



December 17, 2014

Key Metrics

NRX - NASDAQ	\$4.89
Pricing Date	Dec 16 2014
Price Target	\$15.00
52-Week Range	\$13.00 - \$3.96
Shares Outstanding (mm)	8.9
Market Capitalization (\$mm)	\$43.3
3-Mo Average Daily Volume	14,189
Institutional Ownership	26%
Debt/Total Capital	NM
ROE	NM
Book Value/Share	\$2.73
Price/Book	1.8x
Dividend Yield	NM
LTM EBITDA Margin	NM

EPS (\$ FY: December

	2013A	Prior 2014E	Curr. 2014E	Prior 2015E	Curr. 2015E
1Q-Mar	--	--	(0.37)A	(0.50)E	(0.60)E
2Q-Jun	--	--	(0.61)A	(0.44)E	(0.61)E
3Q-Sep	--	(0.46)E	(0.50)A	(0.40)E	(0.62)E
4Q-Dec	--	(0.48)E	(0.58)E	(0.41)E	(0.62)E
FY	(19.71)	(1.98)E	(2.14)E	(1.73)E	(2.45)E
P/E	NM		NM		NM

**Company Description:**

NephroGenex, Inc. (<http://www.nephrogenex.com/>) is an emerging pharmaceutical company developing therapeutics for kidney diseases.

NephroGenex, Inc.**Rating: Buy****Phase 3 Trial of Pyridorin in Progress****Investment Highlights:**

- PIONEER Phase 3 Trial Enrollment Continues.** NephroGenex's PIONEER Phase 3 study of its lead candidate Pyridorin for diabetic nephropathy continues clinical site initiation and patient enrollment. We remind investors that it is a double-blind, placebo-controlled registration trial to evaluate the safety and efficacy of oral Pyridorin in reducing the rate of renal disease progression in Type 2 diabetic patients. Management expects to complete the enrollment of approximately 600 patients in summer 2015. We note that NephroGenex has reached agreement with the FDA on an unblinded, event-based interim analysis on 600 patients who have received Pyridorin therapy for at least 6 months, which is estimated to occur in early 2016. In the near term, the Pyridorin TQT cardiac safety study data are expected to be reported by the end of 2014. In the wake of the timeline for development and data release, we reiterate our Buy rating and adjust the 12-month price target from \$25.00 to \$15.00 per share.
- Development Timeline.** We note that the firm is required to run two Phase 3 trials of Pyridorin by the FDA. Each of these Phase 3 trials has an estimated cost of \$35mm. If the interim analysis of the first Phase 3 trial reports positive data in early 2016, the firm may seek partnership to start the second Phase 3 trial before the topline data of the first trial are reported in 2017. Investors should be aware that although data from both Phase 3 trials are unlikely to be available before 2019, NephroGenex may be able to submit a NDA with data from the first Phase 3 study only, due to the lack of effective treatment for diabetic nephropathy. The FDA may choose to approve the drug on the condition that the firm will continue to finish the second Phase 3 study, thus providing earlier commercialization and cash flows for the firm. Additionally, the firm has completed a preclinical study of intravenous Pyridorin for ischemic reperfusion induced acute kidney injury (AKI). We believe the firm could bring intravenous Pyridorin into a clinical trial in 2015.
- 2014 3Q Results.** For the third quarter of 2014, NephroGenex reported a net loss of \$4.4mm, or (\$0.50) per share. We project that the firm's expenses would be higher in the following quarters as its Phase 3 study continues to enroll patients. Our current net loss estimates for 2014 and 2015 are \$16.7mm and \$22.3mm respectively, or (\$2.14) and (\$2.45) per share.
- Cash Runway.** The firm had \$26.6mm in cash as of September 30, 2014. On November 20, 2014, NephroGenex announced that it had closed on a \$12mm term loan facility with East West Bank, which included an immediate \$7mm draw, with the additional \$5mm available upon the achievement of certain milestones before the end of May 2015. Following the closing of the loan, the company's cash position was approximately \$31mm. We believe it should provide a runway into 2016.

Table 1: NephroGenex, Inc. (NRX) – Historical Income Statements, Financial Projections

