

Vitae Pharmaceuticals

(VTAE-NASDAQ)

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

February 27, 2015

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BACE Inhibitor Clinical Hold, a Minor Speed Bump

Event

Vitae Pharmaceuticals (VTAE) yesterday announced that its partner Boehringer Ingelheim has voluntarily placed the oral beta secretase (BACE) inhibitor BI-1181181 (VTP-37948, being developed for Alzheimer's disease) on a temporary clinical hold and has notified regulatory agencies. The action was taken to further investigate skin reactions observed in some study participants during a multiple ascending dose trial in healthy volunteers. VTAE noted that depending on the outcome of the evaluation and BI's decision, either VTP-37948 or a structurally distinct phase 1-ready back-up can be advanced.

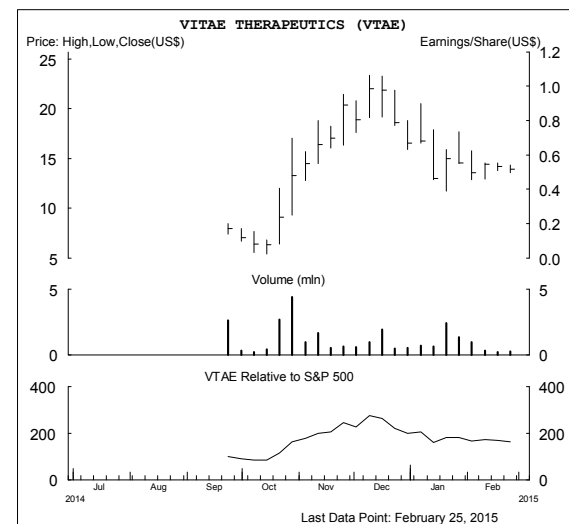
Impact & Analysis

We are maintaining our Outperform rating and recommending buying on weakness following review of circumstances of the clinical hold. We are encouraged that the rash described is similar to common drug reactions seen with broadly used penicillin and cephalosporin antibiotics and that availability of a phase 1 ready BACE inhibitor with distinct chemistry will mitigate any program risk, with a 1 year lag that can rapidly be made up. Importantly, the BACE inhibitor has no specific value in our estimates and unique structure based drug design, avoiding common compound scaffolds, suggests no generalization to other programs, including the ROR program, which remains the key value driver.

Valuation & Recommendation

We arrive at our \$27 price target by applying a 25x multiple to our 2023E EPS estimate of \$5.18 and discounting at 25%. We maintain our Outperform rating.

Price (26-Feb) \$13.28 **52-Week High** \$23.35
Target Price \$27.00 **52-Week Low** \$5.41

