28th June 2016

Healthcare

Celyad

Price EUR39.48

No bone to chew until ESC congress in late August

Fair Value EUR20 vs. EUR77 (-49%) — **NEUTRAL vs. BUY**

Bloomberg	CARD.BB
Reuters	CARD BB
12-month High / Low (EUR)	57.0 / 29.5
Market Cap (EURm)	368
Ev (BG Estimates) (EURm)	291
Avg. 6m daily volume (000)	26.00
3y EPS CAGR	ns

	1 M	3 M	6 M	31/12/15
Absolute perf.	-14.6%	-0.6%	-14.2%	-18.4%
Healthcare	-6.0%	2.1%	-10.5%	-11.3%
DJ Stoxx 600	-11.7%	-7.9%	-15.7%	-15.6%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	0.0	0.0	22.5	21.2
% change		*-100.0%*	*NM*	*-5.8%*
EBITDA	-28.8	-29.8	-8.3	-13.3
EBIT	-29.7	-30.7	-9.2	-14.2
% change		*-3.3%*	*70.1%*	*-55.1%*
Net income	-29.1	-30.2	-8.7	-13.7
% change		*-3.6%*	*71.3%*	*-58.3%*

	2015	2016e	2017e	2018e
Operating margin	NM	NM	NM	NM
Net margin	NM	NM	NM	NM
ROE	NM	NM	NM	NM
ROCE	NM	NM	NM	NM
Gearing	NM	NM	NM	NM

(EUR)	2015	2016e	2017e	2018e
EPS	NM	NM	NM	NM
% change	-	*ns*	*ns*	*ns*
P/E	x	x	x	x
FCF yield (%)	%	%	%	%
Dividends (EUR)	NM	NM	NM	NM
Div yield (%)	%	%	%	%
EV/Sales	86868.9x	NS	13.3x	14.7x
EV/EBITDA	NS	NS	NS	NS
EV/EBIT	NS	NS	NS	NS

European phase III results (CHART-1) evaluating C-CURE in Chronic Heart Failure did not reach statistical significance. We would note that a subgroup identified according to end-diastolic volume at baseline and representing 60% of the patients responded (p=0.015), which does not rule out a partnership opportunity. Unfortunately and in accordance with the ESC congress' embargo rules, few additional details could be disclosed during the conference call which leaves us in limbo for the next two months at least. We move our rating from BUY to NEUTRAL and decrease our fair value from EUR77 to EUR20 (see details below).

ANALYSIS

- **The CHART-1 phase III trial did not reach statistical significance. However, 60% of patients responded with statistical significance overall (p=0.015) and an encouraging trend observed across all six criteria making up the composite endpoint.** The sub-population was easily identified according to end diastolic volume segmentation at baseline, measured mainly by echocardiography. As a reminder CHART-1 recruited 271 patients across 12 countries and measured efficacy of the company's lead stem cell product candidate in Chronic Heart Failure at 39 weeks. Primary endpoint was a six-level hierarchical composite endpoint considering Mortality, Cardiac Adverse Events, 6MWT, QoL, Change in LVEF and change in left ventricular end-systolic volume.

- **These results, which are still being processed by the company, have prompted management to reiterate its strategy to refocus on the oncology platform and partner C-CURE for further development and commercialisation**. A standalone strategy is now excluded and discussions with potential partners should accelerate with a dataroom to be opened shortly. However, it is unlikely in our view that this could occur before late Q3 at least. Indeed, a full set of data should be presented at the ESC congress on 28th August and EMA should give its feedback on whether or not a conditional could be given withouth a confirmatory trial in the identified subpopulation. Note that management was "hopeful" regarding the latter opportunity and that we would favour a scenario under which the EMA requires a confirmatory study, delaying by one year in a best case potential EU approval. Although results exhibit a sub-group of responders, finding a partner should not be easy considering that **1/** Celyad's management made it clear that it will not finance further studies, **2/** the p-value of the subgroup identified as responder (p=0.015) leave little margin for error in further studies despite being statistically significant and **3/** evolution of the treatment paradigm with recently issued guidelines might cloud the future of stem cell therapy in CHF. Turning to the US trial, CHART-2, phase III design needs to be amended to refine inclusion criteria (measure of end-diastolic volume) and a partner will be seek too.

VALUATION

- While management already communicated on its intention to refocus CELYAD on its oncology platform, it is still too early in our view to plug-in any sales of the later (see newsflow). On the back of these results, we have modified our estimates as follows: 1/ 60% of responders out of the initially targeted population (peak sales down from EUR2.5bn to EUR1.5bn), 2/ one year delay in Europe (2018 vs. 2017), 3/ partnership vs standalone strategy (royalty rate of 15% and EUR200m deal value with back-end loaded milestones). C-CURE now accounts for EUR12 of our fair value cash per share is EUR8.

- We downgrade CELYAD to NEUTRAL vs. BUY. According to changes mentionned above, our fair value is down from EUR77 to EUR20.

NEXT CATALYSTS

- Upcoming weeks : Interim phase I data for CAR-NKG2D platform
- 28th August: ESC congress complete CHART-1 phase III data
- Late 2016: phase Ib readout for CAR-NKG2D platform

Analyst :
Hugo Solvet
33(0) 1 56 68 75 57
hsolvet@bryangarnier.com

Sector Team :
Mickael Chane Du
Eric Le Berrigaud

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BUY ratings 57,1% NEUTRAL ratings 33,3% SELL ratings 9,5%

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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