PTC Therapeutics, Inc (PTCT)

SMALL & MID CAP RESEARCH

Positive CHMP Decision for Ataluren in DMD; Increasing TP to $40 from $35

In an unexpected positive decision, the CHMP has recommended conditional approval for ataluren in non-sense mutation DMD patients. This is the best possible outcome for PTCT, as we had assigned no value for an early approval. We are increasing our TP to $40 from $35. Our EPS estimates for 2014 and 2015 go to ($3.12) and ($2.59) from ($2.93) and ($2.90), respectively, on higher prelaunch costs and new EU sales.

- **Early ataluren launch in EU:** We now forecast first sales in Q1:15 (could come earlier in H2:14) following EMA approval and pricing and reimbursement discussions decisions. We model ~2,600 nmDMD patients in EU, 70% eligible for ataluren, peak penetration of 60%, $225,000 gross price, 20% gross to net, 85% compliance, and EU sales at peak year penetration of $270M (potentially double that globally).
- **Increasing our TP to $40 from $35:** We are raising the POS for the DMD program globally to 70% from 65%, as the EMA decision validates other non-Phase III portions of the application including CMC and tox. Our 70% POS is designed to reflect the risk of the ongoing Phase III program. We are also pulling forward the EU sales by one year.
- **Catalysts:** (1) Potential announcement in H2:14 of plans to file for conditional approval for CF in EU ahead of Phase III results, (2) Ataluren EU launch in DMD late 2014/early 2015, (3) DMD Phase III read out in mid:2015, and (4) CF Phase III read out in 2016.

Rating	**OUTPERFORM* [V]**
Price (22 May 14, US$)	15.32
Target price (US$)	(from 35.00) 40.00[1]
52-week price range	33.97 - 13.59
Market cap. (US$ m)	460.74
Enterprise value (US$ m)	277.05

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US$)	-5.18	-3.12	-2.59	-1.61
Prev. EPS (US$)	—	-2.93	-2.90	-2.49
P/E (x)	-3.0	-4.9	-5.9	-9.5
P/E rel. (%)	-17.0	-30.7	-41.1	-73.6
Revenue (US$ m)	34.7	18.2	62.6	97.9
EBITDA (US$ m)	-43.0	-85.3	-76.1	-55.8
OCFPS (US$)	-3.66	-2.53	-1.91	-1.09
P/OCF (x)	-4.6	-6.1	-8.0	-14.1
EV/EBITDA (current)	-5.0	-2.5	-2.8	-3.8
Net debt (US$ m)	-142	-184	-122	-267
ROIC (%)	760.27	4,162.57	2,646.76	1,527.52

Number of shares (m)	30.07	IC (current, US$ m)	-5.97
BV/share (Next Qtr., US$)	-12.5	EV/IC (x)	-120.1
Net debt (Next Qtr., US$ m)	-228.9	Dividend (current, US$)	—
Net debt/tot cap (Next Qtr., %)	-100.9	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates

Exhibit 1: PTCT Pipeline

Product/Indication	Phase	Target	Partner
Ataluren - Duchenne Muscular Dystrophy	Phase III; Positive CHMP decision	Nonsense DMD mutations	Proprietary
Ataluren - Cystic Fibrosis	Phase III	Class 1 CFTR Mutations	Proprietary
Spinal muscular atrophy	Phase I	SMN2	Roche
PTC596 - Oncology	Preclinical	BMI1	Proprietary
Antibacterial	Preclinical	MDR Gram (-) bacteria	Proprietary

