

Akebia (AKBA)

FORECAST REDUCTION

Rating	OUTPERFORM* [V]
Price (20 Aug 14, US\$)	23.42
Target price (US\$)	25.00 ¹
52-week price range	29.17 - 16.86
Market cap. (US\$ m)	474.56
Enterprise value (US\$ m)	370.61

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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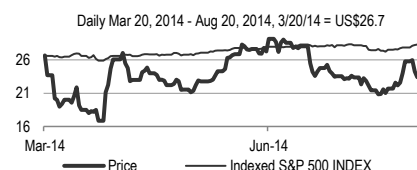
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Key catalyst for AKB-6548 is still due Q4

- **Summary:** We have updated our model following Q2 earnings. We also flag that AZN recently disclosed two additional PIII trials for Roxadustat – 5200-patient OLYMPUS study in A-CKD-ND and 2850-patient ROCKIES study in A-CKD-D. While we make no changes to our modeled assumption for AKB-6548, we note that the possibility of a larger CV outcomes study could delay launch timelines and increase capital requirements. Our FY'14, FY'15, and FY'16 EPS are (\$7.94), (\$0.33), and \$0.17 respectively.
- **AZN's recent disclosures on the PIII program for Roxadustat suggest that the FDA may require larger than expected CV outcomes trials.** AZN recently announced two additional PIII trials – OLYMPUS in A-CKD-ND and ROCKIES in A-CKD-D. OLYMPUS evaluates Roxadustat (vs. placebo) in 5,200 patients whereas ROCKIES examines Roxadustat (vs. Epoetin Alfa) in 2,850 patients. The study size suggests that the FDA could be requiring a lower non-inferiority limit. Both trials have the same primary endpoint, time to major cardiovascular events (MACE). AZN anticipated that both studies will be completed in Q1'17.
- **A larger CV outcomes study could delay launch timelines and increase capital requirements for AKB-6548.** AKBA still expects to start PIII trials in H1'15. A larger trial will likely require ~3 years to complete based on AZN's timeliness. This implies that AKB-6548 will likely be launched in late 2018 or early 2019. AKBA had previously guided to a PIII program involving ~2000 patients. While a larger PIII program will obviously require more investment, we note that AKBA should be able to fund with proceeds from the IPO and previously guided equity raise following PIIb data later this year.
- **We make no changes to our assumptions for now.** It remains to be seen whether the FDA will require larger outcomes of AKBA - we expected the post PII FDA meeting to take place in late Q1 2015. AKBA's PII trial (data still expected in Q4) is expected to provide a good understanding on AKB-6548 dosing, which AstraZeneca/ Fibrogen had not done in their PII trials.

Share price performance



On 08/20/14 the S&P 500 INDEX closed at 1986.51

Quarterly EPS	Q1	Q2	Q3	Q4
2013A	—	—	—	—
2014E	-43.37	-0.39	-0.41	-0.58
2015E	—	—	—	—

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	-4.41	-7.94	-0.33	0.17
Prev. EPS (US\$)	—	-1.48	0.17	1.49
P/E (x)	-5.3	-2.9	-71.7	137.8
P/E rel. (%)	-29.6	-17.9	-484.6	NM
Revenue (US\$ m)	—	—	40.0	80.0
EBITDA (US\$ m)	-15.2	-38.3	-7.7	4.0
OCFPS (US\$)	-0.72	-7.29	0.26	0.83
P/OCF (x)	—	-3.2	88.5	28.1
EV/EBITDA (current)	-29.9	-9.7	-34.0	58.5
Net debt (US\$ m)	-21	-104	-214	-239
ROIC (%)	-167.02	-603.03	-515.62	-72.30
Number of shares (m)	20.26	IC (current, US\$ m)		9.54
BV/share (Next Qtr., US\$)	—	EV/IC (x)		—
Net debt (Next Qtr., US\$ m)	—	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	—	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse 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 this report. Investors should consider this report as only a single factor in making their investment decision.

- **Valuation:** Our (unchanged) target price of \$25 is based AKB-6548 revenues (sales and royalties) in anemia in CKD-ND and CKD-D, 10% discount rate, 50% risk-weighting, and no terminal value.

