

Esperion Therapeutics (ESPR)

SMALL & MID CAP RESEARCH

Q4:13 Earnings: All Programs on Track

ESPR's clinical trials are on track and the company still expects to have two Ph2b readouts in Q4:14. ESPR also plans to release preclinical results in 2014, which is highly anticipated and important to further derisk the regulatory path for ETC-1002. Our positive view on ESPR is based on the large market opportunity and significant scarcity value of its novel oral pill for lowering cholesterol. Increased 2014 R&D expenses cause our forward EPS estimates to decrease.

- **Cash sufficient to achieve key clinical milestones:** ESPR ended Q4 with approximately \$77.6M in cash, and it expects to end 2014 with \$40-45M. Existing capital is expected to support operations through at least YE:15.
- **\$26 target:** Our \$26 target is based on a probability adjusted DCF, assuming a 55% probability of success in statin intolerant and 33% probability in statin add-on patients.

Exhibit 1: Near-term news flow

Product/Event	Indication	Catalyst	Expected Date
ETC-1002	LDL-C lowering- Residual risk, statin add-on	Start Phase IIb (Study-009)	March '14
ETC-1002 (regulatory)	LDL-C lowering	Long-term chronic tox study results	Q2:14
ETC-1002	LDL-C lowering- Statin intolerant program	Phase IIb data (Study-008)	Q4:14
ETC-1002 (regulatory)	LDL-C lowering	2-year carc. study in animals	Q4:14
ETC-1002	LDL-C lowering- Residual risk, statin add-on	Phase IIb trial readout (Study-009)	Q4:14
ETC-1002	LDL-C lowering- Special population studies, diabetes	Initiate Phase II in diabetics or other risk groups	H2:14

Source: Company data, Credit Suisse estimates

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	-3.31	-2.29	1.58	-2.03
Prev. EPS (US\$)	—	-1.71	2.06	-1.52
P/E (x)	-5.0	-7.2	10.3	-8.1
P/E rel. (%)	-29.4	-46.1	74.0	-64.2
Revenue (US\$ m)	—	—	78.0	4.0
EBITDA (US\$ m)	-22.7	-39.7	31.9	-44.4
OCFPS (US\$)	-2.33	-2.12	1.72	-1.87
P/OCF (x)	-5.9	-7.7	9.5	-8.8
EV/EBITDA (current)	-7.7	-4.4	5.5	-3.9
Net debt (US\$ m)	-78	-116	-153	-114
ROIC (%)	1,151.27	2,008.23	-1,613.67	2,246.24
Number of shares (m)	15.36	IC (current, US\$ m)		-1.98
BV/share (Next Qtr., US\$)	4.3	EV/IC (x)		-92.4
Net debt (Next Qtr., US\$ m)	-68.8	Dividend (current, US\$)		—
Net debt/tot cap (Next Qtr., %)	-103.0	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

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Exhibit 2: ESPR Pipeline

Drug	Indication	Stage	Partner
ETC-1002	Hypercholesterolemia (statin intolerant)	Phase IIb	Proprietary
	Hypercholesterolemia (statin add-on)	Phase IIa (completed)	
	Hypercholesterolemia (Type II diabetics)	Phase IIa (completed)	
ESP41091	Type II diabetes and obesity	Preclinical	Proprietary
4WF	Low HDL	Preclinical	Proprietary

Source: Company data, Credit Suisse estimates

Exhibit 3: ESPR News Flow

Product/Event	Indication	Catalyst	Expected Date
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ETC-1002 (regulatory)	LDL-C lowering	Long-term chronic tox study results	Q2:14
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ETC-1002	LDL-C lowering- Residual risk, statin add-on	Phase IIb trial readout (Study-009)	Q4:14
ETC-1002	LDL-C lowering- Special population studies, diabetes	Initiate Phase II in diabetics or other risk groups	H2:14
ETC-1002	LDL-C lowering	End of Phase II meeting	Q2:15
ETC-1002	LDL-C lowering	Start Phase III study	Mid-2015
ETC-1002	LDL-C lowering	Completion of Phase III efficacy study	H2:16
ETC-1002	LDL-C lowering	Completion of Phase III safety study	H1:17
ETC-1002	LDL-C lowering	NDA filing	H2:17
ETC-1002	LDL-C lowering	Approval and launch	H2:18

