

# ChemoCentryx

## Outperform (1)

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### Analysts

**Eric Schmidt, Ph.D.**  
 (646) 562-1345  
 eric.schmidt@cowen.com

**Imran Babar, Ph.D.**  
 (646) 562-1331  
 imran.babar@cowen.com

## CCX140 Phase II Trial Expanded Following Interim Look

**Conclusion:** We met with senior management today to discuss the recent decision to expand enrollment and extend treatment duration in CCX140's Ph. II study for diabetic nephropathy. Overall we were encouraged by the meeting and believe the changes will enhance CCX140's positioning for a possible future pivotal trial. Meanwhile, Ph. III data for lead drug candidate vercirnon in Crohn's are expected in mid-2013. We are optimistic for clinical and commercial success in both indications and expect CCXI shares to appreciate as data accumulate and investors gain greater familiarity with its assets, which include several other earlier stage drug candidates.

### ■ CCX140 Trial In Diabetic Nephropathy Expanded And Extended.

Following a recent Independent Data Monitoring Committee (IDMC) evaluation, CCXI has decided to expand enrollment in the Phase II to 270 pts (from 135) and extend dosing for up to 52 wks (from 12 wks). This decision was not based upon any efficacy information obtained from the IDMC, but rather on 1) the company's desire to obtain as much data as possible to inform its Ph. III trial and 2) favorable safety data (CCXI indicates no safety concerns and single digit drop-out rates) which opens the door for longer treatment duration and the potential for superior efficacy over time.

### ■ Bardoxolone Failure Irrelevant For CCXI.

We note that CCX140 has a completely different mechanism of action (inhibits CCR2) compared to bardoxolone (induces Nrf2 pathway). Therefore, we think bardoxolone's discontinuation in Ph. III due to safety concerns is irrelevant for CCX140.

### ■ Vercirnon Ph. III Data On Track, CCXI Well Funded.

GSK is conducting the Ph. III and plans to release data in mid-2013. The primary endpoint is proportion of pts achieving a decrease in CDAI score of at least 100 points. Based on strong Phase II data, we are optimistic for success. Yesterday, CCXI reported a Q3 net loss of \$10MM (vs. our \$11MME) and cash of \$128MM.

<b>CCXI (11/13)</b>	<b>\$12.31</b>	<b>Revenue \$MM</b>							
<b>Mkt cap</b>	<b>445.6MM</b>	<b>FY</b>	<b>2011</b>	<b>2012E</b>		<b>2013E</b>		<b>2014E</b>	
Dil shares out	36.2MM	<b>Dec</b>	<b>Actual</b>	<b>Prior</b>	<b>Current</b>	<b>Prior</b>	<b>Current</b>	<b>Prior</b>	<b>Current</b>
Avg daily vol	41.1K	Q1	1.9	—	1.0A	—	0.5	—	—
52-wk range	\$9.2-17.7	Q2	1.9	—	1.1A	—	0.5	—	—
Dividend	Nil	Q3	1.9	—	1.1A	—	0.5	—	—
Dividend yield	Nil	Q4	26.1	—	0.5	—	0.5	—	—
BV/sh	\$3.26	Year	<b>31.7</b>	<b>2.0</b>	<b>3.8</b>	—	<b>2.0</b>	—	<b>26.0</b>
Net cash/sh	\$3.53	EV/S	—	—	65.8x	—	125.0x	—	9.6x
Debt/cap	2.0%								
ROE (LTM)	NA								
5-yr fwd EPS growth (Norm)	NA								
		<b>EPS \$</b>							
		<b>FY</b>	<b>2011</b>	<b>2012E</b>		<b>2013E</b>		<b>2014E</b>	
		<b>Dec</b>	<b>Actual</b>	<b>Prior</b>	<b>Current</b>	<b>Prior</b>	<b>Current</b>	<b>Prior</b>	<b>Current</b>
		Q1	(0.23)	—	(0.28)A	—	(0.30)	—	—
		Q2	(0.23)	—	(0.30)A	—	(0.31)	—	—
		Q3	(0.24)	—	(0.28)A	—	(0.31)	—	—
		Q4	0.61	—	(0.30)	—	(0.33)	—	—
		Year	<b>(0.15)</b>	<b>(1.15)</b>	<b>(1.16)</b>	—	<b>(1.25)</b>	—	<b>(0.80)</b>
		P/E	—	—	—	—	—	—	—
<b>S&amp;P 500</b>	<b>1374.5</b>								

