

Rating	OUTPERFORM* [V]
Price (19 Aug 13, US\$)	18.72
Target price (US\$)	29.00 ¹
52-week price range	21.69 - 16.49
Market cap. (US\$ m)	335.31
Enterprise value (US\$ m)	-75,971.72

*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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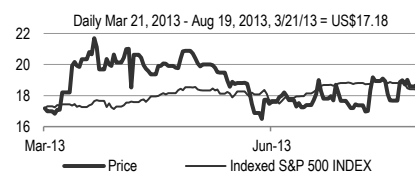
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Share price performance



On 08/19/13 the S&P 500 INDEX closed at 1646.06

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	—	—	—	—
2013E	1.45	-1.71	-0.23	-0.35
2014E	—	—	—	—

Enanta Pharmaceuticals (ENTA)

FORECAST REDUCTION

Updating model post FY Q3 earnings release; ABT-450 PIII readouts are on track

- **Summary:** We have updated our model following FY Q3'13 (calendar Q2). Our investment thesis on ENTA remains unchanged: HCV is expected to be a substantial market opportunity, potentially reaching ~\$13B in peak sales by 2020; along with GILD, ABBV/ENTA is poised to be an important player in future HCV treatments. We estimate that the ABT-450/r regimen can capture 20% market share (~\$2.2B in peak sales) by 2018, with GILD's Sofosbuvir-based regimen garnering majority market share. Our new '13, '14, and '15 EPS estimates are (\$1.39), (\$0.47), and \$4.02 respectively due to higher non-operating expenses and share count.
- **Timelines for ABT-450/r PIII data readouts are intact.** ABBV/ENTA are evaluating the ABT-450/r regimen in six registrational PIII clinical studies in HCV G1. ABBV/ENTA expect that these PIII studies will start to read out in calendar Q4'13 and into early 2014. A filing is planned for calendar Q2'14, enabling a potential market launch in early 2015. We do note that FDA Breakthrough Therapy Designation on the ABT-450/r regimen could accelerate timelines in the US.
- **Next-gen combo set to enter PII by year-end.** ABBV/ENTA plans to evaluate a combo of ABT-493, a second-gen protease inhibitor, and ABT-530, an NS5A inhibitor, in a PII trial later this year. Both exhibit pangenotypic activity as well as activity against certain resistant mutants. ABT-493 (without ritonavir) and ABT-530 also have once-daily dosing and can be co-formulated. We flag that this PII data could be an important valuation driver, given that ENTA could obtain better economics.
- **Valuation:** Our DCF-derived target price of \$29 is based on 12%-18% tiered royalties on ABT-450/r WW sales until 2024 and \$195M in milestones in 2014 and 2015. Our DCF does not include value for the rest of the pipeline.

Financial and valuation metrics

Year	09/12A	09/13E	09/14E	09/15E
EPS (CS adj.) (US\$)	0.55	-1.39	-0.47	4.02
Prev. EPS (US\$)	—	0.17	-0.78	4.24
P/E (x)	33.8	-13.4	-39.5	4.7
P/E rel. (%)	207.6	-87.8	-287.0	37.3
Revenue (US\$ m)	41,706.0	31,704.0	34,000.0	153,822.1
EBITDA (US\$ m)	21,461.0	7,491.1	-8,580.4	126,349.0
OCFPS (US\$)	9.14	-1.42	-0.26	3.20
P/OCF (x)	—	-13.2	-71.5	5.9
EV/EBITDA (current)	-0.5	-10.1	8.2	-1.2
Net debt (US\$ m)	-10,511	-76,307	-70,859	-152,010
ROIC (%)	63.67	21.37	-27.28	177.42
Number of shares (m)	17.91	IC (current, US\$ m)		33,438.00
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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Potential Improvement in Economics on Second-Generation Protease Inhibitor

- ENTA can exercise an option to fund 40% of development and commercialization costs in the US in exchange for 40% of the US profits, or
- ENTA can receive a higher royalty rate on the next-generation combination because of a higher portion of sales allocated to ABT-493 resulting from decrease in the number of direct acting antiviral components.

