26th October 2016

Healthcare

Innate Pharma

Price EUR10.74

IPH4102: preliminary… but very promising efficacy data; FV raised

Fair Value EUR20 vs. EUR18 (+86%) — BUY

Bloomberg	IPH FP
Reuters	IPH.PA
12-month High / Low (EUR)	14.5 / 9.5
Market Cap (EURm)	579
Ev (BG Estimates) (EURm)	375
Avg. 6m daily volume (000)	260.0
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.7%	1.8%	-18.2%	-20.7%
Healthcare	-6.4%	-9.9%	-5.6%	-12.9%
DJ Stoxx 600	-0.7%	0.6%	-1.0%	-6.2%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	25.1	69.6	112.9	81.4
% change		*NM*	*62.1%*	*-27.9%*
EBITDA	-8.1	24.3	53.4	6.9
EBIT	-10.8	21.3	49.9	2.9
% change		*NS*	*134.3%*	*-94.3%*
Net income	-6.7	26.3	53.9	5.9
% change		*NS*	*104.9%*	*-89.1%*

	2015	2016e	2017e	2018e
Operating margin	-42.8	30.6	44.2	3.5
Net margin	-26.7	37.7	47.7	7.2
ROE	-9.3	26.7	35.4	3.7
ROCE	4.2	-25.3	-185.9	6.5
Gearing	-322.1	-207.3	-120.2	-44.3

(EUR)	2015	2016e	2017e	2018e
EPS	-0.12	0.49	1.00	0.11
% change	-	*NS*	*104.9%*	*-89.1%*
P/E	NS	22.0x	10.7x	98.8x
FCF yield (%)	34.7%	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	13.8x	5.4x	3.5x	6.3x
EV/EBITDA	NS	15.5x	7.4x	74.3x
EV/EBIT	NS	17.6x	7.9x	178.6x

We were very positively surprised by IPH4102's preliminary efficacy data in CTCL (ORR: 38%) especially since 1/ most patients suffered from Sezary Syndromes (and thus with the poorer prognosis), and were heavily pre-treated; 2/ the dose escalation part is far from finished. As they already compare (very) favourably with approved products or candidates under development, we have decided to include this early-stage compound in our SOTP… Hence a new FV of EUR20 (vs EUR18).

ANALYSIS

- **Innate published some preliminary, but still very promising efficacy and safety data for IPH4102** (anti-KIR3DL2) in 16 patients with relapsed/refractory cutaneous T-cell lymphomas (CTCL). As of September 10, the best overall response rate (ORR) was 38% across all dosage levels… knowing that 1/ some complete responses in skin and blood appeared with increasing doses and/or duration of treatment; 2/ such tumor regression was induced with low/medium doses (escalation from 0.0001 to 1.5 mg/kg), and after a median duration of treatment of 126 days (min-max: 41-298 days).
- **Such efficacy rates already compare very favourably with other promising drugs,** including MRK's vorinostat (FDA-approved, HDAC inhibitor), and mogamulizumab (anti-CCR4, Phase III) although 1/ IPH's trial mostly included heavily pre-treated patients (2-8 prior lines) with Stage III/IV Sezary Syndrome; while 2/ "vori" and "moga" were tested in other subtypes of CTCL with an overall better prognosis (much fewer SS patients being enrolled).

Selected candidates in CTCL

Company	Compounds	Stage	Efficacy data	Patients
Merck & Co	Vorinostat (HDACi)	FDA approved	ORR: 24%	CTCL Stage IIb or higher, 40% SS
Celgene	Romidepsin (HDACi)	FDA approved	ORR: 34-35%	CTCL, 30% SS
Kyowa Hakko	Mogamulizumab (anti-CCR4)	Phase III	ORR: 38%	CTCL Stage Ib to IVa
Seattle Genetics	Brentuximab vendotin (ADC anti-CD30)	Phase III	ORR: 70%	CD30+ MF and LDP

SS: Sezary Syndrome, MF: Mycosis Fungoids, LDP: Lymphoproliferative Disorders

- **There is a chance that the ORR will improve over time, and/or with the three remaining/higher doses** (i.e. 3, 6 and 10 mg/kg)… But we will also pay a particular attention to the average duration of response as this aspect is the Achille's heel of all the other candidates under development (< 12 months in most cases).
- **Safety-wise, the compound appears to be well-tolerated**. And without going into too much details, we note that 1/ very few severe adverse events were observed (1 Grade III, 1 Grade IV); 2/ none of them led to treatment discontinuation. There was one death in the study, but the cause was not related to IPH4102.

VALUATION

- **We lift our FV from EUR18 to EUR20 as we have decided to include IPH4102 in our SOTP** following these very positive preliminary data. Among others, we notably assume 1/ a peak sales of EUR400m, 2/ a probability of success of 35% (as we believe that a Phase III could be initiated right after this Phase I/II), and 3/ a development and commercialization driven by IPH.
- **We also stick to our BUY rating** 1/ given the upside we currently see on the stock (c.+85%), and 2/ because our FV could be further increased if key short-term catalysts were to play out (especially positive efficacy data for lirilumab/nivolumab at the upcoming SITC congress).

NEXT CATALYSTS

- November 8th: Publication of SITC abstracts / Phase Ib data of lirilumab/nivolumab in solid

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BUY ratings 56.7% NEUTRAL ratings 31.8% SELL ratings 11.5%

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