

ZS Pharma

(ZSPH-NASDAQ)

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

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Positive Management Meeting: NDA Filing on Track

Event

The BMO Specialty Pharmaceuticals team met with many companies and industry leaders this week in San Francisco. We had a great meeting with ZS Pharma, with a real opportunity to dive deeper into the aspects of ZS-9 that ZS believes will differentiate it with the FDA and in the marketplace.

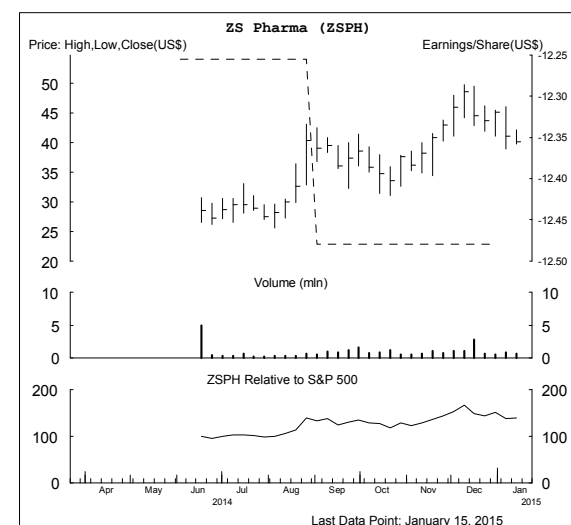
Impact & Analysis

ZS Pharma is on its way to filing its NDA in early 1H15, approximately 6 months behind competitor Relypsa. We believe investors will further recognize the potential of the hyperkalemia market in 2015 as both products get closer to market, and begin to dig deeper into the data provided by each company. We believe there is substantial data supporting that ZS-9 is a safe and efficacious treatment for hyperkalemia, and should it be approved it will succeed in the market, despite potential competition. ZS Pharma is on track to file its MAA in Europe in 1H15 and may choose to seek a partnership deal on the EU rights to ZS-9. The level of interest in partnering by outside partners is described as "strong and real."

Valuation & Recommendation

We continue to believe that ZS Pharma will gain upside as investors continue to recognize the market opportunity for hyperkalemia and the company gets closer to filing its NDA. We maintain our Outperform rating and \$54 price target.

Price (19-Jan) \$42.51 **52-Week High** \$49.77
Target Price \$54.00 **52-Week Low** \$25.51



(FY-Dec.)	2013A	2014E	2015E	2016E
EPS	-\$21.84	-\$5.33	-\$2.81	-\$2.62
P/E		na	na	na
CFPS	na	-\$4.52	-\$3.42	-\$3.31
P/CFPS		na	na	na
Rev. (\$mm)	\$0	\$0	\$0	\$17
EV	na	\$845	\$845	\$845
EBITDA (\$mm)	-\$32	-\$57	-\$66	-\$63
EV/EBITDA	na	na	na	na
Quarterly EPS	Q1	Q2	Q3	Q4
2013A	na	na	na	na
2014E	-\$6.60a	-\$4.72a	-\$0.81a	-\$0.88
2015E	-\$0.71	-\$0.65	-\$0.73	-\$0.73
Dividend	\$0.00			0.0%
Book Value	\$1.16			Price/Book 36.6x
Shares O/S (mm)	20.8			Mkt. Cap (mm) \$885
Float O/S (mm)	20.2			Float Cap (mm) \$859
Wkly Vol (000s)	908			Wkly \$ Vol (mm) \$33.5
Net Debt (\$mm)	-\$111			Next Rep. Date na

Notes: All values in US\$

First Call Mean Estimates: ZS PHARMA INC (US\$) 2014E: -\$4.27; 2015E: -\$2.95; 2016E: -\$3.33

Details & Analysis: The Profile to Beat, We Believe

We had a great meeting with ZS Pharma, with a real opportunity to dive deeper into the aspects of ZS-9 that ZS believes will differentiate it with the FDA and in the marketplace.

ZS Pharma is on its way to filing its NDA in early 1H15, approximately 6 months behind competitor Relypsa. We believe investors will further recognize the potential of the overall hyperkalemia market in 2015 as Relypsa gets closer to a potential approval and ZS files ZS-9. Additionally, partnerships for ex-US rights for either company will also help to further validate the market opportunity for investors.

We believe there is substantial data supporting that ZS-9 is a safe and efficacious treatment for hyperkalemia, and should it be approved it will succeed in the market, despite potential competition.

As the market begins to focus more on the potential of the hyperkalemia market, we believe ZS Pharma is in a good place to further differentiate its clinical profile:

