

Vitae Pharmaceuticals

(VTAE-NASDAQ)

Stock Rating: Outperform**Industry Rating:** Outperform

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Programs on Track Across Large Pharma Markets

Event

Vitae Pharmaceuticals (VTAE) last week reported quarterly earnings results for the first time since the company's IPO in September. The net loss per share in 3Q14 was \$1.06, and VTAE ended 3Q14 with \$67.8 million in cash. Highlights from the call included recently announced positive top-line phase 1 data for VTP-37948, a BACE inhibitor partnered with Boehringer Ingelheim (BI), which demonstrated >80% reduction in amyloid beta (A β) levels in the cerebral spinal fluid (CSF), and continued progress toward IND filing for VTP-43742, Vitae's wholly owned ROR γ t inhibitor for autoimmune disorders. Vitae reaffirmed timelines for key milestones in 1H15, including top-line data from the phase 2 diabetes study of VTP-34702 (11 β HSD1 inhibitor partnered with BI), completion of additional phase 1 studies of VTP-37948, including a multiple ascending dose trial, and initiation and completion of a single-dose phase 1 study of VTP-43742 in healthy volunteers. Commenting on potential indications for VTP-43742, VTAE noted that it expects a decision in mid-2015, with options including orphan autoimmune indications with unmet need, as well as larger indications such as psoriasis and multiple sclerosis.

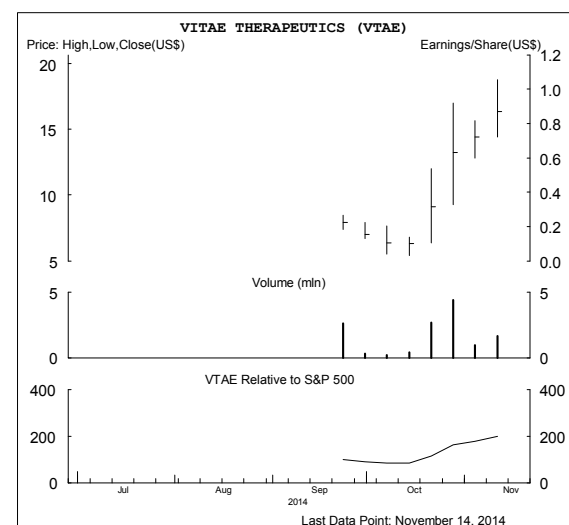
Impact & Analysis

We are maintaining our Outperform rating on the shares of VTAE following review of the 3Q14 results. With progress across all programs we continue to expect proof-of-concept data in psoriasis (PsO) and potentially diabetes to be value drivers over the next 12-18 months. Validation of VTAE's BI-partnered BACE inhibitor is not currently factored into valuation and represents significant option value, in our opinion.

Valuation & Recommendation

We arrive at our \$11 price target by applying a 20x multiple to our 2022E EPS estimate of \$2.70 and discounting at 30%.

Price (17-Nov) \$17.43 **52-Week High** \$18.79
Target Price \$11.00 **52-Week Low** \$5.41



(FY-Dec.)	2012A	2013A	2014E	2015E
EPS	\$0.02	\$0.09	-\$2.13	-\$1.72
P/E			na	na
CFPS	na	na	na	na
P/CFPS			na	na
Rev. (\$mm)	\$22	\$23	\$9	\$0
EV (\$mm)	na	na	\$93	\$93
EBITDA (\$mm)	\$2	\$2	-\$17	-\$26
EV/EBITDA	na	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2012A	na	na	na	na
2013A	na	na	na	na
2014E	-\$0.36a	-\$0.36a	-\$1.06a	-\$0.35
Dividend	\$0.00			0.0%
Book Value	\$0.52			
Shares O/S (mm)	17.4			
Float O/S (mm)	6.4			
Wkly Vol (000s)	1,804			
Net Debt (\$mm)	-\$16			
Yield				0.0%
Price/Book				33.5x
Mkt. Cap (mm)				\$303
Float Cap (mm)				\$112
Wkly \$ Vol (mm)				\$18.1
Next Rep. Date				na

Notes: All values in US\$

First Call Mean Estimates: VITAE PHARMACEUTICALS INC (US\$)
2014E: -\$0.96; 2015E: -\$1.78

