

Enanta Pharmaceuticals

Our Thoughts Post the Fiscal 4Q Call; Multiple Catalysts Near Term

Enanta reported a fiscal 4Q13 GAAP loss per share of \$0.25. Not surprisingly, focus on the call was largely on the hep C pipeline. Data presented at the AASLD meeting earlier this month, as well as top-line data from the phase 3 SAPPHERE-I study from last week, were highlighted. Recall, the SAPPHERE-I study confirmed a high 96% SVR rate for the 3D regimen in naïve, GT1 hep C. Of note, this represents the first of 6 phase 3 trials expected to read out over the next few months. We expect these studies to support regulatory filing in 2Q14. We continue to believe ABT-450 containing regimens will play an important role in the future hep C treatment paradigm behind Gilead's sofosbuvir. Importantly, hep C provides Enanta with meaningful P&L leverage given a low cost structure and significant milestones. As such, we reiterate our Overweight rating and are raising our December 2014 PT to \$28 from \$25.

- **Hep C timelines.** Data from the remaining five phase 3 trials of ABT-450/r + ABT-267 + ABT-333 (3D) are expected in the coming months. We expect detailed data from these pivotal studies to be presented at next year's EASL meeting (April 9-13, London). Regulatory filing appear to remain on track for 2Q14. Additionally, start of phase 3 trials for ABT-405/r + ABT-267 (2D) are expected to begin in 2014 (Japan in early 2014). ABT-493, a next generation, pangenotypic, protease inhibitor that can be dosed once daily without ritonavir boosting is expected to begin clinical testing by YE13. Of note, the ultimate goal is to combine ABT-493 with ABT-530, an NS5a inhibitor that could reach the market in 2017.
- **Adjusting estimates.** Following the quarter and recent trends, we are updating our model. We have fine-tuned milestones and operating expenses. Our FY2013-FY2015 GAAP EPS estimates change to (\$2.63), \$1.53 and \$5.30 from (\$2.73), \$1.51 and \$5.09, respectively.

Reiterate Overweight rating.

Overweight

ENTA, ENTA US

Price: \$23.40

▲ **Price Target: \$28.00**
Previous: \$25.00

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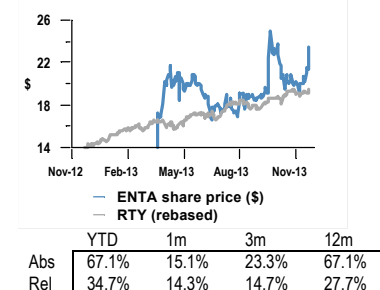
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Price Performance



Enanta Pharmaceuticals (ENTA; ENTA US)

FYE Sep	2012A	2013A	2014E (Prev)	2014E (Curr)	2015E (Prev)	2015E (Curr)
EPS Reported (\$)						
Q1 (Dec)	-	0.13	-	(0.27)	-	-
Q2 (Mar)	-	(2.28)	-	0.42	-	-
Q3 (Jun)	-	(0.23)	-	1.77	-	-
Q4 (Sep)	-	(0.25)	-	(0.39)	-	-
FY	0.10	(2.63)	1.51	1.53	5.09	5.30

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

Company Data

Price (\$)	23.40
Date Of Price	22 Nov 13
52-week Range (\$)	26.39-14.00
Market Cap (\$ mn)	393.98
Fiscal Year End	Sep
Shares O/S (mn)	17
Price Target (\$)	28.00
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. We have fine tuned milestones and operating expenses. Our FY2013-FY2015 GAAP EPS estimates change to (\$2.63), \$1.53 and \$5.30 from (\$2.73), \$1.51 and \$5.09, respectively.

Table 1: Changes to Our Model

	2013E OLD	2013E NEW	2014E OLD	2014E NEW	2015E OLD	2015E NEW
Total Revenue	30.7	32.1	65.0	59.0	160.1	160.1
R&D	17.2	17.0	25.0	22.7	30.0	30.0
SG&A	6.0	6.0	12.0	9.4	15.0	15.0
Total Op Ex	23.2	23.0	37.0	32.1	45.0	45.0
Net income	-13.5	-11.8	28.5	27.4	116.1	116.1
GAAP EPS (\$)	-2.73	-2.63	1.51	1.53	5.09	5.30
Shares	13.0	13.0	18.8	17.9	22.8	21.9

Source: J.P. Morgan estimates.

Investment Thesis

Enanta is a clinical-stage biotech focused on the development of small molecule drugs for infectious diseases, most notably hepatitis C (hep C). The lead program is ABT-450 being developed with AbbVie (covered by JPM analyst Chris Schott) for the treatment of hep C. ABT-450 is currently in multiple phase 3 trials with data expected over the next few months and regulatory filings (US and EU) expected in 2Q14. While hep C is a very competitive therapeutic category, we anticipate meaningful market share 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

We are raising our December 2014 price target to \$28 from \$25. Our December 2014 price target of \$28 for ENTA 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 15% discount rate. We further assume a 95% probability of success for ABT-450 in Phase 3 given positive results from the first of 6 phase 3 trials. We derive a value of \$24/share for ABT-450. This in combination with net cash of \$4/share supports our December 2014 PT of \$28.

