Healthcare 3rd June 2016

GENEURO

Price EUR9.63

The GeNesis of a disruptive treatment in MS (full report released today)

Fair Value EUR18,2 (+89%)

BUY

Coverage initiated

Bloomberg	GNRO FP
Reuters	GNRO.PA
12-month High / Low (EUR)	13.0 / 9.4
Market Cap (EURm)	141
Ev (BG Estimates) (EURm)	0
Avg. 6m daily volume (000)	4.10
3y EPS CAGR	ns

	1 M	3 M	6 M	31/12/15
Absolute perf.	-12.5%	ns	ns	-25.9%
Healthcare	5.0%	3.3%	-8.1%	-6.0%
DJ Stoxx 600	0.9%	1.0%	-10.4%	-5.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2.5	6.2	4.5	32.0
% change		*145.2%*	*-27.4%*	*NM*
EBITDA	NM	NM	NM	NM
EBIT	-4.3	-10.2	-12.9	6.2
% change		*-136.6%*	*-26.3%*	*NS*
Net income	-4.5	-10.2	-13.0	6.0
% change		*-127.9%*	*-27.4%*	*NS*

	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	0.0x	0.0x	0.0x	0.0x
EV/EBITDA	x	x	x	x
EV/EBIT	0.0x	0.0x	0.0x	0.0x

GeNeuro has taken a completely innovative and disruptive approach to treating a number of autoimmune diseases including multiple sclerosis, based on a technology that allows acting on the underlying process and potentially on one of the causes of the disease. If it came through, this approach would constitute a breakthrough and the product would probably become the new standard treatment for MS, a growing market segment that is worth USD20bn.

ANALYSIS

- Considering that the MSRV-Env envelope protein is highly expressed in the white matter of patients with MS lesions and after having characterised the pro-inflammatory and neurodegenerative modes of action of this protein, a causal relationship seems to be, if not demonstrated, at least likely. As a result, GeNeuro has developed an antibody that specifically targets this protein and that is intended to have an anti-inflammatory and remyelinating effect.
- The antibody is currently entering Phase IIb (260 patients) for RRMS with the financial support of a partner, Servier, which will bear the resulting costs. Earlier this week, GeNeuro announced officially that first patient had been recruited. At the end of that phase, Servier will be able to exercise an option to acquire ex-US and ex-Japan selling rights for the drug as a treatment for MS, while GeNeuro will retain its selling rights for the US and Japanese markets and for all other indications.
- In view of the trends and geographic distribution of the MS market, there is very significant sales potential for GeNeuro. MS is already a USD20bn market that he baseen profoundly changed over the last few years by innovative oral drugs and that is likely to transformed again by upcoming very effective anti-CD20 treatments ocrelizumab (Roche, filed) and ofatumumab (Novartis, in phase III). Because Ocrevus will open the new segment in PPMS, we see the MS market growing up to USD25bn in the coming few years, before generics come in on Gilenya or Aubagio.
- Back to GeNeuro, partner Servier could make milestone payments for a total of up to EUR325m, and it is likely to pay royalties of between 8 and 15% on its sales. In the US, GeNeuro will be free to choose what it considers to be the best strategy for maximising the value of its asset: either operating on its own or through a partnership. A decision is once again likely to be made once the phase IIb data are available i.e. during 2018. In the US still, we are waiting for the FDA decision to agree on the IND for GNbAC1 to allow for the addition of a small cohort of patients in the phase IIb trial that has just started and that is so far limited to European centers. Although it would be good to have a few US patients treated with GNbAC1 as early as in phase IIb, the design is such that the trial will not depend at all upon those patients so that the timing of the IND and speed of recruitment in the US is not a risk for the phase IIb and will not delay the outcome of results.

VALUATION

- Based on the information currently available, we deemed it appropriate to base our valuation of GeNeuro exclusively on the MS indication. With a probability of success estimated at between 25% (in Europe where Servier will be in charge) and 30% (in the US where we have considered a stand-alone strategy although we do not consider it as likely), a peak penetration rate of 10% in RRMS and a price in line with today's most effective treatments, our **median FV stands at EUR18.2**.
- Note that at the end of the first quarter, GeNeuro had net cash position of about EUR15m and later on raised EUR33m through its IPO. This is more than enough to fill the gap until the end of the phase IIb trial.

NEXT CATALYSTS

- The two significant pieces of news flow for GeNeuro this year are the IND for the phase IIb trial in the US and the announcement of further clinical trial initiations for GNbAC1 in non-MS indications.

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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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BUY ratings 72% NEUTRAL ratings 0% SELL ratings 28%

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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