Esperion Therapeutics (ESPR)

SMALL & MID CAP RESEARCH

Rating	OUTPERFORM* [V]
Price (12 May 14, US$)	14.23
Target price (US$)	26.00[1]
52-week price range	18.89 - 11.10
Market cap. (US$ m)	219.06
Enterprise value (US$ m)	122.59

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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Q1:14 Earnings: Studies 008 and 009 on Track

ESPR still anticipates clinical data from two Phase 2b studies (008 and 009) in Q4:14. ESPR also plans to submit the required nonclinical data to the FDA in Q2:14, and this is important to further derisk the regulatory path for ETC-1002. Our positive view on ESPR is based on the large market opportunity and significant scarcity value of its novel oral pill for lowering cholesterol. Our 2014 EPS increases slightly to ($2.21) from ($2.29).

- **Cash sufficient through key clinical milestones**: ESPR ended Q1 with approximately $68.2M in cash, and expects to end 2014 with $40-45M. ESPR reiterated that capital should support operations through at 2015. Revised guidance includes $24.5M in R&D and $7.5M in SG&A for the remainder of 2014, and 2014 EPS of approximately ($2.60).
- **Enrollment in Study 008 complete and Study 009 ongoing:** Study 008 was over-enrolled to 350 patients (versus prior 312 patients). Study 009 has begun and is enrolling patients. ESPR expects to present data for both studies in Q4:14, with data from 008 first.
- **ESPR plans to submit required nonclinical studies to FDA in Q2:14:** No unusual findings were noted in the studies. ESPR plans to discuss lifting the partial clinical hold with the FDA at the End-of-Phase II meeting in Q2:15. There has been no indication that the FDA will consider lifting the partial hold ahead of the meeting.
- **$26 target:** Our $26 target is based on a probability adjusted DCF, assuming a 55% probability of success in statin intolerant and 33% probability in statin add-on patients.

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US$)	-3.31	-2.21	1.47	-2.19
Prev. EPS (US$)	—	-2.29	1.58	-2.03
P/E (x)	-4.3	-6.4	9.7	-6.5
P/E rel. (%)	-25.0	-40.4	68.0	-50.6
Revenue (US$ m)	—	—	78.0	4.0
EBITDA (US$ m)	-22.7	-37.9	29.1	-47.3
OCFPS (US$)	-2.30	-2.14	1.61	-2.02
P/OCF (x)	-6.0	-6.7	8.8	-7.0
EV/EBITDA (current)	-7.2	-4.3	5.6	-3.4
Net debt (US$ m)	-57	-96	-130	-88
ROIC (%)	-129.63	-210.01	161.42	-262.04

Number of shares (m)	15.39	IC (current, US$ m)	17.56
BV/share (Next Qtr., US$)	4.4	EV/IC (x)	9.3
Net debt (Next Qtr., US$ m)	-48.6	Dividend (current, US$)	—
Net debt/tot cap (Next Qtr., %)	-72.6	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates

Exhibit 1: Q1:14 Variance Table

Income Statement	1Q:14 Act.	CS 1Q:14 Est	Delta
Revenues	$ -	$ -	$ -
Milestones and partnering revenue	$ -	$ -	$ -
Royalty revenue	$ -	$ -	$ -
Total Net Revenues	$ -	$ -	$ -
Expenses	$ -	$ -	$ -
R&D	$ 5.4	$ 7.4	$ (2.0)
G&A	$ 2.5	$ 2.4	$ 0.1
Total Operating Expenses	$ 7.9	$ 9.8	$ (1.9)
Operating income (loss)	$ (7.9)	$ (9.8)	$ 1.9
Total Other Income (Expense)	$ 0.0	$ 0.3	$ (0.3)
Pre Tax Income	$ (7.9)	$ (9.5)	$ 1.6
Income tax expense (benefit)	$ -	$ -	$ -
Net Income	$ (7.9)	$ (9.5)	$ 1.6
EPS - basic (proforma)	($0.51)	($0.62)	$0.10
EPS - diluted (proforma)	($0.51)	($0.62)	$0.10
Shares outstanding - basic (proforma)	15.37	15.42	-0.05
Shares outstanding - diluted (proforma)	15.37	15.42	-0.05

Source: Company data, Credit Suisse estimates

Exhibit 2: ESPR Guidance

	Guidance	CS est.
Year-end cash	$40-45M	41.7
Net cash used in operations	$35-40M	38.0
R&D Spend for Q2-Q4	$24.5M	22.3
SG&A spend for Q2-Q4	$7.5M	7.8
2014 EPS	(2.60)	(2.21)

Source: Company data, Credit Suisse estimates

Exhibit 3: ESPR Pipeline

Drug	Indication	Stage	Partner
ETC-1002	Hypercholesterolemia (statin intolerant)	Phase IIb	Proprietary
	Hypercholesterolemia (statin add-on)	Phase IIa (completed)	
	Hypercholesterolemia (Type II diabetics)	Phase IIa (completed)	
ESP41091	Type II diabetes and obesity	Preclinical	Proprietary
4WF	Low HDL	Preclinical	Proprietary