## Investment Thesis

ChemoCentryx is attempting to take advantage of the selectivity of chemokine biology to create small molecule drug candidates for autoimmune and inflammatory conditions. The company has five clinical-stage programs led by vercirnon (also known as Traficet-EN) for Crohn's disease (in Phase III trials), CCX140 (wholly-owned) for diabetic nephropathy (in Phase II), and CCX354 for rheumatoid arthritis (Phase II complete). Lead candidate vercirnon produced data in a 436-patient Phase IIb trial demonstrating activity in inducing and maintaining remissions in patients with moderate-to-severe Crohn's disease. Phase III trials should read out in mid-2013 (induction) and 2014 (maintenance), respectively. Consultants are complimentary of vercirnon's pristine safety profile and are optimistic for success in Phase III. While the clinical profiles of vercirnon and the other pipeline drug candidates are still being assessed, each addresses a large market and has blockbuster (\$1B+) potential. A major collaboration with GlaxoSmithKline (covering vercirnon, CCX354, and potentially one other candidate) has provided over \$200MM in funding, and following an IPO in February 2012 in which ChemoCentryx raised \$52MM in gross proceeds, we believe the company is sufficiently well capitalized to reach key milestones including pivotal data on vercirnon, Phase II data on CCX140, and potential proof-of-concept data on multiple earlier stage compounds. We expect CCXI shares to appreciate as the company achieves these milestones and investors gain greater familiarity with the company's assets.

### ChemoCentryx Upcoming Milestones

Milestone	Timing
Partner GSK initiates Phase IIb trial on CCX354 in RA	Q4:12
Possibly initiate Phase I trial on CCX872 in metabolic diseases	Q4:12
Possibly initiate Phase I trial on CCX507 in ulcerative colitis	Q4:12
FDA workshop to discuss endpoints for CKD trials	December 3-4
Initiate Phase I trial on CCX662 in GBM	H1:13
12-week data for CCX140 Phase II trial in diabetic nephropathy	Mid-2013
End of Phase II meeting with the FDA on CCX140	H2:13
GSK decision on whether to license CCX168	H2:13
Pivotal data on vercirnon in Crohn's disease (induction)	H2:13
Pivotal data on vercirnon in Crohn's disease (maintenance)	2014

Source: Cowen and Company

## ChemoCentryx Quarterly P&amp;L (\$MM)

	Q1:12A	Q2:12A	Q3:12A	Q4:12E	2012E	Q1:13E	Q2:13E	Q3:13E	Q4:13E	2013E
<b>Product sales</b>										
Traficet-EN (GSK'786) royalties										
Other Products										
Collaborative and other revenue	1.0	1.1	1.1	0.5	3.8	0.5	0.5	0.5	0.5	2.0
<b>Total Revenue</b>	<b>1.0</b>	<b>1.1</b>	<b>1.1</b>	<b>0.5</b>	<b>3.8</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>2.0</b>
<b>COGS</b>										
<i>gross margin</i>										
R&D	6.9	9.7	8.7	9.0	34.3	9.0	9.5	9.5	10.0	38.0
SG&A	2.6	2.5	2.6	3.0	10.7	3.0	3.0	3.0	3.5	12.5
<b>Total Expenses</b>	<b>9.5</b>	<b>12.2</b>	<b>11.4</b>	<b>12.0</b>	<b>45.0</b>	<b>12.0</b>	<b>12.5</b>	<b>12.5</b>	<b>13.5</b>	<b>50.5</b>
Operating Income/Loss	(8.5)	(11.0)	(10.2)	(11.5)	(41.2)	(11.5)	(12.0)	(12.0)	(13.0)	(48.5)
Interest and Other Income	0.1	0.2	0.1	0.2	0.6	0.2	0.1	0.1	0.1	0.5
Interest and Other Expense	(0.7)	(0.0)	(0.0)	(0.1)	(0.9)	0.0	(0.1)	(0.2)	(0.2)	(0.5)
Provision for income taxes	-	-	-	-	-	-	-	-	-	-
<i>Tax Rate</i>										
<b>Net Income (Loss)</b>	<b>(9.1)</b>	<b>(10.9)</b>	<b>(10.1)</b>	<b>(11.5)</b>	<b>(41.5)</b>	<b>(11.4)</b>	<b>(12.0)</b>	<b>(12.1)</b>	<b>(13.1)</b>	<b>(48.5)</b>
<b>GAAP EPS</b>	<b>(\$0.28)</b>	<b>(\$0.30)</b>	<b>(\$0.28)</b>	<b>(\$0.30)</b>	<b>(\$1.16)</b>	<b>(\$0.30)</b>	<b>(\$0.31)</b>	<b>(\$0.31)</b>	<b>(\$0.33)</b>	<b>(\$1.25)</b>
Basic and Diluted Shares Outstanding	32.9	36.2	36.2	37.8	35.8	38.0	38.5	39.0	39.5	38.8