FY end December 31

\$ in thousands, except per share data

	2012A	2013A	2014E				2014E	2015E				2015E
			1QA	2QA	3QA	4QE		1QE	2QE	3QE	4QE	
Revenue												
Product revenue	-	-	-	-	-	-	-	-	-	-	-	-
Service revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-	-	-	-	-	-	-
Expenses												
Cost of revenues	-	-	-	-	-	-	-	-	-	-	-	-
Research and development	2,352	1,479	457	3,875	3,077	3,500	10,909	3,700	3,800	3,900	4,000	15,400
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	350	1,026	1,034	1,560	1,350	1,600	5,544	1,600	1,600	1,600	1,600	6,400
Total expenses	2,702	2,506	1,492	5,435	4,427	5,100	16,454	5,300	5,400	5,500	5,600	21,800
Gain (loss) from operations	(2,702)	(2,506)	(1,492)	(5,435)	(4,427)	(5,100)	(16,454)	(5,300)	(5,400)	(5,500)	(5,600)	(21,800)
Other income/expense												
Interest income (expense)	(200)	(382)	(68)	12	12	(38)	(82)	(96)	(96)	(165)	(165)	(522)
Change in value of preferred stock warrants	(2)	(3,417)	(140)	-	-	-	(140)	-	-	-	-	-
Other income (expense)	-	-	-	-	-	-	-	-	-	-	-	-
Total investment income and other	(202)	(3,799)	(209)	12	12	(38)	(223)	(96)	(96)	(165)	(165)	(522)
Loss before provision for income taxes	(2,904)	(6,305)	(1,700)	(5,423)	(4,415)	(5,138)	(16,676)	(5,396)	(5,496)	(5,665)	(5,765)	(22,322)
Provision for income taxes	-	-	-	-	-	-	-	-	-	-	-	-
Net loss	(2,904)	(6,305)	(1,700)	(5,423)	(4,415)	(5,138)	(16,676)	(5,396)	(5,496)	(5,665)	(5,765)	(22,322)
Net loss per share (basic)	(9.08)	(19.71)	(0.37)	(0.61)	(0.50)	(0.58)	(2.14)	(0.60)	(0.61)	(0.62)	(0.62)	(2.45)
Net loss per share (diluted)	(9.08)	(19.71)	(0.37)	(0.61)	(0.50)	(0.58)	(2.14)	(0.60)	(0.61)	(0.62)	(0.62)	(2.45)
Weighted average number of shares outstanding (basic)	320	320	4,587	8,855	8,855	8,880	7,794	8,955	9,055	9,155	9,255	9,105
Weighted average number of shares outstanding (diluted)	320	320	4,587	8,855	8,855	8,880	7,794	8,955	9,055	9,155	9,255	9,105

Source: Company Reports and Aegis Capital Corp. estimates

Required Disclosures

Price Target

Our 12-month price target is \$15.00 per share.

Valuation Methodology

Given the fact that NephroGenex is currently unprofitable, we use a discounted cash flow-based approach to value the shares. Based on a comparables analysis, we believe that the stock is worth \$15.00 per share, given our estimate of a \$140 million risk-adjusted net present value (rNPV) for the firm's pipeline. This assumes that the firm has roughly 10 million shares outstanding (fully diluted) and \$10 million in cash at the end of 2015.

Risk Factors

Issues that could prevent the achievement of our price objective include, but are not limited to, clinical, regulatory, competitive, reimbursement and financial risks. Drugs in clinical development may not advance due to inadequate safety, efficacy, or tolerability. Regulatory agencies may decline to approve regulatory submissions in a timely manner, or may not approve a drug candidate at all. The firm may require substantial funding to complete the clinical development of its candidates and establish commercial infrastructure, which could be dilutive to current shareholders. We expect competition for the company's drugs from several public and private companies developing pharmaceuticals. Future sales of the firm's drugs could depend upon reimbursement from private, as well as public, reimbursement agencies.

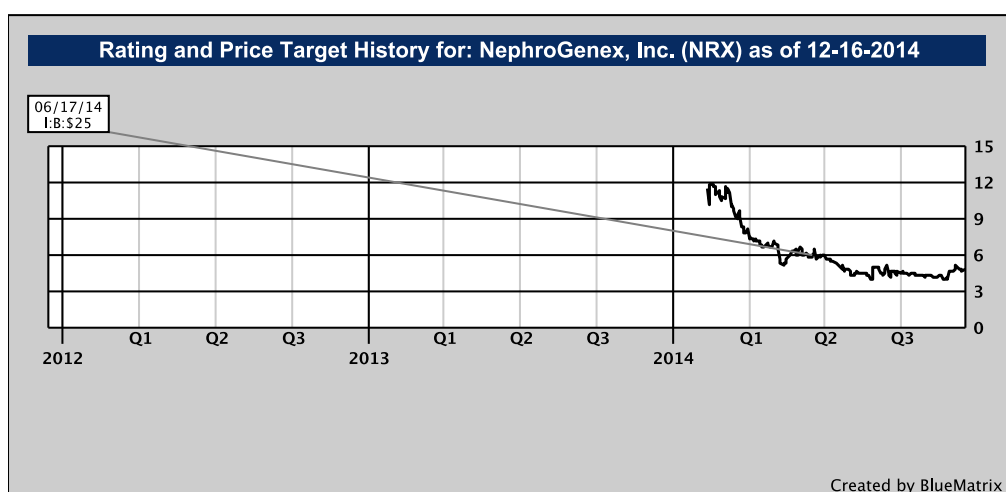
For important disclosures go to www.aegiscap.com.

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Aegis Capital Corp. intends to seek or expects to receive compensation for investment banking services from the subject company within the next three months.

Aegis Capital Corp. has performed investment banking services for and received fees from NephroGenex, Inc. within the past 12 months.

Aegis Capital Corp. makes a market in NephroGenex, Inc..



Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [BUY]	79.63	62.79
HOLD [HOLD]	20.37	27.27
SELL [SELL]	0.00	0.00

Meaning of Ratings

- A) A Buy rating is assigned when we do not believe the stock price adequately reflects a company's prospects over 12-18 months.
- B) A Hold rating is assigned when we believe the stock price adequately reflects a company's prospects over 12-18 months.
- C) A Sell rating is assigned when we believe the stock price more than adequately reflects a company's prospects over 12-18 months.

Other Disclosures

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