Source: Company data, Credit Suisse estimates

Exhibit 4: ESPR News Flow

Product/Event	Indication	Catalyst	Expected Date	Price Sensitivity
ETC-1002 (regulatory)	LDL-C lowering	Long-term chronic tox study and 2-year animal carc results submitted to FDA	Q2:14	Low
ETC-1002	LDL-C lowering- Statin intolerant program	Phase IIb data (Study-008)	Q4:14	High
ETC-1002 (regulatory)	LDL-C lowering	2-year carc. study in animals	Q4:14	Medium
ETC-1002	LDL-C lowering- Residual risk, statin add-on	Phase IIb trial readout (Study-009)	Q4:14	High
ETC-1002	LDL-C lowering- Special population studies, diabetes	Initiate Phase II in diabetics or other risk groups	H2:14	High
ETC-1002	LDL-C lowering	End of Phase II meeting	Q2:15	Medium
ETC-1002	LDL-C lowering	Start Phase III study	Mid-2015	Low
ETC-1002	LDL-C lowering	Completion of Phase III efficacy study	H2:16	Medium
ETC-1002	LDL-C lowering	Completion of Phase III safety study	H1:17	Medium
ETC-1002	LDL-C lowering	NDA filing	H2:17	Medium
ETC-1002	LDL-C lowering	Approval and launch	H2:18	High

Source: Company data, Credit Suisse estimates

Exhibit 5: ESPR Model

	2012A	2013A	Q1:14A	Q2:14E	Q3:14E	Q4:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues															
Milestones and partnering revenue								78.0	4.0	56.5	59.0	4.0	4.0		
Royalty revenue											10.3	24.7	39.5	84.6	119.4
Total Net Revenues								78.0	4.0	56.5	69.3	28.7	43.5	84.6	119.4
Expenses															
R&D	8.0	16.0	5.4	6.8	7.5	8.0	27.7	36.6	38.4	40.4	42.4	44.5	46.7	49.0	51.5
G&A	2.2	6.7	2.5	2.5	2.6	2.6	10.3	12.3	12.9	13.5	14.2	14.9	15.6	16.4	17.3
Total Operating Expenses	10.2	22.8	7.9	9.3	10.1	10.6	37.9	48.9	51.3	53.9	56.6	59.4	62.4	65.5	68.8
Operating income (loss)	(10.2)	(22.8)	(7.9)	(9.3)	(10.1)	(10.6)	(37.9)	29.1	(47.3)	2.6	12.7	(30.6)	(18.9)	19.1	50.7
Total Other Income (Expense)	(1.5)	(3.3)	0.0	0.3	0.2	0.5	1.0	1.7	1.5	1.5	1.0	1.0	1.0	1.0	1.0
Pre Tax Income	(11.7)	(26.1)	(7.9)	(9.0)	(9.9)	(10.1)	(36.9)	30.8	(45.8)	4.1	13.7	(29.6)	(17.9)	20.1	51.7
Income tax expense (benefit)															
Net Income	(11.7)	(26.1)	(7.9)	(9.0)	(9.9)	(10.1)	(36.9)	30.8	(45.8)	4.1	13.7	(29.6)	(17.9)	20.1	51.7
EPS - basic (proforma)	($36.31)	($3.31)	($0.51)	($0.58)	($0.64)	($0.50)	($2.21)	$1.49	($2.19)	$0.20	$0.65	($1.39)	($0.83)	$0.93	$2.38
EPS - diluted (proforma)	($36.31)	($3.31)	($0.51)	($0.58)	($0.64)	($0.50)	($2.21)	$1.47	($2.19)	$0.19	$0.61	($1.39)	($0.83)	$0.88	$2.26
Shares outstanding - basic (proforma)	0.32	7.89	15.37	15.43	15.45	20.46	16.68	20.72	20.93	21.14	21.24	21.35	21.46	21.56	21.67
Shares outstanding - diluted (proforma)	0.32	7.89	15.37	15.43	15.45	20.46	16.68	21.00	20.93	22.29	22.40	21.35	21.46	22.73	22.84

Product sales summary	2018E	2019E	2020E	2021E	2022E
US (prob adjusted)	46.4	101.0	147.1	289.9	409.5
Ex-US (prob adjusted)	12.4	40.4	78.5	193.3	273.0
Total (prob adjusted)	58.8	141.4	225.6	483.2	682.5
Royalty	10.3	24.7	39.5	84.6	119.4
US (unadjuted)	84.4	183.6	267.5	644.0	943.9
Ex-US (unadjusted)	22.5	73.4	142.7	429.3	629.3
Total (unadjusted)	106.9	257.1	410.2	1,073.4	1,573.2
Royalty	18.7	45.0	71.8	187.8	275.3

Source: Company data, Credit Suisse estimates

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Companies Mentioned *(Price as of 12-May-2014)*

Esperion Therapeutics (ESPR.OQ, $14.23, OUTPERFORM[V], TP $26.0)

Disclosure Appendix

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3-Year Price and Rating History for Esperion Therapeutics (ESPR.OQ)

ESPR.OQ	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
22-Jul-13	17.05	23.00	O *
03-Sep-13	16.40	26.00	

** Asterisk signifies initiation or assumption of coverage.*

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Price Target: (12 months) for Esperion Therapeutics (ESPR.OQ)

Method: Our $26 price target for ESPR is based on a probability adjusted DCF, assuming a very conservative 55% probability of success in statin intolerant and 33% probability in statin add-on patients. Additional data in 2013 and 2014 could increase our probabilities for both indications.

Risk: Risks to our $26 TP include factors that could decrease our probabilities of success for ETC-1002 in statin intolerant and statin add-on markets: 1) inability to remove the partial clinical hold, 2) lack of efficacy or any new toxicities in ongoing trials, 3) increased concern over known safety signals (decreases in hemoglobin and increases in uric acid), and 4) more stringent regulatory requirements (ie FDA requiring an outcome study for approval).

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