

COMPANY NOTE

Estimate Change

USA | Healthcare | Biotechnology

August 11, 2014

Jefferies

Minerva (NERV) 2Q14 NERV Earnings: Pipeline Momentum Continues To Grow

Key Takeaway

We continue to expect multiple catalysts through 2H14 and in 2015 from the NERV pipeline, including data from the once daily formulation of MIN-101 by YE14 (20 patients) and Phase 1b data from MIN-202 in secondary insomnia in MDD patients by YE14. Post IPO, NERV has pro forma cash of \$27.6m and expects current cash to last through 2015. We reiterate our \$10 price target and Buy rating.

MIN-101 Phase 2b On Track To Begin In 1Q15 (from 4Q14). The Phase 2b trial is now expected to begin in 1Q15 and Minerva believes that it can have top-line results in 1H16. The Phase 2b study is anticipated to enroll 250 patients in multiple centers in Europe (40-50 sites), compare the 64mg QD dose and a 32mg QD dose of MIN-101 to placebo, and have a treatment duration of three months for the primary endpoint, followed by a six month extension study. Importantly, Minerva will be recruiting patients with predominant negative symptoms, which will give them a much higher likelihood of success. Entry into the study will require negative symptom scores above 22 (Minerva predicts baseline means of 28 points vs. 24 points in the Phase 2a study) and positive symptom scores less than 19 (vs. 21 in the Phase 2a study). This should lower the likelihood of an acute episode that would be counted as a treatment failure. Lastly, the inpatient portion of the trial will be for 8-10 days, rather than the 28 days of hospitalization in the first trial. The primary endpoint will be the PANSS negative score at 3 months. Minerva will also look at the effects of MIN-101 on sleep architecture and other potential indications based on the pharmacodynamics assessments of patient subgroups.

MIN-202 Phase 1b Data In 2H14. MIN-202, NERV's orexin-2 antagonist being developed for the treatment of primary and secondary insomnia is on track to readout Phase 1b data in major depressive disorder (MDD) patients with secondary insomnia by YE14. Further, the company expects multiple ascending dose data in healthy volunteers also by YE14. Following these data readouts, Minerva plans to start a second Phase 1b trial focusing on primary insomnia, which it expects to read out in late 2015-early 2016.

Financials And Guidance: The company ended 2Q14 with \$27.6m in pro forma cash and cash equivalents, which it expects to last through 2015.

Valuation/Risks

We reach our \$10 PT through a sum-of-the parts DCF of \$7.50 MIN-101 + \$1.50 MIN-117 + \$1 cash. NERV is subject to standard biotech risks including clinical, regulatory, and commercial.

USD	Prev.	2012A	Prev.	2013A	Prev.	2014E	Prev.	2015E
Rev. (MM)	--	0.0	--	0.0	--	0.0	--	25.0
EV/Rev								3.7x
EPS								
Mar	--	--	--	--	--	(0.43)A	--	--
Jun	--	--	--	--	(0.43)	(2.32)A	--	--
Sep	--	--	--	--	(0.38)	(1.57)	--	--
Dec	--	--	--	--	--	(0.55)	--	--
FY Dec	--	(0.47)	--	(0.63)	(1.82)	(4.64)	(1.43)	(2.25)
FY P/E		NM		NM		NM		NM

BUY

Price target \$10.00

Price \$6.51

Financial Summary

Net Debt (MM):	(\$27.6)
Long-Term Debt (MM):	\$0.0

Market Data

52 Week Range:	\$7.90 - \$5.57
Total Entprs. Value (MM):	\$91.5
Market Cap. (MM):	\$119.1
Insider Ownership:	NA
Institutional Ownership:	NA
Shares Out. (MM):	18.3
Float (MM):	4.1
Avg. Daily Vol.:	NA

