

Auspex Pharmaceuticals, Inc. (ASPX)

Overweight

Financing Removes One Risk, All Eyes Turning to Regulatory & Commercialization

CONCLUSION

On the back of positive Huntington's Chorea data, Auspex recently completed a financing for 3M shares + 1M from selling shareholders + 0.6M overallotment, netting ~\$191M for the company. We had previously projected a financing for 2016 following greater clarity on commercial plans post a successful NDA filing we anticipate in HC later this year, and the net effect of dilution and projected YE15 cash (included in our valuation) is to reduce our price target to \$70 (Exhibit 1 vs. 2). Despite the potential for this dilution to impact sentiment in the short run, we reiterate our Overweight rating ahead of several key catalysts yet in 2015. These catalysts include additional '809 Phase III data, this time in tardive dyskinesia (TD) and Phase Ib in Tourette's both around mid-year, the Phase I for '560 in IPF also mid-year, and a pre-NDA meeting with the FDA we expect yet this quarter.

- **Investors' focus moving from clinical to regulatory and commercial risk.** While the transaction reduces financing overhang and thus perhaps execution risk for the NDA filing and early commercial preparations, investors' focus will now shift to regulatory and commercial risk. In our view, there isn't likely a significant degree of regulatory risk for Auspex and going forward most of the risk remaining for our projections is related to commercialization risk in light of a possible Xenazine generic and potentially competition from Neurocrine's '854 (that we expect to succeed in TD later this year). However, we still view Auspex's performance to date as consistent with our overall favorable view of the potential value add of '809 for certain segments of the hyperkinetic movement disorders market, and therefore, we maintain our projections for HC and TD.
- **Beyond the press release, look for increased visibility on data soon.** We believe data presentations for '809 in HC are possible at the AAN meeting in April and the International Congress of Parkinson's Disease and Movement Disorders in June. Additional important data for validating the platform are the TD and Tourette's data mentioned above as well as that for '560. Additionally, we may get an early look into the recently fully-acquired deuterated levodopa for Parkinson's, though it will be preclinical, with clinical data not expected until 2016.

RISKS TO ACHIEVEMENT OF PRICE TARGET

Failure for SD-809 to perform adequately on safety and/or efficacy in clinical testing.

COMPANY DESCRIPTION

Auspex applies deuterium chemistry to known pharmaceuticals to create novel pharmacological properties and improved safety and/or efficacy characteristics.

PRICE: US\$61.45

TARGET: US\$70.00

NPV of '809 revs disc @ 15%/25% (HC/TD) thru 2030 & no term value, other inc/exp @ 10% w/ 2x term value

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	US\$72.00	US\$70.00
FY14E Rev (mil)	—	US\$0.0
FY15E Rev (mil)	—	US\$0.0
FY14E EPS	—	US\$(2.35)
FY15E EPS	US\$(1.43)	US\$(1.27)
52-Week High / Low	US\$64.06 / US\$13.25	
Shares Out (mil)		30.9
Market Cap. (mil)		US\$1,898.8
Avg Daily Vol (ooo)		342
Book Value/Share		US\$10.00
Net Cash Per Share		US\$10.60
Debt to Total Capital		1%
Div (ann)		NA
Fiscal Year End		Dec

Price Performance - 1 Year



Source: Bloomberg

YEAR	REVENUE (US\$ m)						EARNINGS PER SHARE (US\$)					
	Mar	Jun	Sep	Dec	FY	FY	Mar	Jun	Sep	Dec	FY	FY P/E
2013A	—	—	—	—	0.0	NA	—	—	—	—	(371.00)	NM
2014E	0.0A	0.0A	0.0A	0.0	0.0	NA	(0.81)A	(0.45)A	(0.73)A	(0.46)	(2.35)	NM
2015E	0.0	0.0	0.0	0.0	0.0	NA	(0.37)	(0.33)	(0.30)	(0.27)	(1.27)	NM

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Exhibit 1

CURRENT VALUATION

	Discount rate	NPV (M\$)	NPV per share (\$)
SD-809 revenues - HC	15%	1,503	43.03
SD-809 revenues - TD	25%	1,071	30.68
Other income & expenses			
Fixed operating costs	10%	(412)	(11.81)
Net cash (YE15)		286	8.18
Total NPV		2161	70.08

Source: Piper Jaffray

Source: Piper Jaffray

Exhibit 2

PRIOR VALUATION

	Discount rate	NPV (M\$)	NPV per share (\$)
SD-809 revenues - HC	15%	1,503	48.07
SD-809 revenues - TD	25%	1,071	34.28
Other income & expenses			
Fixed operating costs	10%	(412)	(13.20)
Net cash (YE15)		94	3.02
Total NPV		2161	72.18

Source: Piper Jaffray

Auspex (\$ in thousands, except per share amounts)

