

Tetralogic Pharmaceuticals

TLOG - BUY - 2013 Results; Attractive Ahead of Critical Birinapant Clinical Readouts in '14

March 20, 2014

On 3/19, TLOG reported 2013 results. Importantly, Phase I/II trials remain on track for TLOG's birinapant in combination with Celgene's Vidaza in myelodysplastic syndromes (MDS) and in combination with AMGN's conatumumab in ovarian cancer (OC). Based on our current estimates, we believe the company's \$55.1M in cash as of YE13 is sufficient into '15, beyond key birinapant clinical readouts in '14. We believe TLOG is attractive at current levels, ahead of near-term Ph.I MDS results for birinapant+Vidaza and Ph.I OC results for birinapant+conatumumab in 2Q14.

Near-term Ph.I results for birinapant+Vidaza in MDS. We expect positive initial results from this trial, based on encouraging Ph.I results for single-agent birinapant in AML and the synergistic preclinical activity of birinapant+Vidaza. TLOG expects to initiate a randomized Ph.II trial of the combination vs. Vidaza in 2Q14, with first results in 2Q15. We maintain our estimate of ~\$400M WW peak sales for birinapant in higher-risk MDS (50% probability-adjusted).

Expect positive Ph.I OC results for birinapant+conatumumab in 2Q14. We believe birinapant+conatumumab may be synergistic in OC, based on complementary mechanisms of action. Notably, birinapant appears to counter resistance to TRAIL agonists, mediated by SMAC downregulation/CIAP1/2 upregulation, in preclinical models. We continue to believe positive Ph.I results for birinapant+conatumumab could lead to more lucrative strategic collaborations for TLOG, with AMGN, Daiichi, or other parties.

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TLOG BUY

EARNINGS RELEASE

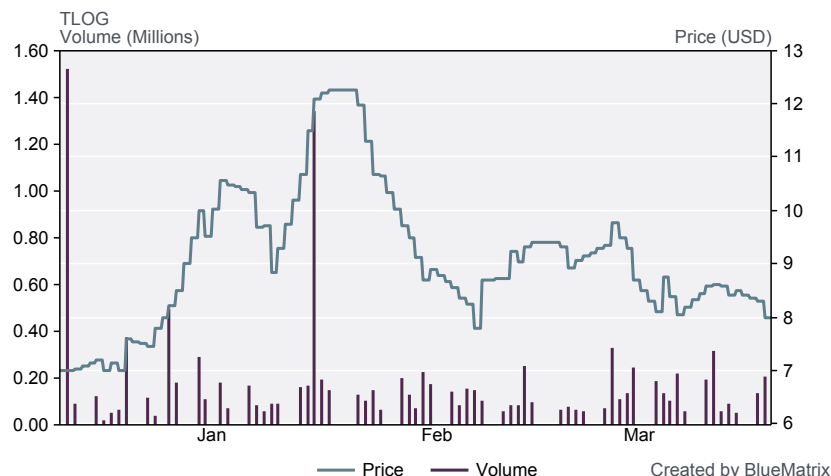
Investment Thesis: Growth

SHARE PRICE \$7.72
PRICE TARGET \$15.00

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

Market Data

52-Week Range	\$6.91 - \$14.75
Shares Out (M)	22.3
Market Cap (M)	\$172
ADV (3 mo; 000)	158



TetraLogic Pharmaceuticals

2014

Amounts in thousands, except per-share figures

	2012A	2013A	1QE	2QE	3QE	4QE	2014E	2015E	2016E	2017E
Income Statement										
Revenues:										
Collaboration Revenue	-	-	-	-	-	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	4,500	4,750	8,120
Operating expenses:										
Cost of goods	-	-	-	-	-	-	-	-	-	-
Research & development	12,096	9,523	3,650	3,700	3,910	4,042	15,302	16,832	25,248	27,773
Selling, general & administrative	4,076	8,467	1,900	2,150	2,400	2,557	9,007	16,213	25,941	31,129
Total operating expenses	16,172	17,991	5,550	5,850	6,310	6,599	24,309	33,045	51,189	58,902
Income (Loss) from operations	(16,172)	(17,991)	(5,550)	(5,850)	(6,310)	(3,199)	(20,909)	(28,545)	(46,439)	(50,782)
Net Interest/Other (expense)	(28)	(1,960)	(135)	(128)	(117)	(120)	(500)	(455)	37	200
Change in fair value of derivative liabilities	43	807	-	-	-	-	-	-	-	-
Interest/Other income	3	1	115	122	133	130	500	45	37	200
Interest Expense	(73)	(2,767)	(250)	(250)	(250)	(250)	(1,000)	(500)	-	-
Royalty to Princeton	-	-	-	-	-	-	-	-	-	-
Pretax income (loss)	(16,199)	(19,950)	(5,685)	(5,978)	(6,427)	(3,319)	(21,409)	(29,000)	(46,402)	(50,582)
Income tax provision (benefit)	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(16,199)	(19,950)	(5,685)	(5,978)	(6,427)	(3,319)	(21,409)	(29,000)	(46,402)	(50,582)
Preferred stock dividends	(3,453)	(3,250)	-	-	-	-	-	-	-	-
Basic & diluted net loss per share	(\$1.19)	(\$10.11)	(\$0.24)	(\$0.25)	(\$0.27)	(\$0.14)	(\$0.91)	(\$1.05)	(\$1.50)	(\$1.45)
Basic & diluted common shares outstanding (2)	16,490	2,296	23,229	23,461	23,695	23,932	23,579	27,565	31,027	34,772

