

Enanta Pharmaceuticals (ENTA)

Rating	OUTPERFORM* [V]
Price (07 Feb 14, US\$)	36.61
Target price (US\$)	(from 36.00) 43.00 ¹
52-week price range	39.03 - 16.49
Market cap. (US\$ m)	657.73
Enterprise value (US\$ m)	-97,696.54

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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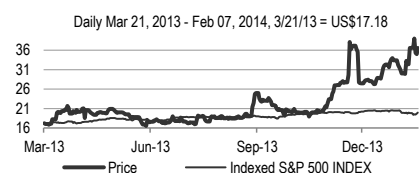
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INCREASE TARGET PRICE

Playing ABBV/HCV through ENTA - Increasing TP on Back Of Survey

- **Summary:** We are increasing our TP on ENTA to \$43 (from \$36) due to higher HCV sales on the back of our HCV survey work published in a separate document today. We have raised our peak ABBV/ENTA all oral, interferon-free (combination) sales in 2018 to \$2.5B (from \$2.2B). Our 2014-2017 regimen sales also have increased. Our FY'14, FY'15, and FY'16 EPS estimates are \$1.20, \$4.57, and \$2.96 respectively.
- **Raising ABBV/ENTA HCV franchise sales forecasts based on proprietary physician survey – key conclusion = higher ABBV/ENTA mkt share.** The 4 key take-homes with regards to ENTA were (1) Our survey suggested a notably higher patient share for ABBV's/ENTA's combination (20-30%/30-40% treatment naïve/experienced – vs. consensus which is ca15%) -Exhibit 1... (2)...it also pointed to significant warehousing and concomitant patient tracking, which is likely to result in a market-wide faster and larger patient treatment ramp upon the launch of all-oral, interferon-free regimens in H2'14 - Exhibit 2. (3) On pricing, we still consider a ca\$100k/ treatment course gross price as obtainable (Exhibit 3) in the US for the initial all-oral, interferon-free regimens; however our survey work did highlight the market share sensitivity to pricing. (4) The survey also pointed to general enthusiasm for formulation improvements and the G2/3 opportunity for ABBV/ENTA 2nd/next-gen regime.
- **Reiterating our view that ENTA is an often overlooked way to play the HCV Revolution and/or ABBV's positioning within it.** (1) ENTA is the originator of ABT-450, the cornerstone of ABBV's all-oral, interferon-free regimen. ENTA is set to collect an effective royalty rate of at least 4% (assuming 3 DAAs) on ABT450 based regimens. (2) ENTA's current market cap is \$630M and could have ~\$700M in cash by 2020. (3) Potential upside could come from 2nd/next-gen protease inhibitor, ABT-493, to which ENTA can opt into to garner greater economics. See our previously published note "Playing the ABBV derivative via ENTA" ([LINK](#)) for further details of our investment thesis.

Share price performance



On 02/07/14 the S&P 500 INDEX closed at 1797.02

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	1.45	-1.71	-0.23	-0.27
2014E	-0.34	2.34	-0.39	-0.39
2015E	—	—	—	—

Financial and valuation metrics

Year	09/13A	09/14E	09/15E	09/16E
EPS (CS adj.) (US\$)	-1.25	1.20	4.57	2.96
Prev. EPS (US\$)	—	1.18	3.78	1.94
P/E (x)	-29.4	30.4	8.0	12.4
P/E rel. (%)	-167.2	183.2	53.1	90.8
Revenue (US\$ m)	32,053.0	53,432.0	180,715.5	120,688.7
EBITDA (US\$ m)	9,252.0	22,084.2	154,394.7	102,258.7
OCFPS (US\$)	-1.33	1.20	3.68	3.52
P/OCF (x)	-17.2	30.4	10.0	10.4
EV/EBITDA (current)	-8.3	-4.4	-1.2	-2.8
Net debt (US\$ m)	-77,163	-98,354	-191,734	-282,200
ROIC (%)	26.43	59.79	186.39	148.24
Number of shares (m)	17.97	IC (current, US\$ m)		34,161.62
BV/share (Next Qtr., US\$)	—	EV/IC (x)		—
Net debt (Next Qtr., US\$ m)	—	Dividend (current, US\$)		—
Net debt/tot cap (Next Qtr., %)	—	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates.

