

Ophthotech

Our Thoughts Post the 1Q Call

Ophthotech's 1Q call this morning was a review of its updated clinical development plans for Fovista and Zimura; there was limited incremental information on the call beyond the company's R&D Day in early March (R&D Day [note](#)). The company highlighted (1) its progress in executing the three pivotal Fovista studies and (2) the deterioration in long-term visual outcomes despite anti-VEGF utilization in wet AMD, which underscores the significant unmet medical need. Timelines for the company's other six planned studies remain on track, and it should provide data read-outs over a 2015/16 timeframe. From a competitive standpoint, yesterday Allergan struck a more confident tone on its DARPin program than in the past, however we see limited competitive threat to Fovista at this point. Given the commercial opportunity in wet AMD, the robust phase 2b dataset for Fovista, and the optionality with Zimura in geographic atrophy (GA), we're reiterating our Overweight rating on OPHT shares.

- **Fovista pivotal studies remain on track.** Ophthotech noted the initiation of the third pivotal phase 3 study of Fovista (Avastin/Eylea +/- Fovista) in wet AMD during 1Q14. Importantly, the company reaffirmed timelines (2016) to read-outs from these studies.
- **Broader Fovista development strategy.** Ophthotech also reiterated plans to start three expansion studies of Fovista later this year, including (1) the treatment burden reduction study, (2) a study in anti-VEGF resistant wet AMD, and (3) a study focused on the reduction of subretinal fibrosis. These studies should provide incremental news flow ahead of the phase 3 study read-outs and further bolster the drug's value proposition.
- **Zimura development strategy.** Reaffirmed plans to start a trial in GA (4Q/early 2015) as well as a phase 2 in combination with Fovista/anti-VEGF in patients with anti-VEGF resistant wet AMD (initiate in 2015). Of note, top-line data from Novartis's anti-complement C5 in GA is expected in 2014, while Roche's lampalizumab is expected to enter phase 3 by YE14. Our assessment of the dry AMD market can be found [here](#).
- **Read-through from Allergan presentation.** Yesterday, Allergan highlighted (link) the DARPin phase 2 wet AMD data expected in 2H14 (no change) as a near-term value driver. These data are expected to drive a go/no-go decision into phase 3. Allergan also noted it continues to develop an anti-PDGF/VEGF DARPin (currently pre-clinical).

Ophthotech Corp. (OPHT;OPHT US)

FYE Dec	2012A	2013A	2014E (Prev)	2014E (Curr)	2015E
EPS (\$)					
Q1 (Mar)	-	(6.07)	(0.66)	(0.64)A	-
Q2 (Jun)	-	(6.07)	(0.73)	(0.68)	-
Q3 (Sep)	-	(10.26)	(0.80)	(0.81)	-
Q4 (Dec)	-	(0.65)	(0.85)	(0.88)	-
FY	(2.52)	(6.34)	(3.04)	(3.02)	(3.65)

Source: Company data, Bloomberg, J.P. Morgan estimates. Note: Q1, Q2 2013 numbers reflect JPMe as co. still to disclose actual numbers; increased share count plus IPO account for numbers not summing.

See page 6 for analyst certification and important disclosures.

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Overweight

OPHT, OPHT US

Price: \$31.03

Price Target: \$40.00

Biotechnology

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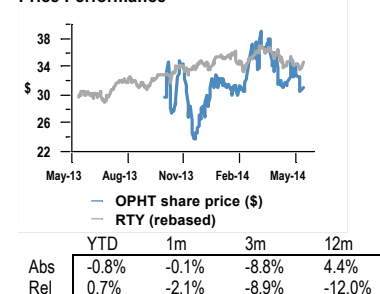
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Price Performance



Company Data

Price (\$)	31.03
Date Of Price	12 May 14
52-week Range (\$)	42.54-22.61
Market Cap (\$ mn)	961.93
Fiscal Year End	Dec
Shares O/S (mn)	31
Price Target (\$)	40.00
Price Target End Date	31-Dec-14

- **Adjusting estimates.** Following 1Q results and recent trends, we are updating our model. The net impact is that our 2014 GAAP EPS estimate changes to (\$3.02) from (\$3.04).
- **Reiterate Overweight.**

Changes to Our Model

Following 1Q results and recent trends, we are updating our model. The net impact of these changes is that our 2014 GAAP EPS estimate changes to (\$3.02) from (\$3.04). Our 2015 EPS estimate remains unchanged (loss of \$3.65).

Table 1: Changes to Our Model

	2014E OLD	2014E NEW	2015E OLD	2015E NEW
Expenses				
R&D	80.0	76.0	100.0	100.0
SG&A	22.0	24.3	26.2	26.5
Total Op Ex	102.0	100.3	126.2	126.5
Net income	-102.0	-100.2	-125.2	-125.5
GAAP EPS (\$)	-3.04	-3.02	-3.65	-3.65
shares	33.5	33.2	34.3	34.4

Source: J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Ophthotech (*Overweight; Price Target: \$40.00*)

Investment Thesis

Fovista is the key value driver for OPHT shares. Based on the efficacy data from the phase 2b, the combination of an anti-PDGF and anti-VEGF offers potentially best-in-class efficacy with meaningful improvements against the traditional regulatory endpoints of visual acuity, as well as an underappreciated endpoint, regression of neovascularization lesions, against which traditional therapy had minimal effect. As such, we view the phase 3 results as being significantly de-risked and believe Fovista will find use in both treatment-naïve AMD patients, and those requiring monthly anti-VEGF injections. Further, we believe Fovista has a two- to three-year head start over other anti-PDGF therapies in development.

