17th May 2016

Healthcare

Innate Pharma

Price EUR12.11

Feedback from R&D Day: numerous readouts expected… starting with lirilumab

Fair Value EUR18 (+49%) **BUY**

Bloomberg	IPH FP
Reuters	IPH.PA
12-month High / Low (EUR)	15.7 / 9.5
Market Cap (EUR)	652
Ev (BG Estimates) (EUR)	418
Avg. 6m daily volume (000)	297.6
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.8%	17.2%	-13.9%	-10.6%
Healthcare	-2.5%	2.6%	-9.6%	-11.1%
DJ Stoxx 600	-2.4%	4.5%	-9.7%	-8.5%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	25.1	99.6	112.9	81.4
% change			*13.4%*	*-27.9%*
EBITDA	-8.1	54.2	53.4	6.9
EBIT	-10.8	51.2	49.9	2.9
% change		*NS*	*-2.6%*	*-94.3%*
Net income	-6.7	56.2	53.9	5.9
% change		*NS*	*-4.2%*	*-89.1%*

	2015	2016e	2017e	2018e
Operating margin	-42.8	51.4	44.2	3.5
Net margin	-26.7	56.4	47.7	7.2
ROE	-9.3	43.8	29.6	3.1
ROCE	4.2	-54.2	-185.9	6.5
Gearing	-322.1	-182.2	-116.9	-53.1

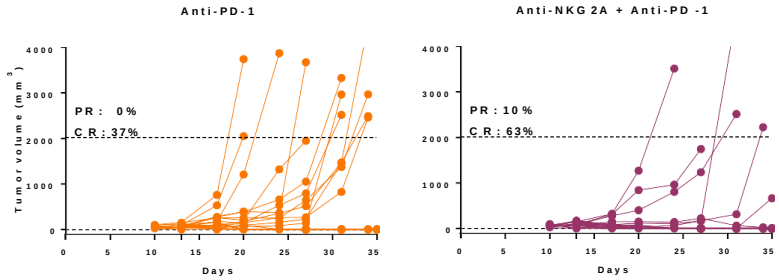
(EUR)	2015	2016e	2017e	2018e
EPS	-0.12	1.04	1.00	0.11
% change	-	*NS*	*-4.2%*	*-89.1%*
P/E	NS	11.6x	12.1x	NS
FCF yield (%)	30.8%	0.3%	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	16.7x	4.2x	3.9x	6.8x
EV/EBITDA	NS	7.7x	8.2x	80.6x
EV/EBIT	NS	8.2x	8.8x	193.7x

Innate Pharma yesterday held an Investor Day during which it provided an update on the corporate strategy, and its early-stage candidates (e.g. IPH4301, IPH52, etc.). While there was no big breaking news, we got many insights on 1/ how the management is willing to build an integrated biopharmaceutical with a (differentiated) focus on the synergies between the innate and adaptive systems; and 2/ the next catalysts, with the very first ones involving lirilumab. BUY reiterated with a FV of EUR18.

ANALYSIS

- **Numerous readouts expected in the next 24 months… starting with lirilumab.** 2016-17 will be a turnaround for the company as many clinical readouts are expected starting as soon as this H2… and lirilumab (anti-KIR) will give the kick-off. We're big fans of the science behind the company but we have to admit clinical data have been lacking over the past few years… But hopefully, the publication of EffiKIR (Phase IIb – maintenance therapy in elderaly patients with acute myeloid leukemia) is expected soon enough, and we believe the improvement in leukemia-free survival vs placebo will be statistically significant. And right after the readout, we believe the street will give more credit to IPH's know-how… **In particular, if lirilumab is to be approved in Europe based upon these data** (this is not the scenario we've retained for the calculation of our FV, but we see this as credible given the trial design).

- **Monalizumab: the future flagship in solid tumors**. The management came back on the rationale behind the development of checkpoint blockers targeting natural killer (NK) cells. And in this context, we'd like to reiterate our (differentiated) opinion according to which most of liri's value lies in haematological malignancies whereas monalizumab should be a strong competitor in solid tumors. Some data involving mona in combination with a PD-1 blocker were presented during the latest AACR meeting; and while they involved preclinical models, we cannot ignore how response rates were improved compared to an anti-PD-1 alone (see Fig. below).



- **Earlier-stage compounds should not be underestimated**. We put a clear emphasis on liri and mona in our previous comments as most of our FV is derived from them… But we're well aware of the potential of some more early-stage compounds. While we haven't included them in our calculations, we believe that some of them are already attracting big pharma's interest (e.g. the MICA/B antibody along with the anti-CD39, due to their immune-modulation properties) in spite of their "youth". And just to give a quick example, we'd like to point out that BMS inked a very lucrative deal (potential milestone payments of up to USD1.7Bn) with Five Prime Therapeutics a few months ago that involved a very early-stage (preclinical) but promising anti-CS1FR antibody.

- **An attractive bispecific platform.** IPH's know-how isn't limited to checkpoint blockers or antibody drug conjugates. A few months ago, a non-exclusive collaboration agreement was signed with Sanofi… and we have the feeling that other pharmas with a known interest in NK-directed molecules (AZN? Merck & Co?) might want to get an access to this novel platform given its different advantages (long half-life, less risks of cytokine release syndromes, etc.). That said, we assume the future deals won't be as lucrative as with liri or mona (milestone payments < USD100m along with low-single digit royalties).

- **Building an integrated biopharma company.** Delivering positive clinical results for both liri and mona is of course a prerequisite, notably because they should become significant sources of payments and royalties. Going forward, more and more proprietary products might remain in IPH's portfolio (IPH41, an anti-KIR3DL2 being the very first one of them), and we believe some collaboration agreements or even little acquisitions will be made to strengthen/diversify their footprint.

VALUATION

- **BUY reiterated with a FV of EUR18.0**.

NEXT CATALYSTS

- H2 16: Phase II results of lirilumab (anti-KIR) as a maintenance treatment for elderly patients with AML.
- H2 16: Phase Ib results of lirilumab in combination with BMS' nivolumab (anti-PD-1), be it in solid tumors or haematological malignancies.

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Analyst :
Mickael Chane Du
33(0) 1 70 36 57 45
mchanedu@bryangarnier.com

Sector Team :
Eric Le Berrigaud
Hugo Solvet

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BUY ratings 58.2% NEUTRAL ratings 32.6% SELL ratings 9.2%

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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

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

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

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