

Vitae Pharmaceuticals

(VTAE-NASDAQ)

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

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Continued Upside on Broadening Pipeline

Event

Vitae Therapeutics has made substantial progress with its pipeline of small-molecule therapeutics over the past 6-12 months. Programs in Alzheimer's, diabetes, and psoriasis have all advanced, with continued progress expected in 2015. Positive top-line data for BI-1181181 (VTP-37948) in patients with Alzheimer's has demonstrated > 80% reduction in CSF beta-amyloid levels with half-life of 16-19 hours supporting once-daily dosing. Progress with preclinical activities, including manufacturing of VTP-43742 for psoriasis places the program on track for IND filing and phase 1 initiation in 1H15. Finally, phase 2 initiation for VTP-34072 in type 2 diabetes in July 2014 is expected to generate clinical data in 1H15 in 126 patients.

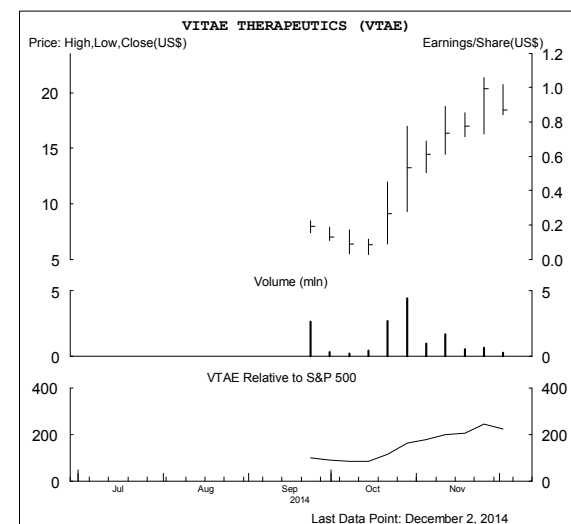
Impact & Analysis

We are maintaining our Outperform rating on shares of VTAE and increasing our price target to \$27 following review of recent pipeline progress. With progress with its BI partnered Alzheimer's program, recent validation of amyloid targeting by Biogen's BIIB037 and with proof-of-concept data expected from two additional programs in 2015, we continue to see upside for VTAE shares over the next 12 months. We continue to view VTP-43742 and VTP-34072 as potentially best-in-class oral drugs in large categories with potential for differentiation from existing brands.

Valuation & Recommendation

We arrive at our \$27 price target by applying a 20x multiple to our 2023E EPS estimate of \$5.18 and discounting at 25%.

Price (5-Dec) \$18.87 **52-Week High** \$21.43
Target Price \$27.00 **52-Week Low** \$5.41



(FY-Dec.)	2013A	2014E	2015E	2016E
EPS	\$0.09	-\$2.13	-\$1.72	na
P/E		na	na	na
CFPS	na	na	na	na
P/CFPS		na	na	na
Rev. (\$mm)	\$23	\$9	\$0	na
EV (\$mm)	na	\$93	\$93	na
EBITDA (\$mm)	\$2	-\$17	-\$26	na
EV/EBITDA	na	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2013A	na	na	na	na
2014E	-\$0.36a	-\$0.36a	-\$1.06a	-\$0.35
2015E	na	na	na	na
Dividend	\$0.00			0.0%
Book Value	\$0.52			Price/Book
Shares O/S (mm)	17.4			36.3x
Float O/S (mm)	6.4			Mkt. Cap (mm)
Wkly Vol (000s)	1,465			\$328
Net Debt (\$mm)	-\$16			Float Cap (mm)
				\$121
				Wkly \$ Vol (mm)
				\$17.2
				Next Rep. Date
				na

Notes: All values in US\$

First Call Mean Estimates: VITAE PHARMACEUTICALS INC (US\$)
2014E: -\$1.80; 2015E: -\$1.96; 2016E: -\$1.76

