

A billion dollar baby: Novartis licences MOR106

European Life Sciences

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Galapagos and MorphoSys outlicensed jointly developed anti-IL-17C antibody MOR106 to Novartis for €95m upfront and €850m in milestones and tiered royalties on sales. While MOR106 was thought to be partnered eventually, considering the sheer size of the atopic dermatitis (AtD) market, today's deal comes earlier and at better terms than we had anticipated. The licensing only after 24 patients treated and rich economics for an early-stage deal, in our view, provide validation for MOR106's competitive profile among other AtD candidates in the pipeline and vouches for the R&D acumen of Galapagos and MorphoSys. We aim to adjust our valuation upwards for MOR106 in MorphoSys and Galapagos models to reflect the better than expected terms and potentially higher sales with additional shots on goals in new indications.

Rich terms. Galapagos and MorphoSys stand to receive €95m upfront and €850m in milestones and tiered royalties on sales, shared equally. We understood that the deal value is skewed towards the development/regulatory milestones, making the terms even more attractive. Novartis will assume of development costs and the commercialization, but Galapagos and MorphoSys will be responsible for conducting the clinical trials in the expanded phase II program.

More indications, psoriasis and asthma on the list? The agreement also plans for additional phase II trials in new indications that could expand the commercial potential even beyond the blockbuster status warranted by AtD alone. In our view, psoriasis could be the first choice, as IL-17C is highly expressed in psoriasis skin and is thought to promote inflammation by binding IL-17RA and IL-17RE. IL-17C is also expressed on lung epithelium but regulates many lung inflammations, making asthma a less clear-cut indication at least in the published literature (e.g. Luca et al., 2017 suggests that desregulation of the IL-17C pathway could promote allergic inflammation in the lungs).

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Rating	BUY
Price Target	€115.00
Closing price (18 Jul 2018)	€87.92

Disclosures

Analyst certifications

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Companies mentioned in this report

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Rating structure

Definitions

Method	Company reports include a discussion of valuation methods used in order to determine Price Targets. The resulting conclusions lead to a Rating as below.
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Neutral	Expected total return between 0% and 10% on a 12 month basis.
Buy	Expected positive total return of 10% or more on a 12 month basis.
Under Review	Rating and/or Price Target are Under Review in case Kempen Research is actively reviewing its Rating and/or Price Target of the subject company. The previous Rating and/or Price Target, if any, are no longer in effect, may be subject to change and should not be relied upon.
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Price target	Expected share price in 12 months.

Rating distribution

Rating	Count (% of total coverage)	% of investment banking clients
BUY	84 (49%)	57%
NEUTRAL	62 (36%)	34%
SELL	26 (15%)	8%
Total	172 (100%)	100%

Rating distribution based on data of 19 July 2018.

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12 Months Rating and Price Target history

Company	Bloomberg	Price*	Date & Time	Change	New	Previous	Analyst
MorphoSys	MOR GR	€ 83.8	24 Jan 2018 18:59PM	Price Target	€ 95.0	€ 94.0	Anastasia Karpova
MorphoSys	MOR GR	€ 79.6	6 Nov 2017 07:00AM	Price Target	€ 94.0	€ 70.0	Anastasia Karpova
Galapagos	GLPG NA	€ 85.84	31 May 2018 07:40AM	Price Target	€ 115.0	€ 112.0	Anastasia Karpova
Galapagos	GLPG NA	€ 93.24	24 Jan 2018 18:49PM	Price Target	€ 112.0	€ 96.0	Anastasia Karpova

Source: Kempen estimates
* Price: Previous day closing price

Galapagos 12 Months Rating and Price Target history as of 18 Jul 2018



MorphoSys 12 Months Rating and Price Target history as of 18 Jul 2018

