

Vital Therapies, Inc. (VTL)

Rating	OUTPERFORM* [V]
Price (19 Mar 15, US\$)	27.37
Target price (US\$)	25.00 ¹
52-week price range	33.31 - 11.21
Market cap. (US\$ m)	652.64
Enterprise value (US\$ m)	518.53

*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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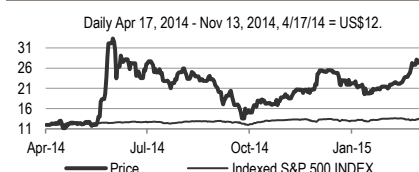
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FORECAST REDUCTION

Slight 208 Delay Not a Major Concern

- **4Q14 Results:** VTL reported 4Q14 R&D/SG&A of \$10.9M/\$3.1M vs. our \$10.1M/\$2.5M estimates driving EPS of -\$0.59 below our -\$0.53 estimate. VTL ended 4Q14 with \$102M in cash, which the company expects to fund operations through 3Q16 (we forecast an equity raise in 4Q15). As VTL will not have sales prior to approval (expected in 2017 in the US/EU), we expect VTI-208 data to be the primary driver of share price. We're lowering our 2015 EPS estimate to -\$2.30 from -\$2.17 on slightly higher assumed R&D.
- **VTI-208 Data Delayed 1Q:** VTL's pivotal phase 3 VTI-208 alcohol-induced liver decompensation (AILD) trial (N=203, primary endpoint overall survival up to at least study day 91) preliminary data was pushed out to 3Q15 from 2Q15. VTL attributed the delay to a decision to wait for database lock before starting top-line analysis. The company had previously planned to complete the top-line analysis before database lock but changed its mind based on FDA feedback. As VTI-208 results are the key to US approval this delay is likely to be viewed as disappointing, however, we see a 90 day delay as highly manageable & believe that VTL's strategy of taking a conservative approach in dealing with the FDA as wise. If 208 data are positive VTL plans to submit a BLA to the FDA in 1H16. VTL's VTI-210 trial's (severe acute alcoholic hepatitis) data are expected in early 2017 (previously 2016) with 6 patients enrolled to-date (targeting enrollment of 150+). VTI-212 (patients with either fulminant hepatic failure or surgery-induced liver failure) data are expected in 2016 (4/40 patients enrolled so far).
- **Upside to ~\$35-40 on Favorable Data:** If VTI-208 shows a 10%+ statistically significant mortality benefit (see our analysis of VTI-208 published on 12/11/14), this should de-risk ELAD approval (expected in 2017 in US/Europe). Given the large AILD opportunity (~\$9B / year opportunity) and the lack of AILD treatment alternatives, we believe VTL could be valued at \$35-40 on favorable 208 data.

Share price performance



On 11/13/14 the S&P 500 INDEX closed at 2089.27

Quarterly EPS	Q1	Q2	Q3	Q4
2014A	-24.49	-0.91	-0.59	-0.59
2015E	-0.58	-0.58	-0.59	-0.56
2016E	-0.59	-0.62	-0.30	-0.38

Financial and valuation metrics

Year	12/14A	12/15E	12/16E	12/17E
EPS (CS adj.) (US\$)	-3.56	-2.30	-1.90	-0.21
Prev. EPS (US\$)	—	-2.17	-1.29	-0.16
P/E (x)	-7.7	-11.9	-14.4	-128.5
P/E rel. (%)	-42.6	-67.4	-92.3	-923.6
Revenue (US\$ m)	—	—	—	87.5
EBITDA (US\$ m)	-49.3	-55.5	-51.8	-3.6
OCFPS (US\$)	-2.53	-2.52	-1.87	-0.61
P/OCF (x)	-9.9	-10.9	-14.7	-44.9
EV/EBITDA (current)	-11.2	-9.9	-10.6	-154.5
Net debt (US\$ m)	-102	-134	-82	-52
ROIC (%)	1,076.83	-2,517.70	-1,787.41	-23.46
Number of shares (m)	23.85	—	—	—
BV/share (Next Qtr., US\$)	—	—	—	4.68
Net debt (Next Qtr., US\$ m)	-83.6	—	—	—
Net debt/tot eq (Next Qtr., %)	-99.7	—	—	—
IC (current, US\$ m)	—	—	—	2,457.8
EV/IC (x)	—	—	—	—
Dividend (current, US\$)	—	—	—	—
Dividend yield (%)	—	—	—	—

Source: Company data, Credit Suisse estimates.

