

AstraZeneca

United Kingdom/Pharmaceuticals

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UBS Research

Jack Scannell, IB Analyst

Michael Leuchten, IB Analyst

3Q'16 Results

- Q: How did the results compare vs expectations?
- Q: What were the most noteworthy areas in the results?
- Q: Has the company's outlook/guidance changed?
- Q: How would we expect investors to react?

Q: How did the results compare vs expectations?

A: AZN reported 3Q'16 Total Revenues of \$5,699m (-4% at CER), -4.5% below cons of \$5,969m (pre Q3 co-collected), core operating profit of \$1,696m, 3.1% above cons of \$1,645m, core EPS of \$1.32 (+12% at CER), 34.8% above cons of \$0.98.

Q: What were the most noteworthy areas in the results?

A: In product sales AZN reported: \$208m for Brilinta (-10.2% below cons of \$232m), \$516m for Nexium (4.9% above cons), \$220m for Forxiga (3.3% above cons), \$697m for Symbicort (-14.6% vs cons, but with a rebate true-up depressing numbers).

Q: Has the company's outlook/guidance changed?

A: AZN reconfirmed guidance of low to mid single-digit percentage decline (at CER) for total revenues and core EPS in 2016.

Q: How would we expect investors to react?

A: We expect a negative reaction. Sales missed, even including Symbicort rebate adjustment. The company has some ability to manage core operating profit (e.g. via externalisation revenues), and a one-off tax benefit boosted core EPS above consensus.

| | |
|-----------------------|--------------------|
| 12-month rating | Buy |
| 12-month price target | 5,000.00p |
| Price | 4,575.50GBp |

Trading data and key metrics

| | |
|----------------------------|--------------------|
| 52-wk range | 5,220p-3,774 |
| Market cap. | £57.3bn/US\$71.3bn |
| Shares o/s | 1,252m (ORD) |
| Free float | 99% |
| Avg. daily volume ('000) | 2,506 |
| Avg. daily value (m) | £123.2 |
| Common s/h equity (12/16E) | US\$12.1bn |
| P/BV (12/16E) | 6.0x |
| Net debt / EBITDA (12/16E) | 1.2x |
| RIC | AZN.L |
| BBG | AZN LN |

Sources: UBS, Bloomberg

EPS (UBS, diluted) (US\$)

| | UBS | Cons. |
|--------|------|-------|
| 12/16E | 4.02 | 4.11 |
| 12/17E | 4.08 | 3.87 |
| 12/18E | 4.42 | 4.25 |

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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AstraZeneca

Company Profile: AstraZeneca

AstraZeneca (AZN) is a European large-cap pharmaceutical company. Since the top management change in 2012, AZN has reinvented itself as an innovation-driven powerhouse, transforming its portfolio from a few maturing blockbusters to a portfolio built on 4-5 growth platforms supported by internal innovation and business development. AZN has the biggest pipeline relative to its size and is focused on immuno-oncology, classic oncology, respiratory, inflammation and cardio/metabolic, plus several non-core areas (CNS, anti-infectives), where AZN opportunistically maximises value from its innovation via partnering.

Statement of Risk

(1) AstraZeneca is heavily reliant on its pipeline products and new launches for future growth; hence an accumulation of pipeline setbacks could jeopardize the ongoing turnaround. AZN's pipeline success is heavily dependent on their success in immuno-oncology which is an increasingly crowded area with intense competition for ideas, talent and patient recruitment at key cancer centers. (2) Risks generally applicable to the pharmaceutical sector include: development risk – uncertainty regarding the timing, efficacy, and market potential of new products and technologies; commercial risk – threats from new/existing competition and pricing pressure; regulatory risk – timing/status of approvals and changes in labelling or new warnings on existing products and technologies; patent risk – products losing patent protection may face significant market share/price erosion and potential litigation; and currency risk – because of the mismatch between geographic location of cost base and sales.(3) Our PT is based on 17.6x 2017E core adj. EPS, supported by our SOTP/NPV valuation.

