Equity Research

Company Quick Take

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Price: $19.43 (11/13/2014)

Price Target: NA

OUTPERFORM (1)

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Key Data

Symbol	NASDAQ: RLYP
Market Cap (MM)	$664.7

Patiromer On A Straight Path To Approval For Hyperkalemia

The Cowen Insight

Yesterday, Relypsa hosted an event at the ASN that featured two physician experts with heavy involvement in Patiromer's clinical and regulatory development. Physicians expressed strong confidence in approval, emphasized Patiromer's clean safety profile, and spoke to the considerable unmet need in treating hyperkalemia. We expect RLYP shares to outperform heading into a likely Q4:15 U.S. launch.

Physicians Think Patiromer Will Sail Through The FDA Approval Process

Patiromer FOS is a non-absorbed polymer that binds and excretes excess potassium from the colon. The drug has been shown to be safe and effective at treating chronic hyperkalemia in six clinical trials. Patiromer FOS has also demonstrated the ability to permit CKD patients to maintain optimal doses of RAASi therapies, medications that delay time to kidney disease progression, but are also associated with hyperkalemia. Relypsa submitted an NDA for Patiromer FOS on October 21, 2014. The company expects a standard review cycle, implying a PDUFA date in October 2015.

The two physicians at yesterday's investor gathering were involved in the design of patiromer's studies, and have participated in discussions with the FDA. They expressed great confidence in the package that was submitted to the agency. They view patiromer as having all the attributes of an approvable product (long-term safety and efficacy, non-absorbable, targeted at an unmet need) and could conjure few reasons for why the drug wouldn't be approved. One of the consultants noted that based on his 10 year experience with FDA committees, patiromer will "sail through" the FDA approval process.

In particular, the two physicians were extremely comfortable with Patiromer FOS' safety and tolerability profile. They emphasized that in clinical studies the rate of adverse events on patiromer arm was similar to that on placebo, and that the drop out rates were exceedingly low. Moreover, they dismissed any worries about disturbances in other electrolytes resulting from non specific binding to the polymer. Consultants viewed cases of hypomagnesemia as rare and extremely mild in nature, especially in a CKD population that typically has hypermagnesemia due to defective kidneys elimination of this ion.

QD Dosing Trial Likely To Start In H1 2015

Patiromer will initially be marketed in a BID formulation. However, data from a prior trial in healthy volunteers indicated that patiromer can be just as effective when given either QD or BID. Relypsa initially made the decision to pursue BID dosing in pivotal trials as it was not sure whether the higher QD doses would be well tolerated. Now that BID dosing has shown very good tolerability, the company is comfortable pursuing a QD dosing trial, which should kick of in H1:15 and might include 4-6 weeks of dosing. The results will be submitted as a supplemental NDA. Physicians expressed much confidence that an effective QD dose of patiromer can be achieved.

Although physicians did not view BID dosing or Patiromer's bulky formulation as a major deterrent to adoption, we would expect QD dosing to improve adherence and even the playing field vs. Patiromer's potential competitor, ZS-9 from ZS Pharma.

Preparations Under Way For Patiromer's Launch

Manufacturing: With the goal of reaching 90% gross margins by early 2019, Relypsa is exploring options for continuous manufacturing (as opposed to batch manufacturing available for launch). Currently, under batch manufacturing the company forecasts GMs of ~60% at launch improving to ~80% within a couple of years.

Pricing and Reimbursement: Physician consultants mentioned that adoption may be sensitive to Patiromer's price. Management is highly attuned to pricing dynamics in the market place, and is considering launching the product at ~ $600/month. Relypsa believe this would avoid significant copays. It is also setting up meetings with payors to facilitate reimbursement soon after launch.

U.S. Commercial Team: Relypsa continues to believe that a 100-person sales force will do the job. It is slowly expanding its commercial management team ahead of approval.

Ex-U.S. Partnership Talks Heating Up: Relypsa is in discussions to identify a partner for Patiromer FOS outside the U.S. Management notes a great deal of interest from potential partners, and believes an agreement will be reached before FDA approval.

Dynamics Of Adoption At Launch

We have modeled gradual initial adoption of Patiromer FOS as we have assumed that nephrologists and cardiologists may need to be educated about the benefits of a novel therapy for controlling serum potassium, and how to institute dosing. However, the physicians at Relypsa's analysts gathering expressed hope that certain subgroups of physicians, namely academic nephrologists, will be rapid adopters. They noted that currently, should a patient on RAASi medication come into their practice with serum K+ over 5.5 mEq/L, they immediately down titrate or discontinue RAASi dosing, and may also offer insulin or glucose to promptly lower serum potassium. In the future they suggested it would be simply to prescribe Patiromer FOS, maintain RAASi dosing, and re-check serum potassium levels in a few days time.

