ROTH Capital Partners

Joseph Pantginis, Ph.D., (646) 358-1907
jpantginis@roth.com

Deanna Bahel, (646) 358-1914
dbahel@roth.com

Sales (800) 933-6830, **Trading** (800) 933-6820

COMPANY NOTE | EQUITY RESEARCH | August 12, 2014

Healthcare: BioPharmaceuticals

Concert Pharmaceuticals, Inc. | CNCE - $8.17 - NASDAQ | *Buy*

Company Update

Estimates Changed

Stock Data	
52-Week Low - High	$7.12 - $16.26
Shares Out. (mil)	17.90
Mkt. Cap.(mil)	$146.2
3-Mo. Avg. Vol.	153,371
12-Mo.Price Target	$28.00
Cash (mil)	$98.3
Tot. Debt (mil)	$13.0

EPS $

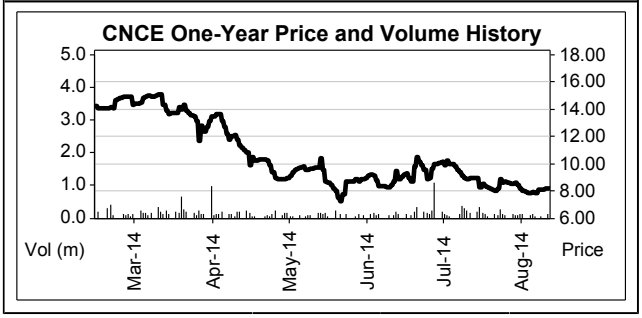
Yr Dec	—2013—	—2014E—		—2015E—	
		Curr	Prev	Curr	Prev
1Q	-	(0.76)A	(0.76)A	(0.47)E	(0.52)E
2Q	-	(0.45)A	(0.47)E	(0.45)E	(0.53)E
3Q	-	(0.42)E	(0.48)E	(0.28)E	(0.33)E
4Q	-	(0.48)E	(0.58)E	(0.01)E	(0.12)E
YEAR	(4.99)A	(1.62)E	(1.71)E	(1.21)E	(1.51)E
P/E	NM	NM	NM	NM	NM

Concert's IPO was on February 9, 2014

Quarterly EPS may not add to full year due to increases in share count and rounding

Revenue ($ millions)

Yr Dec	—2013—	—2014E—		—2015E—	
		Curr	Prev	Curr	Prev
1Q	-	1.6A	1.6A	1.2E	0.0E
2Q	-	1.2A	0.3E	1.7E	0.0E
3Q	-	2.0E	0.3E	5.2E	4.0E
4Q	-	1.5E	0.9E	10.5E	8.0E
YEAR	25.4A	8.3E	5.0E	18.6E	12.0E



CNCE: 2Q14 Results; Lots of Action on the Clinical Front: Reiterate Buy

CNCE reported 2Q14 results posting EPS of ($0.45) vs. our estimate of ($0.47) and a consensus of ($0.42). CNCE revenues were $1.2 million vs. our estimate of $0.3 million and a consensus of $1.3 million. CNCE ended the quarter with $98.3 million in cash. CNCE faces a busy second half of the year as it is getting ready to initiate multiple clinical studies in 2H14. Reiterate Buy.

Event

CNCE reported 2Q14 results posting EPS of ($0.45) vs. our estimate of ($0.47) and a consensus of ($0.42). CNCE revenues were $1.2 million vs. our estimate of $0.3 million and a consensus of $1.3 million. CNCE ended the quarter with $98.3 million in cash.

