

Concert Pharmaceuticals

Fibrotic Biomarker Data Improve the '499 Outlook

What's new? CTP-499 new data show favorable effects on fibrotic biomarkers

Today, full ph2 data for CTP-499 was presented at the NKF meeting. Most of the data had been previously disclosed (S-1 filing or NKF abstract), including the 24-wk primary endpoint not being met. What was new was the fibrotic biomarker data, which were clearly positive and have implications for mechanism of action. Specifically, treatment with CTP-499 resulted in 52% less urinary fibronectin ($p=0.0081$) and 18% less plasma collagen-IV ($p=0.022$) after 48wks compared to placebo. Additionally, the treatment effect was also evident in the worsening of serum creatinine, where only 1.5% of '499 patients experienced a $\geq 50\%$ worsening at 48wks, vs. 10.3% on placebo. Based on new mechanistic information and consistent signals across multiple endpoints, we have increased confidence that CTP-499 is a real drug ahead of its FDA meeting (mid-14).

Our analysis: Fibrotic biomarkers suggest mechanism for '499 action

We spoke with Concert. Key points [1] Tubulointerstitial fibrosis is a common pathway in CKD that leads to disease progression. Here, fibrosis is due to increased deposition of extracellular matrix components, including fibronectin and collagen-IV, which can be detected in the blood or urine, and are widely-used markers for renal fibrosis. [2] The PDE-mediated reduction in these markers with CTP-499 suggests the drug is decreasing kidney sclerosis and attendant loss of filtration. [3] Preventing fibrosis not only preserves the functional glomerulus, but also prevents further immune infiltration and thereby delays disease progression. Therefore, we view these fibrotic data are highly supportive to the beneficial effects of CTP-499. [4] Concert's highly credible mgmt has turned much more bullish on '499 on the basis of the improving data package over time.

Implications: Totality of dataset supports a ph3 path to commercialization

With 48wk data better than previously expected, Concert has requested an end of ph2 meeting with the FDA (ahead of schedule), where the design of the ph3 program and appropriate endpoints will be discussed ahead of potential partnership discussions.

Valuation: Buy, \$25 PT 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\$8.90**

RIC: CNCE.O BBG: CNCE US

Trading data and key metrics

52-wk range US\$15.08-0.00

Market cap. US\$0.15bn

Shares o/s 17.2m (COM)

Free float 35%

Avg. daily volume ('000) 133

Avg. daily value (m) US\$1.7

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

P/BV (12/13E) 17.1x

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	(1.25)
12/15E	0.22	(0.75)

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	-	-	-	54.2	11.3	7.5	8.8	-23.1
P/E (UBS, diluted) x	-	-	-	NM	31.9	40.9	93.3	(33.5)
Equity FCF (UBS) yield %	-	-	-	11.9	3.3	5.8	6.2	2.0
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\$8.90 on 25 Apr 2014 18:13 EDT

www.ubs.com/investmentresearch

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Investment Thesis

Concert Pharma

Investment case

Our buy thesis is based on the company's proprietary know-how, significant market opportunity, and proven expertise in drug development of the management. The key tenets of our Buy rating on CNCE are: [1] The company has two wholly-owned compounds, each targeting an indication with significant unmet medical needs and with market opportunity over \$1bn. [2] The DCE platform has also yielded partnerships with Celgene, Jazz Pharmaceuticals, and Avanir. These collaborative programs with quality partners not only provided technology validations but could also bring potential milestones totalling \$1.7bn. [3] Our analysis based on comps and fundamental valuation suggests significant upside from the current trading level.

Upside scenario

Our upside scenario \$57 reflects a higher probability of success for the two wholly-owned compounds. We assume 30% for CTP-354 in MI and SCL, and 40% for CTP-499 in CKD.

Downside scenario

Our downside scenario \$6 assumes a failure of CTP-345 in MS and SCL.

Upcoming catalysts

[1] ph1 multiple-dose data of '354 in 2H14; [2] final data from open-label extension of ph2 trial of '499 in 2014; [3] feedback from end-of-ph2 meeting with FDA in 2H14; [4] data from Jazz' ph1 trial in 2014; [5] ph2 data of '354 in spasticity in 2015; [6] potential partnership of '499 2014-15.

