

First Read

Concert Pharmaceuticals

Takeaways from Management Meetings

Conclusion: Pipeline progress highlights underappreciated opportunity

We hosted a series of 1x1 meetings with Concert management and continue to view the pipeline as underappreciated, with material progress being made for both wholly-owned and partnered programs. In particular, regulatory discussions appear to be progressing well for CTP-499 in diabetic nephropathy, with a phase-3 plan and package for potential partners expected by year-end. With the clinical hold now lifted for CTP-354 management confirmed plans to dose at the higher 12mg level in the planned ph2 studies. While our \$25 price target implies significant risk-adjustment to both '354 and '499, we believe the market ascribes little value for these programs and presents an opportunity for investors as ph2 and ph3 studies begin later this year.

Key takeaways from meetings with management

[1] Management suggested the preclinical toxicity data indeed support higher doses, although 12mg is the top planned dose. The company did note however that their data suggest the 6mg dose should be good enough however. [2] The spinal cord injury study is expected to start before the MS study given the shorter exposure time and ongoing discussions regarding the MS trial design. [3] Management is still finalizing the strategy going forward for CTP-499. Discussion with the FDA is ongoing, although regulatory guidance suggests only one study is needed (vs. previous assumption of 2 ph3 trials). The level of interest at the agency appears very high, underscoring the promising ph2 data. While management believes a partner may still be needed to pay for the ph3 trial, they are also open to potential commercial strategies as part of a deal.

Significant upside as pipeline programs progress

We currently model a 15% probability of success for CTP-354 in MS and SCI and, in our view, the market ascribes minimal value for the proprietary pipeline. As a result, we see significant upside from pipeline development.

Valuation: Buy with \$25 PT by sum-of-the-parts

We estimate that '354 is worth \$8 with revenues from the program beginning in 2019.

Equities

Americas
Biotechnology

12-month rating **Buy**

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

Price **US\$8.10**

RIC: CNCE.O BBG: CNCE US

Trading data and key metrics

52-wk range	US\$15.08-0.00
Market cap.	US\$0.14bn
Shares o/s	17.2m (COM)
Free float	35%
Avg. daily volume ('000)	155
Avg. daily value (m)	US\$1.4
Common s/h equity (12/13E)	US\$0.01bn
P/BV (12/13E)	15.6x
Net debt / EBITDA (12/13E)	NM

EPS (UBS, diluted) (US\$)

	12/13E	
	UBS	Cons.
Q1	-	-
Q2	-	-
Q3	-	-
Q4E	-	(4.64)
12/13E	(0.04)	(4.99)
12/14E	0.28	(1.44)
12/15E	0.22	(0.87)

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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	-	-	-	48.8	9.7	5.6	6.1	-13.5
P/E (UBS, diluted) x	-	-	-	NM	29.1	37.2	84.9	(30.5)
Equity FCF (UBS) yield %	-	-	-	13.1	3.6	6.4	6.9	2.2
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\$8.10 on 08 Aug 2014 19:38 EDT

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Forecast returns

Forecast price appreciation	+208.6%
Forecast dividend yield	0.0%
Forecast stock return	+208.6%
Market return assumption	5.4%
Forecast excess return	+203.2%

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 the Concert's patent estate after the company brings its products to the market.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	48%	33%
Neutral	FSR is between -6% and 6% of the MRA.	41%	30%
Sell	FSR is > 6% below the MRA.	11%	23%
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 30 June 2014.

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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, 6, 16}	CNCE.O	Buy	N/A	US\$8.10	08 Aug 2014

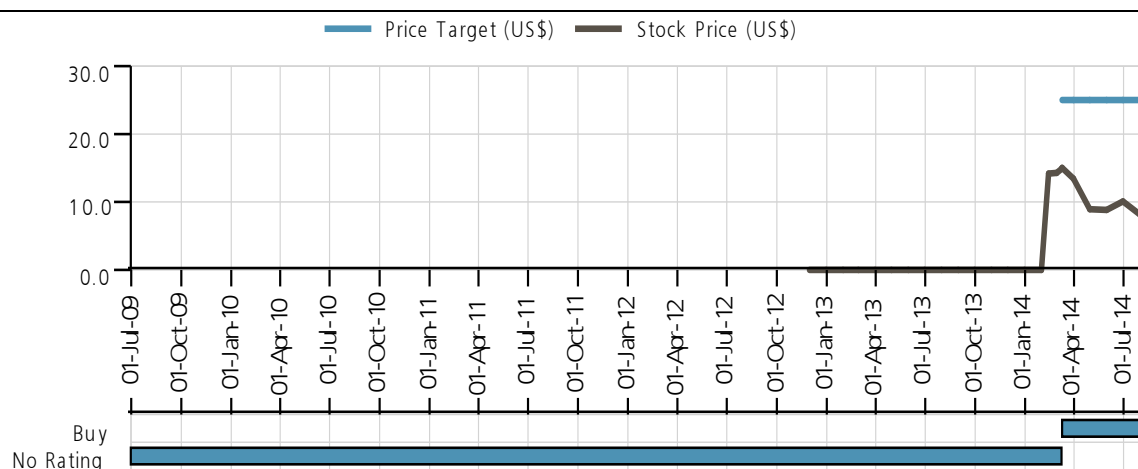
Source: UBS. All prices as of local market close.

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Concert Pharmaceuticals (US\$)



Source: UBS; as of 08 Aug 2014

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