

# ASCO 2014 Part 1.

## Alert: Immuno-Frenzy: Winners and Losers

- **Bigger Pie, Smaller Slices** — Investment assessment of market potential is set to continue expanding. Presentations at ASCO 2014 all support our long expressed conviction that immunotherapy (IO) will form the backbone of at least 60% of all blood and solid tumours, translating into a market in excess of \$35bn ([\*Immunotherapy – The Beginning of the End for Cancer\*](#) dated 22 May 2013). We anticipate positive data in early melanoma for BMY's Yervoy will open up an additional dimension for growth in adjuvant indications across other cancers (data on Monday).
- **Roche data shows why we called it “immunotherapy ninja”** — and reaffirms our BUY rating. Our recent report ([\*Immunotherapy Ninja. BUY. Adding to Citi Focus List\*](#) dated 11 Feb 2014) argued that the market was materially underestimating the depth of breadth of Roche's IO pipeline (anti-PDL1, CSF1R, CD40, novel IL2 variant, vaccines, VEGF-bispecific MAb and others) and deep competence. While yesterday's analyst meeting added little new information for us (aside from their new ox40 monoclonal antibody), the company's more open optimism regarding IO and conviction and communication of their competitive advantage in IO will likely help the stock. We anticipated the likely activity of Roche PDL1 in bladder cancer in our ([\*Immunotherapy: Bigger, Broader, Bladder\*](#) dated 11 Feb 2014). **We anticipate Roche to move their IDOi, and biomarker into the clinic in the coming months. We anticipate positive data from their Avastin+PDL1 combinations before year end.**
- **AstraZeneca: Roche's main challenger for long term IO dominance. Reiterate BUY** — Interestingly, Genentech sees AZN rather than BMY or MRK as the key competitor for long-term leadership in immune-oncology given their breadth of assets and scientific leadership. AZN will share early combination data for tremelimumab and their anti-PDL1 agent tomorrow. Outside IO, AZN's next gen EGFR inhibitor for NSCLC looked competitively positioned to Clovis's CO-1686 given the lack of hyperglycaemia, QTc issues. AZN's phase II combination of cediranib and olaparib look very promising in ovarian cancer.
- **Merck KGaA anti-PDL1 underwhelming** — Early Ph1 data with Merck's anti-PDL1 was unimpressive with only one published response in the poster. While the presenter indicated they had seen additional responses, we were alarmed by the 17% rate of lymphopenia (white blood cell depletion). The anti-PDL1 antibody has ADCC activity in mice and man, likely depleting CD4+ and CD8+ T cells bound to anti-PDL1, with an almost certain negative impact on efficacy

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## AstraZeneca PLC

(AZN.L; £42.84; 1)

### Valuation

Our £49 target price is arrived at from our DCF derived intrinsic value, reflecting a target multiple of c.19x 2015E core earnings.

There are near term earnings pressures as AZN traverses through multiple headwinds (Symbicort generics in Europe, Nexium patent expiry) over the next couple of years. Longer term, we have a more optimistic assessment on AZN's developing breadth in oncology (both immuno-oncology and small molecules), respiratory (inhaled assets as well as biologics) as well as the outcome of the key PEGASUS trial for cardiovascular drug Brilinta. This is reflected in our DCF-derived intrinsic value of £49 per share which is a substantial premium to current price. We project free cash flows for an explicit 10-year period and thereafter apply terminal growth assumptions. Consistent with our sector methodology, which makes use of the CAPM to calculate the cost of equity, we use a WACC of 8.2% and assume a 0% terminal growth rate. In the absence of evidence for new internal or external drivers of value, we acknowledge the company's secure high free cash flow and dividend yields.

### Risks

Downside risks include anticipated generic timings, slowing sales growth in emerging markets, and pressure to Symbicort market share gains in the US.

Upside risks include higher-than-anticipated uptake of Brilinta or diabetes assets (Onglyza, Bydureon, Forxiga) and an acceleration in value-enhancing licensing activities or M&A, thereby increasing the long-term growth profile of the company.

## Roche Holding AG

(ROG.VX; SFr263.50; 1)

### Valuation

Our SFr300 Target Price reflects a multiple of c.18x 2014E core earnings. Our DCF-derived Intrinsic Value is \$290. We project free cash flows for an explicit forecast period of 10 years and thereafter apply terminal growth assumptions. We employ a CAPM-derived WACC of 8.2% and assume a 0% terminal growth rate. A three-stage DCF that extends beyond our forecast horizon of 10 years gives us an intrinsic value of \$306/share, which we believe more accurately captures the durability and profitability of Roche's incipient immunotherapy franchise and other key pipeline assets.

### Risks

Key risks to our positive thesis include (i) larger downside than anticipated to the lucrative Lucentis franchise in the wake of competition; (ii) stronger/earlier-than-anticipated erosion of the Herceptin franchise in Europe from biosimilar competition from 2014 onwards, especially in the wake of recent biosimilar Remicade approval in Europe; (iii) higher erosion of the Rituxan franchise in blood cancers from competition as well as biosimilars. If the impact on the company from any of these

factors proves to be more negative than we anticipate, the stock could have difficulty in reaching our target price.