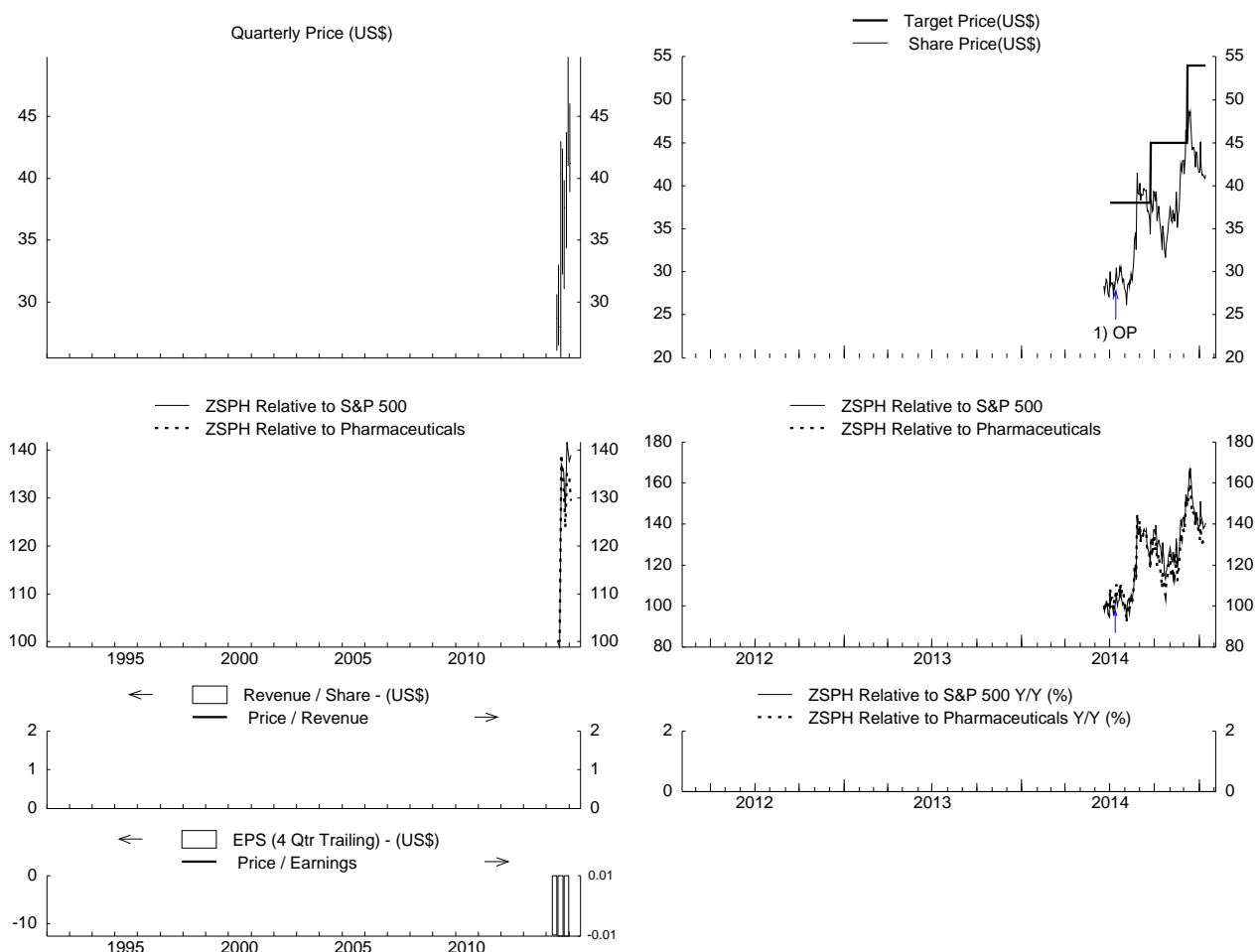
- Calcium free, substantial data in African Americans, potential fastest action, and highly efficacious.

As we've mentioned previously, ZS Pharma's competitor, Relypsa, filed for approval and ZS Pharma is drawing close to submitting an NDA in early 1H15.

We believe as investors delve into the data on these products, they will find a very strong argument for the safety and efficiency of ZS Pharma's product ZS-9. We are encouraged that doctors in ZS Pharma's trials are mainly in North America, providing the company with several hundred nephrologists who will be familiar with ZS-9 at launch. We believe even in a 50/50 market split between Relypsa's Patiromer and ZS-9, ZS Pharma will see significant profits, although we believe ZS has the drug to beat.

ZS Pharma is on track to file its MAA in Europe in 1H15 and may choose to seek a partnership deal on the EU rights to ZS-9. The level of interest in partnering by outside partners is described as "strong and real."

ZS Pharma (ZSPH)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %
Range*:		na na		NC			>15 >15	
Current*	-12.48	na	0.00	0.0	0	1.2	35.8	

ZSPH - Rating as of 17-Jun-14 = NR

Date	Rating Change	Share Price
1 11-Jul-14	NR to OP	\$29.49

* 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 (January 13, 2015): \$41.22
 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 target price using a discounted cash flow analysis, a sector multiple applied to discounted earnings, and as a multiple of sales.

Risks: In addition to the normal risks inherent in pharmaceutical companies, such as regulatory, reimbursement, and competitive risks, our valuation of ZSPH carries several other risks. Among the risks to our valuation is ZSPH's dependence on approval of their lead product and anticipated sales and profitability to drive the value of ZSPH. Unseen side effects, safety issues, and competitive threats have not been taken into account in our valuation and if any of these were to emerge, it is likely ZSPH shares would be significantly and negatively impacted. ZSPH is currently running at a substantial loss, and with this fact comes several other risks, including the potential need for financing. One cannot be certain that ZSPH would be able to secure additional financing and at what cost. Our valuation does not include any value for ZSPH's additional product in the pipeline.

Distribution of Ratings (December 31, 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	43.4%	16.2%	60.6%	42.6%	51.7%	55.6%
Hold	Market Perform	52.6%	8.1%	36.6%	53.0%	45.8%	39.5%
Sell	Underperform	3.9%	8.3%	2.8%	4.5%	2.5%	4.9%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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(S) = speculative investment;

NR = No rating at this time;

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