

## Vital Therapies (VTL : US\$20.84)

### Vital Therapies tumbles 26.0% in third quarter, underperforming 88% of the market

Vital Therapies Inc, NASDAQ's 15th largest healthcare-products company by market cap, tumbled US\$7.31 (or 26.0%) in the quarter ended September 30 to close at US\$20.84. This loss means the stock has underperformed 88% of NASDAQ-listed stocks in quarter ended September 30. The volume in the quarter was 0.4 times the average trading of 47,044 shares. Compared with the NASDAQ-100 Index which rose 150.2 points (or 3.8%), this represents a relative price change of -29.8%. In the third quarter the market cap declined US\$160.9 million.

### Introduction

**We are currently bullish on this stock in the short-term based on technical indicators, but are more bearish in the long-term based on fundamental metrics**

**There are some reasons why we remain bearish on the stock for the long-term:**

- The Q Ratio, defined by James Tobin as MCap divided by Total Assets, is 9.7. Compared with the rest of the market the stock is overvalued and ranks in the bottom 3% of stocks by value of Q Ratio.

### Stock Summary

<b>Sector</b>	Healthcare-Products
<b>Market Cap</b>	US\$454.1 million
<b>Shares Outstanding</b>	21,790,745
<b>ISIN</b>	US92847R1041
<b>Relative Strength (3 mo)</b>	12

### Financial Summary

Year ended	Dec 2013	Dec 2012	Dec 2011
Pretax (USD)	(32.72M)	(6.7M)	(5.88M)
Net (USD)	(39.09M)	(7.64M)	(6.42M)
EPS (USD)	(1.85)	(0.36)	(0.3)

### MCap: A Historical Perspective

	Share Price (USD)	Market Cap (US\$)
Last	20.8	454.1 million

## Analysis

### Bullish Signals

#### Other Bullish Signals:

Also, the following criteria set by Benjamin Graham:

- "Current ratio of two or more"; current assets are 5.9 times current liabilities.

#### Bullish Indicators and Rank in Market:

Description	Value	Rank In Market
Price Change %	2.7	In Top 7%

### Bearish Signals

- In the last 14 trading sessions there has been a net decline of 9.16%; the stock has retreated ten times and the biggest one day decline was 10.3% on Sep 22.
- The Moving Average Convergence Divergence (MACD) indicator of 12-day Exponential Moving Average (EMA) of 20.18 minus the 26-day EMA of 21.4 is negative suggesting a bearish signal.
- The current short volume is 1.7 times its own historical average of 0.2%. It increased 0.5% from the previous day, soared 11.8% from a week ago and soared 10.5% from a month ago, a significant bearish indicator.

#### Overvaluation:

- The Q Ratio, defined by James Tobin as MCap divided by Total Assets, is 9.7. Compared with the rest of the market the stock is overvalued and ranks in the bottom 3% of stocks by value of Q Ratio.

#### Other Bearish Signals:

- Return on Assets, Return on Equity and Return on Capital Employed has been negative in recent years.

#### Annual Trend:

[Year ended, all figures in %]:

Year	ROE	ROA	ROCE
Dec 13	-100.7	-83.9	-83.6
Dec 12	-41.2	-37.6	-33.9

The stock has a score of merely 1 out of 9 set by Joseph Piotroski [pass mark  $\geq 5$ ]:

Total shares on issue unchanged.

#### Bearish Indicators and Rank in Market:

Description	Value	Rank In Market
Price/MAP50	0.64	In Bottom Quartile
Price to Book Value	11.7	In Bottom 8%
Volatility %	8.3	In Bottom 7%

### Note

- The price is equal to its 1-month volume weighted average price of US\$20.86.

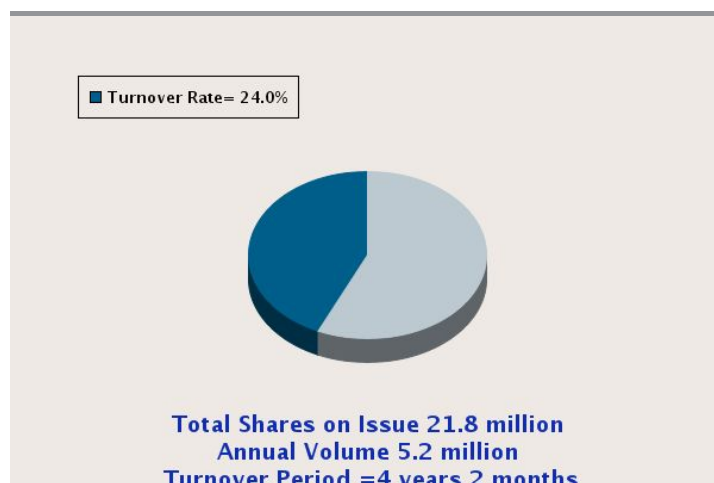
#### Neutral Indicators and Rank in Market:

