

Vitae Pharmaceuticals, Inc. (VTAE)

Reports 2Q15 Earnings Results

MARKET DATA

Price	\$9.61
52-Week Range:	\$5.41 - \$23.35
Shares Out. (M):	21.8
Market Cap (\$M):	\$209.5
Average Daily Vol. (000):	151.0
Cash (M):	\$80
Cash/Share:	\$3.68
Enterprise Value (M):	\$140
Float (M):	20.4
LT Debt (M):	\$0

Source: Thomson Reuters and JMP Securities LLC

FY DEC		2014A	2015E	2016E
Revenue (\$M)	1Q	--	\$0.2A	--
	2Q	--	\$0.2A	--
	3Q	\$6.2	\$0.0	--
	4Q	\$0.2	\$0.0	--
	FY	\$8.7	\$0.0	\$0.0
EPS	1Q	--	(\$0.47)A	--
	2Q	--	(\$0.45)A	--
	3Q	(\$1.04)	(\$0.50)	--
	4Q	(\$0.40)	(\$0.52)	--
	FY	(\$3.61)	(\$1.93)	(\$2.07)
Previous FY		NC	(\$1.70)	(\$2.14)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE



MARKET PERFORM | Price: \$9.61 | Target Price: N/A

INVESTMENT HIGHLIGHTS

Vitae Pharmaceuticals reported 2Q15 earnings and updated its current and future milestones; reiterate our Market Perform rating. We remind investors that as an early discovery and clinical stage company, VTAE's advancement is primarily derived through the progression of its pipeline assets, both partnered and wholly owned, against developmental milestones and not necessary through financial results. The company reported a net loss of \$9.8MM, lower than our estimate of \$10.4MM, primarily due to lower than expected operating expenses. R&D costs were \$7.77MM versus our estimate of \$7.88MM, while G&A expense was \$2.26MM versus our estimate of \$2.6MM. With \$80.3MM in cash and cash equivalents, the company guided to a cash runway until YE16. On the call, the company highlighted the advancement of its wholly owned compounds, VTP-43742, a RORγt modulator for the treatment of autoimmune disease, including psoriasis and VTP-38543, an LXRβ modulator for the treatment of atopic dermatitis.

A busy second half. While the second quarter was punctuated by disappointing news flow related to the Alzheimer's disease and diabetes partnered programs with Boehringer Ingelheim (BI, NC), a number of upcoming events related to wholly owned assets, and future decisions related to partnered programs remain in place for the rest of 2015. First, we expect data and a potential go/no-go decision by partner BI related to VTP-34072, the company's 11β-HSD1 inhibitor in development for Type-2 diabetes, with Phase IIa monotherapy data expected at the YE2015. We remind investors that VTP-34072 did not meet the criteria set forth by BI earlier this year for the combination study with metformin.

Second, the company expects to complete the return of BI-1147560, an IND-ready BACE inhibitor for Alzheimer's that had been expected to enter Phase I trials; however, BI terminated the program in 2H15. We expect a possible decision on the continuation of clinical development by VTAE sometime in 2H15. The company did suggest that its cash runway does not include expenses related to the further development of BI-1147560.

The company highlighted its development of autoimmune candidate therapy, VTP-43742, which advanced in 2Q15 into a single-ascending dose, safety and tolerability study in a 56-subject Phase I trial. Initial results are expected in 2H15. The company intends to initiate an overlapping Phase I multiple-ascending dose study in 2H15 with 48 healthy volunteers and 60 psoriasis patients. The psoriasis patient cohort will be a randomized, double-blind, placebo-controlled trial over four weeks, with the percentage change in PASI score an expected endpoint. VTP-43742 has shown impressive preclinical results and we look forward to top-line data from this trial at the end of 2015. The company is also advancing its LXRβ agonist program, VTP-38543, for the treatment of atopic dermatitis with a Phase I trial initiating in 2H15.

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Changes to our model. We update our model to reflect changes in outstanding share count, and to research and development spending. We are also removing potential milestone payments related to the initiation of Phase I trials of BI 1147560 of \$7MM and any further milestone payments related to the program by BI. We plan to revisit the contribution of the Alzheimer's opportunity after the company provides greater clarity on its near-term plans. Changes to our valuation model are detailed in Figure 4.

