8th August 2016

Sector View

Pharmaceuticals

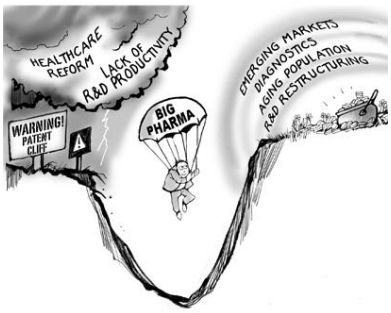
Opdivo fails in 1L NSCLC in monotherapy

	1 M	3 M	6 M	31/12/15
Healthcare	1.5%	9.6%	10.2%	-4.0%
DJ Stoxx 600	5.3%	2.6%	4.7%	-6.7%

*Stoxx Sector Indices

Companies covered

ACTELION		**NEUTRAL**	**CHF180**
Last Price	CHF165,3	*Market Cap.*	CHF17,813m
ASTRAZENECA		**BUY**	**5400p**
Last Price	5220p	*Market Cap.*	*GBP66,022m*
BAYER		**NEUTRAL**	**U.R.**
Last Price	EUR95,87	*Market Cap.*	*EUR79,280m*
GLAXOSMITHKLINE		**BUY**	**1810p**
Last Price	1694,5p	*Market Cap.*	*GBP82,603m*
IPSEN		**BUY**	**EUR66**
Last Price	EUR60,67	*Market Cap.*	*EUR5,056m*
NOVARTIS		**NEUTRAL**	**CHF87**
Last Price	CHF81,55	*Market Cap.*	*CHF214,241m*
NOVO NORDISK		**NEUTRAL**	**DKK385**
Last Price	DKK330	*Market Cap.*	*DKK664,146m*
ROCHE HOLDING		**BUY**	**CHF293**
Last Price	CHF250,3	*Market Cap.*	*CHF175,852m*
SANOFI		**NEUTRAL**	**EUR83**
Last Price	EUR72,53	*Market Cap.*	*EUR93,484m*
SHIRE PLC		**BUY**	**6900p**
Last Price	5145p	*Market Cap.*	*GBP46,315m*
UCB		**NEUTRAL**	**EUR80**
Last Price	EUR69,48	*Market Cap.*	*EUR13,514m*



BMS announced last Friday that CheckMate-026 had failed to reach its primary endpoint, meaning that Opdivo monotherapy failed to show superiority on PFS vs chemotherapy in previously untreated patients with PD-L1 positive NSCLC. This is the first major failure for Opdivo and the surprise comes mainly from the selection of patients. It gives even more credit to those who believe that the future of immune-oncology is mainly in combinations. And so this is good news for Roche and even more so for AstraZeneca because the big 1L NSCLC market may be first addressed by them rather than by US peers. They should respectively report phase III data from IMpower150 and MYSTIC respectively next year. To a lesser extent, the news is also positive for Ablynx and Innate.

ANALYSIS

- CheckMate-026 was supposed to recruit about 535 patients with previously untreated NSCLC cancer with PD-L1 positive status that were randomised in two arms to receive either chemotherapy (gemcitabine or CarboTax for squamous forms, Carbo/Cis-Alimta for non-squamous forms) or Opdivo. The trial failed to reach its primary endpoint and to demonstrate superior PFS compared to CT. This is all the more surprising in that back in June, Keytruda succeeded in a fairly similar study named KEYNOTE-024 where both PFS and OS endpoints were met. It is fair to say that only non-squamous NSCLC patients were eligible and that the PD-L1 degree of overexpression was different (>50% in Merck's trial, >5% in BMS's trial). If positive, BMS would have opened a much larger market opportunity for Opdivo than Merck did with Keytruda.
- So, what does this tell us? Well, probably that monotherapy with an IO agent has limitations at some point in addressing all tumour types in all settings. Referring to page 9 of our Oncology Report published in July after our Oncology Day at Curie (link here), we said that combining IO agents was the best way to address tumour heterogeneity and complexity.
- Clearly, this failure is good news for Roche and AstraZeneca because they are strong believers in combinations as synergies can be developed by targeting several pathways simultaneously. With CheckMate-026 positive, all combinations in development would have been compelled to show clearly how much extra benefit they were offering above and beyond Opdivo. Although all trials include PD-L1 monotherapy arms, this would have made the objective more difficult to reach, from a regulatory standpoint first and then from a price perspective too. Because Keytruda was successful only in PD-L1 high expressers, the bar is not so high yet.
- So now Roche and AstraZeneca are next to deliver. Very early in 2017, Roche is expected to provide data with IMpower150, which compares Tecentriq/CT to CT +/- Avastin while AstraZeneca should come shortly afterwards with the highly awaited MYSTIC trial which should be the first CT-free combination (durva/treme) in a similar setting. Positive results would give the two companies a significant advantage over peers in this top prioritized 1L NSCLC market segment that is worth several billions (all the more so if IO/IO proves standard). CheckMate-227 (Opdivo/Yervoy) is only expected to deliver results in early 2018 (KEYNOTE-189 should report in September 2017).
- So, to summarise, Roche and AstraZeneca still have to deliver positive results with their own compounds but the failure of CheckMate-026 gives more credit to combination strategies.
- To a lesser extent, we think the news is also positive for Ablynx and Innate Pharma as they are respectively involved in partnerships with Merck & Co and BMS to combine some of their drugs with their PD-1 checkpoint inhibitors. Note also that 1/ last year, MSD expanded its I-O partnership with ABLX, which now includes up to 17 targets for a total deal value of up to USD5.7bn (INDs expected in late 16/early 17); 2/ we expect some Phase Ib data (including PFS?) involving lirilumab/nivolumab in "inflamed" solid tumours at the upcoming ESMO congress.

VALUATION

- We are making no change to any of our numbers.

NEXT CATALYSTS

- 7-11th October 2016: ESMO congress in Copenhagen

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Distribution of stock ratings

BUY ratings 55,7% NEUTRAL ratings 33,6% SELL ratings 10,7%

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