

Today's Changes	Annual EPS	Annual Revenue	Target
	2014E \$(4.11) from \$(2.06)	No change	\$35.00 from \$20.00
	2015E \$(2.86) from \$(1.94)		

Vital Therapies

VTL : NASDAQ : US\$24.89

BUY

Target: US\$35.00 ↑

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COMPANY STATISTICS:

Forecast Return: 41%
Market Cap (M): US\$523
52-week Range: 10.66 - 35.20

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	0.0	0.0
	Q4	0.0	0.0	0.0
	Total	0.0	0.0	0.0
EPS:	Q1	(0.49)	(24.49)A	(0.84)
	Q2	(0.34)	(0.91)A	(0.88)
	Q3	(0.43)	(0.70)	(0.92)
	Q4	(0.59)	(0.73)	(0.97)
	Total	(1.85)	(4.11)	(2.86)

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

CONTINUED PROGRESS FOR VTI-206, PHASE 3 DATA 1H15; RAISING PRICE TARGET TO \$35

Investment highlights

Enrollment on track for VTI-206, key data 1H15 inflection point
Vital has enrolled n=138/200 patients in its Phase 3 study for VTI-206 in Alcohol Induced Liver Disease (AILD), and we expect the study to fully enroll by YE14. Key Phase 3 data could show longer survival at day 90, providing significant upside to the current share price.

Market opportunity substantial at ~\$4B, \$1.5B for AILD alone

The market opportunity for AILD alone is very large at ~\$1.5, and we conservatively model only ~\$565M peak sales. We assume ~15,000 total patients, and pricing of ~\$100,000. Importantly, no therapies are currently approved for AILD, and no currently used therapies can extend life.

VTI-212 study moving ahead in Acute Alcoholic Hepatitis

Vital has begun enrolling patients in an n=150 patient Phase 3 study for severe AAH, which could bolster the AILD data. We continue to expect data readout during 2015/2016.

Raising price target to \$35 on higher probability of success

We are raising our price target to \$35 from \$20 based on higher confidence in success for VTI-206 and the lack of any treatment to extend survival in AILD. We now assume a 60% chance of success in Phase 3.

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ADJUSTING ESTIMATES ON NON-CASH CHARGES

We are updating our model based on 2Q14 spending for Vital. 2014E GAAP EPS moves to \$(4.11) from \$(2.06) based on accretion to the redemption value of convertible preferred shares.

VALUATION

Figure 1: Vital valuation

	Peak Sales	Year	Current Value	Probability	Value Per Share
US					
AILD	\$564	2021	\$867	60%	\$25
SILF	\$158	2021	\$267	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			\$1,533		\$35
Risk Free Rate	2%				
Beta	1.45			Shares (M)	21
Risk Premium	6%				
Discount Rate	11%				

Source: Canaccord Genuity, Inc.