Description	Value	Rank In Market
MCap	US\$454.1 million	In 2nd Quartile
Turnover in Quarter	US\$31.1 million	In 3rd Quartile

### Insider Trades



### Turnover Rate & Turnover Period

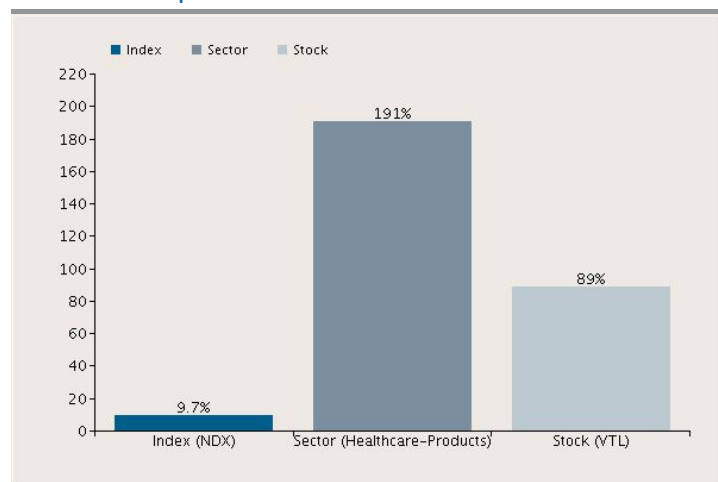


## Analysis (continued)

### Trailing 3 months

<b>Turnover</b>	US\$31.1 million
<b>Volume</b>	1,319,197
<b>Volume Index (1 is avg)</b>	0.4

