3rd October 2016

Healthcare

Morphosys

Price EUR37.23

Guselkumab shows strong Phase III data in plaque psoriasis. FV lifted.

Fair Value EUR64 vs. EUR62 (+72%) **BUY**

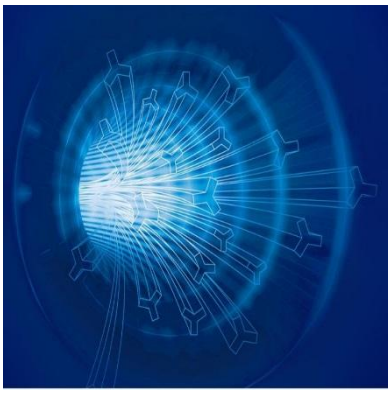
Bloomberg	MOR GR
Reuters	MORG.DE
12-month High / Low (EUR)	61.8 / 33.2
Market Cap (EUR)	988
Ev (BG Estimates) (EUR)	749
Avg. 6m daily volume (000)	111.6
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	-2.7%	-0.3%	-12.2%	-35.4%
Healthcare	-0.8%	-4.3%	4.1%	-9.3%
DJ Stoxx 600	-0.2%	4.0%	1.6%	-6.3%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	106.2	52.0	79.6	15.3
% change		*-51.1%*	*53.3%*	*-80.8%*
EBITDA	20.6	-63.2	-56.2	-141.2
EBIT	17.2	-67.2	-60.2	-145.2
% change			*10.5%*	*-141.3%*
Net income	14.8	-47.1	-42.1	-101.6
% change			*10.5%*	*-141.3%*

	2015	2016e	2017e	2018e
Operating margin	16.2	-129.4	-75.6	-951.0
Net margin	14.0	-90.6	-52.9	-665.7
ROE	4.1	-14.9	-15.4	-59.1
ROCE	16.0	-52.7	-44.2	-100.3
Gearing	-77.9	-75.7	-69.8	-48.5

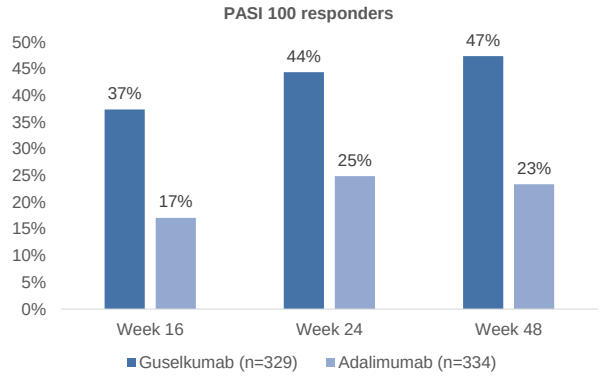
(EUR)	2015	2016e	2017e	2018e
EPS	0.57	-1.78	-1.59	-3.83
% change	-		*10.9%*	*-141.3%*
P/E	65.3x	NS	NS	NS
FCF yield (%)	NM	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	6.6x	14.4x	10.0x	59.3x
EV/EBITDA	34.2x	NS	NS	NS
EV/EBIT	41.1x	NS	NS	NS



JNJ and MOR announced that the VOYAGE 1 study (Phase III evaluating guselkumab in plaque psoriasis vs both a placebo and adalimumab) met all its co-primary endpoints. Efficacy data (and notably the PASI 100 at week 48) were very competitive with Cosentyx's (NVS), therefor confirming our positive bias on this candidate. We have lifted our FV from EUR62 to EUR64 as we have slightly increased the associated PoS (70% vs 60%).

ANALYSIS

- **JNJ and MOR announced some very positive data from the VOYAGE 1 Phase III study involving Guselkumab (anti-IL23p19) as a treatment for patients with plaque psoriasis**. All co-primary endpoints were met as a larger proportion of patients receiving the compound achieved higher PASI 90 (85.1% vs 6.9%, p<0.001) and IGA scores (73.3% vs 2.9%, p<0.001) at week 16 vs placebo…
- **Guselkumab also proved to be superior to adalimumab (anti-TNF-α) across all major endpoints through 48 weeks of treatment**. Among others, we would note that 47.4% of patients receiving guselkumab were considered as PASI 100 responders (i.e. achieved a complete response skin clearance) at week 48… vs 23.4% for adalimumab (p<0.001). We believe this data is very competitive with the ones from NVS' Cosentyx in a similar setting (PASI 100 of 45.9% at 52 week).



- **Safetywise, we would say that adverse events were very similar within the guselkumab and adalimumab arms**… Whether for opportunist infections, cancer cases or cardiovascular events.

	Placebo	Guselkumab	Adalimumab
Treated patients, n	174	329	333
≥1 AE	49.4%	51.7%	51.1%
≥1 SAE	1.7%	2.4%	1.8%
Discontinued to ≥1 AE	1.1%	1.2%	0.9%
Infections	25.3%	25.8%	25.5%
Infections treated with antibiotics	7.5%	6.1%	7.2%
Serious infections	0.0%	0.0%	0.6%
MACE	0.0%	0.3%	0.3%
Non-melanoma skin cancer (NMSC)	0.0%	0.3%	0.0%
Malignancy other than NMSC	0.0%	0.0%	0.0%
≥1 Injection site reaction (ISR)	0.0%	2.4%	7.5%
Total number of injections	0	975	3,262
Injections with ISR	0.0%	1.1%	1.6%

- **As a reminder, guselkumab's main competitive advantage vs IL-17 inhibitors (e.g. NVS's Cosentyx or LLY's Taltz) shoud be its administration schedule** (knowing that this study assessed its ability to administered once every two months, while its different competitors are known to be given on a once-a-month basis at best).

VALUATION

- We have raised our PoS assumption for guselkumab (70% vs 60% previously) thereby prompting us to lift our FV from EUR62 to EUR64 . Note that we might further increase our PoS to 80% should the VOYAGE 2 study be positive (another Phase III study evaluating the compound in plaque psoriasis). BUY reiterated.

NEXT CATALYSTS

- H2 2016/H1 2017: Results from the VOYAGE 2 Phase III study (guselkumab in plaque psoriasis).
- H2 2016/H1 2017: Read-across from Lilly's solanezumab (anti-β-amyloid mAb) in prodromal Alzheimer's disease

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Analyst :
Mickael Chane Du
33(0) 1 70 36 57 45
mchanedu@bryangarnier.com

Sector Team :
Eric Le Berrigaud
Hugo Solvet

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London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Munich
Widenmayerstrasse 29
80538 Munich
Germany
+49 89 2422 62 11

New Delhi
The Imperial Hotel Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA