

INDEPENDENT RESEARCH

25th January 2016

Biotechnology

Biotechnology

Last mark down on biotech!

BONE THERAPEUTICS

Bloomberg	BONE FP	Reuters	BONE.PA
Price	EUR16.38	High/Low	24.1/15.15
Market cap.	EUR112m	Enterprise Val	EUR-28,133m
PE (2015e)	x	EV/EBIT (2015e)	NS

BUY

FV EUR29

ABLYNX

Bloomberg	ABLX BB	Reuters	ABLX.BR
Price	EUR12.88	High/Low	16.1/9.06
Market Cap.	EUR706m	Enterprise Val	EUR835m
PE (2015e)	NS	EV/EBIT (2015e)	NS

BUY

FV EUR18

DBV TECHNOLOGIES

Bloomberg	DBV FP	Reuters	DBV.PA
Price	EUR47.74	High/Low	81.03/37.79
Market Cap.	EUR1,151m	Enterprise Val	EUR808m
PE (2015e)	NS	EV/EBIT (2015e)	NS

BUY

FV EUR92

ERYTECH

Bloomberg	ERYP FP	Reuters	ERYP.PA
Price	EUR20.14	High/Low	39.99/18.34
Market Cap.	EUR158m	Enterprise Val	EUR138m
PE (2015e)	NS	EV/EBIT (2015e)	NS

BUY

FV EUR51

GALAPAGOS

Bloomberg	GLPG BB	Reuters	GLPG.BR
Price	EUR50.24	High/Low	58.53/17.35
Market Cap.	EUR1,963m	Enterprise Val	EURm
PE (2015e)	NS	EV/EBIT (2015e)	x

BUY

FV EUR64

GENMAB

Bloomberg	GEN DC	Reuters	GEN.CO
Price	DKK841.5	High/Low	954/413.4
Market Cap.	DKK49,919m	Enterprise Val	DKK46,754m
PE (2015e)	NS	EV/EBIT (2015e)	NS

BUY

FV DKK1170

INNATE PHARMA

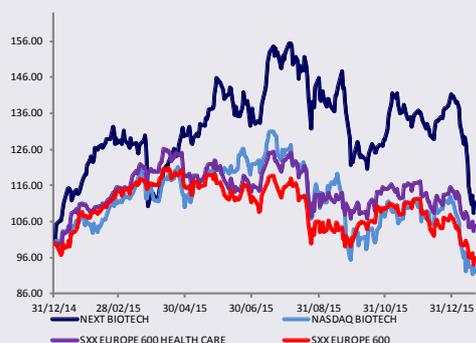
Bloomberg	IPH FP	Reuters	IPH.PA
Price	EUR12.31	High/Low	16.43/7.99
Market Cap.	EUR662m	Enterprise Val	EUR403m
PE (2015e)	72.1x	EV/EBIT (2015e)	54.8x

BUY

FV EUR19

The recent market volatility led to a significant sell-off in biotech stocks, and notably the less liquid ones, over the past week. While the STOXX600 Europe has fallen by 7.51% YTD, both the STOXX600HC and the NBI have declined by -5.8% and -14.87% respectively. In our biotechnology universe we have identified several companies that either have (i) near-term catalysts and/or (ii) valuations offering opportunities to play de-risked projects. Irrespective of whether they make our top picks for Q1 list, we believe that they might be the first to benefit from a re-rating.

- In this note, we revisit the investment cases of seven biotechnology companies under our coverage. Following the recent de-rating of the sector, we remain confident that these are attractive stories which are poised to perform over the course of 2016. If forced, we would split them into two categories. Firstly, companies with identified near-term catalysts and thus potential for additional upside. Secondly, companies with no short-term catalysts but which still have unquestionable qualities (solid clinical package, attractive valuation, etc.).
- Genmab and Bone Therapeutics are two of our top picks for Q1. During the quarter, we identified two catalysts for both of these companies. For Genmab, we see 1/ Phase III results involving daratumumab, and 2/ Roche's ocrelizumab approval in multiple sclerosis (positive read-across for ofatumumab) as major catalysts. And the icing on the cake? The scope of possibilities could be expanded with the inking of collaboration between JNJ and another big pharma. Regarding Bone Therapeutics, we believe that 1/ the results from the second patient cohort could be a clear positive signal to anticipate a premature end to the trial which might be decided in Q2 by a DSMB and 2/ BD opportunities might arise should the first 8 osteoporotic patients treated be responders. These two stocks offer significant near-term potential for upward revision in our fair values.
- Galapagos, Innate, Ablynx, DBV and Erytech are de-risked long term plays that could be the first to benefit from a sector re-rating.



