

Vitae Pharmaceuticals

(VTAE-NASDAQ)

Rating: Outperform
Target Price: \$27.00
Price: \$15.19

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Partner Hits Speed Bump in Diabetes, Psoriasis Remains Key Driver

Event

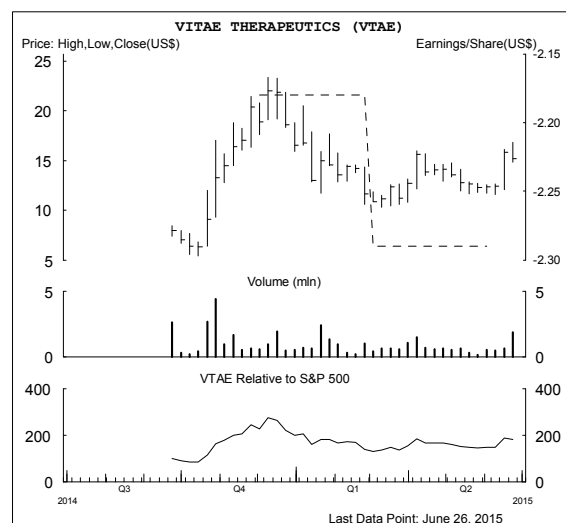
VTAE announced this morning top-line results from one of the two arms of the ongoing phase 2 proof-of-concept study of VTP-34072 (an 11 β HSD1 inhibitor partnered with Boehringer Ingelheim) in overweight type 2 diabetics. This study evaluated VTP-34072 either as a monotherapy or as an add-on therapy to metformin. VTAE announced that the metformin add-on arm of the study did not meet BI's predefined endpoint criteria (with the primary endpoint of fasting plasma glucose). Data from the placebo-controlled monotherapy arm are expected to read out later in 2015, and partner BI is expected to determine the appropriate next-steps based on data from both datasets. VTAE also announced this morning the initiation of a single ascending dose (SAD) healthy volunteer study of VTP-43742, the company's wholly owned ROR γ t inhibitor for the treatment of autoimmune diseases, with data expected in 2H15. VTAE also expects to initiate a multiple ascending dose (MAD) study of VTP-43742 in patients with moderate to severe psoriasis in 3Q15, with top-line data by YE15.

Impact & Analysis

We maintain our Outperform rating on shares of VTAE following review of initial diabetes data for VTP-34072. While metformin add-on results may appear disappointing, we would note the high hurdle for advancement of a 11 β HSD1 inhibitor given prior failures by large pharma. Indeed following failure to advance programs from Amgen, (AMG221), AstraZeneca (AZN4017), Bristol Myers Squibb (BMS-770767), Lilly (LY2523799), Merck (MK0916), Pfizer (PF915275), and Roche (RG7234 and RG4929), we believe that expectations for VTP-34072 should have been modest. Ultimately the true value driver for VTAE is in autoimmune disease with VTP-43742, and we see significant validation from injectable IL17 inhibitors, and significant upside potential into PsO data at YE15.

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.

