

## ChemoCentryx, Inc.

### Updating Model Post 3Q

ChemoCentryx reported a 3Q12 GAAP loss of \$0.28 per share, below JPMe and Street estimates of (0.12) and (0.22), respectively. The loss was driven by higher operating expenses, namely R&D. There were incremental updates in the press release, with the most noteworthy being updates for CCX140, currently in a phase 2 trial for diabetic nephropathy (DN). Indeed, ChemoCentryx announced it has enrolled 135 patients and is planning to enroll the 270 patients, with 12-week data expected in 2013. Additionally, lead asset Traficet-EN, for Crohn's disease is currently in multiple phase 3 trials with data expected in 2013 (timing unchanged). Overall, we believe ChemoCentryx is making solid progress with the pipeline with multiple data readouts expected in 2013. As such, we are reiterating our Overweight rating on CCXI shares.

- **CCX140.** ChemoCentryx announced baseline enrollment completion (n=135) to its phase 2 CCX140 trial. However, the company intends on fulfilling the maximum enrollment of 270 persons based on preclinical studies and the key opinion of an independent data monitoring committee (IDMC). The move to increase patient enrollment was made (1) to increase statistical power and (2) to increase the safety database. 12 week data are expected in 2013.
- **Traficet-EN.** There were no real updates for Traficet-EN, the key value driver for CCXI shares (being investigated for the treatment of Crohn's disease). Recall, Traficet-EN is currently being investigated in four phase 3 trials. Data from SHEILD-1 is expected in 2013 (induction study).
- **Other pipeline.** Other clinical candidates include the following: (1) CCX168 in ANCA-associated vasculitis is currently enrolling its phase 2 trial with completion by YE12 (GSK option in 2013); (2) CCX872 in metabolic diseases is expected to initiate phase 1 studies in 4Q12.
- **Adjusting estimates.** Based on 3Q12 results, we are making adjustments to our model. Our 2012-2014 GAAP loss per share estimates decrease to \$1.14, \$0.83, and \$1.25, respectively from \$0.86, \$1.00, and \$1.45.
- **Reiterate Overweight.**

## Overweight

CCXI, CCXI US

Price: \$12.40

Price Target: \$16.00

### US Biotechnology

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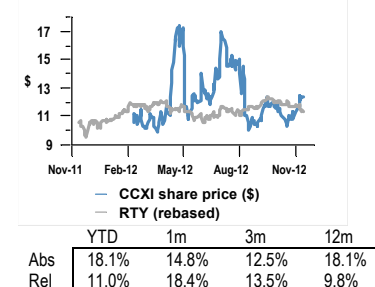
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### Price Performance



### ChemoCentryx, Inc. (CCXI;CCXI US)

FYE Dec	2011A	2012E	2012E	2013E	2013E	2014E	2014E
		(Prev)	(Curr)	(Prev)	(Curr)	(Prev)	(Curr)
EPS Reported (\$)							
Q1 (Mar)	(1.07)	(0.28)A	(0.28)A	-	-	-	-
Q2 (Jun)	(0.27)	(0.30)A	(0.30)A	-	-	-	-
Q3 (Sep)	(0.37)	(0.12)	(0.28)A	-	-	-	-
Q4 (Dec)	0.61	(0.16)	(0.28)	-	-	-	-
FY	(1.10)	(0.86)	(1.14)	(1.00)	(0.83)	(1.45)	(1.25)
Bloomberg EPS FY (\$)	(1.06)	-	(1.01)	-	(1.05)	-	(0.96)

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

### Company Data

Price (\$)	12.40
Date Of Price	12 Nov 12
52-week Range (\$)	17.73 - 9.19
Mkt Cap (\$ mn)	496.00
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 3Q12 results, we are making adjustments to our model. Our 2012-2014 GAAP loss per share estimates decrease to \$1.14, \$0.83, and \$1.25, respectively from \$0.86, \$1.00, and \$1.45.

Table 1: Changes to Our Model

	2012E OLD	2012E NEW	2013E OLD	2013E NEW	2014E OLD	2014E NEW
Total Revenue	19.7	4.8	35.0	35.0	35.0	35.0
R&D	39.7	35.3	57.6	51.3	72.0	64.2
SG&A	11.3	10.7	23.1	21.7	36.9	34.7
Total Op Ex	51.0	46.0	80.7	73.0	108.9	98.9
Net income	-31.3	-41.3	-43.7	-36.0	-71.9	-61.9
<b>EPS</b>	<b>-0.86</b>	<b>-1.14</b>	<b>-1.00</b>	<b>-0.83</b>	<b>-1.45</b>	<b>-1.25</b>
<i>fully diluted shares</i>	37.3	36.3	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