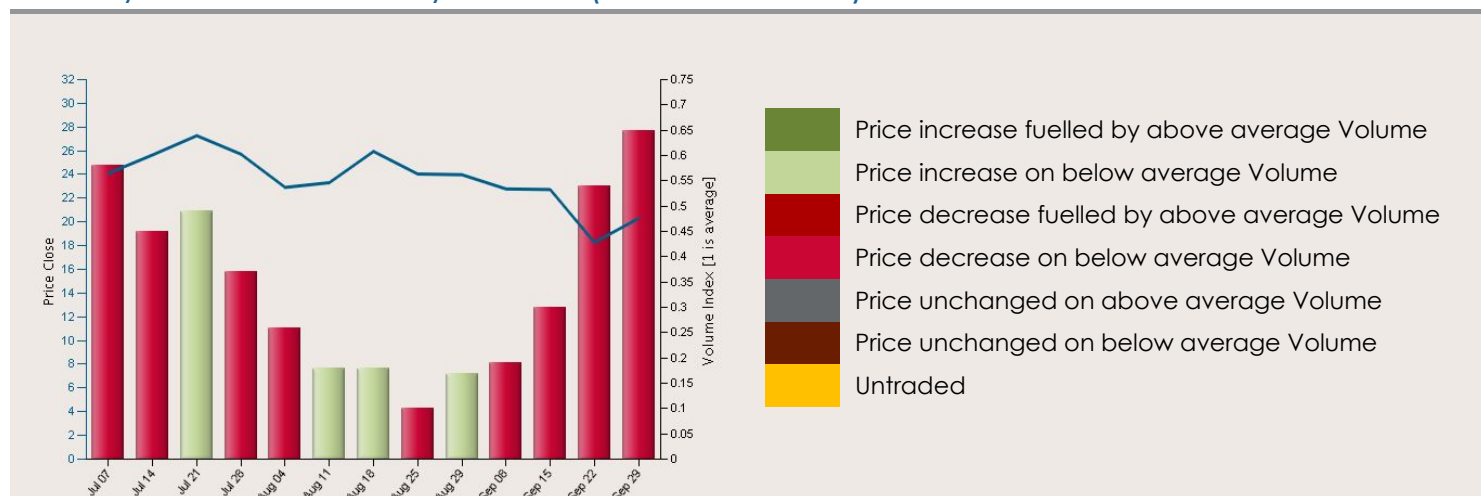
### YTD Comparison Stock Sector Index



## Price Volume Trend: Trailing Quarter



## Weekly Price Volume Dynamics (Last 12 Weeks)



## Recent Analyst Recommendations

Date	Brokerage	Action	Past Rating	Current Rating	Prev Target	Price Target
10-Sep-2014	Credit Suisse	Downgrade	Outperform	Neutral	-	16
15-Aug-2014	Canaccord Genuity	Boost Price Target	-	Buy	20	35
25-Jul-2014	Credit Suisse	Initiated Coverage	-	Buy	20	40
14-Jul-2014	William Blair	Boost Price Target	-	-	-	36

## Company Overview

### Regulatory Announcements

---

To view Recent Company Headlines, [click here](#)

October 01: Vital Therapies Announces Launch of Proposed Follow-On Offering

September 08: Vital Therapies Announces Management Addition; Enrollment in VTI-208 Phase 3 Trial Now 75 Percent Complete

August 06: Vital Therapies Announces Second Quarter 2014 Financial Results and Provides Update on Operations and Upcoming Conference Presentations

July 28: Vital Therapies Announces Poster Presentation at the 2014 World Transplant Congress

July 09: Vital Therapies Reports on Clinical Trial Progress and EU Regulatory Advice

June 04: Vital Therapies insider buys

June 04: Vital Therapies insider buys

To view 8-K other news for Vital-Therapies, [click here](#)

August 06: Vital Therapies: Results of Operations and Financial Condition

### Issued Capital

---

Based on 21,790,745 issued equity shares the market capitalisation is US\$454.1 million.

## Board and Management

### Terence E. Winters CEO

Terence E. Winters, Ph.D., is Co-Chairman of the Board, Chief Executive Officer of the company. Dr. Winters became Co-Chairman of our board of directors in March 2013 and currently serves as such. Dr. Winters has served as our Chief Executive Officer since June 2003. Dr. Winters is also a Special Limited Partner of Valley Ventures, an investor in Vital Therapies since May 2003. He was formerly a General Partner of Columbine Venture Funds and Vice President of DS Ventures, a venture capital subsidiary of Diamond Shamrock Corp., a chemical, life science and petroleum company. Dr. Winters was previously a director of three public companies: CollaGenex Pharmaceuticals, Inc., a developer and marketer of proprietary medical therapies to the dermatology market, Orthologic Corp., a biotechnology company focused on development and commercialization of novel synthetic peptides for tissue repair and healing, and Clinuvel Pharmaceuticals, a global biopharmaceutical company committed to developing drugs for the treatment of a range of severe skin disorders. Dr. Winters has also served as a director of over 20 private companies. He earned a B.Sc. as well as a Ph.D. in chemistry from the University of Wales, U.K. He also completed a post-doctoral fellowship at the University of California, Los Angeles.

### Michael V. Swanson CFO

Mr. Michael V. Swanson is Chief Financial Officer of Vital Therapies Inc. Mr. Swanson has over 20 years of experience in senior financial positions in both public and private life sciences companies. Mr. Swanson was Chief Financial Officer of Amira Pharmaceuticals, Inc., a pharmaceutical company focused on the discovery and early development of drugs to treat inflammatory and fibrotic diseases, from May 2008 until the company was acquired in September 2011, and of Panmira Pharmaceuticals, LLC, a spin out from Amira from September to December 2011. Since January 2012, Mr. Swanson has been providing financial consulting services to development stage companies. From July 2000 to April 2008, Mr. Swanson served in senior finance positions including Senior Vice President, Finance and Chief Financial Officer at Prometheus Laboratories Inc., a specialty pharmaceutical company marketing and selling pharmaceutical products and diagnostic testing services for gastrointestinal diseases and disorders. Previously, Mr. Swanson was Senior Vice President and Chief Financial Officer of Advanced Tissue Sciences, Inc., a publicly-traded biomedical company, where he served in senior financial positions for over ten years. Mr. Swanson also served as Director of Finance of the Fisher Scientific Group, Inc., a health and scientific technology company, and its parent, The Henley Group, Inc., a widely diversified holding company. Mr. Swanson began his career working approximately nine years with the public accounting firm of Deloitte Haskins & Sells, now Deloitte & Touche LLP. Mr. Swanson earned a B.S. in business administration from the California Polytechnic State University at San Luis Obispo and an M.B.A. from the University of Southern California. He is also a Certified Public Accountant (inactive).

