10th August 2016

Healthcare

# Ablynx

Price EUR12.30

## "Voba": still a best-in-class in our view

**Fair Value EUR18 (+46%)** **BUY**

| | |
|---|---|
| Bloomberg | ABLX BB |
| Reuters | ABLX.BR |
| 12-month High / Low (EUR) | 16.1 / 10.4 |
| Market Cap (EURm) | 749 |
| Ev (BG Estimates) (EURm) | 901 |
| Avg. 6m daily volume (000) | 181.8 |
| 3y EPS CAGR | 15.0% |

| | 1 M | 3 M | 6 M | 31/12/15 |
|---|---|---|---|---|
| Absolute perf. | -3.4% | -10.2% | 18.3% | -22.7% |
| Healthcare | 0.3% | 7.6% | 14.8% | -4.5% |
| DJ Stoxx 600 | 5.3% | 3.4% | 11.4% | -5.8% |

| YEnd Dec. (EURm) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Sales | 77.5 | 81.6 | 39.6 | 54.2 |
| *% change* | | *5.2%* | *-51.4%* | *36.7%* |
| EBITDA | -15.6 | -21.9 | -64.3 | -44.4 |
| EBIT | -17.0 | -23.3 | -65.0 | -45.4 |
| *% change* | | *-37.6%* | *NS* | *30.2%* |
| Net income | -54.5 | -60.9 | -102.6 | -83.0 |
| *% change* | | *-11.7%* | *-68.4%* | *19.1%* |

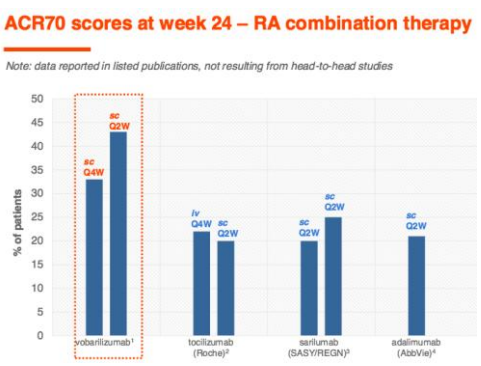
| | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| Operating margin | -21.9 | -28.6 | -164.1 | -83.8 |
| Net margin | -70.3 | -74.7 | -258.9 | -153.1 |
| ROE | -195.4 | 184.5 | 75.7 | 38.0 |
| ROCE | NM | NM | NM | NM |
| Gearing | NM | NM | NM | NM |

| (EUR) | 2015 | 2016e | 2017e | 2018e |
|---|---|---|---|---|
| EPS | -1.01 | -1.13 | -1.90 | -1.53 |
| *% change* | - | *-11.7%* | *-68.4%* | *19.1%* |
| P/E | NS | NS | NS | NS |
| FCF yield (%) | NM | NM | NM | NM |
| Dividends (EUR) | 0.00 | 0.00 | 0.00 | 0.00 |
| Div yield (%) | NM | NM | NM | NM |
| EV/Sales | 8.6x | 11.0x | 22.5x | 16.5x |
| EV/EBITDA | NS | NS | NS | NS |
| EV/EBIT | NS | NS | NS | NS |


**Share price reaction came as a surprise yesterday (down 5.3%) in the light of the dataset underlying differenciated efficacy and safety profile. High placebo rate affected primarily ACR20 at 12 week. Results from more stringent criteria such as remission and ACR50 and 70 responder rates bodes well with best-in class profile. We see no reason why ABLX would have to look for a back-up partner yet. BUY reiterated.**