Vitae is an early-stage drug discovery and development company that uses its proprietary CONTOUR structure-based drug design platform for the development of therapeutic candidates directed against validated targets that are difficult-to-drug. The CONTOUR platform continues to develop small molecules with class-defining biochemical efficacy, and read-outs expected at year-end and in 1H16 for several important pipeline assets, including VTP-43742 safety data in 2H15 and efficacy data in psoriasis at EOY.

FIGURE 1. Upcoming Catalysts

Timing	Program	Catalyst
mid-15	VTP-43742 (RORyt)	Complete Phase I proof-of-concept safety and PK trial in healthy volunteers
2H15	VTP-34072	Phase II top-line results expected in type-2 diabetes monotherapy
2H15	VTP-43742 (RORyt)	Initiation of a multiple-ascending dose Phase I trial in psoriatic patients
2H15	VTP-43742 (RORyt)	Completion of multiple-ascending dose Phase I trial in psoriatic patients
2H15	VTP-38543 (LXRβ)	Initiate Phase I safety and PK clinical trial
2016	VTP-38543 (LXRβ)	Results from Phase I trial in atopic dermatitis
2016	VTP-38443 (LXRβ)	File IND/ Initiate Phase I clinical trial in acute coronary syndrome
2016	VTP-43742 (RORyt)	Initiate Phase II trial (large indication)
2016	VTP-43742 (RORyt)	Initiate Phase II trial (rare/orphan indication)

Source: Company Presentations

FIGURE 2. Results versus Estimates

Vitae Pharmaceuticals (VTAE) Abridged Income Statement (\$ MM)	2Q15 Results		
	JMP Estimate	Actual	Variance (JMP vs. Actual)
Total Revenues	-	0.16	
License revenue	-	0.16	
Milestone revenue	-	-	
Operating Expenses	10.48	10.03	(0.4)
Research and development	7.88	7.77	(0.1)
General and administrative	2.60	2.26	(0.3)
Operating income (loss)	(10.48)	(9.87)	0.6
Other income (expense)	0.07	0.11	0.04
			0.00
Pretax income (loss)	(10.41)	(9.76)	0.65
Net income (loss)	(10.41)	(9.76)	0.65
EPS Calculations			
Basic EPS	\$ (0.50)	\$ (0.45)	\$ 0.05
Diluted EPS	\$ (0.50)	\$ (0.45)	\$ 0.05
Basic shares outstanding	20.931	21.838	0.907
Diluted shares outstanding	20.931	21.838	0.907

Source: JMP Securities LLC, Company reports

FIGURE 3. Changes to Our Model

Vitae Pharmaceuticals (VTAE) (\$ MM)	3Q15E		4Q15E		FY 2015E		FY 2016E	
	Old	New	Old	New	Old	New	Old	New
License revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Milestone revenue	0.0	0.0	7.0	0.0	7.0	0.0	0.0	0.0
Other								
Total Revenues	0.0	0.0	0.0	0.0	7.0	-	0.2	0.15
COGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Profit	-	0.0	7.00	0.0	7.15	0.31	-	-
Operating Expenses	11.1	11.0	11.7	11.6	42.9	42.2	55.5	55.5
Research and development	8.3	8.2	8.7	8.6	32.4	32.0	42.5	42.5
General and administrative	2.8	2.8	3.0	3.0	10.5	10.2	13.0	13.0
Operating income (loss)	(11.1)	(11.0)	(4.7)	(11.6)	(35.7)	(41.9)	(55.5)	(55.5)
Other income (expense)	0.1	0.1	0.1	0.1	(0.3)	(0.3)	0.0	0.04
Interest income	0.0	0.0	0.0	0.0	(0.1)	(0.1)	0.0	-
Pretax income	(11.0)	(10.9)	(4.6)	(11.5)	(36.0)	(42.1)	(55.5)	(55.5)
Net income	(11.0)	(10.9)	(4.6)	(11.5)	(35.8)	(41.9)	(55.5)	(55.5)
Basic EPS	(\$0.52)	\$ (0.50)	(\$0.22)	\$ (0.52)	(\$1.70)	\$ (1.93)	(\$2.14)	\$ (2.07)
Diluted EPS	(\$0.52)	\$ (0.50)	(\$0.22)	\$ (0.52)	(\$1.70)	\$ (1.93)	(\$2.14)	\$ (2.07)
Basic shares outstanding	21.04	21.95	21.14	22.06	20.98	21.67	25.89	26.82
Diluted shares outstanding	21.04	21.95	21.14	22.06	20.98	21.67	25.89	26.82

