Portola Pharmaceuticals (PTLA)

Rating	**OUTPERFORM* [V]**
Price (10 Jan 14, US$)	27.92
Target price (US$)	32.00[1]
52-week price range	29.01 - 15.15
Market cap. (US$ m)	1,108.69
Enterprise value (US$ m)	818.57

**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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SMALL & MID CAP RESEARCH

PTLA Announces New Agreement for Andexanet Alfa Phase III with Eliquis

- **Funding for Phase III.** PTLA announced a new funding agreement with BMY and PFE for support of the Phase III study of PTLA's proprietary Factor Xa antidote (andexanet alfa) with Eliquis. Similar to the previous deal for Phase II, the detailed financial commitments were not disclosed.
- **All commercial rights retained.** As with its previous agreement to support Phase II trials, the deal comes with no commercial commitments, and PTLA retains full world-wide rights to the program. We believe that BMY/PFE are motivated by expanding the potential market for Factor Xa inhibitors, and want to facilitate the rapid development of an antidote which will improve the safety of this growing blockbuster drug class.
- **Other deals likely to follow.** We expect that the companies marketing the two other approved Factor Xa inhibitors (JNJ/Bayer and Daiichi Sankyo) will also agree to support the Phase III program of andexanet alfa with their Factor Xa inhibitors.
- **Program likely to generate significant news flow over next two years.** We believe this is a low clinical risk program that could generate newsflow over the next couple of years with multiple Phase III readouts.
- **Breakthrough therapy:** FDA granted PTLA's andexanet alfa (PRT4445) breakthrough therapy designation as an antidote for Factor Xa inhibitors. Recall that PTLA is seeking accelerated approval for this program and could file for approval in late 2015/2016.

Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US$)	0.44	-3.20	-3.01	-0.98
Prev. EPS (US$)	—	—	—	—
P/E (x)	64.1	-8.7	-9.3	-28.4
P/E rel. (%)	364.4	-52.5	-61.4	-208.7
Revenue (US$ m)	72.0	8.5	—	65.0
EBITDA (US$ m)	12.2	-88.8	-120.3	-43.9
OCFPS (US$)	-1.89	-0.14	-2.66	-0.87
P/OCF (x)	—	-198.2	-10.5	-32.1
EV/EBITDA (current)	72.9	-10.1	-7.4	-20.3
Net debt (US$ m)	-54	-290	-172	-276
ROIC (%)	14.92	382.33	549.25	239.57

Number of shares (m)	39.71	IC (current, US$ m)	72.78
BV/share (Next Qtr., US$)	—	EV/IC (x)	-34.7
Net debt (Next Qtr., US$ m)	-290.1	Dividend (current, US$)	—
Net debt/tot cap (Next Qtr., %)	-108.9	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates

Valuation: Reiterate OUTPERFORM rating and a $32 price target: Our positive view is based on the large market opportunity for factor Xa inhibitors for clot prevention in acute medically ill patients and for its factor Xa inhibitor antidote for bleeding or surgery.

Exhibit 1: PTLA News Flow

Product/Event	Indication	Catalyst	Expected Date	Comments	Price Sensitivity
PRT4445	Factor Xa antidote	Additional Phase II data (enoxaparin reversal)	Q1:14	Previously, Phase II data confirmed that PRT4445 has immediate reversal of Xarelto.	Medium
PRT4445	Factor Xa antidote	Phase III First-Patient-In	H1:14	FDA has agreed to an accelerated approval path with PK/PD endpoints. A confirmatory outcomes study will be run concurrently with a data read-out after potential approval.	Low
Betrixaban	Factor Xa inhibitor	Futility analysis	2014	PRLA is testing betrixaban in acute medically ill patients in a Phase III outcomes trial (APEX) in 6,850 patients. Trial started in 2012 and top-line data are expected in mid-2015. The trial randomizes patients to standard of care Lovenox or betrixaban.	Low
PRT2070- SYK/ JAK inhibitor	Hematologic malignancies	Phase I proof of concept	2014	Phase I testing is being conducted in CLL and NHL. SYK is a key component of the BCR pathway, and JAK is a proven target in hematological malignancies.	Low
PRT4445	Factor Xa antidote	BLA filing	Late 2015/2016	……..	Medium
Betrixaban	Factor Xa inhibitor	Complete enrollment	Mid:15	……..	Low
Betrixaban	Factor Xa inhibitor	Phase III Data	Q3:15	……..	High
PRT2070- SYK/ JAK inhibitor	Hematologic malignancies	Phase II Proof-of-Concept Data	Mid:15	……..	Medium

