

Transgene

Waiting for the deal

FY14 results

Pharma & biotech

27 March 2015

Price €5.6
Market cap €215m

Transgene is still in discussions with potential partners for the licensing of TG4010. We believe a deal is reliant on evidence that TG4010 acts synergistically with immune checkpoint inhibitors and mature data from the Phase IIb part of the TIME study in non-small cell lung cancer (NSCLC), showing a significant long-term overall survival benefit. At the same time, Transgene aims to start a number of trials this year, including a Phase III study with Pexa-Vec with its partners. We value Transgene at €464m.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/13	15.7	(41.5)	(136.2)	0.0	N/A	N/A
12/14	11.8	(47.3)	(127.2)	0.0	N/A	N/A
12/15e	11.3	(56.1)	(145.6)	0.0	N/A	N/A
12/16e	11.6	(58.1)	(150.9)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments.

Discussions with potential partners ongoing

Transgene reports that negotiations regarding the licensing of TG4010 are continuing with various companies. There is clearly interest among pharma companies for therapeutic vaccines, such as TG4010, as shown by the recent \$975m deal between Bavarian Nordic and Bristol-Myers Squibb for ProstVac.

Deal depends on checkpoint inhibitor and OS data

A deal with TG4010 will depend on evidence that the product works synergistically with immune checkpoint inhibitors (ICI) and the strength of the mature overall survival (OS) data from the Phase IIb part of the TIME trial in NSCLC. Transgene will present preclinical data showing that TG4010's activity should be enhanced by ICI at the AACR meeting in April. We also expect mature OS data (assumed to be available under CDA) to be presented at the ASCO conference in June.

Several trials with other products planned

Transgene is planning a raft of new trials. With TG4010, it aims to initiate Phase II trials in combination with ICI, although the Phase III TIME trial will only be started with a partner. Pexa-Vec, an oncolytic virus, is due to start the Phase III trial in hepatocellular carcinoma in Q415. A Phase I trial with TG1050 in HBV should start imminently. A Phase II trial with TG4001 in combination with ICI in HPV-related cancers is planned to replace the previous Phase II study in head & neck cancer.

Valuation: DCF valuation of €464m

We have increased our valuation of Transgene by €49m to €464m (€12.03/share), because of the strengthening of the dollar (changed assumption from €1/\$1.35 to €1/1.10), but we have delayed the potential launch date of TG4010 by one year to 2019. We have also made small amendments to our forecasts. Transgene had a cash position of €65.9m at year end 2014, which should allow the company to operate to mid-2016, without an equity raise or non-dilutive financing from a licensing deal.

Net cash (€m) at 31 December 2014	13.7
Shares in issue	38.5m
Free float	43%
Code	TNG
Primary exchange	Paris
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(22.3)	(17.9)	(55.0)
Rel (local)	(23.7)	(29.6)	(60.7)
52-week high/low	€12.70	€5.60	

Business description

Transgene is a French drug discovery and development company focused on the treatment of cancer and infectious diseases with immunotherapies. It has one product in Phase II development and two products about to enter Phase III.

Next events

TG4010 and ICI data at AACR conference	18-22 April 2015
Q115 results	22 April 2015
TG4010 OS data from TIME trial at ASCO meeting	29 May to 2 June 2015
Start of TG1050 trial	Q215

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Exhibit 1: Financial summary

	€'000s	2012	2013	2014	2015e	2016e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		13,061	15,735	11,752	11,276	11,575
Cost of Sales		0	0	0	0	0
Gross Profit		13,061	15,735	11,752	11,276	11,575
EBITDA		(39,372)	(38,287)	(43,893)	(53,490)	(55,346)
Operating Profit (before GW and except)		(41,765)	(40,813)	(46,524)	(55,828)	(57,592)
Intangible Amortisation		(370)	(385)	(408)	(308)	(267)
Exceptionals		0	0	0	0	0
Operating Profit		(42,135)	(41,198)	(46,932)	(56,136)	(57,859)
Other		(488)	(691)	0	0	0
Net Interest		(106)	(39)	(801)	(260)	(546)
Profit Before Tax (norm)		(42,359)	(41,543)	(47,325)	(56,088)	(58,138)
Profit Before Tax (FRS 3)		(42,729)	(41,928)	(47,733)	(56,396)	(58,406)
Tax		0	0	0	0	0
Profit After Tax (norm)		(42,833)	(42,473)	(48,148)	(56,088)	(58,138)
Profit After Tax (FRS 3)		(42,729)	(41,928)	(47,733)	(56,396)	(58,406)
Average Number of Shares Outstanding (m)		31.8	31.9	38.5	38.5	38.5
EPS - normalised (c)		(136.4)	(136.2)	(127.2)	(145.6)	(150.9)
EPS - FRS 3 (c)		(136.0)	(134.5)	(126.2)	(146.4)	(151.6)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A	N/A
BALANCE SHEET						
Fixed Assets		62,090	64,501	61,715	60,366	59,213
Intangible Assets		1,497	1,329	1,056	891	771
Tangible Assets		24,805	23,988	23,641	22,457	21,424
Other		35,788	39,184	37,018	37,018	37,018
Current Assets		98,374	61,349	79,238	36,704	18,278
Stocks		1,107	975	1,149	1,149	1,149
Debtors		2,012	1,896	1,540	1,540	1,540
Cash		92,915	47,862	65,935	23,401	4,975
Other		2,340	10,616	10,614	10,614	10,614
Current Liabilities		(19,402)	(23,996)	(21,563)	(25,158)	(55,515)
Creditors		(9,587)	(9,364)	(8,296)	(11,891)	(12,248)
Short term borrowings		0	0	0	0	(30,000)
Short term leases		(961)	(8,830)	(8,992)	(8,992)	(8,992)
Other		(8,854)	(5,802)	(4,275)	(4,275)	(4,275)
Long Term Liabilities		(41,484)	(45,232)	(47,551)	(46,927)	(46,308)
Long term borrowings		0	0	0	0	0
Long term leases		(38,006)	(40,788)	(43,199)	(42,575)	(41,956)
Other long term liabilities		(3,478)	(4,444)	(4,352)	(4,352)	(4,352)
Net Assets		99,578	56,622	71,839	24,985	(24,332)
CASH FLOW						
Operating Cash Flow		(51,294)	(50,186)	(54,236)	(49,152)	(54,225)
Net Interest		194	244	(4)	(260)	(546)
Tax		0	0	0	0	0
Capex		(1,945)	(2,184)	(2,602)	(1,298)	(1,360)
Acquisitions/disposals		0	0	0	0	0
Financing		725	70	62,735	0	0
Dividends		0	0	0	0	0
Other		7,086	7,902	12,527	8,800	8,324
Net Cash Flow		(45,234)	(44,154)	18,420	(41,910)	(47,807)
Opening net debt/(cash)		(111,178)	(53,948)	1,756	(13,744)	28,166
HP finance leases initiated		(11,593)	(11,411)	(3,191)	(0)	0
Other		(403)	(139)	271	0	(0)
Closing net debt/(cash)		(53,948)	1,756	(13,744)	28,166	75,973

Source: Edison Investment Research; company accounts Note: Our FY16 forecasts include short-term borrowings of €30m, which is indicative of Transgene's funding requirement during that year. The other cash flow line primarily includes tax credits financing; FY14 also includes €3.1m from the disposal of Transgene's holding in Jennerex.

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