

Alcon[®]

See Brilliantly

Recommendation: Buy
Target Price: \$65.11
6.7% Upside

Jonathan Dybka



Alcon at a Glance

**\$28 Billion
Market Cap**

**\$61.16
Current Stock
Price**

**\$7.1 Billion
In Sales**

**20,000
Associates**

**#1
Market Share
Surgery**

**#2
Market Share
Vision Care**

History

1945
Founded
Pharmacy

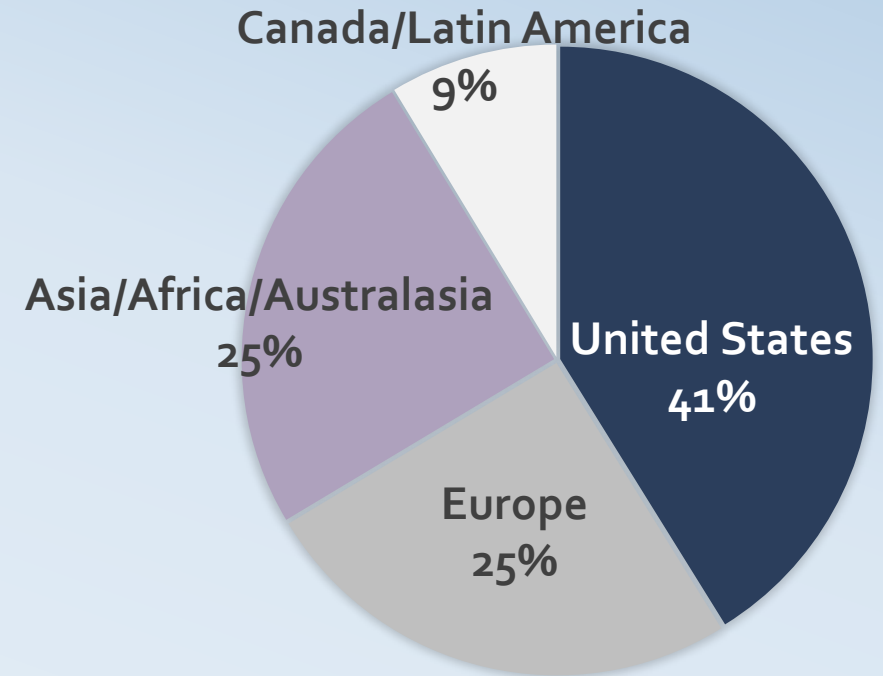
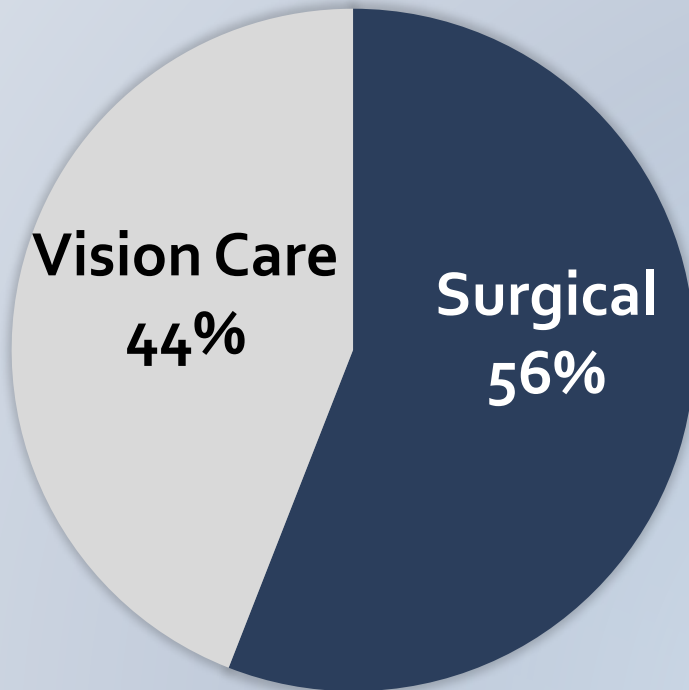
1977
Acquired by
Nestlé

