

December 2, 2014

CNCE-NASDAQ--Outperform (1) / V

Biotechnology

CNCE: AVNR Acquisition Reflects Optimistic Outlook For AVP-786

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Sector Rating: Biotechnology, Market Weight

******AVNR announced this morning (12/2) it will be acquired by Otsuka Pharmaceutical for \$17/share in cash, a 13% premium to its closing price of \$15 on Monday, and AVNR will become a fully-owned, independent subsidiary of Otsuka. The deal should close Q1 2015. Recall CNCE is partnered with AVNR on AVP-786, a deuterated dextromethorphan moving into phase III in Alzheimer's agitation, which has the potential to be the first royalty-generating product for CNCE to reach the market.

******We see CNCE inheriting a solid strategic/commercial partner in Otsuka through the acquisition. Otsuka developed Abilify, an antipsychotic indicated for schizophrenia and bipolar disorder, one of the highest grossing drugs of 2013 with >\$8B in sales globally. We believe Otsuka had a clear strategic interest in strengthening its central nervous system (CNS) franchise through M&A, as Abilify potentially goes generic next year, and the deal corroborates the large potential of AVP-786, which AVNR had planned to move forward with in future studies of its dextromethorphan products in large market indications such as Alzheimer's agitation/levodopa-induced Parkinson's dyskinesia/neuropathic pain/major depressive disorder/migraine headache. In fact, Otsuka called out AVP-786 as a highly promising asset and a major reason for the acquisition.

******Though the 24% deal premium over AVNR's prior 30-day stock price average is lower than the 44% average premium paid by biotech acquirers over the last two years (our universe of acquisitions includes ELN, ONXX, MAPP, TSRX, OPTR, VPHM, SNTS, GENT, IDIX, QCOR, FURX), this is likely due to the recent surge in AVNR's stock price, which increased 198% over the last six months (NASDAQ Biotechnology [NBI is up +26% over the last six months]) after positive ph.II results of AVP-923 for Alzheimer's agitation; we don't believe this speaks negatively to Otsuka's optimism about '786's prospects.

******BOTTOM LINE: We see Otsuka as a partner highly motivated in CNS to help take forward AVP-786, and represents a significant commercial partner to CNCE, which in our view remains an underappreciated small-cap story.

Concert Pharmaceuticals, Inc. (CNCE-NASDAQ)

Price as of 12/1/2014: \$12.61

FY 14 EPS: \$-2.16

FY 15 EPS: \$-1.41

Shares Out.: 17.9 MM

Market Cap.: \$225.72 MM

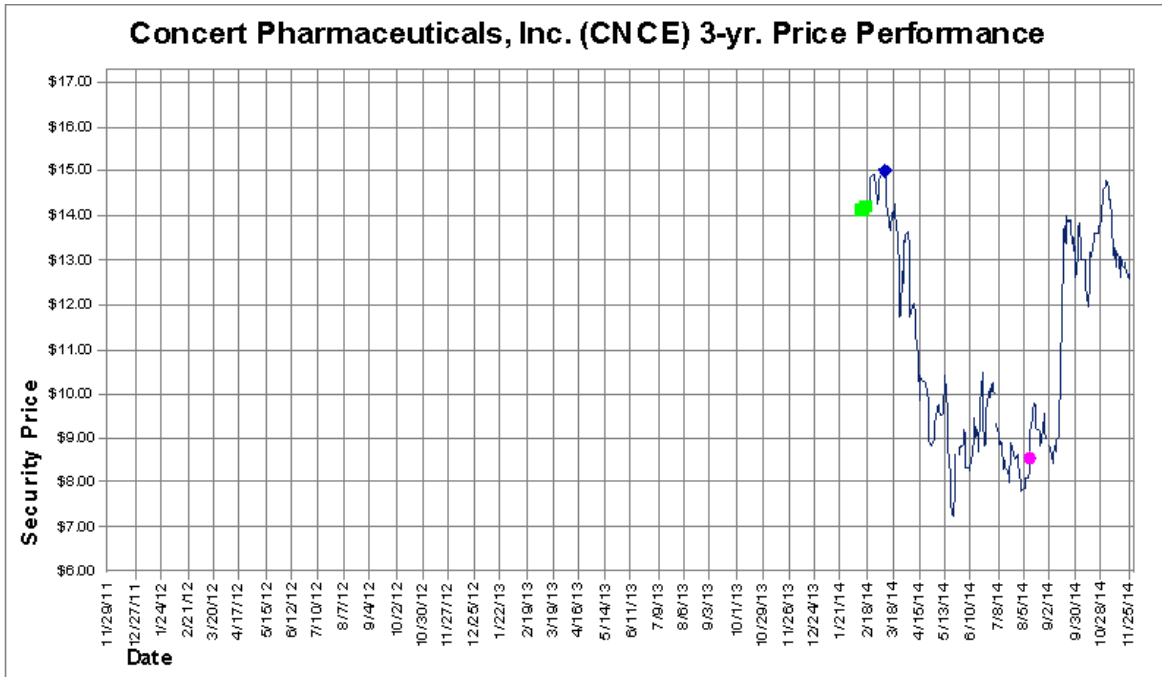
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Required Disclosures



	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.

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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: December 2, 2014

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