Esperion Therapeutics, Inc. (ESPR)

Statin Add-On Results Expand Commercial Potential for ETC-1002

MARKET OUTPERFORM | Price: $16.17 | Target Price: $34.00

MARKET DATA

Price	$16.17
52-Week Range:	$13.55 - $20.10
Shares Out. (M):	15.4
Market Cap ($M):	$249.0
Average Daily Vol. (000):	40.0
Cash (M):	$17
Cash/Share:	$1.08
Enterprise Value (M):	$232

Source: Thomson Reuters and JMP Securities LLC

FY DEC		2012A	2013E	2014E
Revenue ($M)	1Q	--	$0.0A	--
	2Q	--	$0.0A	--
	3Q	--	$0.0	--
	4Q	--	$0.0	--
	FY	**$0.0**	**$0.0**	**$0.0**
EPS	1Q	--	($0.84)A	--
	2Q	--	($19.82)A	--
	3Q	--	($0.36)	--
	4Q	--	($0.59)	--
	FY	**($3.13)**	**($21.61)**	**($2.91)**

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE

INVESTMENT HIGHLIGHTS

Statin Add-On Results Expand Commercial Potential for ETC-1002; reiterating Market Outperform rating and increasing price target from $25 to $34 on Esperion Therapeutics, derived through a risk-adjusted NPV analysis of ETC-1002. This morning Esperion announced positive results from the Phase 2 trial (ETC-1002-007) evaluating ETC-1002 as an add-on to statin therapy. The results demonstrated an incremental LDL lowering of 22% when ETC-1002 was added to standard-of-care Lipitor (10mg) treatment ($p<0.0001$). The safety profile of the drug remains encouraging in our view, although one patient on ETC-1002 had elevated liver enzymes that resolved following treatment discontinuation. In our view, these results are supportive of the planned Phase 2b trial in this residual risk setting, in patients who remain inadequately treated with statin therapy. We are increasing our revenue estimates and price target to reflect conservative use of the drug in this setting.

Increasing estimates to reflect attractive commercial in residual risk patients. According to the Centers for Disease Control and Prevention, there are approximately 11 million patients in the U.S. who are not adequately controlled with their current lipid-lowering therapy and are unable to achieve their LDL-C treatment goal. Based on the results from ETC-1002-007, we now include sales of ETC-1002 in the residual risk setting in our model. Conservatively, we assume a peak market share in this setting of only 5% and project peak sales of ~$720MM and $550MM in the U.S. and ex-U.S., respectively, by 2029. Our NPV analyses assume a 40% probability of success in this setting and a 12.5% discount rate. Based on this we derive a current value of ~$9/share, as summarized in Figure 1.

First clinical evidence supporting ETC-1002 has benefit in addition to statin therapy. This Phase 2b trial was the first clinical study of ETC-1002 in combination with statin therapy. We believe the results clearly provide proof of concept for the combination, both in patients previously treated with and naïve to stating therapy. The trial also demonstrated improvements in hs-CRP and ApoB levels, which we view as additional important markers of cardiovascular risk. Given the different mechanism of action vs. statins, we believe this combination may provide an attractive alternative to current standard of care therapies. To this point, we note that Zetia provides a 10-15% incremental LDL-C lowering when added to statins.

Safety profile continues to look good. We remain comfortable with the safety profile with ETC-1002 observed in clinical trials to date. In this Phase 2a trial, adverse events were generally mild and no serious adverse events were observed. Study completion rates were high in both the drug and placebo arms (~90%). Consistent with previous trials, there was a small decrease in hemoglobin levels with ETC-1002 relative to placebo, but as with previous trials, this did not manifest into any adverse events. Also

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consistent with previous trials, mild or modest increases in uric acid were observed with ETC-1002 treatment.

Single patient with elevated liver enzymes does not change our view on favorable safety to date. The trial demonstrated a weak pharmacokinetic interaction of ETC-1002 with Lipitor. There was one patient in the ETC-1002 arm who discontinued therapy due to an increase in liver enzymes above 3x the upper limit of normal (ULN). This elevation resolved within 14 days following discontinuation of ETC-1002 and Lipitor. As ETC-1002 targets the LDL-C synthesis pathway, assessment of liver enzymes has always been a key aspect of the drug's development program. We are not concerned by this single data point and, as expected at this stage in development, substantially more data are required to establish a more complete safety profile. It should also be remembered that statin monotherapy is associated with a small but established risk of persistent elevations in liver enzymes >3x ULN. We believe that results from the planned ETC-1002 Phase 2b trial in the residual risk population will be important in further elucidating any potential for the combination with statins to increase the risk for liver injury.

