24th May 2016

Healthcare

Ipsen

Price EUR53.64

CABOSUN positive is indeed very good news

Fair Value EUR63 vs. EUR60 (+17%) **BUY-Top Picks**

Bloomberg	IPN FP
Reuters	IPN.PA
12-month High / Low (EUR)	62.0 / 47.1
Market Cap (EURm)	4,466
Ev (BG Estimates) (EURm)	4,553
Avg. 6m daily volume (000)	83.20
3y EPS CAGR	12.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	2.5%	1.2%	-11.0%	-12.1%
Healthcare	-1.9%	2.4%	-10.3%	-9.2%
DJ Stoxx 600	-3.4%	2.7%	-11.5%	-8.0%

YEnd Dec. (€m)	2015	2016e	2017e	2018e
Sales	1,444	1,562	1,701	1,850
% change		*8.1%*	*8.9%*	*8.8%*
EBITDA	366	404	453	533
EBIT	322.5	337.9	381.4	455.6
% change		*4.8%*	*12.9%*	*19.5%*
Net income	228.0	235.1	271.7	327.7
% change		*3.1%*	*15.5%*	*20.6%*

	2015	2016e	2017e	2018e
Operating margin	22.3	21.6	22.4	24.6
Net margin	12.5	13.9	13.9	15.6
ROE	15.5	16.7	16.3	17.5
ROCE	22.6	17.5	19.2	22.3
Gearing	NM	NM	NM	NM

(€)	2015	2016e	2017e	2018e
EPS	2.78	2.87	3.31	4.00
% change	-	*3.1%*	*15.5%*	*20.6%*
P/E	19.3x	18.7x	16.2x	13.4x
FCF yield (%)	4.0%	4.4%	5.2%	6.4%
Dividends (€)	0.85	0.85	1.08	1.17
Div yield (%)	1.6%	1.6%	2.0%	2.2%
EV/Sales	3.0x	2.9x	2.6x	2.3x
EV/EBITDA	11.9x	11.3x	9.9x	8.1x
EV/EBIT	13.5x	13.5x	11.7x	9.5x

Last night, Exelixis announced that the CABOSUN phase II trial had achieved its primary endpoint i.e. PFS improvement when comparing cabozantinib to sunitinib in first-line RCC. After showing very solid efficacy results in second-line, "cabo" confirmed a strong profile in RCC overall. Exelixis and Ipsen will open discussions with the European regulators to see if CABOSUN alone can support filing and approval for the drug in this setting. Exelixis is committed to conduct a phase III trial but conditional approval looks possible. This would provide meaningful incremental value for Ipsen.

ANALYSIS

- Somewhat earlier than we had expected, the CABOSUN phase II trial delivered top-line results yesterday and the trial met its primary endpoint which means that cabozaninib improved progression-free survival (PFS) in patients with advanced renal cell carcinoma (RCC) not previously treated when compared to those receiving standard-of-care therapy sunitinib (Pfizer's Sutent).
- This is an outstanding achievement for the drug because cabozantinib now looks able to compete over the entire spectrum of the RCC market. Also because results came early enough to be first to beat Sutent in a head-to-head trial, ahead of the CheckMate-214 trial that is currently ongoing and that compares the IO/IO combination of nivolumab and ipilimumab with Sutent and which is likely to develop a certain level of toxicity that could make it a potent option but with significant side effects.
- Note that CABOSUN achieved recruitement of 150 patients in March 2015 and was powered to detect a difference in PFS by at least 33% which would be remarkable vs an active compound. On a less positive tone, we would also note that CABOSUN was an open-label trial which could be criticized by regulators although a strong PFS gain could not be entirely balanced by such a status. We see a reasonable likelihood that based on undisputed clinical data from CABOSUN, cabozantinib is approved by the UE in first-line RCC at least under a conditional approval route, pending confirmation in phase III trials. If so, filing might take place by the year-end and approval in 2017.

VALUATION

- The debate about how cabozantinib and nivolumab can share the RCC market is still very much valid after these top-line results. Should both products prove superior to Sutent in first-line then they would have the RCC market widely open for first and second line. No matter the preference on a physician by physician basis, they will be used in either one setting or the other. It indeed makes a difference because the patient base is much larger in first-line and so is the duration of therapy. Sutent's prescribing information points to a median PFS of 47.3 weeks i.e. almost 11 months in first-line whereas cabozantinib achieved 7.4 months on average in the METEOR trial in second-line. Should CABOSUN show an improvement of about 30-40% then median PFS could be 13-14 months i.e. almost double that in second-line.
- Doubling the size of the addressable market for cabozantinib in Ipsen territories could add something like EUR5-6 to our FV. Bear in mind that the drug is also developed in other solid tumours including HCC (in phase III) or lung cancer (in phase II) for which no figures are factored into our sales estimates. Because there are still a lot of free options, we decide to make half-way in first-line RCC and increase the addressable market from 17.5% to 20% while increasing also the average duration of treatment from 7.4 months to 9 months. Our new FV is EUR63.

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