Source: JMP Securities LLC

FIGURE 4. VTAE Income Statement

Vitae Pharmaceuticals (VTAE) Income Statement (\$MM)	2015E				2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
	1Q15A	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Product Sales and Royalties					0.0	0.0	0.0	0.0	0.0	0.0	38.4	196.3	345.8	536.1	751.1
Collaborative Revenue	0.2	0.2													
Milestone Revenue		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	80.0	75.0	0.0	60.0
Total Revenue	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	38.4	276.3	420.8	536.1	811.1
Cost of Goods Sold						0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Profit	0.2	0.2	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	38.4	276.3	420.8	536.1	811.1
Operating Expenses:															
Research and Development	7.5	7.8	8.2	8.6	32.0	42.5	53.1	61.1	67.2	84.0	107.5	123.7	142.2	163.5	188.1
General and administrative	2.1	2.3	2.8	3.0	10.2	13.0	19.5	26.3	30.3	37.8	60.5	84.8	118.7	160.2	216.3
Total operating expenses	9.6	10.0	11.0	11.6	42.2	55.5	72.6	87.4	97.5	121.8	168.1	208.4	260.9	323.7	404.3
Operating income (loss)	(9.5)	(9.9)	(11.0)	(11.6)	(41.9)	(55.5)	(72.6)	(87.4)	(97.5)	(121.8)	(129.7)	67.9	160.0	212.3	406.7
Other income (expense):															
Interest income	0.1	0.1	0.1	0.1	0.0	0.0	0.6	(0.1)	(1.0)	(2.0)	(2.9)	(3.8)	(3.4)	(2.4)	(1.0)
Interest expense	(0.11)				(0.11)										
Loss on debt extinguishment	(0.21)				(0.21)										
Other income		0.0			0.00										
Total other income, net	(0.2)	0.1	0.1	0.1	(0.3)	0.0	0.6	(0.1)	(1.0)	(2.0)	(2.9)	(3.8)	(3.4)	(2.4)	(1.0)
Pretax income (loss)	(9.7)	(9.8)	(10.9)	(11.5)	(41.9)	(55.5)	(72.0)	(87.5)	(98.5)	(123.8)	(132.6)	64.1	156.6	209.9	405.7
Income tax benefit (provision)					0.0	0.0	0.0	0.0	0.0	32.5	39.8	(22.4)	(54.8)	(73.5)	(142.0)
Tax Rate					0%	0%	0%	0%	0%	26%	30%	35%	35%	35%	35%
Comprehensive income (loss)	(9.7)	(9.8)	(10.9)	(11.5)	(41.9)	(55.5)	(72.0)	(87.5)	(98.5)	(91.3)	(92.8)	41.7	101.8	136.5	263.7
Accretion of redeemable convertible preferred stock															
Net income (loss) attributable to common stockholder	(9.7)	(9.8)	(10.9)	(11.5)	(41.9)	(55.5)	(72.0)	(87.5)	(98.5)	(91.3)	(92.8)	41.7	101.8	136	264
Basic EPS to common stockholder	\$ (0.47)	\$ (0.45)	\$ (0.50)	\$ (0.52)	\$ (1.93)	\$ (2.07)	\$ (2.65)	\$ (3.19)	\$ (3.54)	\$ (3.2)	\$ (3.3)	\$ 1.4	\$ 3.5	\$ 4.6	\$ 8.8
Diluted EPS to common stockholder	\$ (0.47)	\$ (0.45)	\$ (0.50)	\$ (0.52)	\$ (1.93)	\$ (2.07)	\$ (2.65)	\$ (3.19)	\$ (3.54)	\$ (3.2)	\$ (3.3)	\$ 1.4	\$ 3.4	\$ 4.5	\$ 8.7
Basic shares outstanding	20.8	21.8	21.9	22.1	21.7	26.8	27.1	27.5	27.8	28.1	28.5	28.8	29.2	29.5	29.9
Diluted shares outstanding	20.8	21.8	21.9	22.1	21.7	26.8	27.1	27.5	27.8	28.1	28.5	29.4	29.7	30.1	30.5

Source: JMP Securities LLC, Company filings

Company Description

Vitae is a biotechnology company focused on leveraging a discovery and development platform for the advancement of small molecule drugs to treat important unmet clinical diseases. Utilizing the company's proprietary Contour structure-based discovery platform, Vitae is able to rapidly discover novel lead molecules with desired target efficacy and biological stability that support significant derisking at very early stages of drug development. Vitae has initially focused its development on two targets that treat large patient markets: type-2 diabetes and Alzheimer's disease. The company's most advanced clinical asset is VTP-34072, an inhibitor of 11- β HSD1, a preclinically validated target in diabetes and metabolic disease that is currently in Phase II clinical trials. Data is expected from this trial in the second half of 2015.

