

# Auspex Pharmaceuticals

(ASPX-NASDAQ)

**Stock Rating:** Outperform**Industry Rating:** Outperform

February 3, 2015

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<b>Price (2-Feb)</b>	\$59.66	<b>52-Week High</b>	\$64.06
<b>Target Price</b>	\$105.00 ↑	<b>52-Week Low</b>	\$13.25

## Increasing Confidence in SD-809

### Event

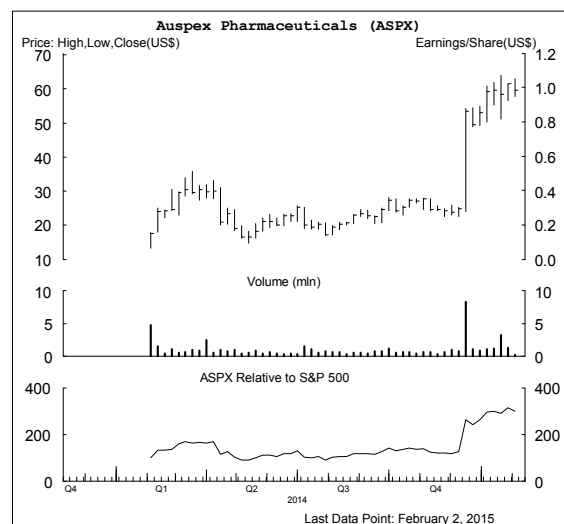
Auspex Pharmaceuticals (ASPX) announced completion of enrollment for a pivotal clinical trial of SD-809, deuterated tetrabenazine, in subjects with tardive dyskinesia (TD). The ARM-TD trial randomized 90 subjects with moderate- to-severe TD to SD-809 or placebo for 12 weeks with change in Abnormal Involuntary Movement Scale (AIMS) between baseline and week 12 the primary endpoint. Determination of AIMS changes will be made using a centralized video rating and top-line data are expected mid-2015. Following discussion with FDA, ARM-TD could serve as one of two pivotal TD trials of SD-809, and will support the 200 patient AIM-TD. While ARM-TD dose escalated SD-809 over 6 weeks followed by an additional 6 weeks of dosing, AIM-TD dose escalates over 4 weeks and is followed by an additional 8 weeks of dosing, and top-line results are expected 2Q16. ASPX intends to file an NDA for tardive dyskinesia mid-16

### Impact & Analysis

We are reiterating our Outperform rating on shares of ASPX and increasing our price target to \$105 following completion of enrollment in the ARM-TD study. With data expected by mid-2015, we believe the study is highly likely to succeed based on validation of VMAT2 as a target, prior success in Huntington's chorea, successful off-label use of parent brand XENAZINE and what we believe to be a thoughtful dose titration approach to optimize effect over 12 weeks. With a 10-fold larger opportunity in TD relative to HC, we see significant upside potential into ARM-TD data.

### Valuation & Recommendation

We arrive at our \$105 price target by applying a 25x multiple to 2021E EPS of \$8.32 and discounting at 15% per year. We rate ASPX shares Outperform.



(FY-Dec.)	2013A	2014E	2015E	2016E
<b>EPS</b>	NA	-\$2.68	-\$1.67	-\$1.17
<b>P/E</b>		na	na	na
<b>CFPS</b>	na	na	na	na
<b>P/CFPS</b>		na	na	na
<b>Rev. (\$mm)</b>	\$0	\$0	\$3	\$48
<b>EV (\$mm)</b>	\$710	\$710	\$710	\$710
<b>EBITDA (\$mm)</b>	\$0	-\$48	-\$49	-\$39
<b>EV/EBITDA</b>	na	na	na	na
<b>Quarterly EPS</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
<b>2013A</b>	NA	NA	NA	NA
<b>2014E</b>	-\$0.81a	-\$0.45a	-\$0.73a	-\$0.68
<b>2015E</b>	na	na	na	na
<b>Dividend</b>	\$0.00			0.0%
<b>Book Value</b>	-\$2.74			-21.8x
<b>Shares O/S (mm)</b>	26.0			\$1,551
<b>Float O/S (mm)</b>	7.5			\$449
<b>Wkly Vol (000s)</b>	1,039			\$33.9
<b>Net Debt (\$mm)</b>	-\$146			na
<b>Yield</b>				0.0%
<b>Price/Book</b>				-21.8x
<b>Mkt. Cap (mm)</b>				\$1,551
<b>Float Cap (mm)</b>				\$449
<b>Wkly \$ Vol (mm)</b>				\$33.9
<b>Next Rep. Date</b>				na

