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INVESTMENT NOTE

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Hermes Sourcecap: Roche to benefit from cancer treatment revolution

The world's largest maker of cancer drugs has more to offer than the market appreciates, says Sourcecap analyst Richard Board.

Roche is at the forefront of the developing field of immuno-oncology – using a patient's immune system to eliminate or slow the growth of cancerous cells. Immunotherapy has the potential to produce higher rates of tumour destruction, with longer duration of benefit and less severe side effects than older drugs.

Big pipeline: At the American Society of Clinical Oncology conference in May/June, Roche demonstrated an R&D pipeline above and beyond that of any other company, with one immunotherapy treatment in bladder cancer receiving “breakthrough therapy” designation from the Food and Drug Administration and moving to pivotal trials. What's more, data presented by Roche suggests that the standard of care in HER2-positive breast cancer, chronic lymphocytic leukaemia and non-Hodgkin's lymphoma could be chemotherapy-free within the next 12 to 18 months. That is a huge step forward, and one which the market is underestimating.

Getting personal: Roche, as the world's leading diagnostics company, is set to benefit from the growth in personalised healthcare. Two patients can have the same diagnosis yet respond in different ways to the same medicine. This variability is due to genetic and other biological differences between patients. The objective of personalised healthcare is to use insights into these differences at the molecular level to develop more effective treatments tailored to the needs of specific patients.

Faster, cheaper genomes: Roche will also benefit from advances in sequencing the human genome, the cost of which has fallen from \$100m in 2001 to \$10,000 in 2011, and can now be done for \$1,000 on a large scale. The more you know about a disease, the easier it is to target your research, which in turn increases the chances of gaining approval and reduces the costs of R&D. Following the acquisition of US-based sequencing company Genia Technologies in June, Roche has access to proprietary technology that should make sequencing both faster and cheaper.

Hidden biotech: Investors are underestimating the potential of Roche's pipeline. The market seems to forget that Roche acquired Genentech – the world's largest biotech company. If you applied the average sales multiple of the biotech index to Genentech's sales you get an equity value of around CHF200b – leaving Roche's very strong remaining business, with sales of over CHF22b, valued at around CHF30bn. This is despite the stock having increased 85% since Sourcecap opened a position in the company in July 2011. When the market realises that Roche is the world's largest biotech company in a big pharma wrapper, the same is possible.

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Notes to Editors:

Hermes Fund Managers

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