

Concert Pharmaceuticals, Inc. (CNCE)

3Q14 Earnings Results

MARKET DATA

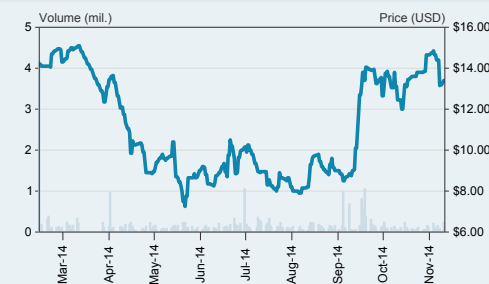
Price	\$12.70
52-Week Range:	\$7.12 - \$16.26
Shares Out. (M):	17.9
Market Cap (\$M):	\$227.3
Average Daily Vol. (000):	93.0
Cash (M):	\$23
Cash/Share:	\$1.31
Enterprise Value (M):	\$52
Float (M):	16.0
LT Debt (M):	\$5

Source: Thomson Reuters and JMP Securities LLC

FY DEC		2013A	2014E	2015E
Revenue (\$M)	1Q	--	\$1.6A	\$1.2
	2Q	\$24.0	\$1.2A	\$4.4
	3Q	\$24.0	\$4.4A	\$0.0
	4Q	\$1.4	\$0.0	\$7.3
	FY	\$25.4	\$7.3	\$2.0
EPS	1Q	--	(\$0.76)A	--
	2Q	(\$0.01)	(\$0.45)A	--
	3Q	(\$0.01)	(\$0.43)A	--
	4Q	(\$4.66)	(\$0.71)	--
	FY	(\$4.99)	(\$1.99)	(\$2.42)
Previous FY		NC	(\$2.20)	(\$2.39)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE



MARKET OUTPERFORM | Price: \$12.70 | Target Price: \$24.00

INVESTMENT HIGHLIGHTS

Concert Pharmaceuticals detailed 3Q14 earnings results and pipeline progress; reiterate our Market Outperform rating, but reduce our price target to \$24 from \$28 (based on DCF and SOTP valuation methodologies) to reflect CTP-354 development delay. CNCE reported a 3Q14 net loss of \$7.83MM or EPS of (\$0.43), better than the JMP estimate of (\$0.54), primarily on total licensing and milestone revenues. Licensing revenue of \$2.42MM and milestone revenue of \$2MM were not included in our estimates. Total operating expense was \$12.03MM, in line with our \$11.5MM estimate. CNCE finished the quarter with \$90MM in cash, cash equivalents and short-term investments providing sufficient cash runway into 2016. A summary of 3Q14 actual results versus JMP estimates is shown in Figure 2. Incremental changes to our model reflecting 3Q14 results and changes to our timelines for CTP-345 as well as calculated share count are summarized in Figures 3 and 4.

Based on pre-clinical toxicology findings, CNCE delays commencement of the Phase II trial of CTP-354 out of an abundance of caution. While the company received many questions on the call regarding the nature of these findings, the company would only specify that they were seen late in chronic toxicology studies. The company also believes these to be species-specific, though management would not state exactly in which species these findings were evident. Out of an abundance of caution, the company has fully informed the FDA of its findings, and delayed moving ahead to Phase II studies. A full report will be provided to the company by its vendor sometime in early 2015. While it is difficult to estimate the length of the delay, for modeling purposes, we are assuming a 1.5-year push-out in the launch of CTP-354 for the treatment of spasticity associated with multiple sclerosis and spinal cord injury. In addition, because of the additional development risk to the program, we are raising our presumed discount rate to 35% from our prior 30% rate. Please see Figures 4-6 for further details.

Development of CPT-499 remains on track, SPA discussions slated for year-end 2014. During the call, the company reminded listeners of the results from its successful FDA end of Phase II meeting where consideration would be given to a single, multi-dose, placebo controlled Phase III trial for approval, in contrast to initial expectations of two separate Phase III trials. Time-to-event analysis— a composite endpoint including $\geq 50\%$ increase in serum creatinine levels or progression to ESRD— will likely be confirmed as the approval endpoint. This inclusion of a rapidly assessable biomarker to support the responder analysis is highly encouraging from both a time and cost perspective, in our view. The potential incorporation of higher baseline UACR levels (as a predictor of more rapid disease progression) as inclusion criteria may also shorten the time to trial readout. Some of the findings from the biomarker studies of CTP-499 will be presented at this

week's American Society of Nephrology (ASN) meeting in Philadelphia. We expect further clarity on the molecule's registration pathway sometime in early 2015 post-FDA discussions on the special protocol assessment.

