

ZS Pharma, Inc. (ZSPH)

SMALL & MID CAP RESEARCH

ZS-9 28-Day Efficacy Data Strong; Edema Issue Requires Further Clarity

- **Phase 3 data from 28-day ZS-004 trial reiterates strong efficacy/ tolerability profile of ZS-9, with some questions raised on safety.** Data presented at the American Heart Association (AHA) Meeting and published in the Journal of the American Medical Association (JAMA) showed that across the three doses of ZS-9 (5g, 10g, 15g), 80-94% of patients maintained mean potassium levels in the normal range over days 8-29, with a positive dose-response seen. From an efficacy perspective, we view this as a very robust outcome.
- **Edema questions raised, but we see reasons to not be as concerned; further details expected at Wed's ZSPH Analyst Day meeting.** Both the AHA discussant and JAMA editorial author expressed some caution around edema rates seen in ZS-004. Specifically, edema was seen in a dose-dependent fashion, with rates in the 5g dose equal to placebo but higher rates seen in the 10g and 15g groups. However, many data points suggest this is not likely to be a serious issue, including: (1) 50% of patients with edema not requiring any changes in therapy; (2) 13/14 patients completed the study; (3) baseline patient characteristics may have contributed to the imbalance in the 15g dose; (4) there was no dose-dependent increase in sodium urinary excretion; and (5) there was no significant change in blood pressure, heart rate or body weight with any dose. We look for ZSPH to provide further clarity on this issue at their Analyst Day Wednesday as the ability to use ZS-9 chronically is critical to its commercial potential and questions around edema could limit this potential.

Rating	OUTPERFORM* [V]
Price (14 Nov 14, US\$)	38.17
Target price (US\$)	54.00 ¹
52-week price range	41.51 - 26.17
Market cap. (US\$ m)	794.67
Enterprise value (US\$ m)	697.97

*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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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	-56.5
P/E rel. (%)	-70.1	-64.9	-85.1	-440.3
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	-88.8
EV/EBITDA (current)	-21.1	-13.8	-9.9	-55.5
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)		112.4
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

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Companies Mentioned (Price as of 14-Nov-2014)

ZS Pharma, Inc. (ZSPH.OQ, \$38.17, OUTPERFORM[V], TP \$54.0)

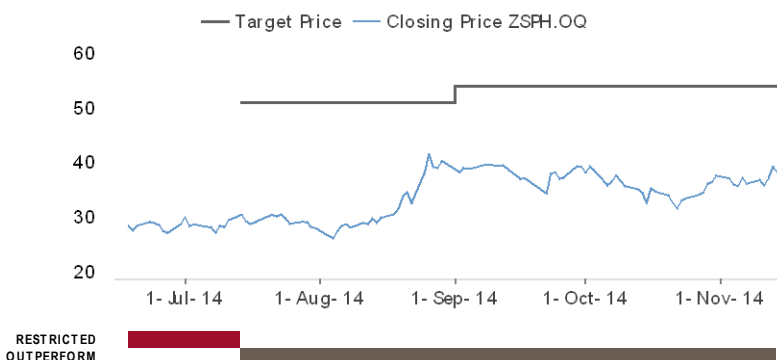
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3-Year Price and Rating History for ZS Pharma, Inc. (ZSPH.OQ)

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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Underperform/Sell*	14%	(44% banking clients)
Restricted	2%	

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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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