Changes

Annual EPS

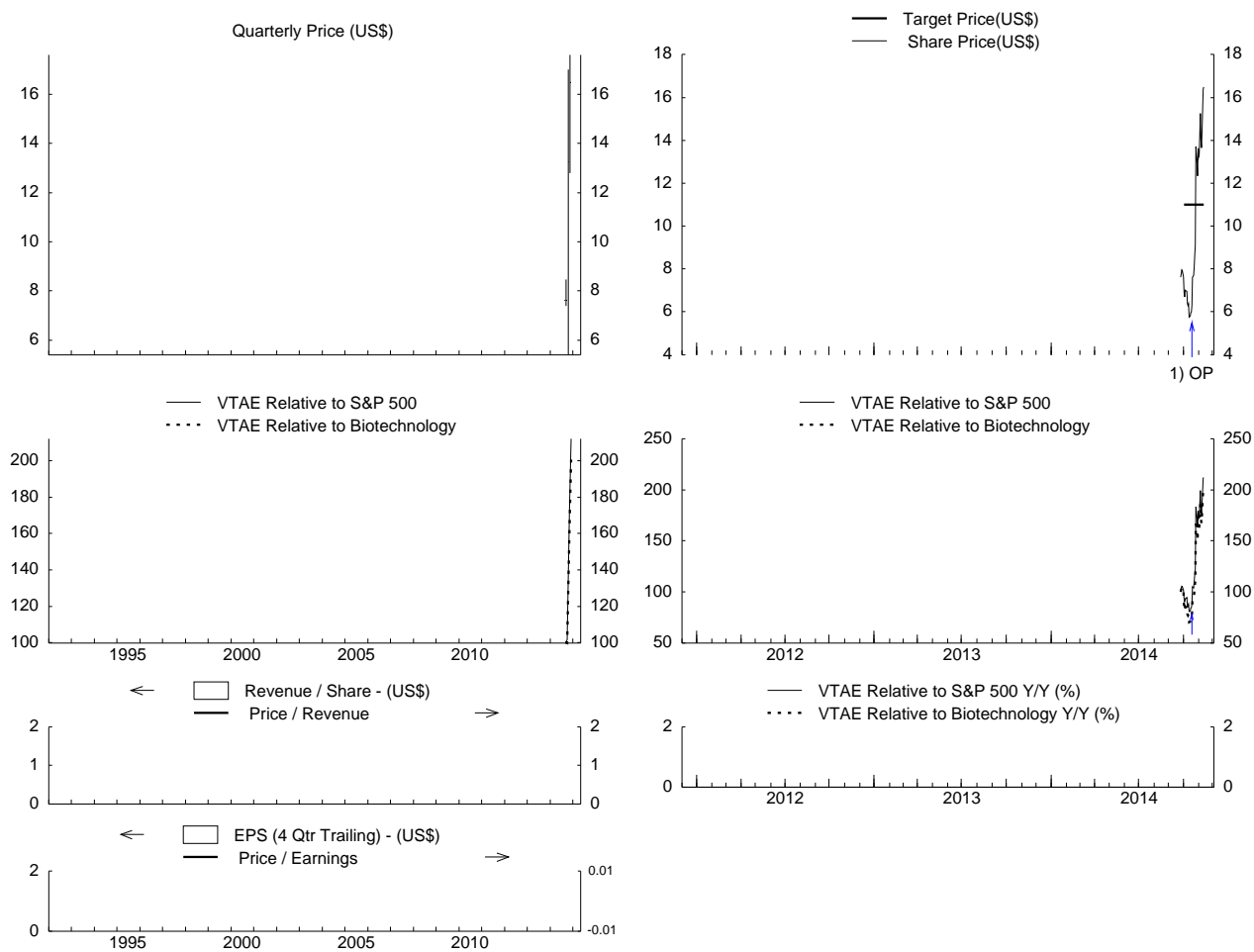
2014E -\$1.42 to -\$2.13

Exhibit 1: VTAE Income Statement 2013A-2020E

INCOME STATEMENT (\$M)	2013A	1Q14A	2Q14A	3Q14A	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
REVENUES												
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37.7
Collaboration Revenue	22.5	1.2	1.2	1.2	6.2	8.5	-	-	-	-	-	-
Sponsored Research and Other Revenue	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	\$ 22.5	\$ 1.2	\$ 1.2	\$ 1.2	\$ 6.2	\$ 8.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37.7
EXPENSES (GAAP)												
Cost of Goods Sold (COGS)	\$ 14.9	\$ 4.7	\$ 4.7	\$ 4.8	\$ 4.7	\$ 18.9	\$ 20.0	\$ 21.0	\$ 21.5	\$ 24.0	\$ 26.0	\$ 3.6
R&D Expense	5.4	1.3	1.3	3.1	1.3	7.0	6.0	6.0	6.0	8.0	10.0	28.0
SG&A Expense	-	-	-	-	-	-	6.0	6.0	6.0	8.0	10.0	12.0
Other	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL EXPENSES	\$ 20.3	\$ 6.0	\$ 6.0	\$ 7.9	\$ 6.0	\$ 25.9	\$ 26.0	\$ 27.0	\$ 27.5	\$ 32.0	\$ 36.0	\$ 43.6
Operating Income	\$ 2.2	\$ (4.9)	\$ (4.9)	\$ (1.7)	\$ (6.0)	\$ (17.4)	\$ (26.0)	\$ (27.0)	\$ (27.5)	\$ (32.0)	\$ (36.0)	\$ (6.9)
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	2.2	(4.9)	(4.9)	(1.7)	(6.0)	(17.4)	(26.0)	(27.0)	(27.5)	(32.0)	(36.0)	(6.9)
Interest and other income	0.1	0.0	0.0	0.0	0.0	0.0	-	-	-	-	-	-
Interest and other expense	(1.4)	(0.3)	(0.3)	(0.2)	(0.2)	(0.8)	-	-	-	-	-	-
Other Income (Expense)	0.3	0.1	0.1	0.1	0.1	0.3	(12.9)	(12.1)	(7.2)	12.0	(7.5)	-
Interest and Other Income (Expense)	(1.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(12.9)	(12.1)	(7.2)	12.0	(7.5)	-
Pre-Tax Income	1.2	(5.0)	(5.0)	(1.8)	(6.0)	(17.8)	(38.9)	(39.1)	(34.7)	(20.0)	(43.5)	(5.9)
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (GAAP)	\$ 1.2	\$ (5.0)	\$ (5.0)	\$ (1.8)	\$ (6.0)	\$ (17.8)	\$ (38.9)	\$ (39.1)	\$ (34.7)	\$ (20.0)	\$ (43.5)	\$ (5.9)
EPS (GAAP) (basic)	\$ 0.09	\$ (0.36)	\$ (0.36)	\$ (1.06)	\$ (0.35)	\$ (2.13)	\$ (1.72)	\$ (1.46)	\$ (1.19)	\$ (0.68)	\$ (1.16)	\$ (0.14)
EPS (GAAP) (diluted)	\$ 0.09	\$ (0.36)	\$ (0.36)	\$ (1.06)	\$ (0.35)	\$ (2.13)	\$ (1.72)	\$ (1.46)	\$ (1.19)	\$ (0.68)	\$ (1.16)	\$ (0.14)
Total of Reconciliation Items	0.1	56.0	56.0	-	-	112.1	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (6.6)	\$ 51.0	\$ 51.0	\$ (1.8)	\$ (6.0)	\$ 94.2	\$ (38.9)	\$ (39.1)	\$ (34.7)	\$ (20.0)	\$ (43.5)	\$ (5.9)
