

Europe Satellite*

Recommended since 02.03.2023

29.10.2024



Country	CH	Market capitalization (bn)	CHF	41,5
Sector	Health Care	Free float		98,7%
Factset	ALC-CH	Closing price	CHF	82,16
ISIN	CH0432492467	ESG Risk score*	22,2	Medium risk

Perf. since reco. (%)	
Alcon AG	28,7
Sector	20,1



Profile

Alcon, a leader in ophthalmology, was founded in 1945 in the US and has been independent and listed again since April 2019 (following its spin-off from Novartis). The company is now domiciled in Switzerland. Its business is divided into two divisions: 1/ Surgical (57% of sales), including implants, surgical equipment (cataract, vitreoretinal, laser refractive, etc.) and diagnostic instruments; 2/ Vision Care (43% of sales), including contact lenses and eye care.

Strengths/opportunities

- Leader in ophthalmology, with a strong reputation in surgical care. Excellent track record of management.
- Underlying market growth of 4% on average/year.
- Restructuring since 2017, with good execution, resulting in improved growth and margins.

Investment case

- The lack of innovation and commercial focus in the period 2013-16 led to a loss of market share and pressure on margins. The change in management in 2016-17 marked the start of a turnaround, with the implementation of a restructuring and investment programme in sales and R&D. Sales growth has recovered and, thanks to more innovative launches, the company is beginning to regain lost market share. By 2027, Alcon expects sales to grow by 7%/year to \$12 billion.
- Margin growth is visible and will continue in the medium term, supported by operating leverage and productivity gains. The aim is to achieve an operating margin of 20.5-21.5% by 2024, and 25% by 2027. Alcon should therefore be able to generate EPS growth of 15%/year over 2024-27.
- The year 2025 will be rich in launches, including AR-15512 for dry eyes and the UNITY VCS (vitreoretinal cataract system) and UNITY CS (cataract system), two new-generation equipment for cataract and vitreoretinal surgery. Next key event : Alcon will hold its Investor Day in March.

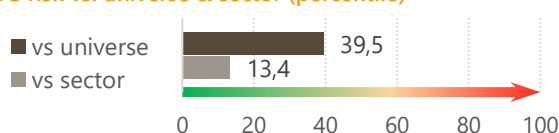
Weaknesses/threats

- Competitive sector - competition development to be monitored.
- Sensitivity to cyclicality (55% of turnover benefits from public-private reimbursement / 45% of turnover is more cyclical - risk of postponement of surgeries in recessionary periods).
- Risk of product recall.

Valuation

The stock is trading at a 2025 PE of 27.5x, justified by solid fundamentals in the ophthalmology market and EPS growth of 15% on average per year to 2025. The PEG is reasonable at 1.83x.

ESG risk vs. universe & sector (percentile)*



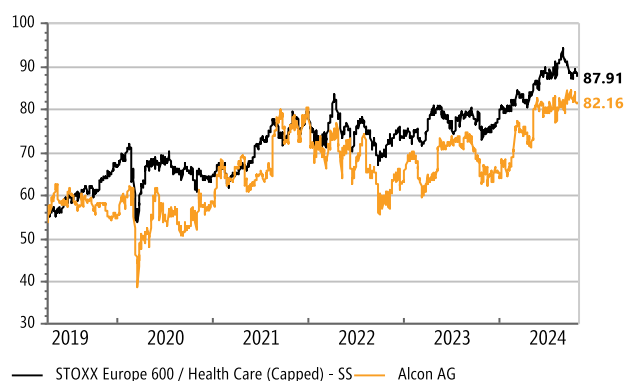
USD	12/2023	2024e	2025e
Sales revenue (mio)	9 455	9 799	10 482
Sales growth	8,5%	3,6%	7,0%
EBIT adjusted (mio)	1 836	2 034	2 326
% of sales	19,4%	20,8%	22,2%
Net income (mio)	1 360	1 491	1 722
Net income growth	22,7%	9,7%	15,5%
FCF/Sales	6,9%	11,7%	12,6%
Net debt/Ebitda	1,6x	1,1x	0,6x
Dividend yield	0,3%	0,3%	0,4%
PE	34,1x	31,6x	27,5x
P/BV	2,3x	2,2x	2,1x

Factset estimates

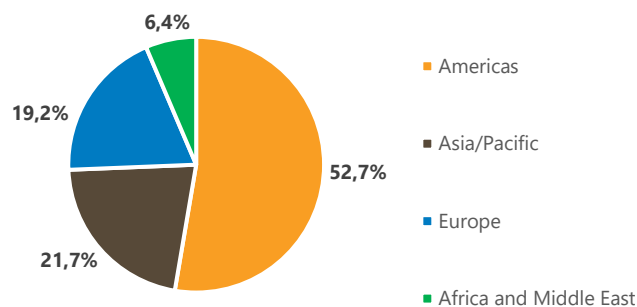
ESG - risks and key points

- Alcon's ESG risk level is medium. The company has experienced a moderate level of controversy in the past.
- Specialising in medical devices, the main issue is the quality and safety of its products. Risk of sanctions for unethical business practices.
- But its ESG management and corporate governance performance is strong and reduces the overall risk.

4-year performance vs sector



Sales breakdown - 12/2023



*: see overleaf

Source: Factset, Sustainalytics

Glossary

Satellite

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.

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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