

Today's Changes	Annual EPS	Annual Revenue	Rating/Target
	2014E (\$3.61) from (\$4.11)	No changes	No changes
	2015E (\$2.62) from (\$2.86)		

Vital Therapies

VTL : NASDAQ : US\$17.82

BUY

Target: US\$35.00

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COMPANY STATISTICS:

Forecast Return:	96.4%
Market Cap (M):	US\$376
52-week Range:	10.66 - 13.00
Avg. Daily Vol. (000s):	14.0

EARNINGS SUMMARY:

FYE Dec		2013A	2014E	2015E
P/E:		NM	NM	NM
Revenue (M):	Q1	0.0	0.0A	0.0
	Q2	0.0	0.0A	0.0
	Q3	0.0	0.0A	0.0
	Q4	0.0	0.0	0.0
Total		0.0	0.0	0.0
EPS:	Q1	(0.49)	(24.49)A	(0.75)
	Q2	(0.34)	(0.91)A	(0.79)
	Q3	(0.43)	(0.59)A	(0.83)
	Q4	(0.59)	(0.60)	(0.87)
Total		(1.85)	(3.61)	(2.62)

SHARE PRICE PERFORMANCE:



Source: Interactive Data Corporation

COMPANY DESCRIPTION:

Vital Therapies is a development stage biotherapeutic company focused on developing their ELAD system for the treatment of acute liver disease and failure.

All amounts in US\$ unless otherwise noted.

Life Sciences -- Biotechnology

VTI-208 NEAR ENROLLMENT COMPLETION; STOPAH TRIAL POSITIVE FOR VTI-210

Investment highlights

VTI-208 enrollment at 88%, on track for YE14 completion

To date, 175/200 patients are currently enrolled in the Phase 3 VTI-208 trial in alcohol-induced liver decompensation, which is currently on track for a YE14 completion date. We expect topline results to be presented by Q2/15, with significant upside potential to the share price if 90-day survival benefit is seen.

STOPAH positive for VTI-210, expect Phase 3 results by 2016

Recent results from the STOPAH trial (Steroids or Pentoxifylline for Alcoholic Hepatitis) showed no benefit in either drug in reducing mortality risk after 28 days, reflecting the significant unmet medical need for improved therapies in these patients and high potential for VTL to capture this market if VTI-210 trials are positive. This randomized, 2x2 factorial trial of 1,103 UK patients showed an improved 28-day mortality in the steroid arm, but the benefit was not seen at 90 days and one year. We remind investors that VTI-210 enrolls patients after steroid failure; this supports our thesis of a smooth enrollment process since steroid benefit stops after 28 days from the STOPAH trial.

Low failure rate of cartridges, positive

Company indicates a >90% high quality production yield for the disposable ELAD cartridges, which we believe is highly favorable when applied in the real world setting. Unlike previous liver-assist products, hepatocyte function for ELAD does not diminish by the time of clinical use. Based on the C3A technology, VTL's ELAD cartridge can survive in a dormant state for ~60 hours, de-risking the drug of mechanical failure that plagued previous approaches.

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Anticipate low drop-out rate, potentially single digits

We do not expect placebo drop-out rate to be an issue in VTI-208, based on Vital's experience with prior studies. We would expect a single-digit drop-out rate for both arms and remind investors that the study is powered to account for some drop-outs. Physicians clearly explain to patients that the care they will receive in the control arm is better than that outside of a clinical study, which should help retain patients.