Notes: All values in US\$

Major Shareholders:

First Call Mean Estimates: AUSPEX PHARMACEUTICALS INC (US\$) 2014E: -\$2.48; 2015E: -\$2.52; 2016E: -\$1.13

## Changes

## Annual EPS

2016E na to -\$1.17

## Target

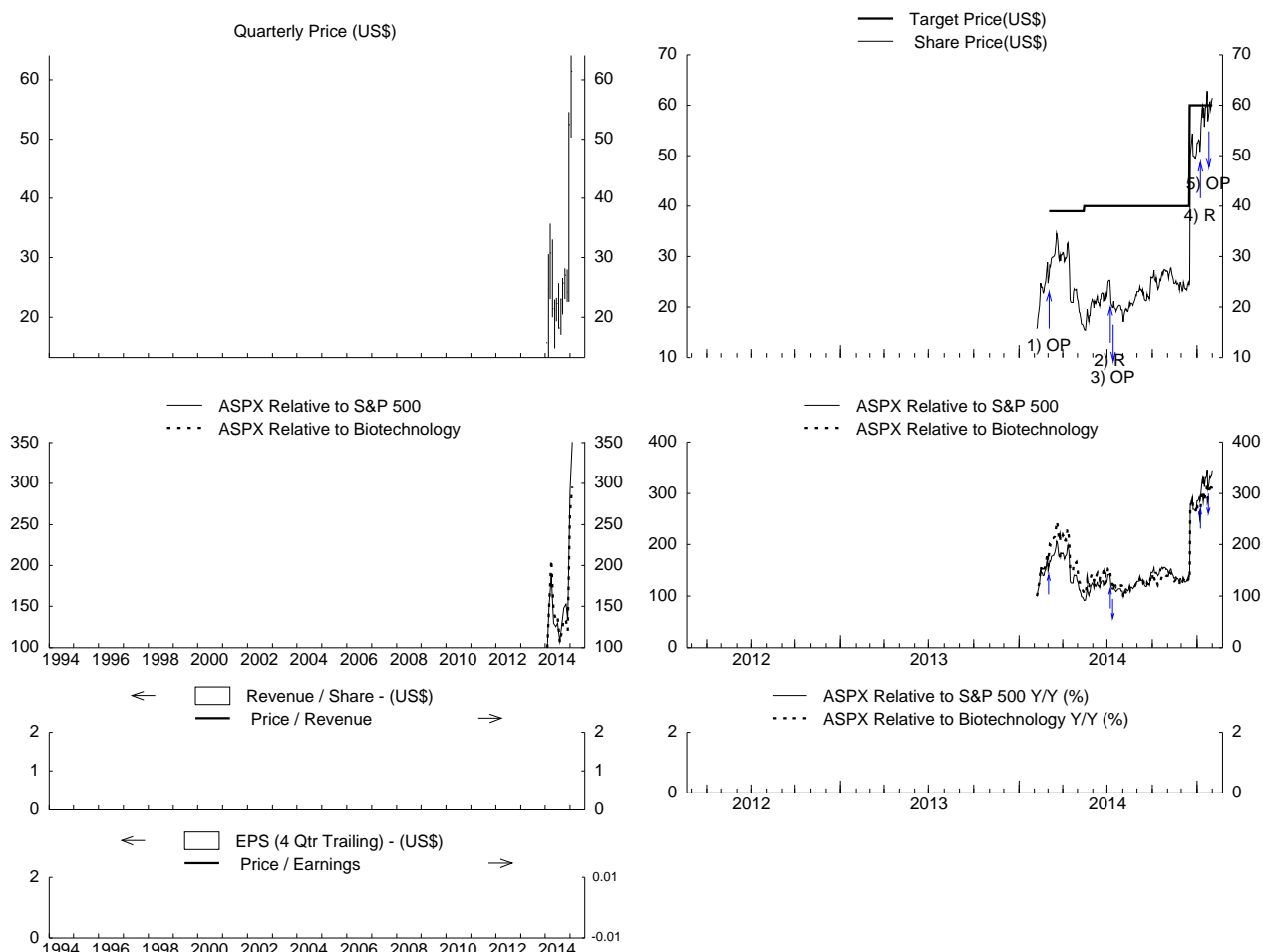
\$60.00 to \$105.00

## Exhibit 1: ASPX Income Statement 2013A-2020E

INCOME STATEMENT (\$M)	2013A	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E
<b>REVENUES</b>												
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ 0.9	\$ 1.9	\$ 2.8	\$ 48.3	\$ 131.9	\$ 233.6	\$ 341.3	\$ 451.6
Collaboration Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Revenue	\$ -	\$ -	\$ -	\$ -	\$ 0.9	\$ 1.9	\$ 2.8	\$ 48.3	\$ 131.9	\$ 233.6	\$ 341.3	\$ 451.6
<b>TOTAL REVENUES</b>												
<b>EXPENSES (GAAP)</b>												
Cost of Goods Sold (COGS)	\$ -	\$ -	\$ -	\$ -	\$ 0.0	\$ 0.1	\$ 0.1	\$ 2.4	\$ 6.6	\$ 14.1	\$ 34.1	\$ 33.9
R&D Expense	10.0	35.9	4.5	4.5	4.5	4.5	18.0	38.5	30.0	32.0	36.0	44.0
SG&A Expense	3.2	12.0	5.0	7.5	10.0	11.0	33.5	46.5	50.5	54.5	58.5	112.6
Other	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL EXPENSES</b>												
	13.2	47.9	9.5	12.0	14.5	15.6	51.6	87.4	87.1	100.6	128.6	190.4
<b>Operating Income</b>												
	(13.2)	(47.9)	(9.5)	(12.0)	(13.6)	(13.7)	(48.8)	(38.1)	44.8	133.0	212.7	261.1
Depreciation and amortization	-	-	-	-	-	-	-	-	-	-	-	-
EBIT	(13.2)	(47.9)	(9.5)	(12.0)	(13.6)	(13.7)	(48.8)	(38.1)	44.8	133.0	212.7	261.1
Interest and other income	(2.6)	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and other expense	(0.2)	(1.5)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Other Income (Expense)	0.4	(8.4)	-	-	-	-	-	-	-	-	-	-