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| Highlights (US\$m) | 12/13 | 12/14 | 12/15 | 12/16E | 12/17E | 12/18E | 12/19E | 12/20E |
|---------------------------|---------|---------|---------|----------|----------|----------|---------|---------|
| Revenues | 25,794 | 26,556 | 24,708 | 24,558 | 24,960 | 26,237 | 27,919 | 30,017 |
| EBIT (UBS) | 8,390 | 6,937 | 6,902 | 6,812 | 6,938 | 7,424 | 8,236 | 9,460 |
| Net earnings (UBS) | 6,319 | 5,396 | 5,390 | 5,093 | 5,167 | 5,600 | 6,297 | 7,328 |
| EPS (UBS, diluted) (US\$) | 5.04 | 4.27 | 4.26 | 4.02 | 4.08 | 4.42 | 4.97 | 5.79 |
| DPS (US\$) | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 |
| Net (debt) / cash | (1,160) | (4,483) | (8,813) | (12,067) | (12,473) | (11,197) | (8,709) | (5,420) |
| Profitability/valuation | 12/13 | 12/14 | 12/15 | 12/16E | 12/17E | 12/18E | 12/19E | 12/20E |
| EBIT margin % | 32.5 | 26.1 | 27.9 | 27.7 | 27.8 | 28.3 | 29.5 | 31.5 |
| ROIC (EBIT) % | 33.0 | 29.7 | 27.7 | 27.1 | 28.7 | 31.3 | 36.8 | 45.4 |
| EV/EBITDA (core) x | 5.1 | 8.7 | 8.3 | 6.4 | 6.1 | 5.8 | 5.6 | 5.2 |
| P/E (UBS, diluted) x | 10.0 | 16.5 | 15.8 | 14.2 | 13.9 | 12.9 | 11.4 | 9.8 |
| Equity FCF (UBS) yield % | 8.6 | 5.1 | 2.0 | 1.6 | 5.1 | 7.3 | 9.3 | 10.8 |
| Net dividend yield % | 5.5 | 4.0 | 4.2 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 |

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 4,576p on 09 Nov 2016 21:39 GMT

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| UBS 12-Month Rating | Rating Category | Coverage ¹ | IB Services ² |
|---------------------|-----------------|-----------------------|--------------------------|
| Buy | Buy | 45% | 36% |
| Neutral | Hold/Neutral | 45% | 36% |
| Sell | Sell | 11% | 19% |

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 2013.

| 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.

Exceptions and Special Cases

Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified the Companies Mentioned or Company Disclosure table in the relevant research piece.

Company Disclosures

| Company Name | Reuters | 12-mo rating | Price | Price date |
|--------------|---------|--------------|--------|-------------|
| AstraZeneca | AZN LN | Buy | 4,576p | 09 Nov 2016 |

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

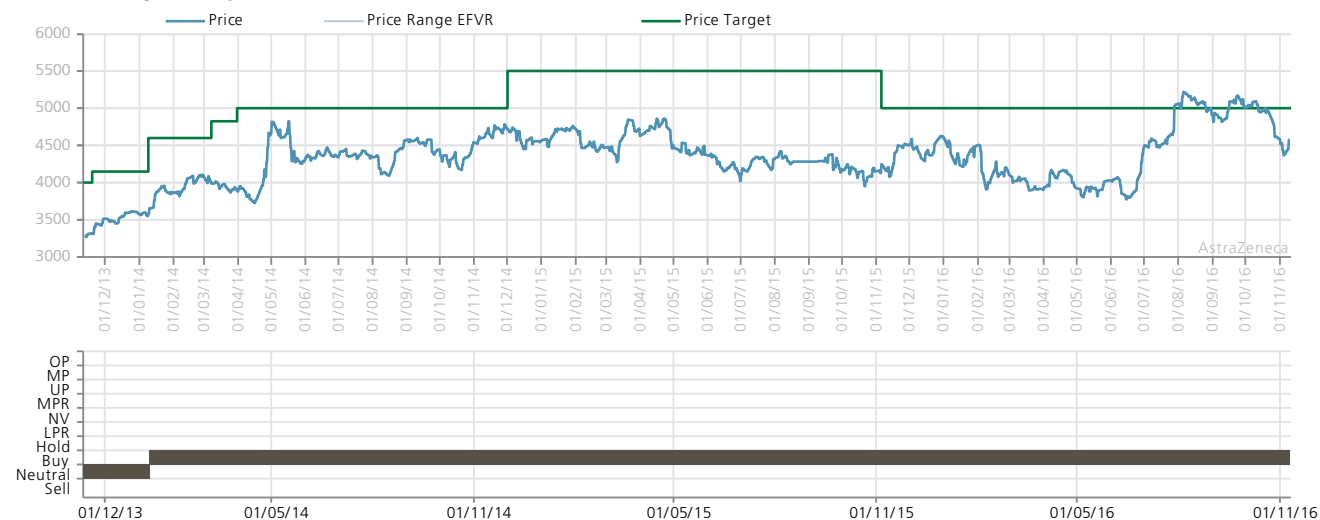
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Global rating history -- AstraZeneca, AZN LN



Source: UBS CIO as of 10 November 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 |

AstraZeneca

| 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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