Zacks Small-Cap Research

August 8, 2011
Jason Napodano, CFA
312-265-9421
jnapodano@zacks.com

www.zacks.com
111 North Canal Street, Chicago, IL 60606

Inhibitex, Inc. (INHX-NASDAQ)

INHX: Phase 2 INX-189 To Start Next Week…

Current Recommendation	**Neutral**
Prior Recommendation	Outperform
Date of Last Change	4/07/2011
Current Price (08/08/11)	$3.65
Target Price	**$5.00**

OUTLOOK

We really like the investment story at Inhibitex. The company is sitting on two potential multi-hundred million dollar drugs with INX-189 and FV-100. However, phase 2 trials on both needs to be completed before the assets are truly partnerable. These programs will start shortly and offer data in 2012. If positive, either one of these assets alone could bring an upfront deal capable of moving the shares above our $5 target. With two shots on goal for meaningful partnerships in 2012, Inhibitex is an attractive long-term hold. However, investors can be patients now, as the data is still 12 months away. In the meantime, we feel comfortable with the $58 million in cash on hand that Inhibitex remains in a solid position fundamentally. Our target is $5.

SUMMARY DATA

52-Week High	**$5.00**
52-Week Low	**$1.32**
One-Year Return (%)	**91.67**
Beta	**1.14**
Average Daily Volume (sh)	**385,956**
Shares Outstanding (mil)	**76**
Market Capitalization ($mil)	**$280**
Short Interest Ratio (days)	**8.54**
Institutional Ownership (%)	**59**
Insider Ownership (%)	**25**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**13.7**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2011 Estimate	**N/A**
P/E using 2012 Estimate	**N/A**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue
(In millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	1.0 A	0.3 A	0.3 A	0.3 A	1.9 A
2011	0.3 A	0.3 A	1.3 E	0.3 E	2.2 E
2012					5.0 E
2013					7.5 E

Earnings per Share
(EPS is operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	-$0.08 A	-$0.09 A	-$0.08 A	-$0.11 A	-$0.37 A
2011	-$0.12 A	-$0.07 A	-$0.07 E	-$0.10 E	-$0.35 E
2012					-$0.33 E
2013					-$0.29 E

Zacks Projected EPS Growth Rate - Next 4 Years % **N/A**

© Copyright 2011, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW

Financial Results

On August 8, 2011, Inhibitex reported financial results for the second quarter 2011. Total revenues in the quarter were $0.3 million and were comprised of $0.250 million in collaborative R&D payments from Pfizer on licensing the company's MSCRAMM technology, as well as a $0.0375 million licensing and milestone payments. Revenues were in-line with our expectations. Net loss for the quarter totaled $5.3 million, or $0.07 per share. This also was in-line with our financial forecast.

The company exited the second quarter 2011 with $58.0 million in cash and investments. In April 2011, Inhibitex raised approximately $50.6 million in net proceeds from a public offering of approximately 13.2 million shares of common stock at $4.10 per share. Based on our financial model and forecasted cash burn for the second half of the year, we estimate that Inhibitex will exit 2011 with over $44 million in cash on the books. We believe the current cash balance is sufficient to fund operations through year-end 2012.

Pipeline Update

…Phase 2 INX-189 Ready To Begin…

First up will be a phase 2 trial in genotype -2 / -3 patients. Standard of care for HCV genotype -2 / -3 patients in pegylated interferon (PEG) and ribavirin (RBV) for 24 weeks. Management believes that there is an opportunity with INX-189 to shorten the treatment duration on standard of care to 12 weeks by adding INX-189 to the regimen. We note that the approvals of Victrelis (boceprevir) and Incivek (telaprevir) do not include indications for HCV genotype -2 / -3 patients. These patients make up about 20-25% of the total HCV market. We believe that if INX-189 can show utility in this phase 2 trial by shortening the treatment duration and improving SVR, it could present an attractive partnering opportunity for a larger company, like Merck, Vertex, J&J, or Gilead, seeking to combined their late-stage antiviral agent with INX-189 to target a broader HCV patient population.

We expect this phase 2 trial to enroll approximately 90 patients. The primary endpoint is a rapid virologic response (RVR), defined as HCV RNA below the level of detection after 4 weeks of dosing. Secondary endpoints include early virologic response (EVR), defined as HCV RNA below the level of detection after 12 weeks of dosing, extended early virologic response (eEVR), defined as HCV RNA below the level of detection after 4 weeks and 12 weeks of dosing, as well as sustained virologic response 12 (SVR12), and sustained virologic response 24 (SVR24) defined as HCV RNA below the level of detection 12 or 24 weeks after the completion of therapy, respectively. Patients will be randomized across four treatment arms as follows:

- INX-189 25mg QD + PEG/RBV for 12 weeks and up to 24 weeks (n=25)
- INX-189 50 mg QD + PEG/RBV for 12 weeks and up to 24 weeks (n=25)
- INX-189 100 mg QD + PEG/RBV for 12 weeks and up to 24 weeks (n=25)
- Placebo + PEG/RBV for 24 weeks (n=15)

Patients in the three treatment arms that include INX-189 + PEG/RBV and achieve a eEVR will terminate all therapy after 12 weeks. Patients in those treatment arms that do not achieve an eEVR will continue to receive pegylated interferon and ribavirin for an additional 12 weeks.

