

Sector View

Healthcare

BG Oncology Day: the devil is in the details (full report published today)

	1 M	3 M	6 M	31/12/15
Healthcare	5.2%	6.5%	1.2%	-4.5%
DJ Stoxx 600	1.0%	0.5%	-2.0%	-8.1%

*Stoxx Sector Indices

Companies covered that are involved in oncology

ABLIX	BUY	EUR18
Last Price	EUR12,525	Market Cap. EUR762m
ASTRAZENECA	BUY	5370p vs 5100p
Last Price	4476p	Market Cap. GBP56,604m
BAYER	NEUTRAL	U.R.
Last Price	EUR93,13	Market Cap. EUR77,014m
CELLECTIS	BUY	EUR37
Last Price	EUR23,17	Market Cap. EUR819m
CELYAD	NEUTRAL	EUR20
Last Price	EUR23,635	Market Cap. EUR220m
ERYTECH	BUY	EUR48
Last Price	EUR21,1	Market Cap. EUR167m
GENMAB	BUY	DKK1600
Last Price	DKK1202	Market Cap. DKK71,920m
INNATE PHARMA	BUY	EUR18
Last Price	EUR11,15	Market Cap. EUR600m
IPSEN	BUY	EUR64 vs EUR63
Last Price	EUR53,3	Market Cap. EUR4,437m
MORPHOSYS	BUY	EUR62
Last Price	EUR39,22	Market Cap. EUR1,041m
NOVARTIS	NEUTRAL	CHF89
Last Price	CHF80,65	Market Cap. CHF211,877m
QIAGEN	NEUTRAL	EUR22
Last Price	EUR20	Market Cap. EUR4,794m
ROCHE HOLDING	BUY	CHF293
Last Price	CHF255,5	Market Cap. CHF179,505m
SANOFI	NEUTRAL	EUR83
Last Price	EUR74,59	Market Cap. EUR96,005m
TRANSGENE		EUR12
Last Price	EUR2,74	Market Cap. EUR106m

Immuno-oncology is both fascinating and complex. So, to help investors navigate through this, we organised a dedicated day in collaboration with Institut Curie's specialists along with two companies with a marked footprint in this field (ROG, IPH). Here are our key takeaways along with the names we deem worthy to play the field in the short term.

ANALYSIS

- **There is no one-fits-all strategy.** I-O molecules have generated impressive results and will continue to do so. Combination therapies are likely to reach the best outcomes, as they allow the targeting of several fronts/pathways... But evaluating tumour specificities, and especially its micro-environment, will be key to gauge and select the best agents or targets in a given indication. And against this backdrop, the development of biomarkers will increasingly become of importance.
- **Do not restrict yourself to I-O!** Chemo, radiation and targeted therapies will continue to play a key role in the future paradigm, due to an attractive cost and/or robust synergies with immunotherapies. In our view, IPN's cabozantinib, or PARP and BTK inhibitors (like AZN's Lynparza and acalabrutinib), are pretty good examples of these non-I-O agents with quite significant sales potentials.
- **Five companies within our universe are likely to generate significant cancer-related news-flow by year-end.** ROG and AZN particularly stand out among the big names with respectively, notably: 1/ the results of the APHINITY study (Perjeta/Herceptin/Chemo in adjuvant HER2+ breast cancer) in Q4, and 2/ phase III data involving acalabrutinib in relapse CLL, also expected in Q4. When it comes to smaller ones, we believe IPN, GEN and IPH are worth playing as we correspondingly expect: 1/ the European approval of "cabo" for the treatment of 2L kidney cancer in H2; 2/ daratumumab's label expansion to the 2L of myeloma, along with follow-up data at the ASH congress; 3/ and phase Ib data involving lirinumab in combination with BMS's nivolumab.

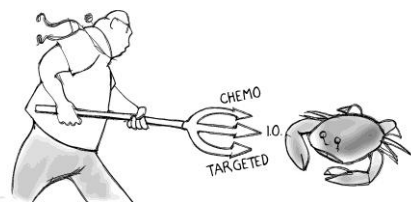
VALUATION

- From a valuation perspective, the main change is on AstraZeneca whose FV jumps from GBp5,100 to GBp5,370 mainly as a consequence of the first-time consolidation of Acerta into our estimates with acalabrutinib worth USD2.1bn in peak sales in CLL alone (with 70% probability of success). The impact was about GBp400 but was partially offset by some downward adjustments including on ZS-9 to which we now cautiously apply a 50% PoS although AZN remains confident in fixing the manufacturing issues raised in the CRL sent by the FDA fairly soon. However, it is fair to say that bright medium-to-long-term perspectives are somewhat contrasting with short-term tough times as it is going to be illustrated by poor upcoming quarterly numbers. We expect core EPS to stand around USD0.77 and to question the annual guidance although externalisation revenues will jump in H2 2016.
- Ipsen's FV is also lifted from EUR63 to EUR64 but this is mainly the reflection of FX changes and euro weakening because we kept our estimates unchanged for both Somatuline and Cabometyx in the field of oncology.
- Others were updated recently and did not require further adjustments like Genmab whereas Roche is mainly depending on still upcoming catalysts, starting with APHINITY data and there is no need to make changes ahead of the Q2 numbers.

NEXT CATALYSTS

- H1 results season: Roche (21 July), AstraZeneca (28 July), Ipsen (28 July)

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Analyst:
Team Pharma
 33(0) 1 56 68 75 33
healthcare@bryangarnier.com

Sector Analyst Team:
 Mickael Chane Du
 Eric Le Berrigaud
 Hugo Solvet

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London	Paris	New York	Munich	New Delhi
Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	Widenmayerstrasse 29	The Imperial Hotel Janpath
15 St. Botolph Street	75008 Paris	New York, NY 10022	80538 Munich	New Delhi 110 001
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Germany	Tel +91 11 4132 6062
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	+49 89 2422 62 11	+91 98 1111 5119
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member		Fax +91 11 2621 9062
Authorised and regulated by the	Financial Conduct Authority (FCA) and the			Geneva
Financial Conduct Authority (FCA)	Autorité de Contrôle prudentiel et de			rue de Grenus 7
	resolution (ACPR)			CP 2113
				Genève 1, CH 1211
				Tel +4122 731 3263
				Fax+4122731 3243
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