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Exhibit 1: VTL 4Q14 Results vs. CS Estimates

	Actual		CS Estimates		Variance		Consensus
	4Q14	YoY	4Q14	YoY	\$	%	4Q14
Total Sales	\$0.0	NM	\$0.0	NM	\$0.0	NM	\$0.0
Cost of Goods Sold	\$0.0	NM	\$0.0	NM	\$0.0	NM	
Gross Profit	\$0.0	NM	\$0.0	NM	\$0.0	NM	
SG&A	\$3.1	20.5%	\$2.5	-1.8%	\$0.6	19%	
R&D	\$10.9	6.3%	\$10.1	-1.5%	\$0.8	7%	
EBIT	(\$14.0)	NM	(\$12.6)	NM	(\$1.4)	10%	
Other	\$0.1	NM	\$0.1	NM	(\$0.0)	-57%	
Pretax Income	(\$14.0)	NM	(\$12.5)	NM	(\$1.4)	10%	
Income Taxes	\$0.0	NM	\$0.0	NM	\$0.0	NM	
Tax rate	\$0.0	NM	0.0%	NM	0.0%	NM	
Net Income (loss)	(\$14.0)	NM	(\$12.5)	NM	(\$1.4)	10%	
Other	\$0.0	NM	\$0.0	NM	\$0.0	NM	
Net Income (loss) to common	(\$14.0)	NM	(\$12.5)	NM	(\$1.4)	10%	
Diluted Shares	\$23.7	NM	23.5	NM	0.2	1%	
Diluted Adj EPS	(\$0.59)	NM	(\$0.53)	NM	(\$0.05)	9%	(\$0.59)
Margin Analysis							
Gross Margin	NM	NM	NM	NM			
SG&A % of Sales	NM	NM	NM	NM			
R&D % of Sales	NM	NM	NM	NM			
Operating Margin	NM	NM	NM	NM			
Pretax Margin	NM	NM	NM	NM			
Net Margin	NM	NM	NM	NM			

Source: Company data, Credit Suisse estimates, Thomson ONE

Companies Mentioned (Price as of 19-Mar-2015)

Vital Therapies, Inc. (VTL.OQ, \$27.37, OUTPERFORM[V], TP \$25.0)

Disclosure Appendix

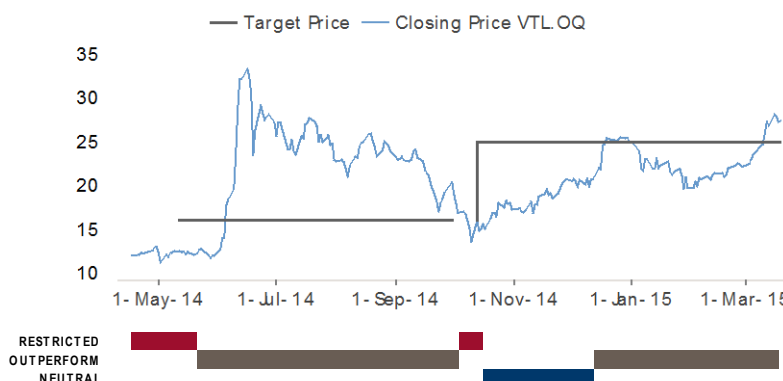
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3-Year Price and Rating History for Vital Therapies, Inc. (VTL.OQ)

VTL.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
07-Apr-14			R
12-May-14	12.49	16.00	O *
30-Sep-14	20.41		R
13-Oct-14	16.00	25.00	N
11-Dec-14	20.70	25.00	O

* Asterisk signifies initiation or assumption of coverage.



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Price Target: (12 months) for Vital Therapies, Inc. (VTL.OQ)

Method: Our \$25 DCF-derived price target is based on an ~11% WACC and a 2% terminal growth rate.

Risk: Risks to our \$25 price target are: (1) a large, clean dataset does not yet exist, and while early data are encouraging, the ultimate clinical benefit of the ELAD system is yet to be proven; (2) ultimate pricing of the system is likely dependent on the mortality benefit demonstrated in VTL's ongoing phase 3 trial; (3) VTL will likely need additional financing prior to commercialization; (4) approval process in China is opaque; and (5) VTL's IP could ultimately afford exclusivity for a shorter period of time than we anticipate.

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