Portola Pharmaceuticals

Equity Research

Company Quick Take

February 3, 2014

Price: $26.67 (01/31/2014)
Price Target: $45.00

OUTPERFORM (1)

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Key Data

Symbol	NASDAQ: PTLA
Market Cap (MM)	$1,059.1

Portola Signs Agreement For Ph. III Trials Of Andexanet and Xarelto

The Cowen Insight

Today Portola entered into a collaboration agreement with Bayer and Janssen covering Ph. III registration studies of PTLA's andexanet alfa and Bayer/Janssen's Xarelto. While expected, this agreement is necessary for the initiation of andexanet's Ph. III studies during H1:14. Based on the potential of andexanet and betrixaban we consider PTLA a top small cap pick.

Portola Strikes Second Collaboration With Bayer and Janssen.

Today's collaboration will be in effect through completion of Phase III trials of andexanet and Xarelto, and any U.S. and EU regulatory approvals of andexanet. Under the terms of the agreement, Portola will receive an upfront payment and is eligible to receive additional development and regulatory milestone payments. Portola retains full, worldwide commercial rights to andexanet alfa. As andexanet is the first reversal agent in development for Factor Xa inhibitors like Xarelto, its successful development will benefit both Portola and Factor Xa inhibitor manufactures like Bayer and Janssen. In fact, today's deal follows a similar one struck on January 13 between Portola, Bristol-Myers and Pfizer for the Phase III development of andexanet and Eliquis. We expect that Portola will sign a similar agreement with Daiichi Sankyo for the Phase III development of andexanet and Savaysa.

Andexanet Is A De-Risked Program Expected To Produce Pivotal Data In 2014.

Portola continues to expect to initiate the pivotal program during H1:14. The trials will utilize co-primary endpoints of anti-Factor Xa levels and plasma concentrations of unbound Factor Xa inhibitor. A key secondary endpoint will be the restoration of thrombin generation. As andexanet has convincingly shown that it can hit these endpoints in Phase II, we think the pivotal program is very likely to succeed. Initial data from the pivotal program (likely from trials testing bolus doses of andexanet with two Factor Xa inhibitors) is expected by the end of 2014. Additional data from the pivotal program testing different doses of andexanet (such as bolus followed by infusion) and other Factor Xa inhibitors will follow in 2015. Portola is working to design a Phase IV study to be initiated by the end of 2014, and will propose to the FDA either a trial in patients having a spontaneous major bleed, or one in patients in need of emergency surgery. Portola expects to be in a position to launch andexanet during 2016 and estimates that by 2020 the number of patients presenting to a hospital who could benefit from an antidote in the U.S., EU5 and Japan may approach 500K. Our model assumes that in 2020 50K people will receive andexanet worldwide, resulting in $355MM in revenue to Portola.

Valuation Methodology And Risks

Valuation Methodology

Biotechnology:

In calculating our 12-month target price, we employ one or more valuation methodologies, which include a discounted earnings analysis, discounted cash flow analysis, net present value analysis and/or a comparable company analysis. These analyses may or may not require the use of objective measures such as price-to-earnings or price-to-sales multiples as well as subjective measures such as discount rates.

We make investment recommendations on early stage (pre-commercial) biotechnology companies based upon an assessment of their technology, the probability of pipeline success, and the potential market opportunity in the event of success. However, because these companies lack traditional financial metrics, we do not believe there are any good methodologies for assigning a specific target price to such stocks.

Investment Risks

Biotechnology:

There are multiple risks that are inherent with an investment in the biotechnology sector. Beyond systemic risk, there is also clinical, regulatory, and commercial risk. Additionally, biotechnology companies require significant amounts of capital in order to develop their clinical programs. The capital-raising environment is always changing and there is risk that necessary capital to complete development may not be readily available.

Risks To The Price Target

Much of Portola's valuation rests on the potential of two candidates, Betrixaban and PRT4445. Projecting future sales for any product is difficult, and this is particularly the case for candidates that are still in clinical development. Portola's stock could be impacted by changes in the regulatory, commercial, or competitive environment for either. In particular, Betrixaban is in development in an indication for which candidates of the same mechanism have failed clinical trials; Betrixaban's clinical development must therefore be considered risky. The studies necessary for PRT4445 to receive regulatory approval have yet to be defined; there is therefore risk that its clinical development takes longer than we anticipate.

