

## Innate Pharma

Price EUR11.58

Phase I evaluating monalizumab in combo with durvalumab in solid tumors: a first step towards a gradual rerating

Fair Value EUR19 (+64%)

BUY

Bloomberg	IPH FP
Reuters	IPH.PA
12-month High / Low (EUR)	16.4 / 8.0
Market Cap (EURm)	623
Ev (BG Estimates) (EURm)	364
Avg. 6m daily volume (000)	419.6
3y EPS CAGR	

Innate Pharma has announced the initiation of a Phase I evaluating monalizumab (anti-NKG2A) in combination with AZN's durvalumab (anti-PD-L1) in selected advanced solid tumors. Apart from the fact that this should lead to an increase in consensus estimates, we see this is as a first step towards collaboration with the big pharmas as 1/ we expect other trials testing monalizumab with other AZN compounds (like Lynparza and Tagrisso); 2/ we think a tripartite collaboration involving AZN, IPH and Celgene is very likely. BUY reiterated with a FV of EUR19.

	1 M	3 M	6 M	31/12/15
Absolute perf.	-15.3%	-20.1%	-16.7%	-14.5%
Healthcare	-12.7%	-14.3%	-20.3%	-12.9%
DJ Stoxx 600	-9.2%	-14.0%	-19.3%	-10.9%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	7.6	40.0	124.5	176.4
% change		NM	NM	41.7%
EBITDA	-17.7	9.3	86.7	132
EBIT	-20.0	7.3	85.0	130.4
% change		NS	NM	53.5%
Net income	-19.7	9.0	87.5	133.4
% change		NS	NM	52.5%

	2014	2015e	2016e	2017e
Operating margin	-262.8	18.4	68.3	74.0
Net margin	-258.6	22.6	70.3	75.7
ROE	-26.4	10.8	51.1	43.8
ROCE	-184.4	-5.2	-79.1	-301.6
Gearing	-87.1	-310.4	-165.3	-114.9

(EUR)	2014	2015e	2016e	2017e
EPS	-0.37	0.17	1.65	2.52
% change	-	NS	NM	52.5%
P/E	NS	67.8x	7.0x	4.6x
FCF yield (%)	NM	31.7%	3.8%	10.9%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	73.3x	9.1x	2.7x	1.6x
EV/EBITDA	NS	38.9x	3.9x	2.1x
EV/EBIT	NS	49.5x	4.0x	2.1x

## ANALYSIS

- **Innate Pharma has announced the initiation of a Phase I evaluating monalizumab (an anti-NKG2A) in combination with AstraZeneca's durvalumab (anti-PD-L1)** in different selected advanced solid tumors. Without repeating details of the rationale behind this development, we would point out that 1/ we see strong synergies between these two candidates, and 2/ this is worth mentioning since it is so rare: the combo is thought to involve two response markers (please find more details [here](#)).
- In more practical terms, **we think the consensus will gradually increase its sales estimates in coming months to take into account this new development** (as seen a few years ago with BMS's nivolumab and IPH's lirilumab); several markets of interest being currently overlooked: NSCLC, colorectal cancer, multiple myeloma, etc.
- **We don't think the collaboration between the two companies will stop there.** In fact, we think other trials will be initiated in the next few months, the objective being to test monalizumab with other AZN's compounds like 1/ Lynparza (a PARP inhibitor) in ovarian cancer, or 2/ Tagrisso (an EGFR inhibitor) in a specific type of non-small cell lung cancer. And this is certainly why IPH's CMO said that "concurrently, we are working on expanding the program to further explore the potential of monalizumab".
- As a reminder, **we also think that a tripartite deal involving IPH, AZN and Celgene is very likely;** the objective being to test 1/ monalizumab/durvalumab in several haematological malignancies, and 2/ monalizumab with some of Celgene's products (ex: Revlimid, Juno's CAR-T cells, etc.). Again, we won't review all the rationale, as we've already discussed it [here](#).

## VALUATION

- **BUY reiterated with a FV of EUR19,** bearing in mind that our valuation does not take into account this expansion of the portfolio (at least for now). As a reminder, the vast majority of the consensus is just discounting an old development plan 1/ that was announced before the licensing deal with AZN, and 2/ involves combinations with more traditional agents (like cetuximab in head and neck cancer, and chemotherapy-based regimens), ibrutinib in chronic lymphocytic leukemia being the sole exception.

## NEXT CATALYSTS

- Q2 16: Phase II results for lirilumab (anti-KIR) as a monotherapy for the maintenance treatment of elderly patients with acute myeloid leukemia (AML).
- Q2 16: Phase Ib results for lirilumab in combination with nivolumab in different solid tumors.
- H2 16: Phase Ib results for lirilumab in combination with nivolumab in different blood cancers.

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