

Equity Research

Concert Pharmaceuticals, Inc.

CNCE:Q4 2014--Programs On Track--More '499 And '354 Data In 2014

• **Summary:** On March 31, 2014, CNCE reported Q4 2013 results with no major new updates since the company's recent IPO. The company's wholly-owned lead compounds, CTP-354 for muscle spasticity and CTP-499 for diabetic kidney disease, are continuing to progress well, with additional data for both drugs later this year potentially providing additional de-risking. We continue to believe both '354 and '499 have the potential to address broad markets where there remains a need for better tolerated and/or more effective agents. The company's partnered programs, which we believe could provide good optionality, also remain on track. We continue to believe the company's pipeline and deuteration platform technology are undervalued. 2014E/2015E EPS move to -\$1.71/-\$.066 from \$2.05/-\$.05.

• **Financials:** While year-over-year revenues increased to \$25.4MM from \$12.8MM, the company reported a net loss of \$5.9MM during Q4 that drove full year reported net loss of \$6.1MM, as licensing, R&D, and milestone revenue was mostly received and recognized earlier in 2013. R&D spending for the year decreased slightly to \$21.8MM from \$24.2MM and SG&A expenses increased slightly to \$8.0MM from \$7.3MM from higher stock based compensation expense. The company's 2013 ending balance of cash, cash equivalents, and investments was \$32.7MM, before net proceeds of \$83.1MM from the Q1 2014 IPO, with the company expecting this cash runway to take them into 2016.

• **Several data readouts this year should provide de-risking information.** Top-line phase I multiple ascending dose data for '354, which will include a receptor occupancy study, are expected in H2 2014. This should shed more light on the potential for a differentiated therapeutic window from other GABA receptor modulators and could draw more attention to this program. More complete phase II data for '499 in CKD, covering the full first 48 weeks of the trial is on track to be reported at the NKF Spring Clinical Meeting next month and should help guide the company's future regulatory discussions. While development of therapeutics in this space has been historically challenging, we believe the market opportunity could be large if the drug is ultimately successful.

Valuation Range: \$21.00 to \$23.00

Our valuation range is based on applying a 30x multiple to our 2022 estimated EPS and discounting at 15%, blended with 6x multiple of 2022 estimated sales, and discounting 12%. Key risks, in our view, are failure of '354 and/or '499 to show efficacy in subsequent studies and regulatory hurdles in spasticity or CKD.

Investment Thesis:

We believe Concert's proprietary and partnered candidates, and drug deuteration platform, will generate long-term value.

Outperform / V

Sector: Biotechnology

Market Weight

Earnings Estimates Revised Up

EPS	2013A	2014E		2015E	
		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	NE	(\$0.52) A	(0.64)	NE	
Q2 (June)	NE	(0.30)	(0.41)	NE	
Q3 (Sep.)	NE	(0.44)	(0.52)	NE	
Q4 (Dec.)	(0.54)	(0.47)	(0.52)	NE	
FY	(\$0.78)	(\$1.71)	2.05	(\$0.66)	(2.05)
CY	(\$0.78)	(\$1.71)		(\$0.66)	
FY P/E	NM	NM		NM	
Rev.(MM)	\$25,408	\$5,520		\$22,520	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, * = Company is on the Priority Stock List

Ticker	CNCE
Price (03/31/2014)	\$13.45
52-Week Range:	\$11-17
Shares Outstanding: (MM)	0.0
Market Cap.: (MM)	\$0.0
S&P 500:	1,872.34
Avg. Daily Vol.:	181,672
Dividend/Yield:	\$0.00/0.0%
LT Debt: (MM)	\$0.0
LT Debt/Total Cap.:	0.0%
ROE:	NM
3-5 Yr. Est. Growth Rate:	NM
CY 2014 Est. P/E-to-Growth:	NM
Last Reporting Date:	03/31/2014
	Before Open

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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All estimates/forecasts are as of 03/31/14 unless otherwise stated.

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Together we'll go far



Biotechnology

Company Description:

Concert Pharmaceuticals (CNCE), Inc., headquartered in Lexington, Massachusetts, is a biotechnology company focused on improving therapies in a variety of areas such as neurology and kidney disease, using its platform technology around deuterium substitution. The company's lead development candidate is CTP-354, a GABA-A partial agonist in development for muscle spasticity. Another development candidate is CTP-499, a phosphodiesterase enzyme inhibitor in development for diabetic kidney disease. Alongside '354 and '499, its partnered pipeline includes CTP-730, a deuterated anti-inflammatory drug partnered with Celgene, AVP-786 for major depressive disorder partnered with Avanir, and JZP-386, a deuterated version of Xyrem for narcolepsy, partnered with Jazz.

