

ABIVAX

Healthcare

Biotech

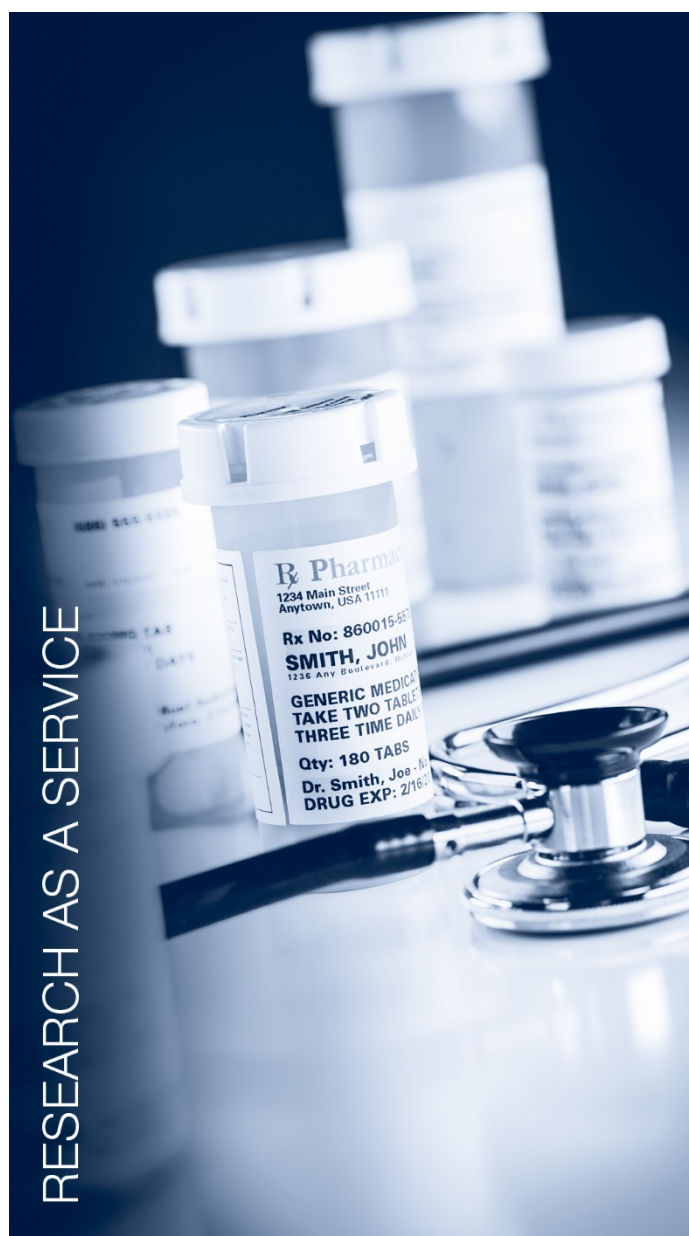
CORPORATE Coverage Initiated

Fair Value **EUR37.5**

Share price EUR11.62

Bloomberg / Reuters ABVX FP/ABVX.PA

Will ABX464 be partnered or Abivax acquired?



We expect Abivax to be one of the hottest topics in the biotech space in 2020.

We consider there is a significant probability for the company to be able to sign a landmark deal in the field of inflammation. Its lead asset ABX464 has demonstrated in phase IIA a very promising activity in ulcerative colitis (UC) which is its lead indication, together with a very good safety profile. This was true in both the induction and the maintenance phase and irrespectively of whether patients had been previously treated or not. If the trial was relatively small in size, the data is unequivocal and provides clear signs of efficacy with both a quick onset of action and, at first glance, a long duration of action too which is key to this type of chronic diseases. The drug has now embarked into a phase IIB trial and first results are expected at the very end of 2020.

Now, in the field of inflammation, few drugs work in only one indication and ABX464 is already investigated in two other ones with phase II trials just starting or about to start in rheumatoid arthritis (RA) and Crohn's disease (CD). There is a bit more work to do here but the rationale to see ABX464 working is quite high although lower PoS are deserved.