The second asset, BI 1147560, an IND-ready inhibitor of BACE-1, a target of high interest in the treatment of Alzheimer's. The company has also used its platform to develop preclinical candidate inhibitors against difficult-to-target pathways in autoimmune disease, cardiovascular disease, and dermatological conditions. These wholly owned assets include VTP-43742, a ROR- γ t inhibitor strongly implicated in autoimmune diseases such as multiple sclerosis, psoriasis, and rheumatoid arthritis. Additionally, the company has developed VTP-38443 for the treatment of acute coronary syndrome, and VTP-38543 for the treatment of atopic dermatitis, both of which stimulate the LXR β receptor. Vitae is also developing an as-yet unnamed program to develop preclinical compounds for immune-oncology applications.

Investment Risks

Potential risks to our investment thesis and price target include, but are not limited to:

Clinical and regulatory. If either VTP-34072 in diabetes or BI 1147560 in Alzheimer's is not able to meet any of its primary outcomes or suffer from safety and tolerability issues, Vitae or Boehringer Ingelheim (BI) may choose to end development in any of its current indications. Additionally, if the FDA and EMEA do not approve VTP-34072 or BI 1147560, Vitae's stock price would likely suffer.

Partnering. Vitae has partnered with (BI) in the development of VTP-34072 in diabetes. BI is responsible for the continued clinical and commercial development of VTP-34072 and may decide to end development for one or more indications. If it were necessary for Vitae to develop and market any of its programs due to the loss or inability to retain a partner, it may be difficult to develop an internal commercial structure. Management has limited experience in commercial and marketing activities.

Competitive. The diabetes market is crowded and saturated with low-cost generic manufacturers of metformin and sulfonylureas. It may be difficult for BI and Vitae to garner significant market share. The high bar for safety and efficacy differentiation for the diabetes primary care market may limit adoption. BI 1147560 is not the only BACE-1 inhibitor in development and will not be a first-in-class therapy if Merck/Ligand are successful in bringing their drug to market. It may be difficult to compete in a market dominated by these therapies.

Financial. Vitae currently derives revenue from research and development funding and from license or collaboration agreements. The company sold ~6,875,000 shares in September 2014, raising net proceeds of ~\$51.15MM. We expect this funding to be able to carry it through to 2016. Like most non-profitable biotechnology companies, VTAE will likely need to seek additional financing, exposing current investors to dilutive risk.

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Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

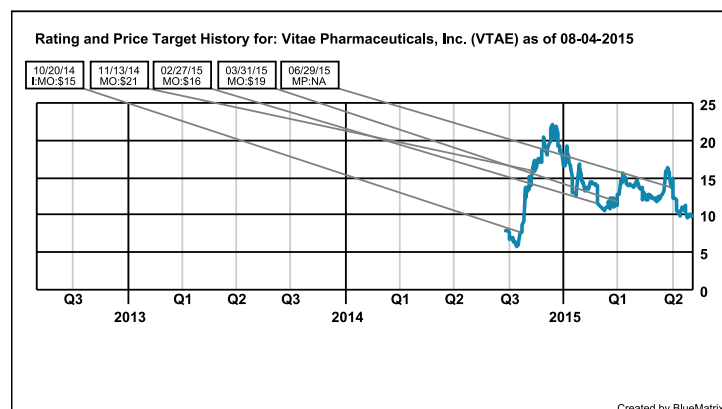
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JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months				
				Regulatory Equivalent	# Co's Under Coverage	% of Total	% of Co's With This Rating	
MARKET OUTPERFORM	Buy	287	62.39%	Buy	287	62.39%	84	29.27%
MARKET PERFORM	Hold	144	31.30%	Hold	144	31.30%	16	11.11%
MARKET UNDERPERFORM	Sell	8	1.74%	Sell	8	1.74%	0	0%
COVERAGE IN TRANSITION		21	4.57%		21	4.57%	4	19.05%
TOTAL:		460	100%		460	100%	104	22.61%

Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



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