Zacks Equity Research

March 23, 2010
Jason Napodano, CFA
312-265-9421
jnapodano@zacks.com
www.zacks.com
111 North Canal Street, Chicago, IL 60606

Inhibitex, Inc. (INHX-NASDAQ)

INHX: Pipeline Taking Shape, But Still Waiting For FV-100 Data Later This Year.

Current Recommendation	**Neutral**
Prior Recommendation	N/A
Date of Last Change	09/21/2009
Current Price (03/23/10)	$1.28
Target Price	**$2.00**

OUTLOOK

The current market capitalization of roughly $80 million significantly undervalues Inhibitex in our view. The company is well-capitalized and sitting with a potential $500 million drug in phase II trials. With positive phase II data on FV-100 the stock could easily triple in value. And that price still would not factor in the preclinical HCV and HIV pipeline. Unfortunately, however, Inhibitex has little in terms of catalysts to get the shares moving higher until that phase II data on FV-100 comes out. Based on current guidance, that is still six months away. Thus, we recommend investors be patient, perhaps looking to establish or add to positions on a pullback. We clearly have a positive bias on the stock but are maintaining our 'Neutral' rating while we wait for the pipeline to deliver in 2010.

SUMMARY DATA

52-Week High	**$1.52**
52-Week Low	**$0.24**
One-Year Return (%)	**438.42**
Beta	**1.19**
Average Daily Volume (sh)	**144,719**
Shares Outstanding (mil)	**62**
Market Capitalization ($mil)	**$86**
Short Interest Ratio (days)	**0.25**
Institutional Ownership (%)	**33**
Insider Ownership (%)	**33**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**35.8**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2010 Estimate	**N/A**
P/E using 2011 Estimate	**N/A**
Zacks Rank	**3**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**
Zacks Rank in Industry	**54 of 138**

ZACKS ESTIMATES

Revenue

(In millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	0.3 A	0.3 A	0.3 A	0.3 A	1.2 A
2010	1.0 E	0.3 E	0.3 E	0.3 E	1.9 E
2011					3.5 E
2012					5.0 E

Earnings per Share

(EPS is operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	-$0.10 A	-$0.10 A	-$0.10 A	-$0.08 A	-$0.38 A
2010	-$0.07 E	-$0.08 E	-$0.09 E	-$0.09 E	-$0.33 E
2011					-$0.30 E
2012					-$0.25 E

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

© Copyright 2010, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW

Phase II FV-100 Trial Progressing on Plan…

On January 11, 2010, Inhibitex announced that the independent Data Safety Monitoring Board (DSMB) met, as schedule, in early December 2009 to review the 30-day follow-up data on the first quartile of patients enrolled in the company's ongoing phase II clinical trial of FV-100. Based upon its review, the DSMB unanimously recommended that the trial should continue, as originally designed, without modification. Although the data is only from the first 90 patients, we view this as good news for Inhibitex and the efficacy of FV-100 relative to Valtrex.

Management anticipates that an interim analysis of the complete 30-day follow-up data on the first half (~180) of patients enrolled in the trial will be completed in the next few weeks. The interim analysis will look at the primary endpoint of the program – duration and severity of pain over the first 30 days of follow-up. There are four potential scenarios that could play out following this interim analysis of the first 180 (~50%) patients:

1) The trial is stopped due to safety concerns relating to FV-100. We believe this is a highly unlikely outcome given that the DSMB unanimously recommended that the trial should continue after an interim analysis of the first 90 (~25%) patients.

2) The trial is stopped due to futility. We believe this is also highly unlikely given the strong pharmacokinetic profile with FV-100 demonstrated in the phase Ib multiple ascending dose program from 2008.

3) The trial is stopped because the FV-100 cohort achieved an approximate 25% improved difference between the Valtrex cohort on the primary endpoint of reduction in herpes zoster associated pain and severity as measured by the Zoster Brief Pain Inventory (ZBPI). We believe this is unlikely given the steep hurdle rate of $p<0.001$ that would need to be achieved during this analysis. Management intentionally set the bar high so that the trial would be completed as originally planned, with ~360 patients enrolled.

4) The DSMB reviews the safety and efficacy data and recommends the trial continued (blinded) as planned. We believe this is the most likely outcome.

