Today's Changes	Annual EPS	Annual Revenue	Target
	No change	No change	$28.00 from $19.00

Aerie Pharmaceuticals

AERI : NASDAQ : US$19.82

BUY

Target: US$28.00 ↑

Ritu Baral Canaccord Genuity Inc. (US)
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COMPANY STATISTICS:

Forecast Return:	40%
Shares Out (M):	20.3
Market Cap (M):	US$402.3
52-week Range:	US$10.25 - 14.21

EARNINGS SUMMARY:

FYE Dec		2013E	2014E	2015E
Revenue:		0.0	0.0	0.0
EPS:		(1.27)	(1.38)	(1.47)
Revenue:	Q1	NA	0.0	-
	Q2	NA	0.0	-
	Q3	0.0A	0.0	-
	Q4	0.0	0.0	-
Total		0.0	0.0	0.0
EPS:	Q1	NA	(0.31)	-
	Q2	NA	(0.33)	-
	Q3	(0.46)A	(0.36)	-
	Q4	(0.28)	(0.38)	-
Total		(1.27)	(1.38)	(1.47)

SHARE PRICE PERFORMANCE:

Source: Interactive Data Corporation

COMPANY DESCRIPTION:

AERI is a clinical-stage pharmaceutical company focused on the treatment of glaucoma (one of the largest segments in the global ophthalmic market) and other eye diseases. Its product candidates are the dual-action AR-13324 and triple-action PG324.

All amounts in US$ unless otherwise noted.

Life Sciences -- Biotechnology

NEW PH1/2 LOW IOP DATA REAFFIRMS POTENTIAL FOR SUPERIOR EFFICACY, SAFETY; RAISING TARGET TO $28

Investment recommendation

Reiterate BUY, raising price target to $28 on AR-13324 increased potential in open-angle glaucoma. We think ROCK/NET inhibitor 13324 may become a leading drug for glaucoma. We think Ph3 13324 data and Ph2 comboTx PG324 data expected 2015 will be positive. We are raising our peak sales estimate to $700M from $600M, increasing our pNPV-based target to $28 from $19.

Investment highlights

- **Strong 13324 efficacy from new Ph1/2 data in low IOP glaucoma: underserved, yet large market where effective new drugs are needed.** We think the 5mmHg reduction in low IOP patients after 8 days Tx is encouraging and may drive strong uptake in the planned Ph3s (to enroll patients down to 21mmHg) starting Q2E. We see 13324's clean safety, low/absent systemic exposure and once-daily dosing as compelling differentiators from current glaucoma Tx's.
- **New data (n=18) supports higher peak sales estimates**. Patients not currently on Tx (due to lack of low IOP efficacy or AEs of current Tx's) may get 13324, effectively expanding the addressable market. We updated our model to reflect the potential stronger penetration in low IOP and Timolol-intolerant patients and arrived at a combined peak sale of $700M+ across two 13324 molecules.
- **We still see significant potential upside to the stock**. Actual US glaucoma patients may number closer to 3.5M vs. the 2.5M currently known and we think Dx rates may increase faster than expected with better awareness and Tx options.
- **We continue to expect timely enrollment of Ph2b PG324 study in Q1, Ph3 13324 studies in Q2**. This would drive Ph3 PG324 data in late 2014 and Ph3 13324 data in 2015.

Canaccord Genuity is the global capital markets group of Canaccord Genuity Group Inc. (CF : TSX | CF. : LSE)

The recommendations and opinions expressed in this research report accurately reflect the Investment Analyst's personal, independent and objective views about any and all the Designated Investments and Relevant Issuers discussed herein. For important information, please see the Important Disclosures section in the appendix of this document or visit Canaccord Genuity's Online Disclosure Database.

Synopsis of new Ph1/2 data:

- All study subjects had normotensive IOPs (12-21 mmHg; mean approximately 16 mmHg) prior to dosing.
- Data showed very low systemic exposure to the drug, with blood levels at or below the limit of detection (0.1 ng/mL) at all time points.
- No drug-related effects on systemic safety parameters such as blood pressure and heart rate were seen.
- After eight days of dosing, once-daily 13324 reduced the average diurnal IOP to ~11 mmHg, representing a decrease of approximately 5 mmHg, or over 30 percent.

Model changes: We increased growth rate of low IOP and Timolol-intolerant patients by 3% and 1.5% yoy, and raised probability of success of AR-13324 by 5%, PG324 by 10% to reflect the positive Ph1/2 data (Figure 4). As a result, our combined peak sale estimate for both drugs increased from $600M to $700M and we are raising our price target to $28 from $19.