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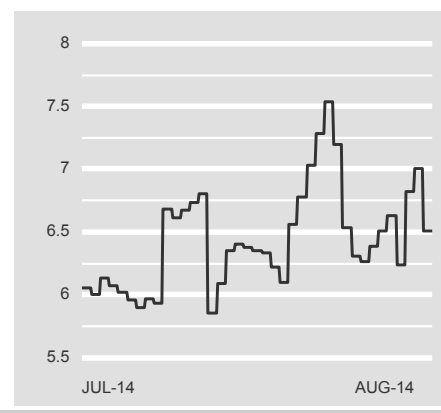
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EQUITY RESEARCH AMERICAS

NERV: Historical and Projected Revenue and Earnings

December 31 Fiscal Year (\$000s, except per share)	2012A	2013A	1Q14A	2Q14A	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
MIN-101 Sales	-	-	-	-	-	-	-	-	-	-	-	15,479	221,239	751,234	1,589,771
U.S.	-	-	-	-	-	-	-	-	-	-	-	11,150	161,607	550,462	1,173,029
EU	-	-	-	-	-	-	-	-	-	-	-	4,328	58,550	186,135	370,208
ROW	-	-	-	-	-	-	-	-	-	-	-	-	1,082	14,637	46,534
U.S. Royalties to Minerva	-	-	-	-	-	-	-	-	-	-	-	2,676	38,786	136,129	317,369
ROW Royalties to Minerva	-	-	-	-	-	-	-	-	-	-	-	1,039	14,312	48,185	100,018
MIN-117 Sales	-	-	-	-	-	-	-	-	-	-	-	-	189,406	629,527	1,278,142
U.S.	-	-	-	-	-	-	-	-	-	-	-	-	189,406	512,823	943,290
ROW	-	-	-	-	-	-	-	-	-	-	-	-	-	116,704	334,852
U.S. Royalties to Minerva	-	-	-	-	-	-	-	-	-	-	-	-	17,047	46,667	102,628
ROW Royalties to Minerva	-	-	-	-	-	-	-	-	-	-	-	-	-	8,169	23,440
Total Royalties	-	-	-	-	-	-	-	-	-	-	-	3,715	70,144	239,151	543,455
Milestones	-	-	-	-	-	-	-	25,000	-	15,000	100,000	175,000	150,000	100,000	100,000
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	-	-	-	-	-	-	-	25,000	-	15,000	100,000	178,715	220,144	339,151	643,455
Payments to Mitsubishi	-	-	-	-	-	-	-	2,500	-	1,500	10,000	19,601	45,983	113,217	232,230
R&D	550	501	485	1,589	26,000	5,500	33,574	32,000	45,000	50,000	40,000	55,000	75,000	100,000	125,000
SG&A	443	1,799	1,836	1,547	2,600	3,500	9,483	11,380	12,745	14,275	15,988	17,906	20,055	22,461	25,157
Income from Operations	(993)	(2,300)	(2,321)	(3,136)	(28,600)	(9,000)	(43,057)	(20,880)	(57,745)	(50,775)	34,012	86,208	79,106	103,473	261,068
Other Income	0	2	-	10	22	(2)	30	227	130	376	790	1,432	2,257	3,017	3,841
Other Expenses	(1)	(89)	(315)	-	-	(650)	(965)	(2,600)	(2,600)	(2,600)	-	-	-	-	-
Pre-Tax Income	(994)	(2,387)	(2,636)	(3,126)	(28,578)	(9,652)	(43,993)	(23,253)	(60,215)	(52,998)	34,802	87,640	81,363	106,490	264,908
Tax Expense	-	-	-	-	-	-	-	-	-	-	12,877	32,427	30,104	39,401	98,016
Tax Rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	37%	37%	37%	37%	37%
Net Income	(994)	(2,387)	(2,636)	(3,126)	(28,578)	(9,652)	(43,993)	(23,253)	(60,215)	(52,998)	21,925	55,213	51,259	67,088	166,892
Diluted shares outstanding	3,381	4,838	6,903	7,605	18,478	18,678	12,916	18,439	21,939	30,539	36,307	36,699	37,093	37,492	37,903
Net Loss per share	\$ (0.29)	\$ (0.49)	\$ (0.38)	\$ (0.41)	\$ (1.55)	\$ (0.52)	\$ (3.41)	\$ (1.26)	\$ (2.74)	\$ (1.74)	\$ 0.60	\$ 1.50	\$ 1.38	\$ 1.79	\$ 4.40
Options Expense	588	656	302	14,514	500	600	15,916	18,303	21,049	24,206	27,837	32,013	36,815	42,337	48,688
EPS with Options Expense	\$ (0.47)	\$ (0.63)	\$ (0.43)	\$ (2.32)	\$ (1.57)	\$ (0.55)	\$ (4.64)	\$ (2.25)	\$ (3.70)	\$ (2.53)	\$ (0.16)	\$ 0.63	\$ 0.39	\$ 0.66	\$ 3.12