Despite the CTP-354 delay, we continue to see significant upside potential for this deuterated drug company. We remain bullish on Concert Pharmaceuticals shares seeing several opportunities for growth over the next several years in addition to CTP-499 including: CTP-354, JZP-386, AVP-786 and CTP-730. In our opinion, the company's DCE Platform® has all the requisite ingredients to allow CNCE to become one of the leading developers of unique, deuterated-therapeutic compounds.

FIGURE 1. Upcoming CNCE Milestones

Timing	Drug	Milestones
Nov 14	CTP-499	ASN poster
1H15	CTP-499	Final notice of FDA SPA determination expected
2H15	CTP-354	Vendor report on toxicology assessment
2H14	AVP-786	Phase II trial for treatment of resistant major depressive disorder
2014	JZP-386	First Phase I in-human trial
2014	CTP-730	Clinical trials expected to begin

Source: CNCE company presentations

FIGURE 2. 3Q14 CNCE Results vs. JMP Estimates

Concert Pharmaceuticals (CNCE) Abridged Income Statement (\$ MM)	3Q14 Results		
	JMP Estimate	Actual	Variance (JMP vs. Actual)
Total Revenues	-	4.42	
License revenue	-	2.42	
Milestone revenue	-	2.00	
Operating Expenses	11.50	12.03	0.5
Research and development	9.00	8.57	(0.4)
General and administrative	2.50	3.46	1.0
Operating income (loss)	(11.50)	(7.61)	3.9
Other income (expense)	0.00	(0.22)	(0.22)
			0.00
Pretax income (loss)	(11.50)	(7.83)	3.67
Net income (loss)	(9.50)	(7.83)	1.67
EPS Calculations			
Basic EPS	\$ (0.54)	\$ (0.43)	\$ 0.10
Diluted EPS	\$ (0.54)	\$ (0.43)	\$ 0.10
Basic shares outstanding	17.724	18.098	0.374
Diluted shares outstanding	17.724	18.098	0.374

Source: JMP Securities LLC and Company Reports

FIGURE 3. Changes to Our Model

Concert Pharmaceuticals (CNCE) (\$ MM)	4Q14E		FY 2014E		FY 2015E		FY 2016E	
	Old	New	Old	New	Old	New	Old	New
License revenue	2.8	0.0	2.8	5.3	0.0	0.0	0.0	0.0
Milestone revenue	2.0	0.0	2.0	2.0	0.0	0.0	0.0	0.0
Other								
Total Revenues	4.8	0.0	4.8	4.85	0.0	4.85	0.0	-
COGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Profit	-	0.0	4.85	7.27	2.00	2.00	2.00	2.00
Operating Expenses	12.5	12.5	41.1	41.6	50.3	50.9	63.5	64.1
Research and development	9.5	9.5	30.3	29.9	37.9	37.4	49.3	48.6
General and administrative	3.0	3.0	10.8	11.7	12.4	15.5	14.2	15.5
Operating income (loss)	(12.5)	(12.5)	(36.2)	(34.4)	(48.3)	(48.9)	(61.5)	(62.1)
Other income (expense)	0.0	0.0	0.0	-	0.0	-	0.0	-
Interest income	0.0	0.0	0.0	-	0.0	-	0.0	-
Pretax income	(12.5)	(12.5)	(36.2)	(34.4)	(48.3)	(48.9)	(61.5)	(62.1)
Net income	(12.5)	(12.5)	(36.9)	(35.3)	(70.0)	(48.9)	(61.5)	(62.1)
Basic EPS	(\$0.70)	\$ (0.71)	(\$2.09)	\$ (1.99)	(\$2.39)	\$ (2.42)	(\$2.71)	\$ (2.73)
Diluted EPS	(\$0.70)	\$ (0.71)	(\$2.09)	\$ (1.99)	(\$2.39)	\$ (2.42)	(\$2.71)	\$ (2.73)
Basic shares outstanding	17.89	17.72	17.68	17.68	20.22	20.22	22.71	22.71
Diluted shares outstanding	17.89	17.72	17.68	17.68	20.22	20.22	22.71	22.71

