



Q3FY17- strong operational beat; raise EPS forecasts, PO

Biocon (BIOS) Q3FY17 PAT at Rs 1.7 bn (up 65% YoY; 17% QoQ) was 17.5% ahead of our estimates aided by strong operational performance across most of the segments. Sales at Rs 10.4 bn (up 30% YoY; 10% QoQ) beat our estimates by 6%, while EBITDA at Rs 2.8 bn (up 49% YoY; 15% QoQ) was 10% higher than expectations. EBITDA Margins at 26.6% (up 350bps YoY; 120bps QoQ) was 90bps higher than estimates. Though Other Income was also higher than estimates, it was offset by higher interest costs and taxes. We raise forecasts for FY17E but marginally tweak for FY18-19E as additional costs from Malaysia could offset higher sales growth. We tweak our PO from R1,100 to Rs 1,115.

Robust performance across most segments

Except for Branded Formulations (down on comparable basis due to discontinuance of in-licensed Abraxane), all other segments delivered robust growth during Q3. Biologics at Rs 1.2bn delivered strongest growth (61% YoY; 24% QoQ) aided by growing traction of products launched in EMs/ Japan as well as start of contribution from Malaysia Insulin facility. Small molecules (API) at Rs 3.9bn grew 24% YoY (flat QoQ) led by ramp up in supplies of statins, immuno-suppressants, specialty products. While research services at Rs 3.2 bn grew 17% YoY (11% QoQ), contribution from licensing fees at Rs 790 mn (up >140% YoY/ QoQ) was also strong aided by out-licensing of biosimilars across EMs.

Guidance remains strong over the near- mid term

Management re-iterated the guidance of achieving \$1 bn sales by FY19E. Most of the growth will be driven by Biologics segment (3x rise expected over FY16-19E). While, the small molecules are likely deliver steady single digit growth, Branded Formulations segment has seen a lot of changes (both leadership and structure) and should see growth in FY18E. Licensing income though lumpy on QoQ basis, may see similar run rate on annualized basis. EBITDA margins are likely to sustain at current level despite higher costs over next 2 years and further improve when biosimilars are launched in US/EU.

Malaysia operations likely to impact P&L from FY18E

With acceptance of insulin glargine filing by EMA, BIOS will stop capitalizing expenses of the Malaysian plant. Fixed costs (depreciation of \$18 mn; others including interest: \$30 mn) will be shared by Mylan. Net impact could be neutral- marginal loss at consol. level.

Estimates (Mar)

(Rs)	2015A	2016A	2017E	2018E	2019E
Net Income (Adjusted - mn)	4,067	4,353	6,214	6,555	8,266
EPS	20.34	21.76	31.07	32.78	41.33
EPS Change (YoY)	-1.7%	7.0%	42.8%	5.5%	26.1%
Dividend / Share	5.00	5.00	7.00	7.00	7.00
Free Cash Flow / Share	(24.19)	(23.69)	16.10	10.83	21.27

Valuation (Mar)

	2015A	2016A	2017E	2018E	2019E
P/E	49.12x	45.90x	32.15x	30.48x	24.17x
Dividend Yield	0.501%	0.501%	0.701%	0.701%	0.701%
EV / EBITDA*	31.59x	27.46x	20.25x	16.85x	13.61x
Free Cash Flow Yield*	-2.42%	-2.37%	1.61%	1.08%	2.13%

* For full definitions of *IQmethod*SM measures, see page 8.

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Refer to important disclosures on page 9 to 11. Analyst Certification on page 6. Price Objective Basis/Risk on page 6.

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Timestamp: 25 January 2017 03:30PM EST

Key Changes

(Rs)	Previous	Current
Price Obj.	1,100.00	1,115.00
2017E Rev (m)	39,347.2	40,290.9
2018E Rev (m)	47,630.5	47,976.1
2019E Rev (m)	58,796.5	58,900.2
2017E EPS	27.59	31.07
2018E EPS	32.18	32.78
2019E EPS	40.41	41.33

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Stock Data

Price	998.95 INR
Price Objective	1,115 INR
Date Established	26-Jan-2017
Investment Opinion	C-1-7
52-Week Range	430.80 INR-1,052 INR
Mkt Val / Shares Out (mn)	2,931 USD / 200.0
Market Value (mn)	199,790 INR
Average Daily Value (mn)	13.24 USD
Free Float	39.4%
BofAML Ticker / Exchange	XLOFF / NSI
Bloomberg / Reuters	BIOS IN / BION.NS
ROE (2017E)	14.5%
Net Dbt to Eqty (Mar-2016A)	12.7%

