

ChemoCentryx, Inc.

Adjusting Estimates Post 4Q Results

ChemoCentryx reported 4Q11 results with GAAP EPS of \$0.61 driven by a milestone payment from GSK in the quarter. The company highlighted 2012 milestones and guided to YE12 cash of at least \$115M. Importantly, lead product Traficet-EN, partnered with GSK, continues to progress in a broad phase 3 program for Crohn's disease. Feedback we have received from physicians on this asset has been favorable given comparable efficacy, but improved dosing (oral vs. injection) and a cleaner safety profile relative to biologics. We project a peak worldwide opportunity of ~\$2B, with ChemoCentryx receiving royalties of ~\$350M. Additionally, we view data from the phase 2 trial of CCX140 in diabetic nephropathy (DN) as a key de-risking event (complete enrollment by YE12). CCX140 is an unpartnered asset with blockbuster potential, in our view. As such, we reiterate our Overweight rating.

- **Review of Key Catalysts.** Recall, Traficet-EN is currently in four phase 3 trials in moderate-to-severe Crohn's disease with data from SHIELD-1 (induction) expected in 1H13. Additionally, CCX140 is in a phase 2 trial for DN which is expected to be completed by year end with data likely in 1Q13. Additionally enrollment in a phase 2 trial of CCX168 in ANCA-Associated vasculitis is expected to be completed by YE12.
- **Adjusting estimates.** Following 4Q11 results we are fine tuning our model. Specifically, we have adjusted shares outstanding. Our 2012-2014 GAAP EPS changes to (\$0.60), (\$1.00), and (\$1.45) from (\$0.64), (\$1.06), and (\$1.53), respectively (see Table 1 for details).
- **Reiterate Overweight rating.**

Overweight

CCXI, CCXI US

Price: \$10.57

Price Target: \$16.00

US Biotechnology

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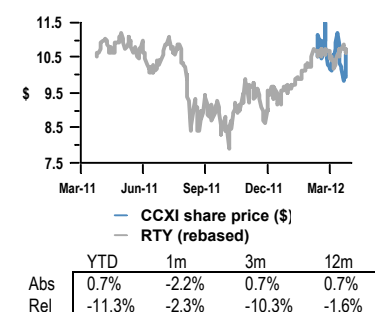
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Price Performance



ChemoCentryx, Inc. (CCXI;CCXI US)

FYE Dec	2011E	2012E (Prev)	2012E (Curr)	2013E (Prev)	2013E (Curr)
EPS Reported (\$)					
Q1 (Mar)	(1.07)A	(0.12)	(0.12)	-	-
Q2 (Jun)	(0.27)A	(0.14)	(0.13)	-	-
Q3 (Sep)	(0.37)A	(0.17)	(0.16)	-	-
Q4 (Dec)	0.61	(0.20)	(0.19)	-	-
FY	(1.10)	(0.64)	(0.60)	(1.06)	(1.00)

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Price (\$)	10.43
Date Of Price	29 Mar 12
52-week Range (\$)	12.77 - 9.87
Mkt Cap (\$ mn)	309.75
Fiscal Year End	Dec
Shares O/S (mn)	30
Price Target (\$)	16.00
Price Target End Date	31 Dec 12

See page 4 for analyst certification and important disclosures.

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Changes To Our Model

Table 1: CCXI Changes to Our Model

	2012E OLD	2012E NEW	2013E OLD	2013E NEW	2014E OLD	2014E NEW
Total Revenue	35.2	35.2	35.0	35.0	35.0	35.0
R&D	46.1	46.1	57.6	57.6	72.0	72.0
SG&A	14.0	14.0	23.1	23.1	37.0	36.9
Total Op Ex	60.1	60.1	80.7	80.7	109.0	108.9
Net income	-23.9	-23.9	-43.7	-43.7	-72.0	-71.9
EPS	-0.64	-0.60	-1.06	-1.00	-1.53	-1.45
<i>fully diluted shares</i>	37.6	39.4	41.1	43.5	47.1	49.5

Source: J.P. Morgan estimates.

Investment Thesis

ChemoCentryx is an early stage biotechnology company with a focus on developing oral drugs targeting the chemokine system, which is involved in autoimmune and inflammatory diseases as well as cancer. The company has a significant and validating partnership with GSK and its pipeline is anchored by Traficet-EN, a unique oral agent for Crohn's disease in phase 3 trials at GSK. In our view, Traficet-EN has blockbuster potential (with ChemoCentryx receiving royalties), this is supported by highly positive physician feedback. Additionally, ChemoCentryx has a robust pipeline, including CCX140, an unpartnered asset in phase 2 trials for diabetic nephropathy.

Valuation

Our December 2012 PT of \$16 is based on a sum-of-the-parts analysis. This value is derived from Traficet-EN for Crohn's disease in the US/EU (\$8/share), CCX140 for DN in the US only (\$4/share), and cash (\$4/share). We note that our Traficet-EN and CCX140 revenue estimates are probability adjusted by 70% and 15% respectively. Additionally, we assume no terminal value and a discount rate of 15%, which we believe appropriately reflects the risks of clinical development.

Risks to Rating and Price Target

Risk to our Overweight rating include 1) Traficet-EN could fail to demonstrate a meaningful benefit phase trials in Crohn's disease 2) CCX140 could fail in phase 2 trials for DN 3) Despite the potential for meaningful clinical data, Traficet-EN could fail to gain broad adoption in Crohn's disease.

