

Safe to inhale

The first clinical trial with an inhaled Nanobody has been successfully completed. ALX-0171, developed to treat respiratory syncytial virus (RSV) infections, was well tolerated and no immunogenicity was detected. Additional Phase I studies are planned before the Nanobody enters paediatric Phase II development, and Ablynx aims to partner the product before then. These results further highlight the potential of Nanobodies, as monoclonal antibodies cannot be delivered in a similar way.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/10	31.4	(24.0)	(56.9)	0.0	N/A	N/A
12/11	21.9	(43.3)	(99.1)	0.0	N/A	N/A
12/12e	27.4	(34.3)	(78.5)	0.0	N/A	N/A
12/13e	36.7	(29.8)	(68.1)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

No safety signal detected with inhaled Nanobody

ALX-0171 or placebo were delivered via a nebuliser to the lungs of 60 healthy adults. The Nanobody was well tolerated and did not show any clinically relevant adverse events or have a clinically significant impact on lung function. The maximum dose delivered was 210mg per day for five days and no dose-limiting toxicity was detected. There was a concern that the pulmonary delivery of a Nanobody would induce an immunogenic response, but no immunogenicity was detected locally or systemically.

Additional Phase I studies expected next year

Additional Phase I trials will probably start next year: one could be to determine more accurately the pharmacokinetic profile and another in adults with hypersensitive lungs. If these trials proceed as expected, a Phase II trial in small children with RSV infections could start in 2014, but Ablynx will aim to partner the product beforehand as it has no experience of conducting clinical trials in children. In preclinical studies ALX-0171 has already been shown to reduce RSV particles.

Nanobodies reach parts monoclonal antibodies cannot

These trial results highlight another difference between Nanobodies and monoclonal antibodies – Nanobodies can be nebulised and delivered directly to the lungs. This raises the possibility of more Nanobodies for pulmonary delivery being developed to treat other viral infections (eg influenza) or respiratory indication (eg asthma and COPD), either alone or with a partner.

Valuation: DCF valuation of €501m

We have increased our valuation by €22m to €501m, after increasing the likelihood of ALX-0171 achieving peak sales of \$800m by 5% to 15% and reductions to cash burn following tight cost control in H112. We have reduced forecast cash burn by 5.7% to €22.8m and by 10% to €20.7m in FY12 and FY13 respectively. The next catalyst for the shares is the Phase II data on ALX-0061 in rheumatoid arthritis due next month.

Pharma & biotech

20 September 2012

Price €4.53

Market cap €198m

Shares in issue 43.7m

Free float 56%

Code ABLX

Primary exchange Brussels

Other exchanges N/A

Share price performance



%	1m	3m	12m
Abs	53.6	69.0	(7.9)
Rel (local)	49.7	48.2	(21.1)
52-week high/low	€4.93	€2.25	

Business description

Ablynx is a drug discovery company with a proprietary technology platform. It is developing a novel class of therapeutic proteins called Nanobodies to treat a range of indications. It has seven products in clinical development.

Next events

ALX-0061 data	October 2012
Q312 results	14 November 2012

Analysts

Dr Mick Cooper	+44(0)20 3077 5734
Robin Davison	+44(0)20 3077 5737

healthcare@edisoninvestmentresearch.co.uk

[Edison profile page](#)

