

## Tetralogic Pharmaceuticals

TLOG - BUY - 2Q14 Results; Birinapant Moving Forward in Ph.I/II MDS/Ovarian Cancer Trials; Lowering PT to \$11

August 7, 2014

On 8/5, TLOG reported 2Q14 EPS of (\$0.42), above our (\$0.26) estimate on higher than expected costs. We believe TLOG made substantial progress with the birinapant development program in 2Q14, reporting positive Ph.Ib results for birinapant+azacitidine in advanced MDS and starting a randomized Ph.II trial of the combination vs. azacitidine alone in 1st-line MDS. Importantly, the company should report initial Ph.I ovarian cancer (OC) results for birinapant +conatumumab (c-mAb) in 3Q14, and we view this report as a major NT positive catalyst for the stock. Based on birinapant's LT potential in MDS/OC/HBV and the promise of SHAPE for CTCL, we believe TLOG is currently substantially undervalued. We are lowering our PT by \$2 to \$11 on higher expense estimates.

**Encouraging Ph.Ib results for birinapant+azacitidine; Ph.II initiated.** TLOG recently reported Ph.Ib results for birinapant+azacitidine in advanced MDS, showing encouraging efficacy (3/9 pts with substantial blast count reductions) and an acceptable side effect profile with IV vs. sub-Q azacitidine. TLOG has started a Ph.II randomized trial of the combination in 1st-line MDS, and we see a good probability of positive results by mid-'15, based on the Ph.Ib results.

**Excellent rationale for birinapant+c-mAb; Ph.I OC results NT.** We continue to view birinapant's SMAC mimetic mechanism as highly complementary to TRAIL agonist c-mAb, and we believe birinapant has clear potential to overcome TRAIL agonist resistance. TLOG will report initial Ph.I results for birinapant+c-mAb in Sept., which we believe should establish proof of concept for the combination.

**Ph.I birinapant HBV trial to begin by YE'14.** Based on preclinical results recently outlined by Dr. Marc Pellegrini on a conference call, TLOG will initiate a Ph.I trial of birinapant for treatment of HBV. Although we believe the preclinical HBV results are fairly compelling, we believe initial Ph.I results in mid-'15 are necessary to better assess birinapant's potential in this setting.

**Randomized Ph.II SHAPE trial in CTCL to begin in 2H14.** As a topical HDAC inhibitor, we believe SHAPE may have a superior clinical profile versus systemic HDAC drugs. We look forward to initial Ph.II SHAPE CTCL results in 2H15.

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## TLOG BUY EARNINGS RELEASE

### Investment Thesis: Growth

SHARE PRICE \$4.54  
PRICE TARGET \$11.00

EPS (\$) (FY Dec)	1Q	2Q	3Q	4Q	FY
2013	—	—	—	—	(10.11)
2014	(0.25)	(0.42)	(0.36)E	(0.20)E	(1.23)E
Prior	—	(0.26)	(0.29)E	(0.15)E	(0.94)E
2015	—	—	—	—	(1.11)E
Prior	—	—	—	—	(0.90)E

### Market Data

52-Week Range	\$3.84 - \$14.75
Shares Out (M)	22.3
Market Cap (M)	\$101
ADV (3 mo; 000)	79