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Exhibit 1: Proprietary Survey/CS Analysis Suggest Street is Notably Underestimating ABBV's Competitive Position vs. GILD



Proprietary Survey/CS Analysis Suggest Street is Notably Underestimating ABBV's Competitive Position vs. GILD

	Survey findings/CS Analysis	CS View	Consensus View
Market Size	Physicians are postponing treatment for ~56-69% of HCV patients, setting up for strong uptake when GILD and ABBV all-oral regimens are approved; additionally, many drivers in place for sustained market growth.	We expect market to be ~75% higher in 2015, eventually doubling by 2017 (vs. 2012 base)	Consensus expectations are generally in-line with CS' in the near to medium term, and slightly bearish in the longer term
Share	Physicians assigned ABBV 20-30% patient share for treatment naïve patients, and ~30-40% for treatment experienced, in-line with what has been seen in this category before.	We have assigned ABBV a peak patient share of ~23% for treatment naïve patients, and ~28% for treatment experienced patients.	In the near term, we Consensus expectations give GILD at least ~85% share and ABBV no more than ~15% share
Pricing	Physician share allocation is quite sensitive to pricing differences between ABBV and GILD regimens; discounts in the 15-20% range could lead to greater market share for ABBV	We expect GILD (net) launch pricing to be ~\$93K/patient (in-line with other active regimens) and ABBV to be priced at ~15% discount to GILD (~\$79K/patient)	Precise Consensus expectations are unclear on this front – however, most believe that ABBV will have to be somewhat compromise on price in order to effectively compete vs. GILD
Lifecycle	ABBV formulation improvements and 2 nd generation regimens should improve competitive position in GT1 marketplace	We project strong share erosion for ABBV upon launch of MRK and BMY regimens. Our ABBV share estimates have upside on greater clarity on formulation advances and 2 nd gen data releases	In-line with CS, Consensus likely giving very little credit at this point on any ABBV lifecycle plans
GT2/3 Opportunity	GT2/3 opportunity could add 20-30% to ABBV sales in the longer-term with success with 2 nd gen regimen	Very little credit given at this point to ABBV for GT2/3 opportunity	In-line with CS, very little credit given to ABBV for GT2/3 opportunity

Source: CS Proprietary Hepatitis C Physician Survey, Credit Suisse Analysis, Medispan Price Rx, IMS, Bloomberg

4

Source: Company data, Credit Suisse estimates

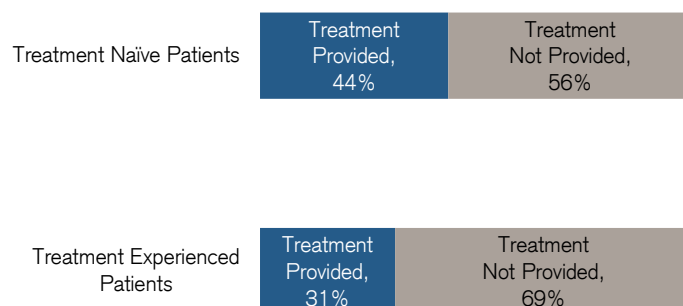
Exhibit 2: Physician Survey Confirms Significant Warehousing to Lead to Spike in Patients Treated Likely Upon Entry of GILD and ABBV All-Oral Regimens

