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## Aerie Pharmaceuticals, Inc.

### Deerfield deal provides capital and validation; addresses an overhang

**Positive - AERI received a debt commitment of up to \$125M which is convertible into shares at \$24.80.**

The significant capital committed by Deerfield Management towards AERI's Phase III anti-glaucoma program addresses the anticipated capital raise and "why buy now if I can buy later" overhangs and provides a certain level of validation for AERI's clinical programs as well. The \$125M committed is bigger than what is needed for the Roclatan clinical program (Rhopressa Phase III was already covered with current cash) so it essentially funds AERI into commercial launch and potentially profitability. Shares are down from their prior highs following positive Roclatan Phase II data so we continue to believe the current entry point is compelling. We believe these are blockbuster potential drugs, as they are brand new mechanisms of action, which if successfully developed could see AERI succeeding as a standalone company or more likely getting acquired.

**Capital more than enough to conduct Roclatan Phase III ... and commercialize.** AERI received \$125M in a debt commitment, which is convertible into shares at \$24.80 (30% premium to Sep. 8 AERI's closing price) at an interest rate of 1.75% and a maturity date of Sep. 2021. AERI now has sufficient capital to complete both Rhopressa (AR-13324) and Roclatan (AR-13324 + latanoprost) Phase III programs and undertake a commercial launch.

**More importantly, investment is a validation of AERI's progress.** In addition to providing AERI with funding, Deerfield Management is also an investor in AERI shares. By indirectly increasing its level of commitment, we believe Deerfield is validating AERI's Phase II data for Roclatan and Rhopressa and underscoring its confidence in the ongoing or planned Phase III programs.

**Solid cash position ... model revision would include interest expense.** AERI ended 2Q:14 with ~\$56M in cash. The addition of roughly \$125M brings the pro forma cash position to \$181M per share (~\$7.60/ share). Though an updated model would include a modest interest expense (depending upon the amounts initially extended) the benefits of the capital commitment far outweigh the modest and in fact attractive financial commitment, in our view.

**Next up ... analyst day, possible deal(s) and Phase III data.** AERI is holding an investor day on Sep. 10th to discuss its glaucoma focused Phase III programs. A partnership for the Asia region is also possible though not necessary, especially given the financial commitment received. Finally, Rhopressa Phase III data is expected by mid-2015, which would be an important catalyst for shares, followed by Roclatan Phase III data around mid-2016.

### Outperform Speculative Risk

NASDAQ: AERI

Price: USD 19.08

All values in USD unless otherwise noted.



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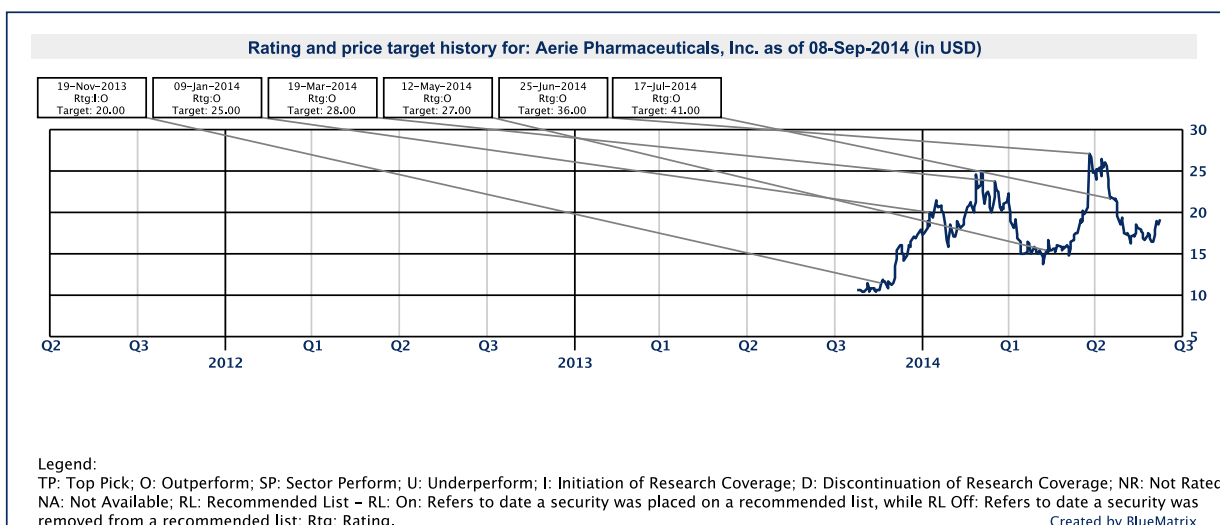
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			Count	Percent
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