

Roche Holding Ltd Dividend Right Cert.

CORE HOLDING*

Recommended since 20.04.15

02.12.2024



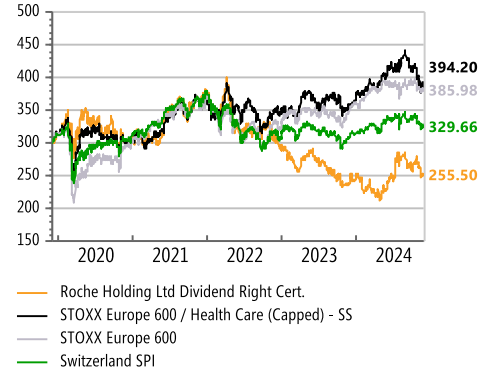
Country CH	Market capitalization (bn) CHF 207,3	Perf. since reco. (%)
Sector Health Care	Free float 100,0%	Roche Holding -6,4
Factset ROG-CH	Closing price CHF 255,50	Sector 33,0
ISIN CH0012032048	ESG Risk score* 21,8 Medium risk	



*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Founded in 1896, Roche has a presence in both pharmaceuticals (72% of sales) and diagnostics (28% of sales). The Pharmaceuticals division mainly specialises in oncology, immunology, infectious diseases and neuroscience. The Diagnostics division focuses on rapid tests, haemostasis testing, molecular biology, histopathology and diabetes care.



Source: Factset

Market - competition - positions - barriers to entry

Roche is one of the world's top five pharmaceutical companies, with a rich and innovative pipeline. The group is leader in in vitro diagnostics and a pioneer in personalised medicine. Barriers to entry are innovation, with a large R&D budget (17-20%); the clinical development process; the complexity of molecules and formulations; and the regulatory environment.

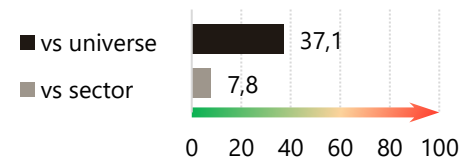
Investment case

- ⦿ The clinical failure of gantenerumab (Alzheimer's disease), tiragolumab and disappointing initial data for giredestrant (oncology) led to a sharp devaluation of the stock over 2022, which was accentuated in 2023-24 by the absence of a catalyst. The market has sharply reduced its expectations for the entire pipeline. It remains rich and innovative, but not sufficiently mature at this stage. We consider the stock to be undervalued and to offer a particularly favorable risk/reward profile over the medium term.
- ⦿ The Group will be in a position to pursue its growth by 2027, with sales driven by marketed treatments in oncology (notably Tecentriq, Venclexta, Gazyva, Alecensa and Polivy), hemophilia A (Hemlibra) and multiple sclerosis (Ocrevus), as well as the ramp-up of Vabysmo in ophthalmology and Evrysdi in spinal muscular atrophy. The Diagnostics division will also be a mainstay, with anticipated growth of +6-8%/year in the medium term. Post-2027 and up to 2030, sales will be flat on the basis of marketed products. The pipeline will come on top of this, and must therefore deliver in this timeframe.
- ⦿ The pipeline includes 72 new molecules in development. Among the most promising assets, the Group has identified 11 molecules with sales potential of at least CHF 2bn, including 7 with sales potential in excess of CHF 3bn : 1/ giredestrant (SERD), in phase III in breast cancer; 2/ trontinemab, in phase II in Alzheimer's disease; 3/ prasinezumab, in phase II in Parkinson's disease; 4/ anti-TL1A - from the Telavant acquisition - in phase III in inflammatory bowel disease; 5/ zilbesiran, in phase II in hypertension; 6/ astegolimab, in phase III in chronic obstructive pulmonary disease (COPD); and 7/ the molecules for obesity and type II diabetes - CT-388 / CT-996 / CT-868 - from the acquisition of Carmot.
- ⦿ The strategy of targeted acquisitions is set to accelerate in the medium term. The three recent transactions (for a total of \$11.5bn), Telavant (inflammatory bowel diseases), Carmot (obesity treatments) and Poseida (allogeneic CAR-T cell therapies in oncology), enable the integration of R&D programs in phases II/III.
- ⦿ The clinical newsflow will accelerate in 2025, with data from giredestrant, astegolimab, trontinemab, zilbesiran, fenebrutinib in multiple sclerosis (phase III, sales potential CHF 2-3bn), and vamikibart in ophthalmology (phase II/III, sales potential CHF 2-3bn).

