

June 16, 2014

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:

**OUTPERFORM**

12-18 mo. Price Target \$9.00  
TLOG - NASDAQ \$5.82

3-5 Yr. EPS Gr. Rate NA  
52-Wk Range \$14.75-\$3.84  
Shares Outstanding 22.3M  
Float 5.8M  
Market Capitalization \$129.7M  
Avg. Daily Trading Volume 105,452  
Dividend/Div Yield NA/NM  
Book Value \$2.26  
Fiscal Year Ends Dec  
2014E ROE NA  
LT Debt \$0.0M  
Preferred \$0.0M  
Common Equity \$51M  
Convertible Available Yes

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2012A	--	--	--	--	(1.52)	NM
2013A	--	--	--	(0.30)	(10.11)	NM
2014E	(0.24)A	(0.27)	(0.26)	(0.25)	(1.03)	NM
2015E	--	--	--	--	(1.25)	NM

# TetraLogic Pharmaceuticals Corporation

## Birinapant Preclinical Infectious Disease Data Encouraging

### SUMMARY

TetraLogic hosted a conference call to review preclinical data that shows birinapant activity in infectious disease, including hepatitis B (HBV). Importantly, birinapant appears to induce apoptosis in infected hepatocytes, and treatment resulted in a reduction in viral DNA to undetectable levels. Birinapant's novel mechanism works by targeting host cell signaling pathway, inducing apoptosis. This is very different from viral targeting, the common approach to HBV treatment. Acute elevation in liver enzyme levels (AST and ALT) returned to normal within 24-48 hours, and are mechanism related. A Phase I study of birinapant in HBV is expected to start late 2014.

### KEY POINTS

- An investigator in the studies, Dr. Marc Pellegrini of the Walter and Eliza Hall Institute of Medical Research, Melbourne, Australia, participated on the call. Dr. Pellegrini's lab is focused on apoptosis and the activation of apoptosis in a range of diseases. He is not aware of other SMAC mimetics in this setting.
- Transient increases in AST/ALT appear to be correlated with the dying of infected hepatocytes. We believe these enzymes confirm the mechanism of action and do not view them as having negative consequences. The substantial regenerative capacity of the liver will quickly restore the enzymes to normal levels.
- A Phase I study of birinapant in patients with chronic HBV infection is expected to start late 2014. The company anticipates the study will be completed in mid-2015. This study will serve as a key proof-of-concept for birinapant in infectious disease.
- We maintain our Outperform rating on TLOG.

### Stock Price Performance



### Company Description

TetraLogic is a clinical-stage biopharmaceutical company focused on the discovery and development of oncology drugs, including SMAC-mimetics and topical HDACs. The lead candidate, birinapant is an anti-cancer SMAC-mimetic designed to enable TNF-activated apoptosis.

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**Exhibit 1: Milestone Table**

Date	Stage	Milestone
<b>Birinapant in Blood Cancers</b>		
mid-'14	Phase II	Commence randomized birinapant+azacitidine 1st-line higher risk MDS study
1Q15	Phase II	Data readout from randomized birinapant+azacitidine MDS study
<b>Birinapant in Solid Tumors</b>		
3Q14	Phase I/II	Data readout from birinapant+conatumumab ovarian cancer study
2015	Phase II	Start birinapant+irinotecan randomized colorectal study (pending funding)
<b>Birinapant in Viral Infections</b>		
4Q14	Phase I	Commence hepatitis B study
mid-'15	Phase I	Data readout from hepatitis B study
<b>SHAPE in CTCL</b>		
4Q14	Phase II	Commence a 60-patient Phase II study in CTCL
4Q15	Phase I	Data readout from Phase II Study

Source: Company Reports; Oppenheimer &amp; Co.

## Exhibit 2: TetraLogic Pharmaceuticals Income Statement

FY Ending Dec 31st in \$000s, except per share amount	FY12A	FY13A	Mar-14 1QA	Jun-14 2QE	Sep-14 3QE	Dec-14 4QE	FY14E	FY15E
<b>Revenue:</b>								
Collaboration revenue	-	-	-	-	-	-	-	-
Grant revenue	-	-	-	-	-	-	-	-
<b>Total Revenue</b>	-	-	-	-	-	-	-	-
<b>Operating Expenses:</b>								
General and administration	4,076	8,467	2,508	2,500	2,600	2,500	10,108	12,635
Research and development	12,096	9,523	3,123	3,500	4,000	4,500	15,123	22,684
<b>Total Operating Expenses</b>	<b>16,172</b>	<b>17,991</b>	<b>5,631</b>	<b>6,000</b>	<b>6,600</b>	<b>7,000</b>	<b>25,231</b>	<b>35,319</b>
<b>Operating income (expense)</b>	<b>(16,172)</b>	<b>(17,991)</b>	<b>(5,631)</b>	<b>(6,000)</b>	<b>(6,600)</b>	<b>(7,000)</b>	<b>(25,231)</b>	<b>(35,319)</b>
Change in fair value of derivative liabilities	43	807	285	-	-	-	285	285
Interest and other income	3	1	12	-	-	-	12	12
Interest expense	(73)	(2,767)	-	-	-	-	-	-
Net loss and comprehensive loss	(16,199)	(19,950)	(5,334)	(6,000)	(6,600)	(7,000)	(24,934)	(35,023)
Cumulative preferred stock dividends	(3,453)	(3,250)	-	-	-	-	-	-
<b>Net loss attributable to common stockholders</b>	<b>(19,653)</b>	<b>(23,200)</b>	<b>(5,334)</b>	<b>(6,000)</b>	<b>(6,600)</b>	<b>(7,000)</b>	<b>(24,934)</b>	<b>(35,023)</b>
<b>Basic and diluted net loss per share</b>	<b>(\$1.52)</b>	<b>(\$10.11)</b>	<b>(\$0.24)</b>	<b>(\$0.27)</b>	<b>(\$0.26)</b>	<b>(\$0.25)</b>	<b>(\$1.03)</b>	<b>(\$1.25)</b>
Weighted average common shares outstanding	10,629	2,296	22,249	22,424	24,999	27,574	24,312	27,949

Source: Company reports; Oppenheimer &amp; Co.

