



Immutep (IMM)

BMS/Dragonfly deal drives valuation upgrade

Our View

There were no surprises in Immutep's FY20 results out overnight. Its LAG-3 drugs out-licenced to Novartis and GSK continue to progress in Phase II studies, but it is the in-house program of its antigen presenting cell activator eftilagimod alpha (efti) in combination with immune checkpoint inhibitor (ICI) therapies that has the greatest potential to drive near-term value in our view. The recent BMS/Dragonfly licence deal, which included US\$475m in upfront and near-term payments, highlights the potential value of drugs that aim to improve response rates to ICI therapies. IMM will present updated efficacy data from efti/ICI combo studies at ESMO in mid-September. We increase our valuation to \$414m (from \$327m), \$0.62/sh fully diluted (was \$0.53/sh) or \$0.85/sh undiluted.

Key Points

US\$475m BMS/Dragonfly deal highlights potential value of efti. Last week BMS announced a licence deal with Dragonfly Therapeutics for the global rights to its DF6002 IL-12 fusion protein immuno-oncology (IO) drug. The deal included US\$475m in upfront and near-term payments, plus unspecified development, regulatory and commercial milestones, and a royalty of up to 24%. We see a positive readthrough for the value of IMM's efti, as both DF6002 and efti aim to stimulate an inflammatory tumour microenvironment, ie "turn cold tumours hot".

Data update expected at ESMO – we expect updated efficacy data from IMM's ongoing studies of efti in combination with the ICI drugs Keytruda and Bavencio at the (virtual) ESMO conference on 18-22 September. IMM has previously reported response rates in the initial cohorts of lung and head and neck cancer patients undergoing efti/Keytruda combo therapy in TACTI-002 that were more than twice as high as the rates reported from historical studies of Keytruda alone (response rates of 53% vs ~25% for first line lung cancer and 39% vs ~17% for second line head and neck cancer). IMM recent completed recruitment in the first cohort of PD1/L1 refractory non-small cell lung cancer patients in TACTI-002 part B; initial data from this cohort expected later in the year.

Preparing for a randomised Phase II study of efti would maximise value, in our view. We estimate that by Q420/Q121 IMM should have efficacy data on efti plus Keytruda in 110-130 patients with melanoma, lung and head and neck cancer. If the efti/Keytruda combo continues to generate high tumour response rates, by that stage the data set for efti would be similar to that for Viralytics' Cavatak IO therapy at the time it was acquired by Merck for ~\$500m in early 2018. Viralytics raised \$30m to fund a pivotal study of Cavatak shortly before its acquisition by Merck. We believe that preparing to conduct a randomised Phase IIb study of efti/Keytruda combo therapy (potentially in second line head and neck cancer) would be the best way to maximise the value of efti; such a study would provide definitive evidence of the efficacy of efti in improving response rates to ICI therapy. Depending on discussions with potential partners, this might require additional funds in the order of \$30m.

Dragonfly deal prompts valuation upgrade – The BMS/Dragonfly deal has prompted us to upgrade the terms for a potential out-licence deal for in our valuation model. We have increased the assumed royalty rate from 15% to 20% and have increased the upfront payment from US\$85m to US\$150m, taking total upfronts and developmental and regulatory milestones for efti to US\$420m, still significantly below the Dragonfly near term payments. These changes, plus adjusting our long-term exchange rate to US\$0.70 per A\$ (vs 0.65) have increased our valuation to A\$414m (from A\$327m), \$0.62/sh fully diluted, or \$0.85/sh (undiluted). IMM had \$26.3m cash at 30 June and is fully funded beyond the completion of the TACT-002 trial.

26 August 2020

Speculative Investment

Recommendation: Outperform

Summary (AUD)

| | |
|-------------------------|---------|
| Market Capitalisation | \$93M |
| Share price | \$0.19 |
| 52 week low | \$0.10 |
| 52 week high | \$0.49 |
| Cash as at 30 June 2020 | \$26.3m |

Share price graph (AUD)