## TetraLogic Pharmaceuticals

TetraLogic Pharmaceuticals	2014										
Amounts in thousands, except per-share figures	2013A	1QA	2QA	Prior 2QE	3QE	4QE	2014E	Prior 2014E	2015E	2016E	2017E
Income Statement											
Revenues:											
Collaboration Revenue	-	-	-	-	-	3,400	3,400	3,400	4,500	4,750	8,120
Birinapant Revenue- MDS (1)	-	-	-	-	-	-	-	-	-	-	-
Birinapant Revenue- mCRC (1)	-	-	-	-	-	-	-	-	-	-	-
Total operating revenue	-	-	-	-	-	3,400	3,400	3,400	4,500	4,750	8,120
Operating expenses:											
Cost of goods	-	-	-	-	-	-	-	-	-	-	-
Research & development	9,523	3,123	4,864	3,450	5,110	5,325	18,422	14,525	20,264	26,343	28,978
Selling, general & administrative	8,467	2,508	3,005	2,650	3,220	2,975	11,708	10,953	13,113	16,391	19,670
Change in fair value of contingent consideration	-	-	918	-	-	-	-	-	-	-	-
Total operating expenses	17,991	5,631	8,787	6,100	8,330	8,300	30,130	25,478	33,377	42,735	48,647
Income (Loss) from operations	(17,991)	(5,631)	(8,787)	(6,100)	(8,330)	(4,900)	(26,730)	(22,078)	(28,877)	(37,985)	(40,527)
Net Interest/Other (expense)	(1,960)	297	(567)	236	236	235	201	1,004	(455)	37	200
Change in fair value of derivative liabilities	807	285	(447)	225	225	225	288	960	-	-	-
Interest/Other income	1	12	19	11	11	10	52	44	45	37	200
Interest Expense	(2,767)	-	(139)	-	-	-	(139)	-	(500)	-	-
Royalty to Princeton	-	-	-	-	-	-	-	-	-	-	-
Pretax income (loss)	(19,950)	(5,334)	(9,354)	(5,864)	(8,094)	(4,665)	(26,530)	(21,074)	(29,332)	(37,948)	(40,327)
Income tax provision (benefit)	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(19,950)	(5,334)	(9,354)	(5,864)	(8,094)	(4,665)	(26,530)	(21,074)	(29,332)	(37,948)	(40,327)
Preferred stock dividends	(3,250)	-	-	-	-	-	-	-	-	-	-
Basic & diluted net loss per share	(\$10.11)	(\$0.25)	(\$0.42)	(\$0.26)	(\$0.36)	(\$0.20)	(\$1.23)	(\$0.94)	(\$1.11)	(\$1.27)	(\$1.20)
Basic & diluted common shares outstanding (2)	2,296	22,321	22,351	22,545	22,574	22,800	22,560	22,658	26,536	29,997	33,722

(1) Probability adjusted estimates.

(2) Reflects conversion of preferred stock to common stock.

Source: Company documents and Guggenheim Securities, LLC

## Changes to Our Model

Based on TLOG's 2Q14 results and expense expectations, we have updated our EPS estimates for 3Q14–4Q14, '14, and '15. Our current 3Q14 and 4Q14 estimates are (\$0.36) and (\$0.20), respectively, versus our prior estimates of (\$0.29) and (\$0.15). Our current '14 and '15 estimates are (\$1.23) and (\$1.11), versus our prior estimates of (\$0.94) and (\$0.90).

## Valuation and Risks

Our new \$11 price target (vs. \$13 prior) is based on a forward, 10-year DCF of our probability-adjusted sales estimates for birinapant in MDS. We assign a 45% probability of clinical/commercial success for birinapant in higher-risk MDS. Our DCF analysis assumes a 16.73% discount rate to reflect the relatively early stage of birinapant and a 2.5% terminal growth rate to reflect the company's promising collaboration profile with AMGN.

Key risks to our price target include, but are not limited to, negative clinical trial results, either related to safety or efficacy, for TLOG's drug candidates; failure to gain U.S./E.U./Japan regulatory approval for birinapant; emerging clinical results for competitive therapies to birinapant in MDS/OC; failure of TLOG's collaborative partners to adequately advance development of clinical candidates; failure of TLOG to generate adequate financing; challenges to TLOG's intellectual property for birinapant; and lower-than-expected U.S./ROW sales of birinapant.

