BRYAN, GARNIER & CO

EXTEL - VOTE NOW! *Thank you for your support*

Core News

MERCK KGAA | Buy | FV EUR113

Fast moving competition makes it hard to push further avelumab in ovarian cancer

- Avelumab+talazoparib discontinued in 1L ovarian
- Trial design and fast moving competitive landscape
- Avelumab will not turn the HC franchise around by itself
- No impact on our valuation… one last catalyst

Analyst: Hugo Solvet

Click here to download

Headlines

BAYER | Neutral | FV EUR81

Another setback for Bayer in the glyphosate trial as the jury has voted (unanimously) that glyphosate was a "substantial factor" in causing non-Hodgkin Lymphoma of plaintiff Edwin Hardeman. This is the second litigation lost by Bayer after the defeat last summer (D. Johnson vs Monsanto). This decision concludes the first part of this trial and the second one will begin immediately where the jurors will be considering whether Monsanto is legally liable for the harm caused to Mr. Hardeman and, if so, what the damages should be. Finally, another trial is to start next week in California. As a reminder there are about 11,200 plaintiffs who are suing Monsanto (Bayer) on glyphosate and usually about the fact that the latter was causing their non-Hodgkin Lymphoma. Not all of the verdicts will be in favor of plaintiffs but it is now very difficult to predict the amount Bayer will have to pay. Applying the USD78m damages Monsanto will have to pay to D.Johnson to the 11,200 plaintiffs, the total amount is USD874bn. Obviously Bayer will not have to pay this amount and if the company continues to lose cases it may decide to settle some of them. In any case this story may cost multiple

billions to Bayer and is at this point causing significant pain to the stock as investors have poor visibility over net cash flow generation in the years to come.

GENMAB | Buy | FV DKK1300

Roche and Abbvie announced that they have been forced to stop recruiting patients for all ongoing studies involving Venclexta (venetoclax) for multiple myeloma. This decision follows a review of data from the Phase III BELLINI trial, a study in relapsed/refractory multiple myeloma, in which a higher proportion of deaths was observed in the venetoclax arm compared to the control arm. As a reminder, Venclexta got an accelerated approval for CLL back in 2016 and has been granted a total of 5 breakthrough drug designations so far. While we did not consider Venclexta as a key competitor to Darzalex, we acknowledge that it is another good piece of news for Genmab. We reiterate our Buy rating and our DKK1300 FV.

GLAXOSMITHKLINE | Neutral | FV GBp1,660

GSK yesterday presented a first set of results for the phase I/II GARNET conducted with dostarlimab (anti-PD-1) in advanced endometrial cancer. This drug is coming from Tesaro which was recently acquired by GSK. In this trial dostarlimab has been tested as a 2L treatment in women with recurrent or advanced endometrial cancer (125 patients) and has shown ORR of 30%, 49%, 20% in full population, MSI-H population (33%) and MSS population (63%) respectively. Endometrial cancer can be classified as microsatellite stable (MSS representing 75% of these cancers) or microsatellite instability-high (MSI-H) representing 25% of these cancers. Only Keytruda is yet approved for 2L endometrial cancer and has shown on just 14 patients (Keynote-028), an ORR of 36% which appears lower than for dostarlimab, but comparison should be done very carefully due the small size of the trial samples. With these results, GSK expects to file dostarlimab in this indication by the end of the year. Globally we expect sales of GBP66m in 2025 applying a PoS of 10% (GBP662m with 100% PoS).

INNATE PHARMA | Buy | FV EUR16.5

There is nothing fundamentally new in today's announcement by Innate Pharma beyond the final numbers for the full-year 2018. The company summarizes what it was made of and true is that it was a pivotal year for Innate which had a significant turn in its history as a so-called landmark deal was signed with AstraZeneca which became a shareholder in the company, opted in for full rights of monalizumab and acquired new rights in the company's portfolio but also sold Innate an FDA-just approved product called Lumoxiti which will make Innate an integrated biopharma company and no longer just an R&D-based biotech. Simultaneously Innate was able to bring IPH4102, its most advanced proprietary product, to the next stage i.e. close to the beginning of a sizeable phase II trial called TELLOMAK which is about to start. It is a status change for Innate Pharma from an investor standpoint and we believe it is not yet fully recognized to the right level. More recently, the company announced the strengthening of its management team with the recruitment of two Senior individuals including its new US General Manager Jennifer Butler who will be in charge of structuring the US

infrastructure able to take full responsibility for the commercialization of Lumoxiti by the middle of 2020 and then to prepare for the addition of IPH4102 in Sezary Syndrome (and later on in CTCL and PTCL) towards 2021-2022. Actually as new faces are coming on Board, some former leaders are leaving and today Innate Pharma announces that Jerome Tiollier (Chief Development Officer) will be leaving after 17 years at the company, which we see as normal turnover of people. So it leaves us with the financial numbers and we would make a few comments here: first is that we were not expecting Innate to show a net profit in 2018 (of EUR3m) although it is simply the reflection of differences in accounting methods with a greater part of the value of the deal with AZ incurred last year where we anticipated it to be spread over a longer period of time. This has no impact on the valuation since it is cash-flow-based. The only difference to report is, at the end of January 2019, a net cash amount of about EUR256m i.e. EUR10m more than we anticipated. This is before anything else the reflection of a lower-than-expected amount of operating expenses in H2 2018 with R&D costs totaling EUR69.6m where we projected EUR75m. We continue to see Innate Pharma as one of the best biotech in Europe and one to have in portfolio with a FV of EUR16.5 underpinning a very attractive investment case and entry point into the story.

