J.P.Morgan CAZENOVE

Europe Equity Research
28 April 2014

Roche

Reiterate OW: Pipeline catalysts including Bladder Cancer data to drive the shares

Overweight

ROG.VX, ROG VX

Price: SF254.00

Price Target: SF280.00

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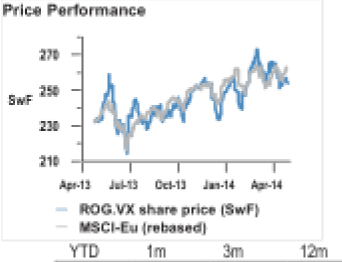

	YTD	1m	3m	12m
Abs	1.9%	-4.4%	4.4%	9.0%
Rel	-0.4%	-8.2%	1.0%	-3.5%

Heading into ASCO, on May 31st, where Roche will present new data for its PD-L1 in bladder cancer, we have examined the market potential of this cancer. While it is relatively small at only $0.8bn in PD-L1 high patients, the Roche data should serve to further highlight the immuno-onocolgy opportunity. Beyond bladder cancer data at ASCO, potential in other tumours and the data in combination with Avastin, if positive, have the potential to drive further upside to PD-L1 forecasts, although on the 1Q'14 call Roche seemed more cautious than previously around the Avastin combo opportunity. Beyond PD-L1, phase II ROMULUS data for the Anti-79b in NHL (ASCO on May 31st) should provide another leg to Roche's growth strategy for the Rituxan franchise, and Kadcyla data in 1st line Breast Cancer from the MARIANNE trial in 2H'14 should cement growth for the HER 2 franchise. With these catalysts to come we reiterate our Overweight and Dec-14 SFr280 PT, offering 9% potential upside.

- **Bladder Cancer opportunity has potential to add a further $0.3bn in sales for Roche's PD-L1:** Ahead of the ASCO meeting where first data will be presented for Roche's PD-L1 on Sat May 31 we have examined the market potential for Bladder cancer. Assuming just use in PD-L1 high patients we see a market worth $0.8bn, while use in PD-L1 low patients could add a further $0.6bn. As Roche are only conducting a single arm phase II trial next, we conservatively assume that Roche will not reach the market until 2018 and can only take 40% of the market, yielding a $0.3bn peak sales opportunity See inside this note for our detailed review of the Bladder Cancer opportunity.
- **Roche continues to explore PD-L1 in further tumour types, although there are no timelines for disclosure or data presentation:** On the 1Q'14 conference call Roche highlighted that they continue to explore PD-L1 in other tumour types, for which they will release data as they become mature. Based on disclosed Phase I clinical trials in colorectal cancer, we continue to believe that this could be one of these indications which would offer a PD-L1 positive market potential of $5.5bn.
- **Estimates trimmed post 1Q sales for slightly increased FX headwind:** We have reduced our Core EPS estimates by 1% for 2014-2017 based on a 1% increase to the FX headwind on sales and Core Operating income.

Roche (ROG.VX;ROG VX)

FYE Dec	2013A	2014E (Prev)	2014E (Curr)	2015E (Prev)	2015E (Curr)	2016E
Revenue FY (SF mn)	46,780	47,059	46,723	49,766	49,336	51,272
EBIT FY (SF mn)	17,904	18,001	17,857	19,244	18,991	19,884
EBIT Margin FY	38.3%	38.3%	38.2%	38.7%	38.5%	38.8%
EBITDA FY (SF mn)	20,647	20,503	20,359	21,830	21,576	22,558
Net Profit FY (SF mn)	12,316	12,604	12,563	13,754	13,622	14,454
Adj. EPS FY (SF)	14.27	14.60	14.56	15.94	15.78	16.75
Adj P/E FY	17.8	17.4	17.4	15.9	16.1	15.2
Dividend Yield FY	3.1%	3.1%	3.2%	3.2%	3.4%	3.6%

Source: Company data, Bloomberg, [redacted]. Morgan estimates.

Company Data	
Price (SF)	254.00
Date Of Price	25 Apr 14
Price Target (SF)	280.00
Price Target End Date	31-Dec-14
52-week Range (SF)	274.80-212.80
Market Cap (SF bn)	215.39
Shares O/S (mn)	848

See page 16 for analyst certification and important disclosures, including non-US analyst disclosures.
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Executive Summary

Going into ASCO where Roche will present new data for its PD-L1 in bladder cancer on May 31 we have examined the market potential of this cancer. While it is a relatively small market opportunity at only $0.8bn in PD-L1 high patients, these data should serve to further highlight the immuno-onocolgy opportunity for Roche.

Beyond bladder data at ASCO, PD-L1 potential in other tumours and the data in combination with Avastin, if positive, have the potential to drive upside to PD-L1 forecasts but also to remove concerns over the sustainability of the Avastin franchise (worth 17% of EmV). Although on the 1Q'14 call Roche seemed more cautious than previously around the Avastin combo opportunity.

Beyond PD-L1, phase II ROMULUS data for the Anti-79b in NHL (Non-Hodgkin's lymphoma) also at ASCO (May 31) should provide another leg to Roche's existing growth and protection strategies for the Rituxan franchise (which currently include Gazyva replacing Rituxan; BCL-2 use on-top of Rituxan) and Kadcyla data in 1st line Breast Cancer from the MARIANNE trial in 2H14, which should cement growth for the HER 2 franchise.

With these catalysts to come we reiterate our Overweight and Dec-14 SFr280 Price Target, offering 9% potential upside.

Table 1: Roche Key Expected Newsflow in 2014

Expected Timing	Products	Event
1H 2014	mGlu5 negative allosteric modulator (basimglurant)	Phase II data (Marigold) in adjunct treatment of MDD (data expected in H2 2013 - LIP decision in 1H2014)
1H 2014	mGlu2 negative allosteric modulator (decoglurant)	Phase II data (ArtDeCo) in adjunct treatment of MDD (trial expected to complete May 2014)
1H 2014	Anti- Factor D (lampalizumab)	Phase III progression decision in dry AMD
1H 2014	Pictilisib (PI3 kinase)	Phase II data (FERGI) in 2L ER+ metastatic breast cancer and potential LIP decision
1H 2014	apitolisib (PI3kinase/mTOR dual inhibitor)	Phase II data (MAGGIE) in endometrial cancer and potential LIP decision
May 31	Anti-PDL1 (MPDL3280A)	Data in new tumor type (bladder cancer) at ASCO (analyst meeting on June 1)
May 31	Anti-79b ADC (polatuzumab vedotin)	ROMULUS phase II PFS data in NHL (relapsed/refractory FL &2/3 line DLBCL) data at ASCO
May 30 -Jun 3	Bcl-2 inhibitor	Phase I in CLL (combo with Rituxan) and DLBCL
May 30 -Jun 3	Avastin	H2H Avastin vs. cetuximab in mCRC (CALGB 80405 study)
May 30 -Jun 3	Cobimetinib (MEK inhibitor)	Phase Ib (BRIM7) data for Zelboraf + Cobimetinib
Jun 21 -Jun 24	Oral Octreotide	Phase III data in acromegaly to be presented at ENDO (June 21-24)

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