

Vitae Pharmaceuticals

(VTAE-NASDAQ)

Stock Rating: Outperform**Industry Rating:** Outperform

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Impressive Results With BACE Inhibitor Bode Well for Alzheimer's Progress

Event

Vitae pharmaceuticals (VTAE) announced positive top-line results from two phase 1 studies of its beta-secretase (BACE) inhibitor, VTP-37948, which is being developed by partner Boehringer Ingelheim (BI) for the treatment of Alzheimer's disease (AD). These two phase 1 studies, including a single ascending dose study and a proof-of-mechanism study, involved a total of 68 healthy volunteers. The single ascending dose trial demonstrated that VTP-37948 was safe and generally well-tolerated across all dose levels tested, with a half-life (16-19 hours) that supports once-daily dosing. The proof-of-mechanism trial evaluated intermediate doses of VTP-37948 for the compound's ability to reduce amyloid beta (A β) levels in cerebral spinal fluid (CSF). In this trial, VTP-37948 demonstrated the ability to lower CSF A β levels by more than 80%. Based on these results, BI expects to initiate additional phase 1 studies, including a multiple ascending dose trial that is expected to complete in 1H15.

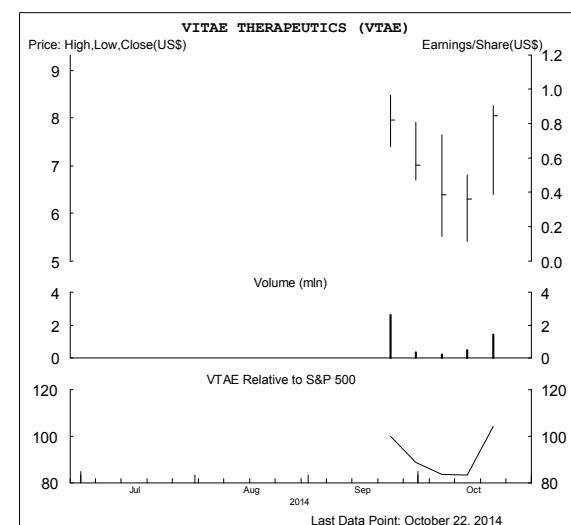
Impact & Analysis

We are reiterating our Outperform rating on shares of VTAE following review of top-line phase I results for BACE inhibitor VTP-37948. Results are impressive, and in line with the 75% to 92% reduction in CSF A β seen with Merck's (MRK, \$56.63, Market Perform) single-ascending dose phase 1 trial with its BACE inhibitor (MK-8931), and should bode well for VTP-37948's phase 2 success. We would note that VTP-37948 had not been contemplated in our current valuation and would point to further proof-of-concept data for programs in psoriasis and diabetes, that are incrementally de-risked from this initial platform success.

Valuation & Recommendation

We arrive at our \$11 price target by applying a 20x multiple to our 2022E EPS estimate of \$2.70 and discounting at 30%.

Price (23-Oct) \$8.65 **52-Week High** \$8.65
Target Price \$11.00 **52-Week Low** \$5.41