14 August 2014

Figure 2: Vital Therapies income statement

Vital Therapies, Inc.										
(\$000's) [FY-DEC]										
Revenues	2013A	Mar-14A	Jun-14A	Sep-14E	Dec-14E	2014E	2015E	2016E	2017E	2018E
AILD								-	79,591	286,980
SILF								-	10,612	38,264
FHF								-	26,015	93,803
Total								-	116,218	419,047
Income Statement	2013A	Mar-14A	Jun-14A	Sep-14E	Dec-14E	2014E	2015E	2016E	2017E	2018E
Revenue										
Total Revenue	-	-	-	-	-	-	-	-	116,218	419,047
Cost of Revenue	-	-	-	-	-	-	-	-	17,433	62,857
Gross Profit	-	-	-	-	-	-	-	-	98,785	356,190
Operating Expenses										
Stock-based Compensation in SGA	537	202	247	260	273	982	1,235	1,482	3,225	3,566
Stock-based Compensation in R&D	411	154	247	260	273	934	1,235	1,482	1,743	1,928
Research & Development	21,376	9,219	9,125	8,845	9,287	36,476	41,521	37,045	43,582	40,480
General & Administrative	9,078	2,657	2,513	3,638	3,820	12,628	17,762	34,082	38,352	50,118
Total Operating Expense	31,402	11,876	11,638	12,483	13,107	49,104	59,283	71,127	81,934	90,598
EBITDA										
Operating Income		(11,876)	(11,638)	(12,483)	(13,107)	(49,104)	(59,283)	(71,127)	16,852	265,592
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	-	-	-	-	-	-	-
Pretax income	(32,718)	(10,748)	(10,167)	(12,483)	(13,107)	(49,104)	(59,283)	(71,127)	16,852	265,592
Provision for Income Taxes	-	-	-	-	-	-	-	-	6,235	98,269
Tax Rate	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%
Net Income	(32,718)	(10,748)	(10,167)	(12,483)	(13,107)	(49,104)	(59,283)	(71,127)	10,617	167,323
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)	(12,483)	(13,107)	(55,659)	(59,283)	(71,127)	10,617	167,323
GAAP EPS (Diluted)	\$ (1.55)	\$ (24.49)	\$ (0.91)	\$ (0.70)	\$ (0.73)	\$ (4.11)	\$ (2.86)	\$ (2.81)	\$ 0.42	\$ 6.60
Non-GAAP EPS (Diluted)	\$ (1.85)	\$ (24.49)	\$ (0.91)	\$ (0.70)	\$ (0.73)	\$ (4.11)	\$ (2.86)	\$ (2.81)	\$ 0.42	\$ 6.60
Basic Weighted Average Shares	21,116	564	17,889	17,889	17,889	13,558	20,700	25,343	25,343	25,343
Diluted Weighted Average Shares		564	17,889	17,889	17,889	13,558	20,700	25,343	25,343	25,343

Source: Company reports, Canaccord Genuity, Inc.

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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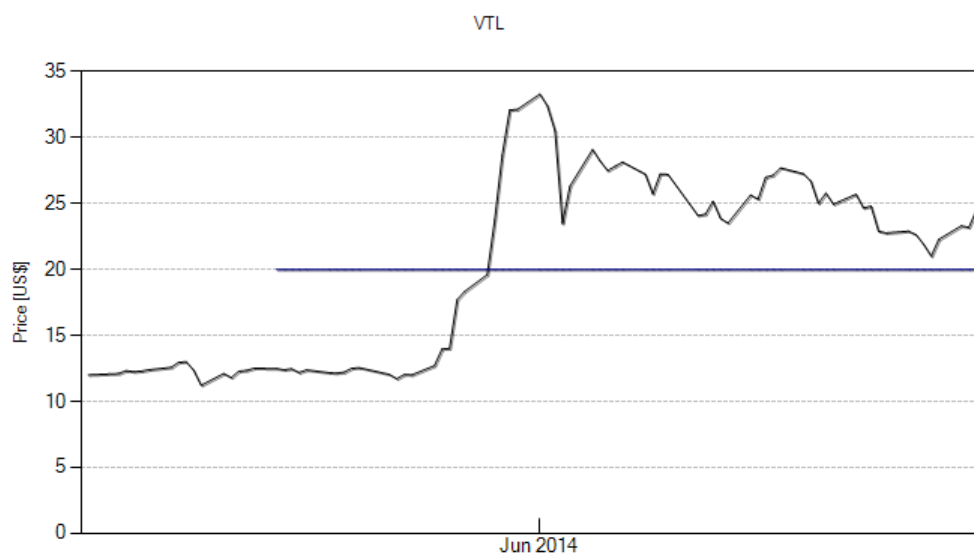
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Site Visit:

An analyst has not visited Vital Therapies' material operations.

Price Chart:*

— Market Price
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 05/12/2014	Newman	Buy	20.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

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Global Stock Ratings
(as of 3 July 2014)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	602	61.2%	38.2%
Speculative Buy	49	5.0%	55.1%
Hold	290	29.5%	13.1%
Sell	41	4.2%	7.3%

984

100.0%

*Total includes stocks that are Under Review

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