Upcoming Milestones

Product	Event	Timeline
CTP-354	Data from Ph.I MAD study, GABA _A receptor occupancy study	2H14
	Initiate ph.II trials in MS/SCI spasticity patients	2H14
	Report ph.II spasticity results	end-2015/early-2016
	Potentially initiate ph.III program	mid-2016
CPT-499	Present full 48wk data from ph.II, including new fibrosis biomarkers at the National Kidney Foundation's (NKDF) Spring Meeting	1H14 (April 22-26)
	End-of-ph.II meeting with FDA	mid-2014
	Sign partnership agreement	2H14+
AVP-786	Ph.II for treatment-resistant MDD initiation	2H14
CTP-730	Ph.I study initiation	2H14
JZP-386	Ph.I study initiation	2014

Source: Company reports and Wells Fargo Securities, LLC estimates

Product Pipeline

Product (partner)	Indication/mechanism	Status
CTP-354	Spasticity, anxiety, pain; subtype selective GABA _A receptor modulator	Phase I
CTP-499	Diabetic nephropathy; multi-subtype selective inhibitor of phosphodiesterases	Phase II
AVP-786 (AVNR)	Neurologic and psychiatric disorders, depression; deuterium-substituted dextromethorphan analog plus low-dose quinidine	Entering phase II
CTP-730 (CELG)	Inflammatory diseases	Entering phase I
JZP-386 (JZP)	Narcolepsy; deuterium-substituted Xyrem analog	Entering phase I
C-10068	Pain and seizures; deuterium-substituted dextromethorphan analog	Preclinical
d-ivacaftor	CF, COPD	Preclinical
d-praziquantel (NIH)	Parasitic diseases	Preclinical

Source: Company reports and Wells Fargo Securities, LLC

Concert Pharmaceuticals, Inc.

Concert Pharma (CNCE)
Statement of Operations (Income Statement)

	2012A	2013A	1QE	2QE	3QE	4QE	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues (1)																
Revenues from CTP-354																\$432,811
Royalties from sales of CTP-499																\$137,737
Royalties from sales of AVP-786																\$41,304
Royalties from sales of JZP-386																\$62,972
Milestones	\$1,500	\$2,000	\$0	\$2,000	\$0	\$0	\$2,000	\$14,000	\$30,000	\$15,000	\$34,000	\$45,000	\$0	\$48,000	\$72,000	\$15,000
License and research and development revenue	\$11,349	\$23,408	\$880	\$880	\$880	\$880	\$3,520	\$8,520	\$12,520	\$12,520	\$12,520	\$9,000	\$9,000	\$9,000	\$9,000	\$9,000
Total revenues, net	\$12,849	\$25,408	\$880	\$2,880	\$880	\$880	\$5,520	\$22,520	\$42,520	\$27,520	\$61,722	\$87,127	\$12,843	\$248,483	\$487,493	\$698,824
Expenses																
Cost of goods sold																
Research and development	\$24,193	\$21,790	\$5,500	\$5,700	\$6,100	\$6,700	\$24,000	\$24,720	\$25,462	\$26,225	\$27,012	\$27,823	\$28,657	\$29,517	\$30,402	\$31,315
Selling, general and administrative	\$7,266	\$8,028	\$2,000	\$2,200	\$2,400	\$2,600	\$9,200	\$9,660	\$10,046	\$10,448	\$12,538	\$27,683	\$46,892	\$70,338	\$87,922	\$87,922
Total operating expenses	\$31,459	\$29,818	\$7,500	\$7,900	\$8,500	\$9,300	\$33,200	\$34,380	\$35,508	\$36,674	\$39,550	\$55,406	\$80,441	\$109,523	\$133,861	\$141,859
Operating Income	(\$18,610)	(\$4,410)	(\$6,620)	(\$5,020)	(\$7,620)	(\$8,420)	(\$27,680)	(\$11,860)	\$7,012	(\$9,154)	\$22,171	\$31,721	\$32,402	\$138,960	\$353,632	\$556,965
Investment income	\$22	\$21	\$12	\$20	\$19	\$16	\$67	\$75	\$107	\$114	\$106	\$121	\$168	\$266	\$485	\$887
Interest and other expense	(\$1,856)	(\$1,667)	(\$321)	(\$265)	(\$207)	(\$148)	(\$941)	(\$294)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CTP-499 commercialization payment to GSK											(\$2,750)					
(Loss) income before benefit from income taxes	(\$20,444)	(\$6,056)	(\$6,929)	(\$5,264)	(\$7,808)	(\$8,552)	(\$28,554)	(\$12,078)	\$7,119	(\$9,040)	\$19,528	\$31,842	\$32,570	\$139,226	\$354,117	\$557,853
Benefit (expense) from income taxes			\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$391)	(\$637)	(\$651)	(\$8,364)	(\$28,329)	(\$61,364)
Net (loss) income	(\$20,444)	(\$6,056)	(\$6,929)	(\$5,264)	(\$7,808)	(\$8,552)	(\$28,554)	(\$12,078)	\$7,119	(\$9,040)	\$19,137	\$31,205	\$31,919	\$130,872	\$325,788	\$496,489
Accretion on redeemable convertible preferred stock	(\$388)	(\$396)	(\$100)	(\$100)	(\$100)	(\$100)	(\$400)	(\$300)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net loss applicable to common shareholders	(\$20,832)	(\$6,452)	(\$7,029)	(\$5,364)	(\$7,908)	(\$8,652)	(\$28,954)	(\$12,378)	\$7,119	(\$9,040)	\$19,137	\$31,205	\$31,919	\$130,872	\$325,788	\$496,489
Earnings per share (EPS)	(\$2.86)	(\$0.78)	(\$0.52)	(\$0.30)	(\$0.44)	(\$0.47)	(\$1.71)	(\$0.66)	\$0.30	(\$0.45)	\$0.77	\$1.23	\$1.15	\$4.63	\$11.28	\$16.85
Shares Outstanding (Basic)	7,290	8,276	13,435	17,868	18,068	18,268	16,909	18,868	19,468	20,068	20,668	21,268	23,534	24,134	24,734	25,334
Shares Outstanding (Diluted)	7,290	8,276	17,571	22,004	22,204	22,404	21,045	23,004	23,604	24,204	24,804	25,404	27,670	28,270	28,870	29,470