Source: JMP Securities LLC and Company Reports

FIGURE 4. Valuation Synthesis

Synthesis of Valuation Approaches	
Approach	Valuation
DCF Analysis	\$ 14.05
SOTP	25.90
Price Target	\$ 24.00

Source: JMP Securities LLC and Company Reports

FIGURE 5. Sum-of-the-Parts Valuation

NPV Sum of the Parts			
	WW	US	Ex-US
CTP-354	\$ 7.86	\$ 6.13	\$ 1.73
CTP-499	\$ 6.22	\$ 3.78	\$ 2.44
JZP-386	\$ 4.72	\$ 2.77	\$ 1.95
AVP-786	\$ 4.87	\$ 2.53	\$ 2.33
Cash and Equivs on Hand	\$ 2.24		
Total NPV	\$ 25.90	\$ 15.22	\$ 8.45

Source: JMP Securities LLC and Company Reports

FIGURE 6. Sum-of-the-Parts Valuation (continued)

CTP-354, NPV	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Revenue (\$MM)				\$ -	\$ -	\$ -	\$ 49	\$ 219	\$ 352	\$ 472	\$ 614	\$ 701	\$ 732
Contribution Margin				5%	10%	15%	18%	24%	28%	32%	36%	40%	40%
Operating Margin					0.0	0.0	8.8	52.5	98.5	151.0	221.1	280.6	292.7
Terminal Value													887.0
Discount Period					3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
PV of CF to CNCE					0.0	0.0	2.0	8.7	12.1	13.7	14.8	14.0	43.5
Discount Rate													35%
Terminal Growth													2%
NPV													\$ 108.63
# Shares outstanding (mm)													17.7
Incremental price per share													\$ 6.13
Ex-US Sales (\$MM)				\$ -	\$ -	\$ -	\$ 13	\$ 50	\$ 140	\$ 294	\$ 463	\$ 585	\$ 629
Royalty rate						15%	15%	15%	15%	15%	15%	15%	15%
Royalty to CNCE						0.0	1.9	7.5	21.0	44.0	69.4	87.8	94.4
Terminal Value													269.6
Discount Period					3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
PV of CF to CNCE						0.0	0.4	1.2	2.6	4.0	4.7	4.4	13.4
Discount Rate													35%
Terminal Growth													0%
NPV													\$ 30.66
# Shares outstanding (mm)													17.7
Incremental price per share													\$ 1.73
CTP-499, NPV	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
US Sales (\$MM)				\$ -	\$ -	\$ -	\$ 47	\$ 164	\$ 380	\$ 725	\$ 987	\$ 1,027	\$ 1,069
Royalty rate						15%	15%	15%	15%	15%	15%	15%	15%
Royalty to CNCE						0.0	7.0	24.7	57.0	108.7	148.1	154.1	160.3
Contribution Margin					100%	100%	100%	100%	100%	100%	100%	100%	100%
Operating Margin					0.0	0.0	7.0	24.7	57.0	108.7	148.1	154.1	160.3
Terminal Value													572.5
Discount Period					3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
PV of CF to CNCE					0.0	0.0	1.6	4.1	7.0	9.9	9.9	7.7	27.0
Discount Rate													30%
Terminal Growth													2%
NPV													\$ 67.07
# Shares outstanding (mm)													17.7
Incremental price per share													\$ 3.78
Ex-US Sales (\$MM)				\$ -	\$ -	\$ -	\$ 40	\$ 157	\$ 381	\$ 684	\$ 792	\$ 893	\$ 893
Royalty rate						15%	15%	15%	15%	15%	15%	15%	15%
Royalty to CNCE						0.0	0.0	5.9	23.5	57.1	102.7	118.9	133.9
Terminal Value													446.5
Discount Period						4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
PV of CF to CNCE						0.0	0.0	1.0	2.9	5.2	6.9	5.9	21.4
Discount Rate													30%
Terminal Growth													0%
NPV													\$ 43.22
# Shares outstanding (mm)													17.7
Incremental price per share													\$ 2.44

Source: JMP Securities LLC and Company Reports

FIGURE 7. Sum-of-the-Parts Valuation (Continued)