Source: Company data, Credit Suisse estimates

Exhibit 2: PTLA Earnings Model

	2011A	2012A	Q1:13A	Q2:13A	Q3:13A	Q4:13E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
US sales (prob. adjusted)														
Betrixaban										29.1	151.2	212.3	271.6	336.2
Andexanet alfa (PRT4445)										25.0	67.3	91.3	123.3	160.0
Total US sales										54.1	218.5	303.6	394.9	496.2
Royalty revenue										4.3	22.3	39.5	56.6	79.3
Collaboration and license revenue	78.0	72.0	3.1	2.6	2.8		8.5		65.0					
Total revenue	**78.0**	**72.0**	**3.1**	**2.6**	**2.8**		**8.5**		**65.0**	**58.4**	**240.8**	**343.2**	**451.5**	**575.5**
Cost of goods sold										29.1	54.6	62.0	72.7	81.9
Milestone expense									(2.0)	(13.0)				
R&D	46.1	49.7	17.7	20.8	18.1	27.5	84.1	105.6	93.7	70.1	65.3	65.5	70.7	75.8
SG&A	12.1	11.5	3.0	3.7	3.9	3.9	14.6	16.2	18.7	87.2	80.0	83.6	88.7	94.3
Total operating expenses	**58.2**	**61.2**	**20.8**	**24.5**	**22.0**	**31.4**	**98.7**	**121.8**	**110.5**	**144.3**	**145.3**	**149.1**	**159.4**	**170.1**
Income (loss) from operations	19.9	10.9	(17.7)	(21.9)	(19.2)	(31.4)	(90.2)	(121.8)	(45.5)	(114.9)	40.9	132.1	219.5	323.5
Interest and other income, net	0.1	0.5	(0.5)	0.3	0.7	0.3	0.8	0.7	0.3	0.3	0.2	0.3	0.5	1.0
Interest expense	(0.0)													
Income (loss) before income taxes	20.0	11.4	(18.1)	(21.6)	(18.6)	(31.1)	(89.4)	(121.1)	(45.1)	(114.7)	41.0	132.4	220.0	324.5
Provision for income taxes											0.8	2.6	4.4	64.7
Net income (loss)	**20.0**	**11.4**	**(18.1)**	**(21.6)**	**(18.6)**	**(31.1)**	**(89.4)**	**(121.1)**	**(45.1)**	**(114.7)**	**40.2**	**129.8**	**215.6**	**259.8**
Diluted EPS - (proforma)		**$0.44**	**($0.71)**	**($1.47)**	**($0.53)**	**($0.86)**	**($3.20)**	**($3.01)**	**($0.98)**	**($2.47)**	**$0.78**	**$2.50**	**$4.12**	**$4.91**
Basic		25.4	25.4	14.7	35.2	36.4	27.9	40.3	46.0	46.4	46.9	47.4	47.8	48.3
Diluted		26.1	25.4	14.7	35.2	40.3	28.9	44.4	50.3	50.8	51.3	51.8	52.3	52.9

Source: Company data, Credit Suisse estimates

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Companies Mentioned *(Price as of 10-Jan-2014)*

Bayer (BAYGn.DE, €99.16)
Bristol Myers Squibb Co. (BMY.N, $56.18)
Daiichi Sankyo (4568.T, ¥2,006)
Johnson & Johnson (JNJ.N, $94.74)
Pfizer (PFE.N, $30.69)
Portola Pharmaceuticals (PTLA.OQ, $27.92, OUTPERFORM[V], TP $32.0)

Disclosure Appendix

Important Global Disclosures

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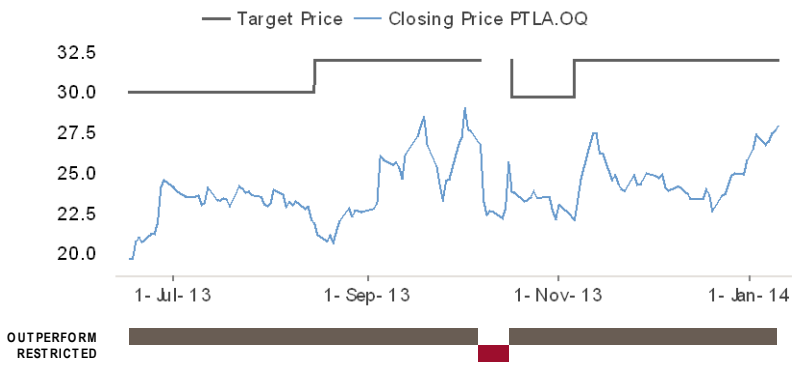
3-Year Price and Rating History for Portola Pharmaceuticals (PTLA.OQ)

PTLA.OQ Date	Closing Price (US$)	Target Price (US$)	Rating
17-Jun-13	19.68	30.00	O *
15-Aug-13	21.86	32.00	
07-Oct-13	26.74		R
17-Oct-13	25.68	29.74	O
06-Nov-13	22.09	32.00	

** Asterisk signifies initiation or assumption of coverage.*



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Price Target: (12 months) for Portola Pharmaceuticals (PTLA.OQ)

Method: Our $32 target for PTLA is derived using a probability-adjusted DCF, assigning a 65% probability of success to betrixaban and a 55% probability to PRT4445. We us a 12% discount rate and model through the entire lifecycle. We expect the company to be cash flow positive in 2017.

Risk: Risks to our $32 target price for PTL are (1) betrixaban Phase III APEX study fails to demonstrate clinical significance, (2) one or more factor Xa products enter the Clinically Ill market before betrixaban can capture a meaningful market share, (3) unexpected regulatory hurdles for PTLA's antidote program, (4) potential competition from other factor Xa antidote products, and (5) financing risk with a future capital raise.

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