

ChemoCentryx, Inc.

Updating Model Post 2Q

We are updating our ChemoCentryx model post 2Q12 earnings. These results were reported on August 10, 2012, but due to a research restriction we were unable to publish until today. ChemoCentryx previously reported a 2Q12 GAAP EPS loss of \$0.30 that was lower than our expectation (loss of \$0.10) as lower revenues were partially offset by lower operating expenses. No new updates were provided, but the pipeline continues to make progress. Lead asset, Traficet-EN, is currently in multiple phase 3 trials for Crohn's disease with data expected in 1H13. Additionally, CCX140 continues in a phase 2 trial for diabetic nephropathy, (DN) which remains on track to be completed by YE12. We view these opportunities as meaningful and reiterate our Overweight rating. We are establishing a December 2013 PT of \$16, which replaces our previous December 2012 PT of \$16.

- **Review of key catalysts.** ChemoCentryx's lead product, Traficet-EN, for the treatment of Crohn's disease, is currently being investigated in four phase 3 trials with data from SHIELD-1 (induction) expected in 1H13. Other candidates include the following: (1) CCX140 for diabetic nephropathy is currently in phase 2 with completion expected by YE12 and data to follow in 1Q13; (2) CCX168 in ANCA-associated vasculitis is currently enrolling its phase 2 trial with completion by YE12; (3) CCX354 in rheumatoid arthritis completed its phase 2 trial with results published in the Annals of the Rheumatic Diseases.
- **Adjusting estimates:** Based on 2Q12 results, we are making adjustments to our model. Our 2012 GAAP loss per share estimate decreases to \$0.86 from \$0.72, while our 2013-2014 estimates of \$1.00 and \$1.45 are unchanged.
- **Reiterate Overweight.**

Overweight

CCXI, CCXI US

Price: \$12.33

Price Target: \$16.00

Biotechnology

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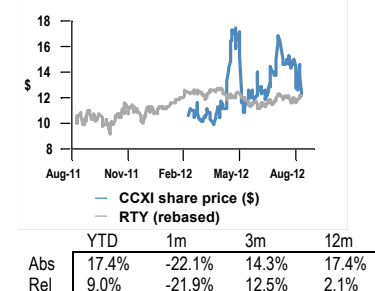
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Price Performance



ChemoCentryx, Inc. (CCXI;CCXI US)

FYE Dec	2011A	2012E (Prev)	2012E (Curr)	2013E	2014E
EPS Reported (\$)					
Q1 (Mar)	(1.07)	(0.28)A	(0.28)A	-	-
Q2 (Jun)	(0.27)	(0.10)	(0.30)A	-	-
Q3 (Sep)	(0.37)	(0.16)	(0.12)	-	-
Q4 (Dec)	0.61	(0.19)	(0.16)	-	-
FY	(1.10)	(0.72)	(0.86)	(1.00)	(1.45)
Bloomberg EPS FY (\$)	(1.06)	-	(0.87)	(0.96)	(0.96)

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

Company Data

Price (\$)	12.33
Date Of Price	09 Aug 12
52-week Range (\$)	17.73 - 9.19
Mkt Cap (\$ mn)	493.20
Fiscal Year End	Dec
Shares O/S (mn)	40
Price Target (\$)	16.00
Price Target End Date	31 Dec 13

See page 4 for analyst certification and important disclosures.

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Changes to Our Model

Based on 2Q12 results, we are making adjustments to our model. Our 2012 GAAP loss per share estimate decreases to \$0.86 from \$0.72, while our 2013-2014 estimates of \$1.00 and \$1.45 remain unchanged.

Table 1: Changes To Our Model

	2012E OLD	2012E NEW	2013E OLD	2013E NEW	2014E OLD	2014E NEW
Total Revenue	27.4	19.7	35.0	35.0	35.0	35.0
R&D	41.4	39.7	57.6	57.6	72.0	72.0
SG&A	13.1	11.3	23.1	23.1	36.9	37.0
Total Op Ex	54.5	51.0	80.7	80.7	108.9	109.0
Net income	-27.0	-31.3	-43.7	-43.7	-71.9	-72.0
EPS	-0.72	-0.86	-1.00	-1.00	-1.45	-1.45
<i>fully diluted shares</i>	38.2	37.3	43.5	43.5	49.5	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