Figure 1: Pivotal Ph3 trial design

	Pivotal Phase 3 – Canaccord Genuity projection
NCT ID	TBA
Design	Randomized, placebo controlled, double blind
Enrollment	At least 1200 subjects
Dosing	AR-13324 Ophthalmic Solution 0.01% and 0.02% and latanoprost ophthalmic solution
Key inclusion criteria	• Diagnosis of open angle glaucoma (OAG) or ocular hypertension (OHT). • Unmedicated (post-washout, p.r.n.) IOP ≥ 24 mm Hg in one or both eyes at 08:00 hours, ≥ 21 mm Hg at 10:00, 12:00 and 16:00 hours on post-washout measurement (Visit 1). • Corrected visual acuity in each eye +1.0 logMAR or better by ETDRS in each eye (equivalent to 20/200).
Key exclusion criteria	• Glaucoma: pseudoexfoliation or pigment dispersion component, history of angle closure or narrow angles. Note: Previous laser peripheral iridotomy is NOT acceptable. • Intraocular pressure > 36 mm Hg • Previous glaucoma intraocular surgery or glaucoma laser procedures in study eye(s, e.g., laser trabeculoplasty). • Ocular medication of any kind within 30 days of Visit 0, with the exception of a) ocular hypotensive medications (which must be washed out according to the provided schedule), b) lid scrubs (which may be used prior to, but not after Visit 0) or c) lubricating drops for dry eye (which may be used throughout the study). • Clinically significant ocular disease (e.g. uveitis, severe keratoconjunctivitis sicca) which might interfere with the study, including glaucomatous damage so severe that washout of ocular hypotensive medications for one month is not judged safe (i.e., cup-disc ratio > 0.8). • Central corneal thickness greater than 600 µm.
Primary endpoint	Intraocular pressure at 3 months
Secondary endpoint	Safety at 12 months and visual acuity
Powering	TBA

Source: clinicaltrials.gov and Canaccord Genuity estimates

Figure 2: AERI P&L

	2012A	H1/13A	Q3/13A	Q4/13E	2013E	Q1/14E	Q2/14E	Q3/14E	Q4/14E	2014E	2015E	2016E
AR-13324	-	-	-	-	-	-	-	-	-	-	-	-
PG324												
Product revenues	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Grant revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cost of goods sold	-	-	-	-	-	-	-	-	-			
Gross Profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
R&D expense	9.3	6.3	2.4	3.5	12.2	4.0	4.5	5.0	5.5	19.0	20.0	25.0
SG&A expense	5.0	3.4	3.3	3.0	9.7	3.3	3.3	3.5	3.5	13.6	15.0	17.0
Other operating expense	0.7	0.4			0.4	-	-	-	-	-	-	-
Total operating expense	**15.0**	**10.1**	**5.7**	**6.5**	**22.3**	**7.3**	**7.8**	**8.5**	**9.0**	**32.6**	**35.0**	**42.0**
Operating income	**(15.0)**	**(10.1)**	**(5.7)**	**(6.5)**	**(22.3)**	**(7.3)**	**(7.8)**	**(8.5)**	**(9.0)**	**(32.6)**	**(35.0)**	**(42.0)**
Net Interest/Investment income	-				0.0					0.0	0.0	0.0
(interest expense)	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Other non-operating income (expense)	(0.7)	(0.3)	(5.1)		(5.4)					-	-	-
Interest and other, Net	-	-	-	-	-	-	-	-	-	-	-	-
Pre-tax income	**(15.7)**	**(10.4)**	**(10.7)**	**(6.5)**	**(27.6)**	**(7.3)**	**(7.8)**	**(8.5)**	**(9.0)**	**(32.5)**	**(34.9)**	**(41.9)**
Income tax expense (benefit)	-	-	-	-	-					-	-	-
Net income (loss)	**(15.7)**	**(10.4)**	**(10.7)**	**(6.5)**	**(27.6)**	**(7.3)**	**(7.8)**	**(8.5)**	**(9.0)**	**(32.5)**	**(34.9)**	**(41.9)**
Basic EPS	**(0.93)**	**(0.55)**	**(0.46)**	**(0.28)**	**(1.27)**	**(0.31)**	**(0.33)**	**(0.36)**	**(0.38)**	**(1.38)**	**(1.47)**	**(1.76)**
Basic shares outstanding	16.8	18.9	23.2	23.3	21.8	23.4	23.6	23.7	23.8	23.6	23.7	23.9

