

Enanta Pharmaceuticals

Updating Model Post Fiscal 3Q

Enanta reported fiscal 3Q13 GAAP loss per share of \$0.23. As expected, there were no new updates as we await key phase 3 data for ABT-450. Recall, multiple phase 3 trials are ongoing and partner AbbVie recently indicated that the data remain on track to begin reading out YE13/early 2014, with regulatory filing expected in 2Q14. Of note, although timelines are similar, we expect Gilead to be the market leader in hep C, with ABT-450 containing regimens capturing ~20% share. However, given the low cost structure (partners fund development) and significant milestones there is meaningful leverage in the P&L for Enanta. As such, we are maintaining our Overweight rating. We are establishing a December 2014 PT of \$25 (prior Dec 2013 PT of \$25).

- **Adjusting estimates:** Following the quarter and recent trends, we are updating our model. We have fine tuned operating expenses. Our FY2013-FY2015 GAAP EPS estimates change to (\$2.73), \$1.51 and \$5.09, respectively, from (\$2.80), \$1.39 and \$4.74.
- **Reiterate Overweight rating.** *AbbVie covered by J.P. Morgan analyst Chris Schott.*

Overweight

ENTA, ENTA US

Price: \$17.67

Price Target: \$25.00

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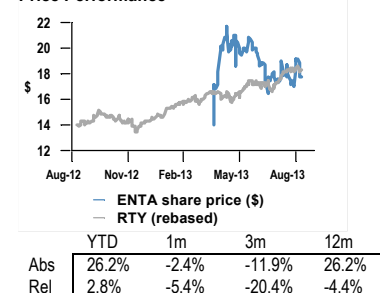
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Price Performance



Enanta Pharmaceuticals (ENTA;ENTA US)

FYE Sep	2011A	2012A	2013E	2013E	2014E	2014E	2015E	2015E
			(Prev)	(Curr)	(Prev)	(Curr)	(Prev)	(Curr)
EPS Reported (\$)								
Q1 (Dec)	-	-	0.13A	0.13A	-	-	-	-
Q2 (Mar)	-	-	(2.28)A	(2.28)A	-	-	-	-
Q3 (Jun)	-	-	(0.31)	(0.23)A	-	-	-	-
Q4 (Sep)	-	-	(0.34)	(0.34)	-	-	-	-
FY	0.04	0.10	(2.80)	(2.73)	1.39	1.51	4.74	5.09

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

Price (\$)	17.67
Date Of Price	09 Aug 13
52-week Range (\$)	22.40-14.00
Market Cap (\$ mn)	297.50
Fiscal Year End	Sep
Shares O/S (mn)	17
Price Target (\$)	25.00
Price Target End Date	31-Dec-14

See page 4 for analyst certification and important disclosures.

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Changes to Our Model

Following the quarter and recent trends, we are updating our model. We have fine tuned operating expenses. Our FY2013-FY2015 GAAP EPS estimates change to (\$2.73), \$1.51 and \$5.09, respectively, from (\$2.80), \$1.39 and \$4.74.

Table 1: Changes to Our Model

	2013E OLD	2013E NEW	2014E OLD	2014E NEW	2015E OLD	2015E NEW
Total Revenue	29.1	30.7	65.0	65.0	160.1	160.1
R&D	18.2	17.2	25.0	25.0	30.0	30.0
SG&A	6.0	6.0	12.0	12.0	15.0	15.0
Total Op Ex	24.1	23.2	37.0	37.0	45.0	45.0
Net income	-15.9	-13.5	28.5	28.5	116.1	116.1
GAAP EPS (\$)	-2.80	-2.73	1.39	1.51	4.74	5.09
Shares	13.8	13.0	20.5	18.8	24.5	22.8

Source: J.P. Morgan estimates.

Investment Thesis

Enanta is a clinical-stage biotech focused on the development of small molecule drugs for infectious diseases, most notably hepatitis C (hep C). The lead program is ABT-450 being developed with AbbVie (covered by JPM analyst Chris Schott) for the treatment of hep C. ABT-450 is currently in multiple phase 3 trials with data expected in 4Q13 and regulatory filings (US and EU) expected in mid-2014. While hep C is a very competitive therapeutic category, we anticipate meaningful market share for ABT-450 containing regimens. Indeed, prior phase 2 data for ABT-450 regimens support a high probability of phase 3 success. Given significant economics from ABT-450 and the scarcity of all-oral, IFN-free phase 3 agents in hep C, we are Overweight ENTA shares.

Valuation

We are establishing a December 2014 price target of \$25 (prior December 2013 PT was \$25). Our December 2014 price target of \$25 for ENTA is based on our sum-of-the-parts NPV analysis including ABT-450 only. We project ABT-450 sales to 2029, consistent with IP protection, assume no terminal value and a 15% discount rate. We further assume an 80% probability of success for ABT-450 in Phase 3. This is consistent with that of prior phase 3 hep C studies. We derive a value of \$20/share for ABT-450. This take in combination with net cash of \$5/share supports our December 2014 PT of \$25.

Risks to Rating and Price Target

Risks to our Overweight rating and price target include: 1) failure of ABT450 to reach the market; 2) slower-than-expected adoption of ABT450; and 3) greater-than-expected completion from other hep C regimens.

