

## Innate Pharma

Price EUR11.15

Can't for this weekend!

Fair Value EUR21 (+88%)

BUY

We stick to our BUY rating following yesterday's abstract publication involving lirilumab/nivolumab in head & neck cancer. At first sight, we see the obtained response rates as very encouraging should we compare them with nivo alone in another study (24% vs 13% respectively). However, we admittedly need more details to better appreciate them... and fortunately, the November 12<sup>th</sup> presentation is likely to bring answers to our questions.

Bloomberg	IPH FP
Reuters	IPH.PA
12-month High / Low (EUR)	14.5 / 9.5
Market Cap (EUR)	601
Ev (BG Estimates) (EUR)	397
Avg. 6m daily volume (000)	273.9
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	1.3%	1.7%	-5.5%	-17.7%
Healthcare	-6.8%	-11.6%	-3.4%	-16.1%
DJ Stoxx 600	-1.4%	-1.9%	1.0%	-8.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	25.1	69.6	112.9	81.4
% change			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	105.0%	-89.1%
P/E	NS	22.9x	11.2x	NS
FCF yield (%)	33.4%	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	14.7x	5.7x	3.7x	6.5x
EV/EBITDA	NS	16.4x	7.8x	77.5x
EV/EBIT	NS	18.7x	8.4x	186.3x

## ANALYSIS

- SITC abstracts were released yesterday, so we finally got some flavour from the Phase Ib evaluating lirilumab in combination with BMS' nivolumab in heavily pre-treated patients with head and neck cancer. At first sight, the 24% objective response rate (ORR) obtained in 29 evaluable patients compares more than favourably with nivo alone (ORR: 13%, 57% of them having a PD-L1 expression of  $\geq 1\%$ ). Plus, two patients classified with a stable disease actually benefited from "unconventional" tumor regression (-100% and -37% respectively), so the reported ORR might actually be quite conservative.
- We see these responses as deep and durable ones as 1/ 5 out of 7 responders had tumor reductions of more than 80% (17%)... which looks pretty encouraging compared to nivo alone (CR: 2.5%); 2/ the median duration of response was not reached. And fortunately, some charts from the SITC poster book help us to better appreciate this aspect (see Fig below).

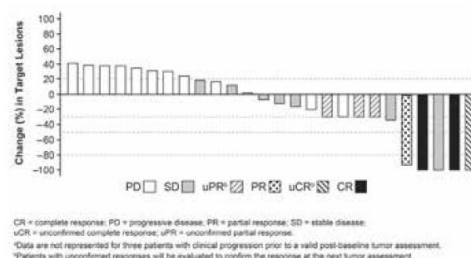


Figure 1. Maximum percent reduction in target lesions from baseline.<sup>a</sup>

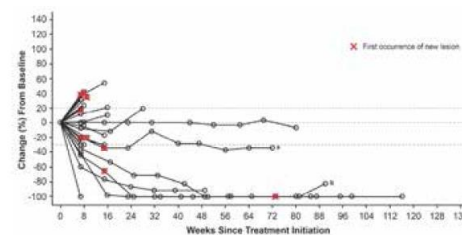


Figure 2. Percent change from baseline in target lesions over time.

- Some investors may relate these with pembrolizumab (ORR 18%), but we understand MRK tend to recruit more PD-L1 high-expressors... so we believe the comparison is more biased than with nivolumab's study.
- These data are very encouraging in our view, but we obviously need more details regarding 1/ the proportion of patients overexpressing PD-L1 (and to which extent) as well as their HPV status; 2/ how heavily pre-treated they are, and what was their prognosis at baseline. In a best-case, most of these patients would be (i) PD-L1 low-expressors, (ii) HPV+, (iii) with a median of prior lines of 2-3, and (iv) less than 70% of ECOG PS 1.

## VALUATION

- BUY reiterated with a FV of EUR21.

## NEXT CATALYSTS

- November 12<sup>th</sup>: Detailed presentation of efficacy data for liri/nivo in refractory/relapse head & neck cancer.
- Q4 16: Phase IIb results of lirilumab as a single-agent for the maintenance treatment of acute myeloid leukemia.

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