Time has come for Abivax to consider extracting value from ABX464 either by partnering it to a large pharmaceutical company that will leverage its potential in all possible markets or by selling the whole company since ABX464 represents most of it. Most because a first-in-class candidate in oncology has started the first part of a phase I/II study, in combination with nivolumab in HCC.

We have used a NPV approach by indication and UC alone offers a significant upside to the current valuation. But because ABX464 cannot be split in parts, it will be either partnered or sold to a third party that will recognize its value across its full range of potential indications. We believe there are multiple candidates. Our FV is EUR37.5 per Abivax share. We strongly recommend to buy the stock.

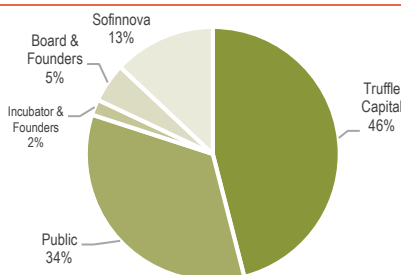


ABIVAX

CORPORATE Coverage Initiated

Fair Value	EUR37.5
Share price	EUR11.62
Market Cap.	EUR137m
EPS 3Y CAGR	NM

Shareholder Structure



Fiscal year end 31/12	2017	2018	2019e	2020e	2021e	2022e	2023e	2024e
Financial Summary								
EPS (EUR)	-1.15	-1.61	-2.14	0.46	1.60	1.45	-1.25	-0.86
Restated EPS (EUR)	-1.15	-1.61	-2.14	0.46	1.60	1.45	-1.25	-0.86
% change	-	-39.5%	-32.9%	-	250.0%	-9.2%	-185.9%	-31.0%
Net dividend (EUR)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Average yearly Price	10.07	7.61	-	-	-	-	-	-
Avg. Number of shares,	9,726	9,829	11,808	11,808	11,808	11,808	11,808	11,808
Historical Enterprise value	81	73	-	-	-	-	-	-
Valuation (x)								
EV/Sales	-	-	NM	2.78x	2.59x	2.93x	NM	26.59x
EV/EBITDA	-5.8x	-3.8x	NM	8.27x	4.35x	4.52x	NM	NM
EV/EBIT	-5.7x	-3.8x	NM	8.30x	4.36x	4.54x	NM	NM
P/E	-8.7x	-4.7x	NM	25.69x	7.34x	8.09x	NM	NM
Net dividend yield (%)	0.0%	0.0%	NM	NM	NM	NM	NM	NM
Profit & Loss Account								
Revenues	0	0	0	54	55	42	0	5
Change (%)	-	-	-	-	3.3%	-23.4%	-100.0%	-
R&D	6	11	22	25	13	5	5	5
Adjusted EBITDA	-14	-19	-31	18	33	28	-15	-10
EBIT	-14	-19	-31	18	33	27	-15	-10
Change (%)	-	-35.0%	-64.8%	-	83.4%	-16.6%	-154.6%	-30.6%
Financial results	0	0	-1	-1	0	0	0	0
Pre-Tax profits	-14	-20	-33	16	33	28	-15	-10
Tax	0	0	0	0	0	0	0	0
Net profit	-11	-16	-25	5	19	17	-15	-10
Restated net profit	-11	-16	-25	5	19	17	-15	-10
Change (%)	-	-41.0%	-59.7%	-	250.0%	-9.2%	-185.9%	-31.0%
Cash Flow Statement								
Operating cash flows	-12	-17	-31	18	33	28	-15	-10
Change in working capital	-	5	15	-49	-15	5	42	-5
Capex, net	0	0	0	0	0	0	0	0
Free Cash flow	-20	-31	-57	24	52	45	-30	-20
Dividends	0	0	0	0	0	0	0	0
Capital increase	1	1	12	0	0	0	0	0
Net debt (+)/cash (-)	-17	-2	10	11	5	-14	-31	-16
Balance Sheet (EURm)								
Tangible fixed assets	0	0	0	0	0	0	0	0
Intangibles assets	32	32	32	32	32	32	32	32
Cash & equivalents	2	8	12	11	17	36	53	38
Total assets	54	54	55	60	54	59	65	51
L & ST Debt	0	11	22	22	22	22	22	22
Provisions	0	0	0	0	0	0	0	0
Shareholders' funds	44	29	15	16	21	40	57	43
Total Liabilities	54	54	55	60	54	59	65	51

