

July 9, 2014

CNCE-NASDAQ--Outperform (1) / V

Biotechnology

CNCE: In-Line Regulatory Feedback On '499 Helps Set Stage For Next Steps Into Ph.III

Brian Abrahams, M.D., Senior Analyst (212) 214-8060

Sector Rating: Biotechnology, Market Weight

**On July 8, CNCE provided updates on the conclusion of its end-of-phase II meeting with FDA for CPT-499 for diabetic nephropathy (DN). We had the opportunity to speak with the company for additional details.

**FDA is generally in agreement with the company's proposed ph.III study design, with additional flexibility being an option to either conduct two studies or a single study exploring two doses. We continue to believe the size of the studies will likely necessitate a partnership with a larger company, and believe that this regulatory feedback is an important step towards that goal.

**The primary endpoint acceptable to the FDA consists of a reduction of progression of renal disease, measured by the composite of increase in serum creatinine ($\geq 50\%$, approximately equivalent to 30-40% decline in eGFR) or end stage renal disease, in line with what requirements for other companies have been in diabetic nephropathy.

**FDA also appeared on board with the concept of "enriching" the phase III program by enrolling patients with higher baseline proteinuria, who performed better in ph.II and could increase the likelihood of success, as well as exploring higher doses, which might be indicative of FDA's level of comfort with the drug's safety.

**The company plans to submit a request for an SPA later this year. While the study design appears to be relatively straightforward, CNCE felt that an SPA could confirm FDA's buy-in on other variables--such as statistical calculations and assumptions--to further reduce regulatory uncertainties.

**BOTTOM LINE: While the regulatory feedback was generally in-line with expectations, we view this as an important step towards potentially partnering '499 and enabling it to move into ph.III. We believe CNCE is undervalued based on its multiple proprietary and partnered shots on goal, as well as its deuteration technology platform.

Concert Pharmaceuticals, Inc. (CNCE-NASDAQ)

Price as of 7/8/2014: \$9.12

FY 14 EPS: \$-1.88

FY 15 EPS: \$-0.74

Shares Out.: 17.9 MM

Market Cap.: \$163.25 MM

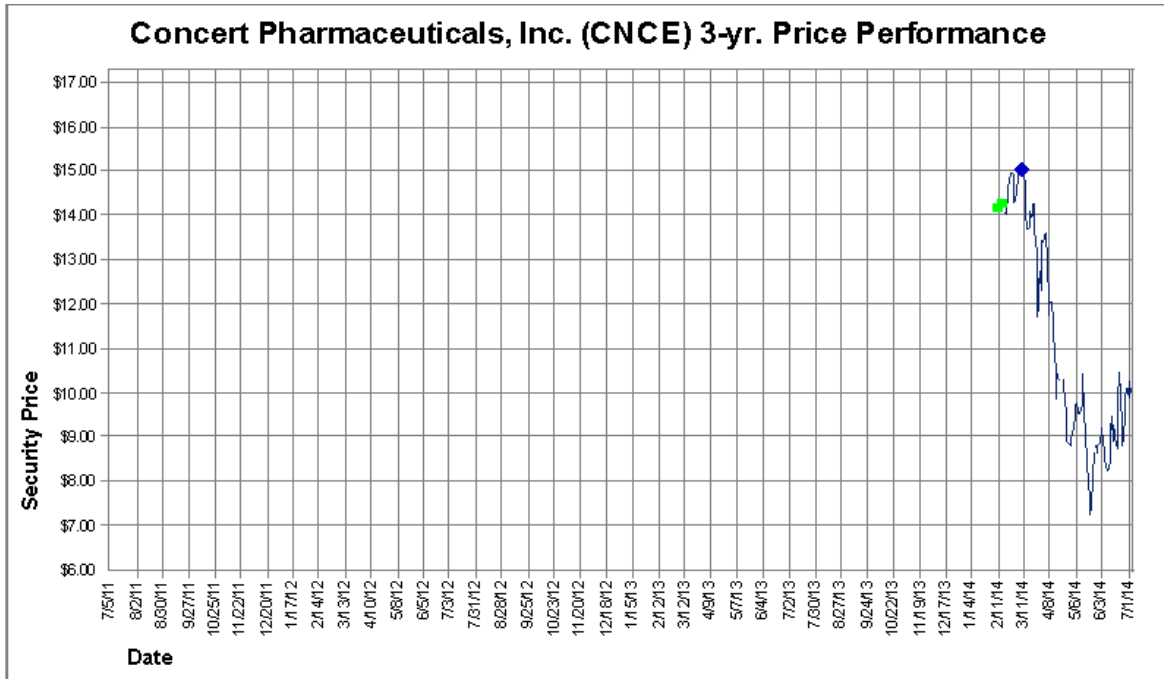
Please see Disclosure Appendix for rating definitions, important disclosures, and required analyst certifications.