Exhibit 1: AKBA Quarterly Income Statement

Akebia Quarterly Income Statement					
(\$ in '000s except per share and per-share amounts)					
	Q1'14A	Q2'14A	Q3'14E	Q4'14E	2014E
AKB-6548 (US Direct Sales)	0	0	0	0	0
AKB-6548 Royalty (EU + Japan)	0	0	0	0	0
AKB-6548 Milestones	0	0	0	0	0
Total Revenues	0	0	0	0	0
Cost of Goods Sold	0	0	0	0	0
Gross Profit	0	0	0	0	0
Research & Development	6,158	5,525	6,037	8,570	26,290
Selling, General, & Administrative	3,751	2,315	2,424	3,521	12,010
Total Operating Expenses	9,909	7,840	8,460	12,091	38,300
Operating Income/(Loss)	(9,909)	(7,840)	(8,460)	(12,091)	(38,300)
Other Income/(Expense)	(86,688)	222	220	220	(86,026)
Pre-Tax Income/(Loss)	(96,597)	(7,618)	(8,240)	(11,871)	(124,326)
Provision/(Benefit) for Income Tax	0	0	0	0	0
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income/(Loss)	(96,597)	(7,618)	(8,240)	(11,871)	(124,326)
Basic EPS	(\$43.37)	(\$0.39)	(\$0.41)	(\$0.58)	(\$7.94)
Diluted EPS	(\$43.37)	(\$0.39)	(\$0.41)	(\$0.58)	(\$7.94)
Basic Shares	2,227	19,652	20,320	20,422	15,655
Diluted Shares	2,227	19,652	20,320	20,422	15,655

Source: Company data, Credit Suisse estimates

Exhibit 2: AKBA Annual Income Statement 2012-2024

Akebia Annual Income Statement													
(\$ in '000s except per share and per-share amounts)													
	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
AKB-6548 (US Direct Sales)	0	0	0	0	0	0	0	34,000	117,016	202,795	277,584	355,128	430,568
AKB-6548 Royalty (EU + Japan)	0	0	0	0	0	0	0	0	2,507	13,802	32,759	53,417	72,976
AKB-6548 Milestones	0	0	0	40,000	80,000	0	20,000	12,000	12,500	7,500	0	0	0
Total Revenues	0	0	0	40,000	80,000	0	20,000	46,000	132,023	224,096	310,343	408,545	503,545
Cost of Goods Sold	0	0	0	0	0	0	0	3,400	11,702	20,279	27,758	35,513	43,057
Gross Profit	0	0	0	40,000	80,000	0	20,000	42,600	120,321	203,817	282,585	373,032	460,488
Research & Development	5,632	10,782	26,290	34,288	61,857	70,315	76,656	81,582	85,392	87,100	88,842	90,619	92,432
Selling, General, & Administrative	2,891	5,152	12,010	13,404	14,155	14,602	20,029	37,501	48,652	57,285	62,515	65,451	66,760
Total Operating Expenses	8,523	15,933	38,300	47,692	76,012	84,917	96,686	119,083	134,045	144,385	151,358	156,070	159,191
Operating Income/(Loss)	(8,523)	(15,933)	(38,300)	(7,692)	3,988	(84,917)	(76,686)	(76,483)	(13,724)	59,432	131,227	216,962	301,296
Other Income/(Expense)	(2,996)	(53,120)	(86,026)	300	300	300	300	300	300	300	300	300	300
Pre-Tax Income/(Loss)	(11,519)	(69,053)	(124,326)	(7,392)	4,288	(84,617)	(76,386)	(76,183)	(13,424)	59,732	131,527	217,262	301,596
Provision/(Benefit) for Income Tax	0	0	0	0	0	0	0	0	0	0	0	0	70,114
Effective Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	23.2%
Net Income/(Loss)	(11,519)	(69,053)	(124,326)	(7,392)	4,288	(84,617)	(76,386)	(76,183)	(13,424)	59,732	131,527	217,262	231,482
Basic EPS	(\$27.82)	(\$6.81)	(\$7.94)	(\$0.33)	\$0.17	(\$2.97)	(\$2.40)	(\$2.38)	(\$0.42)	\$1.84	\$4.02	\$6.59	\$6.96
Diluted EPS	(\$27.82)	(\$6.81)	(\$7.94)	(\$0.33)	\$0.17	(\$2.97)	(\$2.40)	(\$2.38)	(\$0.42)	\$1.82	\$3.98	\$6.53	\$6.89
Basic Shares	414	10,133	15,655	22,629	25,097	28,447	31,824	31,991	32,190	32,422	32,681	32,956	33,256
Diluted Shares	414	10,133	15,655	22,629	25,231	28,447	31,824	31,991	32,190	32,733	33,007	33,283	33,614

