

Vital Therapies, Inc. (VTL)

Rating	OUTPERFORM* [V]
Price (28 May 14, US\$)	11.71
Target price (US\$)	16.00 ¹
52-week price range	13.00 - 11.21
Market cap. (US\$ m)	247.26
Enterprise value (US\$ m)	182.87

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

Research Analysts

Bruce Nudell

212 325 9122

bruce.nudell@credit-suisse.com

Matthew Keeler

212 325 9008

matthew.keeler@credit-suisse.com

Jacob Lundberg

212 325 6785

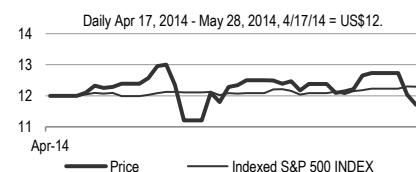
jacob.lundberg@credit-suisse.com

EARNINGS

VTI-208 Trial Enrollment on Track

- **1Q Costs Slightly Above Our Expectations:** VTL reported 1Q14 R&D of \$9.2M vs. our \$6.4M estimate with SG&A of \$2.7M below our \$4.8M estimate driving a loss from operations of \$11.9M, slightly above our \$11.2M estimate. 1Q results did not include the April IPO shares & as a result EPS estimates are not comparable to our 1Q14 EPS estimates (our share count was adjusted to account for the IPO as if it happened 1/1/14). VTL ended 1Q14 with \$46M in cash, which with \$52M from the IPO represents \$98M in cash or enough to operate for ~8 quarters on our cash burn assumptions. VTL is not holding a call to discuss 1Q results. Given the lack of sales & the upcoming VTI 208 data, we do not expect these results to meaningfully impact shares.
- **VTI – 208 Trial Enrollment in AILD On Track:** As of 5/27, VTL has enrolled 111 patients in its pivotal phase 3 VTI-208 alcohol-induced liver decompensation (AILD) trial (an increase of 11 from the end of April) & continues to expect to release preliminary data from the trial in 1H15. We note that at a pace of 12 patients/month (slightly better than May's enrollment) VTI-208 would be finished enrolling by December which should facilitate presentation of preliminary ~90 day results in 2Q15. Results from the VTI-208 trial are the key to US ELAD approval & the primary catalyst likely to move the stock, in our view. If ELAD were to show a ~20% statistically significant mortality benefit in VTI-208, this should de-risk the perceived risk to approval (expected in 2016 in the US/Europe) & result in valuation upside. Today VTL also noted 4 sites enrolled in its VTI-210 trial (acute alcoholic hepatitis, but somewhat sicker than in VTI-210) with preliminary data expected in 2015 or 2016. Preliminary data from its VTI-212 (fulminant hepatic failure trial) are also expected in 2015/16.
- **Thoughts on the Stock:** Given the large AILD opportunity (60K US/EU patients & ~\$150K ASP implies \$9B opportunity), we see meaningful upside potential on favorable VTI-208 data; however, the risk associated with trial success is likely to remain as an overhang on shares until preliminary results are announced.

Share price performance



On 05/28/14 the S&P 500 INDEX closed at 1909.78

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	—	—	—	—
2014E	-21.05	-0.50	-0.53	-0.53
2015E	-0.55	-0.55	-0.56	-0.48

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	-3.14	-2.78	-2.14	-0.52
Prev. EPS (US\$)	—	-2.14	-1.70	-0.53
P/E (x)	-3.7	-4.2	-5.5	-22.6
P/E rel. (%)	-21.5	-26.4	-38.1	-174.3
Revenue (US\$ m)	—	—	—	20.1
EBITDA (US\$ m)	-30.6	-45.2	-48.3	-15.4
OCFPS (US\$)	-2.86	-2.57	-2.10	-0.66
P/OCF (x)	—	-4.6	-5.6	-17.8
EV/EBITDA (current)	-6.8	-4.0	-2.7	-10.0
Net debt (US\$ m)	-38	-64	-115	-93
ROIC (%)	-971.60	44.28	47.41	16.42
Number of shares (m)	21.12	IC (current, US\$ m)		3.23
BV/share (Next Qtr., US\$)	—	EV/IC (x)		-1.9
Net debt (Next Qtr., US\$ m)	-46.0	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	79.4	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates.