2011
Acquired by
Novartis

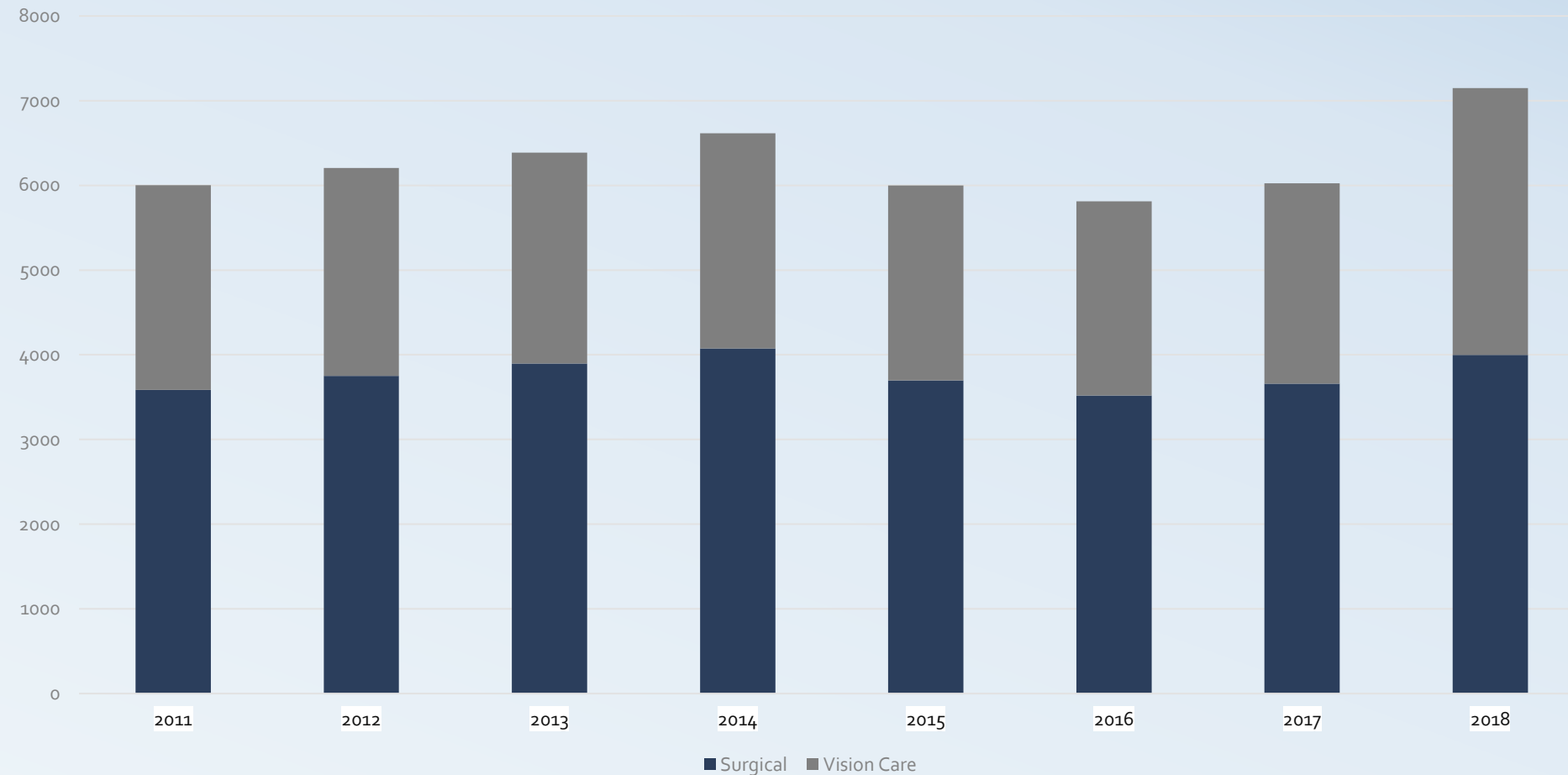
2018
Spinoff
Independent



Business Overview



Revenue Growth



8 Year CAGR:

Surgical: 1.4% per year

Vision: 3.4% per year

Diseases

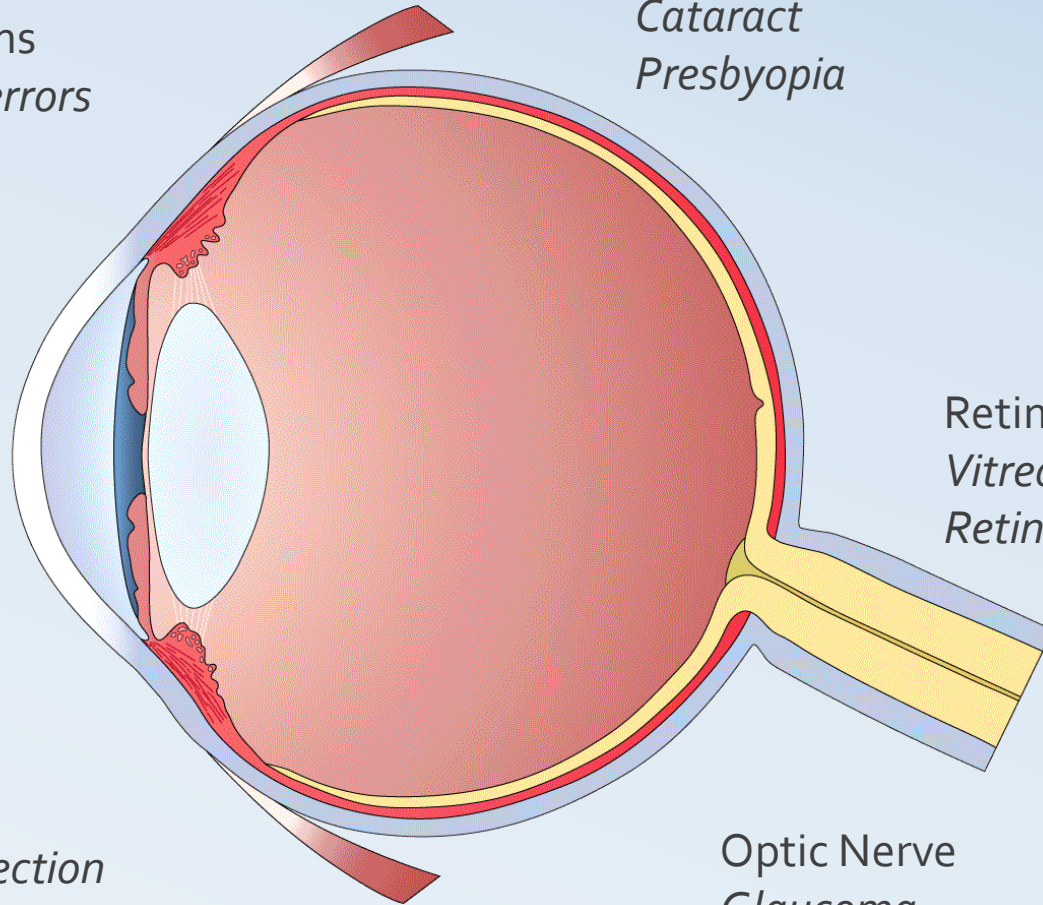