Impact

We believe Concert is making good progress on their clinical programs, both in their in-house and partnered programs. The company's R&D expenses are expected to grow as they initiate multiple clinical studies in 2H14. CNCE expects to initiate the PhII study of CTP-354 in patients with spasticity associated with spinal cord injury later this year. We look forward to top-line data from the PhI portion of this study in October. Regarding, CTP-499, CNCE is well positioned to advance the program into PhIII, following their end of Phase II meeting with the FDA last month. The company is leaning towards a single study with two doses of CTP-499 instead of the other option raised in the meeting of conducting two parallel trials for each dose. CNCE intends on initiating discussion with the FDA regarding PhIII later this year, which will include talks of the possibility to conduct the PhIII under SPA. Regarding the partnered programs, JZP-386 PhI study was initiated last month in a first-in-human study. The PhI study of CTP-730 is expected to initiate in the fall and AVP-786 is expected to advance into PhII in September. We believe CNCE is advancing well on the clinical front and will achieve its expectation to have up to five compounds in clinical studies by the end of the year.

Action

With a 1) proprietary platform in modifying drugs with deuterium, 2) growing internal pipeline, 3) three partnerships in hand, to date and 4) a strong IP portfolio, we believe Concert is poised for success, which should be supported by upcoming catalysts

Intraday Price: $8.43 at 1:32pm ET, 8/12/14

VALUATION

Our valuation of Concert is based on our probability-weighted clinical net present value (NPV) valuation model. We believe that this method is appropriate in capturing the value of the clinical stage pipeline. It allows for the flexing of assumptions based on key factors such as chance of success, peak sales estimates, and year of commercial launch.

Factors that could impede shares from reaching our price target include negative clinical data flow from Concert's clinical stage programs as well as any potential delays or issues on the regulatory front and financing risk.

RISKS

- **Pipeline product risk** - Concert's pipeline consists of earlier stage developmental candidates. With this stage of development comes increased risk from negative trial readouts. Additionally, CPT-499 and CTP-354 represent major contributors to our valuation and any negative readouts, clinical or regulatory delays could negatively impact the stock. We believe Concert looks to mitigate some of this risk by having a platform technology which can generate a broad set of drug candidates for its pipeline.
- **Partnering risk** - Concert currently has signed partnerships and is continually engaging in business development activities. Because these programs are under the direction of other companies, there is no guarantee those programs will progress to meaningful catalysts, including potential commercialization. Any delays or terminated partnerships in the future, could have a negative impact on Concert's valuation.
- **Regulatory** - Should Concert's products successfully complete pivotal registrational studies, there is no guarantee that regulatory agencies would approve these products. Unforeseen issues may arise during clinical development which could impact the approvability of a therapeutic candidate.
- **Financing risk**- As with all non-profitable biotechnology companies, funding is continuously necessary to fund operations and ongoing clinical studies. Should Concert encounter problems in raising sufficient funds to continue its operations, this could significantly impact that stock"s valuation

COMPANY DESCRIPTION

Concert Pharmaceuticals create novel medicines that address medically important needs by applying its DCE Platform (Deuterated Chemical Entity Platform) to compounds with well-characterized pharmacological activity. This approach may enable drug discovery and clinical development that is more efficient and less expensive than conventional small molecule drug research and development. The company was co-founded in 2006 by Richard Aldrich, Roger Tung and Christoph Westphal, and is located in the historic town of Lexington, Massachusetts.

($ in millions except per share data)

