

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 | |

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).

| | 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 |

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 Fungoides, 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 Achilles' 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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| | |
|---------|---|
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NEUTRAL ratings 31.8%

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