Interest and Other Income (Expense)	(2.4)	(9.6)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Pre-Tax Income	(15.6)	(57.4)	(9.6)	(12.1)	(13.7)	(13.8)	(49.2)	(39.5)	44.4	132.6	212.3	260.8
Income Taxes	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Income (GAAP)</b>												
	\$ (15.6)	\$ (57.4)	\$ (9.6)	\$ (12.1)	\$ (13.7)	\$ (13.8)	\$ (49.2)	\$ (39.5)	\$ 44.4	\$ 132.6	\$ 212.3	\$ 260.8
EPS (GAAP) (basic)	\$ (371.13)	\$ (2,688)	\$ (0.36)	\$ (0.45)	\$ (0.43)	\$ (0.43)	\$ (1.67)	\$ (1.17)	\$ 1.14	\$ 3.12	\$ 4.78	\$ 5.65
<b>EPS (GAAP) (diluted)</b>												
	\$ (371.13)	\$ (2,688)	\$ (0.36)	\$ (0.45)	\$ (0.43)	\$ (0.43)	\$ (1.67)	\$ (1.17)	\$ 1.14	\$ 3.12	\$ 4.78	\$ 5.65
Total of Reconciliation Items	0.3	2.5	-	-	-	-	-	-	-	-	-	-
Net Income (Non-GAAP)	\$ (15.3)	\$ (54.9)	\$ (9.6)	\$ (12.1)	\$ (13.7)	\$ (13.8)	\$ (49.2)	\$ (39.5)	\$ 44.4	\$ 132.6	\$ 212.3	\$ 260.8
Impact of Adjustments to EPS	742.42	0.12	-	-	-	-	-	-	-	-	-	-
EPS (Non-GAAP) (basic)	\$ (60,212.20)	\$ (2,566)	\$ (0.36)	\$ (0.45)	\$ (0.43)	\$ (0.43)	\$ (1.67)	\$ (1.17)	\$ 1.14	\$ 3.12	\$ 4.78	\$ 5.65
EPS (Non-GAAP) (diluted)	\$ (60,212.20)	\$ (2,566)	\$ (0.36)	\$ (0.45)	\$ (0.43)	\$ (0.43)	\$ (1.67)	\$ (1.17)	\$ 1.14	\$ 3.12	\$ 4.78	\$ 5.65
Weighted average shares outstanding (basic)	0.0	21.9	26.6	26.8	31.8	32.1	29.3	34.9	38.7	42.3	44.3	46.1
Weighted average shares outstanding (diluted)	0.0	21.9	26.6	26.8	31.8	32.1	29.3	34.9	38.7	42.3	44.3	46.1