Profit & Loss	2012A	2013A	2014E	2015E	2016E	2017E
Licensing and R&D revenue	11.3	23.4	6.3	6.6	7.3	8.0
Milestone revenue	1.5	2.0	2.0	12.0	13.2	14.5
Product and Royalties	0.0	0.0	0.0	0.0	0.0	0.0
Other revenues	0.0	0.0	0.0	0.0	0.0	0.0
Revenues	**12.8**	**25.4**	**8.3**	**18.6**	**20.5**	**22.5**
CoGS	0.0	0.0	0.0	0.0	0.0	0.0
Gross Profit	**12.8**	**25.4**	**8.3**	**18.6**	**20.5**	**22.5**
Gross margin	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
G&A	7.3	8.0	11.0	11.9	13.1	14.4
R&D	24.2	21.8	24.6	27.1	30.3	34.0
Other op ex	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**(18.6)**	**(4.4)**	**(27.3)**	**(20.4)**	**(23.0)**	**(25.9)**
EBIT margin	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0
Amortisation Intangibles	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**(18.6)**	**(4.4)**	**(27.3)**	**(20.4)**	**(23.0)**	**(25.9)**
EBITDA margin	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*
Non operating expenses	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest Income/Other	0.0	0.0	(0.2)	(0.2)	0.1	0.1
Interest expense	1.9	1.7	1.8	1.8	0.2	0.2
EBT	**(20.4)**	**(6.1)**	**(29.4)**	**(22.4)**	**(23.0)**	**(25.9)**
EBT margin	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*
Provision for taxes	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	**(20.4)**	**(6.1)**	**(29.4)**	**(22.4)**	**(23.0)**	**(25.9)**
Participation of preferred stock	(0.4)	(0.4)	0.0	0.0	0.0	0.0
Net Income to common	**(20.8)**	**(6.5)**	**(29.4)**	**(22.4)**	**(23.0)**	**(25.9)**
net margin	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*
NoSH	1.3	1.3	18.1	18.5	22.0	22.5
EPS - basic	**(16.15)**	**(4.99)**	**(1.62)**	**(1.21)**	**(1.05)**	**(1.15)**
EPS - diluted	**(16.15)**	**(4.99)**	**(1.62)**	**(1.21)**	**(1.05)**	**(1.15)**

Source: SEC filings and ROTH Capital Partners estimates

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Quarterly P&L

	Q1'14A	Q2'14A	H1'14A	Q3'14E	9M'14E	Q4'14E	FY'14E	Q1'15E	Q2'15E	H1'15E	Q3'15E	9M'15E	Q4'15E	FY'15E
Licensing and R&D revenue	1.61	1.24	2.85	2.00	4.85	1.45	6.3	1.20	1.70	2.90	1.20	4.10	2.52	6.6
Milestone revenue	0.00	0.00	0.00	0.00	2.00	0.00	2.0	0.00	0.00	0.00	4.00	4.00	8.00	12.0
Product and Royalties	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Other revenues	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Revenues	**1.61**	**1.24**	**2.85**	**2.00**	**6.85**	**1.45**	**8.3**	**1.20**	**1.70**	**2.90**	**5.20**	**8.10**	**10.52**	**18.6**
CoGS	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Gross Profit	**1.61**	**1.24**	**2.85**	**2.00**	**6.85**	**1.45**	**8.3**	**1.20**	**1.70**	**2.90**	**5.20**	**8.10**	**10.52**	**18.6**
Gross margin	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*	*100%*	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*	*100%*
G&A	2.54	2.72	5.26	2.83	8.09	2.91	11.0	2.93	2.95	5.88	3.01	8.89	3.04	11.9
R&D	5.59	6.24	11.84	6.37	18.21	6.42	24.6	6.48	6.54	13.02	6.85	19.87	7.21	27.1
Other op ex	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
EBITDA	**(6.5)**	**(7.7)**	**(14.2)**	**(7.2)**	**(19.4)**	**(7.9)**	**(27.3)**	**(8.2)**	**(7.8)**	**(16.0)**	**(4.7)**	**(20.7)**	**0.3**	**(20.4)**
EBITDA margin							*nm*							*nm*
Non operating expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Net Interest Income/Other	(0.06)	0.00	(0.06)	(0.06)	(0.12)	(0.13)	(0.2)	(0.04)	(0.04)	(0.08)	(0.04)	(0.12)	(0.04)	(0.2)
Interest expense	0.43	0.26	0.70	0.35	1.05	0.76	1.8	0.43	0.44	0.87	0.45	1.32	0.48	1.8
EBT	**(7.0)**	**(8.0)**	**(15.0)**	**(7.6)**	**(20.6)**	**(8.8)**	**(29.4)**	**(8.7)**	**(8.3)**	**(17.0)**	**(5.2)**	**(22.1)**	**(0.3)**	**(22.4)**
EBT margin							*nm*							*nm*
Provision for taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Participation of preferred stock														
Net income to common	**(7.0)**	**(8.0)**	**(15.0)**	**(7.6)**	**(20.6)**	**(8.8)**	**(29.4)**	**(8.7)**	**(8.3)**	**(17.0)**	**(5.2)**	**(22.1)**	**(0.3)**	**(22.4)**
net margin							*nm*							*nm*
NoSH	9.2	17.9	13.56	18.10	15.08	18.40	18.10	18.5	18.5	18.50	18.50	18.50	18.50	18.50
EPS - basic	**(0.76)**	**(0.45)**	**(1.11)**	**(0.42)**	**(1.37)**	**(0.48)**	**(1.62)**	**(0.47)**	**(0.45)**	**(0.92)**	**(0.28)**	**(1.19)**	**(0.01)**	**(1.21)**