JZP-386 MM, NPV	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
US Sales (\$MM)					\$ -	\$ 25	\$ 61	\$ 181	\$ 267	\$ 404	\$ 512	\$ 542	\$ 572
Royalty rate						7%	8%	9%	10%	11%	13%	15%	15%
Royalty to CNCE						1.8	4.9	16.3	26.7	44.4	66.6	81.2	85.9
Contribution Margin					100%	100%	100%	100%	100%	100%	100%	100%	100%
Operating Margin					0.0	1.8	4.9	16.3	26.7	44.4	66.6	81.2	85.9
Terminal Value													306.7
Discount Period					3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
PV of CF to CNCE					0.0	0.6	1.3	3.4	4.3	5.4	6.3	5.9	21.9
Discount Rate													
Terminal Growth													
NPV													\$ 49.07
# Shares outstanding (mm)													17.7
Incremental price per share													\$ 2.77
Ex-US Sales (\$MM)					\$ -	\$ 35	\$ 101	\$ 201	\$ 332	\$ 390	\$ 409	\$ 413	
Royalty rate						7%	8%	9%	10%	11%	13%	15%	15%
Royalty to CNCE						0.0	2.8	9.1	20.1	36.6	50.7	61.4	61.9
Terminal Value													206.3
Discount Period						4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
PV of CF to CNCE						0.0	0.7	1.9	3.2	4.5	4.8	4.5	15.0
Discount Rate													
Terminal Growth													
NPV													\$ 34.51
# Shares outstanding (mm)													17.7
Incremental price per share													\$ 1.95

AVP-786 MM, NPV	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
US Sales (\$MM)					\$ -	\$ -	\$ 62	\$ 144	\$ 285	\$ 420	\$ 488	\$ 510	\$ 534
Royalty rate						0%	7%	8%	9%	11%	13%	14%	15%
Royalty to CNCE						0.0	4.3	11.5	25.6	46.2	63.5	71.5	80.0
Contribution Margin					100%	100%	100%	100%	100%	100%	100%	100%	100%
Operating Margin					0.0	0.0	4.3	11.5	25.6	46.2	63.5	71.5	80.0
Terminal Value													285.9
Discount Period					3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
PV of CF to CNCE					0.0	0.0	1.2	2.4	4.1	5.7	6.0	5.2	20.4
Discount Rate													
Terminal Growth													
NPV													\$ 44.89
# Shares outstanding (mm)													17.7
Incremental price per share													\$ 2.53
Ex-US Sales (\$MM)					\$ -	\$ -	\$ 61	\$ 224	\$ 394	\$ 544	\$ 538	\$ 543	
Royalty rate						0%	7%	8%	9%	11%	13%	14%	15%
Royalty to CNCE						0.0	0.0	4.9	20.1	43.3	70.7	75.3	81.5
Terminal Value													271.6
Discount Period						4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
PV of CF to CNCE						0.0	0.0	1.0	3.2	5.3	6.7	5.5	19.7
Discount Rate													
Terminal Growth													
NPV													\$ 41.38
# Shares outstanding (mm)													17.7
Incremental price per share													\$ 2.33