Analyst:
 Mickael Chane Du
 Eric Le Berrigaud
 Hugo Solvet

Sector Analyst Team:
mchanedu@bryangarnier.com
eleberrigaud@bryangarnier.com
hsolvet@bryangarnier.com

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1. Short-term play

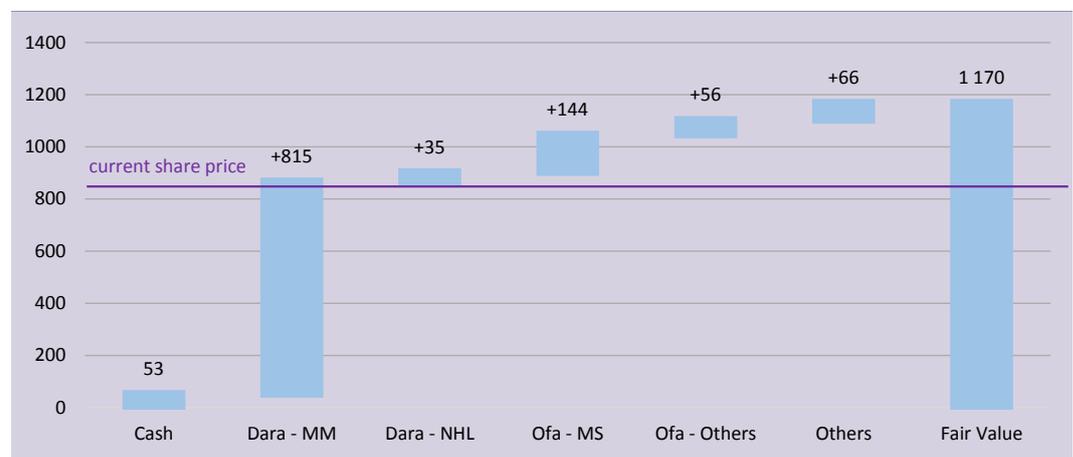
1.1. Genmab (BUY Top Pick – FV DKK1,170)

Genmab remains one of our top picks as we have identified several significant catalysts that could add +DKK350 to our FV: 1/ a positive read-across for ofatumumab with the granting of a fairly broad label for Roche’s ocrelizumab (both compounds being anti-CD20) for the treatment of relapsing-remitting multiple sclerosis (potential positive impact: +DKK200); 2/ Phase III results for daratumumab (anti-CD38) in combination with the current standard of care in patients with MM who have received at least one prior therapy (+DKK150). Note that, daratumumab received its very first approval back in November 2015, but solely as a monotherapy and for the treatment of double-refractory or highly pre-treated patients (who have received at least 3 prior lines).

As the icing on the cake, we believe a deal between JNJ and another big pharma is very likely, the objective being to evaluate daratumumab along with a PD-1/PD-L1 checkpoint blocker such as Celgene/AZN’s durvalumab or Merck’s pembrolizumab. Note also that ibrutinib (BTK inhibitor) could be a pretty good candidate to be tested in chronic lymphocytic leukaemia or non-hodgkin lymphomas... Furthermore, this compound already belongs to JNJ.

At current levels, the street doesn’t give any value to daratumumab outside multiple myeloma, or even ofatumumab as a therapeutic option in multiple sclerosis.

Fig. 1: Genmab’s valuation by project (in DKK)



Source: Bryan, Garnier & Co ests.