Source: Company data, Jefferies Group LLC estimate
August 10, 2014

NERV: Historical and Projected Changes in Financial Position

December 31 Fiscal Year (\$000s)	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Cash flows from operating activities											
Net loss	(994)	(2,387)	(43,993)	(23,253)	(60,215)	(52,998)	21,925	55,213	51,259	67,088	166,892
Adjustments to reconcile used in operating activities:											
NOL Utilization	-	-	-	-	-	-	12,877	32,427	30,104	39,401	-
Amortization of debt discount recorded as interest expense	-	36	-	-	-	-	-	-	-	-	-
Change in fair value of derivative	-	0	-	-	-	-	-	-	-	-	-
Unrealized foreign exchange loss	-	20	-	-	-	-	-	-	-	-	-
Interest expense	-	23	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities											
Accounts receivable	-	-	-	-	-	-	-	-	(11,837)	(34,002)	(86,944)
Prepaid expenses	25	(6)	-	-	-	-	-	-	-	-	-
Accounts payable	-	538	-	-	-	-	-	-	-	-	-
Accrued expenses and other liabilities	59	(383)	(700)	-	-	-	-	-	-	-	-
Net cash used in operating activities	(909)	(2,159)	(44,693)	(23,253)	(60,215)	(52,998)	34,802	87,640	69,526	72,488	79,948
Cash flows from investing activities:											
Equipment purchases	-	(3)	(5)	(10)	(20)	(20)	(20)	(20)	(20)	(20)	(20)
Cash acquired in business acquisition	-	631	1,168	-	-	-	-	-	-	-	-
Net cash provided by investing activities	-	628	1,163	(10)	(20)	(20)	(20)	(20)	(20)	(20)	(20)
Cash flows from financing activities											
Proceeds from issuance of convertible promissory notes	-	1,300	-	-	-	-	-	-	-	-	-
Proceeds from options exercises	-	-	6,023	-	-	1,898	2,610	3,445	4,421	5,558	6,878
Proceeds from follow on offerings	900	1,850	31,672	-	64,155	116,461	-	-	-	-	-
Debt issuance/repayment	-	-	18,600	-	-	(20,000)	-	-	-	-	-
Stock issuance costs	-	-	19,700	-	-	-	-	-	-	-	-
Net cash provided by financing activities	900	3,150	75,995	-	64,155	98,359	2,610	3,445	4,421	5,558	6,878
Net (decrease) increase in cash and cash equivalents	(9)	1,619	32,465	(23,263)	3,920	45,340	37,392	91,064	73,927	78,025	86,806
Beginning of period	209	200	1,818	34,283	11,020	14,940	60,280	97,672	188,736	262,663	340,689
End of period	200	1,818	34,283	11,020	14,940	60,280	97,672	188,736	262,663	340,689	427,495