Source: Company reports and BMO Capital Markets

## Auspex Pharmaceuticals (ASPX)



FYE (Dec.)	EPS US\$	P/E Hi - Lo	DPS US\$	Yield% Hi - Lo	Payout %	BV US\$	P/B Hi - Lo	ROE %
Range*		na na		NC			>15 >15	
Current*	ND	na	0.00	0.0	na	-2.7	-22.4	na

\* Current EPS is the 4 Quarter Trailing to Q3/2014.

\* Valuation metrics are based on high and low for the fiscal year.

\* Range indicates the valuation range for the period presented above.

ASPX - Rating as of 4-Feb-14 = NR

Date	Rating Change	Share Price
1 3-Mar-14	NR to OP	\$26.42
2 7-Jul-14	OP to R	\$23.57
3 11-Jul-14	R to OP	\$20.01
4 7-Jan-15	OP to R	\$52.24
5 23-Jan-15	R to OP	\$58.46

Last Price ( January 30, 2015): \$ND  
Sources: IHS Global Insight, Thomson Reuters, BMO Capital Markets.

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**Methodology:** We arrive at our \$105 price target by applying a 25x multiple to 2021 EPS of \$8.32 and discounting at 15% per year.

**Risks:** There are a number of risks associated with investment in biotechnology companies. These risks include, but are not limited to, risk of clinical trial delay or failure, adverse regulatory decisions including product non-approval, unanticipated adverse effects of drugs which may result in removal from market, risk of manufacturing difficulties, capital market risk which may impair the ability to fund product discovery, research, regulatory filing, manufacture and/or commercialization, risk in attaining and retaining appropriate development or commercial partners, lower-than-expected product adoption, difficulties in gaining appropriate reimbursement for products from payors, unforeseen generic and branded competition, risk to patents being invalidated, and failure to meet earnings and revenue expectations.

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Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	43.4%	16.2%	60.6%	42.6%	51.7%	55.6%
Hold	Market Perform	52.6%	8.1%	36.6%	53.0%	45.8%	39.5%
Sell	Underperform	3.9%	8.3%	2.8%	4.5%	2.5%	4.9%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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(S) = speculative investment;

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