12-month rating

Buy

12m price target

US\$25.00

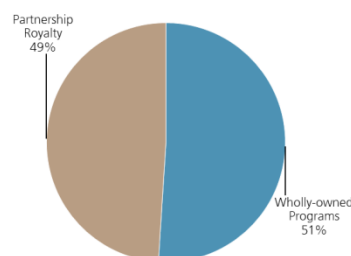
Business description

Concert Pharmaceuticals is a clinical-stage company that applies its knowledge of deuterium chemistry to develop novel small molecule drugs using its Deuterated Chemical Entity (DCE) Platform. Among its wholly-owned assets, the company is currently developing CTP-354 for spasticity associated with multiple sclerosis/spinal cord injury and CTP-499 for diabetic kidney disease. In addition, the company is developing product candidates in its partnerships with Celgene, Jazz Pharmaceuticals, and Avanir.

Industry outlook

While we expect large cap biotech to continue positive momentum on strong earnings growth, the mid cap universe will continue to be very data-driven and to be tightly correlated to market risk appetite. Many mid-cap names have gotten credit for pipeline optionality during the recent biotech rally, but we believe CNCE can be an outperformer of peers based on organic pipeline development and potential partnering

Revenues by sources (%) 2020



Revenues by segment

Segment Revenues (\$m)	2017E	2018E	2019E	2020E
Neurology	1	7	29	63
Nephrology	0	4	12	20
Oncology	0	0	1	4
Other License and Milestones	104	141	173	175
Total	105	152	214	261

Source for chart and table: UBS

Concert Pharmaceuticals (CNCE.O)

		12/11	12/12	12/13E	% ch	12/14E	% ch	12/15E	12/16E	12/17E
Income statement (US\$m)										
Revenues	-	19	13	32	149.0	44	38.4	55	82	105
Gross profit	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	-	(10)	(17)	3	-	8	229.6	7	5	(1)
Depreciation & amortisation	-	(2)	(1)	(1)	-30.7	(1)	10.0	(1)	(1)	(1)
EBIT (UBS)	-	(11)	(19)	2	-	7	371.4	6	4	(3)
Associates & investment income	-	0	0	0	-	0	-	0	0	0
Other non-operating income	-	0	0	0	-	0	-	0	0	0
Net interest	-	0	(2)	(2)	4.8	(2)	0.0	(2)	(2)	(2)
Exceptionals (incl goodwill)	-	0	0	0	-	0	-	0	0	0
Profit before tax	-	(11)	(20)	0	99.1	6	-	4	2	(5)
Tax	-	0	(2)	0	89.5	0	-	0	0	0
Profit after tax	-	(11)	(22)	0	98.2	6	-	5	2	(5)
Preference dividends	-	0	0	0	-	0	-	0	0	0
Minorities	-	0	0	0	-	0	-	0	0	0
Extraordinary items	-	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	-	(11)	(22)	0	98.2	6	-	5	2	(5)
Net earnings (UBS)	-	(11)	(22)	0	98.2	6	-	5	2	(5)
Tax rate (%)	-	0.0	0.0	0.0	-	0.0	-	0.0	0.0	0.0
Per share (US\$)										
EPS (UBS, diluted)	-	(1.56)	(2.00)	(0.04)	98.2	0.28	-	0.22	0.10	(0.27)