### Randolph C. Steer Independent Director

Randolph C. Steer, M.D., Ph.D., is Independent Director of the company. Dr. Steer has been an independent pharmaceutical, biotechnology and medical devices consultant since 1989. Dr. Steer has served as Associate Director of Medical Affairs at Marion Laboratories, a then-public pharmaceutical company; Medical Director at Ciba Consumer Pharmaceuticals (a division of Ciba-Geigy Corporation, a then-public pharmaceutical company); Vice President, Senior Vice President and Member of the Executive Committee at Physicians World Communications Group; Chairman, President and Chief Executive Officer of Advanced Therapeutics Communications International, a drug regulatory group serving the United States, Mexico, Latin America, the Pacific Rim, Europe and Japan; Chairman and Chief Executive Officer of Vicus.com, Inc.; and President and Chief Operating Officer of Capstone Therapeutics Corp., a public biotechnology company. Dr. Steer is a member of the board of directors of Techne Corporation, a public biotechnology company, and the Board of Trustees of the Mayo Clinic. He earned his B.A. in Physiology from University of Minnesota. He earned an M.D. from the Mayo Medical School and a Ph.D. from the University of Minnesota where he also completed a residency and subspecialty training in clinical and chemical pathology. He is a Fellow of the American College of Clinical Pharmacology.

## Board and Management (continued)

### **Aron Stern** Company Secretary

Mr. Aron Stern is Chief Administrative Officer, Secretary of the company. Between June 2003 and August 2013, Mr. Stern served as our Treasurer, Vice President and Chief Financial Officer. Mr. Stern has over 20 years of experience in capital formation, acquisitions, financial strategy and financial and operational management in growth-stage high technology and biotechnology companies. He previously was Chief Financial Officer at each of Protein Polymer Technologies, Inc., a developer of a protein-based technology, 4-D Neuroimaging, a medical equipment manufacturing company, and VitaGen, Inc., our predecessor company. Mr. Stern also held positions at Apple Computer and Isis Pharmaceuticals, a developer of antisense drugs. Mr. Stern earned a B.S. in economics and business administration and an M.B.A. in finance and marketing from the University of California, Berkeley.

### **Robert A. Ashley** Executive Vice President

Mr. Robert A. Ashley is Executive Vice President, Chief Technical Officer of the company. Between May 2008 and September 2013 he served as our Vice President and Chief Operating Officer. Mr. Ashley's career in the pharmaceutical industry extends for 34 years. He was formerly Chairman, President and Chief Executive Officer of AmpliMed Corporation, a privately-held cancer drug development company, from January 2004 to March 2007, and Senior Vice President of Commercial Development at CollaGenex Pharmaceuticals, Inc., a publicly-held pharmaceutical company, from September 1994 to December 2003. Prior to that he held positions of increasing responsibility at Bristol-Myers Squibb from January 1989 to September 1994, and with Amersham International from 1979 to 1989. He earned a Masters Degree in Biochemistry from Oxford University. Mr. Ashley is the inventor of several issued and pending patents, as well as the author of several scientific papers. He serves on the Board of Directors of Rowpar Pharmaceuticals, a privately-held manufacturer of proprietary dental pharmaceuticals.



# Financial Results (Quarterly)

30 June, 2014

## INCOME STATEMENT

Currency in Thousand of USD	2014-06-30	2013-06-30	Change %
Operating expenses:			
Research and development	9,125	4,538	Up 101.1
General and administrative	2,513	2,525	Down 0.5
Total operating expenses	11,638	7,063	Up 64.8
Loss from operations	-11,638	-7,063	Deterioration 64.8
Other income (expense):			
Interest income	4	1	Up 300.0
Other expense, net	-5	-4	Deterioration 25.0
Revaluation of future purchase rights liabilities	1,472	922	Up 59.7
Total other income (expense)	1,471	919	Up 60.1
Net loss	-10,167	-6,144	Deterioration 65.5
Amortization of deemed dividend	-4,722	-8	Deterioration 58,925.0
Accretion to redemption value of redeemable convertible preferred stock	-1,362	-1,115	Deterioration 22.2
Net loss attributable to common stockholders	-16,251	-7,267	Deterioration 123.6
Net loss per share attributable to common stockholders, basic and	-91.0c	-1,433.0c	Reduced 93.6
Weighted-average common shares outstanding, basic and diluted	17,888,171	507,055	Up 3,427.9

