PTC Therapeutics, Inc (PTCT)

SMALL & MID CAP RESEARCH

Rating	**OUTPERFORM* [V]**
Price (12 Aug 13, US$)	15.46
Target price (US$)	24.00[1]
52-week price range	18.40 - 13.63
Market cap. (US$ m)	366.06
Enterprise value (US$ m)	218.29

**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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Q2 Earnings: Ataluren On Track in DMD & CF

PTCT reported progress in the two months since the IPO including: (1) responding to EMA's 120-day questions for the conditional approval MAA for Ataluren in DMD, with a CHMP recommendation still expected by year-end, (2) selection of a lead SMA candidate by partner Roche, which triggered a $10M cash milestone, (3) on track with enrollment in the Phase III DMD study, expected to fully enroll by mid-2014, and (4) preparing to file for conditional approval for CF in the EU by year-end. The Q2 results, revised share count, and the pulling forward of the recent SMA milestone causes our EPS estimates for 2013, 2014, and 2015 changes to ($3.48), ($2.74), and ($1.76) from ($2.26), ($2.19), and ($1.64).

- **Bullish thesis:** Our bullish thesis is based on the promising activity of Ataluren in DMD and CF, and these two orphan diseases represent a $1B market opportunity for a highly targeted patient group, not served by other drugs in development.
- **Catalysts:** A CHMP decision on EU conditional approval for ataluren in DMD is expected by year-end 2013. Two Phase III trials in DMD and CF could read out in 2015 and 2016. Further advancement of PTCT's SMA program with partner Roche is expected in 2014.
- **Our $24 TP Is Supported by a Probability-Weighted DCF Analysis of Ataluren in DMD and CF:** We expect PTCT to hit our target ahead of the first Phase III results in mid-2015, with further upside potential from EU conditional approval (not in our numbers), risk-lowering Phase III results, and a potential ex-U.S. partnership. The SMA program is not in our valuation.

Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US$)	42.50	-3.48	-2.74	-1.76
Prev. EPS (US$)	—	-2.26	-2.19	-1.64
P/E (x)	0.4	-4.4	-5.6	-8.8
P/E rel. (%)	2.2	-29.0	-40.9	-70.4
Revenue (US$ m)	33.9	36.0	11.0	27.0
EBITDA (US$ m)	-24.1	-35.1	-63.4	-55.0
OCFPS (US$)	NM	-2.98	-2.37	-1.31
P/OCF (x)	—	-5.2	-6.5	-11.8
EV/EBITDA (current)	-13.3	-9.1	-5.0	-5.8
Net debt (US$ m)	2	-148	-82	-220
ROIC (%)	160.91	468.89	4,344.44	2,325.51

Number of shares (m)	23.68	IC (current, US$ m)	-16.66
BV/share (Next Qtr., US$)	-115.7	EV/IC (x)	-20.3
Net debt (Next Qtr., US$ m)	-162.9	Dividend (current, US$)	—
Net debt/tot cap (Next Qtr., %)	-106.6	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates

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Q2:13 In Line – Revised Share Count Leads to EPS Changes

Our full year EPS is significantly impacted based on lower average common shares, as we previously used a pro forma share count for H1:13. We now use the reported shares as we expect this is the way the company will report it for 2013. The Q2 results, revised share count, and the pulling forward of the recent SMA milestone causes our EPS estimates for 2013, 2014, and 2015 changes to ($3.48), ($2.74), and ($1.76) from ($2.26), ($2.19), and ($1.64).

Exhibit 1: Q2 Variance Table

Income Statement	Actual	CS Estimate	Difference	Consensus	Difference
Ataluren Revenue	0.0	0.0	0.0		
US Sales	0.0	0.0	0.0		0.0
EU Royalties	0.0	0.0	0.0		
ROW Royalties	0.0	0.0			
Collaboration revenue	5.9	5.0	0.9		
Grant revenue	1.0	1.0	(0.0)		
Total Revenues	**6.9**	**6.0**	**0.9**	**6.3**	**0.6**
COGS	0.0	0.0	0.0		
Research and Development Expenses	14.7	11.0	3.7		
Sales, General and Administrative Expenses	6.6	7.0	(0.4)		
Total Costs and Expenses	21.3	18.0	3.3		
Operating Income (Loss)	**(14.5)**	**(12.0)**	**(2.5)**	**(11.8)**	**(2.7)**
Interest Expense, net	(0.1)	(0.1)	0.0		
Other income, net	(0.0)	(1.0)	1.0		
Income (Loss) before Tax	(14.6)	(13.1)	(1.5)		
Provision for Income Tax (benefit)	0.0	0.0	0.0		
Net income (loss)	**(14.6)**	**(13.1)**	**(1.5)**	**(12.2)**	**(2.4)**

Source: Company data, Credit Suisse estimates

Exhibit 2: PTCT News Flow

Timing	Event
Duchenne Muscular Distrophy	
Sep 2013	Receive list of outstanding issues from EMA for filing
H2:13	Seek early access programs for DMD in select territories
YE 2013	Potential conditional EU approval
Mid-2014	Complete enrollment in confirmatory DMD Phase III study
H2:14	Potential data from EU open-label extension study
Mid-2015	Potential data from confirmatory DMD Phase III study
Late-2015	FDA and EMA filing for full approval
Mid-2016	Potential FDA and EMA approval
Cystic Fibrosis	
Q4:13	EMA conditional approval filing
H1:14	Dose first patient in confimatory CF Phase III study
YE 2014	Potential conditional EU approval
Mid-2015	Complete enrollment in confirmatory CF Phase III study
Mid-2016	Potential data from confirmatory CF Phase III study
YE:16/early 201	FDA and MAA filing for full approval
Mid-2017	Potential FDA and EMA approval
SMA program	
2014	IND and Phase I start