Source: JMP Securities LLC and Company Reports

FIGURE 8. DCF Valuation

Concert Pharmaceuticals (CNCE)													
Discounted Cash Flow Model	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	Terminal value
Total Revenues													
US Sales					0.2	55.9	243.5	409.1	580.7	762.3	855.7	892.3	
CTP-354					-	48.7	218.7	351.9	471.8	614.0	701.5	731.8	
CTP-499					-	7.0	24.7	57.0	108.7	148.1	154.1	160.3	
Royalty Rate for CTP-499					15%	15%	15%	15%	15%	15%	15%	15%	
Ex-US Royalties						2.9	12.1	33.1	68.9	107.0	128.7	138.5	
CTP-354					-	1.9	7.5	21.0	44.0	69.4	87.8	94.4	
Royalty Rate for CTP-354					15%	15%	15%	15%	15%	15%	15%	15%	
CTP-499					-	1.1	4.6	12.1	24.9	37.6	40.9	44.1	
Royalty Rate for CTP-499					15%	15%	15%	15%	15%	15%	15%	15%	
Collaboration Revenue													
JZP-386		-	-	8.0	36.8	7.6	25.4	46.9	81.0	187.3	142.6	147.7	
AVP-786		2.0	2.0	-	-	41.3	59.4	45.8	89.6	134.2	271.8	161.5	
Total Revenues	\$ -	\$ 2.0	\$ 2.0	\$ 8.0	\$ 36.9	\$ 107.7	\$ 340.4	\$ 534.8	\$ 820.2	\$ 1,190.8	\$ 1,398.8	\$ 1,340.0	
Cost of product sales				0.0	0.0	3.9	17.5	28.2	37.7	49.1	56.1	58.5	
COGS as % of revenue					0%	8%	8%	8%	8%	8%	8%	8%	
Gross Profit	0.0	2.0	2.0	8.0	36.9	103.8	322.9	506.6	782.4	1,141.7	1,342.7	1,281.5	
R&D expense	30.3	37.9	49.3	56.7	63.5	68.6	74.1	80.0	86.4	90.7	98.0	105.8	
R&D as a % of revenue				709%	172%	64%	22%	15%	11%	8%	7%	8%	
SG&A expense	10.8	12.4	14.2	21.3	26.7	30.7	33.1	35.8	38.6	41.7	45.1	47.3	
SG&A as a % of revenue				267%	72%	28%	10%	7%	5%	4%	3%	4%	
Total operating expenses	41.1	50.3	63.5	78.0	90.2	99.2	107.2	115.8	125.0	132.4	143.0	153.1	
% Margin				975%	244%	92%	31%	22%	15%	11%	10%	11%	
Operating income (EBIT)	(41.1)	(48.3)	(61.5)	(70.0)	(53.3)	4.6	215.7	390.9	657.4	1,009.2	1,199.7	1,128.4	
Taxes	0.0	0.0	(3.1)	(10.5)	(10.7)	1.1	75.5	136.8	230.1	353.2	419.9	394.9	
Tax rate	0%	0%	5%	15%	20%	25%	35%	35%	35%	35%	35%	35%	
After tax operating income	(41.1)	(48.3)	(58.4)	(59.5)	(42.6)	3.4	140.2	254.1	427.3	656.0	779.8	733.4	2,473
Discount year	0.00	1.00	2.00	3.00	4.00	5.00	6.00	7.00	8.00	9.00	10.00	11.00	
Discount factor	1.0	1.3	1.7	2.3	3.0	4.0	5.2	6.9	9.0	11.9	15.7	20.6	
PV	(41.1)	(36.7)	(33.7)	(26.1)	(14.2)	0.9	26.9	37.0	47.3	55.2	49.8	35.6	120.0
Residual value of cash flow	\$221									Terminal Value			120.0
+Cash and Cash equivalents	40												
Company value	261												
-Long-term debt on 12/31/13	8												
Value of equity	\$253												
Fully diluted shares outstanding on 12/31/14	17.72												
Price/share	\$14.26												
Discount Rate	31.7%												
Terminal growth rate	2%												