Risks to Rating and Price Target

Risks to our Overweight rating and price target include: 1) failure of ABT450 to reach the market; 2) slower-than-expected adoption of ABT450; and 3) greater-than expected completion from other hep C regimens.

Enanta Pharmaceuticals: Summary of Financials

Income Statement - Annual	FY13A	FY14E	FY15E	FY16E	Income Statement - Quarterly	1Q14E	2Q14E	3Q14E	4Q14E
Revenues	32	59	160	156	Revenues	2	15	40	2
Cost of products sold	0	0	0	0	Cost of products sold	0	0	0	0
Gross profit	-	-	-	-	Gross profit	-	-	-	-
SG&A	(6)	(9)	(15)	(20)	SG&A	(2)	(2)	(2)	(3)
R&D	(17)	(23)	(30)	(33)	R&D	(5)	(5)	(6)	(6)
Operating income	9	27	115	104	Operating income	(5)	7	32	(7)
EBITDA	9	27	115	104	EBITDA	(5)	7	32	(7)
Net interest (income) / expense	0	1	1	1	Net interest (income) / expense	0	0	0	0
Other income / (expense)	-	-	-	-	Other income / (expense)	-	-	-	-
Income taxes	0	0	0	(16)	Income taxes	0	0	0	0
Net income - GAAP	(12)	27	116	89	Net income - GAAP	(5)	7	32	(7)
Net income - recurring	(12)	27	116	89	Net income - recurring	(5)	7	32	(7)
Diluted shares outstanding	4	18	22	23	Diluted shares outstanding	18	18	18	18
EPS - excluding non-recurring	(2.63)	1.53	5.30	3.88	EPS - excluding non-recurring	(0.27)	0.42	1.77	(0.39)
EPS - recurring	(2.63)	1.53	5.30	3.88	EPS - recurring	(0.27)	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	174	290	379	Sales growth	(23.1%)	84.1%	171.4%	(2.6%)
Accounts receivable	1	1	1	1	EBIT growth	(57.6%)	197.8%	328.1%	(10.1%)
Inventories	-	-	-	-	EPS growth - recurring	(2799.8%)	(158.2%)	246.5%	(26.8%)
Other current assets	0	0	0	0	Gross margin	-	-	-	-
Current assets	106	208	324	413	EBIT margin	28.2%	45.6%	71.9%	66.3%
PP&E	1	1	1	1	EBITDA margin	28.2%	45.6%	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%)	46.4%	72.5%	56.9%
Total liabilities	8	8	8	8	Net Debt / EBITDA	-	-	-	-
Shareholders' equity	103	205	321	410	Net Debt / Capital (book)	-	-	-	-
Net income (including charges)	10	27	116	89	Return on assets (ROA)	(14.4%)	16.9%	42.8%	23.8%
D&A	0	0	0	0	Return on equity (ROE)	(16.0%)	17.8%	44.1%	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	4.6	0.1	NM
Cash flow from operations	10	28	116	89	Free cash flow yield	9.1%	6.4%	22.5%	16.4%
Capex	(0)	(0)	(0)	(0)					
Free cash flow	10	27	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

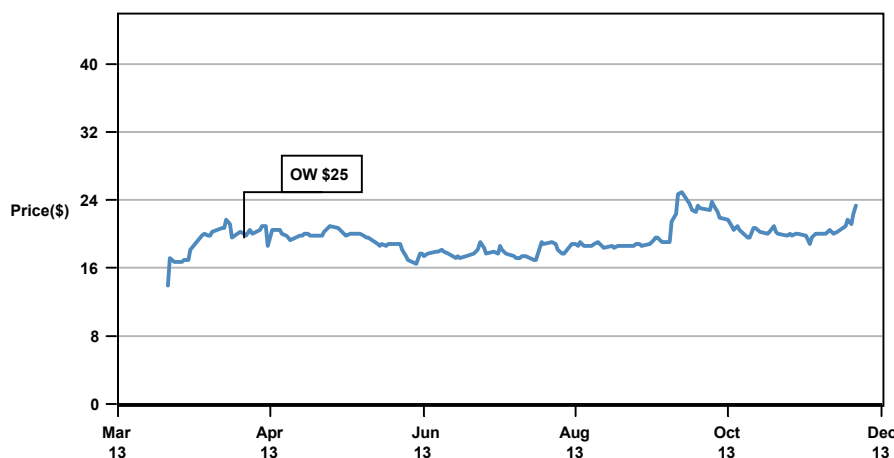
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Enanta Pharmaceuticals (ENTA, ENTA US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
15-Apr-13	OW	19.68	25.00

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

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