

Tetralogic Pharmaceuticals

TLOG - BUY - 3Q14 Results; Birinapant Programs Progressing; NT Ovarian Cancer (OC) and HBV Updates; Adjusting PT to \$10

November 6, 2014

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On 11/5, TLOG reported 3Q EPS of (\$0.42) vs. our (\$0.36) est. TLOG continues to advance birinapant in HBV and plans to report additional preclinical results at AASLD on 11/10 and begin a Ph.I trial by YE'14 with first Ph.I data in mid-'15. The company expects to release initial Ph.I results for birinapant+conatumumab in advanced ovarian cancer (OC) by YE'14, and we continue to believe this dataset has potential to be a NT upside catalyst for the stock. Initial Ph.II birinapant+azacitidine results in 1st-line myelodysplastic syndromes (MDS) are expected by mid-'15, and we look forward to these results based on encouraging Ph.I results. Although results from the Ph.II SHAPE trial in cutaneous T cell lymphoma (CTCL) are not expected until 2H15, we expect a positive outcome, given the efficacy of HDAC inhibitors in this setting. We continue to view TLOG as undervalued based primarily on birinapant's potential in MDS/OC, with LT upside possible in HBV. Adjusting PT to \$10 (from \$11) on model adjustments.

Birinapant Ph.I/II OC/MDC trials progressing. We continue to believe a very modest Ph.I response in data from birinapant+conatumumab in advanced OC would be encouraging, given conatumumab's negligible single-agent activity. We view recently reported birinapant+azacitidine Ph.Ib results in azacitidine naïve/relapsed MDS as encouraging, based on bone marrow responses, and believe this clinical activity should translate to favorable Ph.II results in mid-'15.

Birinapant in HBV is intriguing but early; SHAPE moving into Ph.II. We believe birinapant has a strong mechanistic rationale in HBV, and based on this, and solid evidence of HBsAg lowering in preclinical models, we expect growing focus on the drug in this setting, despite the very early-stage program. We believe SHAPE is a solid pipeline candidate for TLOG, based on Ph.I CTCL results, but we continue to believe the drug has modest market potential in CTCL.



BRET HOLLEY, PH.D.
bret.holley@guggenheimpartners.com

ANALYST
212 293 2820

TLOG BUY EARNINGS RELEASE

Investment Thesis: Growth

SHARE PRICE \$3.87
PRICE TARGET \$10.00

EPS (\$) (FY Dec)	1Q	2Q	3Q	4Q	FY
2013	—	—	—	—	(10.11)
2014	(0.25)	(0.42)	(0.42)	(0.35)E	(1.43)E
Prior	—	—	(0.36)	(0.20)E	(1.23)E
2015	—	—	—	—	(1.47)E
Prior	—	—	—	—	(1.11)E

Market Data

52-Week Range	\$3.51 - \$14.75
Shares Out (M)	22.3
Market Cap (M)	\$86
ADV (3 mo; 000)	44

TetraLogic Pharmaceuticals

TetraLogic Pharmaceuticals	2014										
Amounts in thousands, except per-share figures	2013A	1QA	2QA	3QA	Prior 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	5,968	5,110	6,945	20,900	18,422	26,543	34,506	37,957
Selling, general & administrative	8,467	2,508	3,005	2,624	3,220	2,975	11,112	11,708	12,445	15,556	18,668
Change in fair value of contingent consideration	-	-	918	984	-	-	-	-	-	-	-
Total operating expenses	17,991	5,631	8,787	9,576	8,330	9,920	32,012	30,130	38,988	50,063	56,624
Income (Loss) from operations	(17,991)	(5,631)	(8,787)	(9,576)	(8,330)	(6,520)	(28,612)	(26,730)	(34,488)	(45,313)	(48,504)
Net Interest/Other (expense)	(1,960)	297	(567)	246	236	(1,315)	(1,340)	201	(4,455)	37	200
Change in fair value of derivative liabilities	807	285	(447)	1,800	225	225	1,862	288	-	-	-
Interest/Other income	1	12	19	41	11	10	83	52	45	37	200
Interest Expense	(2,767)	-	(139)	(1,595)	-	(1,550)	(3,285)	(139)	(4,500)	-	-
Royalty to Princeton	-	-	-	-	-	-	-	-	-	-	-
Pretax income (loss)	(19,950)	(5,334)	(9,354)	(9,330)	(8,094)	(7,835)	(29,952)	(26,530)	(38,943)	(45,275)	(48,304)
Income tax provision (benefit)	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(19,950)	(5,334)	(9,354)	(9,330)	(8,094)	(7,835)	(29,952)	(26,530)	(38,943)	(45,275)	(48,304)
Preferred stock dividends	(3,250)	-	-	-	-	-	-	-	-	-	-
Basic & diluted net loss per share	(\$10.11)	(\$0.25)	(\$0.42)	(\$0.42)	(\$0.36)	(\$0.35)	(\$1.43)	(\$1.23)	(\$1.47)	(\$1.52)	(\$1.44)
Basic & diluted common shares outstanding (2)	2,296	22,321	22,351	22,364	22,574	22,588	22,440	22,524	26,414	29,876	33,598

(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 3Q14 results and expense expectations, we have updated our EPS estimates for 4Q14, '14, and '15. Our current 4Q14, '14, and '15 EPS estimates are (\$0.35), (\$1.43), and (\$1.47), respectively, vs. our prior estimates of (\$0.20), (\$1.23), and (\$1.11).