### ANALYSIS

- Following voba's phase IIb data released yesterday, we were surprised to see the share price down 5.3% at the end of the trading session. During the conference call, management reviewed the data available with some more colours on what could have drive such a high placebo rate (ACR20 placebo rate of 74%), leading to only one active arm reaching statistical significance vs. placebo on primary endpoint at 12week (150mg/Q4W dose with 81% responder rate; p<0.01). Firstly, it is important to note that across all groups, patients that did not report a 20% improvement in swollen/tender at week 12, 16 and 20 have been forced to discontinue the trial. This criteria has been jointly decided by ABLX and ABBV in 2014 as only bioequivalence data on the SC version was available at the time (phase IIa carried out with the IV version). While carrying out a 24w trial with no crossover, it would have been non-ethical to keep patients away from any effective treatment. Hence, patients knew at the beginning of the trial that if they did not show an improvement in the criteria mentioned above by week 12, maintained through week 20, they would not be eligible for open label extension (during which they are offered an additional 104 month of treatment). As a consequence, 1/ a part of patients assigned to the placebo group that would have been supposed to drive down placebo rate have been excluded; 2/ some patients assigned to the latter group could have nuanced their disease activity state, knowing that they would be eligible for extension study. Hence, 87% of patients in the placebo group completed week 24 visit (only 3 forced discontinuation due to low results during visits at week 12, 16 and 20. Moreover, geographical criteria might have played a role (proportion of patients recruited in LatAm which are more reactive to MTX).
- Physicians are more looking at stringent measures such as ACR50 and ACR70 as well as DAS28 remission rate, and we were pleased to see that these results came higher than other IL-6 currently in development or commercialised, underlying voba's best-in class profile.


- Turning to safety, voba's profile is clean and here again stands out from other compounds with treatment related SAEs lower in voba groups vs placebo. Note that 1/ serious infection rate was 2.9% in placebo vs 1.4% across all voba groups; and 2/ one death occured over the course of the trial but was not related to the administration of voba.

**Safety results through week 24**

| Number of subjects (%) with treatment-emergent adverse events (TEAE) | placebo N=69 | vobarilizumab 75mg, Q4W N=69 | vobarilizumab 150mg, Q4W N= 70 | vobarilizumab 150mg, Q2W N=68 | vobarilizumab 225mg, Q2W N=69 |
|---|---|---|---|---|---|
| **Any TEAE** | **36 (52.2%)** | **42 (60.9%)** | **44 (62.9%)** | **43 (63.2%)** | **44 (63.8%)** |
| - treatment-related | 18 (26.1%) | 26 (37.7%) | 25 (35.7%) | 25 (36.8%) | 25 (36.2%) |
| - leading to study drug discontinuation | 3 (4.3%) | 4 (5.8%) | 5 (7.1%) | 5 (7.4%) | 4 (5.8%) |
| | | | | | |
| **Any serious TEAE** | **4 (5.8%)** | **5 (7.2%)** | **4 (5.7%)** | **0** | **1 (1.4%)** |
| - treatment-related | 2 (2.9%) | 1 (1.4%) | 3 (4.3%) | 0 | 1 (1.4%) |
| - leading to death (not treatment-related) | | | 1 (0.3%) | | |

- We believe that voba 1/ offers compelling results we deem differentiated from competition; and 2/ it would be a nice fit in ABBV's post-Humira portfolio (synergistic effect, combination strategy with the platform). Recall that ABBV has no in-house competitors with ABT-122 (bi-specific anti-TNF/IL-17) now discontinued in RA. Considering that the IL-6 class is likely to grab a 10-15% of the RA market by 2020e, we do not see ABBV overlooking this class. Management stated that they are not conducting parallel discussions. We do not view this as surprising as no available data prompted the group to potentially look for a "back-up" partner so far. It appears normal in our view that Ablynx did not initiate parallel discussions 1/ to preserve its relationship with ABBV which has a right of first-review; and 2/ because such parallel talks cannot be done in the absence of a full data set. Recall that GLPG initiated parallel discussions following the communication of full phase IIb program results.

## VALUATION

- We reiterate our BUY rating and EUR18 fair value. ABLYNX is in our Q3 top-picks list.
- Vobarilizumab would be a nice strategic fit into ABBV's post-Humira portfolio in our view. Should ABBV decides to opt-in, it would trigger a USD75m milestone payment for ABLX. Upon such decision for which we see as the most likely scenario at this stage, we would include the milestone payment and increase PoS from 40% to 60%, hence adding EUR3 to our fair value.

## NEXT CATALYSTS

- September 13th: Paris Roadshow
- H2 2016: ABBV's decision on whether to opt-into the program.

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