

Tetralogic Pharmaceuticals

TLOG - BUY - 1Q14 Report; Birinapant Clinical Progress; SHAPE an Intriguing New Asset; Adjusting PT to \$13

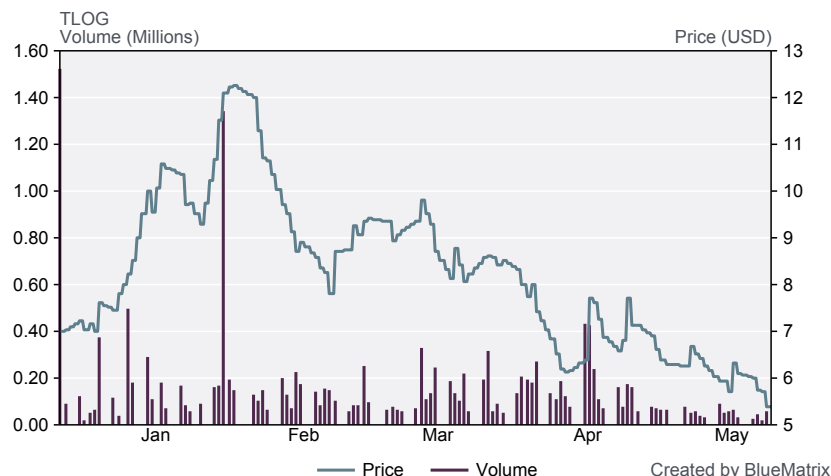
May 9, 2014

On 5/8, TLOG reported 1Q14 EPS of (\$0.25), in line with our est. We believe the company is making solid clinical progress with birinapant in both myelodysplastic syndromes (MDS) and ovarian cancer (OC). We expect early stage positive clinical results for birinapant in each of these indications, which we expect will lead TLOG shares higher. Further, we believe TLOG's acquisition of SHAPE, a topical HDAC inhibitor for CTCL, has been generally overlooked, despite a solid rationale for the drug in this setting. With both birinapant and SHAPE entering mid-stage clinical testing in 2014, we believe TLOG is currently substantially undervalued. We are lowering our PT to \$13 from \$15 on model adjustments.

Birinapant combo with azacitidine moving into Ph.II MDS testing. Prior to starting a Ph.II, randomized trial of birinapant+azacitidine for MDS in 2Q14, TLOG should report initial Ph.I dose-escalation results for the combination. We continue to expect clear signals of Ph.I activity for the combo, given encouraging single-agent results for birinapant in MDS and the synergy between birinapant and azacitidine in preclinical models. We look forward to the first Ph.II results for birinapant+azacitidine in 2Q15.

Initial Ph.I results for birinapant+conatumumab in OC at ASCO'14 should be a NT catalyst. Although TRAIL agonist conatumumab's activity in OC, and other solid tumors, has been underwhelming to date, we believe combining the drug with birinapant may be key to unlocking the drug's potential, given birinapant's SMAC mimetic mechanism should counter TRAIL agonist resistance. We believe early signs of activity for the combo would lead to a high level of additional interest from TRAIL agonist developers.

SHAPE has a good rationale as a topical treatment for CTCL. TLOG continues to expect initiation of a Ph.II trial of SHAPE for early stage CTCL by YE'14, and we expect first Ph.II results in 2H15. As a potent HDAC inhibitor with limited systemic exposure, we see a high likelihood SHAPE will show clear efficacy in this trial. However, we continue to believe the market opportunity for SHAPE is modest, unless TLOG identifies larger cutaneous indications, such as psoriasis, where SHAPE may be safe/effective.



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

ANALYST
212 293 2820

TLOG BUY

EARNINGS RELEASE

Investment Thesis: Growth

SHARE PRICE \$5.38
PRICE TARGET \$13.00

EPS (\$) (FY Dec)	1Q	2Q	3Q	4Q	FY
2013	—	—	—	—	(10.11)
2014	(0.25)	(0.26)E	(0.29)E	(0.15)E	(0.94)E
Prior	(0.24)	(0.25)E	(0.27)E	(0.14)E	(0.91)E
2015	—	—	—	—	(0.90)E
Prior	—	—	—	—	(1.05)E

Market Data

52-Week Range	\$5.28 - \$14.75
Shares Out (M)	22.3
Market Cap (M)	\$120
ADV (3 mo; 000)	121

