24th November 2016

Sector View

Pharmaceuticals

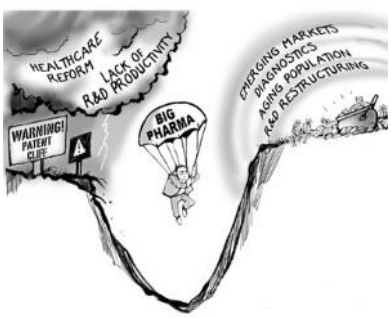
LLY's solanezumab fails in mild dementia due to AD. Negative for MOR, ROG and GFS, but positive for AZN

	1 M	3 M	6 M	31/12/15
Healthcare	-5.6%	-9.4%	-7.3%	-15.8%
DJ Stoxx 600	-1.0%	-0.8%	1.2%	-6.8%

*Stoxx Sector Indices

Companies covered

ACTELION		**BUY**	**CHF194**
Last Price	CHF155.1	*Market Cap.*	CHF16,714m
ASTRAZENECA		**BUY**	**5100p**
Last Price	4168p	*Market Cap.*	*GBP52,727m*
BAYER		**NEUTRAL**	**EUR98**
Last Price	EUR88.34	*Market Cap.*	*EUR73,053m*
GLAXOSMITHKLINE		**BUY**	**1930p**
Last Price	1505p	*Market Cap.*	*GBP73,386m*
GRIFOLS		**NEUTRAL**	**EUR20**
Last Price	EUR17.985	*Market Cap.*	*EUR11,419m*
IPSEN		**BUY**	**EUR72**
Last Price	EUR61.83	*Market Cap.*	*EUR5,156m*
NOVARTIS		**NEUTRAL**	**CHF81**
Last Price	CHF69.1	*Market Cap.*	*CHF181,534m*
NOVO NORDISK		**NEUTRAL**	**DKK270**
Last Price	DKK220.7	*Market Cap.*	*DKK444,173m*
ROCHE HOLDING		**BUY**	**CHF285**
Last Price	CHF222.8	*Market Cap.*	*CHF156,531m*
SANOFI		**NEUTRAL**	**EUR84**
Last Price	EUR74.17	*Market Cap.*	*EUR95,637m*
SHIRE PLC		**BUY**	**6800p**
Last Price	4596p	*Market Cap.*	*GBP41,525m*
SOBI		**SELL**	**SEK90**
Last Price	EUR93.75	*Market Cap.*	*EUR25,349m*
UCB		**NEUTRAL**	**EUR80**
Last Price	EUR61.5	*Market Cap.*	*EUR11,962m*



Lilly's solanezumab (an anti-β amyloid monoclonal antibody) failed to bring a statistically significant benefit to patients with mild dementia due to Alzheimer's disease (AD) in a large Phase III study. We believe the street will increasingly question the viability of MOR/ROG's gantenerumab as well as GFS' Albutein; both being tested as treatments for Alzheimer's disease in different Phase III trials… and both targeting β amyloid. On the other hand, the read-across could be positive for AZN's BACE inhibitor as we believe LLY will probably decide to reprioritize it following solanezumab's failure.

ANALYSIS

- **Another failed anti-β amyloid trial.** Lilly's solanezumab (an anti-β amyloid monoclonal antibody) failed to bring a benefit in patients with mild dementia due to Alzheimer's disease (AD) in a large Phase III study (EXPEDITION 3). Patients treated with solanezumab did not experience a statistically significant slowing in cognitive decline compared to patients treated with placebo (p=0.095), as measured by the ADAS-Cog (Alzheimer's Disease Assessment Scale-Cognitive subscale). And while the study results (including a range of different secondary clinical endpoints) directionally favoured solanezumab, the magnitudes of treatment differences are said to be quite small.
- **Lilly to discontinue solanezumab's development for the whole AD indication?** Admittedly, this development involved a condition related to AD… But we believe the potential impact of this failure could be broader than what the street actually expects, especially since LLY's management clearly stated during its Q3 2016 conference call that they would re-evaluate all the "sola" programs should EXPEDITION 3 be a failure (and that might include the developments in prodromal AD).

VALUATION

- **Negative for MOR/ROG, GFS**. As underlined in our reports dealing with Morphosys ("Back for MORe") and Grifols (¡El consenso al borde de un ataque!), we were/are quite pessimistic about the different options developed in AD, and especially the ones targeting the β amyloid protein… So our base-case scenarios are unchanged. Having said that, we believe the street will increasingly question the viability of MOR/ROG's gantenerumab as well as GFS' Albutein; both being tested as AD treatments in different Phase III trials… and both targeting β amyloid.
- Regarding GFS more specifically, we continue to ask ourselves whether the design of the ongoing AMBAR Phase III study is really satisfactory from a regulatory standpoint (less than 500 patients enrolled whereas millions of people are known to be affected by this highly heterogeneous condition).
- **But potentially positive for AZN.** On the other hand, the read-across could be positive for AZN's BACE inhibitor as we believe LLY will probably decide to reprioritize it following solanezumab's failure.

NEXT CATALYSTS

- 8th December: Presentation of detailed data from the EXPEDITION 3 trial at the CTAD (Clinical Trials on Alzheimer's disease) meeting.
- H1 2017: Phase III results for Grifols' Albutein in AD (AMBAR study).

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