

May 12, 2014

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:

**OUTPERFORM**

12-18 mo. Price Target \$9.00  
TLOG - NASDAQ \$5.13

3-5 Yr. EPS Gr. Rate NA  
52-Wk Range \$14.75-\$5.01  
Shares Outstanding 22.3M  
Float 5.8M  
Market Capitalization \$114.3M  
Avg. Daily Trading Volume 120,257  
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
Prior (E)	--	--	--	--	(0.83)	NM
2014E	(0.24)A	(0.27)	(0.26)	(0.25)	(1.03)	NM
Prior (E)	(0.25)	--	--	--	--	NM
2015E	--	--	--	--	(1.25)	NM
Prior (E)	--	--	--	--	(1.26)	NM

## TetraLogic Pharmaceuticals Corporation

### 1Q14 Results: Development On Track; Milestones Ahead

#### SUMMARY

TetraLogic reported 1Q14 financial results that were immaterial in our view. We believe that investors will remain focused on birinapant, the company's SMAC mimetic compound, which is anticipated to report results from the Phase I/II ovarian cancer study in 3Q14. We maintain our Outperform rating on TLOG but lower our 12- to 18-month price target to \$9 from \$19 on changes in valuation of comparable companies.

#### KEY POINTS

- The next potential catalyst for TLOG, in our view, is data from a combination study of birinapant + Amgen's TRAIL antibody. We believe that, if the data are positive, birinapant may become a very valuable drug for Amgen, given the company's high interest and investment in TRAIL.
- The company plans to commence a Phase II study of SHAPE in first-line CTCL (Cutaneous T-Cell Lymphoma) in 4Q14. The study targets enrollment of 60 patients and will take approximately one year to complete. If successful, a Phase III study will be commenced, and is estimated to take two years to complete.
- The company is conducting an ongoing Phase I/II birinapant monotherapy study. The Phase I portion is expected to complete in the near term with the Phase II portion to start later in 2Q14. TLOG also plans to commence a Phase I study evaluating birinapant in Hepatitis B virus (HBV) in 4Q14.
- Given TetraLogic's early stage of development, we believe that the best valuation approach is based on comparable companies. Given the recent weakness in emerging growth biotechnology, our comparable analysis results in a significantly reduced price target of \$9/share from \$19/share previously.
- We've updated our projections following 1Q14 results. Our 2014E/2015E EPS estimates are (\$1.03)/(\$1.25). With total cash of \$48.9M at end of 1Q14, TetraLogic believes it is sufficiently capitalized to fund operations at least through YE14. Our projections include a potential 5M-share offering in 3Q14.

#### 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
2Q15	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
3Q15	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: Price Target Based On Comparables Analysis**

Company Name	Ticker	Rating	Price (5/9/14)	Market Cap (\$M)
Ambit Biosciences Corp.	AMBI	NC	\$6.22	\$111
Clovis Oncology, Inc.	CLVS	NC	\$48.19	\$1,634
Galena Biopharma, Inc.	GALE	O	\$2.33	\$275
Idenix Pharmaceuticals	IDIX	NC	\$4.98	\$751
Immunomedics, Inc.	IMMU	O	\$3.09	\$286
Infinity Pharmaceuticals, Inc.	INFI	NC	\$8.66	\$418
Peregrine Pharmaceuticals, Inc.	PPHM	NC	\$1.69	\$297
Stemline Therapeutics Inc.	STML	NC	\$13.50	\$178
Threshold Pharmaceuticals, Inc.	THLD	NC	\$3.62	\$215
Verastem, Inc.	VSTM	O	\$7.54	\$195
<b>Median</b>			<b>\$286</b>	

<b>TetraLogic Pharmaceuticals</b>	<b>TLOG</b>
Fully diluted shares outstanding (M):	30.87
<b>Price Target:</b>	<b>\$9.26</b>

NC = Not Covered; O = Outperform; P = Perform; U = Underperform

Source: FactSet; Oppenheimer &amp; Co.

