

Vitae Pharmaceuticals, Inc. (VTAE)

Overweight

Cash Of \$80 Million To Focus On Wholly Owned Autoimmune Program; Reiterate OW

CONCLUSION

Vitae ended 2Q:15 with \$80 million in cash to advance its wholly-owned, early stage pipeline. Vitae is conducting a Phase I trial of ROR γ t inhibitor VTP-43742 and plans to begin a multiple ascending dose trial in psoriasis in 3Q:15. Topical LXR-beta agonist VTP-38543 for atopic dermatitis will begin Phase I trials this year. Unfortunately, Boehringer Ingelheim's partnered diabetes drug, VTP-34072, failed in combination with metformin and BI elected to terminate the BACE inhibitor partnership following off-target tox in a multi-dose study earlier this year. While VTAE shares have come under pressure following this set-back, we remain buyers for the company's wholly-owned pipeline. We reiterate our Overweight rating and \$16 price target.

- **ROR γ t Program Data in 2H:15.** VTP-43742 is an inhibitor of ROR γ t, a key regulator in TH17 activation. Vitae is conducting a Phase I single ascending dose trial of VTP-43742 in 48 healthy volunteers. Vitae will commence a multiple ascending dose trial in 60 moderate-to-severe psoriasis patients in 3Q:15 with top-line 4-week PASI efficacy this year. Vitae has observed strong preclinical activity of VTP-43742 in a mouse multiple sclerosis model and plans to initiate two Phase II trials in 2016.
- **Atopic Dermatitis a Second Focus.** VTP-38543 is a topical LXR-beta agonist ready to begin Phase I trials this year with PoC data in 2016. In a mouse model of atopic dermatitis, VTP-38543 improved both breakdown of the dermal barrier and inflammatory disease processes on par with steroids. According to the NIH, atopic dermatitis affects up to 30% of Americans and more effective treatments are needed.
- **Better Clarity on BACE and Diabetes by YE:15.** Rights to the BACE inhibitor Alzheimer's disease program, including lead candidate VTP-36951, will return to Vitae on October 21st. The company will provide an update on its plan by YE:15, although we anticipate Vitae may seek a new partner. VTP-34072 + metformin failed to display efficacy in lowering blood glucose in a Phase II trial. BI will continue to run the monotherapy arms of the study to read out in 2H:15, but our expectations are low and we have removed all value for the program.

RISKS TO ACHIEVEMENT OF PRICE TARGET

Risks include clinical, regulatory and commercial. Vitae may be unable to sign new partnerships and its drugs may fail in the clinic. Vitae may be unable to file new INDs. Vitae will likely need to raise additional capital.

COMPANY DESCRIPTION

Vitae is a structure-based small molecule drug discovery company.

PRICE: US\$9.61

Note: Price as of the close August 4, 2015.

TARGET: US\$16.00

Proj. EV of \$331M + mid-FY:16E net cash

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$16.00
FY15E Rev (mil)	US\$0.8	US\$0.7
FY16E Rev (mil)	—	US\$1.0
FY15E EPS	US\$(1.75)	US\$(1.84)
FY16E EPS	US\$(1.90)	US\$(1.95)
52-Week High / Low	US\$23.35 / US\$5.41	
Shares Out (mil)	21.8	
Market Cap. (mil)	US\$209.5	
Total Assets (\$mil)	NA	
Avg Daily Vol (ooo)	160	
Book Value/Share	US\$3.50	
Net Cash Per Share	US\$3.68	
Debt to Total Capital	0.0%	
Div (ann)	NA	
Fiscal Year End	Dec	

Price Performance - 1 Year



Source: Bloomberg

YEAR	REVENUE (US\$ m)						EARNINGS PER SHARE (US\$)					
	Mar	Jun	Sep	Dec	FY	FY RM	Mar	Jun	Sep	Dec	FY	FY P/E
2014A	1.2	1.2	6.2	0.2	8.7	24.1x	(8.24)	(8.57)	(1.06)	(0.40)	(3.61)	NM
2015E	0.2A	0.2A	0.2	0.2	0.7	299.3x	(0.47)A	(0.45)A	(0.45)	(0.48)	(1.84)	NM
2016E	0.3	0.3	0.3	0.3	1.0	209.5x	(0.46)	(0.49)	(0.48)	(0.51)	(1.95)	NM

Vitae went public in Sept 2014.