Impact of Adjustments to EPS	0.01	4.07	4.07	-	-	8.14	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (0.66)	\$ 3.70	\$ 3.70	\$ (1.06)	\$ (0.35)	\$ 6.01	\$ (1.72)	\$ (1.46)	\$ (1.19)	\$ (0.68)	\$ (1.16)	\$ (0.14)
EPS (Non-GAAP) (diluted)	\$ (0.66)	\$ 3.70	\$ 3.70	\$ (1.06)	\$ (0.35)	\$ 6.01	\$ (1.72)	\$ (1.46)	\$ (1.19)	\$ (0.68)	\$ (1.16)	\$ (0.14)
Weighted average shares outstanding (basic)	13.0	13.8	13.8	1.7	17.4	11.7	22.5	27.0	29.1	29.5	37.9	41.8
Weighted average shares outstanding (diluted)	13.0	13.8	13.8	1.7	17.4	11.7	22.5	27.0	29.1	29.5	37.9	41.7

Source: Company reports and BMO Capital Markets

VITAE THERAPEUTICS (VTAE)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %	VTAE - Rating as of 23-Sep-14 = NR		
Range*		na na		NC		>15 >15			Date	Rating Change	Share Price
Current*	ND	na	0.00	0.0	na	0.5	25.5	na	1 17-Oct-14	NR to OP	\$6.30

* Current EPS is the 4 Quarter Trailing to Q2/2014.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (November 11, 2014): \$16.48
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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Methodology and Risks to Price Target/Valuation

Methodology: We arrive at our price target by applying a 20x multiple to our 2022E EPS of \$2.70 discounted 30%.

Risks: There are a number of risks associated with investment in biotechnology companies. These risks include, but are not limited to, risk of clinical trial delay or failure, adverse regulatory decisions including product non-approval, unanticipated adverse effects of drugs which may result in removal from market, risk of manufacturing difficulties, capital market risk which may impair the ability to fund product discovery, research, regulatory filing, manufacture and/or commercialization, risk in attaining and retaining appropriate development or commercial partners, lower-than-expected product adoption, difficulties in gaining appropriate reimbursement for products from payors, unforeseen generic and branded competition, risk to patents being invalidated, and failure to meet earnings and revenue expectations.

Distribution of Ratings (September 30, 2014)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	44.3%	18.0%	60.3%	43.9%	56.5%	56.0%
Hold	Market Perform	52.5%	9.7%	38.5%	51.6%	42.1%	39.1%
Sell	Underperform	3.2%	5.3%	1.3%	4.5%	1.4%	4.9%

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis

Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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