We expect Inhibitex to follow this phase 2 trial with another phase 2 program in HCV genotype -1 patients in the fourth quarter 2011. This trial will build on the antiviral signals seen in the previous phase 1b program where INX-189 will be combined with ribavirin or another antiviral agent, without interferon. With strong data from both these phase 32 trials, we believe that INX-189 becomes a highly attractive in-licensing target for the aforementioned names, along with Bristol, Boehringer Ingelheim, and Roche. We remind investors that the U.S. FDA granted Inhibitex "Fast Track" development status on INX-189.

The antiviral market is become intensely competitive. The newly approved protease inhibitors, Victrelis (boceprevir) and Incivek (telaprevir), are dominating the NRx market. We expect telaprevir to capture 70% of the NRx for new antiviral agents over the next several quarters. Several late-stage candidates at Gilead, Roche, Pharmasset, Idenix, and J&J are expected to follow in 2014-15. Pharmasset and Idenix represent the biggest near-term competition for Inhibitex with their respective nucleotide polymerase inhibitors.

- Pharmasset has set the bar high with its phase 2 candidate PSI-7977. Results from part-1of the company's phase 2 PROTON study with PSI-7977 in HCV genotype -2 / -3 patients demonstrated 100% per-protocol SVR and 96% intent-to-treat SVR. This compares favorably to the 80-85% historic SVR rate for PEG/RBV alone. Results from PROTON demonstrated 0% relapse rate, vs. historic ~10% for PEG/RBV alone. Data from part-2 of PROTON in HCV genotype-1 patients is expected in the fourth quarter.

- Idenix is not far behind with its phase 2b candidate, IDX-184. Phase 1 data with IDX-184 shows strong anti-viral activity, albeit not as strong as PSI-7977. We expect data from the phase 2b program in the fourth quarter 2011. Idenix drug could provide an attractive alternative to PSI-7977 or PSI-7128 (Pharmasset's phase 2b nucleotide inhibitor partners with Roche) based on comparable anti-viral kinetics, benign liver toxicity, and potential high barrier to resistance.

Despite the stiff competition, management believes that with INX-189's strong pan-genotypic antiviral activity and high generic barrier to resistance, they can partner the drug on very favorable terms following the completion of the phase 2b program. Data should be available in early 2012. We note that management is also testing INX-189 in preclinical "drug-drug interaction" studies with other anti-viral agents. This all oral combination that excludes interferon could be a meaningful step forward for the treatment paradigm for HCV. Assuming these preclinical studies do not yield unfavorable safety signals, we expect that Inhibitex can move into a phase 2 study during the first half of 2012. We see a partnership for INX-189, or an out-right acquisition of the company, as the biggest upside for shareholders over the next year.

…With FV-100…

Management is currently in discussion with the U.S. FDA's Antiviral Division on the design and endpoints for a phase 2b trial with FV-100. The company intends to file a protocol and other supporting documents, including a patient reported outcomes (PRO) dossier, to the FDA later this quarter in order to obtain feedback from the FDA on the protocol, its PRO methodology, and a regulatory pathway that could potentially support an indication for the reduction of shingles-associated pain and/or the incidence of post-herpetic neuralgia (PHN). The proposed phase 2b trial would include approximately 600 shingles patients with the primary endpoint being the time to resolution of clinically significant shingles-associated pain, and a key secondary endpoint being the reduction in the incidence of PHN. We note that management is also receiving feedback from the FDA's Anesthesia and Analgesia division. Management expects to hear back from the FDA in the fourth quarter 2011. If they get the go-ahead, the trial could start early next year.

Right now the question is whether or not the FDA will give their blessing to an anti-viral drug such as FV-100, seeking an indication in reduction in pain or incidence of PHN. The previous phase 2 trial backs up management's theory. The proposed trial will test two doses of FV-100, 400mg QD and 800mg QD, vs. 1000mg TID valacyclovir (Valtrex). This is an increase from the previous trial that tested 200mg and 400mg QD. If successful, this presents shareholders with another potential out-license or partnership opportunity in 2012.