Key Income Statement Data (Mar)	2015A	2016A	2017E	2018E	2019E
(Rs Millions)					
Sales	30,592	33,474	40,291	47,976	58,900
Gross Profit	15,278	17,293	23,087	27,730	34,221
Sell General & Admin Expense	(6,421)	(7,248)	(9,509)	(11,274)	(13,665)
Operating Profit	4,442	5,167	7,445	8,250	10,794
Net Interest & Other Income	748	538	1,275	1,020	799
Associates	NA	NA	NA	NA	NA
Prelax Income	5,190	5,705	8,720	9,270	11,593
Tax (expense) / Benefit	(957)	(1,467)	(1,918)	(2,039)	(2,550)
Net Income (Adjusted)	4,067	4,353	6,214	6,555	8,266
Average Fully Diluted Shares Outstanding	200	200	200	200	200

Key Cash Flow Statement Data

Net Income	3,923	3,871	6,214	6,555	8,266
Depreciation & Amortization	2,210	2,487	2,931	4,222	4,649
Change in Working Capital	(4,238)	(4,918)	587	(2,309)	(2,972)
Deferred Taxation Charge	33	71	0	0	0
Other Adjustments, Net	1,223	2,179	2,488	2,698	3,311
Cash Flow from Operations	3,151	3,690	12,221	11,166	13,255
Capital Expenditure	(7,989)	(8,427)	(9,000)	(9,000)	(9,000)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	5,346	(1,982)	(1,000)	(1,000)	(1,000)
Cash Flow from Investing	(2,643)	(10,409)	(10,000)	(10,000)	(10,000)
Shares Issue / (Repurchase)	0	0	0	0	0
Cost of Dividends Paid	(1,000)	(1,000)	(1,400)	(1,400)	(1,400)
Cash Flow from Financing	823	16,557	(3,713)	(4,795)	(5,270)
Free Cash Flow	(4,838)	(4,737)	3,221	2,166	4,255
Net Debt	1,797	5,564	6,662	8,935	9,631
Change in Net Debt	1,344	3,767	1,098	2,273	696

Key Balance Sheet Data

Property, Plant & Equipment	15,807	16,539	22,608	27,385	31,737
Other Non-Current Assets	19,561	26,847	27,847	28,847	29,847
Trade Receivables	7,705	8,229	9,578	11,420	14,052
Cash & Equivalents	9,375	19,213	17,720	14,092	12,076
Other Current Assets	9,936	12,328	13,404	15,896	19,470
Total Assets	62,384	83,156	91,157	97,640	107,181
Long-Term Debt	11,172	24,777	24,382	23,027	21,707
Other Non-Current Liabilities	417	346	329	312	297
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	16,367	14,365	17,377	19,401	22,635
Total Liabilities	27,956	39,488	42,088	42,740	44,639
Total Equity	34,428	43,668	49,070	54,900	62,543
Total Equity & Liabilities	62,384	83,156	91,157	97,640	107,181

iQmethodSM - Bus Performance*

Return On Capital Employed	8.4%	6.7%	8.1%	8.5%	10.3%
Return On Equity	12.9%	11.9%	14.5%	13.7%	15.3%
Operating Margin	14.7%	15.8%	19.2%	17.8%	18.9%
EBITDA Margin	21.7%	22.9%	25.8%	26.0%	26.2%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	0.8x	0.8x	2.0x	1.7x	1.6x
Asset Replacement Ratio	3.6x	3.4x	3.1x	2.1x	1.9x
Tax Rate (Reported)	18.4%	25.7%	22.0%	22.0%	22.0%
Net Debt-to-Equity Ratio	5.2%	12.7%	13.6%	16.3%	15.4%
Interest Cover	49.9x	20.3x	25.2x	24.9x	34.5x

Key Metrics

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

Pharmaceuticals

Company Description

Biocon, promoted by Kiran Mazumdar Shaw, is India's largest biotechnology company (by revenue). The Biocon Group has four business lines with strategic focus on biopharmaceuticals (flagship company, Biocon), custom synthesis (subsidiary, Syngene), clinical research (subsidiary, Clinigene) & biologicals (JV, Biocon Biopharmaceuticals).