Source: JMP Securities LLC and Company Reports

FIGURE 9. Income Statement

Income Statement (\$MM)	1Q14A	2Q14A	3Q14A	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Product Sales and Royalties	0.0	0.0	0.0	0.0	0.0	2.0	2.0	8.0	36.8	106.5	341.6	546.0	852.3	1,255.7	1,476.6	1,429.7
License and research and development revenue	1.6	1.2			2.8											
Milestone Revenue	0.0		2.0		2.0											
Total Revenue	1.6	1.2	2.0	0.0	4.8	2.0	2.0	8.0	36.8	106.5	341.6	546.0	852.3	1,255.7	1,476.6	1,429.7
Cost of Goods Sold							0.0	0.0	0.0	3.9	17.5	28.2	37.7	49.1	56.1	58.5
Gross Profit	1.6	1.2	2.0	0.0	4.8	2.0	2.0	8.0	36.8	102.6	324.1	517.9	814.5	1,206.6	1,420.5	1,371.1
Operating Expenses:																
Research and Development	5.6	6.2	9.0	9.5	30.3	37.9	49.3	56.7	63.5	68.6	74.1	80.0	86.4	90.7	98.0	105.8
General and administrative	2.5	2.7	2.5	3.0	10.8	12.4	14.2	21.3	26.7	30.7	33.1	35.8	38.6	41.7	45.1	47.3
Total operating expenses	8.1	9.0	11.5	12.5	41.1	50.3	63.5	78.0	90.2	99.2	107.2	115.8	125.0	132.4	143.0	153.1
Operating income (loss)	(6.5)	(7.7)	(9.5)	(12.5)	(36.2)	(48.3)	(61.5)	(70.0)	(53.4)	3.4	216.9	402.1	689.5	1,074.1	1,277.5	1,218.0
Other income (expense):																
Investment income	0.0	0.0														
Interest expense	(0.4)	-0.3														
Payment to GSK									(2.5)							
Total other income, net	(0.4)	(0.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other comprehensive loss:																
Unrealized loss on investments	0.0															
Change in fair value of preferred stock warrant liability																
Foreign currency transaction gain (loss)																
Pretax income (loss)	(6.9)	(8.0)	(9.5)	(12.5)	(36.9)	(48.3)	(61.5)	(70.0)	(53.4)	3.4	216.9	402.1	689.5	1,074.1	1,277.5	1,218.0
Income tax benefit (provision)					0.0	0.0	0.0	0.0	0.0	0.0	(32.5)	(80.4)	(172.4)	(322.2)	(447.1)	(426.3)
Tax Rate					0%	0%	0%	0%	0%	0%	15%	20%	25%	30%	35%	35%
Comprehensive income (loss)	(6.9)	(8.0)	(9.5)	(12.5)	(36.9)	(48.3)	(61.5)	(70.0)	(53.4)	3.4	184.4	321.7	517.1	751.9	830.3	791.7
Accretion of redeemable convertible preferred stock	0.06															
Net income (loss) attributable to common stockholders	(6.9)	(8.0)	(9.5)	(12.5)	(36.9)	(48.3)	(61.5)	(70.0)	(53.4)	3.4	184.4	321.7	517.1	751.9	830.3	791.7
Basic EPS to common shareholders	\$ (0.76)	\$ (0.45)	\$ (0.54)	\$ (0.71)	\$ (2.09)	\$ (2.39)	\$ (2.71)	\$ (3.09)	\$ (2.12)	\$ 0.12	\$ 6.67	\$ 10.68	\$ 15.86	\$ 23.07	\$ 25.48	\$ 24.31
Diluted EPS to common shareholders	\$ (0.76)	\$ (0.45)	\$ (0.54)	\$ (0.71)	\$ (2.09)	\$ (2.39)	\$ (2.71)	\$ (3.09)	\$ (2.12)	\$ 0.12	\$ 6.70	\$ 10.73	\$ 15.92	\$ 23.16	\$ 25.59	\$ 24.42
Basic shares outstanding	9.2	17.8	17.7	17.7	17.7	20.2	22.7	22.7	25.2	27.7	27.6	30.1	32.6	32.6	32.6	32.6
Diluted shares outstanding	9.2	17.8	17.7	17.7	17.7	20.2	22.7	22.7	25.2	27.5	27.5	30.0	32.5	32.5	32.4	32.4

Source: JMP Securities LLC and Company Reports

Company Description

Concert Pharmaceuticals is a clinical stage biopharmaceutical company seeking to discover and develop novel small molecule drugs through the improvement of existing drugs and clinical candidates, via deuterium substitution. Deuterium substitution can lead to drugs with superior pharmacokinetic or metabolic properties, improved clinical safety, tolerability, and/or efficacy. Deuterated analogs of approved drugs may also be able to enjoy expedited pathways to FDA approval. The firm currently has a trio of clinical-stage product candidates, including CTP-354, for spasticity associated with multiple sclerosis, CTP-499 for diabetic kidney disease, and AVP-786 for neurologic and psychiatric disorders, through a collaboration with Avanir Pharmaceuticals. The firm is also in ongoing collaboration with Celgene Corporation for deuterated compounds, including CTP-730 for inflammatory diseases, and with Jazz Pharmaceuticals for JZP-386, the active ingredient in Xyrem, which is in pre-clinical development for narcolepsy.

Investment Risks

Clinical risk. Products undergoing clinical trials may have serious safety concerns, lack efficacy, or fail to demonstrate statistical significance, any of which would preclude them from continuing clinical development and eventual commercialization. If the company's Deuterated Chemical Entity (DCE) Platform® technology is not proven, there will likely be downside to the share price as well as risk to the viability of the company. In addition, CNCE has not yet demonstrated an ability to successfully conduct a large-scale pivotal clinical trial, obtain marketing approvals, manufacture a commercial scale product, or to conduct the sales and marketing activities necessary for successful product commercialization.

Collaboration risk. CNCE will depend upon collaborations with third parties for the development and commercialization of some of the company's product candidates and expects to continue to do so in the future. CNCE's business model relies on making use of its DCE platform to partner with Pharmaceutical and Biotechnology companies to improve existing drug candidates. CNCE's prospects with respect to those product candidates will depend in significant part on the success of those collaborations.

