8th June 2016

Healthcare

GENEURO

Price EUR9.91

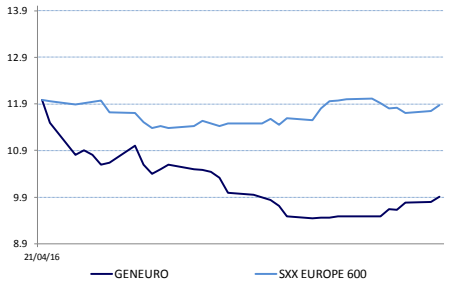
GNbAC1 in pole position after Biogen's failure?

Fair Value EUR18.2 (+84%) **BUY**

Bloomberg	GNRO FP
Reuters	GNRO.PA
12-month High / Low (EUR)	13.0 / 9.4
Market Cap (EURm)	145
Ev (BG Estimates) (EURm)	0
Avg. 6m daily volume (000)	4.60
3y EPS CAGR	ns

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.5%	ns	ns	-23.8%
Healthcare	8.6%	5.3%	-5.4%	-5.8%
DJ Stoxx 600	4.4%	1.6%	-7.0%	-5.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2.5	6.2	4.5	32.0
% change		*145.2%*	*-27.4%*	
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*



Although we had pointed out meaningful differences between the two drugs, Biogen's anti-LINGO-1 appeared to be the main threat to GeNeuro's GNbAC1 because it had a non lymphocyte-targeting approach with neuroprotective properties. Yesterday, Biogen announced that the phase II trial investigating this drug in RRMS failed to meet primary and secondary endpoints. This is very good news since it leaves GeNeuro in pole position to bring an innovative and disruptive agent to the market in MS. We stick to our FV and reiterate our BUY rating on GeNeuro.

ANALYSIS

- When we initiated coverage last week, a section of the note was about Biogen's anti-LINGO-1 because there was a lot of noise surrounding this approach for treating MS and it could have appeared, rightly or wrongly so, as a direct competitor to GeNeuro's GNbAC1. Actually, this was not so clear to us because the key advantage of GeNeuro's drug is to target the two components that are characteristic of MS i.e. inflammation and neuro-degeneration, whereas anti-LINGO-1 had no anti-inflammatory properties. For that reason also, the objective was to combine it with an interferon which was a way for Biogen to expand its franchise while not cannibalising its existing business. However, our note also carried a handful of questions concerning cumulative toxicity and the price of such a combination of drugs.
- Yesterday Biogen presented headline results from its phase II trial with its anti-LINGO-1 opicinumab and announced that it had failed to reach both primary and secondary endpoints i.e. the ability to improve physical function, cognitive function and disability or even to slow disability progression. Even though Biogen says that due to the complexicity of the trial, it needs to look more closely at the detailed results, it looks like the drug and maybe the concept is dead.
- Although not as disruptive as GNbAC1, opicinumab could have been a clear step forward in the treatment of MS as a lymphocyte non-depleting or sequestering agent that would have neuro-protective properties. Its failure does not increase or decrease the chances of GNbAC1 succeeding in its development but it removes a potential competitor from the landscape. Because Biogen is the current MS leader with a wide offering for neurologists including Avonex, Tysabri or Tecfidera, any innovation in the group's hands could be a threat to competition.
- So this leaves MS with the upcoming launch of the anti-CD20 drugs specifically designed for MS (i.e. excluding rituximab which was partially used off label so far). Ocrevus (ocrelizumab) should be approved in Q4 2016 in both RRMS and PPMS and launched thereafter by Roche. Novartis is starting phase III with its own drug ofatumumab (vs Aubagio). That said, although it opens a new market segment in PPMS and has had interesting results in PPMS that suggest significant market share for the category, we do not see anti-CD20 as disruptive because lymphocytes are still the target and so toxicity will be a limiting factor whereas neuroprotection and the ability to slow down disability has to be established. That said, it should not prevent the two from reaching blockbuster status and capturing a meaningful part of the MS market.
- Lastly, we would say that the failure of Biogen's opicinumab not only removes a competitor from the field for GNbAC1 but also raises interest in what could appear to be one of the few remaining big opportunities to impact the MS market in the coming years. Several players in the field might look for innovations to bring their franchise to the next stage, including Sanofi-Genzyme but now very much Biogen too. It is worth keeping in mind that although GNbAC1 has been partnered with Servier in Europe, key US rights are still in-house.

VALUATION

- No change to either our numbers or our FV.

NEXT CATALYSTS

- The two significant news items 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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