Contact Lens
Refractive errors

Contact Lens
*Myopia, hyperopia,
astigmatism, presbyopia*



Dry Eye/ Allergy
Inflammation, infection



Intraocular Lens (IOL)
*Cataract
Presbyopia*

Retina/ Back of Eye
*Vitreoretinal diseases
Retinal Diseases*

Optic Nerve
Glaucoma



Surgical

**Consumables
56%**



**Implantables
28.1%**

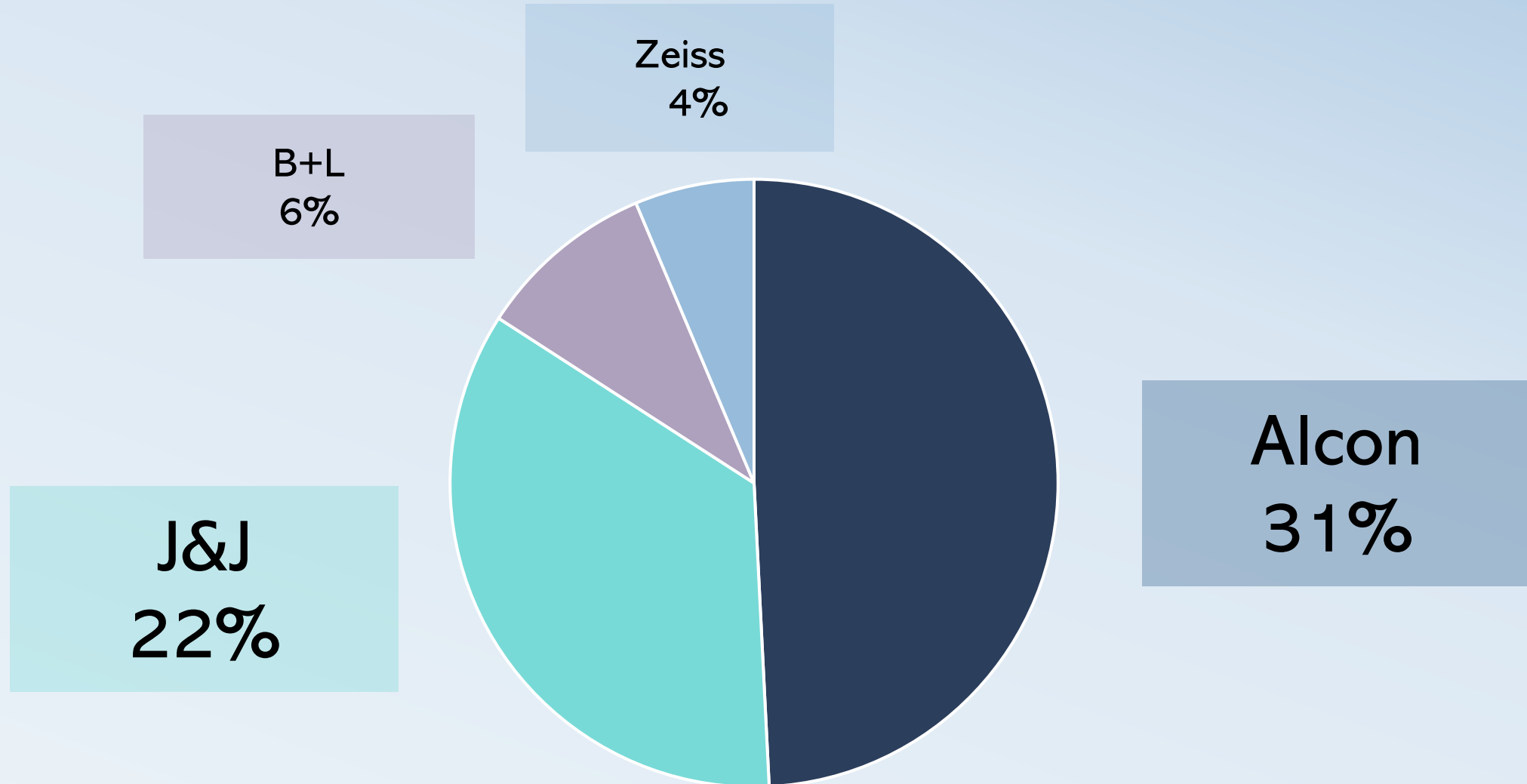


- Standard IOL: Myopia/Hyperopia
Cost: \$100
- Premium IOL: Presbyopia/Astigmatism
Cost: \$300-800