Manufacturing risk. CNCE is a clinical-stage biopharmaceutical company applying its extensive knowledge of deuterium chemistry to discover and develop novel small molecule drugs. Because there are limited sources of deuterium, CNCE and its collaborators are exposed to a number of risks and uncertainties associated with the company's deuterium supply. In particular, manufacturing processes for many drug candidates, including those for CTP-499 and certain others, are projected to require large quantities of deuterium for late-stage clinical trials and for commercialization. Consequently, any adverse impact on CNCE's ability to obtain deuterium oxide could have a significant impact on the company's ability to develop or commercialize product candidates. Similarly, CNCE's collaborators will also need to obtain supplies of deuterium and will be subject to risks and requirements in connection with sourcing deuterium similar to the ones the company faces.

Intellectual property risk. As of December 31, 2013, CNCE held 100 issued patents worldwide, including 50 issued patents in the United States. CNCE's patents and patent applications for its lead programs are set to expire between 2028 and 2034. The company may be sued by a competitor on patent infringement or have to undergo litigation that would incur substantial fees. The company could lose a case, which would make it susceptible to generic risk.

Financial risk. Concert Pharmaceuticals currently derives revenue from research and development funding and from license or collaboration agreements. The company is not yet profitable and has a history of operating losses that are expected to continue in the near future. Developing pharmaceutical products, including conducting pre-clinical studies and clinical trials, is a time-consuming, expensive, and uncertain process that takes years to complete. CNCE needs to continue financing clinical trials through to completion and it may be unable to secure additional funding, forcing it to delay, reduce, or eliminate product development programs or commercialization efforts. The company has incurred significant losses since its inception and should expect losses to occur for the next several years.

Competitive risk. CNCE faces competition from marketers of other treatments for the indications that it seeks to develop drugs for, including major pharmaceutical firms and biotech firms. The firm's products will also have to compete with existing treatments that have already become generically available (e.g., CTP-354 will have to compete with other spasticity drugs, such as baclofen, tizanidine, diazepam, and dantrolene).

Regulatory risk. CNCE or its collaborators, may, in some instances, be able to secure clearances from the FDA or comparable foreign regulatory authorities to use expedited development pathways. If it is unable to obtain such clearances, CNCE or its collaborators may be required to conduct additional pre-clinical studies or clinical trials beyond those contemplated, which could increase the expense of obtaining, and delay the receipt of, necessary marketing approvals.

JMP FACTS AND DISCLOSURES

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JMP Securities Disclosures:

JMP Securities currently makes a market in the security of Concert Pharmaceuticals, Inc.

JMP Securities was manager or co-manager of a public offering of securities for Concert Pharmaceuticals, Inc. (CNCE) in the past 12 months, and received compensation for doing so.

JMP Securities expects to receive OR intends to seek compensation for investment banking services from Concert Pharmaceuticals, Inc. in the next 3 months.

JMP Securities Investment Opinion Definitions:

Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

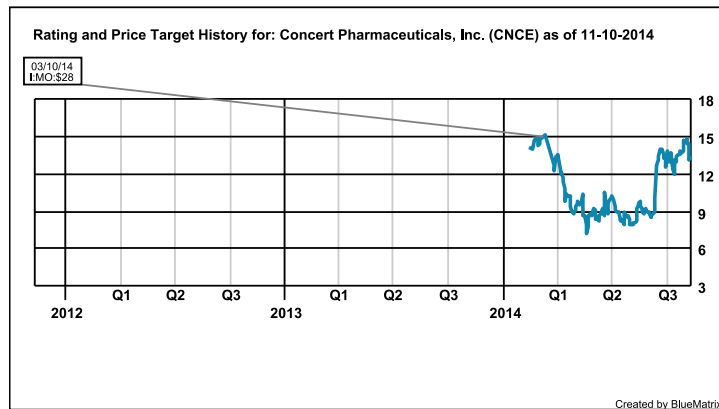
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

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JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months				
				Regulatory Equivalent	# Co's Under Coverage	% of Total	% of Co's With This Rating	
MARKET OUTPERFORM	Buy	285	61.03%	Buy	285	61.03%	102	35.79%
MARKET PERFORM	Hold	141	30.19%	Hold	141	30.19%	14	9.93%
MARKET UNDERPERFORM	Sell	2	0.43%	Sell	2	0.43%	0	0%
COVERAGE IN TRANSITION		36	7.71%		36	7.71%	0	0%
TOTAL:		467	100%		467	100%	118	25.27%

Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



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