Enrollment at ~360 patients should complete in the third quarter 2010, with top-line data to become available in the fourth quarter 2010. As a reminder, the phase II program, initiated in May 2009, is a well-controlled, double-blind, clinical trial evaluating FV-100 against an active control of Glaxo's Valtrex (valacyclovir). Roughly 360 patients, aged 50 years and older, will be randomized to one of three treatment arms: 200 mg FV-100 administered once daily; 400 mg FV-100 administered once daily; and 1,000 mg valacyclovir administered three times per day. The primary endpoint of the trial is a reduction in herpes zoster associated pain and severity as measured by the Zoster Brief Pain Inventory (ZBPI) scale after 30 days of treatment. The trial is 80% powered to detect an approximate 25% difference between the FV-100 and Valtrex cohorts. In addition to the primary endpoint, Inhibitex will also report: 1) reduction in ZBPI after 90 days, 2) incidence of post herpetic neuralgia (PHN), 3) mean time to lesion healing, and 4) use of concomitant pain medications.

… Phase I Program on INX-189 Planned For 2010 …

January 11, 2010, Inhibitex put out an update on the status of preclinical candidate, INX-189. The company has completed the requisite Good Laboratory Practices (GLP) studies to support the filing of an investigational new drug application (IND). Based on the results of these studies, management continues to anticipate filing an IND and, subject to FDA review, initiating a phase Ia single ascending dose trial in the second quarter of 2010. We anticipate this program will enroll roughly 48 healthy volunteers and offer data during the second half of the year. Subject to the successful completion of the above phase Ia single ascending dose trial, the next goal for the program would be to initiate a phase Ib multiple ascending dose, three day monotherapy study in genotype 1 naive HCV infected patients. We anticipate that this trial could begin in the fourth quarter of 2010, with top line data from one or more cohorts may be available before the end of the year.

Inhibitex has also initiated 28 day animal toxicology studies of INX-189 and plans to conduct longer term toxicology studies beginning around the middle of the year. Assuming successful completion of these chronic toxicology studies and favorable data from both the phase Ia and Ib trial, management should be in position to advance INX-189 in a phase II, 12+ week clinical trial in combination with standard of care and other complementary direct antiviral compounds in 2011. We expect that management will partner the candidate for the phase II program in 2011 assuming safety and proof-of-concept have been effectively demonstrated.

INX-189 is a nucleoside polymerase inhibitor under development for the treatment of chronic hepatitis C caused by the hepatitis C virus (HCV). More specifically, the drug is a phosphoramidate nucleoside analogue, also referred to as pronucleotides or protides, which targets the RNA-dependent RNA polymerase ("NS5b") of HCV. Management believes that the protide approach possesses several pharmacological advantages over earlier, first generation approaches that use the parent nucleoside (non-phosphorylated) alone. These include a significant increase in antiviral activity, higher concentrations of the anti-virally active triphosphate in liver, and potentially less toxicity due to reduced systemic exposure.

Preclinical data suggests that INX-189 has unrivaled potency in genotype 1 replicon assay. Once the IND has been filed, we believe that INX-189 will be the most potent nucleotide polymerase inhibitor in clinical development. And, importantly, the pharmaco-dynamically data from the preclinical program suggests that INX-189 can be evaluated as a once-a-day therapy in future clinical studies. The preclinical profile of INX-189 suggests: rapid onset of anti-viral activity, a long half-life that could allow for once daily dosing, low toxicity, and a potential synergistic mechanism with ribavirin. This is certainly something to be excited about. We note that Inhibitex is also working on several other backup nucleotide analogues into animal studies and management is actively engaged in evaluating additional HCV polymerase nucleotide inhibitors as well.

…Pfizer Starts Phase I on SA3Ag…

In early January 2010, Pfizer reported to Inhibitex that it had initiated patient recruitment for 408-patient, randomized, double-blind phase I clinical trial to evaluate the safety, tolerability, and immunogenicity of three ascending dose levels of a 3-antigen *Staphylococcus aureus* vaccine (SA3Ag) in healthy adults. The SA3Ag vaccine contains an antigen originating from Inhibitex' MSCRAMM protein platform. Management licensed its MSCRAMM protein platform to Wyeth (acquired by Pfizer in 2009) on an exclusive worldwide basis for the development of active vaccines against staphylococcus in 2001. Pfizer is responsible for all clinical development, manufacturing and marketing of the vaccine. Inhibitex earned a $0.7 million milestone payment upon the initiation of the phase I program, and is eligible to receive milestones, as well as royalties on future net sales.