ESG - risks and key points

- ⦿ Roche's ESG risk is medium, mainly linked to its presence in the US market (49% of sales), where litigation is more commonplace. However, its presence in oncology (54% of sales) tends to mitigate this risk.
- ⦿ The group's clinical data is considered highly transparent, boosting the perceived reliability of its drugs.
- ⦿ A strong performance on overall management of ESG issues.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in CHF

Current price	Value Bordier Scenario
256	340

Our scenario incorporates a 10-year Swiss interest rate of 1.75%; a phase of sales growth up to 2027 (+4.5%/year), stability over 2027-30 and then a decline at the end of the period (-4%/year); a contraction in EBITDA margin from 38.3% in 2024 to 35% by 2035.

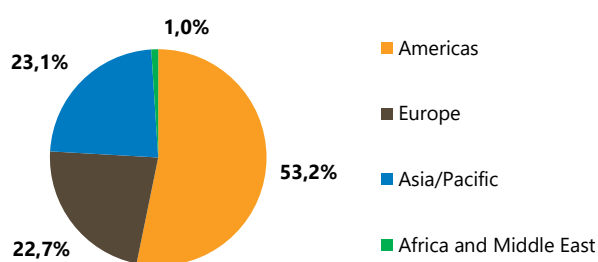
**) The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of CHF	2023	2024e	2025e	2026e	2027e
Sales revenue	58 716	59 890	62 885	66 029	68 340
Sales growth %	-7,2%	2,0%	5,0%	5,0%	3,5%
<i>o/w organic</i>	<i>1,0%</i>	<i>5,0%</i>	<i>5,0%</i>	<i>5,0%</i>	<i>3,5%</i>
EBIT adjusted	19 240	20 123	20 878	22 120	22 894
% of sales	32,8%	33,6%	33,2%	33,5%	33,5%
Net income	14 927	15 231	16 014	17 114	17 831
Adjusted EPS	18,57	18,95	19,93	21,29	22,19
Adjusted EPS growth	-8,5%	2,0%	5,1%	6,9%	4,2%
Capex/Sales	7,6%	6,0%	6,0%	6,0%	5,0%
Free cash-flow	11 619	15 305	15 520	16 553	18 186
FCF/Sales	19,8%	25,6%	24,7%	25,1%	26,6%
Dividend per share	9,60	9,70	9,80	9,90	10,90
Dividend yield	3,9%	3,8%	3,8%	3,9%	4,3%
ROCE - WACC	23,0%	22,7%	24,0%	23,1%	20,3%
ROE (%)	50,9%	43,2%	38,3%	34,7%	31,1%
Net debt/Ebitda	93,2%	48,4%	14,2%	-21,0%	-59,5%

Source: Factset, Bordier estimates

Sales breakdown - 12/2023



Ratios

Roche Holding Ltd Dividend Right Cert.	Stoxx Europe 600 Sector	Stoxx Europe 600 Market
PE (x)***	Health Care	Stoxx 600
2023	12,3	19,5
2024e	12,0	18,5
2025e	11,5	16,3
P/B (x)***		
2023	6,7	3,7
2024e	5,9	3,5
2025e	4,9	3,3
Beta (2Y, daily) vs market: 0,69		

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 2023 - CEO Thomas Schinecker

Key shareholders (if any):

The Hoffmann, Oeri and Duschmalé families hold 72.55% of bearer shares. Capital Structure : 13.2% bearer shares/86.2% dividend-right certificates (with no voting rights or par value).

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

The share capital consists solely of the bearer shares (160mio), with voting rights attached. The shareholders' agreement between the Hoffmann, Oeri and Duschmalé families represents 64.97% of the share capital. Ms Maja Oeri's participation amounts to 7.58%.

Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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