

Enanta Pharmaceuticals

Updating Model Post Fiscal 1Q

Enanta reported fiscal 1Q14 GAAP loss per share of \$0.30. As expected, there were no new updates as topline data from the remaining four phase 3 trials of the 3D regimen (ABT-450/r + ABT-267 + ABT-333 +/-RBV) were provided 2 weeks ago. Recall, data from these studies confirmed competitive SVR rates of >90% in GT1 hep C (92-96% in GT1 with cirrhotics across all six phase 3 trials). Partner AbbVie on its recent 4Q13 earnings call highlighted filing of the 3D regimen in early 2Q14 with a launch in late 2014. Of note, competitor Gilead filed its FDC (Sovaldi + ledipasvir) in GT1 hep C earlier this week putting AbbVie/Enanta at a slight disadvantage from a timing perspective. While we continue to expect Gilead to be the market leader in hep C, we expect the 3D regimen to capture 20-30% share, which is meaningful given significant market expansion. This share was validated in our recent hep C survey. For Enanta, its low cost structure (partners fund development) and significant milestones provides for meaningful P&L leverage. As such, we are maintaining our Overweight rating. Additionally, with the 3D regimen largely de-risked we are rising our Dec-14 PT to \$45 from \$28.

- **Adjusting estimates:** Following the quarter and recent trends, we are updating our model. Our FY2014-FY2016 GAAP EPS estimates change to \$1.50, \$5.29 and \$3.87, respectively, from \$1.53, \$5.30 and \$3.88.
- **Reiterate Overweight rating.** We are raising our Dec-14 PT to \$45 from \$28 to reflect lower risk associated with ABT-450 and the 3D regimen.

AbbVie covered by J.P. Morgan analyst Chris Schott

Overweight

ENTA, ENTA US

Price: \$40.02

▲ **Price Target: \$45.00**
Previous: \$28.00

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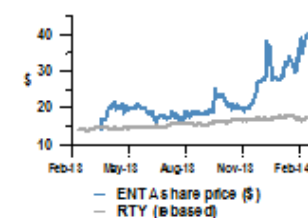
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Price Performance



	YTD	1m	3m	12m
Abs	46.7%	23.9%	94.2%	185.9%
Rel	49.4%	25.3%	91.4%	162.5%

Enanta Pharmaceuticals (ENTA;ENTA US)

FYE Sep	2013A	2014E (Prev)	2014E (Curr)	2015E (Prev)	2015E (Curr)	2016E (Prev)	2016E (Curr)
EPS Reported (\$)							
Q1 (Dec)	0.13	(0.27)A	(0.30)A	-	-	-	-
Q2 (Mar)	(2.28)	0.42	0.42	-	-	-	-
Q3 (Jun)	(0.23)	1.77	1.77	-	-	-	-
Q4 (Sep)	(0.25)	(0.39)	(0.39)	-	-	-	-
FY	(2.63)	1.53	1.50	5.30	5.29	3.88	3.87

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

Company Data

Price (\$)	40.02
Date Of Price	12 Feb 14
52-week Range (\$)	40.45-14.00
Market Cap (\$ mn)	673.80
Fiscal Year End	Sep
Shares O/S (mn)	17
Price Target (\$)	45.00
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. Our FY2014-FY2016 GAAP EPS estimates change to \$1.50, \$5.29 and \$3.87, respectively, from \$1.53, \$5.30 and \$3.88.

Table 1: Changes to Our Model

	2014E	2014E	2015E	2015E	2016E	2016E
	OLD	NEW	OLD	NEW	OLD	NEW
Total Revenue	59.0	57.9	160.1	160.1	156.0	156.0
R&D	22.7	21.7	30.0	30.0	32.5	32.5
SG&A	9.7	9.8	15.0	15.0	20.0	20.0
Total Op Ex	32.4	31.5	45.0	45.0	52.5	52.5
Net income	27.1	26.9	116.1	116.1	88.8	88.8
GAAP EPS (\$)	1.53	1.50	5.30	5.29	3.88	3.87
Shares	17.9	17.9	21.9	21.9	22.9	22.9

Source: J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

Enanta Pharmaceuticals (*Overweight; Price Target: \$45.00*)

Investment Thesis

Enanta is a clinical-stage biotech focused on the development of small molecule drugs for infectious diseases, most notably hepatitis C. The lead program is ABT-450 being developed with AbbVie (covered by JPM analyst Chris Schott) for the treatment of hep C. The 3D regimen (ABT-450/r + ABT-267 + ABT-333 +/-RBV) demonstrated competitive SVR rates of >90%. While hep C is a very competitive therapeutic category, we project meaningful peak sales of \$2B+ for ABT-450 containing regimens. 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

Our Dec-14 price target of \$45 for ENTA, up from \$28, 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 8% discount rate. We derive a value of \$36 share for ABT-450. This in combination with net cash of \$9/share supports our Dec-14 PT of \$45.

Risks to Rating and Price Target

Risks to our Overweight rating and price target include: 1) failure of ABT-450 containing regimens to reach the market; 2) slower-than-expected adoption of ABT-450 containing regimens; and 3) greater-than expected competition from other hep C regimens, mostly including Gilead.

