

Vital Therapies, Inc. (VTL)

Rating	OUTPERFORM* [V]
Price (07 Aug 14, US\$)	21.01
Target price (US\$)	16.00 ¹
52-week price range	33.31 - 11.21
Market cap. (US\$ m)	457.82
Enterprise value (US\$ m)	391.41

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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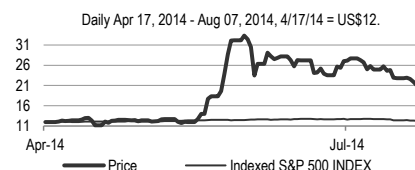
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FORECAST REDUCTION

2Q Earnings

- **2Q Financial Expense & Share Count Drove Lower EPS vs. Our Model:** VTL reported 2Q14 opex of \$11.6M vs. our \$11.0M estimate and actual avg. shares during 2Q, while our model reflected pro forma shares for the IPO, which drove \$0.16 of the EPS miss vs our model (Exhibit 1). The remainder was driven by a one-time financial expense that we did not model (\$0.34 using reported share count, \$0.28 using our share count). VTL ended 2Q14 with \$90.8M in cash, sufficient for ~8 quarters on our cash burn assumptions (we model a secondary raise in 4Q15). VTL did not hold a call to discuss 2Q results. Given the lack of sales & the upcoming VTI 208 data (expected in 1H15) we do not expect these results to meaningfully impact shares.
- **VTI-208 Enrollment on Track:** As of 8/5, VTL had enrolled 138 patients (out of 200) in its pivotal phase 3 VTI-208 alcohol-induced liver decompensation (AILD) trial (up 27 from 5/27) & expects to release preliminary data in 1H15. At a pace of 12 patients/month, VTI-208 would finish enrolling by December, which should facilitate presentation of preliminary ~90 day results in 1H15. Results from the VTI-208 trial are the key to US ELAD approval & the primary catalyst to support the shares at current levels. If ELAD were to show a ~20% statistically significant mortality benefit in VTI-208, this should de-risk approval (expected in 2016 in US/Europe). VTL announced a slight delay of its VTI-210 trial (severe acute alcoholic hepatitis) with preliminary data now expected in 2016 (previously 2015 or 2016). VTI-212 (fulminant hepatic failure trial) preliminary data are still expected in 2015/16.
- **Thoughts on the Stock:** Given the large AILD opportunity (60K US/EU patients & ~\$150K ASP implies \$9B opportunity) we see meaningful upside potential on favorable VTI-208 data, however, the risk associated with trial success is likely to weigh on the shares until preliminary results are announced.

Share price performance



On 08/07/14 the S&P 500 INDEX closed at 1909.57

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	—	—	—	—
2014E	-21.05	-0.65	-0.53	-0.53
2015E	-0.55	-0.55	-0.56	-0.52

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	-3.14	-2.99	-2.18	-1.19
Prev. EPS (US\$)	—	-2.78	-2.14	-0.52
P/E (x)	-6.7	-7.0	-9.7	-17.7
P/E rel. (%)	-36.7	-41.6	-64.1	-130.2
Revenue (US\$ m)	—	—	—	—
EBITDA (US\$ m)	-30.6	-45.8	-48.3	-32.0
OCFPS (US\$)	-2.86	-2.77	-2.25	-1.21
P/OCF (x)	—	-7.6	-9.4	-17.3
EV/EBITDA (current)	-12.0	-8.0	-7.6	-11.5
Net debt (US\$ m)	-38	-66	-115	-82
ROIC (%)	-971.60	26,534.58	-1,704.66	-908.79
Number of shares (m)	21.79	IC (current, US\$ m)		3.23
BV/share (Next Qtr., US\$)	—	EV/IC (x)		-460.8
Net debt (Next Qtr., US\$ m)	-78.5	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	-101.1	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates.

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Exhibit 1: VTL Reported 2Q14 Results vs. CS Estimates

	Actual 2Q14	CS Estimates 2Q14	Variance		Consensus 2Q14
			\$	%	
Total Sales	\$0.0	\$0.0	\$0.0	NM	\$0.0
Cost of Goods Sold	\$0.0	\$0.0	\$0.0	NM	
Gross Profit	\$0.0	\$0.0	\$0.0	NM	
SG&A	\$2.5	\$4.5	(\$2.0)	-79%	
R&D	\$9.1	\$6.5	\$2.6	29%	
EBIT	(\$11.6)	(\$11.0)	(\$0.6)	5%	(\$12.3)
Other	\$1.5	\$0.1	\$1.4	96%	
Pretax Income	(\$10.2)	(\$10.9)	\$0.8	-8%	
Income Taxes	\$0.0	\$0.0	\$0.0	NM	
Tax rate	0.0%	0.0%	0.0%	NM	
Net Income (loss)	(\$10.2)	(\$10.9)	\$0.8	-8%	
Other	(\$6.1)	\$0.0	(\$6.1)	100%	
Net Income (loss) to common	(\$16.3)	(\$10.9)	(\$5.3)	33%	
Diluted Shares	17.9	21.8	-3.9	-22%	
Diluted Adj EPS	(\$0.91)	(\$0.50)	(\$0.41)	45%	(\$0.55)

Source: Company data, Credit Suisse estimates, ThomsonOne

Companies Mentioned (Price as of 07-Aug-2014)

Vital Therapies, Inc. (VTL.OQ, \$21.01, OUTPERFORM[V], TP \$16.0)

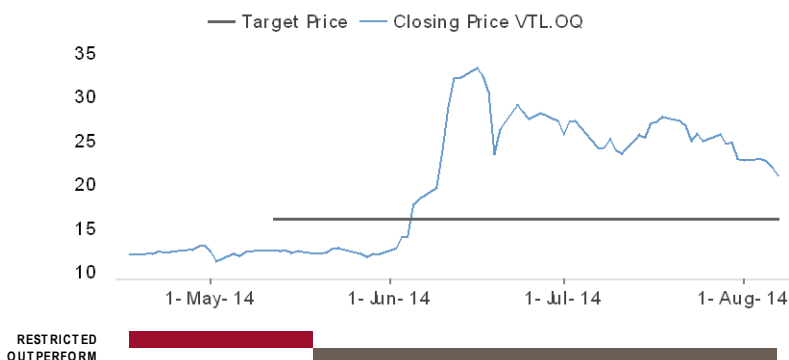
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I, Bruce Nudell, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Vital Therapies, Inc. (VTL.OQ)

VTL.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
07-Apr-14			R
12-May-14	12.49	16.00	O *

* Asterisk signifies initiation or assumption of coverage.



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Underperform/Sell*	13%	(46% banking clients)
Restricted	3%	

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Price Target: (12 months) for Vital Therapies, Inc. (VTL.OQ)

Method: Our \$16 DCF-derived price target for VTL is based on a 13.5% WACC and a 0% terminal growth rate.

Risk: Risks to our \$16 price target for VTL are: (1) a large, clean dataset does not yet exist, and while early data are encouraging, the ultimate clinical benefit of the ELAD system is yet to be proven; (2) ultimate pricing of the system is likely dependent on the mortality benefit demonstrated in VTL's ongoing phase 3 trial; (3) VTL will likely need additional financing prior to commercialization; (4) approval process in China is opaque; and (5) VTL's IP could ultimately afford exclusivity for a shorter period of time than we anticipate.

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See the Companies Mentioned section for full company names

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