MORPHOSYS | Buy | FV EUR120

MorphoSys announced yesterday after market close, that I-Mab Biopharma, its exclusive licensing partner in Greater China for MOR202 (anti-CD38), has dosed the first patient in Taiwan in its pivotal phase 2 trial being conducted in China and Taiwan to evaluate TJ202/MOR202 in patients with r/r multiple myeloma. This event triggers a $5m milestone payment to MorphoSys. The multi-center, single-arm, phase 2 study will evaluate the efficacy and safety of TJ202/MOR202 in combination with dexamethasone in multiple myeloma patients (who have received at least two prior lines of treatment) with the primary endpoint being the evaluation of the objective response rate. Given that the trial has been designed as a pivotal study, a successful outcome could potentially lead to a biologics license application in China. I-Mab is a well-financed company, having raised $370m within 12 months including a recent $220m series C round. We believe that I-Mab is an excellent partner for the development of MOR202 (and MOR210) in the region (China, Taiwan, Hong Kong and Macao). Multiple myeloma is the second most common hematologic malignancy globally and the fast-to-market strategy of I-Mab in Greater China should help to bring the treatment to patients as efficiently as possible assuming successful trial outcomes. We reiterate our BUY recommendation and FV of EUR120.

Q2 2019 Healthcare Top Picks

SANOFI (Buy, FV EUR94), NOVARTIS (Buy, FV CHF96), ROCHE HOLDING (Buy, FV CHF315), GALAPAGOS (Buy, FV EUR125)

For more information:

Eric Le Berrigaud
Managing Partner | Pharmaceuticals
eleberrigaud@bryangarnier.com
+33 1 56 68 75 33

Gary Waanders, PhD, MBA
Managing Director | Healthcare
gwaanders@bryangarnier.com
+44 207 332 25 45

Jean-Jacques Le Fur
Pharmaceuticals
jjlefur@bryangarnier.com
+33 1 70 36 57 45

Hugo Solvet
Medtech & Biotech
hsolvet@bryangarnier.com
+33 1 56 68 75 57

Victor Floch
Biotech & Medtech
vfloch@bryangarnier.com
+33 1 70 36 57 01

Ross Blair, MbChB
Biotech
rblair@bryangarnier.com
+44 207 332 25 05

production of sponsored research, and may expect to receive or intend to seek compensation for investment banking services from that company in the six months following the date of these reports.
To the fullest extent permitted by law, the Firm does not accept any liability whatsoever for any direct or consequential loss arising from any use of the information contained in these reports. Information may be available to the Firm which is not reflected in these reports. They are provided for information purposes only and do not constitute an offer or solicitation to buy or sell any of the securities discussed in them. These reports are for general circulation to clients of the Firm and as such are not, and should not be construed as, investment advice or a personal recommendation. No account is taken of the investment objectives, financial situation or particular needs of any person.

Disclosures specific to clients in the United Kingdom
This Report has not been approved by Bryan Garnier & Co Limited for the purposes of section 21 of the Financial Services and Markets Act 2000 because it is being distributed in the United Kingdom only to persons who have been classified by Bryan Garnier & Co Limited as professional clients or eligible counterparties. Any recipient who is not such a person should return the Report to Bryan Garnier & Co Limited immediately and should not rely on it for any purposes whatsoever.

Notice to US investors
This research report (the "Report") was prepared by Bryan Garnier & Co Limited for information purposes only. The Report is intended for distribution in the United States to "Major US Institutional Investors" as defined in SEC Rule 15a-6 and may not be furnished to any other person in the United States. Each Major US Institutional Investor which receives a copy of this Report by its acceptance hereof represents and agrees that it shall not distribute or provide this Report to any other person. Any US person that desires to effect transactions in any security discussed in this Report should call or write to our US affiliated broker, Bryan Garnier Securities, LLC. 750 Lexington Avenue, New York NY 10022. Telephone: 1-212-337-7000.
This Report is based on information obtained from sources that Bryan Garnier & Co. Ltd. believes to be reliable and, to the best of its knowledge, contains no misleading, untrue or false statements but which it has not independently verified. Neither Bryan Garnier & Co. Ltd. and/or Bryan Garnier Securities LLC make no guarantee, representation or warranty as to its accuracy or completeness. Expressions of opinion herein are subject to change without notice. This Report is not an offer to buy or sell any security.
Bryan Garnier Securities, LLC and/or its affiliate, Bryan Garnier & Co Limited may own more than 1% of the securities of the company(ies) which is (are) the subject matter of this Report, may act as a market maker in the securities of the company(ies) discussed herein, may manage or co-manage a public offering of securities for the subject company(ies), may sell such securities to or buy them from customers on a principal basis and may also perform or seek to perform investment banking services for the company(ies).
Bryan Garnier Securities, LLC and/or Bryan Garnier & Co Limited are unaware of any actual, material conflict of interest of the research analyst who prepared this Report and are also not aware that the research analyst knew or had reason to know of any actual, material conflict of interest at the time this Report is distributed or made available.