3 | 9.25 |

Definitions of terms and abbreviations are available in the appendix section of this report, and more extensively on internet at www.ubs.com/glossary

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Actelion

Company Profile: Actelion

Actelion is a Swiss biotech company that has positioned itself as the leader in the treatment of pulmonary arterial hypertension (PAH) with its blockbuster drug Tracleer. Actelion has launched Opsumit as a replacement product for Tracleer, and it recently received FDA approval for Uptravi (an oral prostacyclin receptor agonist) in PAH. In terms of key late-stage pipeline drugs, it is developing ponesimod in multiple sclerosis.

Statement of Risk

Risks for the pharmaceutical/ biotech industry in general include low R&D productivity, generic competition, legislative pressure on pricing and litigation risk. For Actelion in particular, key company risks include; a) commercial risks related to the uptake of Opsumit and Uptravi, and the generic erosion of Tracleer; b) regional pricing pressures on relatively expensive specialist medications; c) risk on pipeline failures. Our price target is based on our NPV/ SoTP valuation method, using a 9% WACC and a blended terminal growth based on individual drugs.

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| Highlights (CHFm) | 12/13 | 12/14 | 12/15 | 12/16E | 12/17E | 12/18E | 12/19E | 12/20E |
|--------------------------|-------|-------|-------|--------|--------|--------|--------|--------|
| Revenues | 1,786 | 1,956 | 2,042 | 2,257 | 2,359 | 2,553 | 2,891 | 3,119 |
| EBIT (UBS) | 495 | 743 | 814 | 885 | 927 | 1,048 | 1,297 | 1,426 |
| Net earnings (UBS) | 465 | 648 | 694 | 759 | 797 | 891 | 1,107 | 1,219 |
| EPS (UBS, diluted) (CHF) | 4.06 | 5.58 | 6.17 | 6.94 | 7.31 | 8.21 | 10.22 | 11.30 |
| DPS (CHF) | 1.20 | 1.30 | 1.50 | 1.81 | 1.91 | 2.17 | 2.77 | 3.08 |
| Net (debt) / cash | 1,266 | 970 | 405 | 513 | 655 | 870 | 1,243 | 1,703 |
| Profitability/valuation | 12/13 | 12/14 | 12/15 | 12/16E | 12/17E | 12/18E | 12/19E | 12/20E |
| EBIT margin % | 27.7 | 38.0 | 39.9 | 39.2 | 39.3 | 41.0 | 44.8 | 45.7 |
| ROIC (EBIT) % | 89.1 | 105.7 | 87.7 | 96.2 | 101.8 | 119.4 | 148.9 | 163.3 |
| EV/EBITDA (core) x | 10.0 | 11.8 | 15.8 | 18.2 | 17.2 | 15.1 | 12.3 | 11.2 |
| P/E (UBS, diluted) x | 14.6 | 18.0 | 20.6 | 23.0 | 21.9 | 19.5 | 15.6 | 14.2 |
| Equity FCF (UBS) yield % | 4.7 | 1.5 | 4.3 | 4.5 | 4.7 | 5.4 | 6.6 | 7.4 |
| Net dividend yield % | 2.0 | 1.3 | 1.2 | 1.1 | 1.2 | 1.4 | 1.7 | 1.9 |

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied.

Valuations: based on an average share price that year, (E): based on a share price of CHF159.90 on 10 Jun 2016 21:36 BST

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| UBS 12-Month Rating | Rating Category | Coverage ¹ | IB Services ² |
|---------------------|-----------------|-----------------------|--------------------------|
| Buy | Buy | 47% | 33% |
| Neutral | Hold/Neutral | 42% | 34% |
| Sell | Sell | 11% | 23% |

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2014.

| UBS 12-Month Rating | Definition |
|---------------------|---------------------------------------|
| Buy | FSR is > 6% above the MRA. |
| Neutral | FSR is between -6% and 6% of the MRA. |
| Sell | FSR is > 6% below the MRA. |

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Global Equity 12-Month Rating Definitions

Buy: FSR is > 6% above the MRA. **Neutral:** FSR is between -6% and 6% of the MRA. **Sell:** FSR is > 6% below the MRA.

Key Definitions

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

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Company Disclosures

| Actelion | ATLN VX | Neutral | CHF159.90 | 10 Jun 2016 |
|--------------|---------|--------------|-----------|-------------|
| Company Name | Reuters | 12-mo rating | Price | Price date |

Source: UBS. All prices as of local market close.

