

Vital Therapies, Inc. (VTL)

Rating	NEUTRAL*
Price (19 Sep 14, US\$)	20.11
Target price (US\$)	25.00 ¹
52-week price range	33.31 - 11.21
Market cap. (US\$ m)	438.21
Enterprise value (US\$ m)	371.80

*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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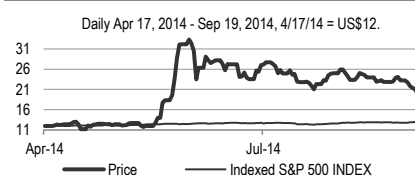
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COMMENT

Files S-1 For Up To \$46M Equity Raise

- **VTL Files S-1 To Issue \$46M in Added Shares:** Today VTL filed an S-1 with plans to raise up to \$46M in equity (2.3M shares at Friday's closing price vs. 21.8M currently outstanding). The S-1 indicated that proceeds would be used for continuing extracorporeal liver assist device (ELAD) development, working capital & general corporate purposes (expected timing has not been disclosed). We currently forecast a \$100M equity raise for VTL in 4Q15, which based on our cash flow forecasts would be sufficient to sustain VTL until it becomes free cash flow positive in 1Q20. While a 2H14 equity offering would be ahead of our current forecasts, an earlier raise wouldn't come as a major surprise to us, given the strong share price performance since the IPO. We're leaving our estimates unchanged pending further color on the timing of the next equity raise.
- **Thoughts On The Stock:** VTL's US pivotal trial in alcohol-induced liver decompensation (AILD), VTI 208, is on track to complete enrollment by 12/14 (data 1H15); however, until VTI 208 data are available, clinical trial/approval risk remains (given the limited extracorporeal liver assist device [ELAD] data to date). Thus, while we don't have reason to suspect that the VTI-208 data will be very different than the phase 2b VTI-206 experience (~25% 90 day absolute mortality benefit, N = 29), we maintain our Neutral rating given our belief that favorable clinical data will be required for meaningful upside.
- **Upside To ~\$30-\$40 On Favorable Data:** If VTI-208 shows a ~20% statistically significant mortality benefit, this should de-risk ELAD approval (expected in 2017 in US/Europe). Given the large AILD opportunity (~\$9B / year opportunity) & the lack of AILD treatment alternatives we believe VTL could be valued at \$30-\$40/share on favorable 208 data. Our current \$25 price target assumes ~70% initial chance of hitting the primary endpoint.

Share price performance



On 09/19/14 the S&P 500 INDEX closed at 2010.4

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\$)	—	—	—	—
P/E (x)	-6.4	-6.7	-9.2	-16.9
P/E rel. (%)	-35.8	-40.7	-62.4	-127.1
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)	—	-7.2	-9.0	-16.6
EV/EBITDA (current)	-11.4	-7.6	-7.2	-10.8
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)		-436.9
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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Companies Mentioned (Price as of 19-Sep-2014)

Vital Therapies, Inc. (VTL.OQ, \$20.11, NEUTRAL[V], TP \$25.0)

Disclosure Appendix

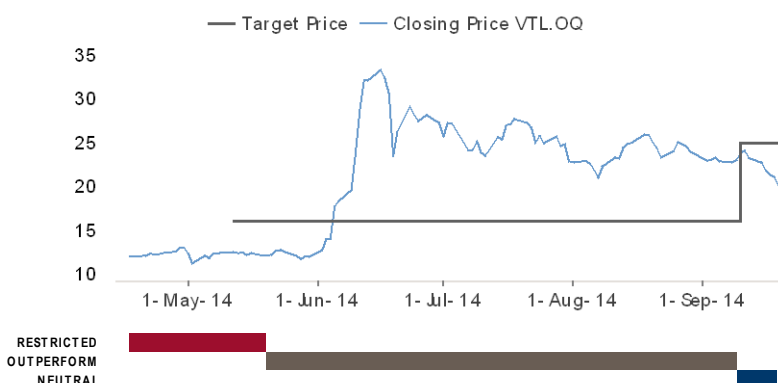
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I, Bruce Nudell, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the 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 *
10-Sep-14	23.89	25.00	N

* Asterisk signifies initiation or assumption of coverage.



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

Method: Our \$25 DCF-derived price target is based on an ~11% WACC and a 2% terminal growth rate.

Risk: Risks to our \$25 price target 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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