Why Competition Isn't Likely To Matter

Investors have been trying to understand the competitive dynamic between ZS-9 (ZS Pharma) and Patiromer FOS. ZS-9 is a once a day product that appears to be associated with a favorable clinical profile. On the other hand, it is trailing Patiromer FOS in development, and its composition is zirconium-based. Although zirconium appears safe, and ZS-9's datasets are mostly free of AEs, at least some nephrologists continue to express some aversion to metal based binders. Regardless of how ZS-9's development, regulatory, and commercial story play out, we believe the market for hyperkalemia is large and wide open. We doubt the presence of a second safe and effective agent for hyperkalemia would have any impact on Patiromer FOS's adoption, and might even facilitate awareness, much like we are seeing today with the launch of two novel drug's for onychomychosis (from Anacor and Valeant). We note that should patiromer capture even modest market share (~10%), this could translate into meaningful U.S. sales (~$1B).

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

Relypsa has no approved products and its entire future revenue stream depends on the commercial success of patiromer, the company's only product. Patiromer is still in clinical development. Even though it has successfully completed Phase III clinical trials, unexpected safety issues could emerge, thus jeoperdizing the FDA approval process. To produce patiromer, Relypsa relies on a series of third-party manufacturers and depends on these entities to fulfill orders. In addition, patiromer sales may fall short of expectations. The drug treats hyperkalemia, a symptom that is often times induced by the administration of other drugs. The number of patients suffering from this complication may be smaller than expected.

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Addendum

Stocks Mentioned In Important Disclosures

Ticker	Company Name
RLYP	Relypsa

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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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Distribution of Ratings/Investment Banking Services (IB) as of 09/30/14

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	440	59.95%	105	23.86%
Hold (b)	278	37.87%	10	3.60%
Sell (c)	16	2.18%	0	0.00%

(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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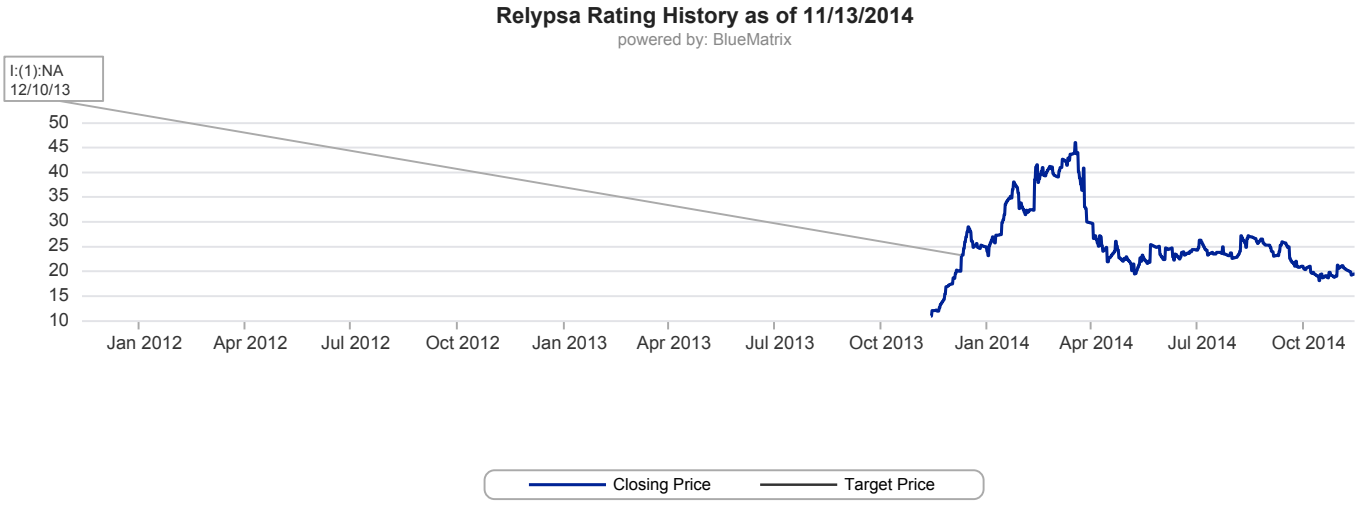

Legend for Price Chart:

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

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