Source: Company data, Credit Suisse estimates

Exhibit 4: ESPR Model

	2012A	2013A	Q1:14E	Q2:14E	Q3:14E	Q4:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues															
Milestones and partnering revenue								78.0	4.0	56.5	59.0	4.0	4.0		
Royalty revenue											10.3	24.7	39.5	84.6	119.4
Total Net Revenues								78.0	4.0	56.5	69.3	28.7	43.5	84.6	119.4
Expenses															
R&D	8.0	16.0	7.4	7.5	7.5	7.4	29.8	34.2	35.9	37.7	39.6	41.6	43.6	45.8	48.1
G&A	2.2	6.7	2.4	2.5	2.5	2.6	9.9	11.9	12.5	13.1	13.8	14.5	15.2	15.9	16.7
Total Operating Expenses	10.2	22.8	9.8	10.0	10.0	10.0	39.7	46.1	48.4	50.8	53.4	56.0	58.8	61.8	64.9
Operating income (loss)	(10.2)	(22.8)	(9.8)	(10.0)	(10.0)	(10.0)	(39.7)	31.9	(44.4)	5.7	15.9	(27.3)	(15.4)	22.8	54.6
Total Other Income (Expense)	(1.5)	(3.3)	0.3	0.3	0.2	0.5	1.3	1.7	1.5	1.5	1.0	1.0	1.0	1.0	1.0
Pre Tax Income	(11.7)	(26.1)	(9.5)	(9.7)	(9.8)	(9.5)	(38.4)	33.6	(42.9)	7.2	16.9	(26.3)	(14.4)	23.8	55.6
Income tax expense (benefit)															
Net Income	(11.7)	(26.1)	(9.5)	(9.7)	(9.8)	(9.5)	(38.4)	33.6	(42.9)	7.2	16.9	(26.3)	(14.4)	23.8	55.6
EPS - basic (proforma)	(\$36.31)	(\$3.31)	(\$0.62)	(\$0.62)	(\$0.63)	(\$0.46)	(\$2.29)	\$1.60	(\$2.03)	\$0.34	\$0.79	(\$1.22)	(\$0.66)	\$1.09	\$2.54
EPS - diluted (proforma)	(\$36.31)	(\$3.31)	(\$0.62)	(\$0.62)	(\$0.63)	(\$0.46)	(\$2.29)	\$1.58	(\$2.03)	\$0.32	\$0.75	(\$1.22)	(\$0.66)	\$1.04	\$2.41
Shares outstanding - basic (proforma)	0.32	7.89	15.42	15.49	15.57	20.65	16.78	20.91	21.12	21.33	21.44	21.54	21.65	21.76	21.87
Shares outstanding - diluted (proforma)	0.32	7.89	15.42	15.49	15.57	20.65	16.78	21.19	21.12	22.48	22.59	21.54	21.65	22.93	23.04

Product sales summary	2018E	2019E	2020E	2021E	2022E
US (prob adjusted)	46.4	101.0	147.1	289.9	409.5
Ex-US (prob adjusted)	12.4	40.4	78.5	193.3	273.0
Total (prob adjusted)	58.8	141.4	225.6	483.2	682.5
Royalty	10.3	24.7	39.5	84.6	119.4
US (unadjusted)	84.4	183.6	267.5	644.0	943.9
Ex-US (unadjusted)	22.5	73.4	142.7	429.3	629.3
Total (unadjusted)	106.9	257.1	410.2	1,073.4	1,573.2
Royalty	18.7	45.0	71.8	187.8	275.3

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 05-Mar-2014)

Esperion Therapeutics (ESPR.OQ, \$16.38, OUTPERFORM[V], TP \$26.0)

Disclosure Appendix

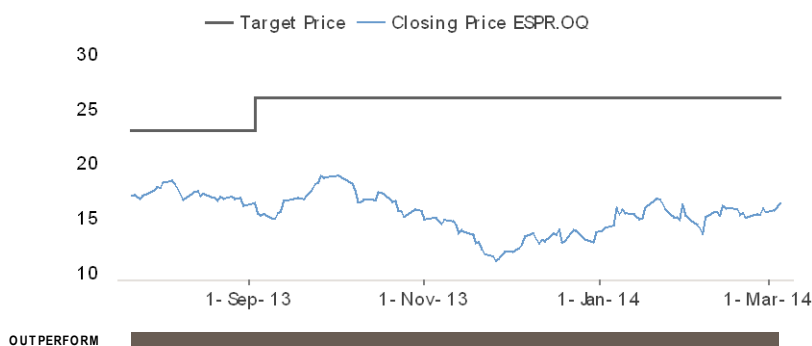
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3-Year Price and Rating History for Esperion Therapeutics (ESPR.OQ)

ESPR.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
22-Jul-13	17.05	23.00	O *
03-Sep-13	16.40	26.00	

* Asterisk signifies initiation or assumption of coverage.



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Price Target: (12 months) for Esperion Therapeutics (ESPR.OQ)

Method: Our \$26 price target for ESPR is based on a probability adjusted DCF, assuming a very conservative 55% probability of success in statin intolerant and 33% probability in statin add-on patients. Additional data in 2013 and 2014 could increase our probabilities for both indications.

Risk: Risks to our \$26 TP include factors that could decrease our probabilities of success for ETC-1002 in statin intolerant and statin add-on markets: 1) inability to remove the partial clinical hold, 2) lack of efficacy or any new toxicities in ongoing trials, 3) increased concern over known safety signals (decreases in hemoglobin and increases in uric acid), and 4) more stringent regulatory requirements (ie FDA requiring an outcome study for approval).

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