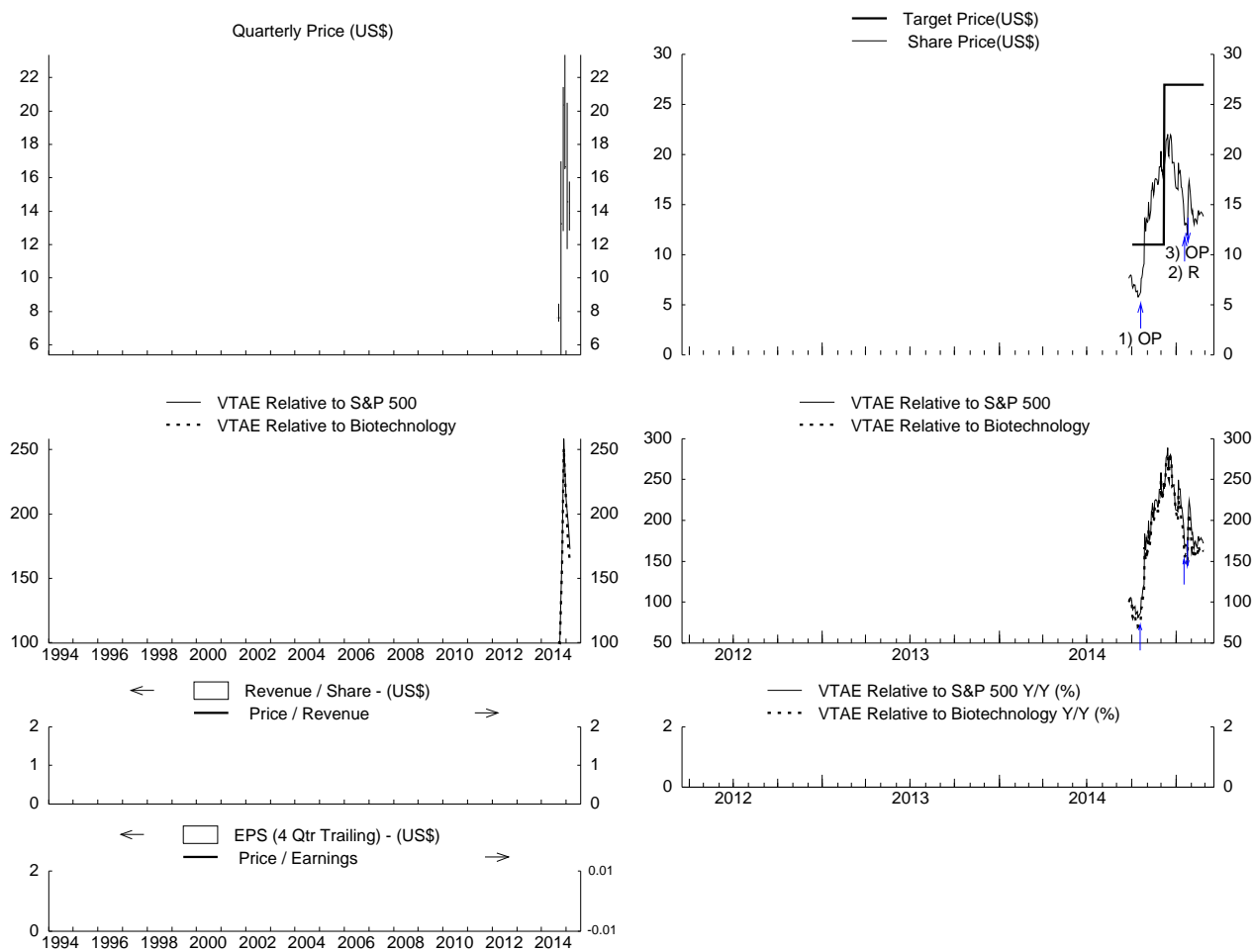


(FY-Dec.)	2013A	2014E	2015E	2016E
EPS	\$0.09	-\$2.13	-\$1.72	na
P/E		na	na	na
CFPS	na	na	na	na
P/CFPS		na	na	na
Rev. (\$mm)	\$23	\$9	\$0	na
EV (\$mm)	na	\$93	\$93	na
EBITDA (\$mm)	\$2	-\$17	-\$26	na
EV/EBITDA	na	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2013A	na	na	na	na
2014E	-\$0.36a	-\$0.36a	-\$1.06a	-\$0.35
2015E	na	na	na	na
Dividend	\$0.00			0.0%
Book Value	\$0.52			25.5x
Shares O/S (mm)	17.4			Mkt. Cap (mm)
Float O/S (mm)	6.4			\$231
Wkly Vol (000s)	1,173			Float Cap (mm)
Net Debt (\$mm)	-\$16			\$85
				Wkly \$ Vol (mm)
				\$16.5
				Next Rep. Date
				na

Notes: All values in US\$

First Call Mean Estimates: VITAE PHARMACEUTICALS INC (US\$)
2014E: -\$2.49; 2015E: -\$1.76; 2016E: -\$1.67

VITAE THERAPEUTICS (VTAE)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %
Range*		na na		NC			>15 >15	
Current*	ND	na	0.00	0.0	na	0.5	28.0	na

VTAE - Rating as of 23-Sep-14 = NR		
Date	Rating Change	Share Price
1 17-Oct-14	NR to OP	\$6.30
2 16-Jan-15	OP to R	\$12.95
3 23-Jan-15	R to OP	\$14.94

* Current EPS is the 4 Quarter Trailing to Q3/2014.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (February 25, 2015): \$13.90
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 25x multiple to our 2023E EPS of \$5.18 discounted 25%.

Risks: There are a number of risks associated with investment in biotechnology companies. These risks include, but are not limited to, risk of clinical trial delay or failure, adverse regulatory decisions including product non-approval, unanticipated adverse effects of drugs which may result in removal from market, risk of manufacturing difficulties, capital market risk which may impair the ability to fund product discovery, research, regulatory filing, manufacture and/or commercialization, risk in attaining and retaining appropriate development or commercial partners, lower-than-expected product adoption, difficulties in gaining appropriate reimbursement for products from payors, unforeseen generic and branded competition, risk to patents being invalidated, and failure to meet earnings and revenue expectations.

Distribution of Ratings (December 31, 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	43.4%	16.2%	60.6%	42.6%	51.7%	55.6%
Hold	Market Perform	52.6%	8.1%	36.6%	53.0%	45.8%	39.5%
Sell	Underperform	3.9%	8.3%	2.8%	4.5%	2.5%	4.9%

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

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OP = Outperform - Forecast to outperform the analyst's coverage universe on a total return basis

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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