(1) Probability adjusted estimates.

(2) Reflects conversion of preferred stock to common stock.

Source: Company documents and Guggenheim Securities, LLC

Valuation and Risks

Our \$15 price target is based on a forward, 10-year DCF of probability-adjusted sales estimates for birinapant in MDS. We assign a 50% probability of clinical/commercial success for birinapant in higher-risk MDS. Given positive earlier trial results for birinapant in this setting, we believe this is an appropriate probability adjustment. Our valuation applies a 16.25% discount rate to reflect the relatively early stage of TLOG's lead program and a 2.5% terminal growth rate to reflect the company's promising collaboration profile with AMGN.

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 positions; 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	15.25%	\$ 18.97	\$ 18.57	\$ 18.19	\$ 17.82	\$ 17.47	\$ 17.13	\$ 16.80	\$ 16.49	\$ 16.19	
	15.50%	\$ 18.12	\$ 17.74	\$ 17.38	\$ 17.04	\$ 16.71	\$ 16.39	\$ 16.08	\$ 15.79	\$ 15.50	
	15.75%	\$ 17.31	\$ 16.96	\$ 16.62	\$ 16.30	\$ 15.98	\$ 15.68	\$ 15.39	\$ 15.11	\$ 14.84	
	16.00%	\$ 16.54	\$ 16.21	\$ 15.90	\$ 15.59	\$ 15.30	\$ 15.01	\$ 14.74	\$ 14.47	\$ 14.22	
	16.25%	\$ 15.81	\$ 15.50	\$ 15.21	\$ 14.92	\$ 14.64	\$ 14.37	\$ 14.11	\$ 13.86	\$ 13.62	
	16.50%	\$ 15.12	\$ 14.83	\$ 14.55	\$ 14.28	\$ 14.01	\$ 13.76	\$ 13.52	\$ 13.28	\$ 13.05	
	16.75%	\$ 14.46	\$ 14.19	\$ 13.92	\$ 13.67	\$ 13.42	\$ 13.18	\$ 12.95	\$ 12.73	\$ 12.51	
	17.00%	\$ 13.84	\$ 13.58	\$ 13.33	\$ 13.08	\$ 12.85	\$ 12.62	\$ 12.41	\$ 12.19	\$ 11.99	
	17.25%	\$ 13.24	\$ 12.99	\$ 12.76	\$ 12.53	\$ 12.31	\$ 12.09	\$ 11.89	\$ 11.69	\$ 11.49	
	17.50%	\$ 12.67	\$ 12.44	\$ 12.21	\$ 12.00	\$ 11.79	\$ 11.59	\$ 11.39	\$ 11.20	\$ 11.02	

Source: Guggenheim Securities, LLC

Companies Mentioned: Celgene: (CELG, BUY, \$150.84), Amgen: (AMGN, NEUTRAL, \$126.58), Daiichi Sankyo (DSNKY, NC, \$16.35)

