


RBC Capital Markets

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June 30, 2014

Aerie Pharmaceuticals, Inc.

AERI still has the best efficacy and newest mechanism in town; read through from AGN

AGN's R&D update outlined plans to develop a longer acting prostaglandin.

Aerie shares could be under pressure based on an update on bimatoprost (prostaglandin) plugs for glaucoma by AGN, which plans to initiate a Phase III trial for the long-acting bimatoprost plug with efficacy that could last between 4 and 6 months. Should Phase III trials begin by YE:14 or early 2015, top-line efficacy results would be available around early 2016, which is after the Phase III Rhopressa read out and a few months ahead of the Phase III Roclatan read out. While successful development could alter market dynamics, we do not believe it is a limitation to AERI's drugs given that both Rhopressa and Roclatan are based on a new mechanism of action and Roclatan has demonstrated statistically significant superiority to a prostaglandin in the recently completed Phase II study. Plus, with 16M + prescriptions written for first-line agents in the US alone, the market is big enough to support multiple innovative products, in our view. We recommend buying AERI shares at current levels.

What did AGN discuss on the bimatoprost plug (longer lasting prostaglandin)? Based on Phase II data, which could be presented by YE:14 (likely at AAO), AGN has decided to advanced its sustained release implant of bimatoprost (Lumigan) to Phase III studies. In the Phase II study, the sustained release implant eye showed comparable efficacy to the eye drops administered to the contralateral eye. For the Phase III studies, the duration targeted is at least 4 months with the potential to last up to 6 months. Phase III trials could begin by YE:14 and AGN could test two doses.

Roclatan and Rhopressa value propositions intact. The underlying thesis for AERI's Roclatan is the best efficacy of any glaucoma drug. This was recently shown in a Phase IIb study that compared Roclatan to its components, Rhopressa (AR-13324) and latanoprost, a prostaglandin. For AERI's Rhopressa it's the ability to reduce intraocular pressure especially in patients with lower baseline IOPs, and for both drug candidates it's being the first new mechanism of action to treat glaucoma in decades as well as a safety profile that's better than current second-line agents. For AGN's bimatoprost plug the main argument would be compliance and convenience.

Overall commentary favorable for AERI. AGN also stated that it expects the glaucoma market to total \$6.8B in 2018 and that 20% of patients are currently not well managed. Since overall prescriptions for glaucoma are ~30M+ annually, 20% represents a significant market opportunity for Rhopressa alone. Roclatan we believe wins by being the most potent drug for glaucoma available on the market.

Outperform
Speculative Risk

NASDAQ: AERI

Price: USD 26.58

All values in USD unless otherwise noted.



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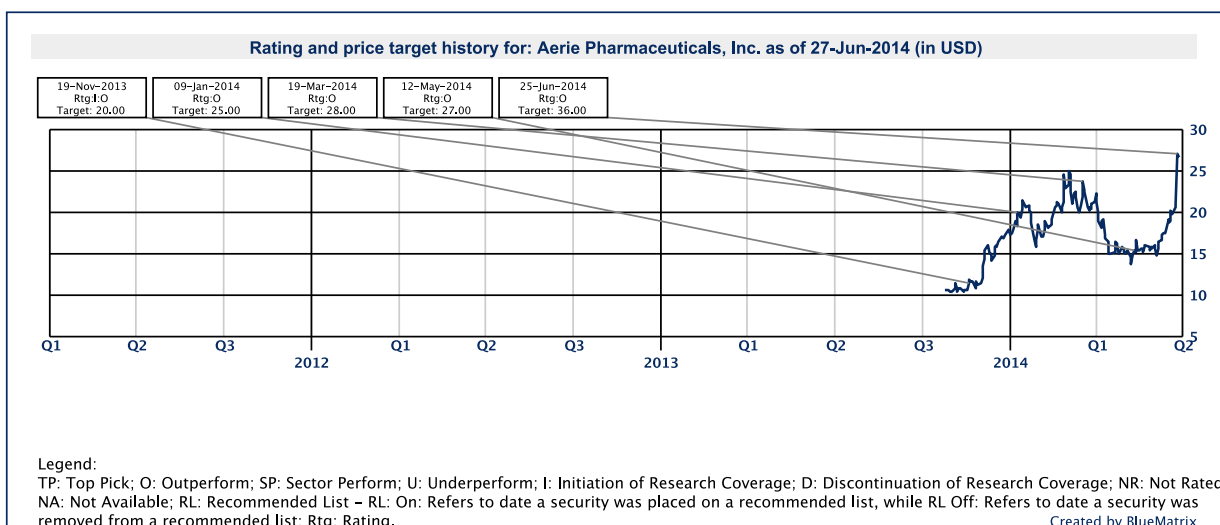
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			Count	Percent
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