

Innate Pharma

Price EUR13.33

"Liri" indeed shines at the SITC... and it's just the beginning; our FV revised up

Fair Value EUR23 vs. EUR21 (+73%)

BUY

Bloomberg	IPH FP
Reuters	IPH.PA
12-month High / Low (EUR)	14.5 / 9.5
Market Cap (EURm)	719
Ev (BG Estimates) (EURm)	515
Avg. 6m daily volume (000)	290.9
3y EPS CAGR	

BMS presented more detailed data from its Phase I/II testing lirilumab/nivolumab in refractory/relapsed patients with HNSCC (head & neck squamous cell carcinoma) last Saturday. Overall, they were much better than we anticipated as 1/ the involved population was more heavily pre-treated than the one seen in Checkmate-141 that tested nivolumab alone in this disease; 2/ the 1-year OS stood at 60% (vs 36% for nivo alone). As such, we raise our FV from EUR21 to EUR23 after having raise some of our PoS.

	1 M	3 M	6 M	31/12/15
Absolute perf.	22.3%	22.6%	8.6%	-1.6%
Healthcare	-3.5%	-8.5%	-2.6%	-13.3%
DJ Stoxx 600	-0.8%	-2.6%	0.8%	-7.7%

ANALYSIS

- **Stellar data in a heavily pre-treated population.** We see the efficacy data presented this Saturday as highly encouraging when compared with those from the Checkmate-141 (nivolumab alone in HNSCC). Firstly, the patients involved in the liri/nivo study 1/ overall had the same ECOG performance status, but 2/ received more prior lines of systemic therapy... And thus had a more negative prognosis. Secondly, the one-year Overall Survival (OS) stood at 60% irrespectively of PD-L1's level of expression, while nivo alone displayed a 36% rate within this same timeframe (see Fig. below).

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	105.0%	-89.1%
P/E	NS	27.3x	13.3x	NS
FCF yield (%)	27.9%	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	19.4x	7.4x	4.7x	8.0x
EV/EBITDA	NS	21.2x	10.0x	94.7x
EV/EBIT	NS	24.2x	10.7x	227.5x

	Liri/Nivo (n=41)	Nivo - Checkmate-141 (n=240)
Patients - Characteristics at baseline		
<u>ECOG performance status</u>		
0	22%	20%
1	78%	79%
≥ 2	0%	0%
<u>Prior therapies</u>		
1	32%	44%
2	42%	33%
≥ 3	27%	23%
HPV-positivity oropharynx	20%	27%
<u>Efficacy data</u>		
ORR	24%	13%
Complete response	10%	3%
Partial response	14%	11%
DCR	52%	NR
<u>ORR by PD-L1 expression</u>		
< 1%	0%	12%
≥ 1%	41%	17%
≥ 5%	55%	22%
≥ 50%	57%	37%
<u>Overall survival in all patients</u>		
At 6 months	90%	56%
At 12 months	60%	36%

Source : Company Data; Bryan Garnier & Co. ests.

- Surprisingly, no responses were observed in PD-L1-negative and even HPV-positive patients; although PD-1/PD-L1 blockers as single agents have induced some in other trials (Seiwart et al, 2016, Segal et al, 2015). That said, we believe it is premature to draw conclusions, especially since the involved population was quite small.
- **A Phase III is very likely, in our view.** Such advancement was not explicitly promised, but we would be very surprised if BMS does initiate a pivotal trial especially since 1/ there is no other checkpoint blocker targeting NK cells within its portfolio; 2/ apart from nivo/ipilimumab, there is no significant late-stage development in HNSCC (see Fig. below).
- **Good news never comes alone: positive read-across for monalizumab.** Such dataset confirms the significant role NK cells might have in the cancer immune response, as well as the synergies with PD-1/PD-L1 blockers... And thus partially de-risks 1/ the mechanism of action of monalizumab (an anti-NKG2A acting both NK cells along with some CD8+ T lymphocytes), and 2/ its development with durvalumab (AZN's anti-PD-L1) in this very same indication.