## BALANCE SHEET

Currency in Thousand of USD	2014-06-30	2013-12-31	Change %
Assets			
Current assets:			
Cash and cash equivalents	90,840	38,186	Up 137.9
Restricted cash	1,234	963	Up 28.1
Deferred financing costs		3,506	
Other current assets and prepaid expenses	1,415	1,200	Up 17.9
Total current assets	93,489	43,855	Up 113.2
Property and equipment, net	3,264	2,467	Up 32.3
Other assets	263	263	Steady
Total assets	97,016	46,585	Up 108.3
Liabilities, Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)			



# Financial Results (Quarterly) (continued)

30 June, 2014

Current liabilities:			
Accounts payable	1,461	1,224	Up 19.4
Accrued expenses	5,806	3,253	Up 78.5
Other current liabilities	294	369	Down 20.3
Future purchase rights liabilities		2,600	
Total current liabilities	7,561	7,446	Up 1.5
Other long-term liabilities	292	321	Down 9.0
Commitments and contingencies		1,359	
Convertible preferred stock (Junior); 0.0001 par value, no shares and 3,501,401 designated at June 30, 2014 and December 31, 2013, respectively; no shares and 3,501,400 issued and outstanding at June 30, 2014 and December 31, 2013, respectively			
Redeemable convertible preferred stock (Senior); 0.0001 par value, no shares and 17,000,000 designated at June 30, 2014 and December 31, 2013, respectively; no shares and 10,212,007 issued and outstanding at June 30, 2014 and December 31, 2013, respectively		82,116	
Stockholders' equity (deficit):			
Preferred stock, 0.0001 par value; 20,000,000 and 25,000,000 (4,498,599 undesignated) authorized at June 30, 2014 and December 31, 2013, respectively; no shares issued or outstanding at June 30, 2014 and December 31, 2013			
Common stock, 0.0001 par value; 130,000,000 and 29,250,000 shares 2 authorized at June 30, 2014 and December 31, 2013, respectively; 21,790,745 and 606,238 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively			
Additional paid-in capital	213,146	58,413	Up 264.9
Accumulated other comprehensive income	95	96	Down 1.0
Accumulated deficit	-124,080	-103,166	Deterioration 20.3
Total stockholders' equity (deficit)	89,163	-44,657	Recovery
Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)	97,016	46,585	Up 108.3

## PERFORMANCE RATIOS

	2014-06-30	2013-06-30	Change %
Return on Equity(%)	-33.72	39.41	Deterioration
Return on Assets(%)	-30.99	-37.78	Reduced 18.0

## PER SHARE FIGURES

	2014-06-30	2013-06-30	Change %
EPS	-324.0c	-3,612.0c	Reduced 91.0

BuySellSignals Financial Research provides equity research on over 48,000 companies listed in more than 90 countries and 120 markets across the world. BuySellSignals believes that every stock has a story to tell and that this story changes every day. To capture this story, BuySellSignals offers the latest pertinent and comprehensive information so that investors can make well-informed investment decisions.

BuySellSignals publishes equity research reports on each stock, sector and index daily to capture the latest market movements and sentiments. BuySellSignals eschews "hot tip" or headline investing in favour of high-quality, ultra-current, targeted technical and fundamental information including specific bullish and bearish signals for each stock. Insights that will guide you to the investments that are hard to find in today's hyperactive mainstream markets.

For further details on definitions and quotations from investing legends, [Click here](#)

---

Disclaimer: While this document is based on information sources which are considered reliable, it has been prepared without consideration of your specific investment objectives, financial situation or needs, so you should carry out your own analysis or seek professional investment advice before an investment decision is made. The document contains unbiased, independent equities data from BuySellSignals (AFS Licence 222756) and News Bites Pty Ltd, who provide round the clock data on every Australian stock and sector. Neither BuySellSignals nor News Bites are brokers, and neither have an executing, corporate advisory or investment banking function. BuySellSignals and News Bites Pty Ltd, its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. The data is sourced from annual reports and company releases and may not be fully up to date. It should be used as a guide only.

---