Source: Company reports and Canaccord Genuity estimates

Figure 3: AERI pNPV analysis

Product Development

Drug name	Indication	Status	Launch	Years to Launch	Years to Peak	Success	Sales (US$m)	Probability weighted Peak Sales (US$m)	Royalty	Profitability	Probability weighted Peak Profit (US$m)	Discount Factor	NPV (US$)
AR-13324	Open angle glaucoma	Phase 3	2017.5	4	9	70%	380.7	266.5	95%	85%	215.18	6.66	19.47
PG324	Open angle glaucoma	Phase 2	2018.5	5	11	55%	325.0	178.8	95%	85%	144.35	10.41	8.36
										Total			**27.84**

Source: Company reports and Canaccord Genuity estimates

Figure 4: AERI open angle glaucoma market model

Glaucoma market model	growth rates															
US population	1.0%	311.7	314.8	318.0	321.2	324.4	327.6	330.9	334.2	337.6	340.9	344.3	347.8	351.3	354.8	358.3	361.9
Patients with glaucoma		2,182,089	2,236,969	2,293,228	2,350,903	2,410,028	2,470,640	2,532,777	2,596,476	2,661,778	2,728,721	2,797,349	2,867,702	2,939,825	3,013,761	3,089,558	3,167,260
Glaucoma incidence	1.5%	*0.700%*	*0.71%*	*0.72%*	*0.73%*	*0.74%*	*0.75%*	*0.77%*	*0.78%*	*0.79%*	*0.80%*	*0.81%*	*0.82%*	*0.84%*	*0.85%*	*0.86%*	*0.88%*
Diagnosed patients with glaucoma		1,091,045	1,152,039	1,215,411	1,281,242	1,349,616	1,420,618	1,494,338	1,570,868	1,650,302	1,732,738	1,818,277	1,907,022	1,999,081	2,094,564	2,193,586	2,296,263
Diagnosis rate	1.5%	*50.000%*	*51.50%*	*53.00%*	*54.50%*	*56.00%*	*57.50%*	*59.00%*	*60.50%*	*62.00%*	*63.50%*	*65.00%*	*66.50%*	*68.00%*	*69.50%*	*71.00%*	*72.50%*
Dx Glaucoma patients on Tx		905,567	966,710	1,031,107	1,098,912	1,170,288	1,245,407	1,324,445	1,407,589	1,495,033	1,586,980	1,683,642	1,785,239	1,892,005	2,004,180	2,122,017	2,245,780
Glaucoma treatment rate	1.1%	*83.000%*	*83.91%*	*84.84%*	*85.77%*	*86.71%*	*87.67%*	*88.63%*	*89.61%*	*90.59%*	*91.59%*	*92.60%*	*93.61%*	*94.64%*	*95.68%*	*96.74%*	*97.80%*
Patients on non-PGA Tx		**452,783**	**483,355**	**515,553**	**549,456**	**585,144**	**622,703**	**662,223**	**703,795**	**747,517**	**793,490**	**841,821**	**892,620**	**946,003**	**1,002,090**	**1,061,009**	**1,122,890**
% of pts on non-PGA Tx		*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*
Timolol intolerant pts		67,918	73,591	79,670	86,183	93,158	100,624	108,615	117,165	126,311	136,090	146,545	157,719	169,659	182,413	196,036	210,581
Intolerance incidence		*15.00%*	*15.23%*	*15.45%*	*15.69%*	*15.92%*	*16.16%*	*16.40%*	*16.65%*	*16.90%*	*17.15%*	*17.41%*	*17.67%*	*17.93%*	*18.20%*	*18.48%*	*18.75%*
AR-13324 penetration rate		*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*10.00%*	*25.00%*	*50.00%*	*70.00%*	*80.00%*	*80.00%*	*80.00%*	*80.00%*	*80.00%*	*80.00%*
Pts converting to AR-13324		-	-	-	-	-	-	10,862	29,291	63,155	95,263	117,236	126,175	135,727	145,931	156,828	168,465
Pts with low IOP		56,598	62,232	68,369	75,051	82,323	90,235	98,841	108,197	118,366	129,416	141,417	154,449	168,597	183,950	200,609	218,678
Low IOP incidence		*12.50%*	*12.88%*	*13.26%*	*13.66%*	*14.07%*	*14.49%*	*14.93%*	*15.37%*	*15.83%*	*16.31%*	*16.80%*	*17.30%*	*17.82%*	*18.36%*	*18.91%*	*19.47%*
AR-13324 penetration rate		*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*10.00%*	*25.00%*	*50.00%*	*70.00%*	*80.00%*	*80.00%*	*80.00%*	*80.00%*	*80.00%*	*80.00%*
Pts converting to AR-13324		-	-	-	-	-	-	9,884	27,049	59,183	90,591	113,134	123,559	134,877	147,160	160,487	174,943
Outstanding pts on non-PGA Tx		328,268	347,532	367,514	388,222	409,663	431,844	454,766	478,432	502,839	527,984	553,859	580,451	607,747	635,726	664,364	693,631