Key Financials (AUD)

| | FY20A | FY21E | FY22E |
|---------------|--------|--------|--------|
| Revenue | 16.0 | 8.5 | 17.4 |
| R&D | (20.4) | (14.0) | (18.0) |
| SG&A | (7.5) | (7.3) | (7.5) |
| EBITDA | (11.9) | (12.8) | (8.1) |
| Reported NPAT | (13.5) | (14.4) | (9.7) |
| NPAT Adj. | (13.5) | (14.4) | (9.7) |
| EPS Adj. (c) | (3.4) | (2.6) | (1.5) |
| PE ratio (x) | n/a | n/a | n/a |
| DPS (c) | 0.0 | 0.0 | 0.0 |
| EV/Sales | n/a | n/a | n/a |
| EV/EBITDA (x) | n/a | n/a | n/a |
| ROE | n/a | n/a | n/a |

Immutep - Summary of Forecasts

IMM \$ 0.19

PROFIT & LOSS SUMMARY (A\$m)

| Year end June | FY20A | FY21E | FY22E | FY23E |
|---------------------------------|---------------|---------------|--------------|---------------|
| Sales, royalties, milestones | 7.5 | 0.0 | 8.8 | 0.0 |
| Other (includes R&D tax rebate) | 8.5 | 8.5 | 8.6 | 8.7 |
| Total Revenue | 16.0 | 8.5 | 17.4 | 8.7 |
| Growth (pcp) | 141.8% | -46.5% | 103.7% | -50.0% |
| R&D Expenses | (20.4) | (14.0) | (18.0) | (14.0) |
| SG&A expenses | (7.5) | (7.3) | (7.5) | (5.8) |
| EBITDA | (11.9) | (12.8) | (8.1) | (11.1) |
| Dep'n/Other Amort'n | (2.1) | (1.9) | (2.0) | (2.0) |
| EBIT | (14.0) | (14.7) | (10.1) | (13.1) |
| Net Interest | 0.2 | 0.3 | 0.4 | 0.4 |
| Pre- Tax Profit | (13.5) | (14.4) | (9.7) | (12.7) |
| Tax Expense | (0.0) | 0.0 | 0.0 | 0.0 |
| Minorities | 0.0 | 0.0 | 0.0 | 0.0 |
| NPAT Adj. | (13.5) | (14.4) | (9.7) | (12.7) |
| Growth (pcp) | n/a | n/a | n/a | n/a |
| Adjustments | 0.0 | 0.0 | 0.0 | 0.0 |
| NPAT Reported | (13.5) | (14.4) | (9.7) | (12.7) |

PER SHARE DATA

| Year end June | FY20A | FY21E | FY22E | FY23E |
|---------------------------|--------------|--------------|--------------|--------------|
| EPS (c) - Reported | (3.4) | (2.6) | (1.5) | (2.0) |
| Growth (pcp) | n/a | n/a | n/a | n/a |
| EPS (c) - Adjusted | (3.4) | (2.6) | (1.5) | (2.0) |
| Growth (pcp) | n/a | n/a | n/a | n/a |
| Dividend (c) | 0.0 | 0.0 | 0.0 | 0.0 |
| Franking | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross CF per share (c) | (2.7) | (2.0) | (1.0) | (1.5) |
| NTA per share (c) | 3.7 | 5.1 | 3.8 | 2.0 |

KEY RATIOS

| Year end June | FY20A | FY21E | FY22E | FY23E |
|---------------------------|--------|--------|--------|--------|
| Net Debt : Equity (%) | -78.3% | -89.0% | -91.4% | -94.5% |
| Net Debt: EBITDA (x) | 2.2 | 3.4 | 4.4 | 2.4 |
| Current ratio (x) | 9.3 | 14.8 | 12.7 | 9.7 |
| ROE (%) | -46.7% | -35.5% | -22.0% | -37.7% |
| ROIC (%) | n/a | n/a | n/a | n/a |
| Dividend Payout Ratio (%) | n/a | n/a | n/a | n/a |

VALUATION MULTIPLES

| Year end June | FY20A | FY21E | FY22E | FY23E |
|---------------------------|-------------|-------------|-------------|-------------|
| PE Ratio (x) | n/a | n/a | n/a | n/a |
| Dividend Yield (%) | 0.0% | 0.0% | 0.0% | 0.0% |
| EV/Sales (x) | n/a | n/a | n/a | n/a |
| EV/EBITDA (x) | n/a | n/a | n/a | n/a |
| EV/EBIT (x) | n/a | n/a | n/a | n/a |