Investment Rationale

Biocon is a strong proxy to the estimated \$20bn global biosimilar market. Of the \$100 bn biologic drugs going off-patent over next 10 years, Biocon's pipeline has exposure to c.60%, and (along with its partner Mylan), it could participate in 1st wave of launches for 4 key molecules (\$33 bn opportunity). Successful execution of its biosimilar pipeline can lead to strong earnings growth and sustained re-rating over the next 5-10 years. The company's base business is also at an inflection point.

Stock Data

Price to Book Value 4.4x

Table 1: Biocon Q3FY17 results summary

Rs mn	Q3FY16	Q2FY17	Q3FY17E	YoY	QoQ
Sale of products & Services	7,890	9,321	10,225	29.6%	9.7%
Other operating income	109	137	151	38.5%	10.2%
Net Sales	7,999	9,458	10,376	29.7%	9.7%
Total raw material	2,959	3,455	3,679	24.3%	6.5%
Raw material consumed	3,103	3,177	3,808	22.7%	19.9%
Stock adjustment	308	556	481	56.2%	-13.5%
Purchase of finished goods	(452)	(278)	(610)	35.0%	119.4%
Gross Profit	5,040	6,003	6,697	32.9%	11.6%
Gross Margins (%)	63.0%	63.5%	64.5%	154bps	107bps
Employee Expenses	1,522	1,804	1,942	27.6%	7.6%
R&D	570	650	716	25.6%	10.1%
Other Operating Expenses	1,100	1,149	1,278	16.2%	11.2%
Total expenditure	6,151	7,058	7,615	23.8%	7.9%
EBITDA	1,848	2,400	2,761	49.4%	15.0%
Margins (%)	23.1%	25.4%	26.6%	351bps	123bps
Depreciation	639	683	703	10.0%	2.9%
EBIT	1,209	1,717	2,058	70.2%	19.9%
Other income	216	384	474	119.4%	23.4%
Interest	15	65	88	486.7%	35.4%
PBT	1,410	2,036	2,444	73.3%	20.0%
Tax	218	417	544	149.5%	30.5%
Tax rate	15.5%	20.5%	22.3%	680bps	178bps
MI & Share in associate	(151)	(152)	(187)	23.8%	23.0%
Adj. PAT before extra-ordinary items	1,041	1,467	1,713	64.6%	16.8%
Extra-ordinary Items	-	-	-		
Reported PAT	1,041	1,467	1,713	64.6%	16.8%
Adj. EPS (Rs)	5.2	7.3	8.6	64.6%	16.8%

Source: Company, BofA Merrill Lynch Global Research

Table 2: Segmental Sales break up

Rs mn	Q3FY16	Q2FY17	Q3FY17E	YoY	QoQ
Biopharmaceuticals	4,940	6,210	6,330	28.1%	1.9%
Small molecules	3,150	3,890	3,900	23.8%	0.3%
Biologics	750	960	1,200	60.0%	25.0%
Branded formulations	1,040	1,360	1,230	18.3%	-9.6%
Contract research	2,700	2,860	3,170	17.4%	10.8%
Licensing Income	320	330	790	146.9%	139.4%
Total sales	7,960	9,400	10,290	29.3%	9.5%

Source: Company, BofA Merrill Lynch Global Research

Conference call takeaways

Small molecules: Consisting of API (Active Product Ingredient) supplies of statins, immunosuppressants and specialty products to other drug formulation manufacturers, this segment saw strong 24% YoY (flat QoQ) growth to Rs 3.9 bn in Q3. The growth was driven by 1) strong demand for rosuvastatin API post genericization in the US, 2) addition of new customers for the existing products, 3) a mix of volumes and price gains in few products. The company indicated that many older molecules have now reached a steady state in terms of pricing and could see single digit price erosion annually from hereon. However newer products such as rosuvastatin could see higher price erosion with newer competition. BIOS guided for a steady single digit growth rate for the business and highlighted that the company has consistently delivered above this guidance over last few quarters. Regarding the launch of rosuvastatin calcium formulation in the US (for which it has received FDA approval), the company indicated that it might done over the coming quarters.

Biologics: This segment at Rs 1.2 bn strong growth of 61% YoY and 24% QoQ. This was led by 1) strong growth in insulin business aided by both: increased footprint across additional markets and rising traction in existing EMs, 2) start of contribution from Malaysian facility post commencement of commercial operations, 3) market share gains for insulin glargine pens launched in Japan in Q2, 4) entry into a leading EM for sale of trastuzumab through strategic agreement, 5) higher traction of mabs (including trastuzumab) in various EMs where it has been launched. The company expects the biologics segment sales to grow more than 3x over FY16-19E.