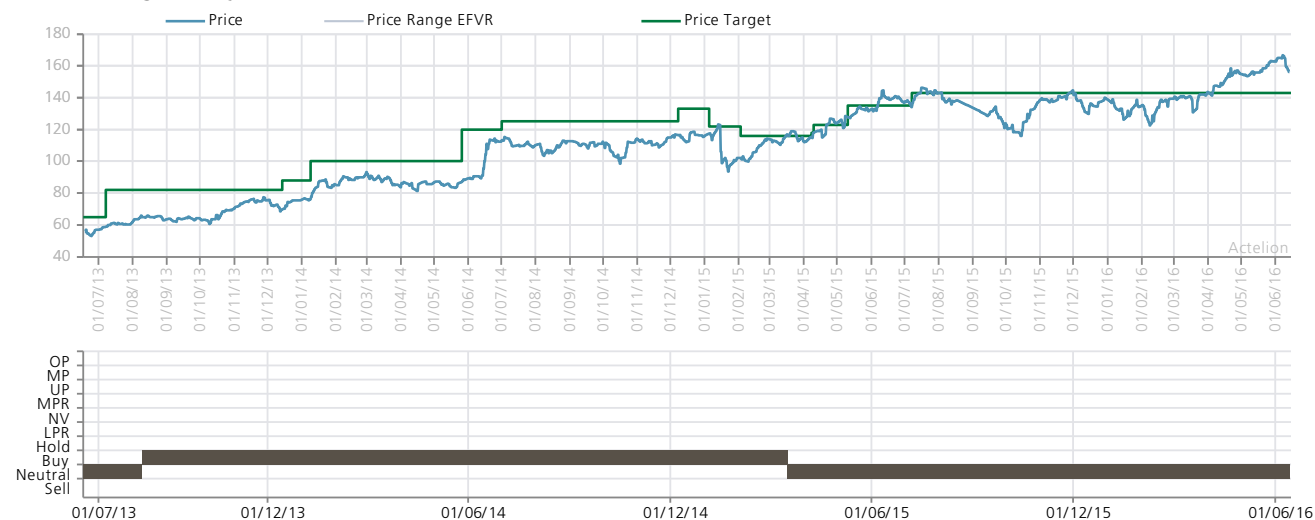
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Actelion 1, 2, 3, 4;

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Global rating history -- Actelion, ATLN VX



Source: UBS CIO as of 14 June 2016

Terms and Abbreviations

| Term / Abbreviation | Description / Definition | Term / Abbreviation | Description / Definition |
|----------------------------------|---|----------------------------------|--|
| 1H, 2H, etc. or 1H11, 2H11, etc. | First half, second half, etc. or first half 2011, second half 2011, etc. | 1Q, 2Q, etc. or 1Q11, 2Q11, etc. | First quarter, second quarter, etc. or first quarter 2011, second quarter 2011, etc. |
| 2011E, 2012E, etc. | 2011 estimate, 2012 estimate, etc. | A | actual i.e. 2010A |
| ADR | American depositary receipt | ARPU | Average Revenue Per User |
| AUM | Assets under management = total value of own and third-party assets managed | Avg. | average |
| bn | Billion | bp or bps | Basis point or basis points (100 bps = 1 percentage point) |
| BVPS | Book value per share = shareholders' equity divided by the number of shares | CAGR | Compound annual growth rate |
| Cant Inc/Capita | Cantonal income per capita (Switzerland only) | Capex | Capital expenditures |
| CF | Cash flow | CFO | 1) Cash flow from operations, 2) Chief financial officer |
| COGS | Cost of goods sold | COM | Common shares |
| Cons. | Consensus | Core Tier 1 Ratio | Tier 1 capital minus tier 1 hybrid securities |
| Cost/Inc Ratio (%) | Costs as a percentage of income | CPI | Consumer price index |
| CR | Combined ratio = ratio of claims and expenses as a percentage of premiums (for insurance companies) | CY | Calendar year |
| DCF | Discounted cash flow | DDM | Dividend discount model |
| Dividend Yield (%) | Dividend per share divided by price per share | DPS | Dividend per share |
| E | expected i.e. 2011E | EBIT | Earnings before interest and taxes |
| EBIT Margin (%) | EBIT divided by revenues | EBITDA | Earnings before interest, taxes, depreciation and amortization |
| EBITDA Margin (%) | EBITDA divided by revenues | EBITDA/Net Interest | EBITDA divided by net interest expense |
| EBITDAR | Earnings before interest, taxes, depreciation, amortization and rental expense | EFVR | Estimated fair value range |
| EmV | Embedded value = net asset value + present value of forecasted future profits (for life insurers) | EPS | Earnings per share |
| Equity Ratio (%) | Shareholders' equity divided by total assets | EV | Enterprise value = market value of equity, preferred equity, outstanding net debt and minorities |
| FCF | Free cash flow = cash a company generates above outlays required to maintain/expand its asset base | FCF Yield (%) | Free cash flow divided by market capitalization |
| FFO | Funds from operations | FY | Fiscal year / financial year |
| GDP | Gross domestic product | Gross Margin (%) | Gross profit divided by revenues |
| H | half year | h/h | Half-year over half-year; half on half |
| hist av. | Historical average | Interbank Ratio | Interbank deposits due from banks divided by interbank deposits due to banks |
| Interest Coverage | Ratio that expresses the number of times interest expenses are covered by earnings | Interest exp | Interest expense |
| ISIN | International securities identification number | K | One thousand |
| LLP/Net Int Inc (%) | Loan loss provisions divided by net interest income | LLR/Gross Loans (%) | Loan loss reserves divided by gross loans |