Exhibit 1: ENTA Quarterly Income Statement 2013

ENTA Quarterly Income Statement					
(Year Ended September 30)	Q1'13A	Q2'13A	Q3'13A	Q4'13E	2013E
<i>(Dollars in thousands, except share and per share amounts)</i>					
ABT-450 Royalty	0	0	0	0	0
Milestones	26,000	0	0	0	26,000
Other Revenues	1,859	1,196	1,649	1,000	5,704
Total Revenues	27,859	1,196	1,649	1,000	31,704
COGS	0	0	0	0	0
Gross Profit	27,859	1,196	1,649	1,000	31,704
R&D	4,798	3,704	4,039	5,080	17,621
SG&A	1,152	1,493	1,788	2,382	6,815
Total Operating Expenses	5,950	5,197	5,827	7,462	24,436
Operating Income/(Loss)	21,909	(4,001)	(4,178)	(6,462)	7,268
Interest Income	35	47	64	50	196
Interest Expense	(7)	(9)	(7)	(10)	(33)
Other Income/(Expense)	20	214	(17)	75	292
Total Other Income/(Expense)	48	252	40	115	455
Pre-Tax Profit/(Loss)	21,957	(3,749)	(4,138)	(6,347)	7,723
Provision/(Benefit) for Income Taxes	0	0	0	0	0
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income/(Loss)	21,957	(3,749)	(4,138)	(6,347)	7,723
Accretion from Redeemable Convertible Preferred Stock to Redemption Value	(1,282)	(1,244)	0	0	(2,526)
Net Income Allocable to Participating Securities	(18,807)	0	0	0	(18,807)
Net Income to Common Stockholders	1,868	(4,993)	(4,138)	(6,347)	(13,610)
GAAP Basic EPS	\$1.61	(\$2.28)	(\$0.23)	(\$0.35)	(\$1.39)
GAAP Diluted EPS	\$1.45	(\$2.28)	(\$0.23)	(\$0.35)	(\$1.39)
Basic Shares Outstanding	1,158	2,192	17,820	17,909	9,770
Diluted Shares Outstanding	2,637	2,192	17,820	17,909	9,770