…Pfizer Moving Forward With Staph Vaccine…

During the second quarter call, management noted that Pfizer had initiated a randomized, double-blind phase 1/ 2 clinical trial to evaluate the safety, tolerability, and immunogenicity of three ascending dose levels of a 4-antigen *Staphylococcus aureus* vaccine (SA4Ag) in 1,068 healthy adults. The vaccine contains an antigen originating from Inhibitex's proprietary MSCRAMM protein platform. Pfizer is responsible for all clinical development, manufacturing and marketing of the vaccine. The initiation of this trial triggers a milestone payment of $1.0 million to Inhibitex, which we model in the third quarter 2011. We note that the company is eligible to receive future regulatory milestones and royalties on any future net sales of SA4Ag.

RECOMMENDATION

Really Like The Story – In 2012

We really like the investment story at Inhibitex. The company is sitting on two potential multi-hundred million dollar drugs with INX-189 and FV-100. However, phase 2 trials on both needs to be completed before the assets are truly partnerable. These programs will shortly offer data in 2012. If positive, either one of these assets alone could bring an upfront deal capable of moving the shares above our $5 target.

With two shots on goal for meaningful partnerships in 2012, Inhibitex is an attractive long-term hold. However, investors can be patients now, as the data is still a few months away. In the meantime, we feel comfortable with the $58 million in cash on hand that Inhibitex remains in a solid position fundamentally. Our target is $5.

