

## Healthcare: BioPharmaceuticals

# Concert Pharmaceuticals, Inc. | CNCE - \$13.10 - NASDAQ | Buy

### Company Update

#### Stock Data

52-Week Low - High	\$7.12 - \$16.26
Shares Out. (mil)	18.01
Mkt. Cap.(mil)	\$236.0
3-Mo. Avg. Vol.	188,538
12-Mo.Price Target	\$28.00
Cash (mil)	\$98.3
Tot. Debt (mil)	\$13.0

#### EPS \$

Yr Dec	—2013—	—2014E—	—2015E—
		<b>Curr</b>	<b>Curr</b>
1Q	-	(0.76)A	(0.47)E
2Q	-	(0.45)A	(0.45)E
3Q	-	(0.42)E	(0.28)E
4Q	-	(0.48)E	(0.01)E
YEAR	(4.99)A	(1.62)E	(1.21)E
P/E	NM	NM	NM

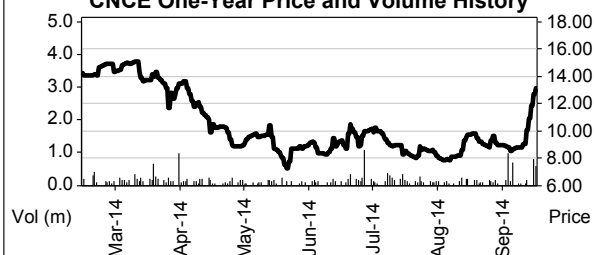
Concert's IPO was on February 9, 2014

Quarterly EPS may not add to full year due to increases in share count and rounding

#### Revenue (\$ millions)

Yr Dec	—2013—	—2014E—	—2015E—
		<b>Curr</b>	<b>Curr</b>
1Q	-	1.6A	1.2E
2Q	-	1.2A	1.7E
3Q	-	2.0E	5.2E
4Q	-	1.5E	10.5E
YEAR	25.4A	8.3E	18.6E

#### CNCE One-Year Price and Volume History



## CNCE: Celgene Partnered Program Moves Into Clinic

CNCE announced the initiation of a Phase I safety study of CTP-730, a candidate product for inflammatory diseases, under its Celgene (CELG-NC) collaboration. This randomized, double-blind study with five dose cohorts will evaluate safety, tolerability and PK profile in up to 40 healthy volunteers. Upon completion of this study, CNCE will be entitled to an \$8 million milestone payment with data expected in 2015. Reiterate Buy.

### Event

CNCE announced the initiation of a Phase I safety study of CTP-730, a candidate for inflammatory diseases, under its Celgene (CELG-NC) collaboration. This randomized, double-blind study with five dose cohorts (from 5mg to 40mg) will evaluate safety, tolerability and PK profile in up to 40 healthy volunteers. In each cohort of eight subjects, six will receive CTP-730 and the remaining two will receive placebo. Upon completion of this study, CNCE will be entitled to an \$8 million milestone payment with data expected in 2015.

### Impact

This Phase I initiation marks the third CNCE partnered program to enter the clinic. We view this as an additional important milestone in CNCE's partnered franchise alongside its collaborations with Jazz Pharmaceuticals and Avanir. Due to the design of the study, we believe results can come out relatively fast (early 2015), providing a quick indication of whether the candidate is safe and the PK profile satisfactory, and whether CTP-730 can advance to efficacy studies in inflammatory disease. As a reminder of the two other CNCE collaborations, recall that the collaboration with Jazz Pharmaceuticals is centered on developing JZP-386, a deuterated analog of sodium oxybate, for potential treatment of narcolepsy. JZP-386 began a Phase I study in July 2014. The collaboration with Avanir is centered on developing AVP-786, a combo of deuterated dextromethorphan analog with ultra-low dose of quinidine, for potential treatment of major depressive disorder and other neurological and psychiatric disorders. AVP-786 was advanced into a Phase II study in August 2014.

### Action

Reiterate Buy and \$28 price target. With a 1) proprietary platform in modifying drugs with deuterium, 2) growing internal pipeline, 3) three partnerships in hand, to date and 4) a strong IP portfolio, we believe Concert is poised for success, which should be supported by upcoming catalysts.

## VALUATION

We reiterate our Buy rating and \$28 price target. Our valuation of Concert is based on our probability-weighted clinical net present value (NPV) valuation model. We believe that this method is appropriate in capturing the value of the clinical stage pipeline. It allows for the flexing of assumptions based on key factors such as chance of success, peak sales estimates, and year of commercial launch.

Factors that could impede shares from reaching our price target include negative clinical data flow from Concert's clinical stage programs as well as any potential delays or issues on the regulatory front and financing risk.