Valuation and Risks

Our new \$10 price target (vs. \$11 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 (NEUTRAL, \$158.94).

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%	\$ 13.40	\$ 13.08	\$ 12.77	\$ 12.47	\$ 12.19	\$ 11.91	\$ 11.65	\$ 11.39	\$ 11.15	
	15.98%	\$ 12.72	\$ 12.42	\$ 12.13	\$ 11.85	\$ 11.58	\$ 11.32	\$ 11.07	\$ 10.83	\$ 10.60	
	16.23%	\$ 12.08	\$ 11.79	\$ 11.52	\$ 11.26	\$ 11.01	\$ 10.76	\$ 10.53	\$ 10.30	\$ 10.08	
	16.48%	\$ 11.47	\$ 11.20	\$ 10.94	\$ 10.70	\$ 10.46	\$ 10.23	\$ 10.00	\$ 9.79	\$ 9.58	
	16.73%	\$ 10.89	\$ 10.64	\$ 10.40	\$ 10.16	\$ 9.94	\$ 9.72	\$ 9.51	\$ 9.30	\$ 9.11	
	16.98%	\$ 10.34	\$ 10.10	\$ 9.87	\$ 9.65	\$ 9.44	\$ 9.23	\$ 9.03	\$ 8.84	\$ 8.65	
	17.23%	\$ 9.82	\$ 9.59	\$ 9.37	\$ 9.17	\$ 8.96	\$ 8.77	\$ 8.58	\$ 8.40	\$ 8.22	
	17.48%	\$ 9.32	\$ 9.10	\$ 8.90	\$ 8.70	\$ 8.51	\$ 8.33	\$ 8.15	\$ 7.97	\$ 7.81	
	17.73%	\$ 8.84	\$ 8.64	\$ 8.45	\$ 8.26	\$ 8.08	\$ 7.90	\$ 7.74	\$ 7.57	\$ 7.41	
	17.98%	\$ 8.39	\$ 8.20	\$ 8.02	\$ 7.84	\$ 7.67	\$ 7.50	\$ 7.34	\$ 7.19	\$ 7.03	

Source: Guggenheim Securities, LLC

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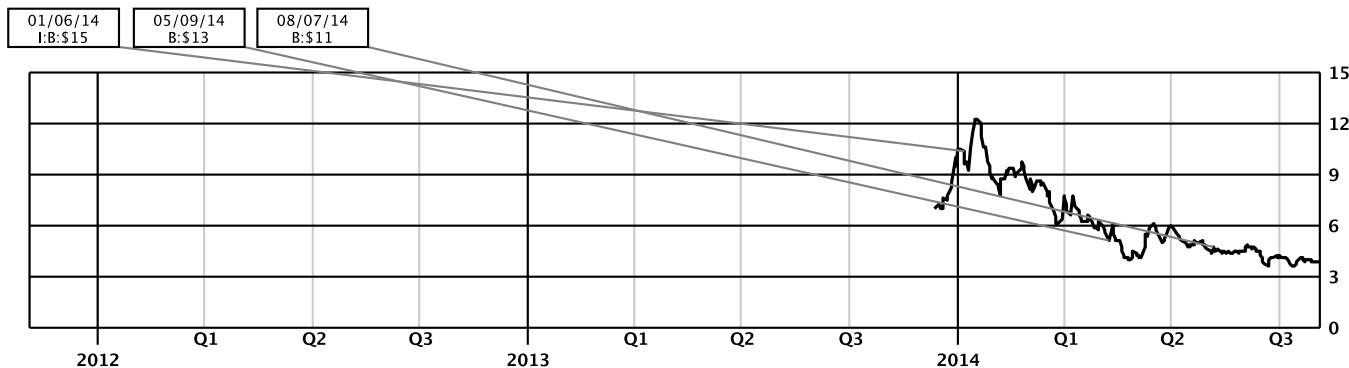
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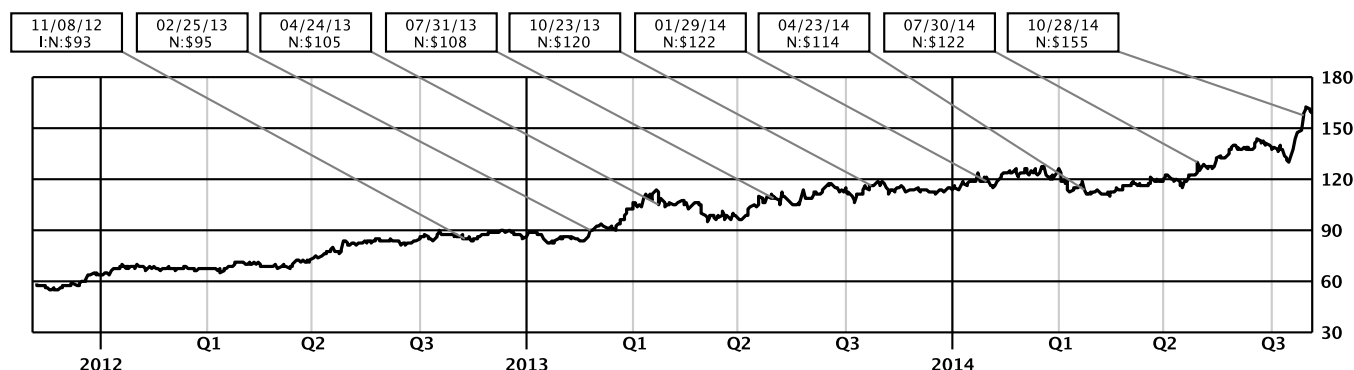
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Rating and Price Target History for: Tetralogic Pharmaceuticals (TLOG) as of 11-05-2014