Please see our latest research reports on Genmab

- 10-nov.-15 [The Force Awakens!](#)
- 17-nov.-15 [Daratumumab gets its first FDA approval! But that’s just the first part of a “trilogy”](#)
- 20-nov.-15 [Genmab receives a USD45m milestone payment from JNJ](#)
- 24-nov.-15 [Ofatumumab Phase III study in Follicular Lymphoma stopped for non-superiority. Limited impact to our FV](#)
- 1-déc.-15 [BMS’ clotuzumab gets FDA approval... but have no fear, the force is strong with daratumumab](#)
- 11-déc.-15 [ASHtonishing. The force is strong with this one](#)
- 20-janv.-16 [Ofatumumab approved for the maintenance therapy of patients with CLL](#)

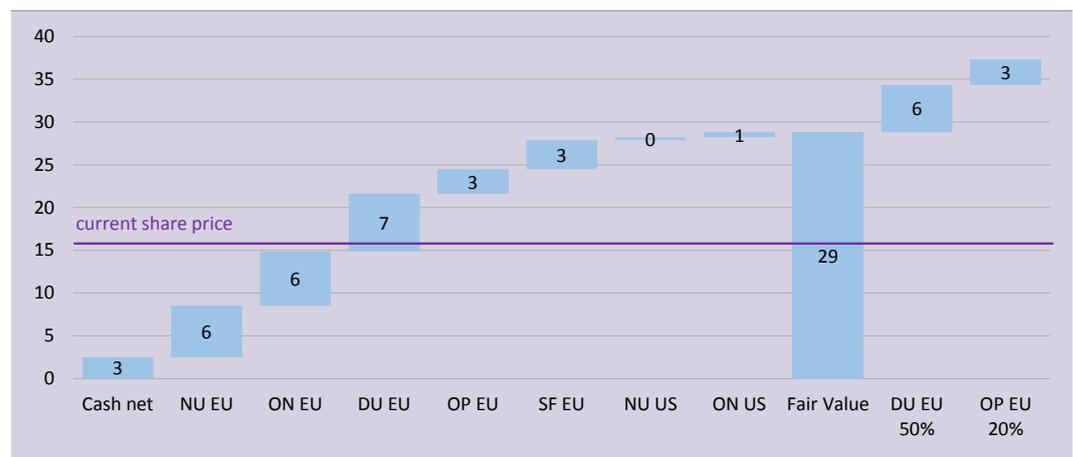
1.2. Bone Therapeutics (BUY Top Pick – FV EUR29)

Since its IPO in February 2015, Bone Therapeutics’ management has successfully delivered on the anticipated news flow. H1 2016 should be the cornerstone of the company’s development with readouts from two major trials potentially triggering a significant revision in our estimates.

We expect strong news flow in Q1/early Q2 with (i) the results from the second patient cohort in the delayed union trial (phase IIa/III). Note that, were the interim results expected in H1 2016 to show a 75% responder rate in the first 16 patients treated (12/16), the study could be prematurely stopped and phase III initiated. PoS of 50% vs. 30% at the moment would add ~EUR6 to our fair value. In Osteoporotic patients, the IV route has been proven safe. Although cautious at this stage (EUR3 of our fair value), BD opportunities might arise should the efficacy results from the first 8 patients prove positive.

At current levels, the price reflects the phase III assets but does not value the ongoing phase II trials in delayed-union patients and in spine fusion.

Fig. 2: Bone Therapeutics’ valuation by project (in EUR)



Source: Bryan, Garnier & Co ests.

Please see our latest research reports on Bone Therapeutics

- 22-sept.-15 [H1 newsflow delivered on time is a good sign when we look towards H2](#)
- 9-oct.-15 [Next 6 months should be decisive](#)
- 18-nov.-15 [Q3 results](#)
- 18-janv.-16 [Initiation of a Phase IIa in multiple delayed-union fractures](#)

Please see the section headed “Important information” on the back page of this report.