Addendum

Stocks Mentioned In Important Disclosures

Ticker	Company Name
PTLA	Portola Pharmaceuticals

Analyst Certification

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Cowen and Company Rating System effective May 25, 2013

Outperform (1): The stock is expected to achieve a total positive return of at least 15% over the next 12 months

Market Perform (2): The stock is expected to have a total return that falls between the parameters of an Outperform and Underperform over the next 12 months

Underperform (3): Stock is expected to achieve a total negative return of at least 10% over the next 12 months

Assumption: The expected total return calculation includes anticipated dividend yield

Cowen and Company Rating System until May 25, 2013

Outperform (1): Stock expected to outperform the S&P 500

Neutral (2): Stock expected to perform in line with the S&P 500

Underperform (3): Stock expected to underperform the S&P 500

Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period

Cowen Securities, formerly known as Dahlman Rose & Company, Rating System until May 25, 2013

Buy – The fundamentals/valuations of the subject company are improving and the investment return is expected to be 5 to 15 percentage points higher than the general market return

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Hold – The fundamentals/valuations of the subject company are neither improving nor deteriorating and the investment return is expected to be in line with the general market return

Cowen And Company Rating Definitions

Distribution of Ratings/Investment Banking Services (IB) as of 12/31/13

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	415	59.20%	68	16.39%
Hold (b)	270	38.52%	4	1.48%
Sell (c)	16	2.28%	1	6.25%

(a) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's rating definitions. (b) Corresponds to "Market Perform" as defined in Cowen and Company, LLC's ratings definitions. (c) Corresponds to "Underperform" as defined in Cowen and Company, LLC's ratings definitions.

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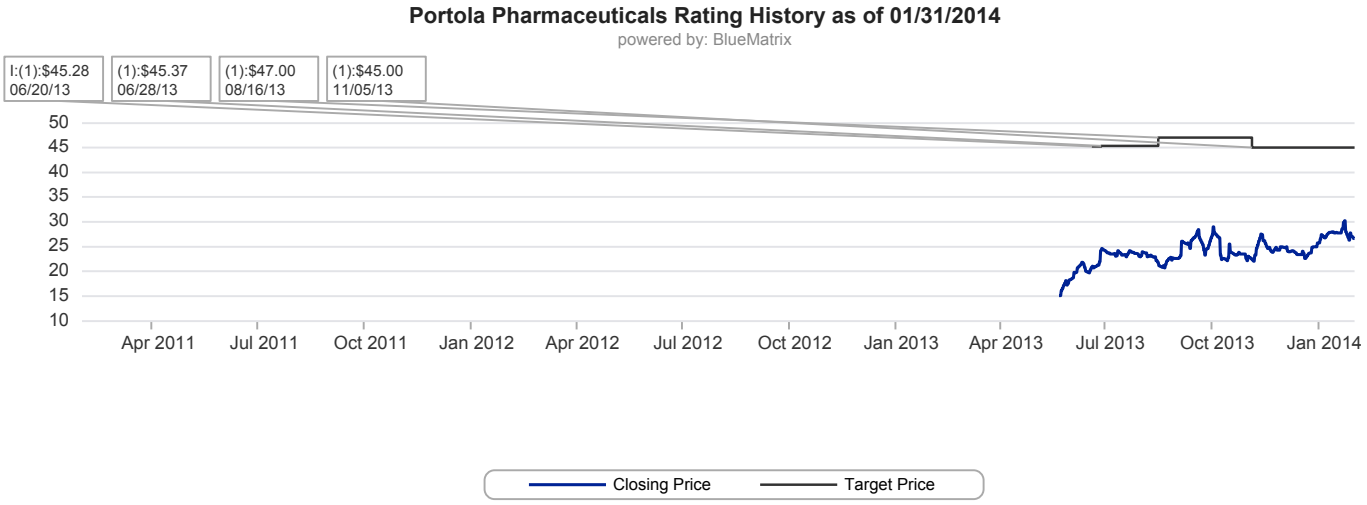

Legend for Price Chart:

I = Initation | 1 = Outperform | 2 = Market Perform | 3 = Underperform | UR = Price Target Under Review | T = Terminated Coverage | $xx = Price Target | NA = Not Available

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