

Concert Pharmaceuticals, Inc. (CNCE)

Recent Success of Kidney Drugs Highlights Market Potential for Concert's CTP-499

MARKET DATA

Price	\$15.08
52-Week Range:	\$12.43 - \$16.26
Shares Out. (M):	17.9
Market Cap (\$M):	\$269.9
Average Daily Vol. (000):	413,056.0
Cash (M):	\$115
Cash/Share:	\$5.17
Enterprise Value (M):	\$346
Float (M):	16.2
LT Debt (M):	\$9

Source: Thomson Reuters and JMP Securities LLC

MARKET OUTPERFORM | Price: \$15.08 | Target Price: \$28.00

INVESTMENT HIGHLIGHTS

Treating CKD to lessen the progression of ESRD is a large unmet need that is garnering attention across the market; we reaffirm our Market Outperform rating and \$28 year-end 2014 price target on Concert Pharmaceuticals. Yesterday, La Jolla Pharmaceutical Company (LJPC, Not Covered) announced positive top-line data from a Phase II study of its galectin-3 inhibitor GCS-100 in chronic kidney disease (CKD). Despite investor excitement, an objective review of the data shows an almost identical mean eGFR (29 in placebo vs. 30.26 in the treatment group) and large overlapping error bars. However, what yesterday's enthusiastic response highlights is an essential need to slow the growing CKD epidemic, and a pent-up demand amongst investors for drugs that are active in this space. Recently, Concert's CTP-499 completed a Phase II trial in CKD that was not intended to be powered for statistical significance with respect to serum creatinine or eGFR. However, at 48 weeks, CTP-499 showed a trend toward improving serum creatinine and therefore, kidney function over placebo (Figure 1). We remind investors that CNCE is currently in talks with the FDA about a trial redesign that should allow it to pursue serum creatinine or eGFR as a primary endpoint. Investor sentiment is clearly in favor of developing new drugs to treat CKD, and in our view, CTP-499 is poised for success in this indication. Our \$28 price target is based on our DCF and SOTP valuation methodologies.

Huge upside potential for deuterated drug company. We recommend Concert Pharmaceuticals shares to those investors with a long-term perspective and a vision of the kind of company that we believe CNCE can grow into over the course of the next several years. In addition to CTP-499, the company has several in-house and partnered deuterium-based agents in clinical trials including: CTP-354, JZP-386, AVP-786, and CTP-730. In our opinion, the company's DCE Platform® has all of the requisite ingredients to allow CNCE to become one of the leading developers of unique deuterated-therapeutic compounds.

FY DEC		2013E	2014E	2015E
Revenue (\$M)	1Q	--	\$0.0	\$0.0
	2Q	\$24.0A	\$0.0	\$0.0
	3Q	\$24.0A	\$0.0	\$0.0
	4Q	\$6.5	\$0.0	\$0.0
	FY	\$0.0	\$0.0	\$2.0
EPS	1Q	--	(\$0.48)	--
	2Q	(\$0.01)A	(\$0.59)	--
	3Q	(\$0.01)A	(\$0.67)	--
	4Q	(\$0.25)	(\$0.73)	--
	FY	(\$0.10)	(\$2.46)	(\$2.56)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE

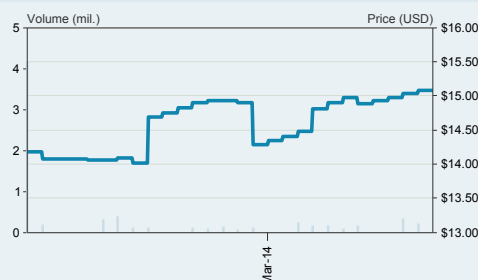
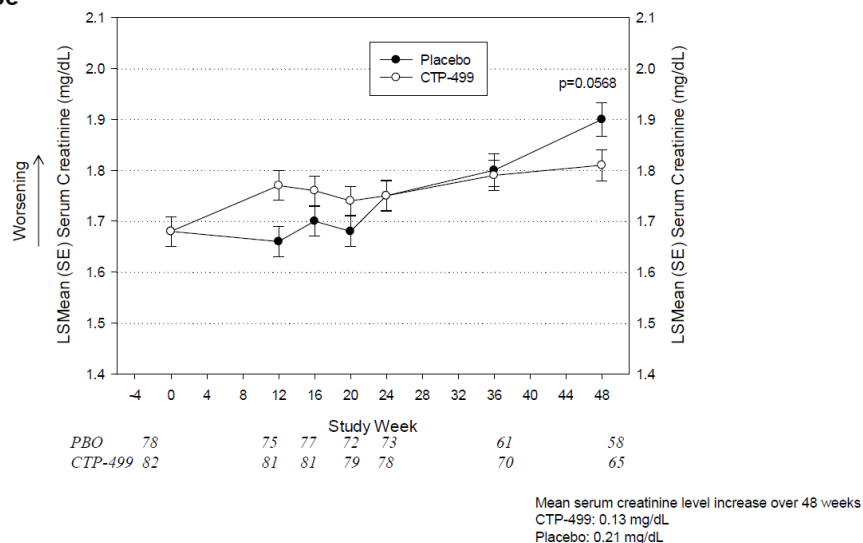


FIGURE 1. Serum Creatinine in Diabetic CKD Patients Over 48 weeks

Preliminary analysis shows a trend for protection against serum creatinine increase



Source: Concert Pharmaceuticals company presentation

FIGURE 2. Concert Pharmaceuticals Upcoming Milestones

Timing	Drug	Milestones
2H2014	CTP-354	Phase I MAD results
2H2014	CTP-354	Phase II clinical trial in MS and SCI expected to begin
2H2014	CTP-499	Phase II meeting with FDA
2H2014	AVP-786	Phase II trial for treatment of resistant major depressive disorder
2014	JZP-386	First Phase I in-human trial
2014	CTP-730	Clinical trials expected to begin

Source: Company press releases, JMP Securities LLC

Company Description

Concert Pharmaceuticals is a clinical stage biopharmaceutical company seeking to discover and develop novel small molecule drugs through the improvement of existing drugs and clinical candidates, via deuterium substitution. Deuterium substitution can lead to drugs with superior pharmacokinetic or metabolic properties, improved clinical safety, tolerability, and/or efficacy. Deuterated analogs of approved drugs may also be able to enjoy expedited pathways to FDA approval. The firm currently has a trio of clinical-stage product candidates, including CTP-354, for spasticity associated with multiple sclerosis, CTP-499 for diabetic kidney disease, and AVP-786 for neurologic and psychiatric disorders, through a collaboration with Avanir Pharmaceuticals. The firm is also in ongoing collaboration with Celgene Corporation for deuterated compounds, including CTP-730 for inflammatory diseases, and with Jazz Pharmaceuticals for JZP-386, the active ingredient in Xyrem, which is in pre-clinical development for narcolepsy.

Investment Risks

Clinical risk. Products undergoing clinical trials may have serious safety concerns, lack efficacy, or fail to demonstrate statistical significance, any of which would preclude them from continuing clinical development and eventual commercialization. If the company's Deuterated Chemical Entity (DCE) Platform® technology is not proven, there will likely be downside to the share price as well as risk to the viability of the company. In addition, CNCE has not yet demonstrated an ability to successfully conduct a large-scale pivotal clinical trial, obtain marketing approvals, manufacture a commercial scale product, or to conduct the sales and marketing activities necessary for successful product commercialization.

Collaboration risk. Concert Pharmaceuticals will depend upon collaborations with third parties for the development and commercialization of some of the company's product candidates and expects to continue to do so in the future. CNCE's business model relies on making use of its DCE platform to partner with Pharmaceutical and Biotechnology companies to improve existing drug candidates. CNCE's prospects with respect to those product candidates will depend in significant part on the success of those collaborations.