PROJECTED FINANCIALS

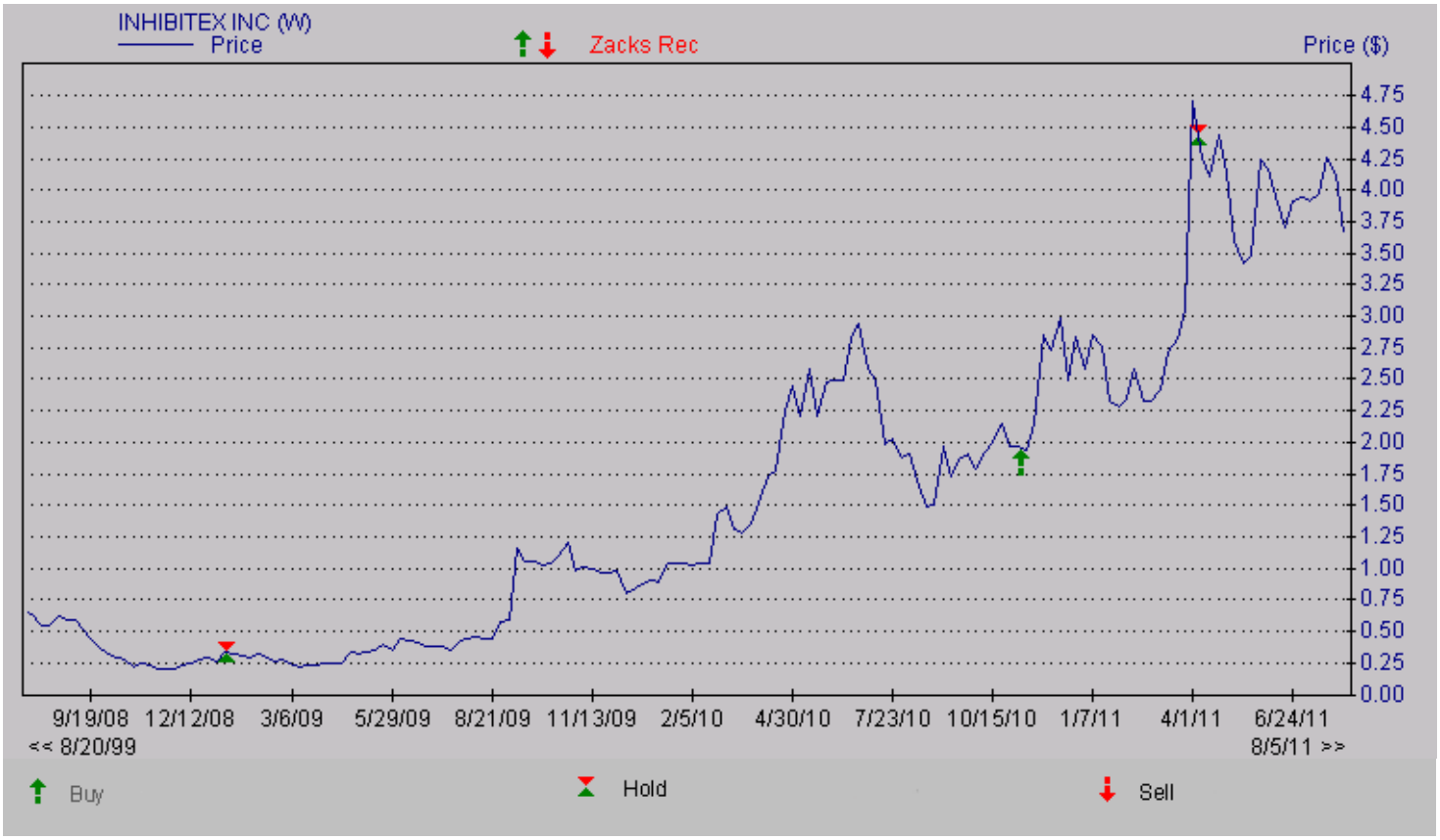
Inhibitex, Inc.
Income Statement

	2009 A	2010 A	Q1 A	Q2 A	Q3 E	Q4 E	2011 E	2012 E	2013 E	2014 E
FV-100 (U.S.)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$50
FV-100 (Ex-U.S.)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
FV-100 Royalty	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$10.0**
YOY Growth	-	-	-	-	-	-	-	-	-	-
INX-189 (U.S.)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
INX-189 (Ex-U.S.)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
INX-189	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth	-	-	-	-	-	-	-	-	-	-
Collaborative R&D	$1.0	$1.0	$0.3	$0.3	$0.3	$0.3	$1.0	$2.5	$2.5	$2.5
License Fees & Milestones, Grants	$0.2	$0.9	$0.0	$0.0	$1.0	$0.0	$1.2	$2.5	$5.0	$10.0
Total Other Revenues	**$1.2**	**$1.9**	**$0.3**	**$0.3**	**$1.3**	**$0.3**	**$2.2**	**$5.0**	**$7.5**	**$12.5**
YOY Growth	-	-					-	-	-	-
Total Revenues	**$1.2**	**$1.9**	**$0.3**	**$0.3**	**$1.3**	**$0.3**	**$2.2**	**$5.0**	**$7.5**	**$22.5**
YOY Growth	*-63.5%*	*61.9%*					*15.5%*	*132.6%*	*50.0%*	*200.0%*
Cost of Goods Sold	$0	$0	$0	$0	$0	$0	$0	$0.0	$0.0	$0.0
Product Gross Margin	-	-	-	-	-	-	-	-	-	-
SG&A	$3.6	$4.1	$1.2	$1.0	$1.1	$1.2	$4.5	$5.0	$5.5	$6.0
% SG&A	-	*218.1%*	-	-	-	-	*207.5%*	*100.0%*	*73.3%*	*26.7%*
R&D	$15.4	$21.0	$6.6	$4.6	$5.5	$6.5	$23.2	$25.0	$25.0	$25.0
% R&D	-	*1130.2%*	-	-	-	-	*1077.8%*	*500.0%*	*333.3%*	*111.1%*
Operating Income	($17.8)	($23.2)	($7.5)	($5.3)	($5.3)	($7.4)	($25.5)	($25.0)	($23.0)	($8.5)
Interest & Other Net	$0.2	$0.6	$0.0	$0.0	$0.0	$0.0	$0.0	$0.1	$0.1	$0.1
Pre-Tax Income	($17.6)	($22.7)	($7.5)	($5.3)	($5.3)	($7.4)	($25.5)	($24.9)	($22.9)	($8.4)
Taxes / Other	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($17.6)	($22.7)	($7.5)	($5.3)	($5.3)	($7.4)	($25.5)	($24.9)	($22.9)	($8.4)
YOY Growth	-	-					-	-	-	-
Reported EPS	**($0.38)**	**($0.37)**	**($0.12)**	**($0.07)**	**($0.07)**	**($0.10)**	**($0.35)**	**($0.33)**	**($0.29)**	**($0.11)**
YOY Growth	-	*-3.0%*	-	-	-	-	*-3.4%*	*-7.9%*	*-9.8%*	*-64.2%*
Shares Outstanding	46.7	62.0	62.4	75.1	75.2	75.5	72.1	76.5	78.0	80.0

Source: Zacks Investment Research, Inc. *Jason Napodano, CFA*

© Copyright 2011, Zacks Investment Research. All Rights Reserved.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Investment Research ("ZIR") and Zacks Small-Cap Research ("Zacks SCR") and the issuers covered by the Zacks SCR analysts in the Small-Cap Universe.

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for non-investment banking services. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. Zacks SCR has received compensation for non-investment banking services on the small-cap universe, and expects to receive additional compensation for non-investment banking services on the small-cap universe, paid by issuers of securities covered by Zacks SCR. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks SCR uses the following rating system for the securities it covers. Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution of Zacks Ratings is as follows on the 1020 companies covered: Buy/Outperform- 15.4%, Hold/Neutral- 77.2%, Sell/Underperform – 6.2%. Data is as of midnight on the business day immediately prior to this publication.

© Copyright 2011, Zacks Investment Research. All Rights Reserved.