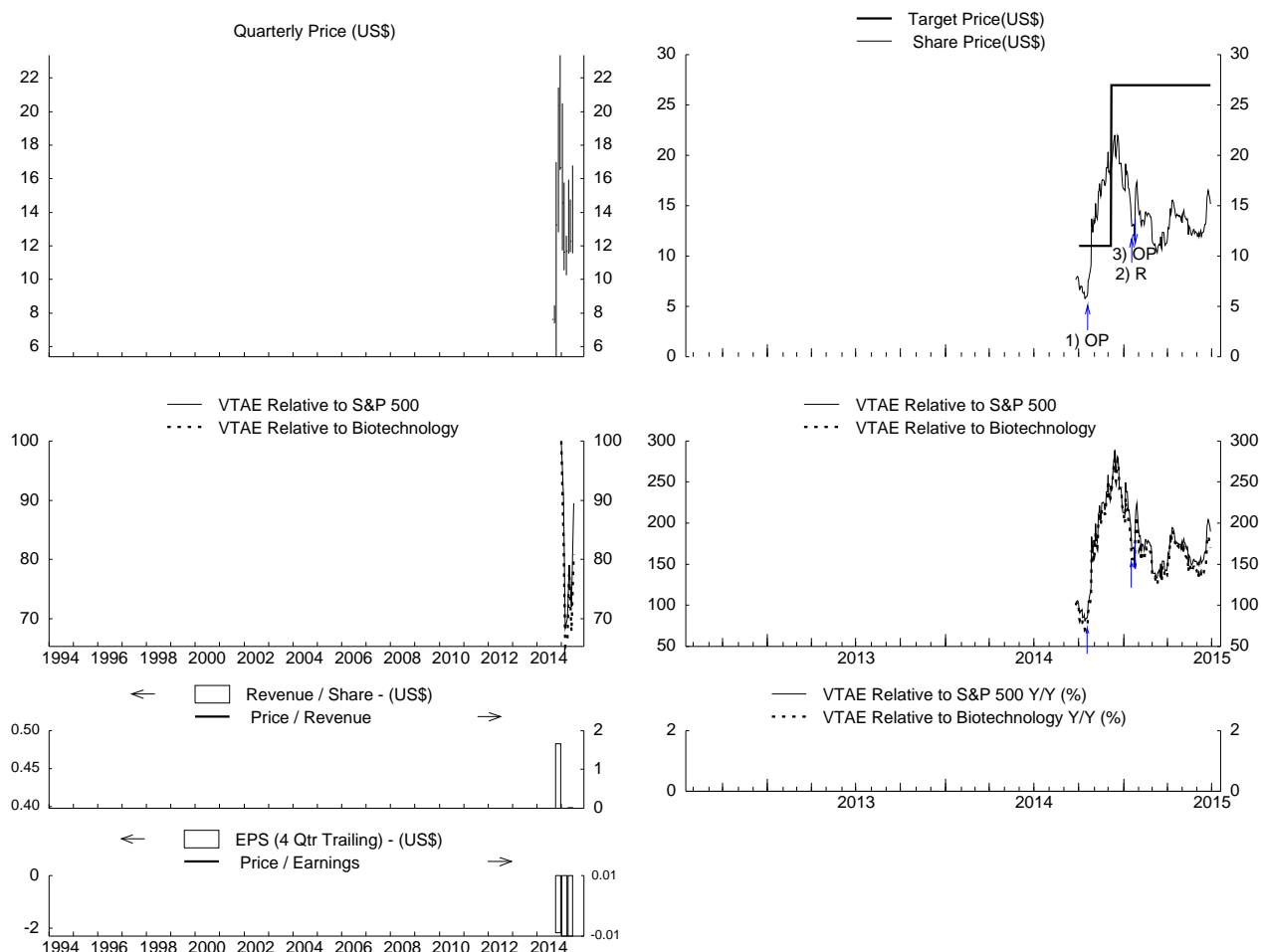


(FY-Dec.)	2013A	2014A	2015E	2016E
EPS	\$0.09	-\$3.61	-\$1.77	-\$1.42
P/E			na	na
CFPS	na	na	na	na
P/CFPS			na	na
Rev. (\$mm)	\$23	\$9	\$0	\$0
EV (\$mm)	na	\$93	\$93	\$93
EBITDA (\$mm)	\$2	-\$19	\$0	-\$27
EV/EBITDA	na	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2013A	na	na	na	na
2014A	-\$0.36	-\$0.36	-\$1.06	-\$0.40
2015E	-\$0.47a	-\$0.41	-\$0.45	-\$0.45
Dividend	\$0.00			0.0%
Book Value	\$0.52			29.2x
Shares O/S (mm)	20.8			\$316
Float O/S (mm)	6.4			\$97
Wkly Vol (000s)	950			\$13.0
Net Debt (\$mm)	-\$16			na
Yield				0.0%
Price/Book				29.2x
Mkt. Cap (mm)				\$316
Float Cap (mm)				\$97
Wkly \$ Vol (mm)				\$13.0
Next Rep. Date				na

Notes: All values in US\$

First Call Mean Estimates: VITAE PHARMACEUTICALS INC (US\$)
 2015E: -\$1.69; 2016E: -\$1.55

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*	-2.29	na	0.00	0.0	0	0.5	23.6	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 Q1/2015.
 * Valuation metrics are based on high and low for the fiscal year.
 * Range indicates the valuation range for the period presented above.

Last Price (June 26, 2015): \$15.19
 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.

Distribution of Ratings (March 31, 2015)

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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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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