## RISKS

- **Pipeline product risk** - Concert's pipeline consists of earlier stage developmental candidates. With this stage of development comes increased risk from negative trial readouts. Additionally, CPT-499 and CTP-354 represent major contributors to our valuation and any negative readouts, clinical or regulatory delays could negatively impact the stock. We believe Concert looks to mitigate some of this risk by having a platform technology which can generate a broad set of drug candidates for its pipeline.
- **Partnering risk** - Concert currently has signed partnerships and is continually engaging in business development activities. Because these programs are under the direction of other companies, there is no guarantee those programs will progress to meaningful catalysts, including potential commercialization. Any delays or terminated partnerships in the future, could have a negative impact on Concert's valuation.
- **Regulatory** - Should Concert's products successfully complete pivotal registrational studies, there is no guarantee that regulatory agencies would approve these products. Unforeseen issues may arise during clinical development which could impact the approvability of a therapeutic candidate.
- **Financing risk**- As with all non-profitable biotechnology companies, funding is continuously necessary to fund operations and ongoing clinical studies. Should Concert encounter problems in raising sufficient funds to continue its operations, this could significantly impact that stock's valuation

## COMPANY DESCRIPTION

Concert Pharmaceuticals create novel medicines that address medically important needs by applying its DCE Platform (Deuterated Chemical Entity Platform) to compounds with well-characterized pharmacological activity. This approach may enable drug discovery and clinical development that is more efficient and less expensive than conventional small molecule drug research and development. The company was co-founded in 2006 by Richard Aldrich, Roger Tung and Christoph Westphal, and is located in the historic town of Lexington, Massachusetts.

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### Disclosures:

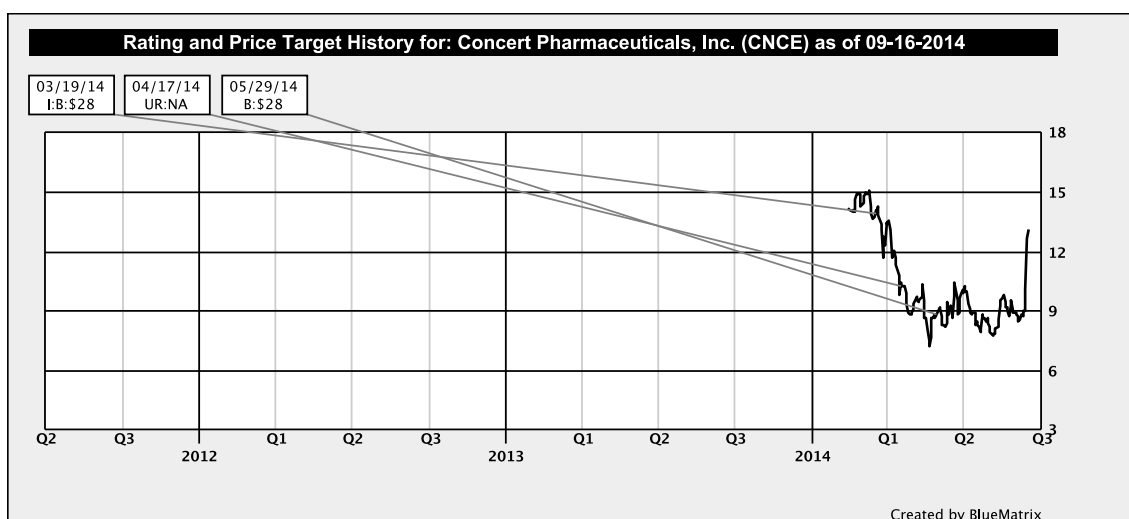
Within the last twelve months, ROTH has received compensation for investment banking services from Concert Pharmaceuticals, Inc..

ROTH makes a market in shares of Concert Pharmaceuticals, Inc. and as such, buys and sells from customers on a principal basis.

Within the last twelve months, ROTH has managed or co-managed a public offering for Concert Pharmaceuticals, Inc..

**On September 28, 2010, ROTH changed its rating system in order to replace the Hold rating with Neutral.**

**On May 26, 2011, ROTH changed its rating system in order to incorporate coverage that is Under Review.**



Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years.

**Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

#### Distribution of IB Services Firmwide

Rating	Count	Percent	IB Serv./Past 12 Mos. as of 09/17/14	
			Count	Percent
Buy [B]	193	81.43	111	57.51
Neutral [N]	23	9.70	10	43.48
Sell [S]	1	0.42	0	0
Under Review [UR]	19	8.02	11	57.89

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**Neutral:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

**Sell:** A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

**Under Review [UR]:** A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

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