		Terminal growth rate									
		3.50%	3.25%	3.00%	2.75%	2.50%	2.25%	2.00%	1.75%	1.50%	
Discount rate	15.73%	\$ 13.86	\$ 13.57	\$ 13.28	\$ 13.01	\$ 12.74	\$ 12.49	\$ 12.24	\$ 12.00	\$ 11.77	
	15.98%	\$ 13.22	\$ 12.94	\$ 12.67	\$ 12.41	\$ 12.17	\$ 11.93	\$ 11.69	\$ 11.47	\$ 11.25	
	16.23%	\$ 12.61	\$ 12.35	\$ 12.10	\$ 11.85	\$ 11.62	\$ 11.39	\$ 11.17	\$ 10.96	\$ 10.76	
	16.48%	\$ 12.04	\$ 11.79	\$ 11.55	\$ 11.32	\$ 11.10	\$ 10.88	\$ 10.68	\$ 10.48	\$ 10.28	
	16.73%	\$ 11.49	\$ 11.25	\$ 11.03	\$ 10.81	\$ 10.60	\$ 10.40	\$ 10.20	\$ 10.01	\$ 9.83	
	16.98%	\$ 10.96	\$ 10.74	\$ 10.53	\$ 10.32	\$ 10.13	\$ 9.93	\$ 9.75	\$ 9.57	\$ 9.40	
	17.23%	\$ 10.46	\$ 10.25	\$ 10.05	\$ 9.86	\$ 9.67	\$ 9.49	\$ 9.32	\$ 9.15	\$ 8.98	
	17.48%	\$ 9.99	\$ 9.79	\$ 9.60	\$ 9.42	\$ 9.24	\$ 9.07	\$ 8.90	\$ 8.74	\$ 8.59	
	17.73%	\$ 9.54	\$ 9.35	\$ 9.17	\$ 9.00	\$ 8.83	\$ 8.67	\$ 8.51	\$ 8.36	\$ 8.21	
	17.98%	\$ 9.10	\$ 8.93	\$ 8.76	\$ 8.59	\$ 8.43	\$ 8.28	\$ 8.13	\$ 7.99	\$ 7.85	

Source: Guggenheim Securities, LLC

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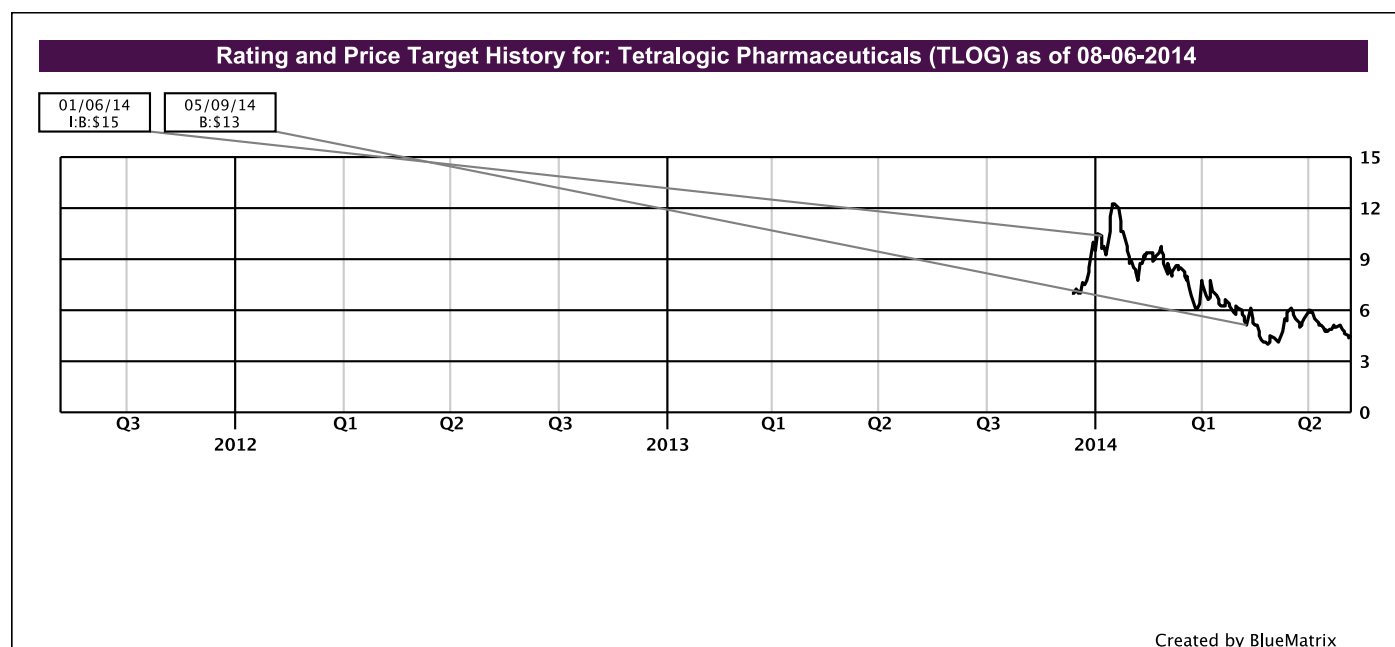
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