

Vitae Pharmaceuticals

(VTAE-NASDAQ)

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

Data Rich Year = Value Creation

Event

VTAE reported 1Q15 operating results yesterday. Net loss per share was (\$0.47) versus consensus loss of (\$0.35), and VTAE ended 1Q15 with \$88.7M in cash, which included \$38.0M raised in a 1Q15 follow-on offering. In addition, the company retired its outstanding debt facility of \$4.3M. VTAE will begin a single ascending dose safety trial of first-in-class oral retinoic acid receptor-related orphan receptor (ROR γ t) antagonist, VTP-43742, in 2Q15 with a MAD trial in psoriatic patients planned to be conducted 2H15. In 2016, the company intends to initiate two phase 2 trials, one in a blockbuster disease such as psoriasis or multiple sclerosis and the second in an orphan disease with a TH17 signature. With respect to MS, VTAE presented pre-clinical data recently showing superiority of 742 to an anti-IL17 MAb in the EAE model. For topical LXR agonist, VTP-38543, a phase 1 SAD study is expected to begin in 2H15. The intended indication for 543 is atopic dermatitis where the dual benefits, namely resolution of inflammation and improvement in skin barrier function, distinguish this approach from other developmental therapies. With respect to the BI-partnered programs, dosing of VTP-34071 (HSD1 inhibitor) with metformin has been completed, and the monotherapy cohort is expected to complete in 2H15. Separately, BI plans to start clinical development of the BACE inhibitor, BI 11447560, by YE15, triggering a \$7M milestone to VTAE.

Impact & Analysis

We reiterate our Outperform rating on VTAE shares after review of 1Q15 results. The company has several important catalysts in 2015, most notable proof of concept data for 742 in psoriasis. In addition, BI is making good progress on diabetes drug 071, and with an IND for BACE inhibitor 560, BI will get the Alzheimer's disease program back on track by YE15. Overall, we believe VTAE remains under-valued relative to its broad opportunity base, and we recommend buying at current levels.

Valuation & Recommendation

We arrive at our \$27 price target by applying a 25x multiple to our 2023E EPS estimate of \$4.92 and discounting at 25%. We maintain our Outperform rating.

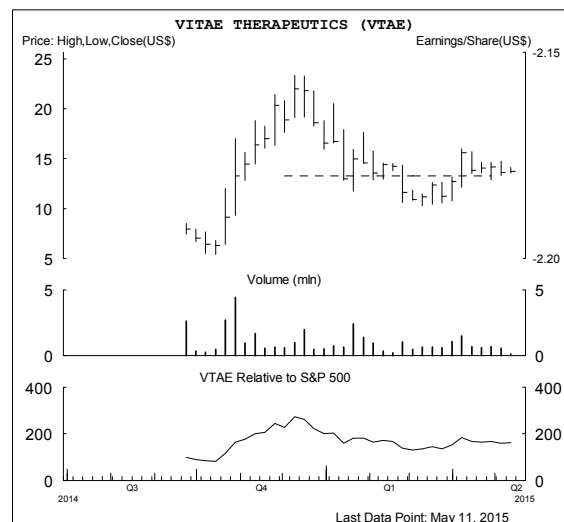
May 13, 2015

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Price (12-May)	\$13.38	52-Week High	\$23.35
Target Price	\$27.00	52-Week Low	\$5.41



(FY-Dec.)	2013A	2014A	2015E	2016E
EPS	\$0.09	-\$3.61	-\$1.77	-\$1.42
P/E			na	na
CFPS	na	na	na	na
P/CFPS			na	na
Rev. (\$mm)	\$23	\$9	\$0	\$0
EV (\$mm)	na	\$93	\$93	\$93
EBITDA (\$mm)	\$2	-\$19	\$0	-\$27
EV/EBITDA	na	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2013A	na	na	na	na
2014A	-\$0.36	-\$0.36	-\$1.06	-\$0.40
2015E	-\$0.47a	-\$0.41	-\$0.45	-\$0.45
Dividend	\$0.00			
Book Value	\$0.52			
Shares O/S (mm)	20.8			
Float O/S (mm)	6.4			
Wkly Vol (000s)	1,039			
Net Debt (\$mm)	-\$16			
Yield				0.0%
Price/Book				25.7x
Mkt. Cap (mm)				\$278
Float Cap (mm)				\$86
Wkly \$ Vol (mm)				\$14.3
Next Rep. Date				na

Notes: All values in US\$

First Call Mean Estimates: VITAE PHARMACEUTICALS INC (US\$)
2015E: -\$1.45; 2016E: -\$1.66