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Figure 1: VTL Income statement

Revenues	2013A	Mar-14A	Jun-14A	Sep-14A	Dec-14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
AILD								-	79,591	286,980	447,563	493,626
SILF								-	10,612	38,264	47,740	55,691
FHF								-	26,015	93,803	117,033	136,524
Total								-	116,218	419,047	612,335	685,841
Income Statement	2013A	Mar-14A	Jun-14A	Sep-14A	Dec-14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue												
Total Revenue	-	-	-	-	-	-	-	-	116,218	419,047	612,335	685,841
Cost of Revenue	-	-	-	-	-	-	-	-	17,433	62,857	91,850	102,876
Gross Profit	-	-	-	-	-	-	-	-	98,785	356,190	520,485	582,965
Operating Expenses												
Stock-based Compensation in SGA	537	202	247		273	722	1,235	1,482	3,225	3,566	4,078	4,821
Stock-based Compensation in R&D	411	154	247		273	675	1,235	1,482	1,743	1,928	2,204	2,606
Research & Development	21,376	9,219	9,125	10,244	9,287	37,875	41,521	37,045	43,582	40,480	38,577	37,790
General & Administrative	9,078	2,657	2,513	2,566	3,820	11,556	17,762	34,082	38,352	50,118	65,030	84,701
Total Operating Expense	31,402	11,876	11,638	12,810	13,107	49,431	59,283	71,127	81,934	90,598	103,607	122,491
EBITDA												
Operating Income		(11,876)	(11,638)	(12,810)	(13,107)	(49,431)	(59,283)	(71,127)	16,852	265,592	416,878	460,474
Interest Income	5	2	-	-	-	-	-	-	-	-	-	-
Interest Expenses	0	-	-	-	-	-	-	-	-	-	-	-
Other (expense) income, net	(15)	(2)	-	-	-	-	-	-	-	-	-	-
Revaluation of preferred stock warrant liabilities	0	-	-	-	-	-	-	-	-	-	-	-
Revaluation of future purchase rights liabilities	(1,306)	1,128	1,471	12	-	-	-	-	-	-	-	-
Pretax income	(32,718)	(10,748)	(10,167)	(12,798)	(13,107)	(49,431)	(59,283)	(71,127)	16,852	265,592	416,878	460,474
Provision for Income Taxes	-	-	-	-	-	-	-	-	6,235	98,269	154,245	170,375
Tax Rate	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%
Net Income	(32,718)	(10,748)	(10,167)	(12,798)	(13,107)	(49,431)	(59,283)	(71,127)	10,617	167,323	262,633	290,099
Amortization of deemed dividend		(22)										
Accretion to redemption value of convert preferred		(3,048)	(6,084)									
Net Income (Non-GAAP)	(39,085)	(13,818)	(16,251)	(12,798)	(13,107)	(55,974)	(59,283)	(71,127)	10,617	167,323	262,633	290,099
GAAP EPS (Diluted)	\$ (1.55)	\$ (24.49)	\$ (0.91)	\$ (0.59)	\$ (0.60)	\$ (3.61)	\$ (2.62)	\$ (2.61)	\$ 0.39	\$ 6.13	\$ 9.63	\$ 10.63
Non-GAAP EPS (Diluted)	\$ (1.85)	\$ (24.49)	\$ (0.91)	\$ (0.59)	\$ (0.60)	\$ (3.61)	\$ (2.62)	\$ (2.61)	\$ 0.39	\$ 6.13	\$ 9.63	\$ 10.63
Basic Weighted Average Shares	21,116	564	17,889	21,759	21,759	15,493	22,636	27,278	27,278	27,278	27,278	27,278
Diluted Weighted Average Shares		564	17,889	21,759	21,759	15,493	22,636	27,278	27,278	27,278	27,278	27,278

Source: Company reports, Canaccord Genuity Estimates

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Figure 2: VTL valuation

	Peak Sales	Year	Current Value	Probability	Value Per Share
US					
AILD	\$564	2021	\$867	60%	\$25
SILF	\$158	2021	\$266	25%	\$3
FHF	\$64	2021	\$109	25%	\$1
EU - Royalty					
AILD	\$90	2021	\$215	45%	\$5
SILF	\$23	2021	\$55	25%	\$1
FHF	\$9	2021	\$21	25%	\$0
Total			\$1,532		\$35
Risk Free Rate	2%				
Beta	1.45			Shares (M)	21
Risk Premium	6%				
Discount Rate	11%				

Source: Company reports, Canaccord Genuity Estimates

Investment risks

Risks to our outlook and price target include the following: Vital Therapies' clinical studies may fail, requiring additional clinical trials and further capital; clinical trials may be terminated altogether, decreasing the overall value of the company's pipeline; competitors may attain the technology surrounding the ELAD system, increasing the likelihood of a competitive/generic product.