**Equipment
15.8%**



#1 in IOL Global Market Share



Vision Care

Contact Lenses
61%

- Standard Lenses:
Spherical
Myopia/Hyperopia

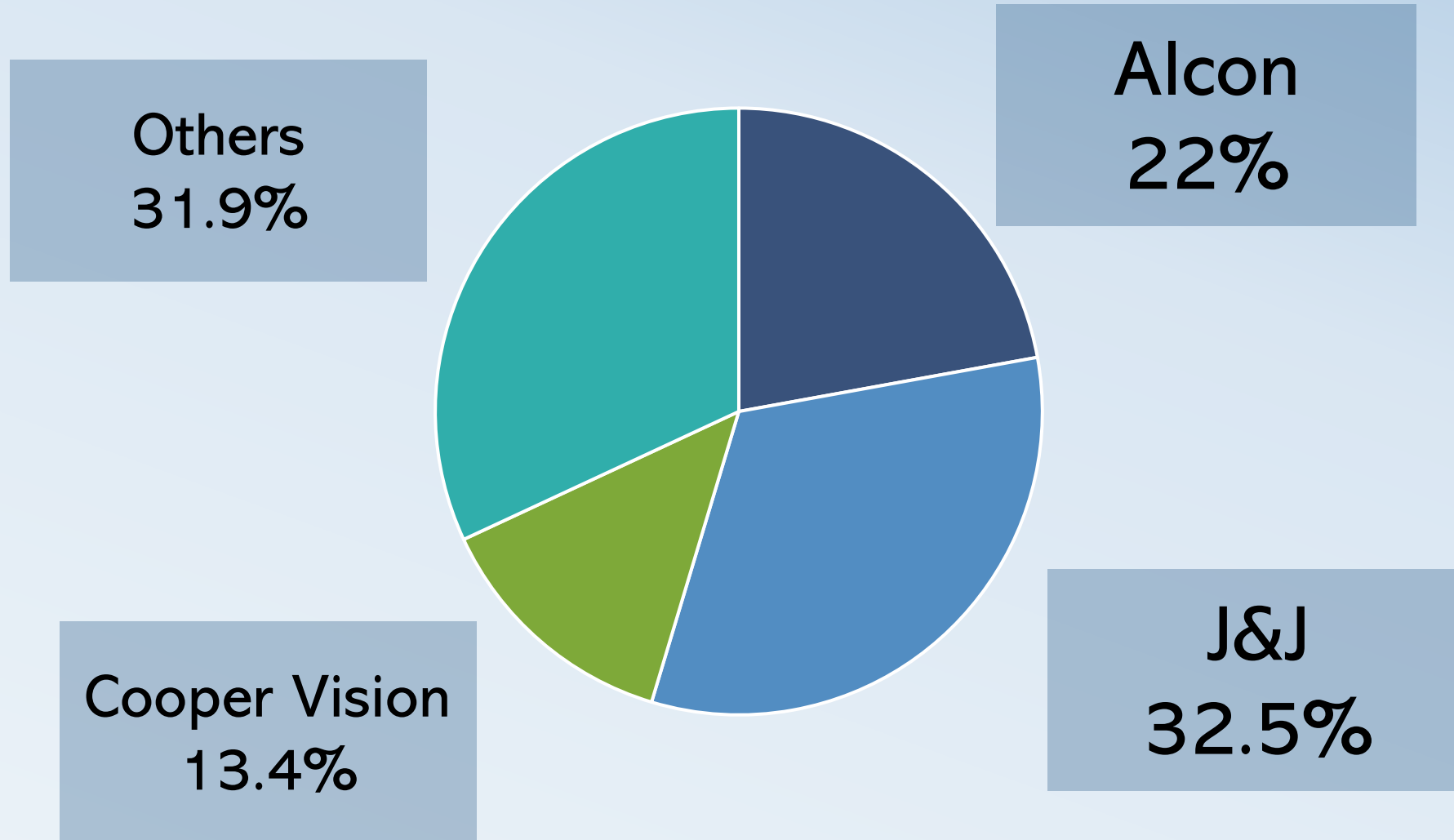
- Premium Lenses:
Toric, SiHy
Astigmatism, Presbyopia

Ocular Health
39%

- Dry Eye Disease
350 Million Globally
164 Million Undiagnosed



#2 in Global Vision Care



New Product Pipeline

AcrySof IQ PanOptix Trifocal

First Trifocal AT-IOL in U.S.
Better Intermediate Vision
Launch: Early 2020

Pre-loaded IOL Delivery System

Simplify surgical procedure
Reduce Lens Handling
Launch: 2019/2020

Precision 1

Mass market disposable lens
Best Comfort & Vision Acuity
Premium SiHy Material
Launch: 2019-2021