We are establishing a December 2013 price target (PT) of \$16 (prior December 2012 PT of \$16). Our December 2013 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 (\$9/share), CCX140 for DN in the US only (\$4/share), and cash (\$3/share). We note that our Traficet-EN and CCX140 revenue estimates are probability adjusted by 65% 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	1Q12A	2Q12A	3Q12E	4Q12E
Revenues	32	20	35	35	Revenues	1A	1A	9	9
Cost of products sold	-	-	-	0	Cost of products sold	-	-	-	-
Gross profit	32	20	35	35	Gross profit	1A	1A	9	9
SG&A	8	11	23	37	SG&A	3A	2A	3	3
R&D	28	40	58	72	R&D	7A	10A	11	12
Operating Income	(4)	(31)	(46)	(74)	Operating income	(8)A	(11)A	(5)	(7)
Note: EBITDA	-	-	-	-	Note: EBITDA	-	-	-	-
Net interest income / (expense)	(0)	0	2	2	Net interest income / (expense)	(1)A	0A	0	0
Other income / (expense)	0	0	0	0	Other income / (expense)	0A	0A	0	0
Pretax income	(5)	(31)	(44)	(72)	Pretax income	(9)A	(11)A	(5)	(7)
Income taxes	0	0	0	0	Income taxes	0A	0A	0	0
Net income - GAAP	(5)	(31)	(44)	(72)	Net income - GAAP	(9)A	(11)A	(5)	(7)
Net income - recurring	-	-	-	-	Net income - recurring	-	-	-	-
Diluted shares outstanding	23	37	44	50	Diluted shares outstanding	33A	36A	40	40
EPS - excluding non-recurring	(1.10)	(0.86)	(1.00)	(1.45)	EPS - excluding non-recurring	(0.28)A	(0.30)A	(0.12)	(0.16)
EPS - recurring	(1.10)	(0.86)	(1.00)	(1.45)	EPS - recurring	(0.28)A	(0.30)A	(0.12)	(0.16)
Balance Sheet and Cash Flow Data	FY11A	FY12E	FY13E	FY14E	Ratio Analysis	FY11A	FY12E	FY13E	FY14E
Cash and cash equivalents	40	70	82	95	Sales growth	(9.2%)	(37.6%)	77.3%	0.0%
Accounts receivable	1	1	1	1	EBIT growth	(27.5%)	624.4%	46.1%	61.8%
Inventories	-	-	-	-	EPS growth	901.8%	(21.9%)	16.9%	44.7%
Other current assets	1	1	1	1	Gross margin	100.0%	100.0%	100.0%	100.0%
Current assets	91	121	134	147	EBIT margin	(13.6%)	(158.4%)	(130.6%)	(211.3%)
PP&E	7	7	6	5	EBITDA margin	-	-	-	-
Total assets	102	130	143	154	Tax rate	0.0%	0.0%	0.0%	0.0%
Total debt	0	0	0	0	Net margin	(15.1%)	(158.3%)	(124.9%)	(205.6%)
Total liabilities	26	15	15	15	Debt / EBITDA	-	-	-	-
Shareholders' equity	76	115	127	139	Debt / Capital (book)	0.0%	0.0%	0.0%	0.0%
Net income (including charges)	(5)	(31)	(44)	(72)	Return on assets (ROA)	(4.7%)	(24.0%)	(30.7%)	(46.6%)
D&A	1	1	1	1	Return on equity (ROE)	(6.3%)	(27.1%)	(34.3%)	(51.7%)
Change in working capital	3	(0)	(0)	(0)	Return on invested capital (ROIC)	-	-	-	-
Other	-	-	-	-	Enterprise value / sales	12.3	18.3	9.9	9.6
Cash flow from operations	2	(30)	(43)	(71)	Enterprise value / EBITDA	-	-	-	-
Capex	(0)	(0)	(0)	(0)	Free cash flow yield	0.4%	(6.4%)	(9.0%)	(14.8%)
Free cash flow	2	(31)	(43)	(71)					
Cash flow from investing activities	15	(0)	(0)	(0)					
Cash flow from financing activities	11	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

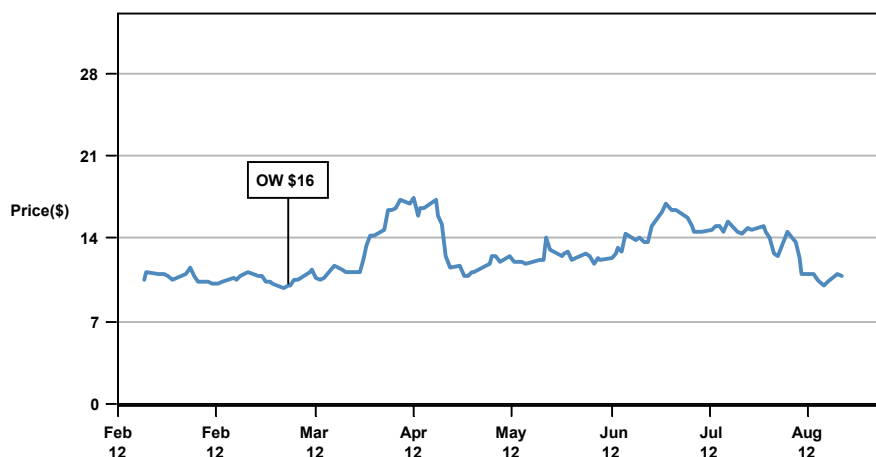
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ChemoCentryx, Inc. (CCXI, CCXI US) Price Chart



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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