SECTOR: BIOTECHNOLOGY

May 9, 2014

TetraLogic Pharmaceuticals

			2014										
Amounts in thousands, except per-share figures	2013A	1QA	Prior				2014E	Prior					
			1QE	2QE	3QE	4QE		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	3,650	3,450	3,910	4,042	14,525	15,302	15,977	22,048	24,253		
Selling, general & administrative	8,467	2,508	1,900	2,650	2,820	2,975	10,953	9,007	12,268	15,335	18,402		
Total operating expenses	17,991	5,631	5,550	6,100	6,730	7,017	25,478	24,309	28,245	37,383	42,655		
Income (Loss) from operations	(17,991)	(5,631)	(5,550)	(6,100)	(6,730)	(3,617)	(22,078)	(20,909)	(23,745)	(32,633)	(34,535)		
Net Interest/Other (expense)	(1,960)	297	(135)	236	236	235	1,004	(500)	(455)	37	200		
Change in fair value of derivative liabilities	807	285	-	225	225	225	960	-	-	-	-		
Interest/Other income	1	12	115	11	11	10	44	500	45	37	200		
Interest Expense	(2,767)	-	(250)	-	-	-	-	(1,000)	(500)	-	-		
Royalty to Princeton	-	-	-	-	-	-	-	-	-	-	-		
Pretax income (loss)	(19,950)	(5,334)	(5,685)	(5,864)	(6,494)	(3,382)	(21,074)	(21,409)	(24,199)	(32,596)	(34,335)		
Income tax provision (benefit)	-	-	-	-	-	-	-	-	-	-	-		
Net income (loss)	(19,950)	(5,334)	(5,685)	(5,864)	(6,494)	(3,382)	(21,074)	(21,409)	(24,199)	(32,596)	(34,335)		
Preferred stock dividends	(3,250)	-	-	-	-	-	-	-	-	-	-		
Basic & diluted net loss per share	(\$10.11)	(\$0.25)	(\$0.24)	(\$0.26)	(\$0.29)	(\$0.15)	(\$0.94)	(\$0.91)	(\$0.90)	(\$1.07)	(\$1.00)		
Basic & diluted common shares outstanding (2)	2,296	22,321	23,229	22,545	22,770	22,998	23,003	23,529	26,983	30,444	34,178		

(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 1Q14 results, we are updating our EPS estimates for 2Q14-3Q14, FY14, and FY15. Our current 2Q14, 3Q14, and 4Q14 estimates are (\$0.26), (\$0.29), and (\$0.15), respectively, vs. our prior estimates of (\$0.25), (\$0.27), and (\$0.14). Our current FY14 and FY15 estimates are (\$0.94) and (\$0.90) vs. our prior estimates of (\$0.91) and (\$1.05).

Valuation and Risks

Our \$13 price target (vs. \$15 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 Amgen (AMGN, NEUTRAL, \$110.78).

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%	\$ 16.42	\$ 16.11	\$ 15.81	\$ 15.53	\$ 15.25	\$ 14.99	\$ 14.74	\$ 14.49	\$ 14.26	
	15.98%	\$ 15.73	\$ 15.44	\$ 15.17	\$ 14.90	\$ 14.64	\$ 14.39	\$ 14.15	\$ 13.92	\$ 13.70	
	16.23%	\$ 15.09	\$ 14.81	\$ 14.55	\$ 14.30	\$ 14.06	\$ 13.82	\$ 13.60	\$ 13.38	\$ 13.17	
	16.48%	\$ 14.47	\$ 14.21	\$ 13.97	\$ 13.73	\$ 13.50	\$ 13.28	\$ 13.06	\$ 12.86	\$ 12.66	
	16.73%	\$ 13.88	\$ 13.64	\$ 13.41	\$ 13.18	\$ 12.97	\$ 12.76	\$ 12.55	\$ 12.36	\$ 12.17	
	16.98%	\$ 13.32	\$ 13.09	\$ 12.87	\$ 12.66	\$ 12.46	\$ 12.26	\$ 12.07	\$ 11.88	\$ 11.70	
	17.23%	\$ 12.79	\$ 12.57	\$ 12.37	\$ 12.17	\$ 11.97	\$ 11.79	\$ 11.60	\$ 11.43	\$ 11.26	
	17.48%	\$ 12.28	\$ 12.08	\$ 11.88	\$ 11.69	\$ 11.51	\$ 11.33	\$ 11.16	\$ 10.99	\$ 10.83	
	17.73%	\$ 11.80	\$ 11.60	\$ 11.42	\$ 11.24	\$ 11.06	\$ 10.90	\$ 10.73	\$ 10.58	\$ 10.42	
	17.98%	\$ 11.33	\$ 11.15	\$ 10.97	\$ 10.80	\$ 10.64	\$ 10.48	\$ 10.33	\$ 10.18	\$ 10.03	

