

# Enanta Pharmaceuticals, Inc. (ENTA)

In-line Earnings Reported as First HCV Readout Sets a High Bar

## MARKET DATA

Price	\$24.91
52-Week Range:	\$14.31 - \$26.39
Shares Out. (M):	17.8
Market Cap (\$M):	\$443.4
Average Daily Vol. (000):	194.0
Cash (M):	\$112
LT Debt (M):	\$0

Source: Thomson Reuters and JMP Securities LLC

**MARKET OUTPERFORM** | Price: \$24.91 | Target Price: \$25.00

## INVESTMENT HIGHLIGHTS

**In-line earnings reported as first HCV readout sets a high bar; reiterate Market Outperform rating and \$25 price target on Enanta Pharmaceuticals** based on a risk-adjusted, discounted cash flow analysis. This morning, Enanta reported FY4Q earnings of (\$0.25), in line with our expectations. Key data from Enanta's collaboration with AbbVie has begun reading out, posting >95% cure rates in the first all-oral Phase 3 SAPPHIRE-I study and all eyes are now focused on data from competitor Gilead. Enanta has significant milestones forthcoming, including \$195+ million in royalties from AbbVie, including ~\$40M linked to the NDA and MAA filings that we believe will be paid in CY2Q14. With its core HCV assets partnered, Enanta is looking beyond HCV with new development programs including EDP-788, a novel bicyclolide antibiotic, which is slated to begin clinical trials in MRSA in 1H14. We also anticipate additional pipeline visibility this spring, as the current wave of HCV catalysts pass. In the near term, we believe any surprises to the downside from Gilead data in GT1 patients could drive significant upside in shares of Enanta, given high expectations for Gilead amongst investors.

**Earnings.** Enanta reported financial year-end earnings of (\$0.67), higher than our estimates, primarily due to weighted average shares outstanding from the recent IPO. The company ended its fiscal year with \$112M in cash, which we believe will be sufficient to carry the company through to profitability next year.

**Economics of AbbVie collaboration.** We estimate that Enanta will receive \$40M for regulatory filings (NDA and MAA) in FY3Q14 and most of \$155M in 2015 when the combination is approved in the U.S. and EU. Enanta will also receive double-digit royalties on one-third of sales ('450 being one-third of the three DAA combination). We also note that Enanta has an option to share profits associated with the next generation protease inhibitor, '493, in exchange for sharing development and commercialization costs, but we currently assume that Enanta will not exercise the option due to the challenges associated with commercialization in the competitive HCV market.

## STOCK PRICE PERFORMANCE



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FOR DISCLOSURE AND FOOTNOTE INFORMATION, REFER TO JMP FACTS AND DISCLOSURES SECTION.

## Company Description

Enanta is a Watertown, Massachusetts-based biotechnology company focused on anti-infectives. The company has partnered a protease inhibitor program with AbbVie Pharmaceuticals and an NS5a program with Novartis, as well as developing fully owned assets. The lead protease inhibitor, ABT-450, partnered with AbbVie, is in Phase 3 development.

## Investment Risks

**Clinical risk.** Drug development is a risky and capital-intensive endeavor. The vast majority of drugs that enter clinical development fail to reach the market. Enanta's Phase 3 program with AbbVie may experience development setbacks; we point specifically to safety as a source of risk. In addition, Enanta has many early stage assets that may or may not make it to development in humans.

**Regulatory risk.** Enanta is reliant on its pharmaceutical partners, AbbVie and Novartis, to move its drug candidates through registration with the FDA and EMA and it is dependent on the pace of these regulatory entities to approve new drugs. Enanta's early stage HCV assets are from classes that have been placed on clinical hold, leading to increased scrutiny.

**Intellectual Property risk.** Enanta's lead clinical assets are covered by approved patents; however, other assets have patents pending. Patent expirations can result in a negative impact to sales. Additionally, generic companies may file abbreviated new drug applications to challenge current products with patent protection.

**Commercial risk.** Enanta is reliant upon their pharmaceutical partners, AbbVie and Novartis, to successfully commercialize assets. The HCV space is very competitive and Enanta's assets may lose share as new competitors come to market.

**Sector risk.** Valuation of biopharmaceutical stocks is subject to both investor assessments of the prospects of the underlying companies, as well as investor tolerance for risk and confidence in the prospects of pharmaceutical stocks as a group. Therefore, Enanta's stock price may fall, even while the company meets or exceeds investor expectations.

## JMP FACTS AND DISCLOSURES

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JMP Securities currently makes a market in the security of Enanta Pharmaceuticals, Inc.

JMP Securities was manager or co-manager of a public offering, and received compensation for doing so, for Enanta Pharmaceuticals, Inc. in the past 12 months.

### JMP Securities Investment Opinion Definitions:

Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

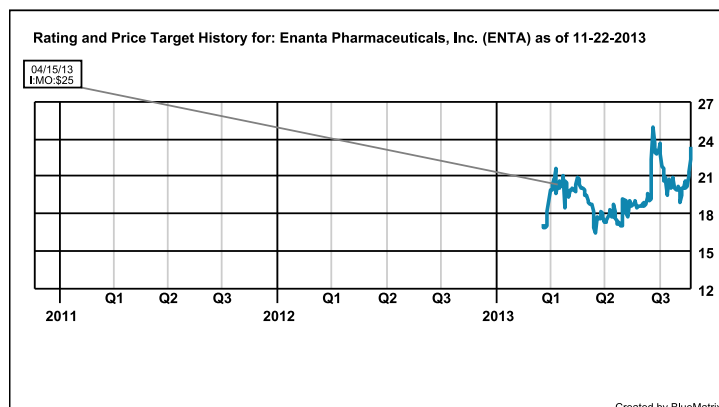
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

### JMP Securities Research Ratings and Investment Banking Services: (as of November 22, 2013)

JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
MARKET OUTPERFORM	Buy	232	56.45%	Buy	232	56.45%	85	36.64%
MARKET PERFORM	Hold	137	33.33%	Hold	137	33.33%	24	17.52%
MARKET UNDERPERFORM	Sell	5	1.22%	Sell	5	1.22%	0	0%
COVERAGE IN TRANSITION		37	9.00%		37	9.00%	0	0%
TOTAL:		411	100%		411	100%	109	26.52%

### Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



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