Changes

Target

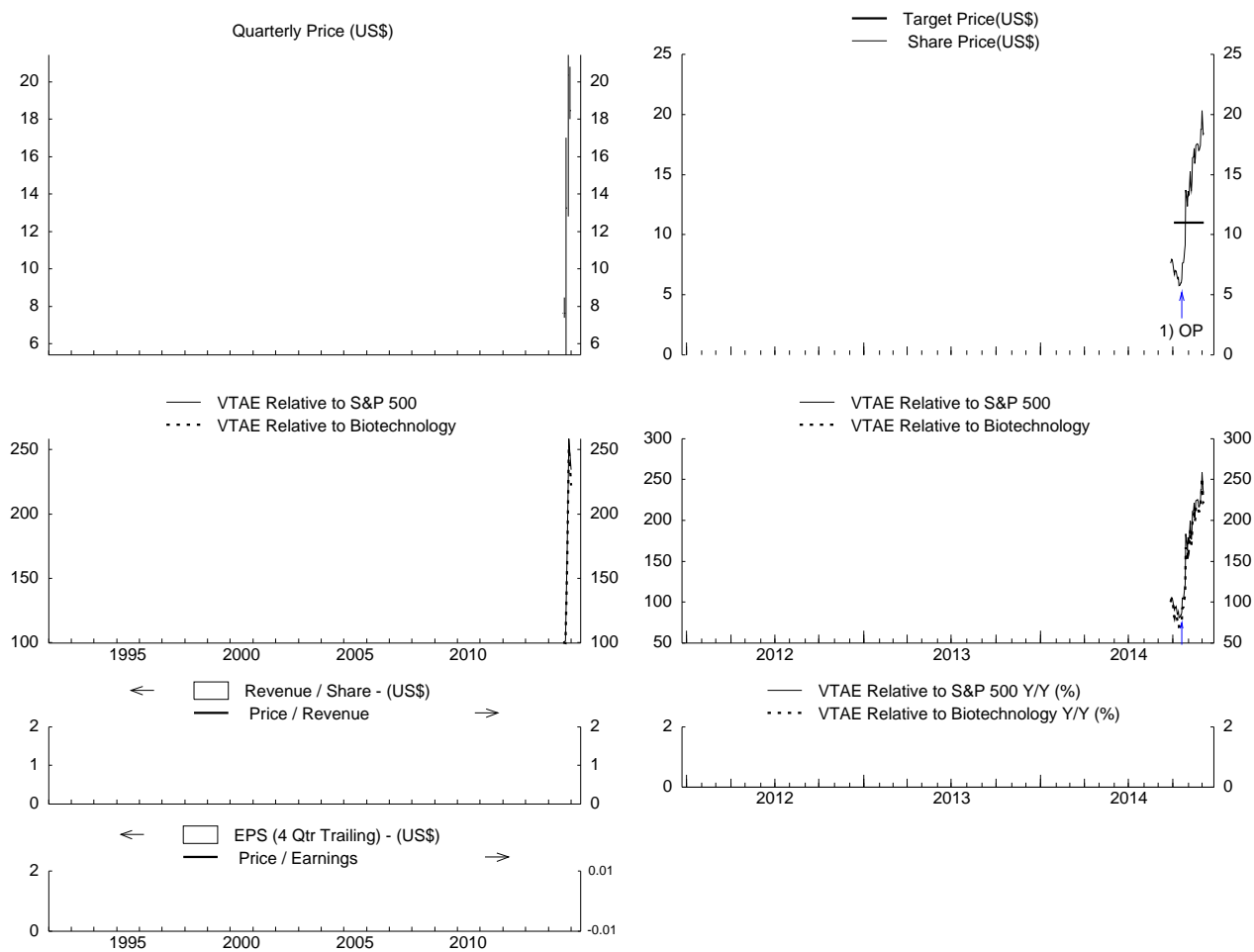
\$11.00 to \$27.00

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	\$ -	\$ 1.2	\$ 1.2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37.7
Collaboration Revenue	22.5	-	-	-	-	5.5	-	-	-	-	-	-
Sponsored Research and Other Revenue	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	\$ 22.5	\$ 1.2	\$ 1.2	\$ 6.2	\$ -	\$ 5.5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37.7
EXPENSES (GAAP)												
Cost of Goods Sold (COGS)	\$ -	\$ 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	14.9	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	5.4	-	-	-	-	-	-	-	-	-	-	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)	(6.0)	(27.0)	(27.5)	(32.0)	(36.0)	(5.9)
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	2.2	(4.9)	(4.9)	(1.7)	(6.0)	(17.4)	(6.0)	(27.0)	(27.5)	(32.0)	(36.0)	(5.9)
Interest and other income	0.1	0.0	0.0	0.0	-	0.0	-	-	-	-	-	-
Interest and other expense	(1.4)	(0.3)	(0.3)	(0.2)	-	(0.8)	-	-	-	-	-	-
Other Income (Expense)	0.3	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)	-	(0.4)	(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)	\$ 0.08	\$ (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)	\$ (8.6)	\$ 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)	\$ (0.68)	\$ 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)	\$ (0.68)	\$ 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	37.8	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	39.1	na	1 17-Oct-14	NR to OP	\$6.30

* Current EPS is the 4 Quarter Trailing to Q3/2014.
* Valuation metrics are based on high and low for the fiscal year.
* Range indicates the valuation range for the period presented above.

Last Price (December 2, 2014): \$18.45
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 25x multiple to our 2023E EPS of \$5.18 discounted 25%.

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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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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