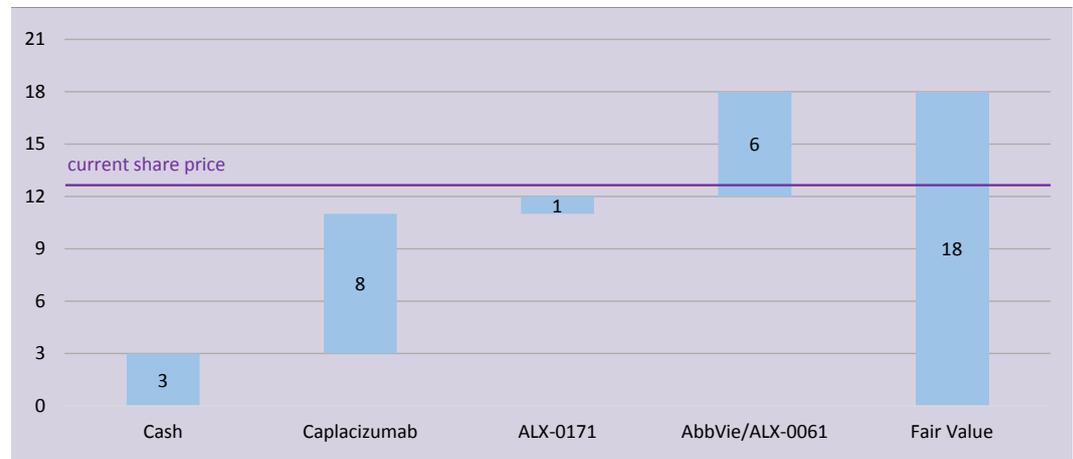
2. “De-risked” long-term stories

2.1. Ablynx (BUY – FVEUR18)

Ablynx (BUY – FV EUR18) has already attracted nine pharma companies through partnerships or collaboration agreements. Amongst these, AbbVie and Merck & Co are of the most interest, in our view. Following the phase IIb readout from ALX-0061 in Rheumatoid Arthritis (BGe EUR1.5bn peak sales) expected by mid-2016, AbbVie would have a 60-day opt-in window for the product which we deem to be the best-in-class IL-6(R). Merck & Co has expanded its immune-oncology collaboration agreement with Ablynx which now includes up to 17 targets (bi- to penta-specifics nanobodies). We expect the US Pharma to give an update on the collaboration by the year-end and potentially disclose the first targets. Not only is Ablynx’s business model based on partnerships but it is also poised to evolve towards a biopharmaceutical model with caplacizumab (studied in acquired-TTP, a rare blood disorder) that could potentially reach the European market in 2018e (conditional approval). In the short term, an ALX-0171 indication in respiratory syncytial virus (BGe EUR1bn peak sales) should report phase IIa results in H1.

As shown below, the stock is not currently pricing in the late-stage collaboration agreements with AbbVie in our view.

Fig. 3: ABLYNX’ valuation by project (in EUR)



Source: Bryan, Garnier & Co ests.

Please see our latest research reports on Ablynx

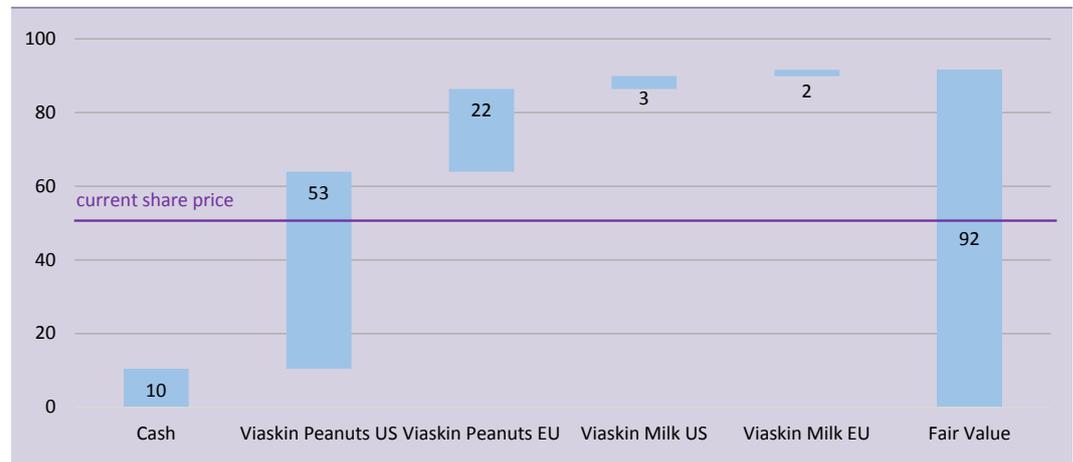
- 27-oct.-15 [Pharmas lining up around the block](#)
- 18-nov.-15 [Progressing well on all fronts](#)
- 18-nov.-15 [FY 2015 cash burn guidance now expected at low-end of guidance](#)
- 30-nov.-15 [Ablynx appoints CMO](#)