Thesis

Increase in Cataract Surgeries in
Emerging Markets

Increased Margins: Transition to premium
product mix

Transition to Daily Disposables

Surgical

Surgical & Vision
Care

Vision Care

Risks

1. Product Rollout

2. Loss of Market Share

3. Market Shift Online

Comparables

	EV/EBITDA	Forward P/E	Gross Margin (%)	Debt/Equity	Levered FCF (mm)	R&D Margin (%)
J&J	14.08	16.3	66.87	51.9	2575	11.3
Cooper Vision	22.27	24.15	67.4	50.33	315	3.3
Carl Zeiss	37.98	79.01	55.5	4.06	172	12.5
Average	24.8	39.8	63.3	35.4	1020.7	9.0
Alcon	34.8	30.3	63.5	19.49	19.49	19.49

Corporate Governance

David Endicott
CEO

Joined Alcon: 2016

Rajkumar Narayanan
COO

Joined Alcon: 2017

Tim Stonesifer
CFO

Joined Alcon: 2019



DCF

Cost of capital assumptions		Perpetuity approach		Exit EBITDA multiple approach	
Cost of debt	2.0%	FCF in last forecast period (t)	552	Terminal year EBITDA	430
Tax rate	16.0%	FCF _{t+1}	563	Terminal value EBITDA multiple	24X
Debt and equivalents		Long term growth rate (g)	2%	Terminal value	10315
After tax cost of debt	1.5%	Terminal value	40504	Present value of terminal value	9027
		Present value of terminal value	35447	Present value of stage 1 cash flows	2232
Risk free rate	1.9%	Present value of stage 1 cash flows	2232	Enterprise value	11259
Beta	0.58	Enterprise value	37679		
Market risk premium	7%			Implied TV perpetual growth rate	2.0%
Cost of equity	5.8%				
Cost of capital (WACC)	3.39%				

Fair value per share		
	<u>Perpetuity</u>	<u>EBITDA</u>
Enterprise value	37,679	11,259
Less: Net debt	3,800	3,800
Equity value	41,479	488
Diluted shares	488	488
Equity value per share	84.999	\$ 30.86
Market premium / (discount) to fair value	-39%	50%