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Rating and Price Target History for: Amgen Inc. (AMGN) as of 11-05-2014



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Contact Information

NEW YORK SALES & TRADING DESK

212 292 4700

EQUITY TRADING DESK

212 292 4701

MEDIA INQUIRIES

310 367 6567

EMAIL

general@guggenheimcm.com

Locations

NEW YORK

330 Madison Avenue
New York, NY 10017

WASHINGTON, DC

1055 Thomas Jefferson Street, NW
Suite 450
Washington, DC 20007

BOSTON

500 Boylston Street, 13th Floor
Boston, MA 02116

LOS ANGELES

601 South Figueroa Street
Suite 4005
Los Angeles, CA 90017

DALLAS

1717 McKinney Avenue
Suite 870
Dallas, TX 75202

SAN FRANCISCO

50 California Street
Suite 1515
San Francisco, CA 94111

NASHVILLE

104 Woodmont Blvd
Suite 203
Nashville, TN 37205

RICHMOND

919 East Main Street
Suite 1605
Richmond, VA 23219

Guggenheim Equity Research

ENERGY: EXPLORATION & PRODUCTION

Rob Cordray, Analyst

robert.cordray@guggenheimpartners.com
972 638 5509

ENERGY: OIL SERVICES & EQUIPMENT

Darren Gacicia, Analyst

darren.gacicia@guggenheimpartners.com
212 293 3054

Michael LaMotte, Analyst

michael.lamotte@guggenheimpartners.com
972 638 5502FINANCIAL SERVICES: BUSINESS
DEVELOPMENT COMPANIES,
COMMUNITY AND REGIONAL BANKS

Taylor Brodarick, Analyst

taylor.brodarick@guggenheimpartners.com
615 208 1222FINANCIAL SERVICES: CARD NETWORKS,
COMMUNITY AND REGIONAL BANKS

David Darst, Analyst

david.darst@guggenheimpartners.com
615 208 1224

Ryan Strain, Associate

ryan.strain@guggenheimpartners.com
615 208 1226

HEALTHCARE: BIOPHARMA

Tony Butler, Analyst

tony.butler@guggenheimpartners.com
212 823 6540

HEALTHCARE: BIOTECH

Bret Holley, Analyst

bret.holley@guggenheimpartners.com
212 293 2820

HEALTHCARE: PHARMACEUTICALS

Louise Chen, Analyst

louise.chen@guggenheimpartners.com
212 381 4195

Swati Kumar, Analyst

swati.kumar@guggenheimpartners.com
212 918 8754

Brandon Folkes, Associate

brandon.folkes@guggenheimpartners.com
212 518 9976

RETAIL & CONSUMER

John Heinbockel, Analyst

john.heinbockel@guggenheimpartners.com
212 381 4135

Steven Forbes, Associate

steven.forbes@guggenheimpartners.com
212 381 4188TMT: MEDIA & ENTERTAINMENT,
CABLE & SATELLITE TV

Michael Morris, Analyst

michael.morris@guggenheimpartners.com
804 253 8025

Curry Baker, Associate

curry.baker@guggenheimpartners.com
804 253 8029