Cash Position Solid…

Inhibitex exited 2009 with $37.9 million in cash and investments. This should be enough to fund operations, including completing the ongoing phase II FV-100 program and completing a phase Ia and phase Ib program on INX-189, through the end of 2011. Financial guidance for 2010 is for the company to exit the year with still $14 to $15 million in cash on hand.

RECOMMENDATION

FV-100 a Game Changer…

Inhibitex lead development candidate, FV-100, has the potential to be a game changer for the treatment of herpes zoster, or shingles. The current standard of care, Glaxo's Valtrex (valacyclovir), with an estimated 55% market share, is dosed at 1000mg three times a day. Valtrex has improved lesion healing and pain indication reduction over older drugs Famvir (famciclovir) and Zovirax (acyclovir), but the treatment option can still be improved upon significantly. Inhibitex is developing FV-100, a potential once daily dosing agent, currently in a phase II trial. The trial is designed to show FV-100 is superior to Valtrex on pain and severity reduction after 30 days, the primary endpoint, as well as show superiority on key secondary endpoints including: pain after 90 days, incidence of post herpetic neuralgia (PHN), mean time to lesion healing, and use of concomitant pain medications.

If successful, we believe that Inhibitex' drug has $500+ million peak sales worldwide. However, even with efficacy only on par with Valtrex, we still believe that FV-100 has commercial potential given the reduction in dosing (improved compliance – especially in the elderly population) from three times daily to once daily.

FV-100 Peak Sales (in Millions)		
Scenario:	Base	…phase II efficacy on par with Valtrex, primary driving force is QD dosing vs. TID for Valtrex
FV-100 Price:	$225	per Rx
FV-100 Market Share:	40%	…takes sizable share from Valtrex, but generics still hold onto 40% of the market
Market Opportunity (U.S.):	$203	…peak U.S. sales
Market Opportunity (Ex-U.S.):	$142	…about 70% of U.S. sales
Total Peak Sales	$345	…under "Base" case scenario
Scenario:	Bull	…phase II efficacy superior to Valtrex, primary driving force is both efficacy and dosing
FV-100 Price:	$275	per Rx
FV-100 Market Share:	65%	…takes sizable share from both Valtrex and all generics
Market Opportunity (U.S.):	$403	…peak U.S. sales
Market Opportunity (Ex-U.S.):	$302	…about 75% of U.S. sales
Total Peak Sales	$705	…under "Bull" case scenario

…INX-189 Could Be Huge, But Too Early-Stage…

Inhibitex' HCV phosphoramidate nucleoside analogue (protide) candidate, INX-189, could be a potential blockbuster given its rapid onset, favorable once daily dosing, high potency activity, and improved tolerability profile. Preclinical *in vitro* data has been very impressive. Plus, INX-189 could have potential synergistic benefits with ribavirin, making the drug an excellent add-on therapy to standard of care. With phase I concept data that confirms the exciting preclinical work and management's optimism on the drug, INX-189 could fetch $100 million or more in a development partnership. We remind investors that in March 2009, Vertex Pharmaceuticals paid nearly $400 million to acquire privately-held ViroChem and its HCV non-nucleoside N25b polymerase inhibitor, VCH-222. Inhibitex' nucleosides N25b polymerase inhibitor looks to offer similar potency with potentially less resistance and improved dosing. But INX-189 is still pre-IND, and phase I concept data is not expected until late 2010 or early 2011. Plus two other phosphoramidate candidates Pharmasset's PSI-7851 and Idenix' IDX-184 are over a year ahead of INX-189 in development.

Stock Undervalued – But Lacks Near-Term Upside

The current market capitalization of roughly $80 million significantly undervalues Inhibitex in our view. As noted above, the company exited 2009 with roughly $38 million in cash still on the books. This leaves the technology value for FV-100, a potential $500 million drug in phase II trials, and INX-189 at only $40 million. With positive phase II data on FV-100 during the fourth quarter of 2010, Inhibitex should begin to entertain partnership discussions with large-cap pharma that could bring about an upfront payment far above this level. In fact, a large-cap pharmaceutical company interested in FV-100 next year would probably save money in the long-run in terms of milestones and royalty payments by just acquiring all of the outstanding shares. Under this scenario we could see fair-value at $3+, and that does not factor in any value for INX-189 or the rest of the preclinical pipeline.