Source: Company data, Credit Suisse estimates

Exhibit 3: AKBA Balance Sheet 2012-2024

Akebia Balance Sheet													
(\$ in '000s except per share and per-share amounts)	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Cash & Cash Equivalents	1,641	21,215	103,954	214,049	239,313	320,066	265,965	199,007	170,340	220,702	354,809	580,256	828,872
Investments	0	11,341	8,241	4,120	0	0	0	0	0	0	0	0	0
Accounts Receivable	86	135	160	175	185	195	0	10,200	32,764	52,727	66,620	78,128	86,114
Inventory	0	0	0	0	0	0	0	4,080	12,872	20,888	26,648	31,606	35,307
Prepaid Expenses and Other Current Assets	517	739	850	950	1,000	1,050	4,800	5,520	13,862	20,169	23,276	24,513	22,660
Total Current Assets	2,244	33,431	113,204	219,294	240,498	321,311	270,765	218,807	229,838	314,485	471,353	714,503	972,952
Equipment, Net of Accumulated Depreciation	0	30	122	301	468	812	1,227	1,848	2,429	2,973	3,481	3,956	4,400
Deferred Offering Costs	0	1,078	1,078	1,078	1,078	1,078	1,078	1,078	1,078	1,078	1,078	1,078	1,078
Other Assets	0	125	125	125	125	125	125	125	125	125	125	125	125
Total Assets	2,244	34,665	114,530	220,799	242,169	323,326	273,195	221,859	233,471	318,661	476,037	719,663	978,555
Accounts Payable	418	714	0	0	0	0	9,669	11,432	12,332	12,706	12,714	12,486	12,099
Accrued Expenses	351	3,184	4,213	5,246	8,361	9,341	10,635	17,862	25,469	33,209	40,867	48,382	55,717
Current Portion of Capital Lease Obligation	0	4	4	4	4	4	4	4	4	4	4	4	4
2012 Series X Preferred Stock	4,154	0	0	0	0	0	0	0	0	0	0	0	0
Total Current Liabilities	4,923	3,902	4,217	5,250	8,365	9,345	20,308	29,298	37,805	45,918	53,585	60,871	67,819
Capital Lease Obligation, Net of Current Portion	0	8	8	8	8	8	8	8	8	8	8	8	8
Total Liabilities	4,923	3,910	4,225	5,258	8,373	9,353	20,316	29,306	37,813	45,926	53,593	60,879	67,827
Series A Redeemable Convertible Preferred Stock	37,092	0	0	0	0	0	0	0	0	0	0	0	0
Series B Redeemable Convertible Preferred Stock	19,816	0	0	0	0	0	0	0	0	0	0	0	0
Series C Redeemable Convertible Preferred Stock	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Redeemable Convertible Preferred Stock	56,909	0	0	0	0	0	0	0	0	0	0	0	0
Common Stock	0	0	7	12	12	18	19	19	19	19	20	20	20
Additional Paid-In-Capital	0	94,462	211,431	324,054	338,021	502,808	518,100	533,956	550,486	567,830	586,013	605,089	625,551
Accumulated Surplus/(Deficit)	(59,588)	(63,707)	(101,133)	(108,525)	(104,237)	(188,853)	(265,239)	(341,422)	(354,846)	(295,114)	(163,588)	53,674	285,156
Total Stockholders' Equity	(59,588)	30,755	110,305	215,541	233,796	313,974	252,879	192,552	195,659	272,735	422,445	658,783	910,727
Total Liabilities & Stockholders' Equity	2,244	34,665	114,530	220,799	242,169	323,326	273,195	221,859	233,471	318,661	476,037	719,663	978,555