Exhibit 1: Financial summary

	€'000s	2009	2010	2011	2012e	2013e	2014e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		29,683	31,432	21,869	27,420	36,729	42,238
Cost of Sales		0	0	0	0	0	0
Gross Profit		29,683	31,432	21,869	27,420	36,729	42,238
EBITDA		(19,556)	(22,988)	(42,751)	(33,670)	(28,606)	(25,682)
Operating Profit (before GW and except.)		(21,962)	(25,378)	(44,920)	(35,601)	(30,470)	(27,576)
Intangible Amortisation		(198)	(487)	(609)	(581)	(529)	(519)
Exceptionals		0	0	0	0	0	0
Other		0	0	0	0	0	0
Operating Profit		(22,160)	(25,865)	(45,529)	(36,181)	(30,999)	(28,095)
Net Interest		2,165	1,395	1,634	1,284	712	113
Profit Before Tax (norm)		(19,797)	(23,983)	(43,286)	(34,316)	(29,758)	(27,463)
Profit Before Tax (FRS 3)		(19,995)	(24,470)	(43,895)	(34,897)	(30,287)	(27,982)
Tax		0	0	0	0	0	0
Profit After Tax (norm)		(19,797)	(23,983)	(43,286)	(34,316)	(29,758)	(27,463)
Profit After Tax (FRS 3)		(19,995)	(24,470)	(43,895)	(34,897)	(30,287)	(27,982)
Average Number of Shares Outstanding (m)		36.9	42.2	43.7	43.7	43.7	43.7
EPS - normalised (c)		(53.7)	(56.9)	(99.1)	(78.5)	(68.1)	(62.9)
EPS - FRS 3 (c)		(54.3)	(58.0)	(100.5)	(79.9)	(69.3)	(64.0)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		N/A	N/A	N/A	N/A	N/A	N/A
EBITDA Margin (%)		N/A	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	N/A
BALANCE SHEET							
Fixed Assets		4,277	10,319	11,979	11,972	12,016	12,166
Intangible Assets		799	1,416	1,018	917	868	829
Tangible Assets		3,478	4,692	4,984	4,415	4,508	4,697
Other		0	4,211	5,977	6,640	6,640	6,640
Current Assets		97,645	121,070	86,550	63,184	43,016	22,736
Stocks		0	0	0	0	0	0
Debtors		1,697	5,277	2,233	1,502	2,013	2,314
Cash		92,321	112,842	80,822	57,939	37,262	16,680
Other		3,627	2,951	3,495	3,742	3,742	3,742
Current Liabilities		(25,796)	(29,465)	(38,147)	(48,253)	(56,535)	(62,412)
Creditors		(7,200)	(7,582)	(9,867)	(8,540)	(9,175)	(9,542)
Short term borrowings		(3)	(322)	(805)	(815)	(815)	(815)
Other		(18,593)	(21,561)	(27,475)	(38,898)	(46,546)	(52,055)
Long Term Liabilities		0	(1,134)	(1,752)	(1,341)	(1,341)	(1,341)
Long term borrowings		0	(1,134)	(1,752)	(1,341)	(1,341)	(1,341)
Other long term liabilities		0	0	0	0	0	0
Net Assets		76,126	100,790	58,630	25,562	(2,844)	(28,851)
CASH FLOW							
Operating Cash Flow		(22,243)	(21,962)	(32,302)	(22,336)	(18,952)	(18,132)
Net Interest		2,332	1,361	1,689	1,317	712	113
Tax		0	0	0	0	0	0
Capex		(1,883)	(3,007)	(2,672)	(1,840)	(2,437)	(2,563)
Acquisitions/disposals		0	0	0	0	0	0
Financing		527	47,331	164	37	0	0
Dividends		0	0	0	0	0	0
Net Cash Flow		(21,267)	23,723	(33,121)	(22,823)	(20,677)	(20,582)
Opening net debt/(cash)		(113,474)	(92,318)	(114,386)	(81,265)	(58,443)	(37,766)
HP finance leases initiated		0	0	0	0	0	0
Other		111	(1,655)	0	(0)	(0)	0
Closing net debt/(cash)		(92,318)	(114,386)	(81,265)	(58,442)	(37,766)	(17,184)

Source: Edison Investment Research, company accounts

EDISON INVESTMENT RESEARCH LIMITED

Edison Investment Research is a leading international investment research company. It has won industry recognition, with awards both in Europe and internationally. The team of 95 includes over 60 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 400 companies across every sector and works directly with corporates, fund managers, investment banks, brokers and other advisers. Edison's research is read by institutional investors, alternative funds and wealth managers in more than 100 countries. Edison, founded in 2003, has offices in London, New York and Sydney and is authorised and regulated by the Financial Services Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584).

DISCLAIMER

Copyright 2012 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Abylnx and prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. This communication is intended for professional clients as defined in the FSA's Conduct of Business rules (COBs 3.5).

Registered in England, number 4794244. Edison Investment Research is authorised and regulated by the Financial Services Authority.
www.edisoninvestmentresearch.co.uk

London +44 (0)20 3077 5700
Lincoln House, 296-302 High Holborn
London, WC1V 7JH, UK

New York +1 212 551 1118
380 Lexington Avenue, Suite 1724
NY 10168, New York, US

Sydney +61 (0)2 9258 1162
Level 33, Australia Square, 264 George St,
Sydney, NSW 2000, Australia