Source: Company data, Credit Suisse estimates

Exhibit 2: PTCT Model

($ in MM; except per share)	2011A	2012A	2013A	Q1:14A	Q2:14E	Q3:14E	Q4:14E	2014E	2015E	2016E	2017E	2018E
US Sales										18.2	117.3	198.0
EU Sales									40.6	63.7	137.9	193.2
ROW Royalties											3.1	8.0
Ataluren revenue (total)									40.6	81.9	258.3	399.2
Collaboration revenue	99.0	28.8	31.3	9.1	2.0	2.0	2.0	15.1	18.0	16.0	16.0	12.0
Grant revenue	6.5	5.2	3.4	0.1	1.0	1.0	1.0	3.1	4.0			
Total Revenues	105.4	33.9	34.7	9.2	3.0	3.0	3.0	18.2	62.6	97.9	274.3	411.2
COGS										6.6	20.7	31.9
Research and Development Expenses	58.7	46.1	54.9	15.9	16.3	18.3	19.3	69.8	73.5	66.0	70.0	77.0
Sales, General and Administrative Expenses	16.2	14.6	25.2	7.5	7.6	9.0	12.0	36.1	66.0	82.0	101.0	119.2
Total Costs and Expenses	74.8	60.8	80.1	23.4	23.9	27.3	31.3	105.9	139.5	154.6	191.7	228.2
Operating Income (Loss)	30.6	(26.8)	(45.4)	(14.2)	(20.9)	(24.3)	(28.3)	(87.7)	(76.9)	(56.6)	82.7	183.1
Interest Expense, net	(2.4)	(1.2)	(6.1)	0.2				0.2				
Other income, net	0.5	1.8	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.4)	(0.4)	(1.0)	(1.0)
Income (Loss) before Tax	28.6	(26.2)	(51.6)	(14.1)	(21.0)	(24.4)	(28.4)	(87.9)	(77.3)	(57.0)	81.7	182.1
Provision for Income Tax (benefit)	2.3											
Net income (loss)	30.9	(26.2)	(51.6)	(14.1)	(21.0)	(24.4)	(28.4)	(87.9)	(77.3)	(57.0)	81.7	182.1
Net income attributable to common shareholders	0.0	0.7	(66.4)	(14.1)	(21.0)	(24.4)	(28.4)	(87.9)	(77.3)	(57.0)	81.7	182.1
EPS - diluted	4.55	42.50	(5.18)	(0.6)	(0.7)	(0.8)	(1.0)	(3.12)	(2.59)	(1.61)	2.09	4.55
Shares Outstanding - basic	0.001	0.003	12.83	24.49	29.20	29.35	29.50	28.14	29.87	35.51	36.22	36.95
Shares Outstanding - diluted	0.006	0.017	12.83	26.66	31.41	31.60	31.79	30.37	32.28	38.12	39.05	40.01

Source: Company data, Credit Suisse estimates

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Companies Mentioned *(Price as of 23-May-2014)*

PTC Therapeutics, Inc (PTCT.OQ, $15.32, OUTPERFORM[V], TP $40.0)

Disclosure Appendix

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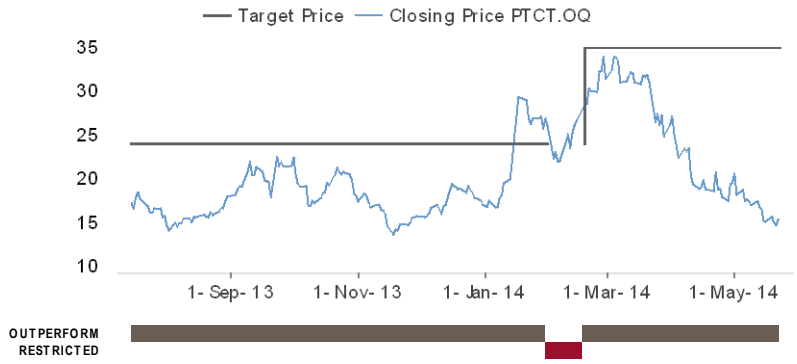
3-Year Price and Rating History for PTC Therapeutics, Inc (PTCT.OQ)

PTCT.OQ	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
15-Jul-13	17.17	24.00	O *
31-Jan-14	26.07		R
18-Feb-14	28.43	35.00	O

** Asterisk signifies initiation or assumption of coverage.*



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Restricted	3%	

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Price Target: (12 months) for PTC Therapeutics, Inc (PTCT.OQ)

Method: Our $40 target price for PTCT is calculated by DCF (discounted cash flow), using probability-weighted sales estimates for ataluren in Duchenne muscular dystrophy (70% probability) and in cystic fibrosis (65% probability) modeled through 2030, and the SMA program (20% probability). We use a 38% tax rate and a 12% discount rate, and arrive at a $40 valuation based on a projected share count.

Risk: Risks to our $40 target price for PTCT are (1) unexpected negative result in the Duchenne muscular dystrophy (DMD) or cystic fibrosis (CF) Phase III studies, (2) headline risk should the EMA (European Medicines Agency) reject conditional approval of ataluren in CF, (3) limited newsflow in 2014, (4) potential emergence a competitive molecule in the DMD or CF space, and (5) potential need for additional capital (we model an equity raise in 2016).

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