Source: Guggenheim Securities, LLC

ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

IMPORTANT DISCLOSURES

The research analyst(s) and research associate(s) have received compensation based upon various factors, including quality of research, investor client feedback, and Guggenheim Securities, LLC's overall revenues, which includes investment banking revenues.

Guggenheim Securities, LLC managed or co-managed a public offering of securities for Tetralogic Pharmaceuticals during the past 12 months.

Guggenheim Securities, LLC makes a market in the securities or derivatives Tetralogic Pharmaceuticals.

Tetralogic Pharmaceuticals is or was during the 12-month period preceding the date of the distribution of this report a client of Guggenheim Securities, LLC. Guggenheim Securities, LLC provided Tetralogic Pharmaceuticals investment banking services.

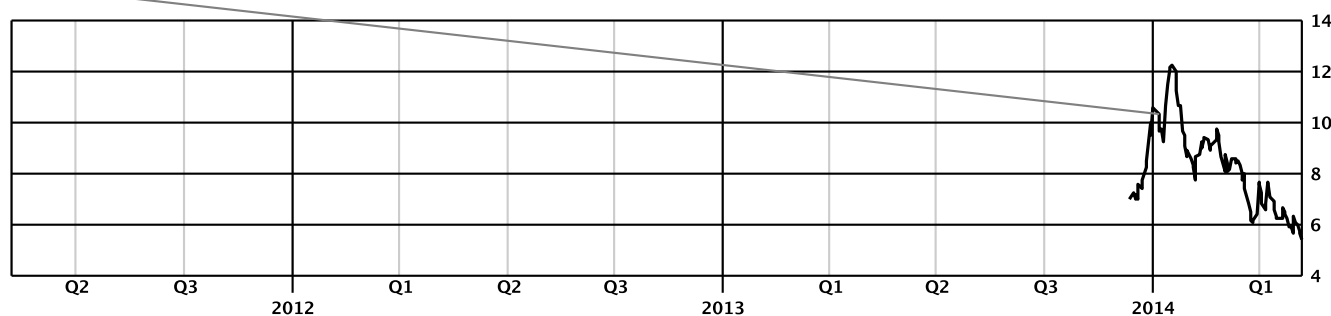
Guggenheim Securities, LLC or its affiliates received compensation for investment banking services from Tetralogic Pharmaceuticals during the past 12 months.

Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from Tetralogic Pharmaceuticals and Amgen Inc. in the next 3 months.

Please refer to this website for company-specific disclosures referenced in this report: <https://guggenheimsecurities.bluematrix.com/sellside/Disclosures.action>. Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.

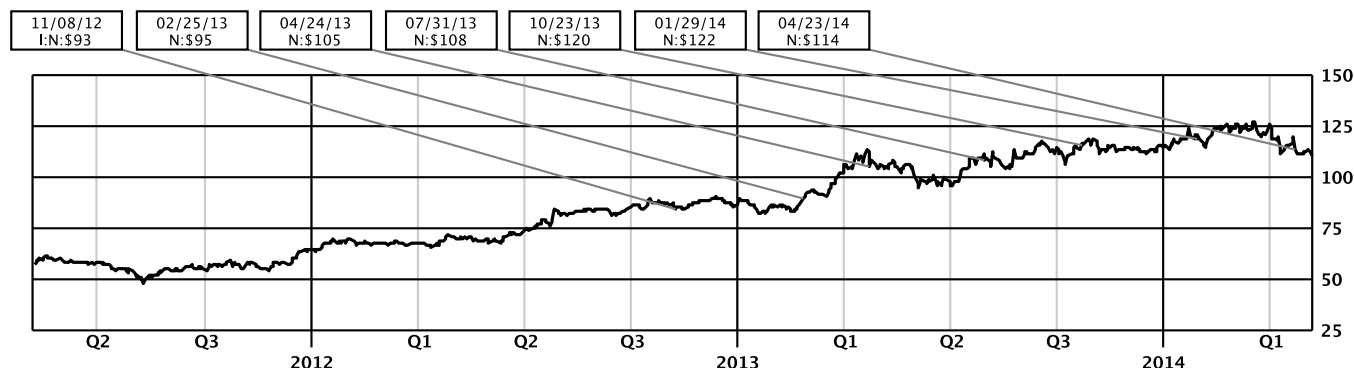
Rating and Price Target History for: Tetralogic Pharmaceuticals (TLOG) as of 05-08-2014