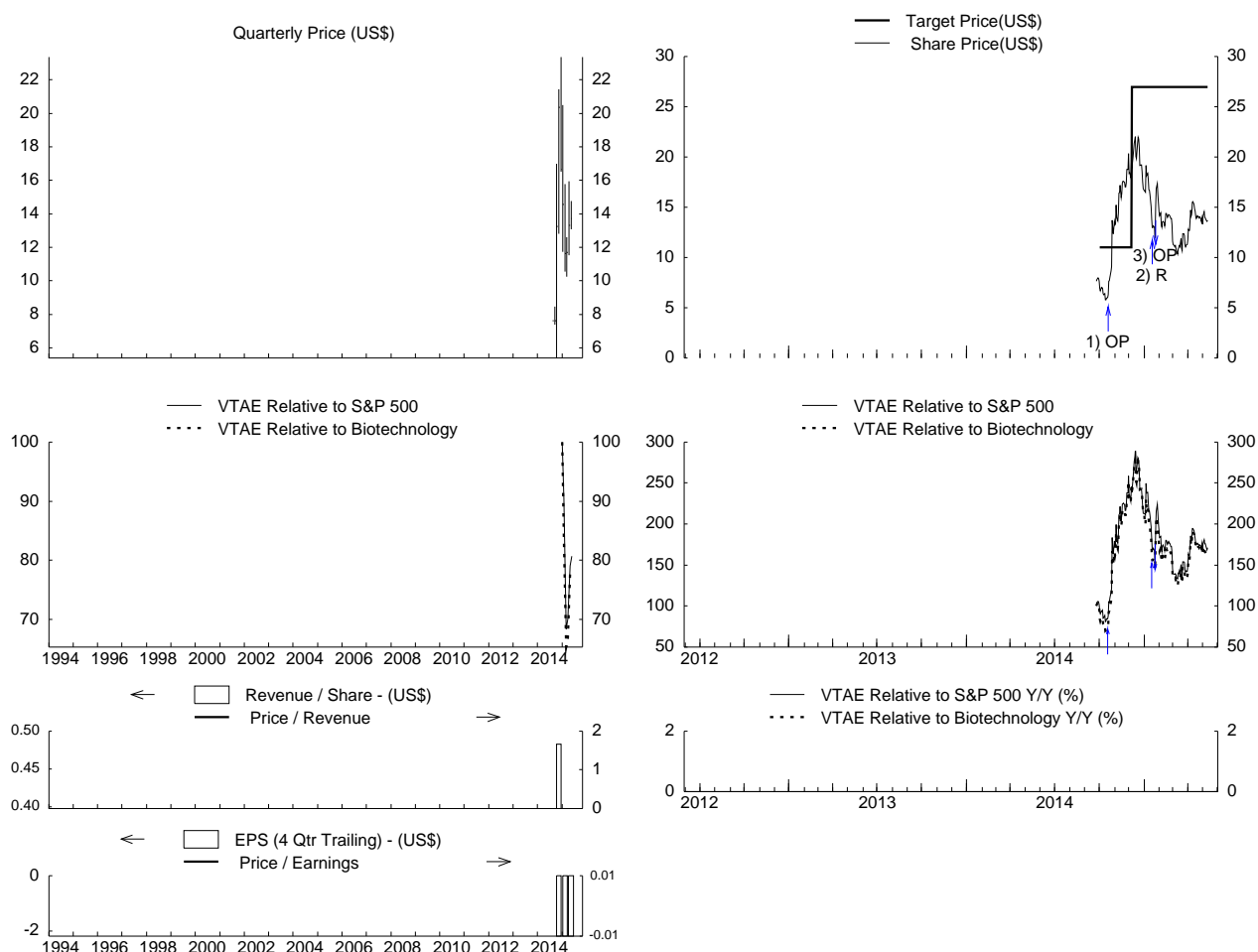
Changes	Annual EPS
	2015E: -\$1.67 to -\$1.77

