7th January 2016

Healthcare

Transgene

Price EUR3.66

Transgene's vast restructuring plan underway

Fair Value Under Review — **CORPORATE**

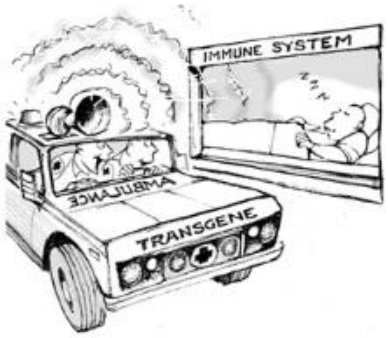
Bloomberg	TNG.FP
Reuters	TRNG PA
12-month High / Low (EUR)	7.6 / 2.4
Market Cap (EURk)	141,075
Ev (BG Estimates) (EURk)	181,863
Avg. 6m daily volume (000)	275.1
3y EPS CAGR	

	1 M	3 M	6 M	31/12/14
Absolute perf.	44.7%	31.7%	1.9%	-47.7%
Healthcare	0.1%	2.1%	-1.9%	13.1%
DJ Stoxx 600	-4.4%	-1.7%	-6.4%	3.4%

YEnd Dec. (EURk)	2012	2013e	2014e	2015e
Sales	13,061	15,735	13,814	116,054
% change		*20.5%*	*-12.2%*	*NM*
EBITDA	NM	NM	NM	NM
EBIT	-55,196	-56,933	-56,832	-56,832
% change		*-3.1%*	*0.2%*	*0.0%*
Net income	-43,194	-42,858	-44,678	57,562
% change		*0.8%*	*-4.2%*	*NS*

	2012	2013e	2014e	2015e
Operating margin	NM	NM	NM	NM
Net margin	NM	NM	NM	NM
ROE	NM	NM	NM	NM
ROCE	NM	NM	NM	NM
Gearing	38.7	72.0	34.8	24.6

(EUR)	2012	2013e	2014e	2015e
EPS	-1.36	-1.34	-1.16	1.50
% change	-	*1.5%*	*13.3%*	*NS*
P/E	NS	NS	NS	2.4x
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	NM	NM	NM	NM
Div yield (%)	%	%	%	%
EV/Sales	13.7x	11.6x	13.2x	1.6x
EV/EBITDA	x	x	x	x
EV/EBIT	NS	NS	NS	NS



Having announced yesterday the initiation of its phase III study evaluating single-agent PexaVEC as a treatment for liver cancer, Transgene provides a strategic development plan refocusing the company on R&D. The latter includes five phase II trials for TNG4010 and Pexa-Vec in combination with immune checkpoint inhibitors. From a financial standpoint, (i) the restructuring plan has been finalised and should represent EUR7.5m of incurred costs and (ii) EUR30m of financing from both the Mérieux Institute and the European Investment Bank have been secured. This should offer financial visibility to the company until late 2017.

ANALYSIS

- While management put the emphasis on early stage pipeline a few months ago with the nomination of a new CMO, we are pleased to see that Transgene's late stage pipeline is back under the spotlight. In its strategic update, the company announces that it is willing to initiate five phase II trials for TG4010 and Pexa-Vec, both in combination with immune checkpoint inhibitors, by mid-2016.
- We highlighted yesterday the rationale of an exploratory trial to evaluate PexaVEC in combination with nivolumab (an anti-PD-1) in liver cancer as we see interesting synergies/complementarities between these two therapeutic approaches; the first one boosting the innate immune response and upregulating the expression of PD-L1 (and thus increasing the probability of response to these checkpoint blockers), while the second one disinhibits the adaptive response (CD8+ T lymphocytes more precisely). As a reminder, Amgen's Imlygic (talimogene laherparepvec) in combination with ipilimumab (an anti-CTLA-4) generated an ORR of 50% in advanced melanoma.
- TG4010 will be evaluated (i) in combo with an immune checkpoint in non-small cell lung cancer (undoubtedly nivolumab as it is set to become the next standard in this very indication), (ii) through two trials involving newly diagnosed patients and the second line. And it goes without saying that future data (ORR and/or PFS) will be key in the future discussions with potential partners. As a reminder, Bavarian Nordic (which is also developing a cancer vaccine called ProstVAC) did ink in a collaboration agreement with BMS back in 2014 thanks to phase Ib data evaluating its lead compound with ipilimumab in prostate cancer.
- The restructuring plan aiming at reducing 120 FTE (out of 285) and announced in June 2015 (*please see here*) has now been finalised and should amount to EUR7.5m which is lower than our initial estimations. The latter should reduce the company's annual cash burn from EUR45/50m to ~EUR25m. More importantly, TNG has secured EUR30m of financing from both the European Investment Bank (2/3) and the Mérieux Institute (1/3). Added to the EUR46.5m in cash and cash equivalents as of Sept. 2015, this should offer financial visibility until late 2017, enabling the company to refocus on its pipeline. Recall that R&D costs linked to Pexa-Vec phase III trial will be borne by Sillajen while TNG will be responsible for approval and commercialisation in Europe.

NEXT CATALYSTS

- H2 2017: first clinical results for TG4010 and PexVEC in combination with an immune checkpoint inhibitor (response rates?).

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