7th April 2016

Healthcare

Ipsen

Price EUR51.88

Standard-of-care in RCC will change a lot - don't be afraid!

Fair Value EUR60 (+16%) **BUY-Top Picks**

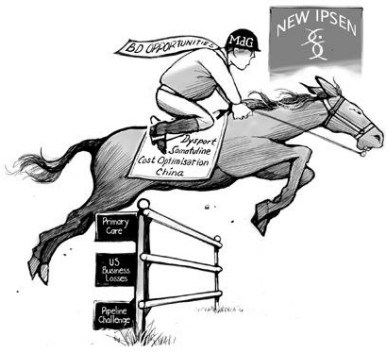
Bloomberg	IPN FP
Reuters	IPN.PA
12-month High / Low (EUR)	62.0 / 44.4
Market Cap (EUR)	4,319
Ev (BG Estimates) (EUR)	4,417
Avg. 6m daily volume (000)	81.70
3y EPS CAGR	11.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	5.9%	-13.3%	-6.4%	-15.0%
Healthcare	0.3%	-9.4%	-7.5%	-10.6%
DJ Stoxx 600	-3.3%	-6.7%	-8.3%	-9.6%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,444	1,552	1,683	1,823
% change		*7.5%*	*8.4%*	*8.3%*
EBITDA	366	398	438	517
EBIT	322.5	332.1	367.2	441.0
% change		*3.0%*	*10.6%*	*20.1%*
Net income	228.0	230.8	261.1	316.9
% change		*1.2%*	*13.1%*	*21.4%*

	2015	2016e	2017e	2018e
Operating margin	22.3	21.4	21.8	24.2
Net margin	12.5	13.7	13.4	15.3
ROE	15.5	16.4	15.7	17.0
ROCE	22.6	17.1	18.4	21.4
Gearing	NM	NM	NM	NM

(€)	2015	2016e	2017e	2018e
EPS	2.78	2.81	3.18	3.86
% change	-	*1.2%*	*13.1%*	*21.4%*
P/E	18.7x	18.4x	16.3x	13.4x
FCF yield (%)	4.1%	4.4%	5.1%	6.4%
Dividends (€)	0.85	0.85	1.04	1.16
Div yield (%)	1.6%	1.6%	2.0%	2.2%
EV/Sales	2.9x	2.8x	2.6x	2.3x
EV/EBITDA	11.5x	11.1x	9.9x	8.1x
EV/EBIT	13.1x	13.3x	11.8x	9.5x



In order to avoid any misunderstanding, we would like to use the announcement by Pfizer and Merck of a phase III start in first-line RCC as an opportunity to reassess the underlying assumption supporting our call on Ipsen as far as cabozantinib is concerned. We've put ourselves on the safe side.

ANALYSIS

- A couple of days ago, Pfizer and German group Merck announced that they had recruited a first patient into the JAVELIN Renal 101 phase III trial that compares the combination of their anti-PD-L1 avelumab and Pfizer's TK inhibitor Inlyta (one of the current standards in second-line) vs the standard of care, Sutent, in first-line renal cell carcinoma (RCC). This may cast doubt on Ipsen's recent acquisition of cabozantinib's rights for the European markets as it could suggest that, after nivolumab (Opdivo), which has already been approved in 2L RCC and is under investigation in 1L RCC, another IO agent is moving forward in RCC. Different players in the oncology field look interested in testing their IO drugs in RCC. The fact is that BMS and Pfizer have virtually unlimited financial resources to test their drugs in various settings which could raise the bar in terms of accumulated clinical data supporting an efficacy claim. We are talking here about a 583-patient large phase III trial that will recruit in 170 different sites. As a reminder, BMS is currently testing the combination nivolumab/ipilimumab in 1L RCC too and so we might see the SoC in 1L RCC moving to this type of combination of drugs if the trials are successful by the end of the decade.
- Clearly, this evolving paradigm in RCC could raise concern about the ability of smaller players to impact clinical practise, and this definitely includes Ipsen and its recent deal with Exelixis that has meaningful upfront components to it. First of all, this is going to be data-driven. So players with deep pockets can do more and faster but they cannot impact the results. Second, it is very fair to say that the US and Europe might behave differently re innovation in oncology because of pricing and incentives to prescribe. Third, the call behind cabozantinib as developed in our recent note is not – and Ipsen shares the view – that we expect "cabo" to beat IO agents in RCC, but to see the two sharing most of the market over the coming years. By the way, what we are mainly talking about with "cabo" so far is 2L RCC and not 1L RCC which is a free option. A phase II trial called CABOSUN is running that will report data by year-end but there are no estimates in our model. As such, if IO agents move into 1L RCC this would keep 2L RCC open for another active agent. Should IO/IO combinations be too expensive and/or toxic or involve only a fraction of the overall population, then this could leave some room for alternatives like "cabo" to take a share anyway. Where CABOSUN could be instructive, beyond first-line, is if "cabo" proves superior to Sutent and Sutent therefore moves to 2L because of IO agents moving to 1L, then "cabo" could remain a preferred product in 2L over Sutent and other TKis. Lastly, it is also worth mentioning that JAVELIN Renal 101 and Checkmate-214 are expected to report results in 2018 and 2019 respectively, thereby offering "cabo" some time to convince everyone of its benefit-risk profile in 2L. As a reminder, the drug is expected to be approved in the US in June and in Europe in September.

VALUATION

- In terms of valuation, same recipe, same consequences. The sales model we have built estimates on for "cabo" is based on an addressable market limited to 2L RCC: so, around 20,000 patients, a market share of 25% at peak in 2024 onwards, a duration of treatment limited to the median PFS (i.e. 7.4 months) and an annual price of EUR60,000. Everything else is a free option, which includes 1L RCC (if phase II CABOSUN is positive, we might have to reconsider our call), combinations in RCC (including with IO, considering a phase I trial is ongoing) and 2L HCC (with phase III data expected in late 2016/early 2017), not to mention lung (phase II ongoing) or NET (high interest for Ipsen for obvious reasons).
- In short, our estimates already include layers of caution re competition in RCC.

NEXT CATALYSTS

- 28th April 2016: First-quarter sales - *Click here to download document*

Analyst :
Eric Le Berrigaud
33(0) 1 56 68 75 33
eleberrigaud@bryangarnier.com

Sector Team :
Mickael Chane Du
Hugo Solvet

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London
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)

Paris
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 prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

New Delhi
The Imperial Hotel
Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062