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

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EXECUTIVE SUMMARY

It should not be taken negatively if we say that Abivax is mostly about one single asset: ABX464. Unlike others, this drug candidate is actually a pipeline in a drug, as it is often the case when we talk about inflammation. When a drug works for a given inflammatory disease, it usually works in several others, making some anti-inflammatory medications widely used products which then fall into the list of the largest blockbusters by sales in the world together with antibodies for cancer.

ABX464 is a first-in-class molecule, derived from the Institut Curie chemical library, which up-regulate the micro-RNA miR-124 which is itself a key mediator for the cholinergic anti-inflammatory process, involved in particular in the production of two well-known pro-inflammatory agents: IL-6 and TNF-alpha.

The lead indication is ulcerative colitis (UC) where ABX464 recently achieved a phase IIA study, showing strong and promising efficacy in the induction and maintenance phase, in treatment-naïve and refractory patients. The drug showed a quick onset of action and compared very well with existing therapies on all parameters, while offering a convenient once-daily oral formulation and a very clean safety profile. The phase IIB study with moderate-to-severe UC patients has now started recruiting and first data is expected towards the end of 2020.

Rheumatoid arthritis (RA) and Crohn's disease (CD) are following closely with phase IIA trials just starting and about to start, respectively.

In order to leverage such a big opportunity, Abivax now needs to find a partner which will help design and finance the late-stage development of ABX464 in all indications, which might go well beyond the ones mentioned and include MS or PH for instance. Of course, this partner will have an even more instrumental role when it comes to approach commercialization of the product in the different geographies.

We do believe that the deals signed by Galapagos about filgotinib, first with Abbott and then with Gilead are very representative of and inspiring about what can be expected with ABX464. Such an agreement is therefore the central case going forward and the one that should drive the valuation of the asset but also of the company. We have made various assumptions that are presented in details in this report in terms of market shares, prices but also milestones and royalties. We have assumed different PoS across the range of indications and a WACC of 15% and it results in a value of ABX464 of EUR440m (adjusted). Actually, even UC alone represents more than the current value attributed to the whole Abivax.

We would not completely rule out the possibility to see Abivax acquired since ABX464 is a large part of the company and in this case, we would see CVRs as a good way to play with longer-term triggers of value like phase III data for ABX464 in RA or first efficacy data with ABX196 in HCC.

Therefore, we do consider that Abivax today represents a tremendous opportunity of investment in the field of biotech in France and in Europe. The discount is too heavy in our view, all the more that the catalysts which are able to crystalize the value are on a short-term agenda, including very significant ones in 2020. As a consequence, with a FV of EUR37.5, we recommend to buy Abivax.

Il ne faudrait pas prendre négativement le fait de dire qu'Abivax dépend principalement d'un actif unique : ABX464. Contrairement à d'autres, celui-ci peut être considéré comme un pipeline à lui seul, comme souvent s'agissant d'inflammation. Quand un médicament fonctionne pour une maladie inflammatoire donnée, c'est généralement aussi le cas dans plusieurs autres, faisant de certains anti-inflammatoires les médicaments les plus vendus au monde aux côtés des anticorps utilisés en oncologie.

ABX464 est une molécule première de sa classe, issue de la librairie de petites molécules de l'Institut Curie, qui régule à la hausse le micro-ARN miR-124, lui-même un médiateur clef du processus anti-inflammatoire cholinergique, lequel est impliqué notamment dans la production de deux agents pro-inflammatoires très connus : l'IL-6 et le TNF-alpha.