Unfortunately, however, we struggle to see what moves the shares higher until the phase II data comes out at the end of the year. This is still eight months away. We like the story and believe the stock is cheap, but investors can be patient at this time. Our advice is to look to establish or add to positions on a pull-back, or buy in the third quarter of 2010 a few months ahead of the phase II FV-100 data.

PROJECTED FINANCIALS

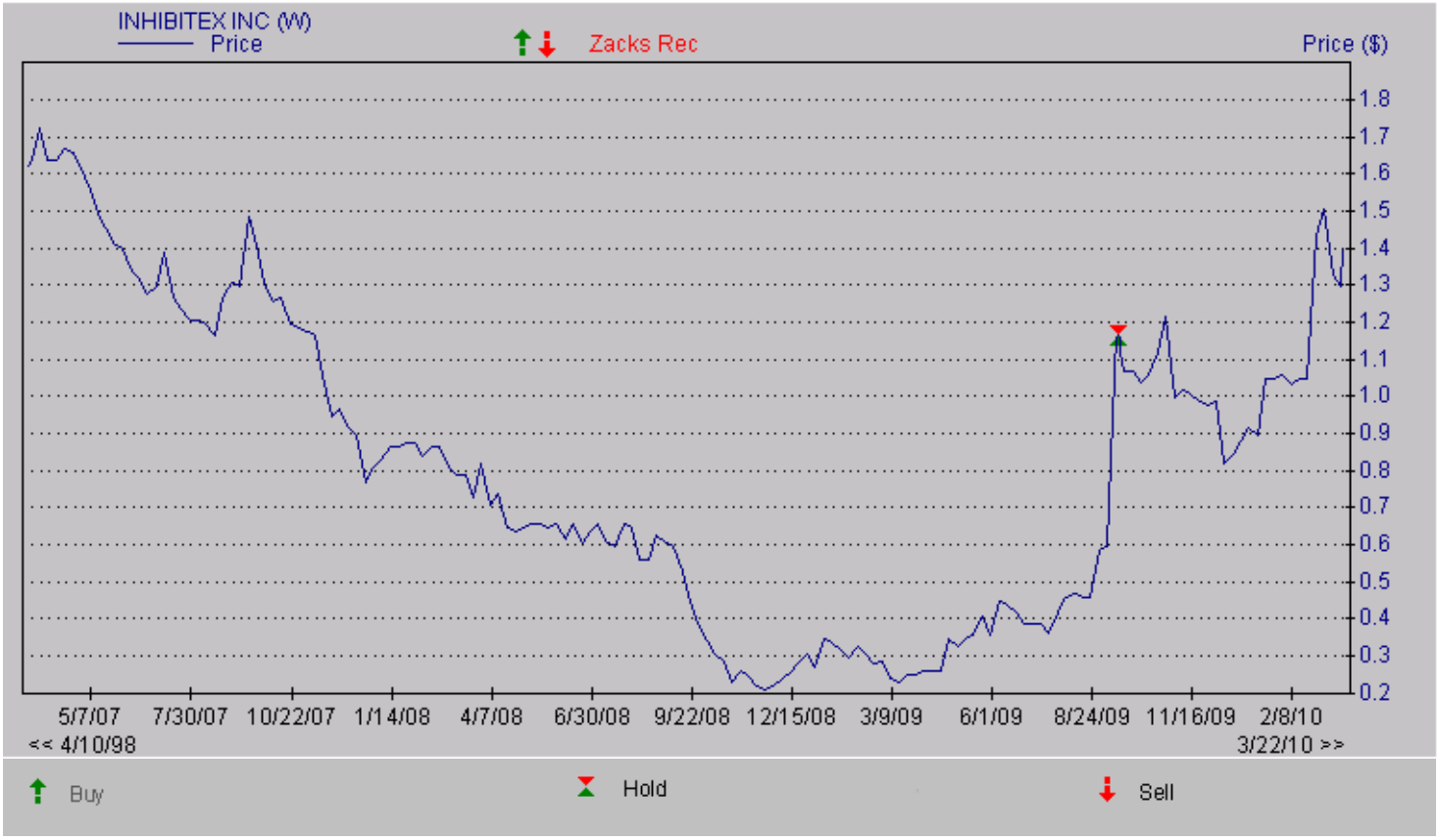
Inhibitex, Inc.
Income Statement

	2008 A	2009 A	Q1 E	Q2 E	Q3 E	Q4 E	2010 E	2011 E	2012 E	2013 E
FV-100 (U.S.)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
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**	**$0**
YOY Growth	-	-	-	-	-	-	-	-	-	-
INX-189	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth	-	-	-	-	-	-	-	-	-	-
Collaborative R&D	$1.5	$1.0	$0.3	$0.3	$0.3	$0.3	$1.0	$2.5	$2.5	$2.5
Licenses Fees & Milestones	$1.7	$0.2	$0.7	$0.0	$0.0	$0.0	$0.9	$1.0	$2.5	$5.0
Total Other Revenues	**$3.2**	**$1.2**	**$1.0**	**$0.3**	**$0.3**	**$0.3**	**$1.9**	**$3.5**	**$5.0**	**$7.5**
YOY Growth	-	-	-	-	-	-	-	-	-	-
Total Revenues	**$3.2**	**$1.2**	**$1.0**	**$0.3**	**$0.3**	**$0.3**	**$1.9**	**$3.5**	**$5.0**	**$7.5**
YOY Growth	-	*-63.5%*	-	-	-	-	*60.9%*	*89.2%*	*42.9%*	*50.0%*
Cost of Goods Sold	$0	$0	$0	$0	$0	$0	$0	$0.0	$0.0	$0.0
Product Gross Margin	*100.0%*	-	-	-	-	-	-	-	-	-
SG&A	$5.1	$3.6	$0.8	$0.8	$0.9	$0.9	$3.4	$3.9	$4.4	$5.0
% SG&A	-	-	-	-	-	-	*183.8%*	*111.4%*	*88.0%*	*66.7%*
R&D	$12.7	$15.4	$4.5	$4.6	$4.9	$5.2	$19.2	$20.0	$18.0	$18.0
% R&D	-	-	-	-	-	-	*1037.8%*	*571.4%*	*360.0%*	*240.0%*
Operating Income	($14.5)	($17.8)	($4.3)	($5.1)	($5.5)	($5.8)	($20.8)	($20.4)	($17.4)	($15.5)
Interest & Other Net	$1.3	$0.2	$0.1	$0.1	$0.1	$0.1	$0.4	$0.4	$0.3	$0.3
Pre-Tax Income	($13.2)	($17.6)	($4.2)	($5.0)	($5.4)	($5.7)	($20.4)	($20.0)	($17.1)	($15.2)
