

US Equity Research

15 December 2014

BUY

unchanged

PRICE TARGET US\$36.00

unchanged

Price (15-Dec) US\$21.97

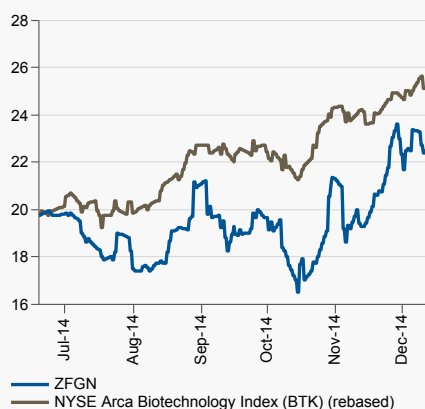
Ticker ZFGN-NASDAQ

52-Week Range (US\$): 16.01 - 24.99
 Avg Daily Vol (M) : 39.1
 Shares Out. (M) : 22.7
 Market Cap (US\$M): 499
 Enterprise Value (US\$M): 388

FYE Dec	2013A	2014E	2015E
Sales (US\$M)	0.0	0.0	0.0
EPS Adj&Dil (US\$)	(3.06)	(1.86)	(2.26)

Quarterly Sales	Q1	Q2	Q3	Q4
2013A	0.0	0.0	0.0	0.0
2014E	0.0A	0.0A	0.0A	0.0
2015E	-	-	-	-

Quarterly EPS Adj&Dil	Q1	Q2	Q3	Q4
2013A	(0.77)	-	-	-
2014E	(0.29)A	(0.28)A	(0.65)A	(0.65)
2015E	-	-	-	-



Zafgen has identified a cutting edge mechanism and molecule for severe obesity disorders entering Phase 3, and could have efficacy rivaling surgical procedures.

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Company Update

A phat year ahead

Today, Zafgen announced the initiation of beloranib Ph2b in ~150 severely obese patients. The six-month interim results are anticipated in Q4/15, and the full 12-month data set should be available around mid-2016. With more than \$120M of cash and equivalents on hand as of the end of September, Zafgen is well-positioned to complete two trials in addition to the first portion of the obesity study - Ph3 in Prader-Willi syndrome (PWS) and Ph2a in patients with hypothalamic injury-associated obesity (HIAO), all with data expected to be available in 2015.

- **Ph2a HIAO data is next.** Fully enrolled since September, the 8-week HIAO trial is on track for completion before year end and data readout in early 2015. By administering 1.8 mg of beloranib instead of 2.4 mg, which was used in the Ph2 obesity trial, we extrapolate potential weight losses in the 4-5% range after four weeks and 6-8% range after eight weeks.
- **Ramping up Ph3 in PWS.** With strong enrollment and patient demand, Zafgen intends to increase the size of the trial from 84 to ~100 patients. Applying more conservative assumptions than Ph2 ZAF-211, the Ph3 remains a >90% powered study, where meeting one or both primary endpoints would be considered successful.
- **Valuation/risks.** We use a discounted P/E model to derive our \$36 target; we apply a 25x multiple to our 2021 EPS estimate of \$7.75 discounted at 25% for 6.5 years. Risks include: slow recruitment to clinical trials, hitting an efficacy plateau in trials beyond 24 weeks, and/or failure to gain FDA approval.

Appendix: Important Disclosures

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Target Price / Valuation Methodology:

Zafgen - ZFGN:

We use a discounted P/E model to derive our \$36 target; we apply a 25x multiple to our 2021 EPS estimate of \$7.75 discounted at 25% for 6.5 years.

Risks to achieving Target Price / Valuation:

Zafgen - ZFGN:

Delays in any of its three main programs due to regulatory concerns or logistical hurdles. Failure of beloranib in the Prader-Willi Syndrome Phase 3 program (due Q4 2015), the Phase 2 craniopharyngioma program (due Q1 2015), or the severe obesity P2b program (due Q4 2015). Failure to ultimately obtain FDA approval for beloranib in one or more of the three indications. Unforeseen safety signals that pop up due to beloranib's not-fully-understood mechanism and pleiotropic effects that create the potential for off-target interactions leading to unpredictable side effects. Failure to properly manufacture a more commercially viable injection presentation than the form currently used in clinical trials. Failure to obtain additional funding to finish development and commercialize beloranib.

Distribution of Ratings:

Global Stock Ratings (as of 12/15/14)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	702	65.42%	34.90%
Hold	321	29.92%	14.95%
Sell	50	4.66%	2.00%
	1073*	100.0%	

*Total includes stocks that are Under Review

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NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

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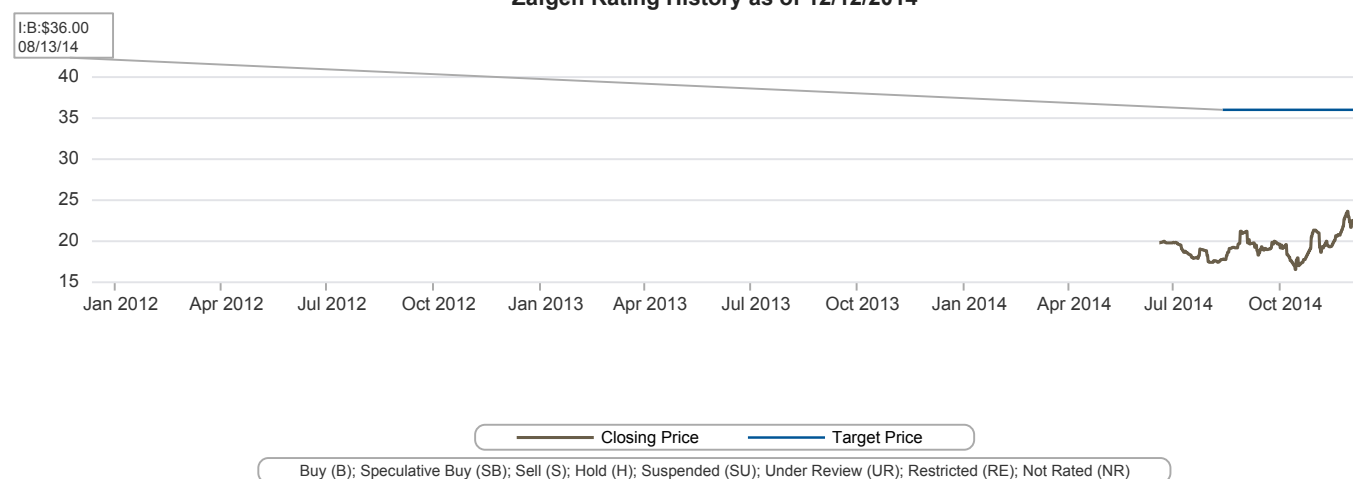
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An analyst has visited the material operations of Zafgen. No payment was received for the related travel costs.

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