

First Read

Concert Pharmaceuticals

Fibrosis Data Could Strengthen CTP-499's Outlook

What's new? New data on CTP-499 at NKF could be an unexpected positive

This morning, a late-breaking abstract for the National Kidney Foundation's (NKF) meeting (April 22-26) updated results from Parts 1 and 2 of the ph2 study of CTP-499 in CKD (<http://www.aievolution.com/nkf1401/index.cfm?do=abs.viewAbs&abs=2131>). Data were consistent with what was printed in the S-1 filing, except that the performance in the placebo arm was marginally worse. We spoke with Concert, who pointed out that placebo patients with a $\geq 50\%$ worsening in serum creatinine is now 6/58 (10.3%), rather than the 5/58 reported in the abstract (compared to those worsening on CTP-499 of 1/65 (1.5%), which is unchanged). What's also new is that Concert now expects new fibrosis data to be presented in the form of "several biomarkers," which in our view could significantly strengthen the CTP-499 profile entering ph3 and support potential deal economics to CNCE.

Biomarkers of fibrosis could strengthen CPT-499 benefit/risk profile

Concert highlights "data describing the effect of CTP-499 on several biomarkers of fibrosis," which in our view strongly suggests there is an effect on fibrosis, a clinically significant marker of disease progression. In the context of the known dataset for CTP-499, in which serum creatinine and albuminuria metrics are directionally positive but of limited magnitude, we think the fibrosis markers would be important in supporting the thesis that CTP-499 has clinically significant activity in CKD. Assuming the safety data are unchanged, these datapoints would improve the benefit-risk profile for CTP-499, as there is greater confidence in clinical efficacy without increased harm.

Implications: Solid presentation at medical conference increases program value

Key implications: [1] Presentation of a solid dataset as a late-breaker at NKF increases visibility of the program among clinicians and industry. [2] CTP-499's improved outlook should strengthen Concert's position in partnership talks. [3] End-user sales estimates would rise if CTP-499 improves fibrosis as well as other metrics of kidney function.

Valuation: Buy, PT \$25 by SOTP. CTP-499 worth \$7 over the \$14 platform value

We believe the market is only attributing discounted value to the partnership programs.

Equities

Americas
Biotechnology

12-month rating **Buy**

12m price target **US\$25.00**

Price **US\$14.10**

RIC: CNCE.O BBG: CNCE US

Trading data and key metrics

52-wk range	US\$15.08-0.00
Market cap.	US\$0.24bn
Shares o/s	17.2m (COM)
Free float	35%
Avg. daily volume ('000)	63
Avg. daily value (m)	US\$0.9
Common s/h equity (12/13E)	US\$0.01bn
P/BV (12/13E)	27.1x
Net debt / EBITDA (12/13E)	NM

EPS (UBS, diluted) (US\$)

	12/13E	
	UBS	Cons.
Q1	-	-
Q2	-	-
Q3	-	-
Q4E	-	(0.25)
12/13E	(0.04)	(0.26)
12/14E	0.28	(2.25)
12/15E	0.22	(1.12)

Matthew Roden, PhD

Analyst
matthew.roden@ubs.com
+1-212-713 2491

Andrew Peters

Associate Analyst
andrew.peters@ubs.com
+1-212-713 3241

Jeffrey Hung

Associate Analyst
jeffrey.hung@ubs.com
+1-212-713 3982

Highlights (US\$m)	-	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Revenues	-	19	13	32	44	55	82	105
EBIT (UBS)	-	(11)	(19)	2	7	6	4	(3)
Net earnings (UBS)	-	(11)	(22)	0	6	5	2	(5)
EPS (UBS, diluted) (US\$)	-	(1.56)	(2.00)	(0.04)	0.28	0.22	0.10	(0.27)
DPS (US\$)	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	-	23	7	19	94	100	115	123
Profitability/valuation	-	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
EBIT margin %	-	-58.3	-144.8	4.9	16.6	11.2	4.5	-2.8
ROIC (EBIT) %	-	-	>500	(19.1)	(88.0)	<-500	144.4	(115.7)
EV/EBITDA (core) x	-	-	-	89.1	21.9	19.6	26.6	-85.9
P/E (UBS, diluted) x	-	-	-	NM	50.6	64.7	NM	(53.0)
Equity FCF (UBS) yield %	-	-	-	7.5	2.1	3.7	3.9	1.3
Net dividend yield %	-	-	-	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$14.10 on 19 Mar 2014 07:41 EDT

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Forecast returns

Forecast price appreciation	+77.3%
Forecast dividend yield	0.0%
Forecast stock return	+77.3%
Market return assumption	5.4%
Forecast excess return	+71.9%

Statement of Risk

We see several risks to CNCE shares, including clinical, regulatory, and commercial. Clinical risks include if CTP-354 or CTP-499 result in unforeseen safety, tolerability, or toxicity signals, or fails to yield positive clinical results. Regulatory risks include the regulatory agencies not approving the drug candidates after completing clinical trials. Commercial risks include Concert not being the only company developing deuterated analogues or compounds for the specific indications of interest, resulting in competition that may or may not materialize. In addition, generic competitors could challenge Concert's patent estate after the company brings its products to the market.

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UBS 12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	44%	36%
Neutral	FSR is between -6% and 6% of the MRA.	45%	35%
Sell	FSR is > 6% below the MRA.	11%	23%
UBS Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 December 2013.

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UBS Securities LLC: Matthew Roden, PhD; Andrew Peters; Jeffrey Hung.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Concert Pharmaceuticals ^{2, 4, 5, 16}	CNCE.O	Buy	N/A	US\$14.10	18 Mar 2014

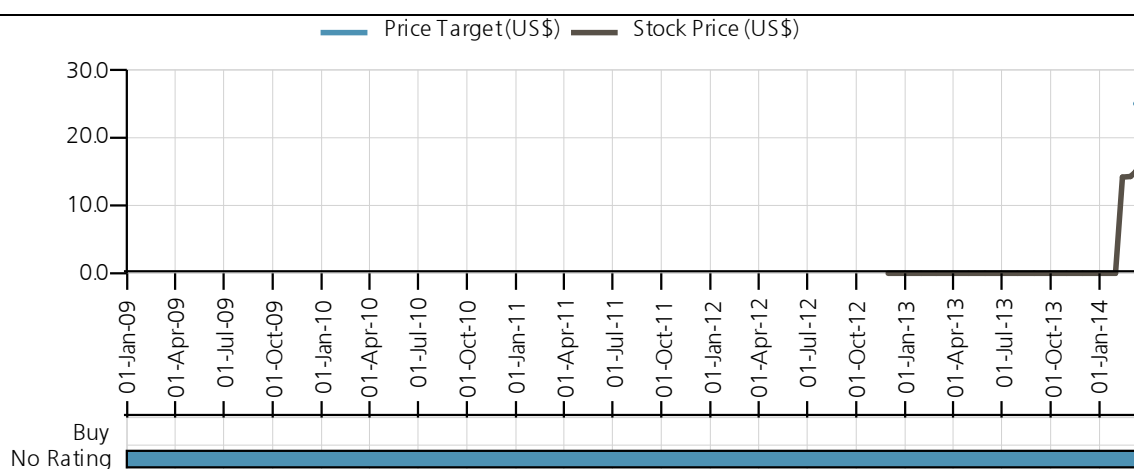
Source: UBS. All prices as of local market close.

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Concert Pharmaceuticals (US\$)



Source: UBS; as of 18 Mar 2014

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