EPS (local GAAP, diluted)	-	(1.56)	(2.00)	(0.04)	98.2	0.28	-	0.22	0.10	(0.27)
EPS (UBS, basic)	-	(1.56)	(2.00)	(0.04)	98.2	0.35	-	0.27	0.12	(0.27)
Net DPS (US\$)	-	0.00	0.00	0.00	-	0.00	-	0.00	0.00	0.00
Cash EPS (UBS, diluted) ¹	-	(1.34)	(1.87)	0.05	-	0.33	511.1	0.28	0.16	(0.18)
Book value per share	-	2.21	0.46	0.52	13.0	5.44	944.1	6.02	6.92	7.20
Average shares (diluted)	-	7.25	11.21	11.21	0.0	21.11	88.3	21.28	21.45	17.48
Balance sheet (US\$m)										
Cash and equivalents	-	23	7	19	148.5	94	403.1	100	115	123
Other current assets	-	21	21	24	13.7	25	1.4	25	27	28
Total current assets	-	44	29	43	48.7	118	175.7	126	142	151
Net tangible fixed assets	-	4	3	3	-25.0	3	7.7	3	3	3
Net intangible fixed assets	-	0	0	0	-	0	-	0	0	0
Investments / other assets	-	1	1	3	321.5	3	0.0	3	3	3
Total assets	-	49	33	49	47.8	125	154.3	132	148	158
Trade payables & other ST liabilities	-	10	8	16	100.4	10	-36.9	11	10	14
Short term debt	-	0	0	0	-	0	-	0	0	0
Total current liabilities	-	10	8	16	100.4	10	-36.9	11	10	14
Long term debt	-	0	0	0	-	0	-	0	0	0
Other long term liabilities	-	14	20	27	36.0	22	-18.2	18	18	18
Preferred shares	-	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	-	25	28	43	54.2	32	-25.1	29	28	32
Common s/h equity	-	25	5	6	13.1	92	1480.2	103	120	126
Minority interests	-	0	0	0	-	0	-	0	0	0
Total liabilities & equity	-	49	33	49	47.8	125	154.3	132	148	158
Cash flow (US\$m)										
Net income (before pref divs)	-	(11)	(22)	0	98.2	6	-	5	2	(5)
Depreciation & amortisation	-	2	1	1	-30.7	1	10.0	1	1	1
Net change in working capital	-	(10)	(9)	17	-	(3)	-	2	5	5
Other operating	-	1	1	1	-33.5	1	40.7	1	1	1
Operating cash flow	-	(18)	(28)	18	-	5	-71.5	9	10	3
Tangible capital expenditure	-	0	0	0	69.4	0	-40.0	0	0	0
Intangible capital expenditure	-	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	-	0	0	0	-	0	-	0	0	0
Other investing	-	23	(1)	(4)	-	0	-	0	0	0
Investing cash flow	-	23	(1)	(4)	-254.7	0	95.3	0	0	0
Equity dividends paid	-	0	0	0	-	0	-	0	0	0
Share issues / (buybacks)	-	0	0	0	-	78	390500.0	0	0	0
Other financing	-	7	12	(3)	-	(5)	-51.57	(4)	0	0
Change in debt & pref shares	-	0	0	0	-	0	-	0	0	0
Financing cash flow	-	7	12	(3)	-	73	-	(4)	0	0
Cash flow inc/(dec) in cash	-	12	(17)	11	-	78	619.6	5	10	3
FX / non cash items	-	-	2	0	-87.2	(3)	-	2	5	5
Balance sheet inc/(dec) in cash	-	-	(15)	11	-	75	574.6	7	15	8