Source: Company data, Credit Suisse estimates

Exhibit 4: AKBA Cash Flow Statement 2012-2024

Akbia Cash Flow Statement													
(\$ in '000s except per share and per-share amounts)	2012A	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
OPERATING ACTIVITIES													
Net Income/(Loss)	(8,196)	(13,167)	(124,326)	(7,392)	4,288	(84,617)	(76,386)	(76,183)	(13,424)	59,732	131,527	217,262	231,482
Adjustments:													
Gain on Extinguishment of Debt and Other Liabilities	0	(2,420)	0	0	0	0	0	0	0	0	0	0	0
Depreciation	0	1	8	21	33	56	85	128	169	207	242	275	306
Amortization of Debt Issuance Costs	17	9	0	0	0	0	0	0	0	0	0	0	0
Amortization of Debt Discount and Interest Expense	1,654	752	0	0	0	0	0	0	0	0	0	0	0
Gain on Cancellation of Preferred Stock Future Tranche Rights	0	0	0	0	0	0	0	0	0	0	0	0	0
Issuance of 2007 Series X Preferred Stock for Licensing Agreement	0	0	0	0	0	0	0	0	0	0	0	0	0
Stock-Based Compensation	122	1,564	9,953	12,442	13,686	14,370	14,658	14,951	15,250	15,555	15,866	16,183	16,507
Changes in Operating Asses and Liabilities:													
Accounts Receivable	(4)	(50)	(25)	(15)	(10)	(10)	195	(10,200)	(22,565)	(19,962)	(13,894)	(11,508)	(7,985)
Inventory	0	0	0	0	0	0	0	(4,080)	(8,792)	(8,016)	(5,760)	(4,958)	(3,700)
Prepaid Expenses and Other Current Assets	244	(167)	(111)	(100)	(50)	(50)	(3,750)	(720)	(8,342)	(6,306)	(3,107)	(1,237)	1,853
Other Assets	0	(125)	0	0	0	0	0	0	0	0	0	0	0
Accounts Payable	(1,048)	2,272	(714)	0	0	0	9,669	1,763	900	374	8	(228)	(387)
Accrued Expenses	0	0	1,029	1,033	3,115	980	1,295	7,227	7,606	7,740	7,658	7,515	7,335
Cash Flows from Operating Activities	(7,211)	(11,332)	(114,184)	5,989	21,062	(69,271)	(54,235)	(67,113)	(29,198)	49,322	132,540	223,303	245,411
INVESTING ACTIVITIES													
Purchases of Property and Equipment	0	(20)	(100)	(200)	(200)	(400)	(500)	(750)	(750)	(750)	(750)	(750)	(750)
Proceeds from Maturities of Short-Term Investments	0	1,990	3,100	4,120	4,120	0	0	0	0	0	0	0	0
Proceeds from Sale of Short-Term Investments	1,366	0	0	0	0	0	0	0	0	0	0	0	0
Purchases of Short-Term Investments	0	(13,395)	0	0	0	0	0	0	0	0	0	0	0
Cash Flows from Investing Activities	1,366	(11,425)	3,000	3,920	3,920	(400)	(500)	(750)	(750)	(750)	(750)	(750)	(750)
FINANCING ACTIVITIES													
Proceeds from Issuance of Preferred Stock	0	41,240	0	0	0	0	0	0	0	0	0	0	0
Preferred Stock Issuance Costs	0	(1,194)	0	0	0	0	0	0	0	0	0	0	0
Debt Issuance Costs	(25)	0	0	0	0	0	0	0	0	0	0	0	0
IPO Issuance Costs	0	(221)	0	0	0	0	0	0	0	0	0	0	0
Proceeds from Issuance of 2012 Series X Preferred Stock	2,500	2,500	0	0	0	0	0	0	0	0	0	0	0
Proceeds from Issuance of Common Stock	0	5	106,900	100,000	0	150,000	0	0	0	0	0	0	0
Proceeds from Share-Based Compensation	0	0	122	186	282	424	634	905	1,280	1,790	2,317	2,894	3,955
Proceeds from Issuance of Convertible Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Non-Cash Items	0	0	86,900	0	0	0	0	0	0	0	0	0	0
Cash Flows from Financing Activities	2,475	42,331	193,922	100,186	282	150,424	634	905	1,280	1,790	2,317	2,894	3,955
Increase/(Decrease) in Cash and Cash Equivalents	(3,370)	19,574	82,738	110,095	25,264	80,753	(54,101)	(66,958)	(28,667)	50,362	134,107	225,447	248,616