CREDIT SUISSE

Market Size

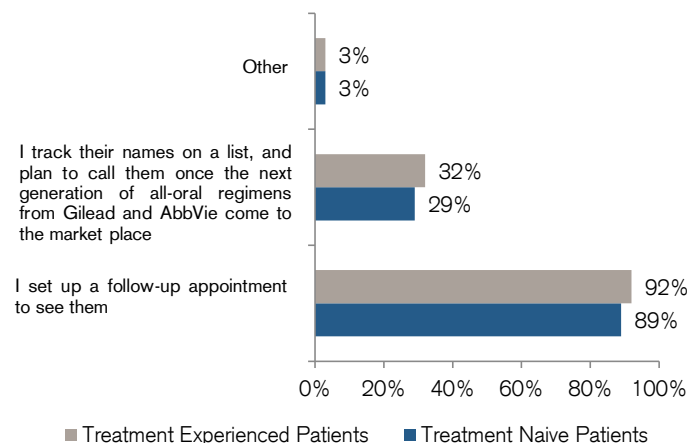
Physician Survey Confirms Significant Warehousing to Lead to Spike in Patients Treated Likely Upon Entry of GILD and ABBV All-Oral Regimens

Treatment Not Provided to ~60-70% of Patients Seen for their HCV in the Last 30 Days



For the patients (that you saw over the last 30 days), approximately how many of them did you provide a prescription therapy to treat their Hepatitis C during this visit?

~30% of Physicians Actively Tracking Patients Who Would Be Candidates for Next Gen Therapy



Q: For the patients you did NOT treat - what is your next planned step? Please select all that apply.

- We anticipate ~75% increase in patients treated in 2015 (vs. 2014 of ~80K in the US/EU/Japan)

Source: CS Proprietary Physician Survey; CS Estimates

15

Source: Company data, Credit Suisse estimates



Pricing

CS Base Case Pricing Assumptions on GILD and ABBV Leave Notable Room for Upside, Particularly Relative to Incivek and Victrelis

- Given the significantly superior profile for both GILD and ABBV regimens over Victrelis and Incivek, a sizable premium would be justifiable
 - However, our base case assumptions build for GILD pricing that is generally in-line with Victrelis and Incivek, while ABBV's is at a 15% discount to GILD

	Victrelis (MRK)	Incivek (JNJ/VRTX)	CS GILD Assumption	CS ABBV Assumption
US				
Gross*	~\$90-\$100K+	~\$70-\$100K+	~\$110K	~\$93K
Net			~\$93K	~\$79K
EU			40% discount to US	
Japan			50% discount to US	

* Note: Victrelis and Incivek pricing provided as a range as the length of duration of those regimens can vary depending on patient response, and hence cost could vary as well

Exhibit 4: Current vs. Previous HCV Franchise Sales Forecasts

	2014E	2015E	2016E	2017E	2018E	2019E	2020E
New	11	1,004	2,104	2,462	2,508	2,479	2,327
Previous	11	395	1,404	2,104	2,181	2,001	1,845
% Difference	0%	154%	50%	17%	15%	24%	26%

