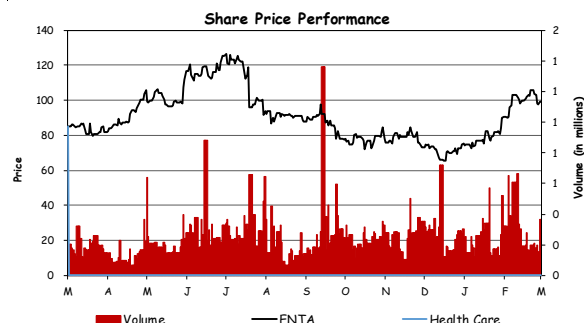


| | |
|-------------------------------|--------------|
| Enanta Pharmaceuticals, Inc. | Symbol: ENTA |
| Analyst | John Cote |
| Buy below | \$80.21 |
| Sell above | \$99.34 |
| Probability of Price Increase | 28% |
| Last Price | \$99.30 |
| Intrinsic Value | \$82.79 |
| Target Dividends | \$0.00 |
| Target Price | \$96.26 |



Description
Enanta Pharmaceuticals, Inc., a biotechnology company, focuses on the research and development of small molecule drugs for the treatment of viral infections and liver diseases.

Sector Health Care
Industry Biotechnology
Last Guidance December 11, 2018
Next earnings date May 7, 2019

People
Luly, Jay, President, CEO & Director
Mellett, Paul, Senior VP of Finance & Administration and CFO
Or, Yat, Senior VP of Research & Development and Chief S
Gardiner, Nathaniel, Senior VP, General Counsel & Secretary
Adda, Nathalie, Senior VP & Chief Medical Officer
Miceli, Carol, Director of Investor Relations

Top Competitors
Intercept Pharmaceuticals, Inc. Sage Therapeutics, Inc.
Sarepta Therapeutics, Inc. Incyte Corporation
PTC Therapeutics, Inc. Vertex Pharmaceuticals Incorporated
Ironwood Pharmaceuticals, Inc. Biogen Inc.
Neurocrine Biosciences, Inc. Celgene Corporation

Market Statistics
Market Capitalization (mil) \$1,930.55
Last Price per share \$99.30
52 week high \$127.77
52-week low \$64.09
Volatility 53.08%
Daily volume (mil) 0.37
Short interest 14.68%
Days to cover short interest 10.21
Beta 1.21

Investment Thesis

UNIQUE LONG-TERM GROWTH PROSPECTS AND MARGIN EXPANSION

I am initiating SELL coverage of Enanta Pharmaceuticals with a SELL at current market price due to a \$96 target price. I view ENTA as sell due to minimal upside and that the money currently invested should be invested in a more profitable company. I believe that ENTA is currently fairly valued and will not yield more of a return.

For the sell:

1. Missed estimates from 2019 First Quarter:

Revenues, adjusted EPS, adjusted net income and EBITDA all missed their estimates for the first quarter in 2019. Based on Bloomberg estimates, revenues are projected to decline again in the second quarter. ENTA cannot sustain the same growth that they have been growing at. Free Cash Flows have been very volatile therefore can't be the most accurate measurement for valuation.

2. Already fairly valued, money invested can be invested in a more profitable company:

Based on my analysis, I believe that ENTA is fairly valued saying we hit our previous target price. I believe that we should sell ENTA now while the company is fairly valued in order to gain cash for the fund. With the cash gained from this sale, I think that there are other stock options that will yield a higher return than ENTA.

3. Threats to competitive advantage:

Intellectual property rights are uncertain because intellectual property rights have limitations, and may not adequately protect ENTA. Larger companies may be able to copy ENTA's business model and products. Possible patent applications may not lead to issued patents therefore opening up the market to this idea.

For the short:

1. Similar Products:

ENTA is a small company compared to their competitors, other companies may be able to make compounds that are similar to ENTA's products.

2. Threats to the industry:

Failure to develop additional technologies that are patentable. Commercializing products face even greater risk for product liability lawsuits.

Key Catalysts for price change

- Product liability lawsuits.
- Changes in patent laws.

Valuation

My \$96 price target is derived from Discounted Unlevered Free Cash Flow estimates

| Ownership | | Change in Ownership ("Input"month) |
|--|--------|------------------------------------|
| Shares outstanding (mil) | 19.44 | |
| Diluted shares outstanding (mil) | 20.87 | |
| Options and Warrants (Shares equivalent) | 1.71 | |
| % shares held by institutions | 99% | "INPUT from BB" |
| % shares held by investments Managers | 77% | "INPUT from BB" |
| % shares held by hedge funds | 16.44% | "INPUT from BB" |
| % shares held by VC/PE firms | 1.086% | "INPUT from BB" |
| % shares held by insiders | 11.05% | 5.75% |
| Poison Pill Type | NONE | |

| | |
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| Target Price | \$96.26 |

Quarterly Earning Surprises (Actual Vs. Median Estimates)

| Revenue | |
|-----------------------|---------------|
| 12/31/2017 | 18.64% |
| 3/31/2018 | 6.72% |
| 6/30/2018 | 0.08% |
| 9/30/2018 | -3.12% |
| 12/31/2018 | -1.57% |
| Mean (Standard Error) | 4.15% (1.02%) |

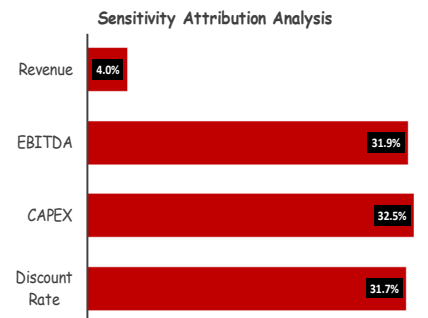
| EBITDA | |
|-----------------------|---------|
| 12/31/2017 | N/A |
| 3/31/2018 | N/A |
| 6/30/2018 | N/A |
| 9/30/2018 | N/A |
| 12/31/2018 | -1.36% |
| Mean (Standard Error) | #VALUE! |