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Exhibit 1: VTL Reported 1Q14 Results vs. CS Estimates

	Actual 1Q14	CS Estimates 1Q14	Variance		Consensus 1Q14
			\$	%	
Total Sales	\$0.0	\$0.0	\$0.0	NM	\$0.0
Cost of Goods Sold	\$0.0	\$0.0	\$0.0	NM	
Gross Profit	\$0.0	\$0.0	\$0.0	NM	
SG&A	\$2.7	\$4.8	(\$2.1)	-81%	
R&D	\$9.2	\$6.4	\$2.8	31%	
EBIT	(\$11.9)	(\$11.2)	(\$0.7)	6%	(\$9.7)
Other	\$1.1	\$0.0			
Pretax Income	(\$10.7)	(\$11.2)	\$0.4	-4%	
Income Taxes	\$0.0	\$0.0	\$0.0	NM	
Tax rate	0.0%	0.0%	\$0.0	NM	
Net Income (loss)	(\$10.7)	(\$11.2)	\$0.4	-4%	
Other	(\$3.1)	\$0.0			
Net Income (loss) to common	(\$13.8)	(\$11.2)			
Diluted Shares	0.6	21.1	(\$20.6)	-3643%	
Diluted Adj EPS	(\$24.49)	(\$0.53)	(\$23.96)	98%	(\$0.52)

Source: Company data, Credit Suisse estimates, ThomsonOne

Companies Mentioned (Price as of 28-May-2014)

Vital Therapies, Inc. (VTL.OQ, \$11.71, OUTPERFORM[V], TP \$16.0)

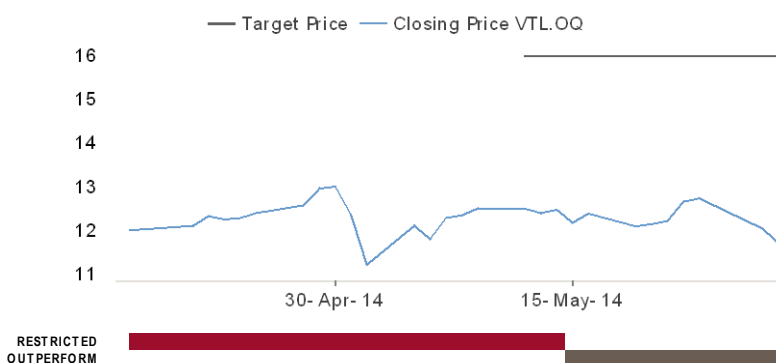
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I, Bruce Nudell, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Vital Therapies, Inc. (VTL.OQ)

VTL.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
07-Apr-14			R
12-May-14	12.49	16.00	O *

* Asterisk signifies initiation or assumption of coverage.



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Underperform/Sell*	13%	(46% banking clients)
Restricted	3%	

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Price Target: (12 months) for Vital Therapies, Inc. (VTL.OQ)

Method: Our \$16 DCF-derived price target is based on a 13.5% WACC and a 0% terminal growth rate.

Risk: Risks to our \$16 price target are: (1) a large, clean dataset does not yet exist, and while early data are encouraging, the ultimate clinical benefit of the ELAD system is yet to be proven; (2) ultimate pricing of the system is likely dependent on the mortality benefit demonstrated in VTL's ongoing phase 3 trial; (3) VTL will likely need additional financing prior to commercialization; (4) approval process in China is opaque; and (5) VTL's IP could ultimately afford exclusivity for a shorter period of time than we anticipate.

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