

August 26, 2014

CNCE-NASDAQ--Outperform (1) / V

Biotechnology

CNCE: Start Of Avanir's Ph.II AVP-786 MDD Study Highlights Multiple Undervalued Opportunities For CNCE

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Sector Rating: Biotechnology, Market Weight

Avanir Pharmaceuticals today (8/26) announced the initiation of a ph.II study of AVP-786 in major depressive disorder (MDD) (timing as expected). Recall, Avanir is partnered with CNCE on a deuterated form of dextromethorphan with ultra-low dose quinidine intended as an adjuvant treatment for treating MDD. CNCE receives a \$2MM milestone payment for initiation of dosing.

****The ph.II is a randomized trial enrolling 200 patients deemed inadequately responsive to 1-3 antidepressant courses during an ongoing depressive episode. Patients will receive active treatment or placebo 2x/day over 10-weeks. The primary outcome is performance on the Montgomery-Asberg Depression Rating Scale at week 10. The scale is an outcome scale commonly employed in MDD trials.**

****Depression is a challenging indication, though we believe there is some scientific rationale for dextromethorphan in depression--dextromethorphan had been hypothesized to hold rapid acting antidepressant activity given its pharmacodynamic resemblance to ketamine, an NMDA receptor antagonist, and a preclinical study published in March found additional antidepressant action through sigma1 (σ_1) receptors in vivo.**

****Separately Avanir announced it expects to release ph.II results from AVP-923 in Alzheimer's agitation Sep-Oct 2014, which, if positive, will likely prompt Avanir to move forward with the deuterated formulation '786 in that indication as well (a potential near-term catalyst for CNCE, as it would show proof-of-concept).**

****BOTTOM LINE: While neuro-psych studies have risks, we believe today's announcements highlight the multiple shots on goal CNCE has with partner Avanir, as well as partners CELG and JAZZ. Recall, these partnerships could generate \$273MM in additional milestones plus mid-single to low double-digit royalties. Between that and the potential opportunity for partnership for \$499 and long-term promise of \$354, we believe CNCE's enterprise value of approximately \$60MM meaningfully undervalues shares.**

Concert Pharmaceuticals, Inc. (CNCE-NASDAQ)

Price as of 8/26/2014: \$9.04

FY 14 EPS: \$-2.07

FY 15 EPS: \$-1.09

Shares Out.: 17.9 MM

Market Cap.: \$161.82 MM

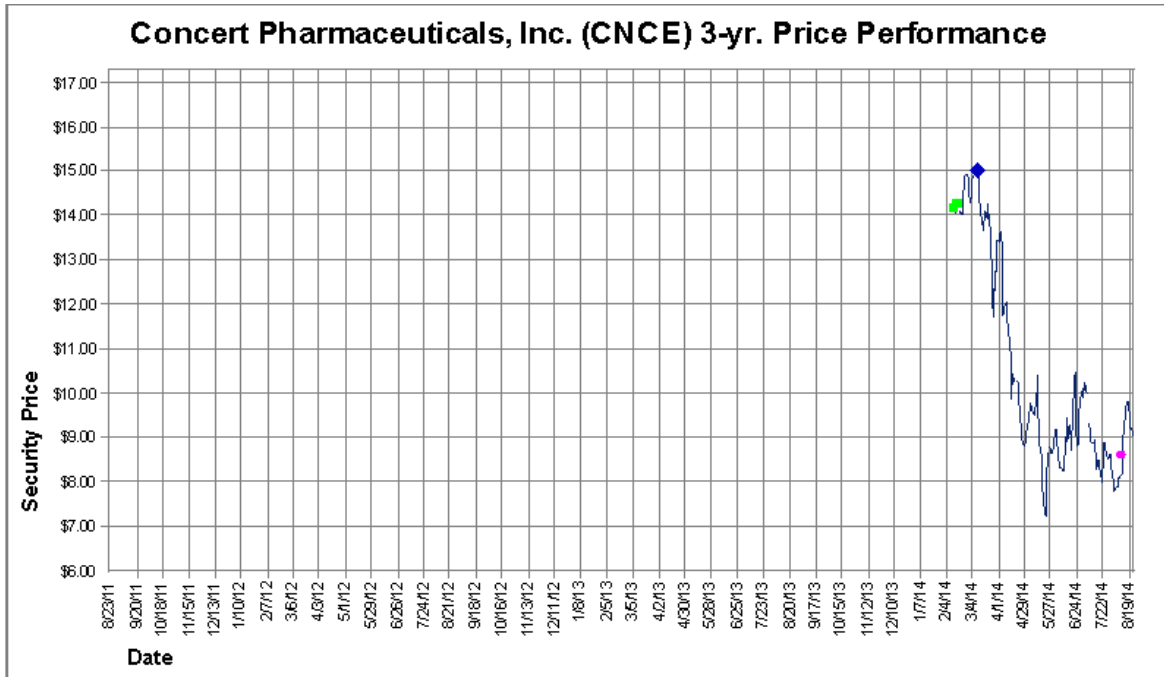
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Required Disclosures



	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
●	8/12/2014	8.47	1	15.00	17.00	8.60

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

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

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

Additional Information Available Upon Request

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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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2 = Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

3 = Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O = Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M = Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U = Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: August 26, 2014

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