Branded formulations business consists of formulation sales in India and UAE. On a comparable basis the business saw a de-growth to Rs 1.2 bn in Q3 due to discontinuance of in-licensed Abraxane. The management highlighted that BIOS has taken multiple steps to turnaround this business including change in structure and leadership. The company expects positive growth rates from FY18E. Growth strategy will include in-licensing of several products.

Research services business through Syngene reported revenue growth of 17% YoY (11% QoQ) to Rs 3.2 bn in Q3 which was driven by broad-based growth across the Dedicated R&D Centers and Discovery Services verticals. The loss of operational days due to a fire incident during the was somewhat mitigated by Syngene's business continuity plan. Management expects a steady growth rate of 15-20% in this business over the near-midterm.

Licensing fees for the quarter was Rs 790 mn up from ~Rs 320 mn YoY/ QoQ. Management indicated that though this component maybe lumpy in few quarters, on annualized basis, the company would continue to see steady contribution from licensing fees as the biosimilar assets developed for the US/EU deserve a premium in EMs. While the early target markets have been mostly addressed, BIOS highlighted that there are several other additional markets which it intends to target over the coming quarters.

Malaysian facility: BIOS highlighted that given its application for insulin glargine (from Malaysian plant) has been accepted by the EMA, it will no longer capitalize the expenses incurred at this facility from beginning of FY18E. Management indicated that the annual depreciation expenses could amount to \$18 mn, while other fixed costs (including interest costs) would amount to \$30 mn. While a portion of these costs is likely to be borne by Mylan also, BIOS did not disclose the exact amount. However, it indicated that on a net level the plant would be marginally loss making and will have minimal impact on consolidated P&L. The company also announced that post commencement of operations, the plant has received a MYR 300 mn (~US\$ 70 mn) 3-year contract from Ministry of Health, Malaysia for supplying rh-insulin cartridges and re-usable insulin pens for people with diabetes in Malaysia.

Biosimilar pipeline & filings: During Q3 1) US FDA accepted Mylan-BIOS' BLA (Biologics License Application) for proposed biosimilar trastuzumab, 2) EMA (European Medicines Agency) accepted for review Mylan-BIOS's MAA (Marketing Authorization Application) for insulin glargine. The company highlighted that it is likely to file for insulin glargine approval with US FDA and adalimumab with both FDA and EMA over coming quarters. Regarding the remainder of the biosimilar pipeline, the company indicated that bevacizumab is likely to enter global phase III trials in FY18E. Beyond the 4 assets filed/ nearing filing and 5 disclosed molecules in various stages of development, the company indicated that it has several other programs under development which will ensure the biosimilar growth over the medium- long term.

Novel molecules: Management said that Itolizumab and QPI 1007 (SiRNA), are progressing as per schedule in the ongoing clinical trials. BIOS has also finalized the clinical plan to progress Insulin Tregopil (oral insulin) and will file a Clinical Trial Application (CTA) with the Indian regulator to clinically validate its promise as an orally delivered, rapid acting prandial insulin.

New FDA guidelines: Regarding the new draft biosimilar interchangeability guidelines provided by the US FDA, the Company indicated that they were as per BIOS's expectations. Management mentioned that they did not expect interchangeability to be granted with the first approval and most likely post marketing data would be required by the US FDA to decide on interchangeability status. However the company indicated that other factors such as payers (e.g. PBMs in US) and Governments (through tenders) are driving faster rate of adoption by biosimilars even without grant of interchangeability status by the FDA/ EMA. As a result, though these guidelines are a positive development towards likely interchangeability status for biosimilars in the future, BIOS believes that other levers might be more relevant towards determining the penetration rate of biosimilars.

Margins and R&D: Management indicated that the recurring EBITDA margins of the company would be stable over next 2 years as higher growth will be offset by ramp up costs at the Malaysian facility. However the margin trend could see an uptick once the company's biosimilars are launched in the US/EU.