Source: Enanta, Credit Suisse estimates

Exhibit 5: ENTA Quarterly Income Statement 2013-2014

ENTA Quarterly Income Statement (Year Ended September 30) (Dollars in '000s, except share and per share amounts)	Q1'13A	Q2'13A	Q3'13A	Q4'13A	2013A	Q1'14E	Q2'14E	Q3'14E	Q4'14E	2014E
ABT-450 Royalty	0	0	0	0	0	0	0	0	432	432
Milestones	26,000	0	0	0	26,000	0	49,000	0	0	49,000
Other Revenues	1,859	1,196	1,649	1,349	6,053	1,000	1,000	1,000	1,000	4,000
Total Revenues	27,859	1,196	1,649	1,349	32,053	1,000	50,000	1,000	1,432	53,432
COGS	0	0	0	0	0	0	0	0	0	0
Gross Profit	27,859	1,196	1,649	1,349	32,053	1,000	50,000	1,000	1,432	53,432
R&D	4,798	3,704	4,039	4,300	16,841	5,349	5,898	6,307	6,623	24,177
SG&A	1,152	1,493	1,788	1,750	6,183	1,820	1,873	1,864	1,943	7,501
Total Operating Expenses	5,950	5,197	5,827	6,050	23,024	7,170	7,771	8,172	8,565	31,677
Operating Income/(Loss)	21,909	(4,001)	(4,178)	(4,701)	9,029	(6,170)	42,229	(7,172)	(7,133)	21,755
Total Other Income/(Expense)	48	252	40	258	132	20	20	20	20	80
Pre-Tax Profit/(Loss)	21,957	(3,749)	(4,138)	(4,443)	9,161	(6,150)	42,249	(7,152)	(7,113)	21,835
Provision/(Benefit) for Income Taxes	0	0	0	0	0	0	0	0	0	0
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income/(Loss)	21,957	(3,749)	(4,138)	(4,443)	9,161	(6,150)	42,249	(7,152)	(7,113)	21,835
Net Income to Common Stockholders	1,868	(4,993)	(4,138)	(4,443)	(12,172)	(6,150)	42,249	(7,152)	(7,113)	21,835
GAAP Basic EPS	\$1.61	(\$2.28)	(\$0.23)	(\$0.25)	(\$1.25)	(\$0.34)	\$2.34	(\$0.39)	(\$0.39)	\$1.20
GAAP Diluted EPS	\$1.45	(\$2.28)	(\$0.23)	(\$0.25)	(\$1.25)	\$1.45	\$2.34	(\$0.39)	(\$0.39)	\$1.20
Basic Shares Outstanding	1,158	2,192	17,820	17,904	9,769	17,994	18,083	18,174	18,265	18,129
Diluted Shares Outstanding	2,637	2,192	17,820	17,904	9,769	17,994	18,083	18,174	18,265	18,129

Source: Company data, Credit Suisse estimates

Exhibit 6: ENTA Annual Income Statement 2012-2020

ENTA Annual Income Statement (Year Ended September 30) (Dollars in '000s, except share and per share amounts)	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E
ABT-450 Royalty	0	0	432	42,716	97,689	143,729	192,009	189,384	175,684
Milestones	41,706	26,000	49,000	138,000	23,000	0	0	0	0
Other Revenues	0	6,053	4,000	0	0	0	0	0	0
Total Revenues	41,706	32,053	53,432	180,716	120,689	143,729	192,009	189,384	175,684
COGS	0	0	0	0	0	0	0	0	0
Gross Profit	41,706	32,053	53,432	180,716	120,689	143,729	192,009	189,384	175,684
R&D	15,115	16,841	24,177	17,766	9,557	9,748	9,943	10,142	10,345
SG&A	5,302	6,183	7,501	8,977	9,377	9,642	9,835	10,032	10,232
Total Operating Expenses	20,417	23,024	31,677	26,743	18,935	19,391	19,778	20,174	20,578
Operating Income/(Loss)	21,289	9,029	21,755	153,972	101,754	124,339	172,230	169,210	155,106
Total Other Income/(Expense)	110	132	80	247	383	519	706	903	1,086
Pre-Tax Profit/(Loss)	21,399	9,161	21,835	154,220	102,137	124,858	172,936	170,113	156,192
Provision/(Benefit) for Income Taxes	0	0	0	37,972	25,534	31,214	43,234	42,528	39,048
Effective Tax Rate	0.0%	0.0%	0.0%	24.6%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income/(Loss)	21,399	9,161	21,835	116,247	76,603	93,643	129,702	127,585	117,144
Net Income to Common Stockholders	1,369	(12,172)	21,835	116,247	76,603	93,643	129,702	127,585	117,144
GAAP Basic EPS	\$1.26	(\$1.25)	\$1.20	\$6.14	\$3.95	\$4.71	\$6.37	\$6.12	\$5.49
GAAP Diluted EPS	\$1.13	(\$1.25)	\$1.20	\$4.57	\$2.96	\$3.56	\$4.85	\$4.70	\$4.25
Basic Shares Outstanding	1,089	9,769	18,129	18,932	19,417	19,898	20,375	20,849	21,320
Diluted Shares Outstanding	2,475	9,769	18,129	25,456	25,884	26,312	26,740	27,167	27,594