Enanta Pharmaceuticals: Summary of Financials

Income Statement - Annual	FY12A	FY13E	FY14E	FY15E	Income Statement - Quarterly	1Q13A	2Q13A	3Q13A	4Q13E
Revenues	42	31	65	160	Revenues	28A	1A	2A	0
Cost of products sold	0	0	0	0	Cost of products sold	0A	0A	0A	0
Gross profit	-	-	-	-	Gross profit	-	-	-	-
SG&A	(5)	(6)	(12)	(15)	SG&A	(1)A	(1)A	(2)A	(2)
R&D	(15)	(17)	(25)	(30)	R&D	(5)A	(4)A	(4)A	(5)
Operating income	21	7	28	115	Operating income	22A	(4)A	(4)A	(6)
EBITDA	21	7	28	115	EBITDA	22A	(4)A	(4)A	(6)
Net interest (income) / expense	0	0	1	1	Net interest (income) / expense	(0)A	0A	0A	0
Other income / (expense)	-	-	-	-	Other income / (expense)	-	-	-	-
Income taxes	0	0	0	0	Income taxes	-	-	-	-
Net income - GAAP	1	(13)	29	116	Net income - GAAP	2A	(5)A	(4)A	(6)
Net income - recurring	1	(13)	29	116	Net income - recurring	2A	(5)A	(4)A	(6)
Diluted shares outstanding	14	5	19	23	Diluted shares outstanding	14A	2A	18A	18
EPS - excluding non-recurring	0.10	(2.73)	1.51	5.09	EPS - excluding non-recurring	0.13A	(2.28)A	(0.23)A	(0.34)
EPS - recurring	0.10	(2.73)	1.51	5.09	EPS - recurring	0.13A	(2.28)A	(0.23)A	(0.34)
Balance Sheet and Cash Flow Data	FY12A	FY13E	FY14E	FY15E	Ratio Analysis	FY12A	FY13E	FY14E	FY15E
Cash and cash equivalents	11	70	173	289	Sales growth	(0.4%)	(26.4%)	111.7%	146.3%
Accounts receivable	1	1	1	1	EBIT growth	(15.9%)	(64.9%)	274.3%	311.1%
Inventories	-	-	-	-	EPS growth - recurring	131.2%	(2897.8%)	(155.5%)	236.0%
Other current assets	2	0	0	0	Gross margin	-	-	-	-
Current assets	47	105	208	324	EBIT margin	51.0%	24.4%	43.1%	71.9%
PP&E	1	1	1	1	EBITDA margin	51.0%	24.4%	43.1%	71.9%
Total assets	52	110	213	329	Tax rate	0.0%	0.0%	0.0%	0.0%
Total debt	-	-	-	-	Net margin	3.3%	(43.8%)	43.8%	72.5%
Total liabilities	8	8	8	8	Net Debt / EBITDA	-	-	-	-
Shareholders' equity	44	101	204	321	Net Debt / Capital (book)	-	-	-	-
Net income (including charges)	21	8	29	116	Return on assets (ROA)	3.5%	(16.6%)	17.7%	42.9%
D&A	0	0	0	0	Return on equity (ROE)	4.2%	(18.5%)	18.6%	44.2%
Change in working capital	0	0	0	0	Enterprise value / sales	6.9	7.4	1.9	0.1
Other	0	0	0	0	Enterprise value / EBITDA	13.5	30.4	4.4	0.1
Cash flow from operations	23	8	29	116	Free cash flow yield	8.9%	8.8%	8.4%	28.5%
Capex	(0)	(0)	(0)	(0)					
Free cash flow	22	8	28	115					
Cash flow from investing activities	(18)	(0)	(0)	(0)					
Cash flow from financing activities	(1)	52	74	0					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

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

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

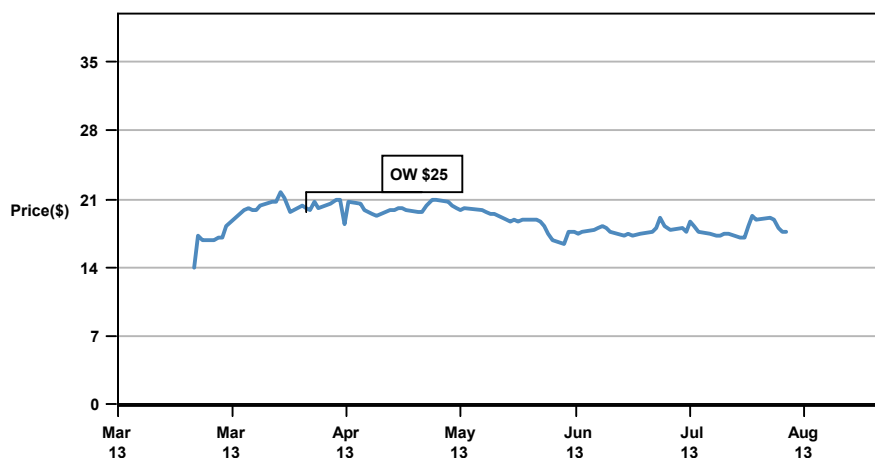
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Enanta Pharmaceuticals (ENTA, ENTA US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
15-Apr-13	OW	19.68	25.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Apr 15, 2013.

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