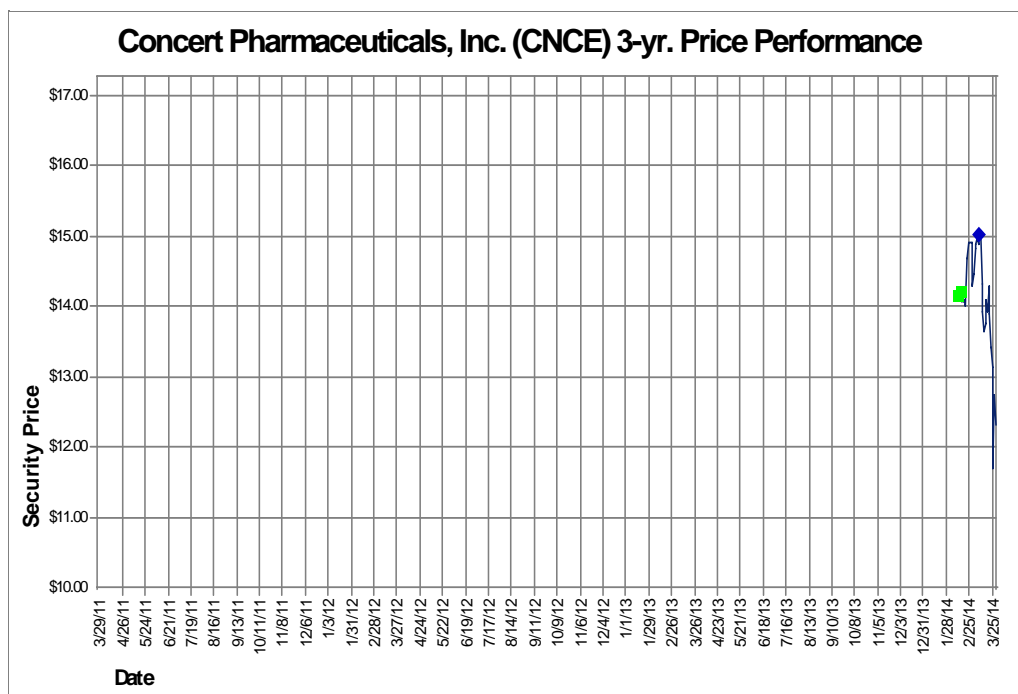
Source: Company reports and Wells Fargo Securities, LLC

Note: We do not provide estimates of 2015 quarterly EPS at this point.

Note: In 000's \$, except per share amounts; FY ends 12/31

(1) Not probability weighted

Required Disclosures



	Date	Publication Price (\$)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price (\$)
□	2/13/2014		IPO at \$14.00			
	3/10/2014		Abrahams, M.D.			
◆	3/10/2014	14.88	1	21.00	23.00	15.03

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

Rating Code Key

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- NR Not Rated
- NE No Estimate

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CNCE: Key risks, in our view, are failure of '354 and/or '499 to show efficacy in subsequent studies and regulatory hurdles in spasticity or CKD.

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