Manufacturing risk. Concert Pharmaceuticals is a clinical-stage biopharmaceutical company applying its extensive knowledge of deuterium chemistry to discover and develop novel small molecule drugs. Because there are limited sources of deuterium, CNCE and its collaborators are exposed to a number of risks and uncertainties associated with the company's deuterium supply. In particular, manufacturing processes for many drug candidates, including those for CTP-499 and certain others, are projected to require large quantities of deuterium for late-stage clinical trials and for commercialization. Consequently, any adverse impact on CNCE's ability to obtain deuterium oxide could have a significant impact on the company's ability to develop or commercialize product candidates. Similarly, CNCE's collaborators will also need to obtain supplies of deuterium and will be subject to risks and requirements in connection with sourcing deuterium similar to the ones the company faces.

Intellectual property risk. As of December 31, 2013, CNCE held 100 issued patents worldwide, including 50 issued patents in the United States. CNCE's patents and patent applications for its lead programs are set to expire between 2028 and 2034. The company may be sued by a competitor on patent infringement or have to undergo litigation that would incur substantial fees. The company could lose a case, which would make it susceptible to generic risk.

Financial risk. Concert Pharmaceuticals currently derives revenue from research and development funding and from license or collaboration agreements. The company is not yet profitable and has a history of operating losses that are expected to continue in the near future. As of September 30, 2013, the company had total assets of ~\$49MM, revenues of ~\$24MM, and a net loss of ~(\$141K). Developing pharmaceutical products, including conducting pre-clinical studies and clinical trials, is a very time-consuming, expensive, and uncertain process that takes years to complete. The company needs to continue financing clinical trials through to completion and it may be unable to secure additional funding, forcing CNCE to delay, reduce, or eliminate product development programs or commercialization efforts. The company has incurred significant losses since its inception and should expect losses to occur for the next several years.

Competitive risk. Concert Pharmaceuticals faces competition from marketers of other treatments for the indications that CNCE seeks to develop drugs for, including major pharmaceutical firms and biotech firms. The firm's products will also have to compete with existing treatments that have already become generically available (e.g., CTP-354 will have to compete with other spasticity drugs, such as baclofen, tizanidine, diazepam, and dantrolene).

Regulatory risk. Concert Pharmaceuticals or the company's collaborators, may, in some instances, be able to secure clearances from the FDA or comparable foreign regulatory authorities to use expedited development pathways. If the company is unable to obtain such clearances, CNCE or its collaborators may be required to conduct additional pre-clinical studies or clinical trials beyond those contemplated, which could increase the expense of obtaining, and delay the receipt of, necessary marketing approvals.

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Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

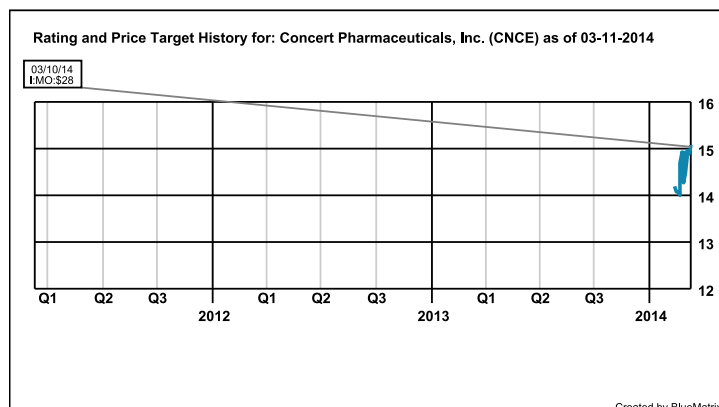
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

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JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
MARKET OUTPERFORM	Buy	247	56.39%	Buy	247	56.39%	100	40.49%
MARKET PERFORM	Hold	140	31.96%	Hold	140	31.96%	19	13.57%
MARKET UNDERPERFORM	Sell	8	1.83%	Sell	8	1.83%	0	0%
COVERAGE IN TRANSITION		43	9.82%		43	9.82%	0	0%
TOTAL:		438	100%		438	100%	119	27.17%

Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



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