Exhibit 1: VTAE Income Statement 2015E-2023E

INCOME STATEMENT (\$M)	1Q15A	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
REVENUES													
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 96.8	\$ 189.9	\$ 327.6
Licensing Revenue	\$ 0.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Software and Other Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL REVENUES	\$ 0.2	\$ -	\$ -	\$ -	\$ 0.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 96.8	\$ 189.9	\$ 327.6
EXPENSES (GAAP)													
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9.2	\$ 17.1	\$ 27.8
Research and Development	\$ 7.5	\$ 5.0	\$ 5.0	\$ 5.0	\$ 20.5	\$ 21.0	\$ 21.5	\$ 24.0	\$ 26.0	\$ 27.0	\$ 28.0	\$ 29.0	\$ 30.0
Selling, General & Administrative	\$ 2.1	\$ 1.5	\$ 1.5	\$ 1.5	\$ 6.6	\$ 6.0	\$ 6.0	\$ 8.0	\$ 10.0	\$ 12.0	\$ 14.0	\$ 16.0	\$ 18.0
Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL EXPENSES	\$ 9.6	\$ 6.5	\$ 6.5	\$ 6.5	\$ 27.1	\$ 27.0	\$ 27.5	\$ 32.0	\$ 36.0	\$ 39.0	\$ 51.2	\$ 62.1	\$ 75.8
Operating Income	\$ (9.4)	\$ (6.5)	\$ (6.5)	\$ (6.5)	\$ (26.9)	\$ (27.0)	\$ (27.5)	\$ (32.0)	\$ (36.0)	\$ (39.0)	\$ (41.6)	\$ (42.8)	\$ (48.2)
Depreciation and amortization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EBIT	\$ (9.4)	\$ (6.5)	\$ (6.5)	\$ (6.5)	\$ (26.9)	\$ (27.0)	\$ (27.5)	\$ (32.0)	\$ (36.0)	\$ (39.0)	\$ (41.6)	\$ (42.8)	\$ (48.2)
Interest and other income	\$ 0.1	\$ -	\$ -	\$ -	\$ (0.1)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest and other expense	\$ (0.1)	\$ -	\$ -	\$ -	\$ 0.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other income (expense)	\$ (0.2)	\$ (3.0)	\$ (4.0)	\$ (4.0)	\$ (11.2)	\$ (12.1)	\$ (7.2)	\$ 12.0	\$ (7.5)	\$ -	\$ -	\$ -	\$ -
Interest and Other Income (Expense)	\$ (0.2)	\$ (3.0)	\$ (4.0)	\$ (4.0)	\$ (11.2)	\$ (12.1)	\$ (7.2)	\$ 12.0	\$ (7.5)	\$ -	\$ -	\$ -	\$ -
Pre-Tax Income	\$ (9.7)	\$ (9.5)	\$ (10.5)	\$ (10.5)	\$ (40.2)	\$ (39.1)	\$ (34.7)	\$ (20.0)	\$ (43.5)	\$ (39.0)	\$ (41.6)	\$ (42.8)	\$ (48.2)
Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income (GAAP)	\$ (9.7)	\$ (9.5)	\$ (10.5)	\$ (10.5)	\$ (40.2)	\$ (39.1)	\$ (34.7)	\$ (20.0)	\$ (43.5)	\$ (39.0)	\$ (41.6)	\$ (42.8)	\$ (48.2)
Net Income (Non-GAAP)	\$ (9.7)	\$ (9.5)	\$ (10.5)	\$ (10.5)	\$ (40.2)	\$ (39.1)	\$ (34.7)	\$ (20.0)	\$ (43.5)	\$ (39.0)	\$ (41.6)	\$ (42.8)	\$ (48.2)
EPS (GAAP) (basic)	\$ (0.47)	\$ (0.41)	\$ (0.45)	\$ (0.45)	\$ (1.77)	\$ (1.42)	\$ (1.10)	\$ (0.86)	\$ (1.13)	\$ (0.94)	\$ (0.94)	\$ (0.94)	\$ (0.94)
EPS (GAAP) (diluted)	\$ (0.47)	\$ (0.41)	\$ (0.45)	\$ (0.45)	\$ (1.77)	\$ (1.42)	\$ (1.10)	\$ (0.86)	\$ (1.13)	\$ (0.94)	\$ (0.94)	\$ (0.94)	\$ (0.94)
Total of Reconciliation Items	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income (Non-GAAP)	\$ (9.7)	\$ (9.5)	\$ (10.5)	\$ (10.5)	\$ (40.2)	\$ (39.1)	\$ (34.7)	\$ (20.0)	\$ (43.5)	\$ (39.0)	\$ (41.6)	\$ (42.8)	\$ (48.2)
Impact of Adjustments to EPS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Source: Company reports and BMO Capital Markets

VITAE THERAPEUTICS (VTAE)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %
2014	-3.61	na na	0.00	0.0 0.0	0	-0.5	-50.8 -11.8	
Range*		na na		0.0 0.0			-50.8 -11.8	
Current*	-2.18	na	0.00	0.0	0	0.5	25.6	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 Q4/2014.
 * Valuation metrics are based on high and low for the fiscal year.
 * Range indicates the valuation range for the period presented above.

Last Price (May 11, 2015): \$13.73
 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 \$4.92 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.

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	43.7%	18.6%	58.2%	42.7%	55.5%	54.1%
Hold	Market Perform	51.4%	10.4%	38.5%	52.1%	41.9%	40.5%
Sell	Underperform	4.9%	9.4%	3.3%	5.2%	2.6%	5.5%

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

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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;

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