FIGURE 1. Valuation

	Sales ($MM)	Royalty rate	Royalties ($MM)	Revenue year	rNPV ($MM)	rNPV per share
ETC-1002 - Statin intolerant						**$23.07**
U.S.	1,786	20%	357	2029	212	$12.11
Europe	1,261	20%	252	2029	127	$7.24
ROW	630	20%	126	2029	65	$3.71
ETC-1002 - Residual risk						**$8.73**
U.S.	717	20%	143	2029	79	$4.53
Europe	506	20%	101	2029	48	$2.76
ROW	253	20%	51	2029	25	$1.44
Enterprise value						**$31.79**
Net cash (YE14)					32	**$1.80**
Price target						**$33.60**
Shares outstanding					17.5	

Source: JMP Securities LLC, Company reports

Company Description

Esperion Therapeutics is a biopharmaceutical company focused on the discovery, development and commercialization of novel treatments for patients with elevated levels of low-density lipoprotein cholesterol (LDL-C) and other cardiometabolic risk factors. The company's lead development candidate is ETC-1002, an orally available small molecule therapy being developed for patients with elevated levels of LDL-C. The drug acts in the liver to: 1) inhibit ATP-citrate lyase, a key enzyme that supplies substrate for cholesterol and fatty acid synthesis, as well as glucose production, and 2) activate AMP kinase. The initial development focus for ETC-1002 is in patients who are not able to tolerate therapy with statins (the standard of care treatment for elevated LDL-C) and as an add-on to statins in patients who remain inadequately controlled on therapy. ETC-1002 is a wholly owned asset with an issued composition-of-matter patent providing protection in the U.S. at least through December 2025.

Investment Risks

Clinical Risk. Esperion's product candidates may fail to demonstrate adequate efficacy, safety, and/or tolerability in one or more clinical studies.

Regulatory risk. The FDA and/or other ex-U.S. regulatory agencies could reject any of the firms', or its partners', future regulatory filings or require additional studies prior to granting approval.

Industry Risk. The biopharmaceutical industry is highly competitive, with many firms developing novel therapies that may address Esperion's target diseases. It is possible that breakthrough competitor products or therapies may render the company's products obsolete and affect the future survival of the company.

Balance Sheet Risk. The company has a history of losses, and has not yet established a track record of consistent profitability. While we project that the company will not need to raise additional capital to maintain profitability, it may be necessary to do so to fund the business model.

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JMP Securities was manager or co-manager of a public offering for Esperion Therapeutics, Inc. in the past 12 months.

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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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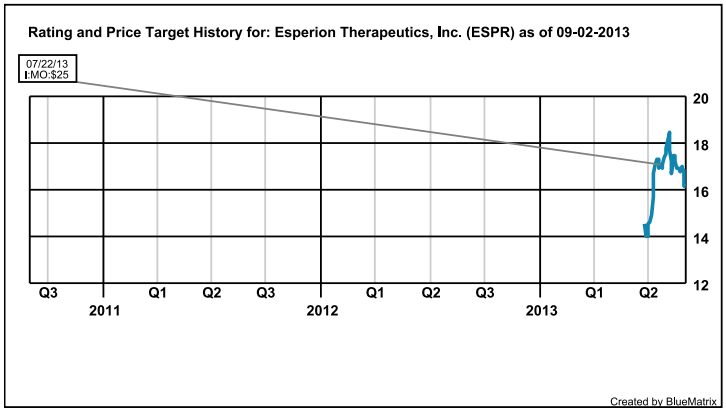
MARKET OUTPERFORM	Buy	238	*60.25%*	Buy	238	*60.25%*	78	*32.77%*
MARKET PERFORM	Hold	151	*38.23%*	Hold	151	*38.23%*	22	*14.57%*
MARKET UNDERPERFORM	Sell	6	*1.52%*	Sell	6	*1.52%*	0	*0%*
TOTAL:		395	*100%*		395	*100%*	100	*25.32%*

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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