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 (~\$4/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; and 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	3Q12A	4Q12E
Revenues	32	5	35	35	Revenues	1A	1A	1A	2
Cost of products sold	-	-	-	0	Cost of products sold	-	-	-	-
Gross profit	32	5	35	35	Gross profit	1A	1A	1A	2
SG&A	8	11	22	35	SG&A	3A	2A	3A	3
R&D	28	35	51	64	R&D	7A	10A	9A	10
Operating Income	(4)	(41)	(38)	(64)	Operating income	(8)A	(11)A	(10)A	(12)
Note: EBITDA	-	-	-	-	Note: EBITDA	-	-	-	-
Net interest income / (expense)	(0)	(0)	2	2	Net interest income / (expense)	(1)A	0A	0A	0
Other income / (expense)	0	0	0	0	Other income / (expense)	0A	0A	0A	0
Pretax income	(5)	(41)	(36)	(62)	Pretax income	(9)A	(11)A	(10)A	(11)
Income taxes	0	0	0	0	Income taxes	0A	0A	0A	0
Net income - GAAP	(5)	(41)	(36)	(62)	Net income - GAAP	(9)A	(11)A	(10)A	(11)
Net income - recurring	-	-	-	-	Net income - recurring	-	-	-	-
Diluted shares outstanding	23	36	44	50	Diluted shares outstanding	33A	36A	36A	40
EPS - excluding non-recurring	(1.10)	(1.14)	(0.83)	(1.25)	EPS - excluding non-recurring	(0.28)A	(0.30)A	(0.28)A	(0.28)
EPS - recurring	(1.10)	(1.14)	(0.83)	(1.25)	EPS - recurring	(0.28)A	(0.30)A	(0.28)A	(0.28)
Balance Sheet and Cash Flow Data	FY11A	FY12E	FY13E	FY14E	Ratio Analysis	FY11A	FY12E	FY13E	FY14E
Cash and cash equivalents	40	60	80	103	Sales growth	(9.2%)	(84.9%)	633.1%	0.0%
Accounts receivable	1	1	1	1	EBIT growth	(27.5%)	855.0%	(7.8%)	68.0%
Inventories	-	-	-	-	EPS growth	901.8%	3.5%	(27.2%)	50.9%
Other current assets	1	1	1	1	Gross margin	100.0%	100.0%	100.0%	100.0%
Current assets	91	111	131	154	EBIT margin	(13.6%)	(863.6%)	(108.6%)	(182.4%)
PP&E	7	7	6	5	EBITDA margin	-	-	-	-
Total assets	102	120	140	162	Tax rate	0.0%	0.0%	0.0%	0.0%
Total debt	0	0	0	0	Net margin	(15.1%)	(866.0%)	(102.9%)	(176.7%)
Total liabilities	26	15	15	15	Debt / EBITDA	-	-	-	-
Shareholders' equity	76	105	125	147	Debt / Capital (book)	0.0%	0.0%	0.0%	0.0%
Net income (including charges)	(5)	(41)	(36)	(62)	Return on assets (ROA)	(4.7%)	(34.4%)	(25.7%)	(38.2%)
D&A	1	1	1	1	Return on equity (ROE)	(6.3%)	(39.3%)	(28.8%)	(42.1%)
Change in working capital	3	(0)	(0)	(0)	Return on invested capital (ROIC)	-	-	-	-
Other	-	-	-	-	Enterprise value / sales	12.8	81.1	10.5	9.8
Cash flow from operations	2	(41)	(35)	(61)	Enterprise value / EBITDA	-	-	-	-
Capex	(0)	(0)	(0)	(0)	Free cash flow yield	0.4%	(8.2%)	(7.1%)	(12.3%)
Free cash flow	2	(41)	(35)	(61)					
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

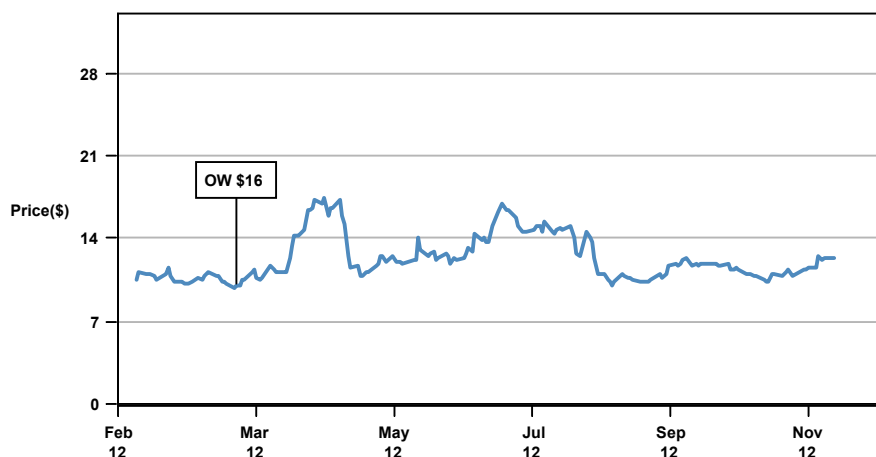
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ChemoCentryx, Inc. (CCXI, CCXI US) Price Chart



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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