

Gabelli & Company

Ophthotech Corp. (OPHT - \$37.95 - NASDAQ) Exploratory Trials Underway - Buy

Year	EPS ^(a)	PMV		
2016P	(\$4.15)	\$84	Dividend: None	Current Return: Nil
2015P	(5.00)	78	Shares O/S: 33.5 million	
2014E	(4.15)	72	52-Week Range: \$47.99 – \$22.61	
2013A	(6.34)	---		

(a) Adjusted EPS excludes certain amortization, restructuring, and other non-cash or one-time expenses

COMPANY OVERVIEW

Ophthotech, located in New York, NY, is a clinical stage biotechnology company focused on treating diseases of the back of the eye. The company's two lead compounds are Fovista, a PDGF-inhibitor in Phase III for wet age-related macular degeneration (AMD), and Zimura, a C-5 inhibitor in Phase II for dry AMD.

Reason For Comment

On August 6, 2014, Ophthotech announced second quarter results and provided an update on its clinical pipeline.

- The company has initiated the first of several planned exploratory Phase II studies for Fovista with an open-label trial evaluating sub-retinal fibrosis in wet AMD patients. Fibrosis data from the Phase IIb study will also be presented at a conference in October. Other potential studies for Fovista include treatment in patients resistant to anti-VEGF therapy and evaluation of a reduction in treatment load (fewer injections). While we expect some top-line data from these exploratory trials to be available in 2015, the pivotal Phase III results remain on track for 2016.
- Ophthotech finished the quarter with \$452M of cash, which includes the \$200M upfront payment from Novartis for ex-US rights to Fovista. The company could receive an additional \$130M for development milestones, though the timing and nature of these remains undisclosed. In addition to \$22.5M of operating costs in the quarter, the company paid \$19.8M to a licensing partner due to the Novartis payments. Milestone payments will be booked as revenue once Fovista is approved in Europe, which we expect to happen in 2017. We believe that the current balance sheet and potential milestones will be enough for OPHT to finance the development of both Fovista and Zimura before reaching profitability in 2018.
- We continue to recommend OPHT and view Fovista as one of the most attractive biotech assets in late-stage development. With a novel mechanism of action, \$6B+ target market, demonstrated superiority to standard of care, and a 2-3 year lead time over competitors, we believe that Fovista could become the next blockbuster in wet AMD. Ophthotech currently trades at a 51% discount to our 2015 PMV of \$78 per share.

Table 1

Ophthotech Corp. Income Statement 2013A – 2018P

(\$ in millions except per share data)

FYE 12/31	2013A	2014E	2015P	2016P	2017P	2018P	2019P	2020P
Product Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 450	\$ 850	\$ 1,200
Royalties	-	-	-	-	-	24	96	192
Milestones (a)	-	-	-	-	405	75	-	-
Total Revenue	\$ -	\$ -	\$ -	\$ -	\$ 405	\$ 549	\$ 946	\$ 1,392
EBITDA	(47)	(125)	(173)	(150)	255	184	401	677
Diluted EPS	(\$6.34)	(\$4.15)	(\$5.00)	(\$4.15)	\$6.90	\$3.60	\$6.50	\$11.20
Cashflow/(burn)	\$ (54)	\$ 120	\$ (81)	\$ (137)	\$ (59)	\$ 165	\$ 290	\$ 506

(a) \$200M upfront and \$130M development milestones expected to be booked as revenue upon Fovista EU approval in 2017

Source: Company filings and Gabelli & Company estimates

Table 2

Ophthotech Corp.
Private Market Value Analysis
2014E – 2020P

<u>FYE 12/31</u>	<u>2014E</u>	<u>2015P</u>	<u>2016P</u>	<u>2017P</u>	<u>2018P</u>	<u>2019P</u>	<u>2020P</u>
Revenue	\$ -	\$ -	\$ -	\$ 405	\$ 549	\$ 946	\$ 1,392
EBITDA	(125)	(173)	(150)	255	184	401	677
Valuation Multiple	- x	- x	- x	- x	- x	14 x	14 x
Annual Discount Rate	15%	15%	15%	15%	15%	0%	0%
Total Private Market Value	\$ 2,791	\$ 3,210	\$ 3,692	\$ 4,246	\$ 4,882	\$ 5,615	\$ 9,479
Clinical Stage Discount Rate	25%	25%	25%	15%	0%	0%	0%
Risk-Adjusted Total PMV	\$ 2,094	\$ 2,408	\$ 2,769	\$ 3,609	\$ 4,882	\$ 5,615	\$ 9,479
Plus: Net Cash	428	347	210	151	317	606	1,112
Less: Option Payments (a)	(127)	(142)	(156)	(207)	(300)	(366)	(648)
Equity Private Market Value	\$ 2,395	\$ 2,613	\$ 2,823	\$ 3,553	\$ 4,899	\$ 5,855	\$ 9,943
Shares Outstanding	33	33	33	33	33	33	33
PMV per Share	\$72	\$78	\$84	\$106	\$146	\$175	\$297
Current Market - Discount to PMV	47%	51%	55%	64%	74%	78%	87%

(a) After-tax payments to buy out warrants at PMV

Source: Company filings and Gabelli & Company estimates

Other Companies Mentioned:

Novartis (NVS – NYSE)

I, **Kevin Kedra**, the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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Important Disclosures

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Ratings

Analysts' ratings are largely (but not always) determined by our "private market value," or PMV methodology. Our basic goal is to understand in absolute terms what a rational, strategic buyer would pay for an asset in an open, arms-length transaction. At the same time, analysts also look for underlying catalysts that could encourage those private market values to surface.

A **Buy** rated stock is one that in our view is trading at a meaningful discount to our estimated PMV. We could expect a more modest private market value to increase at an accelerated pace, the discount of the public stock price to PMV to narrow through the emergence of a catalyst, or some combination of the two to occur.

A **Hold** is a stock that may be trading at or near our estimated private market value. We may not anticipate a large increase in the PMV, or see some other factors at work.

A **Sell** is a stock that may be trading at or above our estimated PMV. There may be little upside to the value, or limited opportunity to realize the value. Economic or sector risk could also be increasing.

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