Valuation

| DCF Valuation | | | | | | |
|-----------------------|-----------------|--------------------------|------------------|-----------------------|-------------|-----------------|
| | Revenues | EBITDA Margin | UFCF | WACC | ROIC | Price Per Share |
| Base Year (Actual) | \$238.40 | 43% | \$59.69 | 15.93% | 21.68% | \$68.59 |
| year 1 | \$217.30 | 14% | -\$15.34 | 15.94% | 10.30% | \$77.43 |
| year 2 | \$192.75 | -17% | -\$64.44 | 15.95% | 1.92% | \$87.85 |
| year 3 | \$166.51 | -56% | -\$126.58 | 15.95% | -5.66% | \$100.42 |
| year 4 | \$151.06 | -55% | -\$117.23 | 15.95% | -6.41% | \$115.81 |
| year 5 | \$150.00 | 5% | -\$25.83 | 15.95% | 1.41% | \$134.30 |
| year 6 | \$150.00 | 39% | \$17.96 | 15.96% | 5.41% | \$155.80 |
| year 7 | \$223.09 | 63% | \$78.91 | 15.94% | 14.78% | \$180.47 |
| year 8 | \$285.76 | 68% | \$125.89 | 15.94% | 18.40% | \$208.38 |
| year 9 | \$386.25 | 61% | \$159.62 | 15.93% | 20.38% | \$239.75 |
| year 10 | \$658.87 | 39% | \$170.03 | 15.89% | 23.97% | \$274.82 |
| year 11 | \$1,049.15 | 39% | \$288.69 | 15.87% | 30.53% | \$313.86 |
| year 12 | \$1,551.55 | 39% | \$444.21 | 15.85% | 33.26% | \$356.63 |
| year 13 | \$2,118.49 | 40% | \$624.80 | 15.84% | 32.58% | \$402.69 |
| year 14 | \$2,652.21 | 40% | \$802.96 | 15.85% | 29.49% | \$451.50 |
| year 15 | \$3,019.46 | 41% | \$947.55 | 15.86% | 25.01% | \$523.74 |
| Continuing Period | \$3,094.94 | 41% | \$1,141.15 | 15.88% | 15.88% | |
| Relative Valuation | | | | Asset Based Valuation | | |
| Multiple | EV/Rev (FW) | EW/EBITDA (FW P/BV (TTM) | P/E (FW) | Recovery Rate | 100% | |
| Median (Peers) | 8.1x | 45.0x | 9.0x | Capital | \$1,475.61 | |
| Base | Revenue (NTM) | EBITDA (NTM) | Book Value (LTM) | Net Income (NTM) | Intangibles | \$0.00 |
| ENTA | \$212.73 | \$19.11 | \$775.48 | \$78.98 | Claims | \$13.63 |
| Implied EV | \$1,729.46 | \$859.95 | | | | |
| Total Net Claims | -\$318.61 | -\$318.61 | | | | |
| Implied EQ | \$2,048.08 | \$1,178.57 | \$7,017.82 | \$3,269.25 | | \$1,461.99 |
| Valuation Summary | | | | | | |
| Model | Intrinsic Value | Target Price | Weight | | | |
| DCF Valuation | \$68.59 | \$77.43 | 30.00% | | | |
| EV/Rev (FW) | \$90.69 | \$105.15 | 30.00% | | | |
| EW/EBITDA (FW) | \$52.19 | \$60.51 | 10.00% | | | |
| P/BV (TTM) | \$310.76 | \$360.29 | 0.00% | | | |
| P/E (FW) | \$144.77 | \$167.84 | 20.00% | | | |
| Asset Based Valuation | \$64.74 | \$75.06 | 10.00% | | | |
| Price per Share | \$88.43 | \$101.90 | 100% | | | |

Financials

| Profitability | ENTA (LTM) | ENTA Historical | Peers' Median (LTM) |
|-----------------------------------|--------------------|---------------------|------------------------|
| Return on Capital | 21.7% | | |
| Adjusted EBITDA Margin | 43.0% | 83.98% | 46.81% |
| Return on Equity | 23.5% | | |
| Adjusted Net margin | 70.1% | | |
| Invested Funds | ENTA (LTM) | ENTA Historical | Peers' Median (LTM) |
| Cash/Capital | | | |
| NWC/Capital | | | |
| Operating Assets/Capital | | | |
| Goodwill/Capital | | | |
| Capital Structure | ENTA (LTM) | ENTA Historical | Peers' Median (LTM) |
| Total Debt/Market Cap. | | | |
| Reported Cost of Borrowing | | | 6.8% |
| Cash Interest/Total Debt | | | 4.8% |
| CGFS Credit Rating | BB | | B |
| Credit Model Rating | bb- | | bb to bb+ |
| Probability of Default | 0.07% | | 0.14% |
| Cost of Capital | | | |
| | CGFS Credit Rating | Credit Model Rating | Probability of Default |
| Implied Cost of Borrowing (ENTA) | 5.5% | 7.0% | 4.0% |
| Implied Cost of Borrowing (Peers) | 5.9% | 6.8% | 5.4% |
| Cost of New Debt Estimate | 10.0% | | |
| Market Risk Premium Estimate | 6.0% | | |
| Cost of Equity Estimate | 16.0% | | |
| WACC Estimate | 15.9% | | |



Intrinsic Value Distribution--Probability (Upside)=28%