Valuation

Our December 2014 \$40 price target is based on our sum-of-the-parts NPV analysis. Our analysis is based on projected Fovista sales from a projected launch in 2017 through 2025. We conservatively modeled a 12.5% WACC and zero terminal values for the drug in the US and EU. Based on the above projections and assumptions, as well as probability of success adjustments, we derive a valuation of \$40/share, comprising US sales of Fovista of \$21/sh, OUS sales of Fovista of \$14/sh, and \$5/sh for net cash. Zimura is not built into our valuation or forecasts.

Risks to Rating and Price Target

Key downside risks to our rating and price target include (1) clinical risk associated with outcome of the phase 3 studies of Fovista, (2) commercial risk that the drug will offer meaningful benefit over the current treatment paradigm as well as the impact of competing agents risk, and (3) reimbursement risk for Fovista.

Ophthotech: Summary of Financials

Income Statement - Annual	FY13A	FY14E	FY15E	FY16E	Income Statement - Quarterly	1Q14A	2Q14E	3Q14E	4Q14E
Revenues	0	0	0	-	Revenues	0A	0	0	0
Cost of products sold	0	0	0	-	Cost of products sold	0A	0	0	0
Gross profit	-	-	-	-	Gross profit	-	-	-	-
SG&A	(14)	(24)	(27)	-	SG&A	(6)A	(6)	(6)	(6)
R&D	(33)	(76)	(100)	-	R&D	(14)A	(17)	(21)	(24)
Operating income	(47)	(100)	(127)	-	Operating income	(21)A	(23)	(27)	(30)
EBITDA	(47)	(100)	(127)	-	EBITDA	(21)A	(23)	(27)	(30)
Net interest (income) / expense	-	-	-	-	Net interest (income) / expense	-	-	-	-
Other income / (expense)	(4)	0	1	-	Other income / (expense)	0A	0	0	0
Income taxes	0	0	0	-	Income taxes	0A	0	0	0
Net income - GAAP	(57)	(100)	(126)	-	Net income - GAAP	(21)A	(23)	(27)	(30)
Net income - recurring	(57)	(100)	(126)	-	Net income - recurring	(21)A	(23)	(27)	(30)
Diluted shares outstanding	9	33	34	-	Diluted shares outstanding	32A	33	34	34
EPS - excluding non-recurring	(6.34)	(3.02)	(3.65)	-	EPS - excluding non-recurring	(0.64)A	(0.68)	(0.81)	(0.88)
EPS - recurring	(6.34)	(3.02)	(3.65)	-	EPS - recurring	(0.64)A	(0.68)	(0.81)	(0.88)
Balance Sheet and Cash Flow Data	FY13A	FY14E	FY15E	FY16E	Ratio Analysis	FY13A	FY14E	FY15E	FY16E
Cash and cash equivalents	211	152	133	-	Sales growth	-	-	-	-
Accounts receivable	7	7	7	-	EBIT growth	246.6%	111.4%	26.2%	-
Inventories	-	-	-	-	EPS growth - recurring	151.1%	(52.4%)	20.9%	-
Other current assets	0	0	0	-	Gross margin	-	-	-	-
Current assets	217	159	140	-	EBIT margin	-	-	-	-
PP&E	0	0	0	-	EBITDA margin	-	-	-	-
Total assets	218	159	140	-	Tax rate	0.0%	0.0%	0.0%	-
Total debt	0	0	0	-	Net margin	-	-	-	-
Total liabilities	48	48	48	-	Net Debt / EBITDA	444.1%	151.5%	105.1%	-
Shareholders' equity	170	111	92	-	Net Debt / Capital (book)	515.2%	371.6%	325.4%	-
Net income (including charges)	(51)	(100)	(126)	-	Return on assets (ROA)	(51.3%)	(53.2%)	(83.9%)	-
D&A	0	0	0	-	Return on equity (ROE)	(246.6%)	(71.4%)	(123.6%)	-
Change in working capital	(3)	0	0	-	Enterprise value / sales	-	-	-	-
Other	4	0	0	-	Enterprise value / EBITDA	-	-	-	-
Cash flow from operations	(50)	(100)	(125)	-	Free cash flow yield	(17.9%)	(9.7%)	(11.8%)	-
Capex	(0)	(0)	(0)	-					
Free cash flow	(50)	(100)	(126)	-					
Cash flow from investing activities	(0)	(0)	(0)	-					
Cash flow from financing activities	255	42	107	-					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec

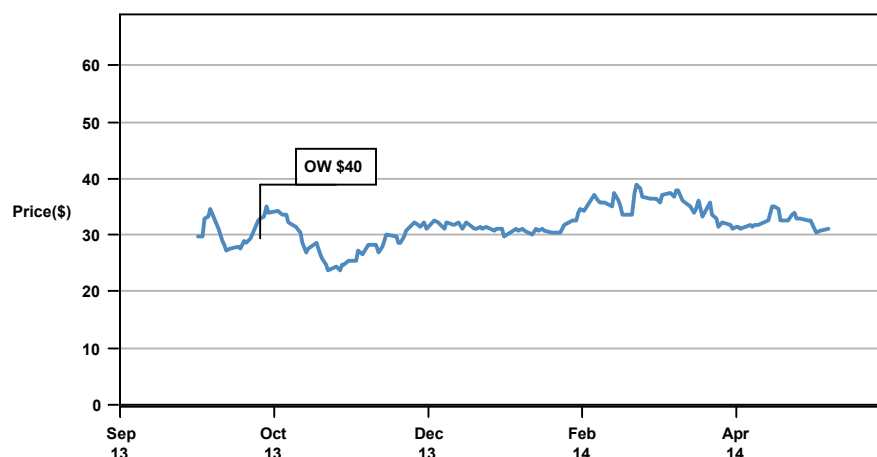
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Ophthotech (OPHT, OPHT US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
21-Oct-13	OW	29.25	40.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Oct 21, 2013.

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