Source: Company data, Jefferies Group LLC estimate
August 10, 2014

NERV: Historical Condensed Balance Sheets

(000s)	12/31/2012	12/31/2013	3/31/2013	6/30/2014
Assets				
Cash and cash equivalents	200	1,818	2,141	480
Prepaid expenses	9	1	46	33
Total current assets	209	1,819	2,187	513
Equipment	-	3	31	27
In-process research and development	-	19,000	34,200	34,200
Goodwill	-	7,918	15,104	15,104
Deferred public offering costs	-	434	-	3,112
Other assets	-	-	1,615	-
Total assets	209	29,175	53,138	52,956
Liabilities				
Accounts payable, accrued expenses, and other current liabilities	190	1,348	5,052	8,046
Convertible promissory notes	-	58	333	2,007
Total current liabilities	190	1,407	5,384	10,053
Deferred tax liability	-	7,589	13,669	13,669
Total liabilities	190	8,995	19,053	23,722
Stockholders' equity	19	20,180	34,085	29,235
Total liabilities and stockholders' equity	209	29,175	53,138	52,956

Source: Company Reports, Jefferies Group LLC
August 10, 2014

Company Description

Minerva is focused on developing neuropsychiatry drugs. Minerva's lead product candidate, MIN-101, is a 5-HT_{2A}/Sigma2 antagonist in Phase 2 development for the treatment of schizophrenia. MIN-101 is thought to be differentiated from conventional antipsychotics as it was developed to be effective against negative symptoms. NERV is also developing MIN-117, an antagonist of 5-HT_{1A} and 5-HTT receptors and both serotonin and dopamine, for major depressive disorder (MDD). NERV believes MIN-117 could be differentiated by fast onset of action and potential to treat patients that have failed previous lines of antidepressants. NERV has two other products in early Phase 1 or preclinical development: MIN-202, an orexin-2 antagonist for primary and secondary insomnia, and MIN-301, an ErbB4 activator for Parkinson's disease.

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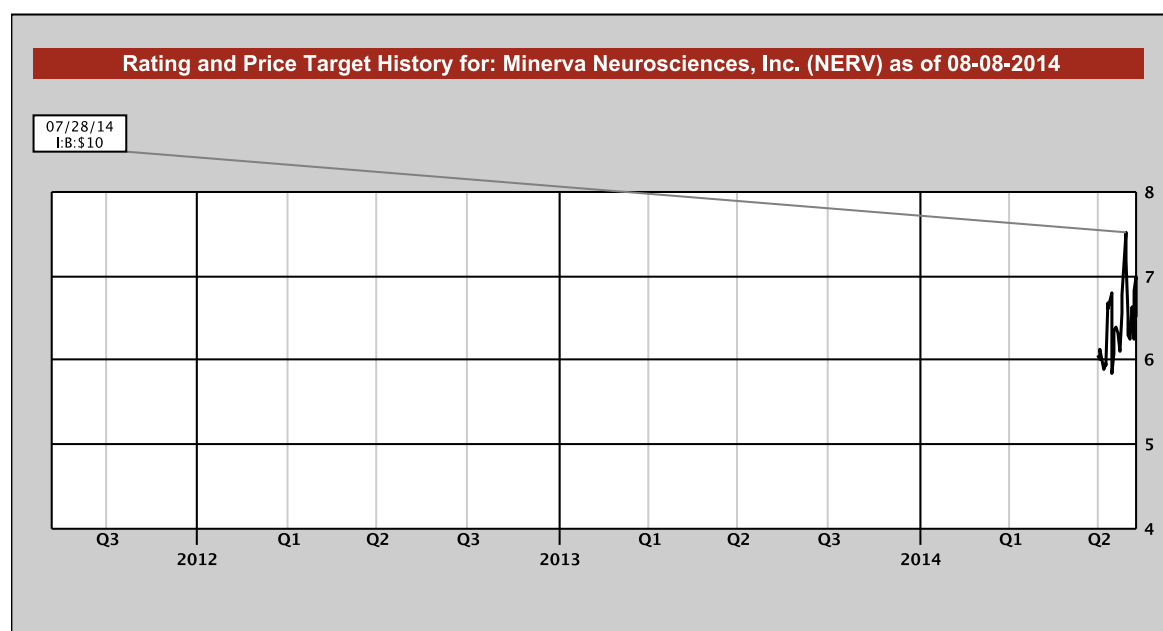
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			Count	Percent
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