## Appendix A-1

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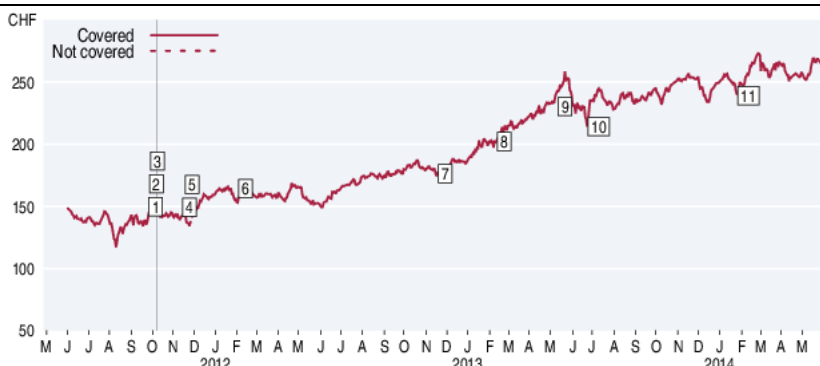
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##### Ratings and Target Price History Fundamental Research

Analyst: Andrew S Baum

Covered since November 29 2011



	Date	Rating	Target Price	Closing Price
1	6-Oct-11	2M	*143.00	146.60
2	7-Oct-11	Stock rating system changed		
3	8-Oct-11	*2	143.00	149.20
4	24-Nov-11	Coverage terminated		

\* Indicates change

	Date	Rating	Target Price	Closing Price
5	29-Nov-11	*1	*159.00	141.60
6	14-Feb-12	*2	*157.00	162.20
7	29-Nov-12	2	*180.00	182.20
8	22-Feb-13	2	*210.00	212.20

	Date	Rating	Target Price	Closing Price
9	22-May-13	*1	*300.00	258.50
10	10-Jul-13	1	*280.00	244.70
11	12-Feb-14	1	*300.00	256.00

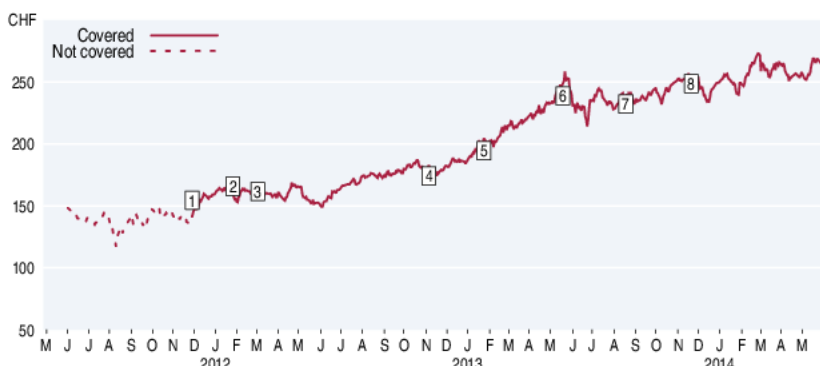
Rating/target price changes above reflect Eastern Standard Time

#### Roche Holding AG (ROG.VX)

##### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Andrew S Baum

Covered since November 29 2011



	Date	Rating	Target Price	Closing Price
1	29-Nov-11	*ADD MP	-	141.60
2	26-Jan-12	*REM MP	-	160.20
3	2-Mar-12	*ADD LP	-	157.40

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	6-Nov-12	*REM LP	-	182.70
5	24-Jan-13	*ADD LP	-	204.50
6	20-May-13	*REM LP	-	247.00

	Date	Rating	Target Price	Closing Price
7	19-Aug-13	*ADD MP	-	238.30
8	21-Nov-13	*REM MP	-	253.90

Rating/target price changes above reflect Eastern Standard Time

## AstraZeneca PLC (AZN.L)

### Ratings and Target Price History

### Fundamental Research

Analyst: Andrew S Baum  
Covered since May 31 2013



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	8-Oct-11	*1	34.00	29.61
3	24-Nov-11	Coverage terminated		

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	29-Nov-11	*2	*28.00	28.41
5	24-Oct-12	2	*30.00	28.85
6	31-May-13	2	*35.00	33.88

	Date	Rating	Target Price	Closing Price
7	23-Apr-14	*1	*49.00	40.43

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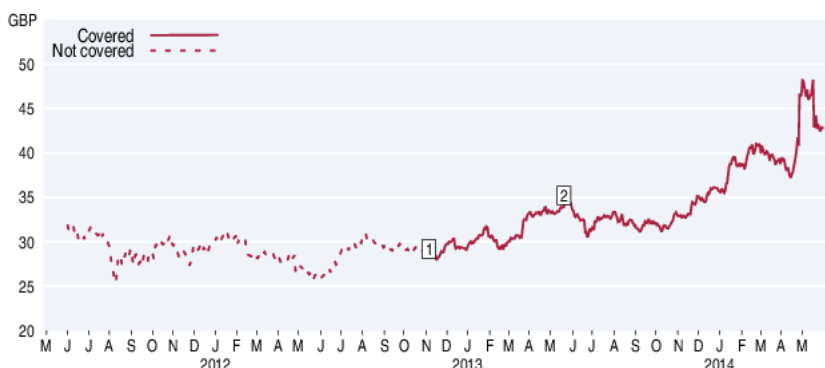
## AstraZeneca PLC (AZN.L)

### Ratings and Target Price History

### Best Ideas Research

### Relative Call (3 Month)

Analyst: Andrew S Baum  
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	Date	Rating	Target Price	Closing Price
1	6-Nov-12	*ADD LP	-	29.10

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	21-May-13	*REM LP	-	33.95

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49%	40%	12%	1%	98%	1%
55%	53%	45%	58%	53%	42%

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