

First Read

Concert Pharmaceuticals

Full Steam Ahead: CTP-499 Looks Like a Drug

Conclusion: Lower risk to CTP-499 replication in registration trials

The FDA's apparent agreement with Concert's plan for phase-3 development of CTP-499 is a positive in our view, as it (1) lowers risk to replicating its phase-2 results (see below), (2) suggests FDA analysis is consistent with the company's bullish take on the phase-2 data, (3) may enable productive (and lucrative) partnership discussions, and (4) ultimately should force skeptics to consider commercial potential for this wholly-owned asset that could address a significant unmet need in a large category. We expect CNCE shares to react favorably considering the most significant disconnect between its current valuation and our \$25 PT is value ascribed to the proprietary pipeline.

Strong phase-2 trends on phase-3 endpoint suggests lower risk

Many CKD studies use different phase-3 endpoints than used in phase-2 (e.g., bardoxolone methyl, ESA's), which increase the risk of phase-3 failure after positive phase-2 trials. However, the FDA agreed to use a time-to-event responder analysis assessing those with sCR worsening. We note that in phase-2, 1.5% (1/65) of patients on '499 experienced a 50% or greater worsening in sCR, compared to 10.3% (6/58) of those on placebo. While not statistically significant, this datapoint suggests significant protective effects on the kidney and, importantly, is consistent with several other efficacy metrics in the Ph2 study.

Significant upside in proprietary pipeline development

To date, we have modelled a 20% probability of success for the program, and in our view, the market ascribes minimal value for the proprietary pipeline. As a result, we see significant upside from pipeline development. Given the effect of '499 on the IL-13 pathway and its anti-fibrotic activity, which provides a mechanistic rationale in CKD, there may be broader applicability beyond kidney indications that are not in our model.

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

We estimate that CTP-499 is worth \$7 over the \$14 platform value.

Equities

Americas
Biotechnology

12-month rating **Buy**

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

Price **US\$9.34**

RIC: CNCE.O BBG: CNCE US

Trading data and key metrics

52-wk range US\$15.08-0.00

Market cap. US\$0.16bn

Shares o/s 17.2m (COM)

Free float 35%

Avg. daily volume ('000) 138

Avg. daily value (m) US\$1.3

Common s/h equity (12/13E) US\$0.01bn

P/BV (12/13E) 17.9x

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 | - | - | - | 57.1 | 12.2 | 8.5 | 10.3 | -28.4 |
| P/E (UBS, diluted) x | - | - | - | NM | 33.5 | 42.9 | 98.0 | (35.1) |
| Equity FCF (UBS) yield % | - | - | - | 11.3 | 3.1 | 5.5 | 6.0 | 1.9 |
| 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\$9.34 on 08 Jul 2014 08:12 EDT

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Forecast returns

| | |
|-----------------------------|---------|
| Forecast price appreciation | +167.7% |
| Forecast dividend yield | 0.0% |
| Forecast stock return | +167.7% |
| Market return assumption | 5.5% |
| Forecast excess return | +162.2% |

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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UBS Investment Research: Global Equity Rating Definitions

| UBS 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% |
| 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 30 June 2014.

1: Percentage of companies under coverage globally within the 12-month rating category. 2: Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

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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\$9.34 | 07 Jul 2014 |

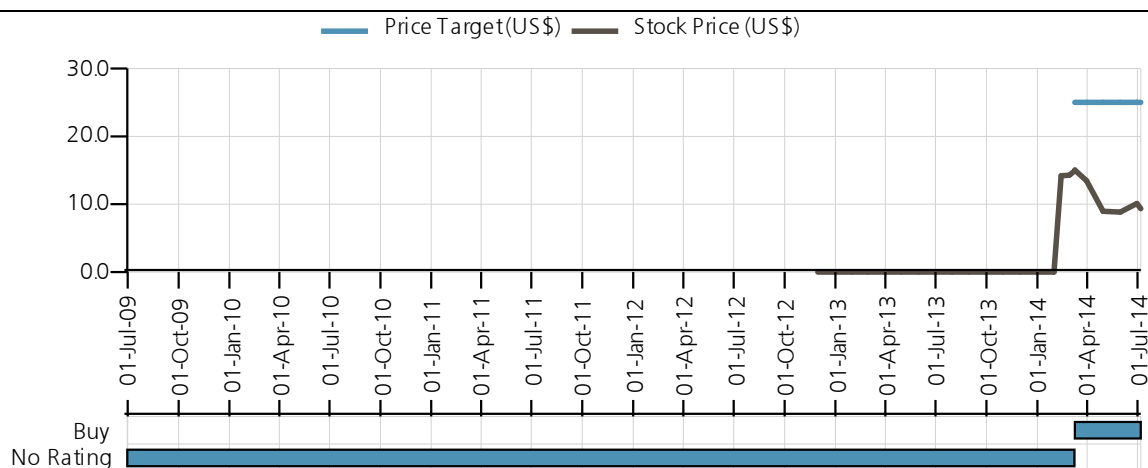
Source: UBS. All prices as of local market close.

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Concert Pharmaceuticals (US\$)



Source: UBS; as of 07 Jul 2014

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