## Exhibit 3: 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.

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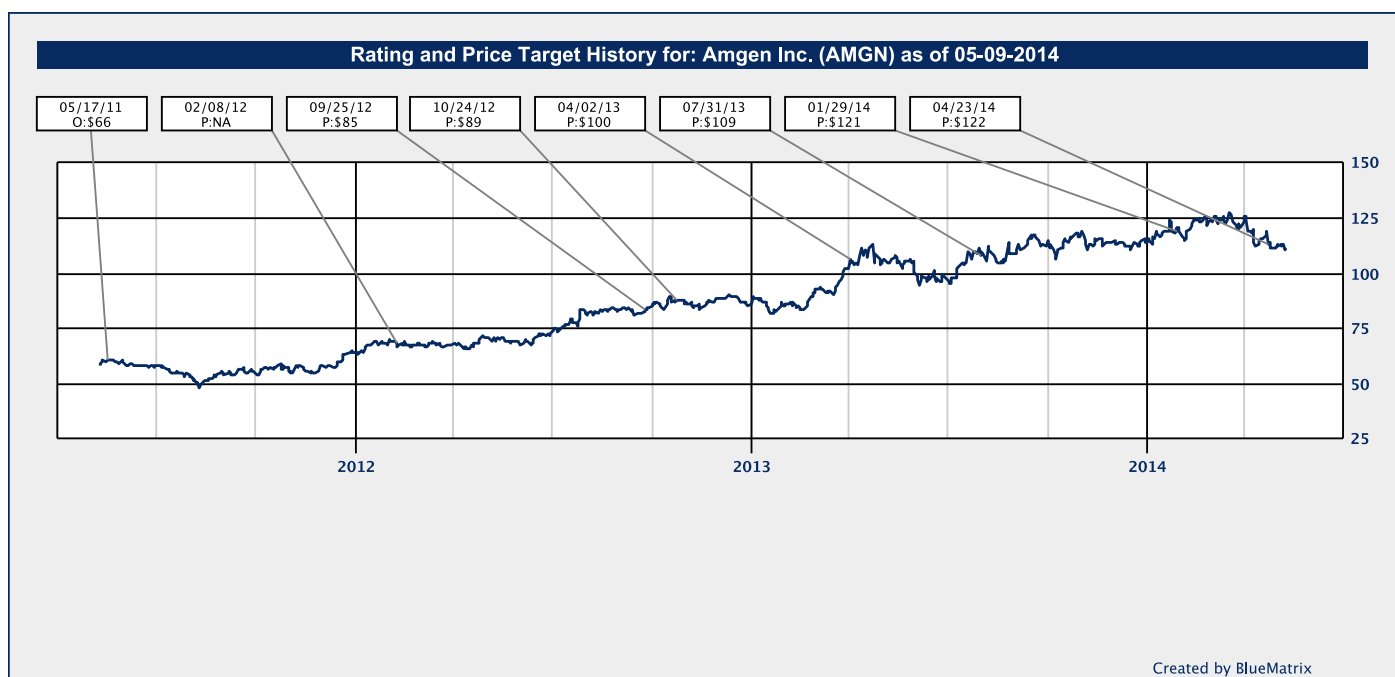
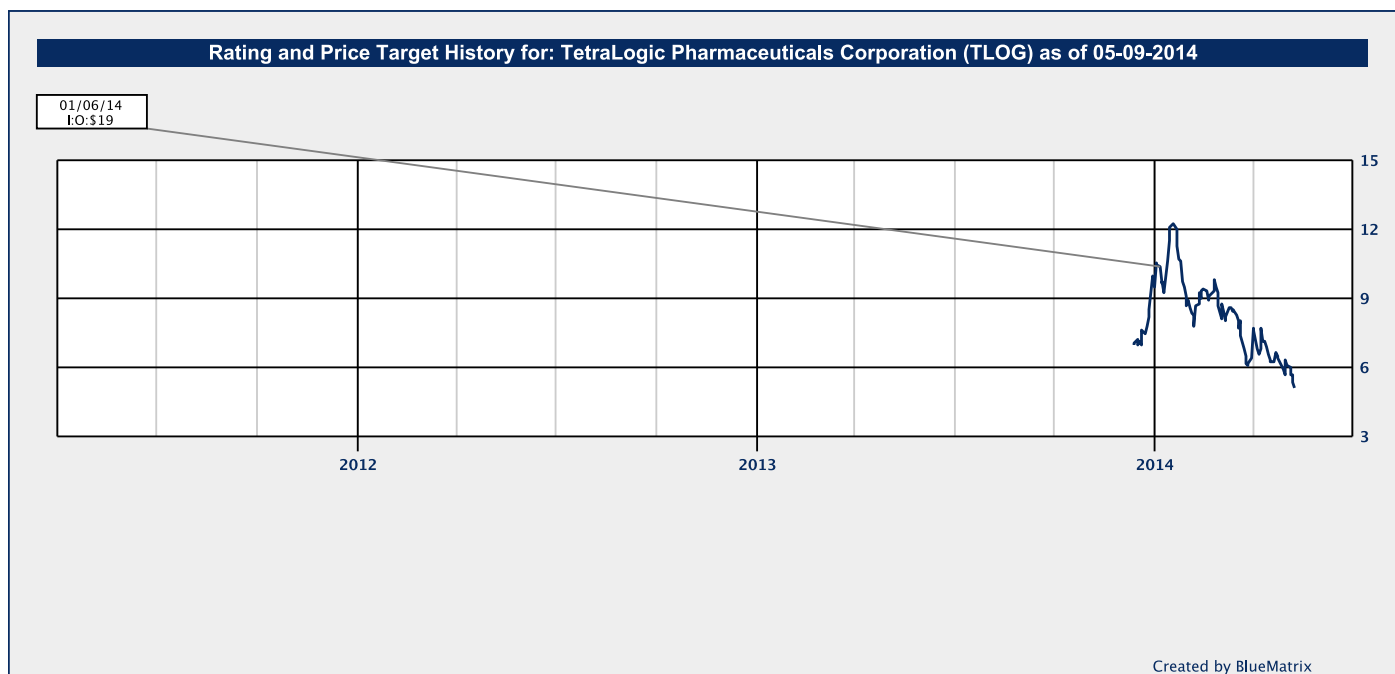
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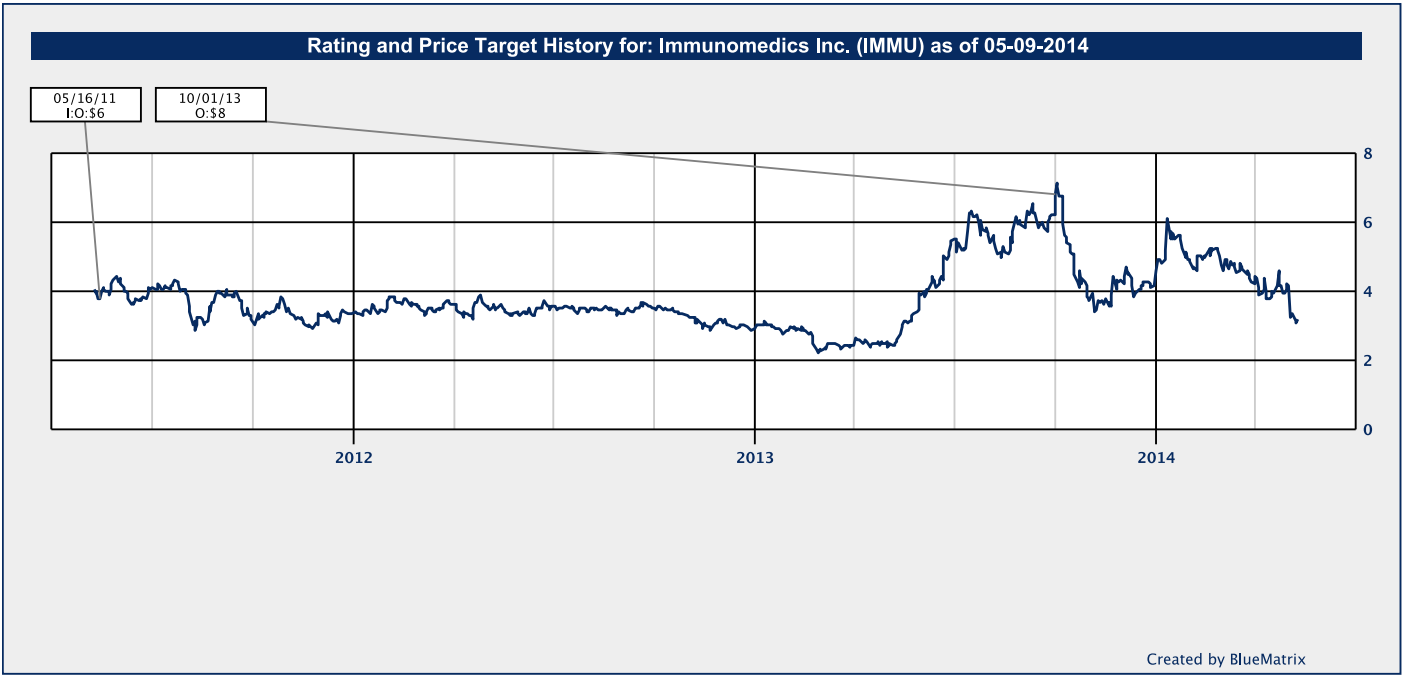
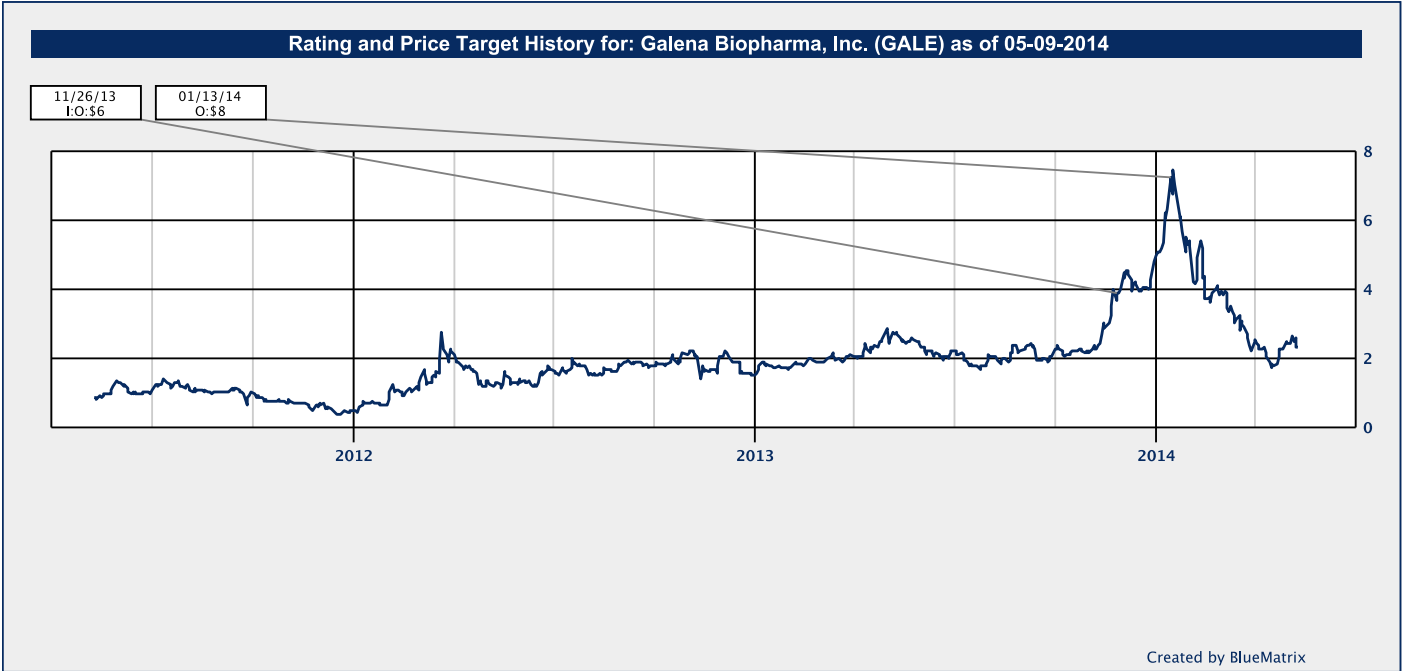