All estimates/forecasts are as of 07/09/14 unless otherwise stated.

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

DISCLOSURE APPENDIX

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

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

Additional Information Available Upon Request

I certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

Please see Disclosure Appendix for rating definitions, important disclosures, and required analyst certifications.

All estimates/forecasts are as of 07/09/14 unless otherwise stated.

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

Wells Fargo Securities, LLC maintains a market in the common stock of Concert Pharmaceuticals, Inc.
Wells Fargo Securities, LLC or its affiliates managed or comanaged a public offering of securities for Concert Pharmaceuticals, Inc. within the past 12 months.
Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from Concert Pharmaceuticals, Inc.
Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from Concert Pharmaceuticals, Inc. in the past 12 months.
Concert Pharmaceuticals, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided investment banking services to Concert Pharmaceuticals, Inc.

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.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

STOCK RATING

1 = Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

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.

VOLATILITY RATING

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: July 9, 2014

49% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Outperform.

Wells Fargo Securities, LLC has provided investment banking services for 44% of its Outperform-rated companies.

48% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.

Wells Fargo Securities, LLC has provided investment banking services for 33% of its Market Perform-rated companies.

3% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underperform.

Wells Fargo Securities, LLC has provided investment banking services for 4% of its Underperform-rated companies.

Please see Disclosure Appendix for rating definitions, important disclosures, and required analyst certifications.

All estimates/forecasts are as of 07/09/14 unless otherwise stated.

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

Important Information for Non-U.S. Recipients

EEA - The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

Australia - Wells Fargo Securities, LLC is exempt from the requirements to hold an Australian financial services license in respect of the financial services it provides to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under U.S. laws which differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC in the course of providing the financial services will be prepared in accordance with the laws of the United States and not Australian laws.

Hong Kong - This report is issued and distributed in Hong Kong by Wells Fargo Securities Asia Limited ("WFSAL"), a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance, "the SFO"). This report is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). Any securities and related financial instruments described herein are not intended for sale, nor will be sold, to any person other than professional investors (as defined in the SFO).

Japan - This report is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd, registered with the Kanto Local Finance Bureau to conduct broking and dealing of type 1 and type 2 financial instruments and agency or intermediary service for entry into investment advisory or discretionary investment contracts. This report is intended for distribution only to professional investors (Tokutei Touseika) and is not intended for, and should not be relied upon by, ordinary customers (Ippan Touseika).

The ratings stated on the document are not provided by rating agencies registered with the Financial Services Agency of Japan (JFSA) but by group companies of JFSA-registered rating agencies. These group companies may include Moody's Investors Services Inc, Standard & Poor's Rating Services and/or Fitch Ratings. Any decisions to invest in securities or transactions should be made after reviewing policies and methodologies used for assigning credit ratings and assumptions, significance and limitations of the credit ratings stated on the respective rating agencies' websites.

About Wells Fargo Securities, LLC

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Institutional Securities, LLC, a member of FINRA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Conduct Authority.

Wells Fargo Securities, LLC is a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the New York Stock Exchange, the Financial Industry Regulatory Authority and the Securities Investor Protection Corp.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC, to be reliable, but Wells Fargo Securities, LLC, does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Wells Fargo Securities, LLC, at this time, and are subject to change without notice. For the purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. Each of Wells Fargo Securities, LLC, and Wells Fargo Securities International Limited is a separate legal entity and distinct from affiliated banks. Copyright © 2014 Wells Fargo Securities, LLC.

Please see Disclosure Appendix for rating definitions, important disclosures, and required analyst certifications.

All estimates/forecasts are as of 07/09/14 unless otherwise stated.

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.

Please see Disclosure Appendix for rating definitions, important disclosures, and required analyst certifications.
All estimates/forecasts are as of 07/09/14 unless otherwise stated.

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of the report and investors should consider this report as only a single factor in making their investment decision.