

ImmunoGen

Kadcyla Approved, as Expected; Roche Launching with a Premium Price - ALERT

Today's FDA approval of Kadcyla (T-DM1) for the treatment HER2-positive metastatic breast cancer (mBC) was essentially a foregone conclusion, in our view. However, Roche (covered by JPM's EU Pharma analyst Alexandra Hauber) announced a price point (\$9,800/month) that is higher than expected and represents a significant premium vs. Perjeta (and obviously Herceptin). While positive, we'd note that IMGN's partnership with Roche for Kadcyla involves modest economics (tiered low-to-mid single digit royalty on sales), which in and of itself does not justify owning IMGN shares, in our view. We believe this development does indeed further validate IMGN's exciting ADC technology platform, but to justify a premium valuation, IMGN needs to generate meaningful data with one of its other antibody assets, preferably one that is fully owned. On that note, we eagerly await Phase 2 data for IMGN901 in SCLC in 2H13. Maintain Neutral.

- **Kadcyla (T-DM1) approved, as expected.** Kadcyla was approved for HER2-positive mBC pts who have received prior treatment with Herceptin and a taxane chemotherapy. Approval was granted slightly ahead of Tuesday's 2/26 PDUFA date, and the product should be available in the US within two weeks.
- **Pricing higher than expected.** Kadcyla will be priced at \$9,800/month. This represents a significant premium vs. Perjeta (~\$5,900/month) and Herceptin (~\$4,500/month). While this could boost sales in later lines of mBC therapy, for the more important earlier lines of therapy (with longer durations of therapy), a price cap for Kadcyla therapy could be put in place. *We had an opportunity to speak with Roche this morning*, and they felt that it's too early to comment on potential caps. This is something that Genentech/Roche has done before (i.e. Avastin) as this price point may not be sustainable in earlier lines of therapy. For the current indication, Roche assumes an average duration of therapy of 9.6 mos, implying an average cost per patient of ~\$94k.
- **We view IMGN's economics on Kadcyla as modest.** In territories where there is valid IP (includes US, EU, and Japan among others), the royalty rate is 3% of net sales up to \$250M, 3.5% from \$250M-\$400M, 4% from \$400M-\$700M, and 5% above \$700M. Where there is no valid IP, the royalty is a flat 2%. In addition, the royalty rate is reset annually. In other words, it starts at 3% each year before annual sales exceed \$250M in a particular region where it then jumps to the next tier and is applied only to incremental sales. Moreover, the tiered royalty applies separately to two territories (US & ROW). Net sales need to exceed the different thresholds in a particular region for the royalty to increase in only that region (i.e. could be 4% in US and 3% in ROW at the same time). Thus, for the 5% royalty to kick in on a WW basis, global sales would need to eclipse at least \$1.4B (\$700M+ in the US and \$700M+ in the ROW). We believe these terms cap the value of Kadcyla to IMGN.

We are confident in Kadcyla's outlook in mBC. While we assume peak worldwide sales of >\$5B, ~65% of this is in the adjuvant setting. With what we view as modest economic terms, we await the emergence of another candidate in the company's pipeline to justify a premium valuation.

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Neutral

IMGN, IMGN US

Price: \$14.30

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Biotechnology

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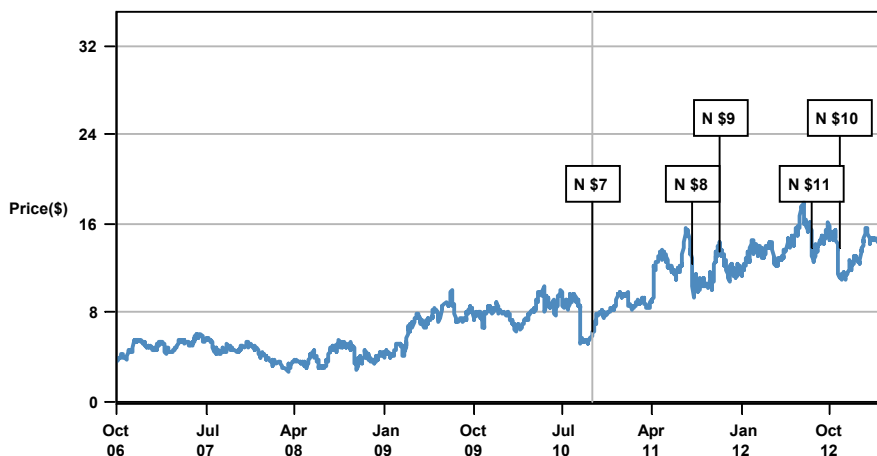
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ImmunoGen (IMGN, IMGN US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
01-Oct-10	N	6.24	7.00
04-Aug-11	N	12.33	8.00
28-Oct-11	N	13.47	9.00
06-Aug-12	N	13.90	11.00
26-Oct-12	N	13.78	10.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Oct 01, 2010.

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