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	($13.2)	($17.6)	($4.2)	($5.0)	($5.4)	($5.7)	($20.4)	($20.0)	($17.1)	($15.2)
YOY Growth	-	-	-	-	-	-	-	-	-	-
Reported EPS	**($0.31)**	**($0.38)**	**($0.07)**	**($0.08)**	**($0.09)**	**($0.09)**	**($0.33)**	**($0.30)**	**($0.25)**	**($0.22)**
YOY Growth	-	-	-	-	-	-	*-13.3%*	*-7.3%*	*-17.0%*	*-13.7%*
Shares Outstanding	43.1	46.7	61.5	62.0	62.5	63.0	62.3	66.0	68.0	70.0

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

© Copyright 2010, Zacks Investment Research. All Rights Reserved.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The analysts contributing to this report do not hold any shares of INHX. Zacks EPS and revenue forecasts are not consensus forecasts. Zacks Investment Research may have, or seeks to have, a business relationship with the companies listed in this report. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts' personal views as to the subject securities and issuers. Zacks certifies that no part of the analysts' compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report. Additional information on the securities mentioned in this report is available upon request. This report is 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 herein are subject to change. This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. Zacks uses the following rating system for the securities it covers. **Outperform**- Zacks expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. **Neutral**- Zacks expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. **Underperform**- Zacks expects the company will under perform the broader U.S. Equity market over the next one to two quarters. The current distribution of Zacks Ratings is as follows on the 1105 companies covered: Outperform- 14.8%, Neutral- 78.4%, Underperform – 6.3%. Data is as of midnight on the business day immediately prior to this publication.

© Copyright 2010, Zacks Investment Research. All Rights Reserved.