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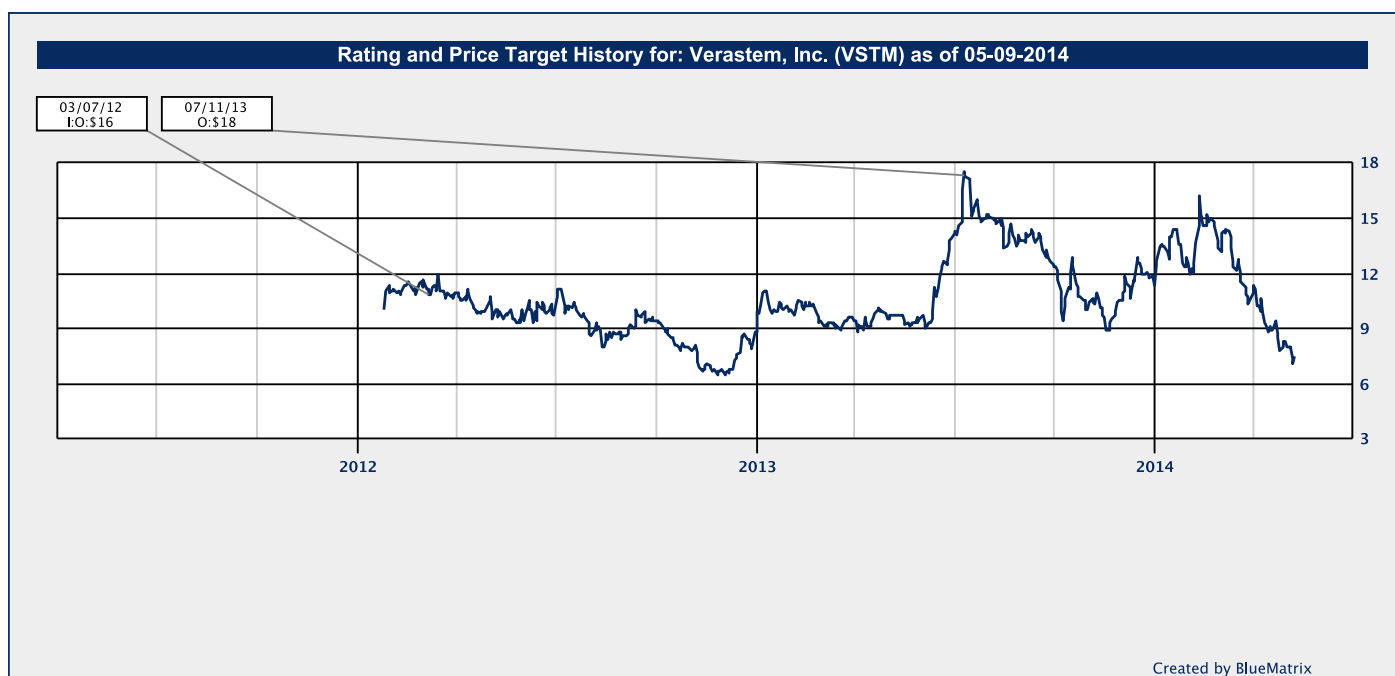
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Amgen Inc. (AMGN - NASDAQ, \$111.48, PERFORM)  
 Galena Biopharma, Inc. (GALE - NASDAQ, \$2.33, OUTPERFORM)  
 Immunomedics Inc. (IMMU - NASDAQ, \$3.21, OUTPERFORM)  
 Verastem, Inc. (VSTM - NASDAQ, \$7.45, OUTPERFORM)







All price targets displayed in the chart above are for a 12- to- 18-month period. Prior to March 30, 2004, Oppenheimer & Co. Inc. used 6-, 12-, 12- to 18-, and 12- to 24-month price targets and ranges. For more information about target price histories, please write to Oppenheimer & Co. Inc., 85 Broad Street, New York, NY 10004, Attention: Equity Research Department, Business Manager.

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		Percent	Count		
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PERFORM [P]	281	47.87	98	34.88	
UNDERPERFORM [U]	10	1.70	3	30.00	

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