Capex: The management mentioned that BIOS has already started construction of 2 major projects namely, the Oral Solids plant (75-80% complete) and the Bangalore formulation plant (mAbs/insulin) last year and would likely complete both of them in FY18E. In addition the Company indicated that the maintenance capex would range between Rs 750 mn- 1 bn. The company also highlighted that as of now these capacities should be enough to cater to the requirements over next few years. The company would take decision on triggering the second phase of the Malaysia insulin plant on a later date.

Debt: The Company believes that the internal cash flows from operations would be sufficient for the company to cover the capex costs over the next few years. As a result, the company does not foresee significant rise in debt levels.

Price objective basis & risk

Biocon (XLOFF)

Our SOTP (sum-of-the-parts)-based PO of Rs 1,115 has been derived as follows: 1) Rs 332 i.e., the aggregate of risk-adjusted DCF valuations of the four key biosimilar opportunities namely - Lantus, Humira, Herceptin & Neulasta, and 2) Rs 783 for the base business valued at 20x P/E Dec-2018E EPS - in line with the India Pharma sector average on account of superior EPS growth prospects (23% CAGR over FY16-19E) and improving return ratios

Downside risks: (1) Regulatory/ legal delays in launching biosimilar products in US/EU, 2) sharper than expected price erosion in biosimilar market, 3) lower than expected market share in biosimilar market, 4) lower biosimilar penetration in US/EU.

Upside risks: (1) Earlier than expected approval for key biosimilar molecules, (2) stronger growth in Biologics in EMs, (3) Sustained improvement in custom research business

Analyst Certification

I, Manoj Garg, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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APR - Healthcare Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Apollo Hospitals Enterprise Ltd	XWOAF	APHS IN	Manoj Garg
	Aurobindo Pharma Limited	XLZFF	ARBP IN	Manoj Garg
	Beijing Tongrentang	BJTGF	600085 CH	Jessica Li
	Biocon	XLOFF	BIOS IN	Manoj Garg
	Cadila Healthcare Limited	CDLHF	CDH IN	Manoj Garg
	China Biologic Products	CBPO	CBPO US	Jessica Li
	China Medical System	CHSYF	867 HK	Jessica Li
	China Resources Double-Crane	BDPCF	600062 CH	Jessica Li
	China Resources Pharmaceutical	XNTQF	3320 HK	Jessica Li
	Cochlear Ltd	CHEOF	COH AU	William Dunlop, CFA
	CSPC Pharma	CHJTF	1093 HK	Jessica Li
	Dr Reddy's Lab	DRYBF	DRRD IN	Manoj Garg
	Dr Reddys Lab-A	RDY	RDY US	Manoj Garg
	Fosun Pharmaceutical	SFOSF	2196 HK	Jessica Li
	Fosun Pharmaceutical	XLWTF	600196 CH	Jessica Li
	Glenmark Pharm	GMKPF	GNP IN	Manoj Garg
	Hengrui Medicine	XMOKF	600276 CH	Jessica Li
	IHH Healthcare Berhad	IHHHF	IHH MK	Swati Chopra
	IHH Healthcare Bhd	XFAHF	IHH SP	Swati Chopra
	Japara Healthcare Limited	XZZQF	JHC AU	William Dunlop, CFA
	Lupin Limited	XEFSS	LPC IN	Manoj Garg
	Luye Pharma	XMOKF	2186 HK	Jessica Li
	MicroPort	MCRPF	853 HK	Jessica Li
	Ramsay	RMSYF	RHC AU	William Dunlop, CFA
	Regis Healthcare Limited	XZZRF	REG AU	William Dunlop, CFA
	ResMed Inc	RSMDF	RMD AU	William Dunlop, CFA
	ResMed Inc.	RMD	RMD US	William Dunlop, CFA
	Sino Biopharm	SBMFF	1177 HK	Jessica Li
	Sinopharm Group	SHTDF	1099 HK	Jessica Li
	Sun Pharmaceuticals Limited	XPUCF	SUNP IN	Manoj Garg
NEUTRAL				
	Ansell	ANSLF	ANN AU	William Dunlop, CFA
	Cipla Limited	XCLAF	CIPLA IN	Manoj Garg
	CR Sanjiu Medical	XPJRF	000999 CH	Jessica Li
	CSL Ltd	CMXHF	CSL AU	William Dunlop, CFA
	Dong-E-E-Jiao	XVYQF	000423 CH	Jessica Li
	Guangzhou Baiyunshan Pharmaceutical	XOUFF	600332 CH	Jessica Li
	Kanion Pharmaceutical	JKPCF	600557 CH	Jessica Li
	PW Medtech	PMTHF	1358 HK	Jessica Li
	Shanghai Pharmaceuticals	SHPMF	2607 HK	Jessica Li
	Shanghai Pharmaceuticals	XKCRF	601607 CH	Jessica Li
	Sonic Healthcare	SKHCF	SHL AU	William Dunlop, CFA
UNDERPERFORM				
	Chularat Hospital Group	XOCOOF	CHG TB	Charti Phrawphraikul
	Estia Health Limited	XZZBF	EHE AU	William Dunlop, CFA
	Guangzhou Baiyunshan Pharmaceutical	GZPHF	874 HK	Jessica Li
	Healthscope Limited	XLPHF	HSO AU	William Dunlop, CFA
	Jinling Pharmaceutical	XVANF	000919 CH	Jessica Li
	Phoenix Healthcare Group	XPXHF	1515 HK	Jessica Li
	Primary Health	PHCRF	PRY AU	William Dunlop, CFA
	Shandong Weigao Group	SHWGF	1066 HK	Jessica Li
	Sirtex Medical Limited	SXMDF	SRX AU	William Dunlop, CFA

