

## Insmmed Incorporated

# AZN exercises final opt-in, adding to confidence in brenso ahead of ASPEN

Maintain Rating: BUY | PO: 40.00 USD | Price: 27.61 USD

## Key takeaways

- This morning, Insmmed announced Astra has exercised its 2nd option for brensocatib, allowing development into COPD or asthma
- While not a surprise, we'd argue the decision is incrementally positive, bolstering confidence with little risk to INSM
- With brenso, as well as TPIP and Arikayce, capable of driving a re-rating, we still like the risk/ reward profile for shares

## Vote of confidence from AZN bodes well for sentiment

This morning, Insmmed announced AstraZeneca (covered by Jain/ Parry)—which initially developed brensocatib—exercised its second option for the novel DPP-1 inhibitor, allowing it to advance development into COPD or asthma (see below), as long as a satisfactory commercial agreement can be reached between the companies. We doubt the news was a major surprise, with 1) AstraZeneca already having exercised its first option Mar 2020, permitting development in these two indications up through phase 2b studies, and 2) brensocatib's pivotal ASPEN read-out in NCFB fast approaching ("late 2Q"; see [our science](#) and [commercial previews](#)). But while we'd argue the decision is an incremental positive, underscoring the potential of the molecule and allowing negotiations to begin, we see little potential commercial risk for Insmmed, where given the high overlap between COPD/ asthma and NCFB—some studies suggest ~20-50+% comorbidity—we suspect it may be challenging to negotiate a deal attractive to all parties. With our continued optimism over the upside in NCFB alone (unadj 2030e BofA: \$535M vs. cons. \$469M), and downside protection from TPIP (PH-ILD/ PAH updates also 2Q) and Arikayce (ARISE/ ENCORE regulatory discussion underway)—each also capable of driving a re-rating—we continue to like the risk/ reward for shares at current levels. Maintain Buy and \$40 PO.

## Insmmed: any deal needs to be agreeable to both parties

Recall, Insmmed licensed brensocatib from AstraZeneca in Oct 2016 for \$30M upfront along with future milestones and potential royalties. However, in exchange for global exclusive development rights, the agreement provided AstraZeneca with the option to negotiate in good faith for a reasonable pathway to develop the drug for COPD or asthma. We had an opportunity to speak to Insmmed's management, who stressed the terms would need to be agreeable to both companies to move forward, which we suspect is likely to be overall challenge given—as noted above—the overlap of both indications with NCFB. At the same time, they stressed the development is unlikely to change the company's current plans/ developmental strategy.

11 March 2024

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### Stock Data

Price	27.61 USD
Price Objective	40.00 USD
Date Established	23-Feb-2024
Investment Opinion	C-1-9
52-Week Range	16.04 USD - 32.00 USD
Mkt Val (mn) / Shares Out (mn)	4,100 USD / 148.5
Free Float	98.6%
Average Daily Value (mn)	44.85 USD
BofA Ticker / Exchange	INSM / NAS
Bloomberg / Reuters	INSM US / INSM.OQ
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	Medium

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### Abbreviations:

**DPP-1:** dipeptidyl peptidase-1

**COPD:** chronic obstructive pulmonary disease

**NCFB:** Non-cystic fibrosis bronchiectasis

**TPIP:** treprostinil palmitil inhalation powder

**PAH:** pulmonary hypertension

**PH-ILD:** pulmonary hypertension-interstitial lung disease

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Timestamp: 11 March 2024 01:02PM EDT

## Price objective basis & risk

### Insmmed Incorporated (INSM)

Our 12-month PO is based on our NPV analysis of revenue forecasts assumptions. We model sales of Arikayce for refractory NTM-PD and frontline expansion (modified by a LOS of 80%). We assume a collective value for the pipeline: Brensocatib in NCFB (LOS: 70%), with potential expansion into CF (LOS: 20%), CRSsNP, and HS (LOS: 15%) and TPIP for PAH and PH-ILD (LOS: 50%). Given a WACC of 14%, in line with peers of similar size and risk, and a terminal growth rate of -10%, -40%, we estimate a value of \$12/sh for Arikayce, \$23/sh for Brensocatib, \$6/sh for TPIP, \$0.50/sh for the early pipeline, and \$-2/sh for net cash, resulting in \$40/sh.

Upside risks: 1) Arikayce full approval, 2) validation of Brensocatib in phase 3, with strong clinical efficacy and no safety concerns, 3) robust efficacy/ safety profile for TPIP in PAH and PH-ILD, 4) growth of translational medicine pipeline, including on-track IND-approvals, and 5) indications of strong commercial support from payers/ community-based providers.

Downside risks: 1) failure to achieve full approval/ commercial expansion of Arikayce in the EU and Japan, 2) failure to meet safety/ efficacy profile in Brensocatib (phase 3), especially due to meaningful infection risk, 3) marginal tolerability improvements, diminished efficacy, and/ or lack of differentiation of TPIP, 4) competition from disease modifying PAH agents, 5) failure of translational medicine pillar, 6) regulatory delays, and 7) commercial pushback from payers/providers.

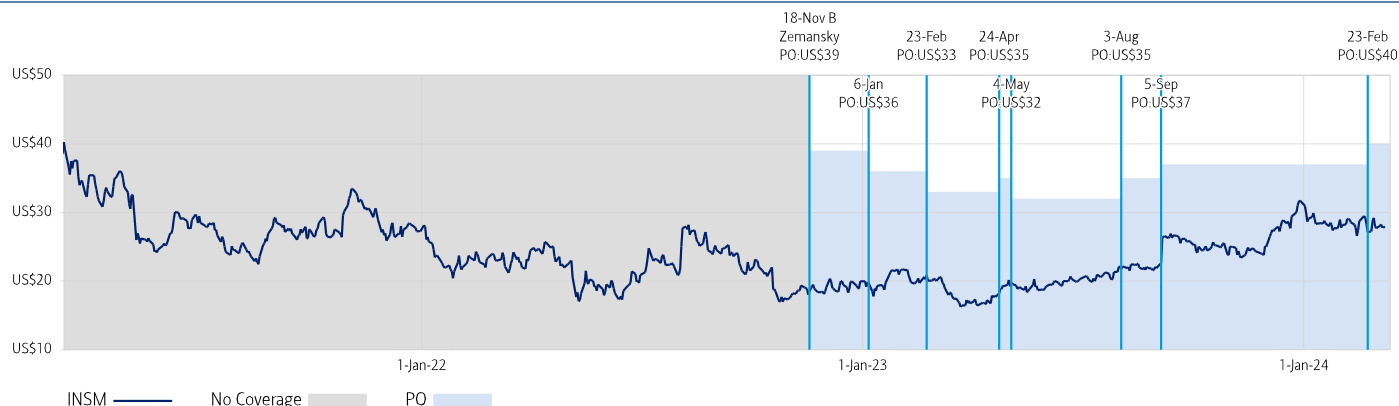
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### Insmcd (INSM) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
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Hold	80	20.83%	Hold	36	45.00%
Sell	70	18.23%	Sell	29	41.43%

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