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts. ¹Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Concert Pharmaceuticals (CNCE.O)

Valuation (x)	-	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
P/E (local GAAP, diluted)	-	-	-	NM	31.9	40.9	NM	NM
P/E (UBS, diluted)	-	-	-	NM	31.9	40.9	93.3	(33.5)
P/CEPS	-	-	-	NM	21.6	26.1	45.5	NM
Equity FCF (UBS) yield %	-	-	-	11.9	3.3	5.8	6.2	2.0
Net dividend yield (%)	-	-	-	0.0	0.0	0.0	0.0	0.0
P/BV x	-	-	-	17.1	1.6	1.5	1.3	1.2
EV/revenues (core)	-	-	-	4.3	2.2	1.0	0.5	0.3
EV/EBITDA (core)	-	-	-	54.2	11.3	7.5	8.8	-23.1
EV/EBIT (core)	-	-	-	NM	13.0	8.9	12.0	NM
EV/OpFCF (core)	-	-	-	NM	11.6	7.7	9.2	NM
EV/op. invested capital	-	-	-	NM	NM	NM	NM	NM
Enterprise value (US\$m)	-	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Market cap.	-	-	-	153	153	153	153	153
Net debt (cash)	-	-	(15)	(13)	(56)	(97)	(108)	(119)
Buy out of minorities	-	0	0	0	0	0	0	0
Pension provisions/other	-	0	0	0	0	0	0	0
Total enterprise value	-	-	-	140	97	56	46	34
Non core assets	-	0	0	(1)	(1)	(1)	(1)	(1)
Core enterprise value	-	-	-	139	96	55	44	33
Growth (%)	-	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Revenue	-	-	-34.0	149.0	38.4	24.7	48.9	27.6
EBITDA (UBS)	-	-	-76.4	-	NM	-12.7	-31.8	-
EBIT (UBS)	-	-	-64.0	-	NM	-16.1	-40.0	-
EPS (UBS, diluted)	-	-	-28.3	98.2	-	-21.8	-56.2	-
Net DPS	-	-	-	-	-	-	-	-
Margins & Profitability (%)	-	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Gross profit margin	-	-	-	-	-	-	-	-
EBITDA margin	-	NM	NM	8.0	19.1	13.4	6.1	NM
EBIT margin	-	-58.3	-144.8	4.9	16.6	11.2	4.5	-2.8
Net earnings (UBS) margin	-	NM	NM	NM	13.3	8.4	2.5	NM
ROIC (EBIT)	-	-	>500	(19.1)	(88.0)	<-500	144.4	(115.7)
ROIC post tax	-	-	NM	NM	NM	NM	NM	NM
ROE (UBS)	-	-	(150.2)	(7.3)	12.0	4.7	1.8	(3.8)
Capital structure & Coverage (x)	-	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Net debt / EBITDA	-	2.4	0.4	(7.3)	(11.1)	(13.6)	(22.8)	86.3
Net debt / total equity %	-	(92.8)	(145.1)	NM	(101.5)	(97.3)	(96.0)	(97.9)
Net debt / (net debt + total equity) %	-	NM	NM	NM	NM	NM	NM	NM
Net debt/EV	-	-	-	(13.4)	(97.7)	NM	NM	NM
Capex / depreciation %	-	17.9	32.2	14.2	18.1	17.3	16.5	15.7
Capex / revenue %	-	1.5	3.6	0.4	0.5	0.4	0.3	0.2
EBIT / net interest	-	NM	NM	0.9	4.2	3.5	2.1	NM
Dividend cover (UBS)	-	-	-	-	-	-	-	-
Div. payout ratio (UBS) %	-	-	-	-	-	-	-	-
Revenues by division (US\$m)	-	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Others	-	19	13	32	44	55	82	105
Total	-	19	13	32	44	55	82	105
EBIT (UBS) by division (US\$m)	-	12/11	12/12	12/13E	12/14E	12/15E	12/16E	12/17E
Others	-	(11)	(19)	2	7	6	4	(3)
Total	-	(11)	(19)	2	7	6	4	(3)

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	+180.9%
Forecast dividend yield	0.0%
Forecast stock return	+180.9%
Market return assumption	5.4%
Forecast excess return	+175.5%

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 12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	33%
Neutral	FSR is between -6% and 6% of the MRA.	42%	34%
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 March 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.

3: Percentage of companies under coverage globally within the Short-Term rating category. 4: Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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

Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Concert Pharmaceuticals ^{2, 4, 5, 6, 16}	CNCE.O	Buy	N/A	US\$9.35	24 Apr 2014

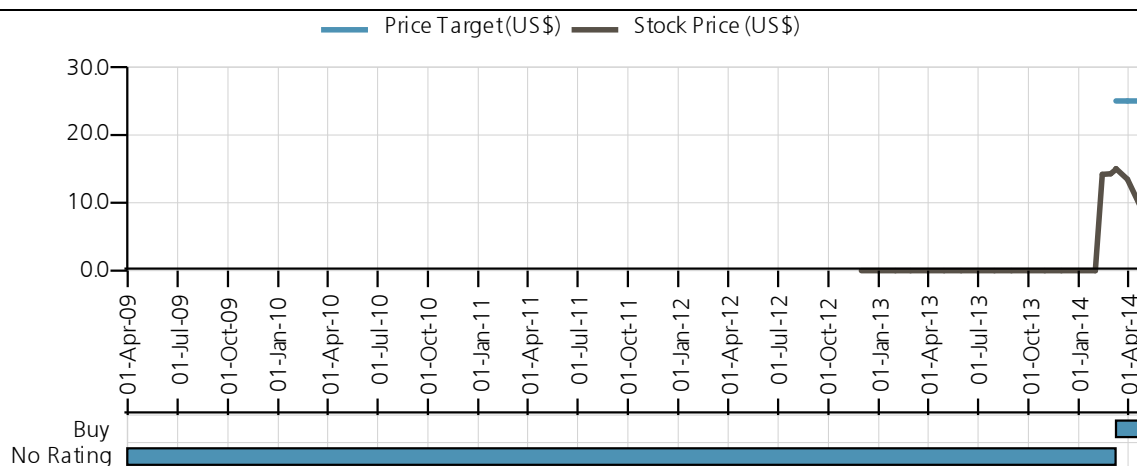
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

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Concert Pharmaceuticals (US\$)



Source: UBS; as of 24 Apr 2014

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