Even if the ELAD system is approved, resulting revenues may be below investor expectations due to lack of efficacy, competition, complexity, or all three. Safety issues may also emerge after FDA approval that could limit the usage of the ELAD system, also reducing sales.

Competitors could gain access to the ELAD systems technology and potentially create a competitor product. Vital Therapies' keeps much of its IP as trade secrets, creating the opportunity for competitors to poach employees for intelligence. In addition, competitors may be able to gather ELAD's technology through reverse engineering the ELAD system after appropriating it from a hospital.

Congress has recently questioned high pricing for biotech drugs, which could become a trend, creating broad downward pressure across the biotech sector. Although we believe oncology drugs will receive less pricing pressure due to the seriousness of the disease, lawmakers may eventually make public calls for lower pricing.

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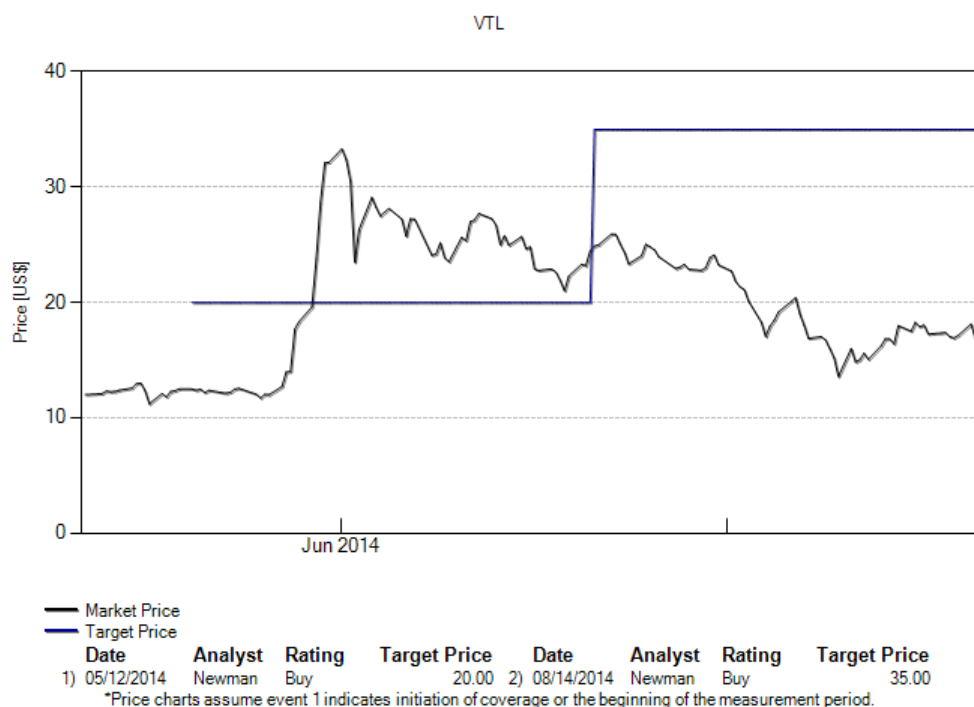
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Site Visit:

An analyst has not visited Vital Therapies' material operations.

Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 1 October 2014)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	627	60.2%	36.7%
Speculative Buy	53	5.1%	54.7%
Hold	317	30.5%	13.9%

Sell	43	4.1%	2.3%
	1041	100.0%	

*Total includes stocks that are Under Review

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