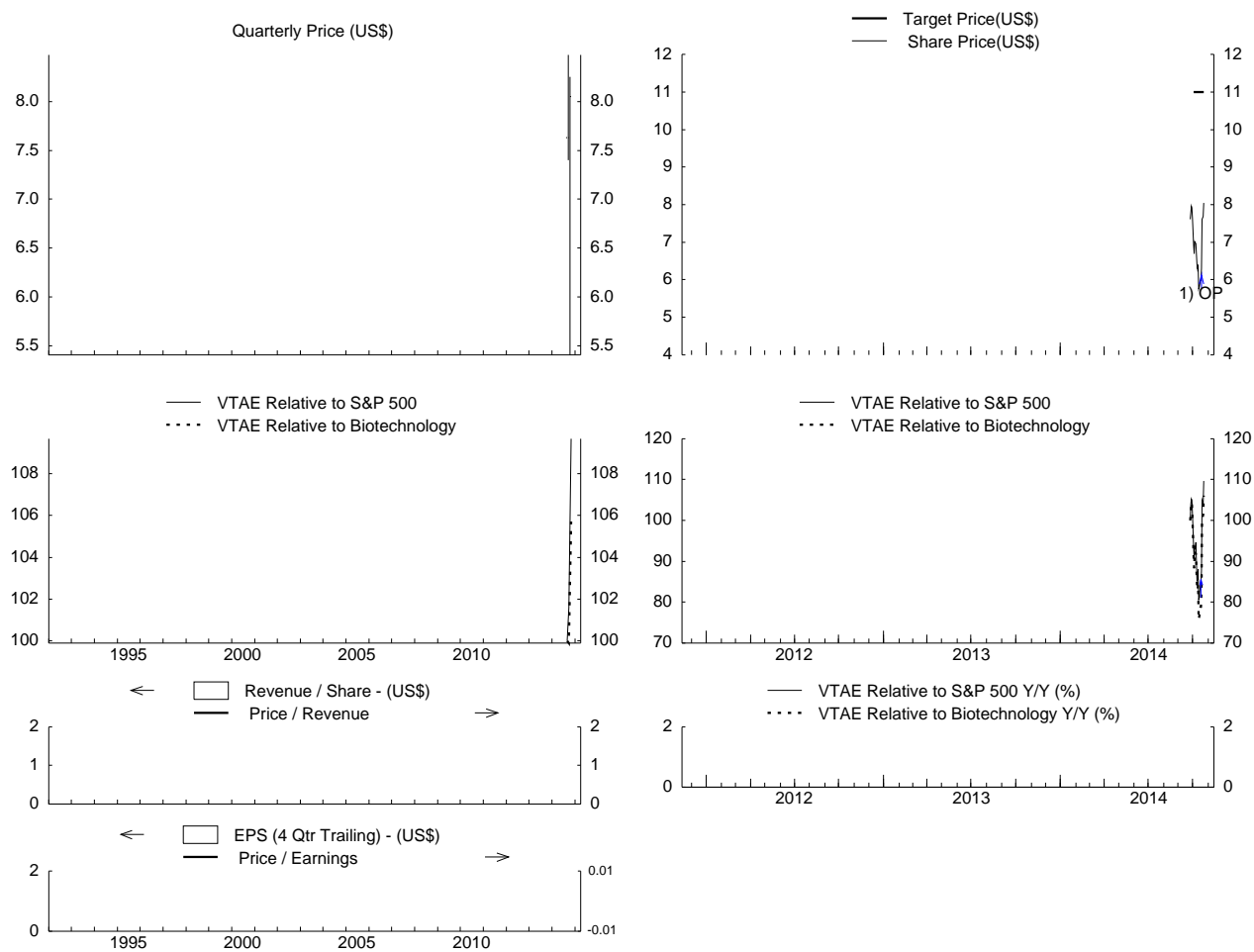


(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	\$0.02	\$0.09	-\$1.42	-\$1.72
P/E			na	na
CFPS	na	na	na	na
P/CFPS			na	na
Rev. (\$mm)	\$22	\$23	\$2	\$0
EV (\$mm)	na	na	\$93	\$93
EBITDA (\$mm)	\$2	\$2	-\$22	-\$26
EV/EBITDA	na	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2012A	na	na	na	na
2013A	na	na	na	na
2014E	-\$0.36a	-\$0.36a	-\$0.35	-\$0.35
Dividend	\$0.00			0.0%
Book Value	\$0.52			16.6x
Shares O/S (mm)	17.4			Mkt. Cap (mm)
Float O/S (mm)	6.4			\$151
Wkly Vol (000s)	914			Float Cap (mm)
Net Debt (\$mm)	-\$16			\$55
				Wkly \$ Vol (mm)
				\$6.7
				Next Rep. Date
				na

Notes: All values in US\$

First Call Mean Estimates: VITAE PHARMACEUTICALS INC (US\$)
2014E: -\$0.96; 2015E: -\$1.78

VITAE THERAPEUTICS (VTAE)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %	VTAE - Rating as of 23-Sep-14 = NR		
Range*:		na na		NC			>15 >15		Date	Rating Change	Share Price
Current*	ND	na	0.00	0.0	na	0.5	14.7	na	1 17-Oct-14	NR to OP	\$6.30

* Current EPS is the 4 Quarter Trailing to Q2/2014.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (October 22, 2014): \$8.05
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology and Risks to Price Target/Valuation

Methodology: We arrive at our price target by applying a 20x multiple to our 2022E EPS of \$2.70 discounted 30%.

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Distribution of Ratings (September 30, 2014)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.3%	18.0%	60.3%	43.9%	56.5%	56.0%
Hold	Market Perform	52.5%	9.7%	38.5%	51.6%	42.1%	39.1%
Sell	Underperform	3.2%	5.3%	1.3%	4.5%	1.4%	4.9%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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