Enanta Pharmaceuticals, Inc. (ENTA)

As Expected, Competitor Gilead's Sofosbuvir Data Come in Strong - Awaiting Details on Cirrhotics

MARKET OUTPERFORM | Price: $30.16 | Target Price: UR

MARKET DATA

Price	$30.16
52-Week Range:	$14.31 - $38.48
Shares Out. (M):	17.9
Market Cap ($M):	$539.9
Average Daily Vol. (000):	204.0
Cash (M):	$112
LT Debt (M):	$0

Source: Thomson Reuters and JMP Securities LLC

FY SEP		2012A	2013A	2014E
Revenue ($M)	1Q	--	$27.9	$1.4
	2Q	--	$1.2	$1.4
	3Q	--	$1.6	$41.4
	4Q	--	$1.3	$1.4
	FY	**$41.7**	**$32.1**	**$45.6**
EPS	1Q	--	$1.53	($0.27)
	2Q	--	($2.28)	($0.28)
	3Q	--	($0.23)	$1.71
	4Q	--	($0.25)	($0.31)
	FY	**$1.13**	**($0.67)**	**$0.95**
	CY	**$2.38**	**($3.02)**	**--**

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE

INVESTMENT HIGHLIGHTS

As expected, competitor Gilead's Sofosbuvir data come in strong - awaiting details on cirrhotics; reiterate Market Outperform rating on Enanta Pharmaceuticals with our price target under review. This morning, Gilead released top-line Phase 3 data for its once-daily HCV combination therapy, sofosbuvir/ledipasvir (SOF/LDV), posting excellent cure rates well above the benchmark of 90%, comparable to the competitive regimen from AbbVie/Enanta in the largest group of HCV patients in North America and Europe, the genotype 1 population (Figure 1). Based on these data, we believe ribavirin will not be required for most patients and eight weeks of dosing will be sufficient for treatment naive patients, securing a position as the more convenient (fewer pills per day and shorter duration of therapy for treatment naive patients) and tolerable (no ribavirin) of the two regimens. These factors will likely secure SOF/LDV as the first choice for many patients, in line with our expectations. We note one potential niche for AbbVie/Enanta is cirrhotic patients, where we are still awaiting data from both companies.

We can infer a few points from the Gilead data: 1. comparing the ION-3 with no cirrhotics (lower SVR) to ION-1 with cirrhotics (higher SVR) implies cirrhotics likely performed just as well or better than non-cirrhotics, and 2. the theoretical lower bound of SVR for cirrhotics is 75% (assuming all the treatment failures are cirrhotics), but the actual rates will likely be significantly higher per point number 1. This sets a high bar for AbbVie/Enanta - to dominate the cirrhotic market (20% of HCV patients), we believe superiority would be required, deemed by experts to be 5% better cure rates than the alternative. Regardless, Enanta has $195M in potential milestone payments based on the filing and approval, and we continue to believe there will be room in the market for more than one regimen and currently assign AbbVie/Enanta a 20% share of the genotype 1 population.

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Figure 1. Phase 3 HCV Data from Gilead

Study	Population	Treatment	Duration	SVR12 Rates
ION-1	GT 1 treatment-naïve (including 16% with cirrhosis)	SOF/LDV	12 weeks	97.7% (209/214)
		SOF/LDV + RBV	12 weeks	97.2% (211/217)
		SOF/LDV	24 weeks	NA (n=217)
		SOF/LDV + RBV	24 weeks	NA (n=217)
ION-2	GT 1 treatment-experienced (including 20% with cirrhosis)	SOF/LDV	12 weeks	93.6% (102/109)
		SOF/LDV+RBV	12 weeks	96.4% (107/111)
		SOF/LDV	24 weeks	99.1% (108/109)
		SOF/LDV+RBV	24 weeks	99.1% (110/111)
ION-3	GT 1 treatment-naïve	SOF/LDV	8 weeks	94.0% (202/215)
		SOF/LDV + RBV	8 weeks	93.1% (201/216)
		SOF/LDV	12 weeks	95.4% (206/216)

96% SVR12 for AbbVie/Enanta in similar populations without cirrhotics

GT – genotype, SOF – sofosbuvir, LDV – ledipasvir, RBV – ribavirin, SVR - sustained virologic response

Source: Company reports and JMP Securities LLC

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.

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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.

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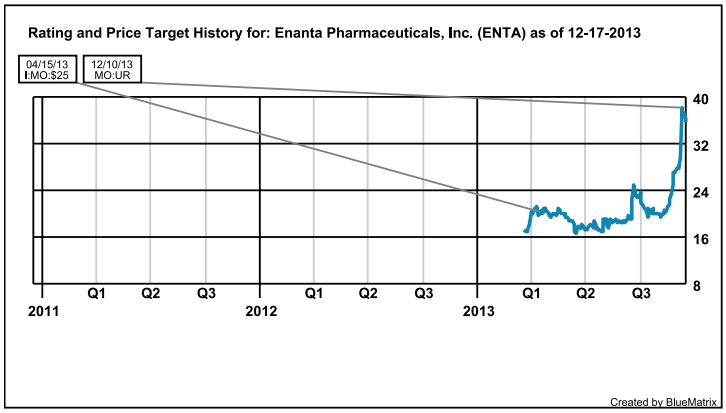
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	Regulatory Equivalent	# Co's Under Coverage	*% of Total*	# Co's Receiving IB Services in Past 12 Months	*% of Co's With This Rating*
MARKET OUTPERFORM	Buy	231	*55.00%*	Buy	231	*55.00%*	89	*38.53%*
MARKET PERFORM	Hold	140	*33.33%*	Hold	140	*33.33%*	24	*17.14%*
MARKET UNDERPERFORM	Sell	5	*1.19%*	Sell	5	*1.19%*	0	*0%*
COVERAGE IN TRANSITION		44	*10.48%*		44	*10.48%*	0	*0%*
TOTAL:		420	*100%*		420	*100%*	113	*26.90%*

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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