Source: Company data, Credit Suisse estimates

Exhibit 5: AKBA Upcoming Catalysts

Product/Event	Indication	Catalyst	Expected Date	Comments	Price Sensitivity
AKB-6548	Anemia in CKD-ND	Topline PIIb Data	Q4'14	20-Week Repeat Oral Dose Study of AKB-6548 in Subjects With Chronic Kidney Disease and Anemia (pre-dialysis). Data expected in Q4'14. If data is positive, P3 studies will mirror the Phase 2b trial with longer treatment durations and trial size. Filing for approval in US expected in 2018.	High
AKB-6548	Anemia in CKD-D	Update on PII trial	2014	AKBA expects to initiate a multiple-dose PII trial in subjects with CKD and anemia who are on dialysis.	Low
HIF Patents	- - - -	Update on legal proceedings	2014	AKBA is currently involved a few legal proceedings involving patents on HIF stabilizers including '131 (FibroGen, Japan), '823 (FibroGen, Europe), and '005 (AKBA, Europe).	High
AKB-6548	Anemia in IAA	IND filing	Late 2014/ Early 2015	AKBA plans to file an IND for anemia in IAA in late 2014 or early 2015	Low

Source: Company data, Credit Suisse estimates

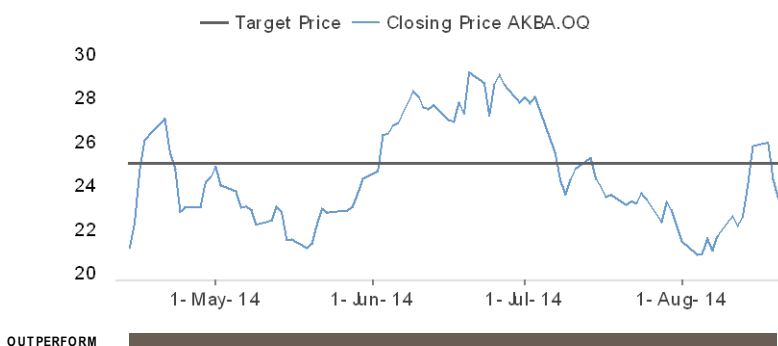
Companies Mentioned (Price as of 20-Aug-2014)**Akebia** (AKBA.OQ, \$23.42, OUTPERFORM[V], TP \$25.0)**AstraZeneca** (AZN.L, 4285.0p)**Disclosure Appendix****Important Global Disclosures**

Ravi Mehrotra PhD, Lee Kalowski and Jason Kantor, PhD each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Akebia (AKBA.OQ)

AKBA.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
14-Apr-14	21.14	25.00	O *

* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

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Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	44%	(53% banking clients)
Neutral/Hold*	40%	(51% banking clients)
Underperform/Sell*	13%	(45% banking clients)
Restricted	3%	

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Price Target: (12 months) for Akebia (AKBA.OQ)

Method: Our DCF-derived TP of \$25 is based on annual cash flows through 2027, a 10% discount rate, 50% probability of success, and no terminal value. The cash flows are based solely on revenues (direct sales in the US as well as royalties in the EU and Japan) from AKB-6548 as a treatment for anemia in chronic kidney disease on dialysis (CKD-D) and not on dialysis (CKD-ND) and add-back of all R&D expenses not associated with AKB-6548.

Risk: The risks to our TP of \$25 are: (1) AKB-6548 is not approved or significantly delayed. (2) AKB-6548 does not demonstrate efficacy and/or safety expected from data on studies to date. (3) AKB-6548 could underperform our expectations for the product launch ramp and/or peak sales. (4) Anemia in CKD market may not become as large as expected.

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See the Companies Mentioned section for full company names

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As of the date of this report, Credit Suisse makes a market in the following subject companies (AKBA.OQ).

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The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (AKBA.OQ) within the past 12 months

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