Source: Cowen and Company

## ChemoCentryx Annual P&amp;L (\$MM)

	2011A	2012E	2013E	2014E	2015E	2016E	2017E
<b>Product sales</b>							
Traficet-EN (GSK'786) royalties	-	-	-	-	15.0	65.0	125.0
Other Products	-	-	-	-	-	-	-
Collaborative and other revenue	31.7	3.8	2.0	26.0	51.0	26.0	2.0
<b>Total Revenue</b>	<b>31.7</b>	<b>3.8</b>	<b>2.0</b>	<b>26.0</b>	<b>66.0</b>	<b>91.0</b>	<b>127.0</b>
<b>COGS</b>							
<i>gross margin</i>							
R&D	28.4	34.3	38.0	42.0	46.0	50.0	54.0
SG&A	7.6	10.7	12.5	16.0	23.5	29.0	31.5
<b>Total Expenses</b>	<b>36.0</b>	<b>45.0</b>	<b>50.5</b>	<b>58.0</b>	<b>69.5</b>	<b>79.0</b>	<b>85.5</b>
Operating Income/Loss	(4.3)	(41.2)	(48.5)	(32.0)	(3.5)	12.0	41.5
Interest and Other Income	0.4	0.6	0.5	0.5	0.5	1.0	1.0
Interest and Other Expense	(0.7)	(0.9)	(0.5)	(0.5)	(1.0)	(1.0)	(1.0)
Provision for income taxes	-	-	-	-	-	-	2.1
<i>Tax Rate</i>							
<b>Net Income (Loss)</b>	<b>(4.6)</b>	<b>(41.5)</b>	<b>(48.5)</b>	<b>(32.0)</b>	<b>(4.0)</b>	<b>12.0</b>	<b>39.4</b>
<b>GAAP EPS</b>	<b>(\$0.15)</b>	<b>(\$1.16)</b>	<b>(\$1.25)</b>	<b>(\$0.80)</b>	<b>(\$0.10)</b>	<b>\$0.25</b>	<b>\$0.80</b>
Basic and Diluted Shares Outstanding	30.9	35.8	38.8	40.0	42.0	48.0	49.0

Source: Cowen and Company

## Addendum

### STOCKS MENTIONED IN IMPORTANT DISCLOSURES

Ticker	Company Name
CCXI	ChemoCentryx

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(a) Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period.

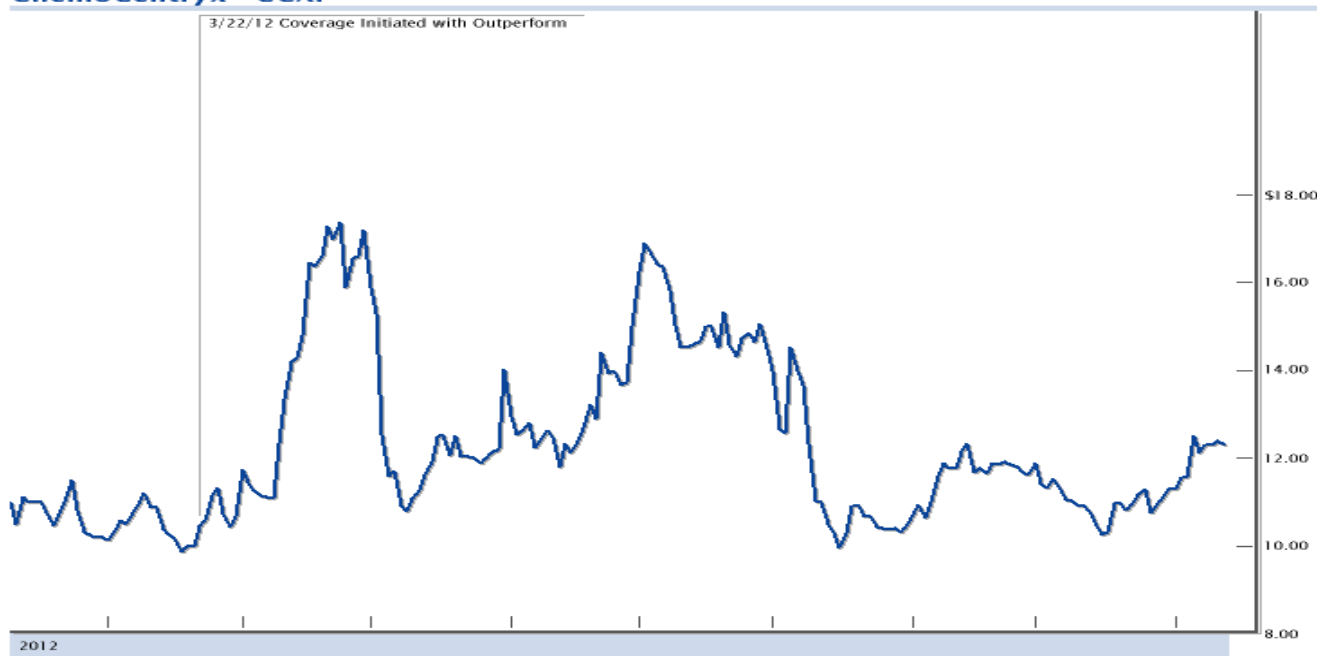
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### ChemoCentryx - CCXI



Pricing data provided by Reuters America. Chart as of 11/13/12 in USD.