Source: Enanta, Credit Suisse estimates

Exhibit 2: ENTA Annual Income Statement 2012-2023

ENTA Annual Income Statement (Year Ended September 30) <i>(Dollars in thousands, except share and per share amounts)</i>												
	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
ABT-450 Royalty	0	0	0	15,822	62,718	97,703	101,538	92,569	84,770	70,929	55,243	39,557
Milestones	41,706	26,000	34,000	138,000	23,000	0	0	0	0	0	0	0
Other Revenues	0	5,704	0	0	0	0	0	0	0	0	0	0
Total Revenues	41,706	31,704	34,000	153,822	85,718	97,703	101,538	92,569	84,770	70,929	55,243	39,557
COGS	0	0	0	0	0	0	0	0	0	0	0	0
Gross Profit	41,706	31,704	34,000	153,822	85,718	97,703	101,538	92,569	84,770	70,929	55,243	39,557
R&D	15,115	17,621	35,136	18,469	9,859	10,056	10,257	10,463	10,672	10,885	11,103	11,325
SG&A	5,302	6,815	7,774	9,427	9,756	9,951	10,150	10,353	10,560	10,771	10,987	11,206
Total Operating Expenses	20,417	24,436	42,910	27,896	19,615	20,007	20,408	20,816	21,232	21,657	22,090	22,532
Operating Income/(Loss)	21,289	7,268	(8,910)	125,927	66,103	77,695	81,130	71,754	63,538	49,273	33,154	17,026
Interest Income	118	196	219	389	527	649	785	910	1,023	1,115	1,183	1,226
Interest Expense	0	(33)	(40)	(40)	(40)	(40)	(40)	(40)	(40)	(40)	(40)	(40)
Other Income/(Expense)	(8)	292	0	0	0	0	0	0	0	0	0	0
Total Other Income/(Expense)	110	455	179	349	487	609	745	870	983	1,075	1,143	1,186
Pre-Tax Profit/(Loss)	21,399	7,723	(8,731)	126,276	66,589	78,304	81,875	72,624	64,520	50,348	34,297	18,212
Provision/(Benefit) for Income Taxes	0	0	0	24,045	16,647	19,576	20,469	18,156	16,130	12,587	8,574	4,553
Effective Tax Rate	0.0%	0.0%	0.0%	19.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income/(Loss)	21,399	7,723	(8,731)	102,230	49,942	58,728	61,406	54,468	48,390	37,761	25,723	13,659
Accretion from Redeemable Convertible Preferred Stock to Redemption Value	(5,367)	(2,526)	0	0	0	0	0	0	0	0	0	0
Net Income Allocable to Participating Securities	(14,663)	(18,807)	0	0	0	0	0	0	0	0	0	0
Net Income to Common Stockholders	1,369	(13,610)	(8,731)	102,230	49,942	58,728	61,406	54,468	48,390	37,761	25,723	13,659
GAAP Basic EPS	\$1.26	(\$1.39)	(\$0.47)	\$5.40	\$2.57	\$2.95	\$3.01	\$2.61	\$2.27	\$1.73	\$1.16	\$0.60
GAAP Diluted EPS	\$1.13	(\$1.39)	(\$0.47)	\$4.02	\$1.93	\$2.23	\$2.30	\$2.00	\$1.75	\$1.35	\$0.90	\$0.47
Basic Shares Outstanding	1,089	9,770	18,443	18,932	19,417	19,898	20,375	20,849	21,320	21,787	22,252	22,714
Diluted Shares Outstanding	2,475	9,770	18,443	25,456	25,884	26,312	26,740	27,167	27,594	28,021	28,448	28,874

Source: Enanta, Credit Suisse estimates

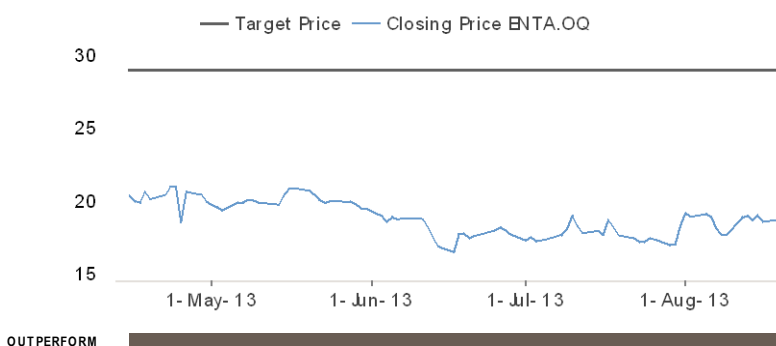
Companies Mentioned (Price as of 19-Aug-2013)**AbbVie Inc.** (ABBV.N, \$43.37)**Enanta Pharmaceuticals** (ENTA.OQ, \$18.72, OUTPERFORM[V], TP \$29.0)**Gilead Sciences Inc.** (GILD.OQ, \$57.34)**Disclosure Appendix****Important Global Disclosures**

I, Ravi Mehrotra PhD, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my 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 Enanta Pharmaceuticals (ENTA.OQ)

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

* Asterisk signifies initiation or assumption of coverage.



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Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

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Underperform/Sell*	15%	(39% banking clients)
Restricted	3%	

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

Method: Our DCF-derived TP of \$29 is based on annual cash flows through 2023, 10% discount rate, and no terminal value. The cash flows are based on royalties on the ABT-450 portion of the sales for ABT-450/r-based regimens and add-back of all R&D expenses not associated with ABT-450.

Risk: The risks to our TP of \$29 are: (1) ABT-450/r-based regimens are not approved or significantly delayed; (2) ABT-450/r-based regimens do not demonstrate efficacy and safety expected from studies to date; (3) ABT-450/r-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.

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