Perpetuity: \$84.99/Share
EBITDA: \$30.36/Share

Questions



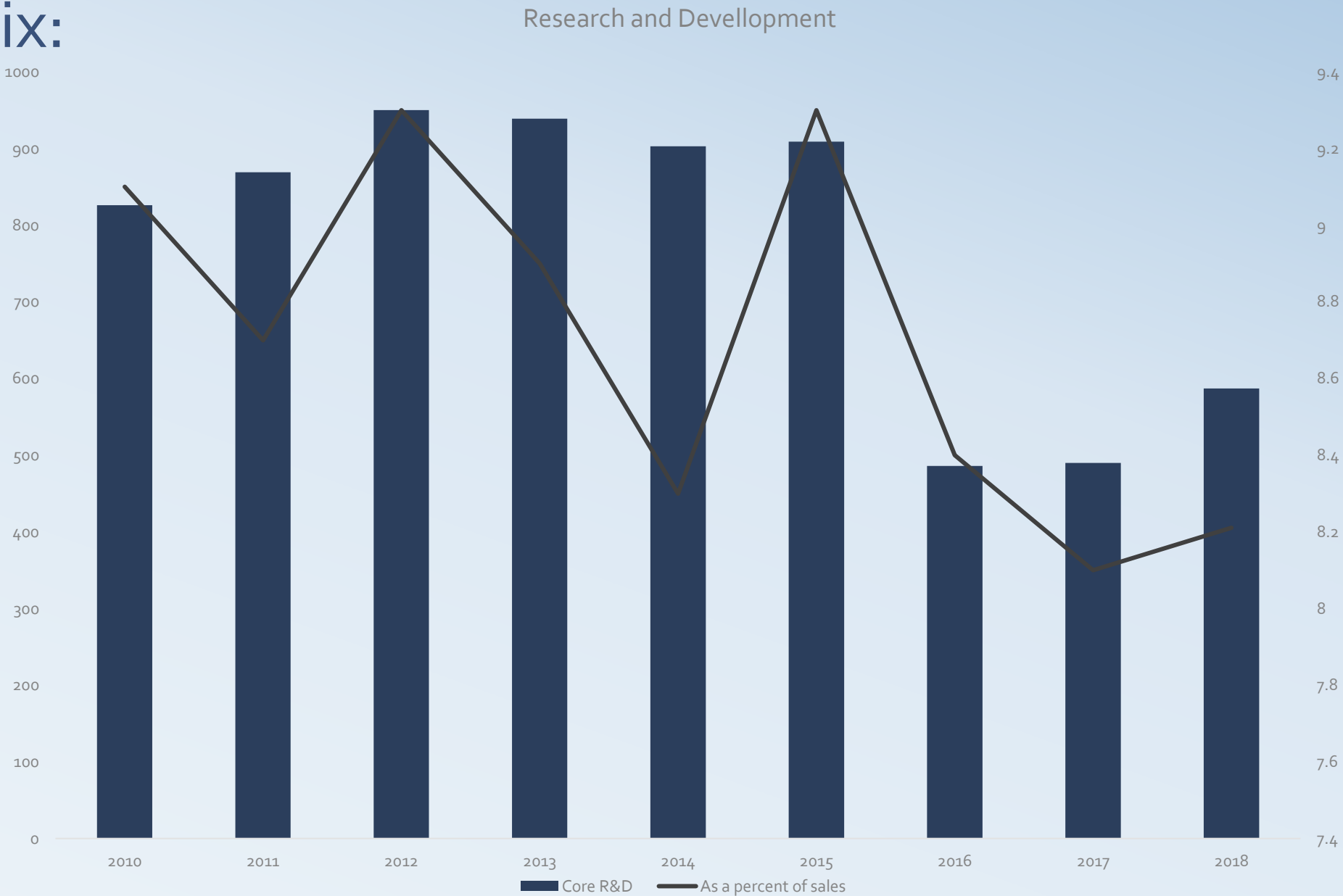
Appendix:

	Disorder	Results in...	Solutions	Contribution to group sales
Refractive errors	Myopia, Hyperopia and Astigmatism	Blurred or impaired vision	<ul style="list-style-type: none"> • Contact lenses & solutions • Refractive Surgery • Monofocal and Toric IOLs 	<ul style="list-style-type: none"> • Surgical: Implantables, Consumables and Equipment / Other • Vision Care: Contact Lenses, Ocular Health
Presbyopia	Hardening of the natural lens due to age (35 years and beyond) and weakening of eye muscles	Inability to focus up close	<ul style="list-style-type: none"> • Contact lenses & solutions • Presbyopia correcting IOLs 	<ul style="list-style-type: none"> • Surgical: Implantables • Vision Care: Contact Lenses, Ocular Health
Dry eye	Poor quantity and quality of tears	Blurred vision, itching, redness, and general discomfort	<ul style="list-style-type: none"> • Systane drops, gels, ointments 	<ul style="list-style-type: none"> • Vision Care: Ocular Health
Cataracts	Clouding of the eye's crystalline lens	Blindness if untreated	<ul style="list-style-type: none"> • IOLs, equipment and consumables 	<ul style="list-style-type: none"> • Surgical: Implantables, Consumables and Equipment / Other
Retinal diseases	Vitreomacular traction, retinal detachment, severe eye trauma, ocular complications of diabetes (diabetic retinopathy)	Can cause irreversible loss of vision	<ul style="list-style-type: none"> • Equipment and consumables 	<ul style="list-style-type: none"> • Surgical: Consumables and Equipment / Other
Glaucoma	Damage to the eye's optic nerve, usually from increased pressure in the eye	Vision loss and blindness	<ul style="list-style-type: none"> • Filtration device 	<ul style="list-style-type: none"> • Surgical: Implantables

IOL = Intraocular Lens

Source: Alcon CMD 2018

Appendix:



Sources:

- J.P. Morgan Cazenove Initiating Coverage
- Alcon Annual/Quarterly Reports
- Novartis Annual Report
- Alcon CMD presentation slides
- Yahoo Finance
- Annual Reports: Carl Zeiss, Cooper, J&J