2.2. DBV Technologies (BUY – FV EUR92)

Although the FDA’s discussion from the Allergenic Product Advisory Committee on the development of food allergy immunotherapies was not company specific, it clearly pinpointed the safety issues potentially arising from sublingual, oral and subcutaneous immunotherapy approaches to desensitize patients. Hence, the DBV Epicutaneous Immunotherapy Technology (EPIT) platform which features an unrivalled safety profile should benefit from an increased adoption rate, the targeted population in Peanut and Milk allergy being mainly composed of infants.

While we see no major readouts in H1 2016 with the exception of the results from the CoFAR6 trial, which should give in-depth knowledge on the mechanistic and biomarkers, the recent pull-back offers an opportunity to invest in DBV which we see as a future leader in the untapped food allergy market.

Fig. 4: DBV’s valuation by project (in EUR)



Source: Bryan, Garnier & Co ests.

Please see our latest research reports on DBV Technologies

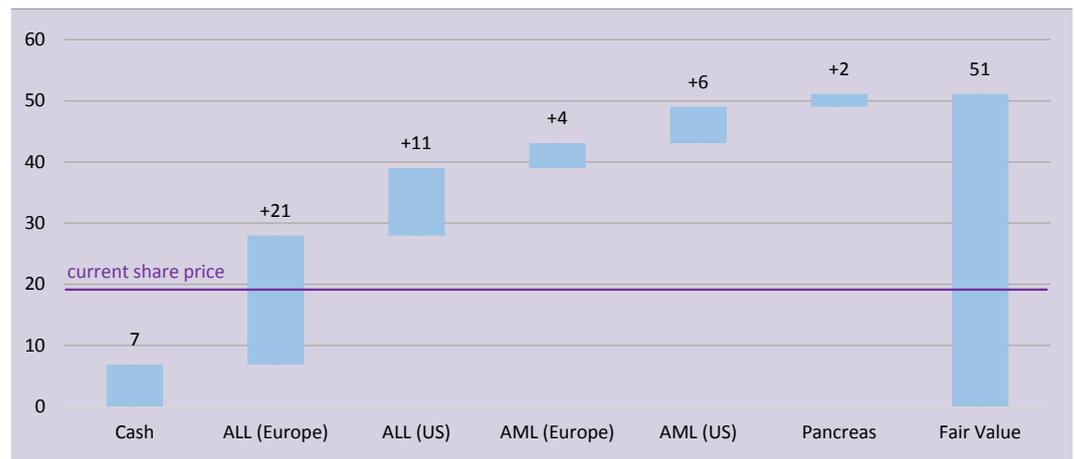
- 5-oct.-15 [Efficacy improved in OLFUS, phase III to be initiated before year end](#)
- 3-nov.-15 [Q3 results, Eyes on Viaskin Peanuts Phase III trial](#)
- 24-nov.-15 [Could we also find PEPITES beyond allergies?](#)
- 12-janv.-16 [DBV not lagging behind Aimmune Therapeutics](#)
- 20-janv.-16 [FDA's briefing documents favouring EPIT](#)

2.3. ERYTech (BUY – FV EUR51)

The company's share price has suffered badly over the past few months, while 1/ we expect European approval for GRASPA as a treatment in refractory/relapsed patients with acute lymphoblastic leukaemia (ALL); 2/ the company has announced plans to initiate several new trials to expand its addressable market. On the latter point, note that a Phase III should be initiated to evaluate the potential of GRASPA in newly-diagnosed patients with ALL (thus leading to a multiplication by five of the addressable market for this particular indication). And, following this announcement, we raised our peak sales estimate from EUR110m to EUR230m.