iQmethodSM Measures Definitions

Business Performance		Numerator	Denominator
Return On Capital Employed		$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity		Net Income	Shareholders' Equity
Operating Margin		Operating Profit	Sales
Earnings Growth		Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow		Cash Flow From Operations – Total Capex	N/A
Quality of Earnings			
Cash Realization Ratio		Cash Flow From Operations	Net Income
Asset Replacement Ratio		Capex	Depreciation
Tax Rate		Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio		$\text{Net Debt} = \text{Total Debt, Less Cash \& Equivalents}$	Total Equity
Interest Cover		EBIT	Interest Expense
Valuation Toolkit			
Price / Earnings Ratio		Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value		Current Share Price	$\text{Shareholders' Equity} / \text{Current Basic Shares}$
Dividend Yield		Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield		Cash Flow From Operations – Total Capex	$\text{Market Cap.} = \text{Current Share Price} * \text{Current Basic Shares}$
Enterprise Value / Sales		$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA		Enterprise Value	$\text{Basic EBIT} + \text{Depreciation} + \text{Amortization}$

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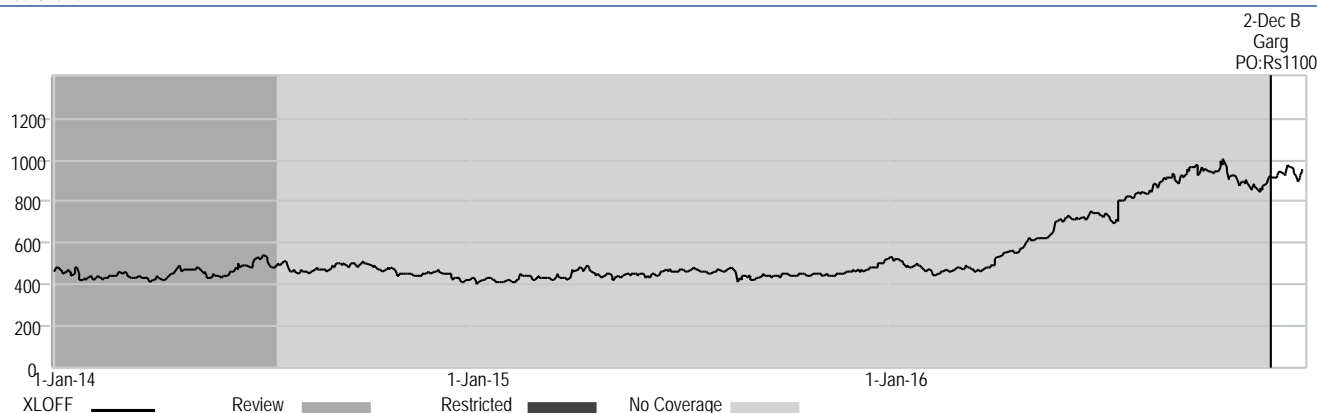
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XLOFF Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	129	54.66%	Buy	75	58.14%
Hold	53	22.46%	Hold	26	49.06%
Sell	54	22.88%	Sell	20	37.04%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1590	50.64%	Buy	989	62.20%
Hold	702	22.36%	Hold	438	62.39%
Sell	848	27.01%	Sell	406	47.88%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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