Percentage of outstanding pts		*72.50%*	*71.90%*	*71.29%*	*70.66%*	*70.01%*	*69.35%*	*68.67%*	*67.98%*	*67.27%*	*66.54%*	*65.79%*	*65.03%*	*64.24%*	*63.44%*	*62.62%*	*61.77%*
AR-13324 penetration rate		*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*3.00%*	*10.00%*	*15.00%*	*20.00%*	*22.50%*	*25.00%*	*25.00%*	*25.00%*	*25.00%*	*25.00%*
Pts converting to AR-13324		-	-	-	-	-	-	13,643	47,843	75,426	105,597	124,618	145,113	151,937	158,932	166,091	173,408
Total addressable pts - AR-13324		-	-	-	-	-	-	34,389	104,184	197,765	291,451	354,988	394,848	422,541	452,023	483,407	516,815
Number of pts on AR-13324								34,389	104,184	197,765	291,451	354,988	394,848	422,541	452,023	483,407	516,815
Gross price	2.0%							1,000.00	1,020.00	1,040.40	1,061.21	1,082.43	1,104.08	1,126.16	1,148.69	1,171.66	1,195.09
Net revenue	20.0%							850.00	816.00	832.32	848.97	865.95	883.26	900.93	918.95	937.33	956.07
AR-13324 Revenue								14.62	85.01	164.60	247.43	307.40	348.75	380.68	415.39	453.11	494.11
Patients on OAG PGA Tx		**452,783**	**483,355**	**515,553**	**549,456**	**585,144**	**622,703**	**662,223**	**703,795**	**747,517**	**793,490**	**841,821**	**892,620**	**946,003**	**1,002,090**	**1,061,009**	**1,122,890**
% of pts on PGA Tx		*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*	*50.00%*
PG324 penetration rate	0.0%	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*1.00%*	*5.00%*	*10.00%*	*15.00%*	*20.00%*	*25.00%*	*30.00%*	*30.00%*	*30.00%*
Pts converting to PG324		-	-	-	-	-	-	-	7,038	37,376	79,349	126,273	178,524	236,501	300,627	318,303	336,867
Total addressable pts - PG324		-	-	-	-	-	-	-	7,038	37,376	79,349	126,273	178,524	236,501	300,627	318,303	336,867
Number of pts on PG324									7,038	37,376	79,349	126,273	178,524	236,501	300,627	318,303	336,867
Gross price	2.0%								1,200.00	1,224.00	1,248.48	1,273.45	1,298.92	1,324.90	1,351.39	1,378.42	1,405.99
Net revenue	10.0%								1,020.00	979.20	998.78	1,018.76	1,039.13	1,059.92	1,081.12	1,102.74	1,124.79
PG324 Revenue									3.59	36.60	79.25	128.64	185.51	250.67	325.01	351.00	378.91
Market share																	
AR-13324 of non-PGA market								*5.19%*	*14.80%*	*26.46%*	*36.73%*	*42.17%*	*44.23%*	*44.67%*	*45.11%*	*45.56%*	*46.03%*
AR-13324 of overall OAG market								*2.60%*	*7.40%*	*13.23%*	*18.37%*	*21.08%*	*22.12%*	*22.33%*	*22.55%*	*22.78%*	*23.01%*
PG324 of PG market									*1.00%*	*5.00%*	*10.00%*	*15.00%*	*20.00%*	*25.00%*	*30.00%*	*30.00%*	*30.00%*
PG324 of overall OAG market									*0.50%*	*2.50%*	*5.00%*	*7.50%*	*10.00%*	*12.50%*	*15.00%*	*15.00%*	*15.00%*
Molecule market share of '324 in overall market									7.90%	15.73%	23.37%	28.58%	32.12%	34.83%	37.55%	37.78%	38.01%

Source: Company reports and Canaccord Genuity estimates

Investment risks

Clinical risk -- AR-13324's planned Phase 3 program and or PG324's Phase 2 and 3 programs may not be successful. While we believe there is strong positive precedent data for AR-13324 from Phase 2 studies, there is a chance the planned Phase 3 trial will not be successful.

Regulatory risk -- FDA may not approve AR-13324 or PG234. There is no guarantee that FDA will approve AR-13324 or PG324 even if they showed expected levels of IOP lowering. Should FDA's understanding of the relationship between IOP lowering and loss of visual acuity change, the agency may want additional measures of benefit to grant approval. Further, clinical trials could yield some new safety signal that could be of concern.

