1st December 2016

Healthcare

Innate Pharma

Price EUR14.20

Single-agent monalizumab's data in ovarian cancer: do not draw hasty conclusions

Fair Value EUR23 (+62%) **BUY**

Bloomberg	IPH FP
Reuters	IPH.PA
12-month High / Low (EUR)	14.8 / 9.5
Market Cap (EUR)	766
Ev (BG Estimates) (EUR)	562
Avg. 6m daily volume (000)	328.7
3y EPS CAGR	

	1 M	3 M	6 M	31/12/15
Absolute perf.	32.7%	37.7%	8.6%	4.9%
Healthcare	1.0%	-6.2%	-8.7%	-14.2%
DJ Stoxx 600	0.9%	-0.4%	-1.6%	-6.5%

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

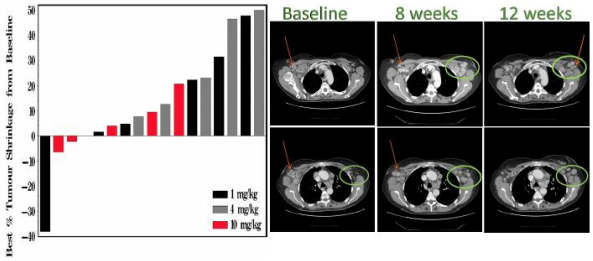
(EUR)	2015	2016e	2017e	2018e
EPS	-0.12	0.49	1.00	0.11
% change	-	*NS*	*105.0%*	*-89.1%*
P/E	NS	29.1x	14.2x	NS
FCF yield (%)	26.2%	NM	NM	NM
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	21.2x	8.1x	5.2x	8.5x
EV/EBITDA	NS	23.1x	10.9x	101.5x
EV/EBIT	NS	26.4x	11.7x	244.0x

Admittedly, monalizumab's Phase I data as a single agent in highly pre-treated patients with ovarian cancer were not that stellar. But one should not draw hasty conclusions, especially since this is a preliminary dataset with a small number of patients from a short dose-ranging study part. Also, we believe most of the value lies in the combination with AZN's durvalumab (and first efficacy data are likely to be published in H2 2017 in our view). We maintain our BUY recommendation with a FV of EUR23.

ANALYSIS

- Innate Pharma yesterday presented preliminary data from the dose-escalation part of its Phase I/II evaluating monalizumab (anti-NKG2A) at the EORTC-NCI-AACR meeting in Germany. The compound was very well tolerated during the dose-escalation part of the study (as no severe treatment-related adverse events have been reported); but this was nothing surprising. Efficacy-wise, data showed short-term disease stabilisation in 41% of patients, including one patient with a mixed response/nearly partial… which admittedly is not outstanding.

Figure 2. Best Tumour shrinkage from baseline (N=17); Mixed response



- **Neither positive nor negative**. Inducing more confirmed partial responses would have been welcome, but bear in mind that that ovarian cancer is still a challenging indication for I-O agents as a monotherapy (MRK/PFE's avelumab for instance induced an ORR of 9.7% - Disis *et al*, 2016). Also, 1/ this is a preliminary dataset involving a small number of patients (n=17) from the dose-ranging part of the study; and 2/ most patients being heavily pre-treated ones (median of prior therapies: c.2), that received a median of solely 6 cycles of treatment with "mona" (while I-O is known to take a few months before showing some activity – Hoos *et al*, 2009; Wolchock *et al*, 2009).

- **Our eyes are more on combinations.** Having said that, most of mona's value lies in combinations with PD-1/PD-L1 blockers. And hopefully 1/ monalizumab/durvalumab's Phase I/II results in ovarian and other solid tumours will probably be presented in H2 17 as well, or in 2018 at the latest; 2/ lirilumab/nivolumab's data in HNSCC did confirm that such NK/T-cells-oriented cocktails might be both potent and safe (and even in not-so inflamed cancer types). More to come at the 2017 ASCO Meeting…

VALUATION

- We maintain our BUY recommendation with a FV of EUR23.

NEXT CATALYSTS

- Q1 2017: Single-agent lirilumab for the maintenance treatment of acute myeloid leukemia – Phase IIb results.
- Q2 2017: Follow-up from the Phase I/II of IPH4102 in cutaneous T-cell lymphomas + Q2 17: Further Phase I/II data for lirilumab/nivolumab in solid tumours.

Click here to download document

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

Sector Team :
Eric Le Berrigaud
Marion Levi
Hugo Solvet

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY — Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

NEUTRAL — Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

SELL — Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 55.7% NEUTRAL ratings 32.9% SELL ratings 11.4%

Research Disclosure Legend

1	Bryan Garnier shareholding in Issuer	Bryan Garnier & Co Limited or another company in its group (together, the "Bryan Garnier Group") has a shareholding that, individually or combined, exceeds 5% of the paid up and issued share capital of a company that is the subject of this Report (the "Issuer").	No
2	Issuer shareholding in Bryan Garnier	The Issuer has a shareholding that exceeds 5% of the paid up and issued share capital of one or more members of the Bryan Garnier Group.	No
3	Financial interest	A member of the Bryan Garnier Group holds one or more financial interests in relation to the Issuer which are significant in relation to this report	No
4	Market maker or liquidity provider	A member of the Bryan Garnier Group is a market maker or liquidity provider in the securities of the Issuer or in any related derivatives.	No
5	Lead/co-lead manager	In the past twelve months, a member of the Bryan Garnier Group has been lead manager or co-lead manager of one or more publicly disclosed offers of securities of the Issuer or in any related derivatives.	No
6	Investment banking agreement	A member of the Bryan Garnier Group is or has in the past twelve months been party to an agreement with the Issuer relating to the provision of investment banking services, or has in that period received payment or been promised payment in respect of such services.	No
7	Research agreement	A member of the Bryan Garnier Group is party to an agreement with the Issuer relating to the production of this Report.	No
8	Analyst receipt or purchase of shares in Issuer	The investment analyst or another person involved in the preparation of this Report has received or purchased shares of the Issuer prior to a public offering of those shares.	No
9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
10	Corporate finance client	In the past twelve months a member of the Bryan Garnier Group has been remunerated for providing corporate finance services to the issuer or may expect to receive or intend to seek remuneration for corporate finance services from the Issuer in the next six months.	No
11	Analyst has short position	The investment analyst or another person involved in the preparation of this Report has a short position in the securities or derivatives of the Issuer.	No
12	Analyst has long position	The investment analyst or another person involved in the preparation of this Report has a long position in the securities or derivatives of the Issuer.	No
13	Bryan Garnier executive is an officer	A partner, director, officer, employee or agent of the Bryan Garnier Group, or a member of such person's household, is a partner, director, officer or an employee of, or adviser to, the Issuer or one of its parents or subsidiaries. The name of such person or persons is disclosed above.	No
14	Analyst disclosure	The analyst hereby certifies that neither the views expressed in the research, nor the timing of the publication of the research has been influenced by any knowledge of clients positions and that the views expressed in the report accurately reflect his/her personal views about the investment and issuer to which the report relates and that no part of his/her remuneration was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.	Yes
15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	No

A copy of the Bryan Garnier & Co Limited conflicts policy in relation to the production of research is available at www.bryangarnier.com

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