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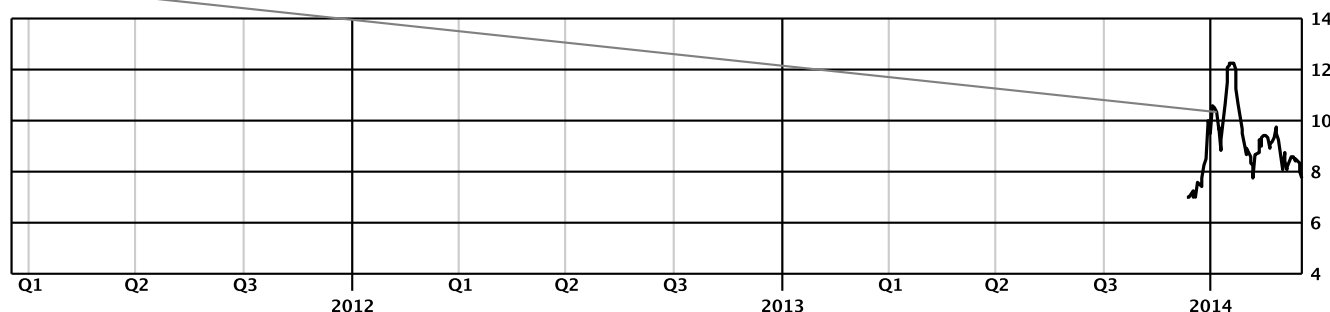
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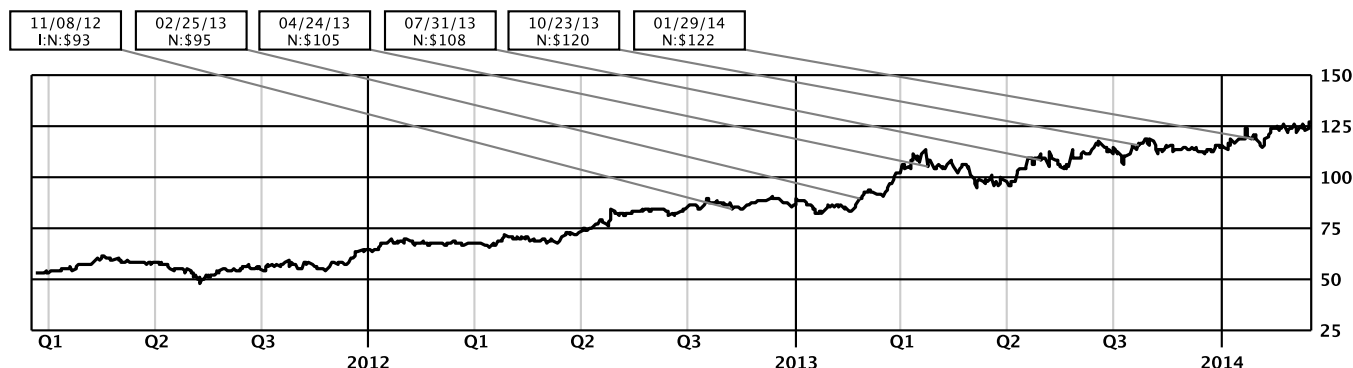
Rating and Price Target History for: Tetralogic Pharmaceuticals (TLOG) as of 03-19-2014

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



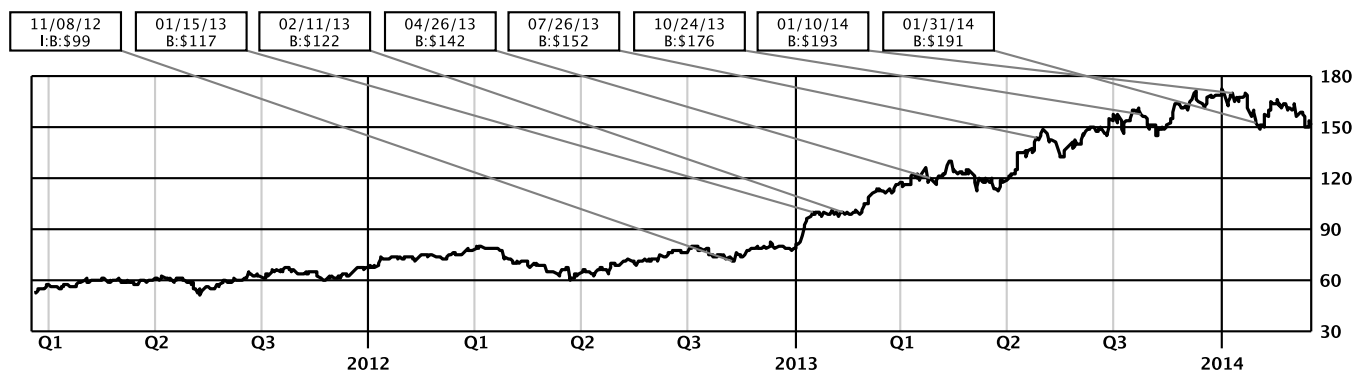
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Rating and Price Target History for: Amgen Inc. (AMGN) as of 03-19-2014



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Rating and Price Target History for: Celgene Corporation (CELG) as of 03-19-2014



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