

# OSE Immunotherapeutics

France | Pharma & biotech | MCAPEUR 65.4m

06 April 2018

**Buy** (Reduce)

<b>Target Price</b>	<b>EUR 9.00</b> (3.50)
Current Price	EUR 4.55
Up/downside	97.8%
Change in TP	157.1%
Change in EPS	down nm 18E / -11.7% 19E

## There is much more

We believe the market still clearly undervalues OSE-172. The cash (EUR30m) that OSE Immunotherapeutics will receive from Boehringer in the short term alone corresponds to EUR2 per share (vs. a EUR1 gain yesterday). Moreover, we believe OSE-172's mechanism of action could give the candidate significant safety and competitive advantages. This could lead BI to quickly provide proof-of-concept and result in an accelerated clinical development programme. We value OSE-172 taking into account just the future potential milestone payments (excluding royalties). Our new TP stands at EUR9.0. Upgrade to Buy.

### A golden asset

While we are still cautious about the prospects of Tedopi - the reason why we had a Reduce rating - we viewed Ose-172 as a landmark asset. We thought a deal would have occurred after safety and first response rate data in a phase I/II. OSE already had the funding to enter clinical phase, thanks to the support of the BPI through EUR9.2m in refundable grants. Note that OSE-127 is a SIRP  $\alpha$  antibodies designed to reduce the myeloid signature (activity of TAMs and MDSCs cells), which is correlated with poor outcome in a variety of solid cancers (Komohara et al; 2013). Indeed, TAMs and MDSCs cells are known to release an immunosuppressive cytokines "don't eat me signal" as well as factors that inhibit T cells through cell surface inhibitory receptors such as CD47. Moreover, myeloid signature is also associated with resistance to T cell checkpoint inhibitors such as PD-1/PD-L1. Inhibiting TAM and MDSCs could thus release these two breaks of the immune system. As such, Ose-172 is likely to be used in combination with checkpoint inhibitors in a broad range of cancers, triggering potential sustainable royalties in future for OSE. In preclinical trial, OSE-172 showed a potential synergistic action with a PD-1 and another class of immuno-oncology therapy called 4-1bb. Moreover, a key advantage of OSE-172 rests on its safety profile, which is likely to be better than its key anti-CD47 competitors. Note that besides efficacy, the safety profile of a drug cocktail through multiple combinations is a current key issue of cancer immuno-oncology treatments.

### Valuation of OSE-172

We value OSE-172 using the milestones that OSE will gain, while the product will advance in clinical stage. For an asset in phase I, the BIO database indicates a 5.1% chance of success.

### Thomas Guillot

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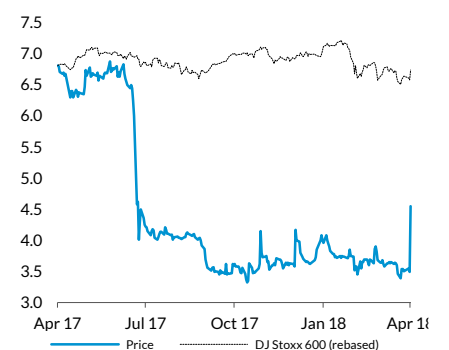
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#### Market data

Bloomberg: OSE FP	Reuters: OSE.PA
Market cap (EURm)	65
Free float	52%
No. of shares outstanding (m)	14
Avg. daily volume (EURm)	0.1
YTD abs performance	18.2%
52-week high/low (EUR)	6.88/3.32

FY to 31/12 (EUR)	12/16	12/17	12/18E
Sales (m)	0.4	6.7	15.0
EBITDA adj (m)	-8.2	-12.6	2.9
EBIT adj (m)	-8.2	-12.6	2.9
Net profit adj (m)	-5.2	-10.4	3.4
Net fin. debt (m)	-13.1	-4.8	-7.7
FCF (m)	0.1	-8.9	1.4
EPS adj. and fully dil.	-0.41	-0.83	0.27
Consensus EPS	1.65	-0.73	-0.81
Net dividend	0.00	0.00	0.00

FY to 31/12 (EUR)	12/16	12/17	12/18E
P/E adj and ful. dil.	na	na	16.7
EV/EBITDA	na	na	20.0
EV/EBIT	na	na	20.0
FCF yield	0.1%	-12.0%	2.1%
Dividend yield	0.0%	0.0%	0.0%
Net fin.debt/EBITDA	1.6	0.4	-2.6
Gearing	-20.3%	-8.6%	-11.0%
ROIC	-92.9%	-372.1%	na
EV/IC	22.7	81.2	na



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**Table 1: Probability of success for a cancer asset**

Proba Adj. Hypothesis Phase I to phase II	63%
Proba Adj. Hypothesis Phase II to phase III	25%
Proba Adj. Hypothesis Phase III to BLA	40%
Proba Adj. Hypothesis Reg. To Approval.	82%

Source: Bio

We split our milestones according to the literature (70% for the market/30% for the R&D advancing step). While we take into account the EUR30m cash (EUR15m upfront and EUR15m more-than-likely entry in phase I), we reach a fair value for the project of EUR58m. We bet on a potential accelerated approval of OSE-127 in 2026. We note that yesterday the market valued OSE-172 at less than the EUR30m upfront and phase I milestone payment that OSE is about to receive. Therefore, we think there is still significant upside ahead for OSE. Our TP rises to EUR9, and we upgrade to a Buy rating. We value Ose Immunotherapeutics via an SOP for each clinical project, adjusted for probability of success and using a 15% WACC, which is in line with our coverage.