The market implicitly values a fairly broad pipeline at only c.EUR100m... which looks a bit unfair when you compare it to the USD900m Baxalta paid to acquire Oncaspar). Based on our estimates, GRASPA ALL in Europe is partially priced in, while all the other developments are completely ignored. Finally, just to give a quick historical basis of comparison, such a valuation would be very similar to the level seen before the Phase III results of GRASPA in ALL (i.e. back in 2014).

Fig. 5: ERYTech's valuation by project (in EUR)



Source: Company Data; Bryan, Garnier & Co ests.

Please see our latest research note on ERYTech

- 7-sept.-15 [How to win the West](#)
- 15-sept.-15 [MAA submitted for GRASPA ALL in Europe](#)
- 20-oct.-15 [Pfizer's inotuzumab gets breakthrough therapy designation in ALL. Read-across for Erytech](#)
- 30-oct.-15 [Stronger penetration of Oncaspar in the US. Positive read-across for GRASPA](#)
- 4-déc.-15 [Let's "de-encapsulate" more upside!](#)
- 8-déc.-15 [Presentation of additional data for GRASPA ALL at the ASH meeting](#)
- 5-janv.-16 [Yann Godfrin is leaving the company to pursue new opportunities](#)
- 7-janv.-16 [GRASPA AML: third DSMB... So far so good](#)

2.4. Galapagos (BUY – FV EUR64)

We do not expect the company’s news flow to be less intense than last year, especially in H2. Note that Phase III in RA for filgotinib (BGe EUR2bn peak sales), now partnered to Gilead, should start in Q1 2016 and the 20-week phase IIb readout in Crohn’s is expected in late Q1.

Galapagos and AbbVie have developed a broad Cystic Fibrosis alliance with 8 compounds expected to be in clinics towards the year-end and yet not reflected in the current valuation in our view. In its race against Vertex for the development of the triple combination which could address 90% of the CF population, Galapagos has superior compounds to Vertex. Phase II for the triple combination is expected to be initiated in early-2017. Before that, we should have several phase I readouts maintain which are expected to underpin positive share price positive momentum.

Based on our estimates, the stock is not currently pricing in the AbbVie partnership in Cystic Fibrosis. Note that a recent update from the latter underlines the strong commitment on both sides to developing breakthrough therapies in this indication.

Fig. 6: Galapagos’ valuation by project (in EUR)



Source: Bryan, Garnier & Co ests.

Please see our latest research note on Galapagos

- 17-nov.-15 [We should have a gift under the tree](#)
- 8-déc.-15 [Crohn’s 10w data out, deal should be next and the winner is...Galapagos!](#)
- 17-déc.-15 [Face B: Long-term value creation with the Gilead deal and CF opportunity](#)
- 18-déc.-15 [Read-across from AZN/INCY co-dev. agreement and ABBV’s ABT-494 phase III programme](#)
- 12-janv.-16 [It is now "all" about CF: review of progress made with the CF portfolio](#)
- 19-janv.-16