Enanta Pharmaceuticals: Summary of Financials

Income Statement - Annual	FY13A	FY14E	FY15E	FY16E	Income Statement - Quarterly	1Q14A	2Q14E	3Q14E	4Q14E
Revenues	32	58	160	156	Revenues	1A	15	40	2
Cost of products sold	0	0	0	0	Cost of products sold	0A	0	0	0
Gross profit	-	-	-	-	Gross profit	-	-	-	-
SG&A	(6)	(10)	(15)	(20)	SG&A	(2)A	(2)	(3)	(3)
R&D	(17)	(22)	(30)	(33)	R&D	(4)A	(5)	(6)	(6)
Operating income	9	26	115	104	Operating income	(5)A	7	32	(7)
EBITDA	9	26	115	104	EBITDA	(5)A	7	32	(7)
Net interest (income) / expense	0	0	1	1	Net interest (income) / expense	0A	0	0	0
Other income / (expense)	-	-	-	-	Other income / (expense)	-	-	-	-
Income taxes	0	0	0	(16)	Income taxes	0A	0	0	0
Net income - GAAP	(12)	27	116	89	Net income - GAAP	(5)A	8	32	(7)
Net income - recurring	(12)	27	116	89	Net income - recurring	(5)A	8	32	(7)
Diluted shares outstanding	4	18	22	23	Diluted shares outstanding	18A	18	18	18
EPS - excluding non-recurring	(2.63)	1.50	5.29	3.87	EPS - excluding non-recurring	(0.30)A	0.42	1.77	(0.39)
EPS - recurring	(2.63)	1.50	5.29	3.87	EPS - recurring	(0.30)A	0.42	1.77	(0.39)
Balance Sheet and Cash Flow Data	FY13A	FY14E	FY15E	FY16E	Ratio Analysis	FY13A	FY14E	FY15E	FY16E
Cash and cash equivalents	72	173	290	378	Sales growth	(23.1%)	80.6%	176.5%	(2.6%)
Accounts receivable	1	1	1	1	EBIT growth	(57.6%)	192.8%	335.3%	(10.1%)
Inventories	-	-	-	-	EPS growth - recurring	(2799.8%)	(157.0%)	252.9%	(26.8%)
Other current assets	0	0	0	0	Gross margin	-	-	-	-
Current assets	106	208	324	413	EBIT margin	28.2%	45.7%	71.9%	66.3%
PP&E	1	1	1	1	EBITDA margin	28.2%	45.7%	71.9%	66.3%
Total assets	111	213	329	418	Tax rate	0.0%	0.0%	0.0%	15.0%
Total debt	-	-	-	-	Net margin	(36.7%)	46.5%	72.5%	56.9%
Total liabilities	8	8	8	8	Net Debt / EBITDA	-	-	-	-
Shareholders' equity	103	204	321	410	Net Debt / Capital (book)	-	-	-	-
Net income (including charges)	10	27	116	89	Return on assets (ROA)	(14.4%)	16.6%	42.9%	23.8%
D&A	0	0	0	0	Return on equity (ROE)	(16.0%)	17.5%	44.2%	24.3%
Change in working capital	0	0	0	0	Enterprise value / sales	7.0	2.1	0.0	NM
Other	0	0	0	0	Enterprise value / EBITDA	25.0	4.7	0.1	NM
Cash flow from operations	10	27	116	89	Free cash flow yield	5.3%	3.7%	13.1%	9.6%
Capex	(0)	(0)	(0)	(0)					
Free cash flow	10	26	115	88					
Cash flow from investing activities	(0)	(0)	(0)	(0)					
Cash flow from financing activities	52	74	0	0					
Dividends	-	-	-	-					
Dividend yield	-	-	-	-					

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

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

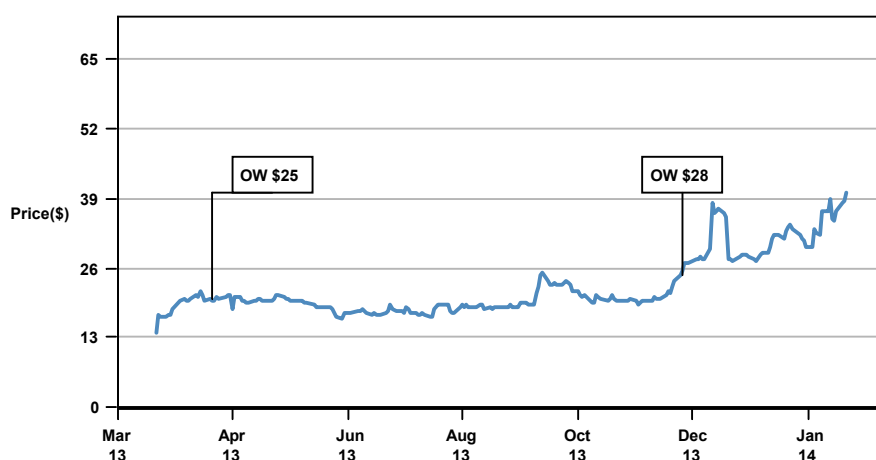
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Enanta Pharmaceuticals (ENTA, ENTA US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
15-Apr-13	OW	20.35	25.00
25-Nov-13	OW	24.84	28.00

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

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