## Investment Thesis

TetraLogic Pharmaceuticals Corporation is a clinical-stage biopharmaceutical company focusing on the discovery and development of SMAC-mimetics for the treatment of cancers. The company's lead candidate, birinapant, is being developed for the treatment of myelodysplastic syndromes (MDS), colorectal cancer (CRC), ovarian cancer, and hepatitis B. The company recently added a novel topical HDAC drug to its pipeline via the acquisition of Shape Pharmaceuticals.

## Price Target Calculation

Our \$9/share 12- to 18-month price target is based on the assumption TetraLogic will advance birinapant into Phase II testing for myelodysplastic syndromes (MDS) and colorectal cancer (CRC). We also assume several other ongoing birinapant studies, including a Phase I/II study in ovarian cancer and a Phase I study in hepatitis B. As such, we looked at the valuation of comparable companies that have differentiated assets in a similar stage of development. Based on the comparison to these companies and an anticipated fully diluted share count of 31M shares at the end of 2014 (this includes a possible financing round and all outstanding options/warrants), and the median comparables valuation of \$286M, we arrive at a price target of \$9/share for TLOG.

## Key Risks to Price Target

Key risks include clinical trial risk, regulatory risk, competitive risk, partnership risk, reimbursement risk, lack of performance/trading history and liquidity and small-capitalization risk.

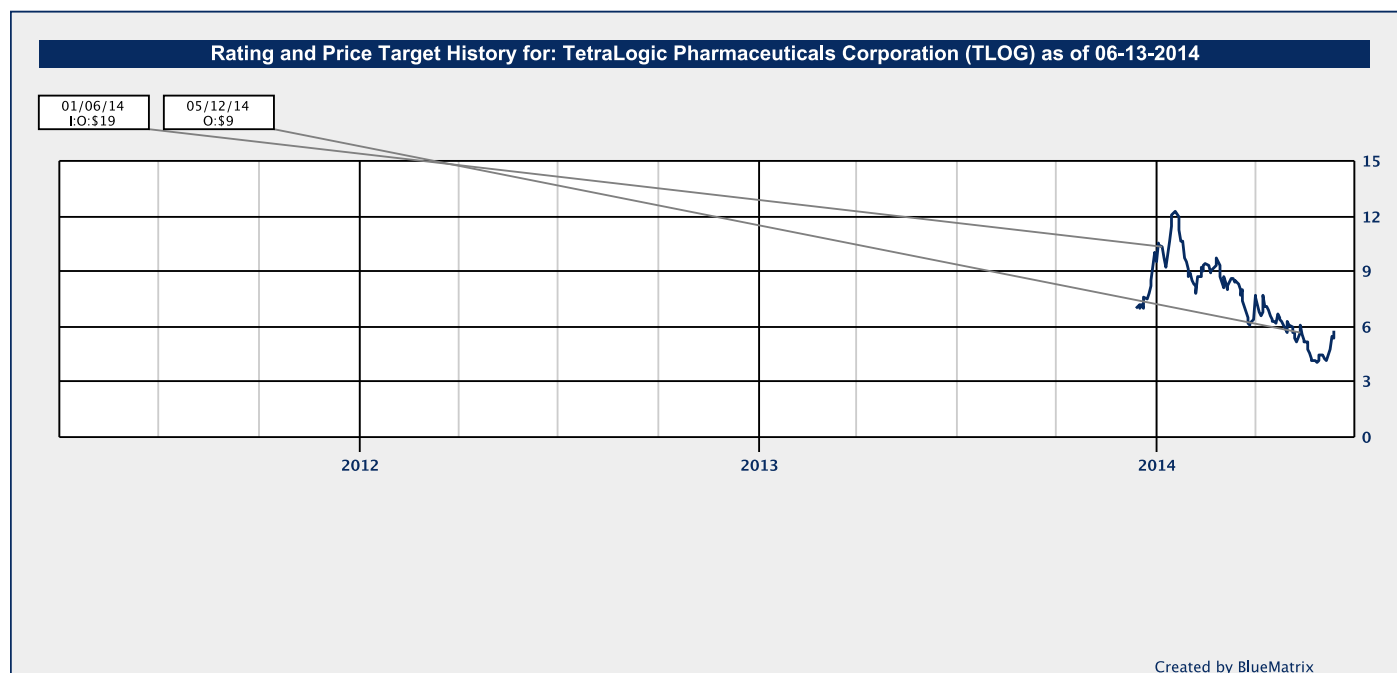
SMAC Second mitochondria-derived activator of caspases.

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Distribution of Ratings/IB Services Firmwide				
Rating	Count	IB Serv/Past 12 Mos.		Count
		Percent	Percent	
OUTPERFORM [O]	305	51.43		145
PERFORM [P]	280	47.22		100
UNDERPERFORM [U]	8	1.35		2

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