Source: Company data, Credit Suisse estimates

Exhibit 3: PTCT Pipeline

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

Source: Company data, Credit Suisse estimates

Exhibit 4: PTCT Model

($ in MM; except per share)	2011A	2012A	Q1:13A	Q2:13A	Q3:13E	Q4:13E	2013E	2014E	2015E	2016E	2017E	2018E
US Sales										15.6	102.2	174.7
EU Sales										13.7	51.8	114.4
ROW Royalties											2.7	7.0
Ataluren revenue (total)										29.3	156.6	296.1
Collaboration revenue	99.0	28.8	6.1	5.9	10.0	10.0	31.9	8.0	23.0	16.0	16.0	12.0
Grant revenue	6.5	5.2	1.1	1.0	1.0	1.0	4.1	3.0	4.0			
Total Revenues	105.4	33.9	7.1	6.9	11.0	11.0	36.0	11.0	27.0	45.3	172.6	308.1
COGS										2.3	12.5	23.7
Research and Development Expenses	58.7	46.1	11.3	14.7	11.5	12.0	49.5	50.8	53.8	63.0	70.0	77.0
Sales, General and Administrative Expenses	16.2	14.6	4.5	6.6	6.5	6.5	24.1	26.0	29.0	67.0	101.0	119.2
Total Costs and Expenses	74.8	60.8	15.7	21.3	18.0	18.5	73.5	76.8	82.8	132.3	183.5	219.9
Operating Income (Loss)	30.6	(26.8)	(8.6)	(14.5)	(7.0)	(7.5)	(37.5)	(65.8)	(55.8)	(87.1)	(10.9)	88.2
Interest Expense, net	(2.4)	(1.2)	(6.2)	(0.1)	(0.1)	(0.0)	(6.4)					
Other income, net	0.5	1.8	0.1	(0.0)	(1.0)	(1.0)	(2.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)
Income (Loss) before Tax	28.6	(26.2)	(14.7)	(14.6)	(8.1)	(8.5)	(45.9)	(69.8)	(59.8)	(91.1)	(14.9)	84.2
Provision for Income Tax (benefit)	2.3											
Net income (loss)	30.9	(26.2)	(14.7)	(14.6)	(8.1)	(8.5)	(45.9)	(69.8)	(59.8)	(91.1)	(14.9)	84.2
Net income attributable to common shareholders	0.0	0.7	(29.5)	(14.6)	(8.1)	(8.5)	(45.9)	(69.8)	(59.8)	(91.1)	(14.9)	84.2
EPS - diluted	4.55	42.50	(6,527)	(5.51)	(0.32)	(0.34)	(3.48)	(2.74)	(1.76)	(2.63)	(0.42)	2.15
Shares Outstanding - basic	0.001	0.003	0.005	2.65	25.00	25.12	13.19	25.44	34.01	34.70	35.39	36.11
Shares Outstanding - diluted	0.006	0.017	0.005	2.65	27.02	27.24	14.23	27.67	36.42	37.31	38.22	39.17

Source: Company data, Credit Suisse estimates

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Companies Mentioned *(Price as of 13-Aug-2013)*

PTC Therapeutics, Inc (PTCT.OQ, $15.46, OUTPERFORM[V], TP $24.0)
Roche (ROG.VX, SFr239.6)

Disclosure Appendix

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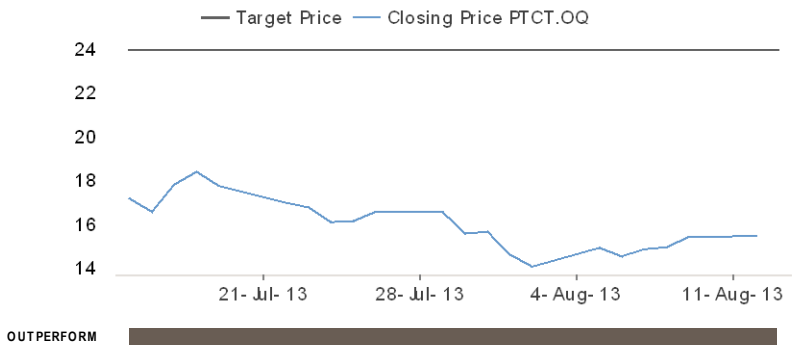
3-Year Price and Rating History for PTC Therapeutics, Inc (PTCT.OQ)

PTCT.OQ	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
15-Jul-13	17.17	24.00	O *

** Asterisk signifies initiation or assumption of coverage.*



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

Method: Our $24 target price for PTCT is calculated by DCF (discounted cash flow), using probability-weighted sales estimates for ataluren in Duchenne muscular dystrophy (60% probability) and in cystic fibrosis (60% probability) modeled through 2030. We use a 38% tax rate and a 12% discount rate, and arrive at a $30 valuation based on current share count. We conservatively assume that PTCT will raise additional capital in 2015 and therefore adjust our valuation by adding 5 to 8M additional shares, which gives us a $24 target price.

Risk: Risks to our $24 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 DMD, (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 2015).

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