Phase I		Phase II		Phase III		Approved Indications	
Anti-GITR Mono & IO Combo Solid Tumors	Mesothelin-ADC Solid Tumors	OPDIVO* NHL (FL)	Lirilumab* Hematologic Mal.	OPDIVO* Adjuvant Melanoma	OPDIVO* 2L Head & Neck	OPDIVO* Previously treated Met Melanoma	OPDIVO* + YERVOY BRAF wild-type Met Melanoma
Cabiralizumab* Mono & IO Combo Solid Tumors	Anti-HER2 ** Breast Cancer	OPDIVO* NHL (DLBCL)	Urelumab* + OPDIVO* Solid Tumors & Hematologic Mal.	OPDIVO* 2L SCLC	OPDIVO* 1L Head & Neck	OPDIVO* 1L BRAF wild-type Met Melanoma	OPDIVO* + YERVOY Melanoma across BRAF status
Anti-CD73 IO Combo Solid Tumors	Lirilumab* IO Combo Solid Tumors	OPDIVO* MSI+ Colon	Anti-Fucosyl GM1 Lung Cancer	OPDIVO* + YERVOY 1L SCLC	OPDIVO* + YERVOY 1L Head & Neck	OPDIVO* Melanoma across BRAF status	YERVOY Metastatic Melanoma
Anti-OX40 Mono & IO Combo Solid Tumors	Lirilumab* + EMPLICIT* MM	OPDIVO* 2L Bladder	Anti-Fucosyl GM1 + OPDIVO* Lung Cancer	OPDIVO* + YERVOY 1L NSCLC	OPDIVO** 3L Gastric	OPDIVO* Previously treated Met Squamous NSCLC	YERVOY Adjuvant Melanoma
Anti-LAG3* Mono & IO Combo Hematologic Mal.	Urelumab* + EMPLICIT* MM	OPDIVO** Ovarian	EMPLICIT* 1L MM Pomalidomide Combo	OPDIVO* + YERVOY 1L RCC	OPDIVO** 2L Esophageal	OPDIVO* Previously treated Met Non-squamous NSCLC	EMPLICIT* Relapsed/Refractory MM Revlimid Combo
IDO Inhibitor IO Combo Solid Tumors	OPDIVO* + SPRYCEL* CML	OPDIVO* 2L HCC	YERVOY Adolescent Mel	OPDIVO* 1L Glioblastoma	OPDIVO* Adjuvant Esophageal /Gastroesophageal	OPDIVO* Previously treated advanced RCC	SPRYCEL* 1L CML
HuMax-IL8 Solid Tumors	OPDIVO* Solid Tumors & Hematologic Mal.	Anti-LAG3* + OPDIVO* Solid Tumors	SPRYCEL* Pediatric	OPDIVO* 2L Glioblastoma	OPDIVO* + EMPLICIT* Multiple Myeloma	OPDIVO* Advanced Hodgkin Lymphoma	SPRYCEL* Refractory CML
Ulocuplumab + OPDIVO* Solid Tumors	OPDIVO* + YERVOY Solid Tumors			OPDIVO* 1L HCC	EMPLICIT* 1L MM Revlimid Combo		
BET Inhibitor Solid Tumors	OPDIVO* Pediatric			OPDIVO* Adjuvant Bladder	PROSTVAC** Met CRPC		

* Development Partnership
EMPLICIT: Abbvie;
SPRYCEL: Otsuka;
OPDIVO: Ono Pharmaceutical;
Prostvac: Bavarian Nordic;
Lirilumab: Instate Pharma; Ono Pharmaceutical;
Urelumab, Anti-LAG-3: Ono Pharmaceutical
Anti-HER2: F-star Alpha Ltd
Cabiralizumab: Five Prime Therapeutics

* Partner-run study;
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CML: Chronic Myelogenous Leukemia
CRPC: Met. Castration-Resistant Prostate Cancer
DLBCL: Diffuse Large B-cell Lymphoma
FL: Follicular Lymphoma
HCC: Hepatocellular Carcinoma
Mal: Malignancy
Met: Metastatic

MM: Multiple Myeloma
Mono: Monotherapy
Prostate Cancer
NHL: Non-Hodgkin's Lymphoma
NSCLC: Non Small Cell Lung Cancer
SCLC: Small Cell Lung Cancer
RCC: Renal Cell Carcinoma

VALUATION

- We raise our FV from EUR21 to EUR23, having our PoS for both liri/nivo (50% vs 20%) and mona/durvalumab (45% vs 30%) in HNSCC. And it goes without saying that we stick to our BUY rating.
- Note that we may reconsider some ongoing development (e.g. liri/nivo in Hodgkin's lymphoma or gastric cancers) following this publication.

NEXT CATALYSTS

- Q4 16: Phase II results for lirilumab as a single-agent for the maintenance therapy of acute myeloid leukemia.

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