Actelion

| Term / Abbreviation | Description / Definition | Term / Abbreviation | Description / Definition |
|---------------------|--|---------------------------|---|
| LPR | Least Preferred: The stock is expected to both underperform the relevant benchmark and depreciate in absolute terms. | Market cap | Number of all shares of a company (at the end of the quarter) times closing price |
| m/m | Month-over-month; month on month | mn or m | Million |
| M and A | Merger and Acquisition | MP | Marketperform: The stocks expected performance is in line with the sector benchmark |
| MPR | Most Preferred: The stock is expected to both outperform the relevant benchmark and appreciate in absolute terms. | n.a. | Not available or not applicable |
| NAV | Net asset value | Net Debt | Short- and long-term interest-bearing debt minus cash and cash equivalents |
| Net DPS | Net dividends per share | NIM or Net Int Margin (%) | Net interest income divided by average interest-bearing assets |
| Net Margin (%) | Net income dividend by revenues | NV | Neutral View: The stock is expected to neither outperform nor underperform the relevant benchmark nor significantly appreciate or depreciate in absolute terms. |
| n.m. or NM | Not meaningful | NPL | Non-performing loans |
| OP | Outperform: The stocks is expected to outperform the sector benchmark | Op Margin (%) | Operating income divided by revenues |
| p.a. | Per annum (per year) | P/BV | Price to book value |
| P/E or PE | Price to earnings / Price Earnings Ratio | P/E Relative | P/E relative to the market |
| P/EmV | Price to embedded value | PEG Ratio | P/E ratio divided by earnings growth |
| PPI | Producer price index | Prim Bal/Cur Rev (%) | Primary balance divided by current revenue (total revenue minus capital revenue) |
| Profit Margin (%) | Net income divided by revenues | q/q or QQQ | Quarter-over-quarter; quarter on quarter |
| R and D | Research and development | ROA (%) | Return on assets |
| ROAE (%) | Return on average equity | ROCE (%) | Return on capital employed = EBIT divided by difference between total assets & current liabilities |
| ROE (%) | Return on equity | ROIC (%) or ROI | Return on invested capital |
| Shares o/s | Shares outstanding | Solvency Ratio (%) | Ratio of shareholders' equity to net premiums written (for insurance companies) |
| sotp or SOTP | Sum of the parts | Tax Burden Index | Swiss tax index; 100 = average tax burden of all cantons |
| tgt | Target | Tier 1 Ratio (%) | Tier 1 capital divided by risk-weighted assets; describes a bank's capital adequacy |
| tn | Trillion | UP | Underperform: The stock is expected to underperform the sector benchmark |
| Valor | Swiss company identifier | WACC | Weighted average cost of capital |
| CIO | UBS WM Chief Investment Office | x | multiple / multiplier |
| y/y or YOY | Year-over-year; year on year | yr | Year |
| YTD | Year-to-date | | |

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