L'indication dans laquelle ABX464 est le plus avancé est la colite ulcéreuse où la phase IIA est achevée et a fait montre d'une forte et très prometteuse efficacité en phases d'induction comme de maintenance, chez des patients naïfs ou pré-traités. Le composé a montré une entrée en action rapide et s'est comparé favorablement aux thérapies existantes sur tous les paramètres mesurés, tout en offrant l'avantage d'une voie orale quotidienne et une très bonne tolérance. La phase IIB dans la CU modérée à sévère vient de démarrer et les premiers résultats sont attendus fin 2020.

La polyarthrite rhumatoïde et la maladie de Crohn suivent de peu avec des phases IIA qui démarrent ou démarreront prochainement.

Afin de maximiser une telle opportunité, Abivax doit désormais trouver un partenaire qui l'aide à dessiner et à financer les études de phase III dans toutes les indications déjà mentionnées ou additionnelles comme la SEP ou la PAH par exemple. Bien sûr, ce partenaire sera d'autant plus précieux à l'approche de la phase de commercialisation du produit sur l'ensemble des géographies.

Nous pensons que les accords signés par Galapagos sur le filgotinib, d'abord avec Abbott puis avec Gilead sont très représentatifs et inspirants de ce qui pourrait être réalisé avec ABX464. Un tel accord est dès lors notre scénario central et celui qui doit servir à estimer la valeur de cet actif mais aussi de l'ensemble de la société. Nous avons fait différentes hypothèses présentées en détails dans cette note en termes de parts de marché, de prix mais aussi de paiements d'étapes ou de royalties. Nous avons utilisé des PdS variables en fonction des indications et un CMPC de 15% et aboutissons à une valeur pour ABX464 de 440 MEUR (valeur ajustée). En fait, la CU seule représente plus qu'Abivax dans son entier aujourd'hui.

Nous n'excluons pas du tout la possibilité d'une vente globale de la société dans la mesure où ABX464 en représente une part prépondérante de la valeur et auquel cas nous verrions dans l'utilisation de CVGs un moyen de jouer des leviers de valeur à plus long terme comme les résultats de phase III dans la PAR ou les premiers résultats de ABX196 dans le carcinome hépatocellulaire.

En conclusion, nous considérons qu'Abivax représente une très belle opportunité d'investissement dans la biotech française et européenne. Le titre est trop fortement décoté selon nous, d'autant que les catalyseurs de valeur sont à court terme, notamment en 2020. Par conséquent, avec une FV de 37.5 EUR, nous recommandons d'acheter Abivax.

Contents

EXECUTIVE SUMMARY	3
PART 1: A VERY ATTRACTIVE TARGET MARKET	5
SoC in IBD can certainly be improved further	5
- The IBD concept actually covers two distinct diseases	5
- Targeting inflammation in IBD	6
IBD: a market of over USD15bn in annual sales, led by US companies	8
- IBD is already a very sizeable target market	8
- A market of big players	9
ABX464, a very competitive profile for IBD	11
- A long history, a ubiquitous target	11
HIV: interesting at least as a safety database	13
UC: the leading indication	14
- A strong rationale from PC studies	14
- Phase II results are highly confirmatory	15
- How do the results compare to existing treatments?	18
- At least two other serious challengers are moving ahead of ABX464 in UC	21
Beyond UC, CD and RA are also indications to consider for ABX464	22
- RA comes second in the programme since recruitment in Ila has already started	23
- Crohn's disease usually goes with UC but is third in the queue	25
PART 2: ABX196, A TARGETED COMPANION AGENT IN ONCOLOGY	26
The mechanism of action is supportive of a close look	26
ABX196 is a candidate for an out-licensing deal	29
PART 3: MAXIMIZING THE VALUE	30
All options are on the table	30
- What Galapagos did is strongly inspiring	30
- Can Abivax be acquired to get access to ABX464?	32
Two central scenarios offering a range of valuations	34
- A multi-step partnership looks like the preferred route	34
- A FV of EUR37.5 per share	39

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