01/06/14
I:B:\$15



Created by BlueMatrix

Rating and Price Target History for: Amgen Inc. (AMGN) as of 05-08-2014



Created by BlueMatrix

RATING DEFINITIONS

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

NEUTRAL (N) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

CS - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

NC - Not covered. Guggenheim Securities, LLC does not cover this company.

Restricted - Describes issuers where, in conjunction with Guggenheim Securities, LLC engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Guggenheim Securities, LLC methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
Buy	107	53.50%	22	20.56%
Neutral	87	43.50%	6	6.90%
Sell	6	3.00%	0	0.00%

OTHER DISCLOSURES

This research is for our clients and prospective clients only. Other than disclosures relating to Guggenheim Securities and its affiliates, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to

update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the research analyst's judgment. Guggenheim Securities conducts a full-service, integrated investment banking and brokerage business, and one or more of its affiliates conduct an investment management business. Guggenheim Securities is a member of SIPC (<http://www.sipc.org>). Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our employees trading for our own account that reflect opinions that are contrary to the opinions expressed in this research. Guggenheim Securities or certain of its affiliates conducts an investment management business, trades for its own account, and conducts an investment business, and may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research. We and our affiliates also may sell to or buy from customers on a principal basis the securities described herein. We and our affiliates also do business with, or that relates to, companies covered in Guggenheim Securities' research, and may have a position in the debt of the company or companies discussed herein.

This research is not an offer to sell or the solicitation of an offer to buy any security. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

TACTICAL TRADING IDEA DISCLAIMER

Guggenheim Securities, LLC produces "Tactical Trade Ideas" that identify short-term, catalyst-driven trading opportunities impacting companies within the Firm's coverage universe. Tactical Trade Ideas may exist on companies in this report and may be contrary to the analyst's published rating.

Copyright © 2014 by Guggenheim Securities, LLC, ("Guggenheim") a FINRA registered broker-dealer. All rights reserved. The contents of this report are based upon information or are obtained from sources that Guggenheim generally considers reliable, but Guggenheim makes no representations or warranties with respect to their accuracy, completeness, timeliness, suitability or otherwise, and assumes no responsibility to update them for subsequent events or knowledge. Guggenheim is not responsible for your use of this information.

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

HERNANDO
1288 Byhalia Road
Suite 2
Hernando, MS 38632

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

Steven Hader, Associate
steven.hader@guggenheimpartners.com
972 638 5507

ENERGY: OIL SERVICES & EQUIPMENT

Darren Gაცია, Analyst
darren.gაცია@guggenheimpartners.com
212 293 3054

Michael LaMotte, Analyst
michael.lamotte@guggenheimpartners.com
972 638 5502

Wilson Waggoner, Associate
wilson.waggoner@guggenheimpartners.com
972 638 5506

**FINANCIAL SERVICES:
LARGE-CAP BANKS**

Marty Mosby, Analyst
marty.mosby@guggenheimpartners.com
662 469 9595

Mason Mosby, Associate
mason.mosby@guggenheimpartners.com
662 469 9194

**FINANCIAL SERVICES: BUSINESS
DEVELOPMENT COMPANIES**

Rahul Agarwal, Analyst
rahul.agarwal@guggenheimpartners.com
615 208 1221

**FINANCIAL SERVICES: REGIONAL &
COMMUNITY BANKS, CARD NETWORKS**

Taylor Brodarick, Analyst
taylor.brodarick@guggenheimpartners.com
615 208 1222

David Darst, Analyst
david.darst@guggenheimpartners.com
615 208 1224

FINANCIAL SERVICES: INSURANCE

Bijan Moazami, Analyst
bijan.moazami@guggenheimpartners.com
202 747 9466

Marshall Coltrain, Associate
marshall.coltrain@guggenheimpartners.com
202 747 9456

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, Associate
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 4188

**TMT: 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