

ZS Pharma, Inc. (ZSPH)

SMALL & MID CAP RESEARCH

Positive ZS004 Data Sets Stage for Filing and Approval of Best-In-Class Therapy

- **Positive ZS004 data confirms long-term potential of ZS-9 in hyperkalemia market.** ZSPH released positive top-line data from the second phase 3 study (ZS004) of ZS-9 in the underappreciated high potassium market. While there is limited information in the press release, the results do seem to validate the results from the first phase 3 study (ZS003) and now show efficacy out through 28 days (vs. 12 days previously) and with three different doses. ZSPH remains on track to file ZS-9 in 1H 2015, likely only 3-6 months behind its key competitor (patiomer) but with what appears to be a better clinical profile. As a reminder, we currently forecast ZS-9 to launch in 1H 2016, with US peak sales of ~\$935 million in 2030.
- **Reiterate Outperform rating.** We view ZSPH as a high-class specialty pharma company that is well positioned to deliver strong long-term growth through its proprietary "ion-trap" technology. ZSPH is also led by an experienced management team and post IPO is well capitalized to execute on its wholly-owned asset.
- **Catalysts:** (1) Detailed ZS004 data presentation at the American Heart Association meeting in November, (2) RLYP's US filing of patiomer in 4Q 2014; (3) ZSPH's filing of ZS-9 in the US and EU in 1H 2015.
- **Valuation:** Our \$54 target price is based on DCF valuation with an 11.5% WACC and forecast discounted cash flows through 2033, with no terminal value thereafter.

Financial and valuation metrics

| Year | 12/13A | 12/14E | 12/15E | 12/16E |
|--------------------------------|----------|--------------------------|---------|--------|
| EPS (CS adj.) (US\$) | -3.17 | -3.69 | -3.13 | -0.68 |
| Prev. EPS (US\$) | — | — | — | — |
| P/E (x) | -12.0 | -10.3 | -12.2 | -56.3 |
| P/E rel. (%) | -65.1 | -60.5 | -79.8 | -411.6 |
| Revenue (US\$ m) | — | — | — | 117.9 |
| EBITDA (US\$ m) | -31.5 | -48.0 | -67.0 | -12.0 |
| OCFPS (US\$) | -2.56 | -3.02 | -2.78 | -0.43 |
| P/OCF (x) | — | -12.6 | -13.7 | -88.5 |
| EV/EBITDA (current) | -21.0 | -13.8 | -9.9 | -55.3 |
| Net debt (US\$ m) | -9 | -97 | -124 | -103 |
| ROIC (%) | 1,217.16 | -588.09 | -482.62 | -67.35 |
| Number of shares (m) | 20.82 | IC (current, US\$ m) | — | -2.64 |
| BV/share (Next Qtr., US\$) | 5.6 | EV/IC (x) | — | 112.0 |
| Net debt (Next Qtr., US\$ m) | -110.9 | Dividend (current, US\$) | — | — |
| Net debt/tot eq (Next Qtr., %) | -94.8 | Dividend yield (%) | — | 7.9 |

Source: Company data, Credit Suisse estimates

Rating **OUTPERFORM* [V]**
Price (23 Sep 14, US\$) 38.05
Target price (US\$) 54.00¹
52-week price range 41.51 - 26.17
Market cap. (US\$ m) 792.15
Enterprise value (US\$ m) 695.45

*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).

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Companies Mentioned (Price as of 23-Sep-2014)

ZS Pharma, Inc. (ZSPH.OQ, \$38.05, OUTPERFORM[V], TP \$54.0)

Disclosure Appendix

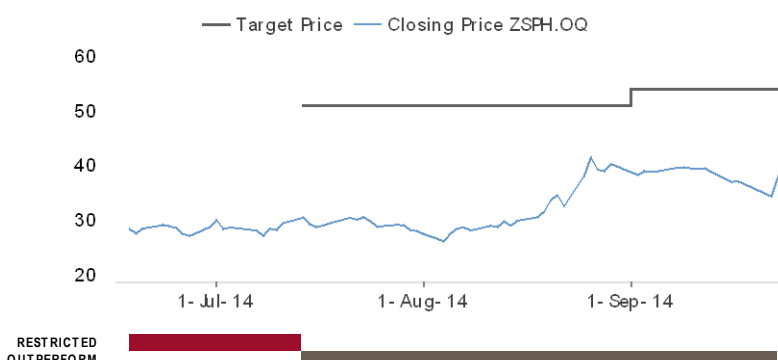
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3-Year Price and Rating History for ZS Pharma, Inc. (ZSPH.OQ)

| ZSPH.OQ | Closing Price | Target Price | |
|-----------|---------------|--------------|--------|
| Date | (US\$) | (US\$) | Rating |
| 18-Jun-14 | 28.38 | | R |
| 14-Jul-14 | 30.49 | 51.00 | O * |
| 01-Sep-14 | 40.29 | 54.00 | |

* Asterisk signifies initiation or assumption of coverage.



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| Rating | Versus universe (%) | Of which banking clients (%) |
|--------------------|---------------------|------------------------------|
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| Neutral/Hold* | 39% | (50% banking clients) |
| Underperform/Sell* | 14% | (43% banking clients) |
| Restricted | 3% | |

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Price Target: (12 months) for ZS Pharma, Inc. (ZSPH.OQ)

Method: Our \$54 target price for ZSPH is based on discounted cash flow valuation. We use a 11.5% weighted average cost of capital and forecast discounted cash flows through 2033, with no terminal value thereafter.

Risk: Risks to our \$54 target price for ZSPH are (1) clinical setbacks, (2) poor execution, and (3) earlier-than-expected generic competition for ZS-9.

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See the Companies Mentioned section for full company names

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