CAPITAL RAISING ASSUMPTIONS

| Year end June | FY20A | FY21E | FY22E | FY23E |
|--------------------------|-------|-------|-------|-------|
| Shares Issued (m) | 143.8 | 150.0 | 0.0 | 0.0 |
| Issue Price (A\$) | 0.15 | 0.20 | 0.0 | 0.0 |
| Gross Cash Raised (A\$m) | 22.0 | 30.0 | 0.0 | 0.0 |

BALANCE SHEET SUMMARY

| Year end June | FY20A | FY21E | FY22E | FY23E |
|--------------------------------|-------------|-------------|-------------|-------------|
| Cash | 26.3 | 43.0 | 36.3 | 26.5 |
| Receivables | 3.3 | 3.3 | 3.3 | 3.3 |
| Inventories | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 1.5 | 1.5 | 1.5 | 1.5 |
| Total Current Assets | 31.2 | 47.8 | 41.1 | 31.4 |
| Inventories | 0.0 | 0.0 | 0.0 | 0.0 |
| Property Plant & Equip | 0.0 | 0.1 | 0.2 | 0.3 |
| Intangibles | 15.4 | 15.4 | 15.4 | 15.4 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Current Assets | 15.4 | 15.5 | 15.6 | 15.7 |
| TOTAL ASSETS | 46.6 | 63.3 | 56.7 | 47.0 |
| Accounts Payable | 2.9 | 2.9 | 2.9 | 2.9 |
| Borrowings | 0.1 | 0.0 | 0.0 | 0.0 |
| Provisions | 0.3 | 0.3 | 0.3 | 0.3 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Current Liab | 3.4 | 3.2 | 3.2 | 3.2 |
| Borrowings | 0.1 | 0.1 | 0.1 | 0.1 |
| Provisions | 0.1 | 0.1 | 0.1 | 0.1 |
| Other | 10.1 | 10.1 | 10.1 | 10.1 |
| Total Non- Current Liab | 9.9 | 9.9 | 9.9 | 9.9 |
| TOTAL LIABILITIES | 13.3 | 13.2 | 13.2 | 13.2 |
| TOTAL EQUITY | 33.3 | 50.2 | 43.5 | 33.9 |

CASH FLOW SUMMARY

| Year end June | FY20A | FY21E | FY22E | FY23E |
|-----------------------------|---------------|---------------|---------------|---------------|
| EBIT (excl Abs/Extr) | (14.0) | (14.7) | (10.1) | (13.1) |
| Add: Dep'n & Amort'n | 2.1 | 1.9 | 2.0 | 2.0 |
| Other non-cash items | (7.4) | (5.5) | (5.9) | (5.8) |
| Less: Tax paid | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Interest | 0.2 | 0.3 | 0.4 | 0.4 |
| Change in Rec. | 1.9 | 0.0 | 0.0 | 0.0 |
| Change in Inv. | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross Cashflows | (10.8) | (11.4) | (6.6) | (9.6) |
| Capex | (0.0) | (0.1) | (0.1) | (0.1) |
| Free Cashflows | (10.9) | (11.5) | (6.7) | (9.7) |
| Share Issue Proceeds | 20.6 | 28.2 | 0.0 | 0.0 |
| Other | 0.1 | 0.0 | 0.0 | 0.0 |
| Dividends Paid | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Cashflows | 9.8 | 16.7 | (6.7) | (9.7) |
| FX Effect on Cash | 0.1 | 0.0 | 0.0 | 0.0 |

IMM base case valuation summary (undiluted)

| | Probability (%) | Valuation (A\$m) | Value A\$/share |
|---|-----------------|------------------|-----------------|
| efti/ICI NSC lung cancer | 15% | 124.3 | 0.25 |
| efti/ICI head & neck cancer | 15% | 59.8 | 0.12 |
| efti/ICI melanoma | 15% | 14.6 | 0.03 |
| efti/chemo breast cancer | 2% | 6.5 | 0.01 |
| efti milestones - partner post TACTI-002 | 15-50% | 113.1 | 0.23 |
| LAG525 solid tumours (lung cancer) | 20% | 52.9 | 0.11 |
| GSK'781- ulcerative colitis | 20% | 53.1 | 0.11 |
| SG&A | - | (22.8) | (0.05) |
| Portfolio total | - | 401.6 | 0.82 |
| Net cash end FY20 (incl conv note face val) | - | 12.6 | 0.03 |
| Total Valuation | - | 414.2 | 0.85 |

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