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Vitae Pharmaceuticals
Quarterly Earnings Estimates
(\$ in thousands except per share)

8/4/15

	<u>1QA</u>	<u>2QA</u>	<u>3QA</u>	<u>4QA</u>	<u>2014A</u>	<u>1QA</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>	<u>2015E</u>	<u>1QE</u>	<u>2QE</u>	<u>3QE</u>	<u>4QE</u>	<u>2016E</u>
Revenues:															
Collaborative Revenue	\$1,173	\$1,155	\$6,178	\$162	\$8,669	\$150	\$162	\$200	\$200	\$712	\$250	\$250	\$250	\$250	\$1,000
Product Sales	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenues	\$1,173	\$1,155	\$6,178	\$162	\$8,669	\$150	\$162	\$200	\$200	\$712	\$250	\$250	\$250	\$250	\$1,000
Operating Expenses:															
Research and Development	4,548	4,877	4,799	5,080	19,305	7,506	7,773	8,000	8,500	31,779	8,500	9,000	9,000	9,500	36,000
General and Administrative	1,260	1,368	3,096	2,189	7,914	2,111	2,259	2,250	2,500	9,120	2,250	2,500	2,500	2,750	10,000
Total Operating Expenses	\$5,808	\$6,246	\$7,896	\$7,269	\$27,219	\$9,617	\$10,032	\$10,250	\$11,000	\$40,899	\$10,750	\$11,500	\$11,500	\$12,250	\$46,000
Operating Income/(Loss)	(\$4,634)	(\$5,090)	(\$1,718)	(\$7,108)	(\$18,550)	(\$9,467)	(\$9,871)	(\$10,050)	(\$10,800)	(\$40,187)	(\$10,500)	(\$11,250)	(\$11,250)	(\$12,000)	(\$45,000)
Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Interest income, Net	(268)	(244)	(217)	(167)	(897)	(34)	108	0	0	74	0	0	0	0	0
Other Income	13	204	126	0	343	(207)	1	0	0	(205)	0	0	0	0	0
PreTax Income/(Loss)	(\$4,889)	(\$5,130)	(\$1,809)	(\$7,275)	(\$19,103)	(\$9,707)	(\$9,761)	(\$10,050)	(\$10,800)	(\$40,318)	(\$10,500)	(\$11,250)	(\$11,250)	(\$12,000)	(\$45,000)
PreTex Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Income Tax Benefit (Expense)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<i>Tax Rate</i>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income/(Loss)	(\$4,889)	(\$5,130)	(\$1,809)	(\$7,275)	(\$19,103)	(\$9,707)	(\$9,761)	(\$10,050)	(\$10,800)	(\$40,318)	(\$10,500)	(\$11,250)	(\$11,250)	(\$12,000)	(\$45,000)
Net Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Net Income/(Loss) per Share	(\$8.24)	(\$8.57)	(\$1.06)	(\$0.40)	(\$3.61)	(\$0.47)	(\$0.45)	(\$0.45)	(\$0.48)	(\$1.84)	(\$0.46)	(\$0.49)	(\$0.48)	(\$0.51)	(\$1.95)
Shares Outstanding	593	599	1,712	18,114	5,291	20,827	21,838	22,250	22,500	21,854	22,750	23,000	23,250	23,500	23,125

Source: Company reports and Piper Jaffray estimates

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Legend:

I: Initiating Coverage
R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	429	60.34	104	24.24
HOLD [N]	264	37.13	13	4.92
SELL [UW]	18	2.53	0	0.00

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