Competitive risk -- There are a number of other current, well-established classes of glaucoma therapy on the market. Other glaucoma drugs, which utilize different mechanisms to treat the disease, have all been approved for years, if not decades; ophthalmologists have had significant experience treating patients with these medications, and have significant comfort with their efficacy and side effect profiles. As a result, ophthalmologists may continue to preferentially prescribe these drugs despite any potentially superior therapeutic profile of AR-13324 or PG324.

Commercialization/reimbursement risk -- Most current glaucoma therapies are generics, and are available relatively cheaply compared to AERI's intended pricing for AR-13324 and PG324; therefore, there is no guarantee AERI will be able to secure reimbursement for these drugs. Most (but not all) glaucoma medications are available in generic form in the US for <$1 per day in treatment cost. Branded glaucoma therapies that cost between $2 and $3/day (the commercial plan for AR-13324 and PG324) are still able to secure reimbursement and meaningful market share, although many are restricted to second-line use with step-edits. We think this will also be the case of the AERI drug despite a significant premium to the existing generics, especially given our predicted superior therapeutic profile.

Financial risk -- AERI's current cash position will not extend through commercialization of AR-13324. AERI has current pro forma assets of $55M, which we estimate will cover operating expenses through NDA filing of AR-13324, expected in H1/16. This includes the cost of the Phase 3 for AR-13324 and the planned Phase 2b trial of PG324. However, unless AERI secures a significant amount of non-dilutive financing through establishment of commercial partnership, it is unlikely to have cash to cover operating expenses through the AR-13324 launch or for additional Phase 3 development of PG324. Aerie may raise money through the issuance of additional equity.

APPENDIX: IMPORTANT DISCLOSURES

Analyst Certification:

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research.

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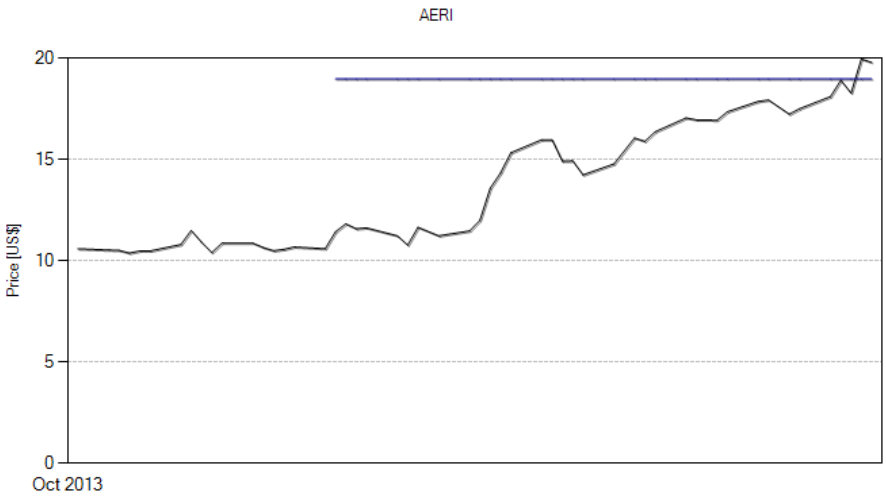
Compendium Report:

If this report covers six or more subject companies, it is a compendium report and Canaccord Genuity and its affiliated companies hereby direct the reader to the specific disclosures related to the subject companies discussed in this report, which may be obtained at the following website (provided as a hyperlink if this report is being read electronically) http://disclosures.canaccordgenuity.com/EN/Pages/default.aspx; or by sending a request to Canaccord Genuity Corp. Research, Attn: Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2; or by sending a request by email to disclosures@canaccordgenuity.com. The reader may also obtain a copy of Canaccord Genuity's policies and procedures regarding the dissemination of research by following the steps outlined above.

Site Visit:

An analyst has visited Aerie Pharmaceuticals' material operations in Bedminster, NJ. No payment or reimbursement was received from the issuer for the related travel costs.

Price Chart:*



	Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1)	11/19/2013	Baral	Buy	19.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:
Global Stock Ratings
(as of 31 December 2013)

	Coverage Universe		IB Clients
Rating	#	%	%
Buy	564	57.0%	38.1%
Speculative Buy	47	4.7%	42.6%
Hold	325	32.8%	11.4%
Sell	50	5.1%	6.0%
	990	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.
NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier:

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

Canaccord Genuity Research Disclosures as of 13 January 2014

Company	Disclosure
Aerie Pharmaceuticals	1A, 2, 3, 5, 7

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