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 09-Feb-2014)**AbbVie Inc.** (ABBV.N, \$48.89)**Enanta Pharmaceuticals** (ENTA.OQ, \$36.61, OUTPERFORM[V], TP \$43.0)**Gilead Sciences Inc.** (GILD.OQ, \$78.75)

Disclosure Appendix

Important Global Disclosures

Ravi Mehrotra PhD, Lee Kalowski and Jason Kantor, PhD each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for AbbVie Inc. (ABBV.N)

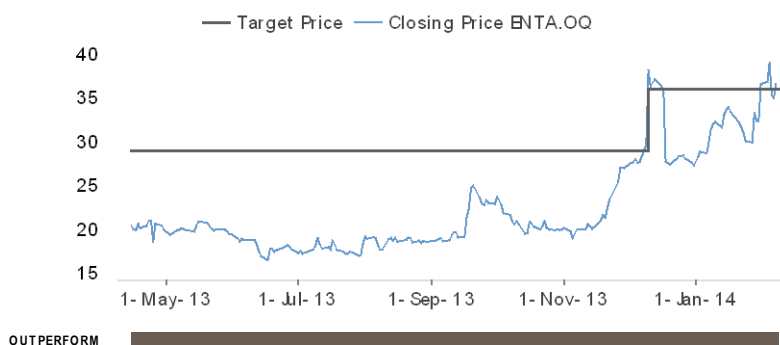
ABBV.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
07-Feb-13	36.42	37.00	N *
22-May-13	46.76		NR
08-Oct-13	44.52	54.00	O *
16-Dec-13	53.37	58.00	

* Asterisk signifies initiation or assumption of coverage.

**3-Year Price and Rating History for Enanta Pharmaceuticals (ENTA.OQ)**

ENTA.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
15-Apr-13	20.35	29.00	O *
10-Dec-13	38.14	36.00	

* Asterisk signifies initiation or assumption of coverage.



3-Year Price and Rating History for Gilead Sciences Inc. (GILD.OQ)

GILD.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
28-Oct-11	21.40	24.00	O
28-Nov-11	19.90	21.00	N
19-Jan-12	23.60	24.00	
27-Jul-12	27.75	27.00	
24-Oct-12	34.17	32.50	
12-Nov-12	36.96	40.00	
19-Feb-13	42.28	55.00	O
04-Apr-13	47.74	60.00	
17-May-13	56.30	67.00	
29-Oct-13	69.50	80.00	
20-Nov-13	71.08	90.00	
10-Dec-13	72.81	110.00	

* Asterisk signifies initiation or assumption of coverage.

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*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

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Neutral/Hold*	41%	(48% banking clients)
Underperform/Sell*	14%	(43% banking clients)
Restricted	2%	

*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

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Price Target: (12 months) for Enanta Pharmaceuticals (ENTA.OQ)

Method: Our DCF-derived TP of \$43 is based on annual cash flows through 2025 10% discount rate, and no terminal value. The cash flows are based on royalties on the protease inhibitor portion of the sales for protease inhibitor based regimens and add-back of all R&D expenses not associated with ABT-450.

Risk: The risks to our TP of \$43 are: (1) The protease inhibitor based regimens are not approved or significantly delayed; (2) The protease inhibitor based regimens do not demonstrate efficacy and safety expected from studies to date; (3) The protease inhibitor based regimens could underperform our expectations for the product launch ramp or peak sales; (4) Competition is more acute than we model; (5) HCV market may not become as large as expected.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

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