ChemoCentryx, Inc.: Summary of Financials

Income Statement - Annual	FY11A	FY12E	FY13E	FY14E	Income Statement - Quarterly	1Q12E	2Q12E	3Q12E	4Q12E
Revenues	32	35	35	35	Revenues	9	9	9	9
Cost of products sold	-	-	-	0	Cost of products sold	-	-	-	-
Gross profit	32	35	35	35	Gross profit	9	9	9	9
SG&A	8	14	23	37	SG&A	3	3	4	4
R&D	28	46	58	72	R&D	10	11	12	13
Operating Income	(4)	(25)	(46)	(74)	Operating income	(5)	(6)	(7)	(8)
Note: EBITDA	-	-	-	-	Note: EBITDA	-	-	-	-
Net interest income / (expense)	(0)	1	2	2	Net interest income / (expense)	0	0	0	0
Other income / (expense)	0	0	0	0	Other income / (expense)	0	0	0	0
Pretax income	(5)	(24)	(44)	(72)	Pretax income	(4)	(5)	(7)	(8)
Income taxes	0	0	0	0	Income taxes	0	0	0	0
Net income - GAAP	(5)	(24)	(44)	(72)	Net income - GAAP	(4)	(5)	(7)	(8)
Net income - recurring	-	-	-	-	Net income - recurring	-	-	-	-
Diluted shares outstanding	23	39	44	50	Diluted shares outstanding	38	40	40	40
EPS - excluding non-recurring	(1.10)	(0.60)	(1.00)	(1.45)	EPS - excluding non-recurring	(0.12)	(0.13)	(0.16)	(0.19)
EPS - recurring	(1.10)	(0.60)	(1.00)	(1.45)	EPS - recurring	(0.12)	(0.13)	(0.16)	(0.19)
Balance Sheet and Cash Flow Data	FY11A	FY12E	FY13E	FY14E	Ratio Analysis	FY11A	FY12E	FY13E	FY14E
Cash and cash equivalents	29	62	70	77	Sales growth	(9.2%)	11.2%	(0.6%)	0.0%
Accounts receivable	15	18	22	26	EBIT growth	(27.5%)	475.7%	83.7%	61.8%
Inventories	-	-	-	-	EPS growth	901.8%	(45.1%)	66.4%	44.7%
Other current assets	1	1	1	1	Gross margin	100.0%	100.0%	100.0%	100.0%
Current assets	114	150	162	173	EBIT margin	(13.6%)	(70.6%)	(130.5%)	(211.1%)
PP&E	8	8	9	9	EBITDA margin	-	-	-	-
Total assets	118	155	167	179	Tax rate	0.0%	0.0%	0.0%	0.0%
Total debt	0	0	0	0	Net margin	(15.1%)	(67.8%)	(124.7%)	(205.4%)
Total liabilities	21	21	21	21	Debt / EBITDA	-	-	-	-
Shareholders' equity	97	133	145	157	Debt / Capital (book)	0.0%	0.0%	0.0%	0.0%
Net income (including charges)	(5)	(24)	(44)	(72)	Return on assets (ROA)	(4.0%)	(15.4%)	(26.2%)	(40.3%)
D&A	1	1	1	1	Return on equity (ROE)	(4.9%)	(17.9%)	(30.0%)	(45.7%)
Change in working capital	(2)	(3)	(4)	(4)	Return on invested capital (ROIC)	-	-	-	-
Other	-	-	-	-	Enterprise value / sales	8.1	6.4	6.2	6.0
Cash flow from operations	(6)	(26)	(46)	(75)	Enterprise value / EBITDA	-	-	-	-
Capex	(1)	(1)	(2)	(2)	Free cash flow yield	(2.2%)	(7.7%)	(13.4%)	(21.6%)
Free cash flow	(8)	(27)	(48)	(77)					
Cash flow from investing activities	(1)	(1)	(2)	(2)					
Cash flow from financing activities	25	60	56	84					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec

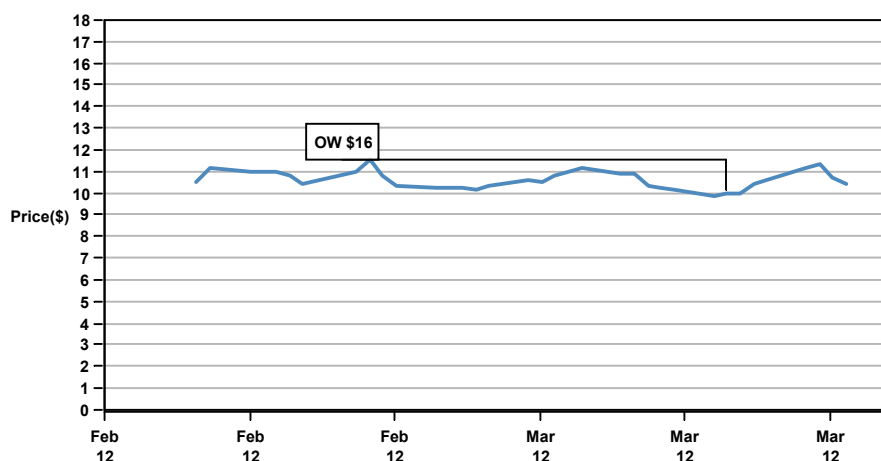
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ChemoCentryx, Inc. (CCXI, CCXI US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
19-Mar-12	OW	10.17	16.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Mar 19, 2012.

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