

Roche Holding Ltd Dividend Right Cert.

CORE HOLDING*

Recommended since 20.04.15

16.02.2024



Country CH Market capitalization (bn) CHF 184,0
 Sector Health Care Free float 98,5%
 Factset ROG-CH Closing price CHF 226,95
 ISIN CH0012032048 ESG Risk score* 23,6 Medium risk

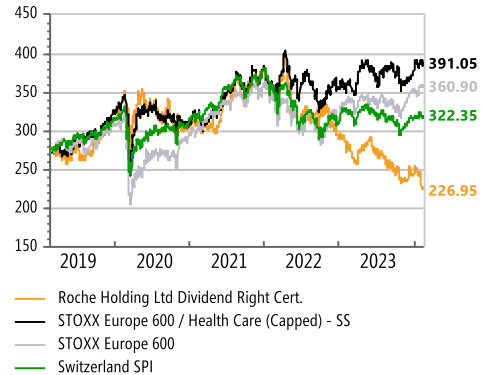
Perf. since reco. (%)
 Roche Holding -16,9
 Sector 28,4



*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.

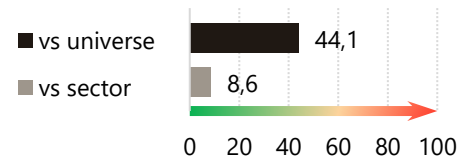
Investment case

- ❖ The clinical failure of gantenerumab in Alzheimer's disease, as well as preliminary negative data on tiragolumab (anti-TIGIT) and giredestrant (SERD), two new therapeutic classes in oncology, led to a sharp devaluation of the stock over 2022, which was accentuated in 2023 by the absence of clinical newsflow and therefore 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 opportunity/risk profile over the medium term. Nevertheless, recovery will take time, with news flow only accelerating in late 2024 and 2025.
- ❖ Over the period 2024-26, the Group will be in a position to pursue its growth (we expect organic growth of +5%/year). Sales will continue to be driven by oncology treatments (notably Tecentriq, Venclexta, Gazyva, Alecensa, Polivy), hemophilia A (Hemlibra), 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-2026 and to 2030, sales should be flat on the basis of marketed products. The pipeline will come on top of this, and needs therefore to deliver in this timeframe.
- ❖ Although the pipeline is early, it remains rich, with 146 projects, including 82 new molecules in development (8 in phase III, 21 in phase II and 53 in phase I). The year 2024 looks set to be another year without any major clinical news. Indeed, final data for tiragolumab in lung cancer (initially expected at the end of 2023) have been postponed to Q4. Nevertheless, Phase II data on 7 assets should enable the start of new Phase IIIs.
- ❖ The strategy of targeted acquisitions is set to accelerate in the medium term. The two recent transactions (for a total of \$10bn), Telavant (inflammatory bowel diseases) and Carmot (next-generation GLP-1/GIP treatment for obesity), allow the integration of R&D programs in phase II, ready to enter phase III, and with significant sales potential if successful.

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 227
 Value Bordier Scenario 335

Our scenario takes into account a 10-year Swiss interest rate of 1.75% ; no growth (-0.3% on average/year) by 2034 (including a growth phase over 2024-28 and then a decline post-2028) ; a contraction in EBITDA margin from 37.4% in 2024 to 35.2% by 2034.

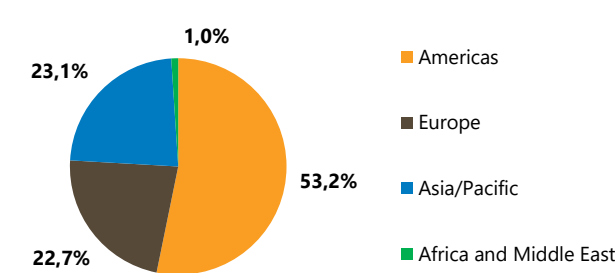
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of CHF	2022	2023	2024e	2025e	2026e
Sales revenue	63 281	58 716	58 129	61 035	64 087
Sales growth %	1,0%	-7,2%	-1,0%	5,0%	5,0%
o/w organic	2,0%	1,0%	5,0%	5,0%	5,0%
EBIT adjusted	22 173	19 240	19 008	20 264	21 469
% of sales	35,0%	32,8%	32,7%	33,2%	33,5%
Net income	16 401	14 927	14 317	15 510	16 581
Adjusted EPS	20,30	18,57	17,81	19,30	20,63
Adjusted EPS growth	2,5%	-8,5%	-4,1%	8,3%	6,9%
Capex/Sales	5,3%	7,6%	6,0%	6,0%	6,0%
Free cash-flow	15 048	11 619	14 932	15 056	16 061
FCF/Sales	23,8%	19,8%	25,7%	24,7%	25,1%
Dividend per share	9,50	9,60	9,70	9,80	9,90
Dividend yield	3,3%	3,9%	4,3%	4,3%	4,4%
ROCE - WACC	27,2%	23,0%	21,3%	23,3%	23,2%
ROE (%)	58,6%	50,9%	41,6%	38,3%	34,9%
Net debt/Ebitda	64,5%	93,2%	52,8%	18,3%	-16,2%

Source: Factset, Bordier estimates

Sales breakdown - 12/2023



Ratios

Roche Holding Ltd Dividend Right Cert.		Stoxx Europe 600	
		Sector	Market
PE (x)***		Health Care	Stoxx 600
2023	13,7	17,9	13,1
2024e	11,8	19,4	14,1
2025e	11,0	18,0	13,5
P/B (x)***			
2023	6,7	3,4	1,9
2024e	5,3	3,6	2,0
2025e	4,5	3,4	1,8
Beta (2Y, daily) vs market: 0,72			

***) 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

Agenda

12 March 2024: AGM / 24 Apr. 2024: Q1 sales / 22 May 2024: Diagnostics Day / 25 July 2024: H1 results / 30 Sept. 2024: Pharma Day / 23 Oct. 2024: Q3 sales

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 (160m), 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.

This document has been issued for information purposes and is exclusively supplied by Bordier & Cie SCmA in the framework of an existing contractual relationship with the recipient of this document. The views and opinions contained in it are those of Bordier & Cie SCmA. Its contents may not be reproduced or redistributed by unauthorized persons. The user will be held liable for any unauthorized reproduction or circulation of this document, which may give rise to legal proceedings. All the information contained in it is provided for information only and should in no way be taken as investment, legal or tax advice provided to third parties. Furthermore, it is emphasized that the provisions of our legal information page are fully applicable to this document and namely provisions concerning the restrictions arising from different national laws and regulations. Consequently, Bordier Bank does namely not provide any investment services or advice to "US persons" as defined by the Securities and Exchange Commission rules. Furthermore, the information on our website - including the present document - is by no mean directed to such persons or entities.