# Key financials

FY to 31/12 (EUR)	2011	2012	2013	2014	2015	2016	2017	2018E
<b>Income Statement (EURm)</b>								
Sales	0.0	0.0	0.0	0.0	5.1	0.4	6.7	15.0
% Change	na	na	na	na	+chg	-92.4%	1644.6%	124.5%
EBITDA adjusted	na	na	na	na	-3.8	-8.2	-12.6	2.9
EBITDA margin (%)	na	na	na	na	-74.1%	-2,150.7%	-188.9%	19.3%
EBIT adjusted	na	na	na	na	-3.8	-8.2	-12.6	2.9
EBIT margin (%)	na	na	na	na	-74.1%	-2,150.7%	-188.9%	19.3%
Net financial items & associates	na	na	na	na	0.0	0.0	0.0	0.0
Others	na	na	na	na	0.0	0.0	0.0	0.0
Tax	na	na	na	na	3.5	3.1	2.2	0.5
Net profit from continuing operations	na	na	na	na	-0.2	-5.2	-10.4	3.4
Net profit from discontinuing activities	na	na	na	na	0.0	0.0	0.0	0.0
Net profit before minorities	na	na	na	na	-0.2	-5.2	-10.4	3.4
Net profit reported	na	na	na	na	-0.2	-5.2	-10.4	3.4
Net profit adjusted	na	na	na	na	-0.2	-5.2	-10.4	3.4
<b>Cash Flow Statement (EURm)</b>								
Cash flow from operating activities	na	na	na	na	-5.9	0.1	-8.9	1.4
Capex	na	na	na	na	0.0	0.0	0.0	0.0
Free cash flow	na	na	na	na	-5.9	0.1	-8.9	1.4
Acquisitions & Divestments	na	na	na	na	-6.2	3.0	-0.4	0.0
Dividend paid	na	na	na	na	0.0	0.0	0.0	0.0
Others	na	na	na	na	21.1	-0.8	3.1	0.0
Change in net financial debt	na	na	na	na	9.0	2.4	-6.2	1.4
<b>Balance Sheet (EURm)</b>								
Intangible assets	na	na	na	na	61.1	52.6	52.6	101.0
Tangible assets	na	na	na	na	0.1	0.1	0.4	0.4
Financial & other non-current assets	na	na	na	na	0.1	0.3	0.3	0.1
Total shareholders' equity	na	na	na	na	63.4	64.5	55.4	69.4
Pension provisions	na	na	na	na	0.0	0.0	0.0	0.0
Liabilities and provisions	na	na	na	na	21.9	25.0	21.9	59.0
Net financial debt	na	na	na	na	-9.0	-13.1	-4.8	-7.7
Working capital requirement	na	na	na	na	8.1	3.6	0.4	-9.6
Invested Capital	na	na	na	na	8.2	3.7	0.9	-9.1
<b>Per share data</b>								
EPS adjusted	na	na	na	na	-0.01	-0.36	-0.72	0.24
EPS adj and fully diluted	na	na	na	na	-0.01	-0.41	-0.83	0.27
% Change	na	na	na	na	na	-chg	-chg	+chg
EPS reported	na	na	na	na	-0.01	-0.36	-0.72	0.24
Cash flow per share	na	na	na	na	-0.41	0.01	-0.62	0.09
Book value per share	na	na	na	na	4.44	4.49	3.86	4.83
Dividend per share	na	na	na	na	0.00	0.00	0.00	0.00
Number of shares, YE (m)	na	na	na	na	14.29	14.37	14.37	14.37
<b>Ratios</b>								
ROE (%)	na	na	na	na	na	-8.1%	-17.3%	5.5%
ROIC (%)	na	na	na	na	na	-92.9%	-372.1%	na
Net fin. debt / EBITDA (x)	na	na	na	na	2.4	1.6	0.4	-2.6
Gearing (%)	na	na	na	na	-14.2%	-20.3%	-8.6%	-11.0%
<b>Valuation</b>								
P/E adjusted	na	na	na	na	na	na	na	19.1
P/E adjusted and fully diluted	na	na	na	na	na	na	na	16.7
P/BV	na	na	na	na	2.2	1.5	1.3	0.9
P/CF	na	na	na	na	na	na	na	48.3
Dividend yield (%)	na	na	na	na	0.0%	0.0%	0.0%	0.0%
Dividend yield preference shares (%)	na	na	na	na	0.0%	0.0%	0.0%	0.0%
FCF yield (%)	na	na	na	na	-4.3%	0.1%	-12.0%	2.1%
EV/Sales	na	na	na	na	25.3	na	10.5	3.9
EV/EBITDA	na	na	na	na	na	na	na	20.0
EV/EBIT	na	na	na	na	na	na	na	20.0

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Prices in this report are taken as of the previous day's close (to the date of this report) on the home market unless otherwise stated.

## Companies mentioned

Stock	ISIN	Currency	Price
OSE Immunotherapeutics	FR0012127173	EUR	4.55

Source: Factset closing prices of 05/04/2018

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Buy	46%	42%
Hold	35%	37%
Reduce	17%	13%
Not Rated/Under Review/Accept Offer	2%	8%
Total	100%	100%

Source: KEPLER CHEUVREUX

A: % of all research recommendations

B: % of issuers to which material services of investment firms are supplied

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OSE Immunotherapeutics (EUR)	26/06/2017 08:52	Equity Research	Under Review		6.00
	27/06/2017 17:54	Equity Research	Reduce	3.40	4.58
	07/12/2017 09:53	Equity Research	Reduce	3.80	3.58
	29/03/2018 09:00	Equity Research	Reduce	3.50	3.54
	05/04/2018 08:02	Equity Research	Under Review		3.49

Credit research does not issue target prices. Left intentionally blank.

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