Source: SEC filings and ROTH Capital Partners estimates

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Disclosures:

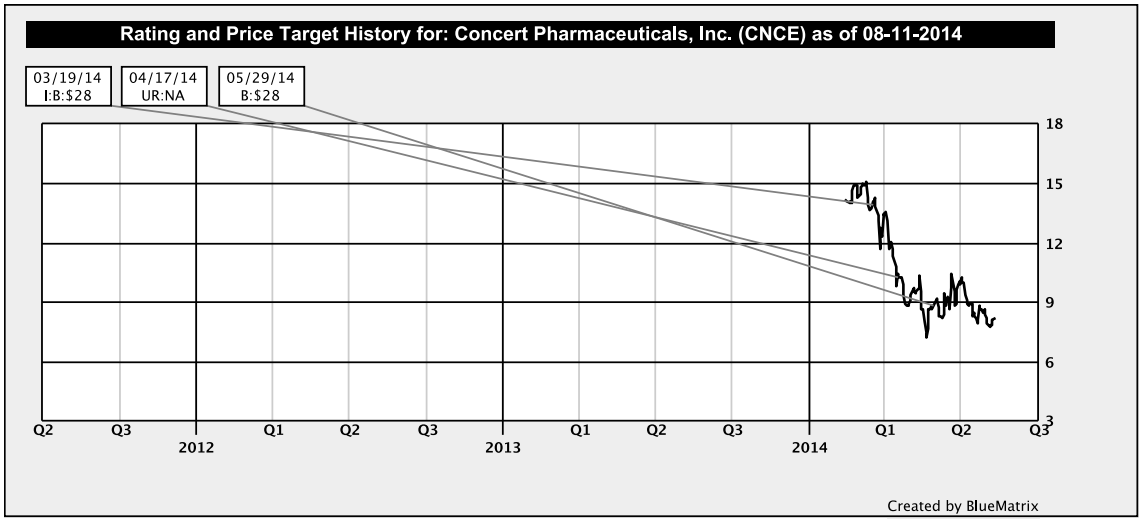
Within the last twelve months, ROTH has received compensation for investment banking services from Concert Pharmaceuticals, Inc..

ROTH makes a market in shares of Concert Pharmaceuticals, Inc. and as such, buys and sells from customers on a principal basis.

Within the last twelve months, ROTH has managed or co-managed a public offering for Concert Pharmaceuticals, Inc..

On September 28, 2010, ROTH changed its rating system in order to replace the Hold rating with Neutral.

On May 26, 2011, ROTH changed its rating system in order to incorporate coverage that is Under Review.



Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

Distribution of IB Services Firmwide

			IB Serv./Past 12 Mos. as of 08/12/14	
Rating	**Count**	**Percent**	**Count**	**Percent**
Buy [B]	**190**	**80.85**	**106**	**55.79**
Neutral [N]	**22**	**9.36**	**8**	**36.36**
Sell [S]	**1**	**0.43**	**0**	**0**
Under Review [UR]	**21**	**8.94**	**12**	**57.14**

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

Ratings System Definitions - ROTH employs a rating system based on the following:

Buy: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return of at least 10% over the next 12 months.

Neutral: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

Sell: A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

Under Review [UR]: A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

Not Covered [NC]: ROTH does not publish research or have an opinion about this security.

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