Income Statement	2012A	2013A	Q1 14A	Q2 14A	Q3 14A	Q4 14E	2014E	Q1 15E	Q2 15E	Q3 15E	Q4 15E	2015E	2016E	2017E	2018E
Net sales SD-809 - HC													25,399	105,689	192,410
Net sales SD-809 - TD													44,001	96,082	157,353
Total Revenues	0	0	0	0	0	0	0	0	0	0	0	0	69,400	201,771	349,763
Costs & Expenses:															
Cost of Goods Sold	0	0	0	0	0	0	0	0	0	0	0	0	6,940	20,177	34,976
R&D	11,741	10,003	3,432	7,131	10,802	9,000	30,365	8,000	7,000	6,000	5,000	26,000	27,760	30,266	31,479
SG&A	1,688	3,189	2,674	2,908	3,107	3,000	11,689	3,000	3,000	3,000	3,000	12,000	24,290	26,230	27,981
Total Operating Expenses	13,429	13,192	6,106	10,039	13,909	12,000	42,054	11,000	10,000	9,000	8,000	38,000	58,990	76,673	94,436
Operating Income	(13,429)	(13,192)	(6,106)	(10,039)	(13,909)	(12,000)	(42,054)	(11,000)	(10,000)	(9,000)	(8,000)	(38,000)	10,410	125,098	255,327
Interest And Other Income, Net	(1,683)	(2,437)	(383)	(346)	(5,116)	(350)	(6,195)	(350)	(350)	(350)	(350)	(1,400)	(1,400)	(1,400)	(1,400)
Change in Fair Value of Preferred Stock warrant liability	0	0	(3,634)	0	0	0	(3,634)	0	0	0	0	0	0	0	0
Total other Income	(1,683)	(2,437)	(4,017)	(346)	(5,116)	(350)	(9,829)	(350)	(350)	(350)	(350)	(1,400)	(1,400)	(1,400)	(1,400)
Pretax Income (Loss)	(15,112)	(15,629)	(10,123)	(10,385)	(19,025)	(12,350)	(51,883)	(11,350)	(10,350)	(9,350)	(8,350)	(39,400)	9,010	123,698	253,927
Income Taxes	0	0	0	0	0	0	0	0	0	0	0	0	3154	43,294	88,874
Tax Rate								35%	35%	35%	35%		35%	35%	35%
Net Income (Loss) as Reported	(15,112)	(15,629)	(10,123)	(10,385)	(19,025)	(12,350)	(51,883)	(11,350)	(10,350)	(9,350)	(8,350)	(39,400)	5,857	80,404	165,052
Other comprehensive loss	-	-	(22)	49			27					-			
Comprehensive Income (Loss)	(15,112)	(15,629)	(10,145)	(10,336)	(19,025)	(12,350)	(51,856)	(11,350)	(10,350)	(9,350)	(8,350)	(39,400)	5,857	80,404	165,052
Diluted Earnings Per Share as Reported	(\$114,485)	(\$371)	(\$0.81)	(\$0.45)	(\$0.73)	(\$0.46)	(\$2.35)	(\$0.37)	(\$0.33)	(\$0.30)	(\$0.27)	(\$1.27)	\$0.19	\$2.55	\$5.21
Diluted Earnings Per Share Adjusted	(\$114,485)	(\$371)	(\$0.81)	(\$0.45)	(\$0.73)	(\$0.46)	(\$2.35)	(\$0.37)	(\$0.33)	(\$0.30)	(\$0.27)	(\$1.27)	\$0.19	\$2.55	\$5.21
Basic Earnings Per Share as Reported	(\$114,485)	(\$371)	(\$0.81)	(\$0.45)	(\$0.73)	(\$0.46)	(\$2.35)	(\$0.37)	(\$0.33)	(\$0.30)	(\$0.27)	(\$1.27)	\$0.19	\$2.55	\$5.21
Diluted Shares Outstanding (000)	0.132	42.1	12,476	22,854	26,032	27,085	22,112	30,847	31,031	31,217	31,403	31,125	31,311	31,498	31,686
Basic Shares Outstanding (000)	0.132	42.1	12,476	22,854	26,032	27,085	22,112	30,847	31,031	31,217	31,403	31,125	31,311	31,498	31,686

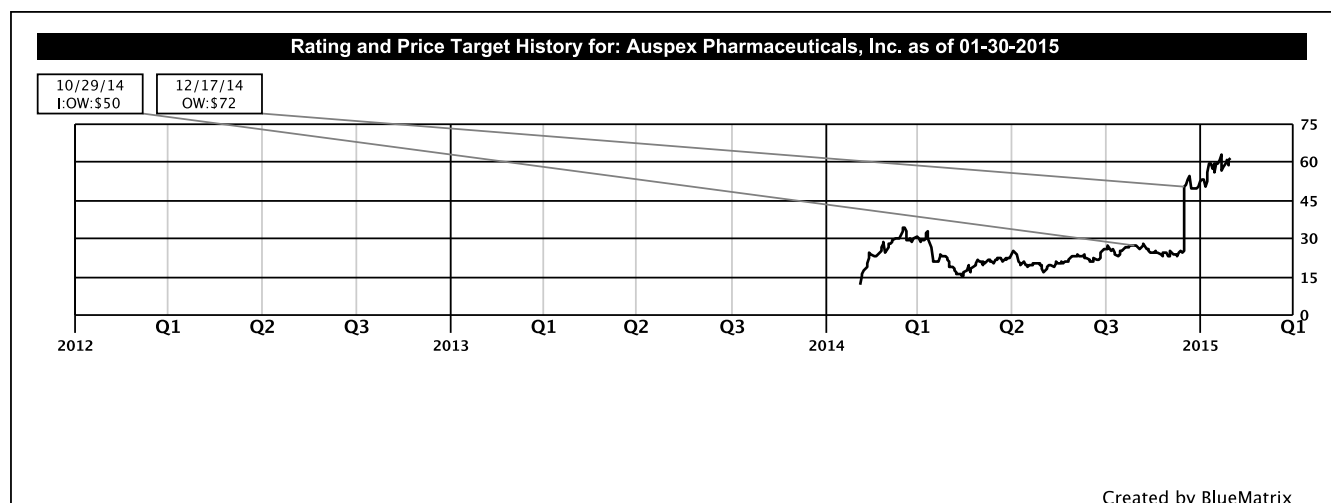
Proprietary to Piper Jaffray & Co. February 2, 2015

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Current disclosure information for this company can be found at

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R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	382	60.83	101	26.44
HOLD [N]	232	36.94	20	8.62
SELL [UW]	14	2.23	0	0.00

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