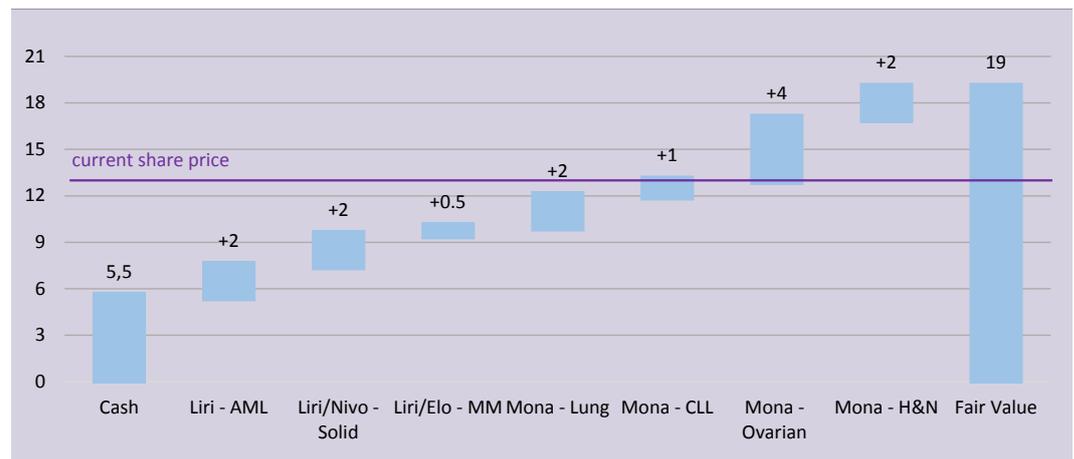
Please see the section headed “Important information” on the back page of this report.

2.5. Innate Pharma (BUY – FV EUR19)

Innate Pharma is also a stock that investors should look at starting from this H1 16. Three catalysts are important in the very short term: 1/ a clinical update regarding monalizumab (anti-NKG2A) in a set of different cancers, thus leading to a fairly big upwards revision in consensus' estimates; 2/ results from the Phase II involving lirilumab (anti-KIR) as a maintenance therapy for elderly patients with acute myeloid leukaemia. We are pretty optimistic on the outcome of this study given that a small phase I trial with dose escalation showed very promising efficacy results in 32 patients (PFS: 9.5 months within the high-dose group vs 2.3 months for the low-dose one); and 3/ potentially, Phase Ib results for the lirilumab/nivolumab combination therapy in various solid tumours. In a best-case scenario, this could add +EUR3 to our FV.

Based on our figures, the market is currently ignoring the potential value arising from monalizumab (whereas this compound could potentially become a major asset for AstraZeneca).

Fig. 7: Innate Pharma's valuation by project (in EUR)



Source: Bryan, Garnier & Co ests.

Please see our latest research note on Innate Pharma

- 29-sept.-15 [Brace yourselves... AZN is coming \(back\)!](#)
- 7-oct.-15 [AZN should come back... and it may be better than expected](#)
- 14-oct.-15 [IPH receives a USD5m milestone payment from BMS](#)
- 12-nov.-15 [Initiation of another trial testing lirilumab with BMS's blockbuster, nivolumab](#)
- 1-déc.-15 [Elotuzumab got its first approval in multiple myeloma. Lirilumab will be key for this new BMS' franchise](#)
- 3-déc.-15 [Feedback lunch meeting with management. Should we expect a deal with Celgene?](#)
- 17-déc.-15 [Opening of a fourth trial evaluating IPH2201](#)
- 11-jan.-16 [Out-licensing deal with Sanofi and in-licensing with OREGA Biotech](#)

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NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
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NEUTRAL ratings 30.8%

SELL ratings 9%

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BRYAN, GARNIER & CO

London	Paris	New York	Geneva	New Delhi
Beaufort House 15 St. Botolph Street London EC3A 7BB Tel: +44 (0) 207 332 2500 Fax: +44 (0) 207 332 2559 Authorised and regulated by the Financial Conduct Authority (FCA)	26 Avenue des Champs Elysées 75008 Paris Tel: +33 (0) 1 56 68 75 00 Fax: +33 (0) 1 56 68 75 01 Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudentiel et de résolution (ACPR)	750 Lexington Avenue New York, NY 10022 Tel: +1 (0) 212 337 7000 Fax: +1 (0) 212 337 7002 FINRA and SIPC member	rue de Grenus 7 CP 2113 Genève 1, CH 1211 Tel +4122 731 3263 Fax+4122731 3243 Regulated by the FINMA	The Imperial Hotel Janpath New Delhi 110 001 Tel +91 11 4132 6062 +91 98 1111 5119 Fax +91 11 2621 9062

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