

Equities

30 March 2011 | 6 pages

Vertex Pharmaceuticals Inc (VRTX)**Alert: Telaprevir Reimbursed at \$31K or 22K Euros in France**

We are at EASL, and based on our checks, telaprevir is available in France on a name patient basis (ie compassionate care). We believe that the reimbursed price that is provided by the French government is 22,000 Euros or ~\$31k per year. This does not necessarily mean that this will be the commercial price, which will need to be negotiated once the drug is approved. However, based on prior experience with other drugs, this price should be a good ball park for what the commercial price should be. We currently model telaprevir's price at \$32k per year in Europe.

We are working to figure out what this means to U.S. pricing.

If you have any questions, please call us at 917-715-9106.

Vertex Pharmaceuticals Inc (VRTX.O; US\$48.77; 2H)

■ Company Update

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Vertex Pharmaceuticals Inc

Valuation

Our \$51 target price is based on 25x our discounted 2013 diluted, pro-forma, fully taxed EPS estimate of \$2.38.

In our valuation analysis, we compare Vertex to a group of mid-cap, emerging biotech companies.

Historically, these stocks traded at a range of 30x-40x EPS in the second year of profitability. In our valuation analysis, we use a 25x multiple to our 2013 EPS estimate for Vertex (their second year of profitability, or first year of meaningful profitability) as we believe Vertex deserves a slight discount to its peer group given lack of clarity on the sustainability of these profits over the long-term due to competitive threats.

We used a 20% discount rate in this calculation to account for the risk associated with this projected revenue stream.

Risks

We rate Vertex High Risk, given that the company has completed all phase 3 studies of telaprevir and reported positive results on VX-770 for the treatment of cystic fibrosis. However, Vertex does not have a sustainable revenue stream to drive the company to profitability. Vertex does not have any proprietary marketed products, leaving its anticipated longer-term financial prospects to be dependent on the success of ongoing pipeline development programs (such as telaprevir) that face clinical development and regulatory risks.

In addition, we see several other risk factors that could prevent the stock from attaining our target price including:

Vertex does not have manufacturing capabilities for the commercial production of its drug candidates and products, but instead relies on third-party manufacturers and the company's collaborators.

Many companies are developing novel antivirals for HCV that may offer patients better efficacy/safety profiles and more convenient dosing schedules.

However, if telaprevirs' competitors do not show data with comparable or better efficacy, telaprevir may face less competition, leading the drug to gain more market share than we expect. This could lead the stock surpass our target price.

If the impact of these risk factors is greater/less than we anticipate, shares may have difficulty achieving/exceed our target price.

Appendix A-1

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Vertex Pharmaceuticals Inc (VRTX)

Ratings and Target Price History

Fundamental Research

Analyst: Yaron Werber, MD

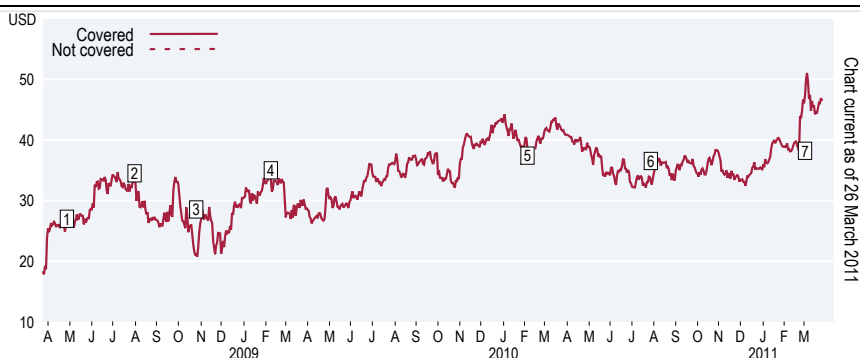


Chart current as of 26 March 2011

	Date	Rating	Target Price	Closing Price
1	27-Apr-08	2S	*\$31.00	25.72
2	31-Jul-08	2S	*\$41.00	34.50
3	27-Oct-08	2S	*\$29.00	21.21

* Indicates change

	Date	Rating	Target Price	Closing Price
4	9-Feb-09	2S	*\$34.00	33.53
5	4-Feb-10	2S	*\$48.00	38.42
6	28-Jul-10	2S	*\$43.00	33.19

	Date	Rating	Target Price	Closing Price
7	2-Mar-11	*2H	*\$51.00	47.28

Rating/target price changes above reflect Eastern Standard Time

Vertex Pharmaceuticals Inc (VRTX)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Yaron Werber, MD

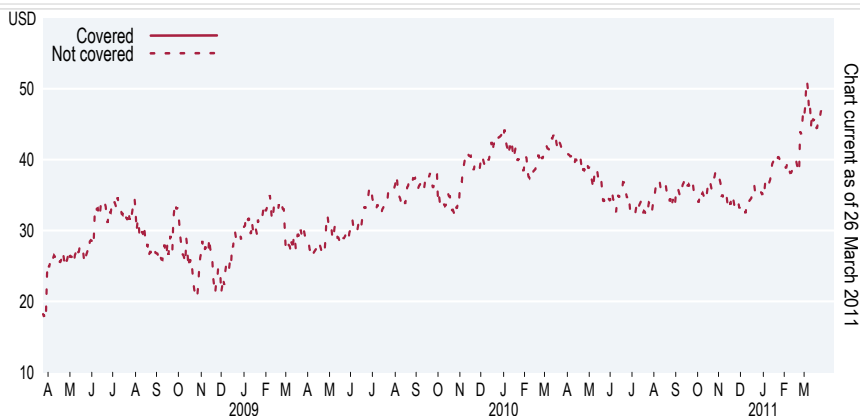


Chart current as of 26 March 2011

* Indicates change

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Data current as of 31 Dec 2010

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
52%	37%	11%	0%	100%	0%
45%	44%	40%	0%	44%	0%

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