AEGIS CAPITAL CORP

Pharmaceuticals
Raghuram Selvaraju, Ph.D.
(646) 502-2464
rselvaraju@aegiscap.com

Yi Chen, Ph.D. CFA
(646) 502-2463
ychen@aegiscap.com

Company Update / Estimates Change

August 12, 2014

NephroGenex, Inc.

Rating: Buy

2Q 2014 Financial Results Reported

Key Metrics

NRX - NASDAQ	$4.48
Pricing Date	Aug 11 2014
Price Target	$25.00
52-Week Range	$13.00 - $4.25
Shares Outstanding (mm)	8.6
Market Capitalization ($mm)	$38.5
3-Mo Average Daily Volume	15,030
Institutional Ownership	NM
Debt/Total Capital	NM
ROE	NM
Book Value/Share	$3.77
Price/Book	1.2x
Dividend Yield	NM
LTM EBITDA Margin	NM

EPS ($) FY: December

	2013A	Prior 2014E	Curr. 2014E	Prior 2015E	Curr. 2015E
1Q-Mar	--	--	(0.37)A	(0.42)E	(0.50)E
2Q-Jun	--	(0.24)E	(0.61)A	(0.39)E	(0.44)E
3Q-Sep	--	(0.30)E	(0.46)E	(0.37)E	(0.40)E
4Q-Dec	--	(0.38)E	(0.48)E	(0.40)E	(0.41)E
FY	(19.71)	(1.26)E	(1.98)E	(1.58)E	(1.73)E
P/E	NM		NM		NM

Source: BigCharts.com

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

Investment Highlights:

- **Financial Results Released.** This morning, NephroGenex reported financial results for the second quarter of 2014. The firm recorded a net loss of $0.61 per share, significantly greater than our estimate of a net loss of $0.24 per share, reflecting the costs associated with beginning the PIONEER Pyridorin™ Phase 3 trial. NephroGenex ended the quarter with roughly $29.9mm in cash, which we expect to be sufficient to fund operations into 2016. The company indicated that it remains on track to enroll half of the patients into the ongoing Phase 3 trial by early next year. The TQT cardiac safety trial for the drug is nearly complete and the firm expects to have top-line results early in the fourth quarter of this year, with the full study report becoming available by end-2014. We reiterate our Buy rating and 18-month price target of $25.00 per share on NRX.
- **PIONEER Program Design Parameters.** The PIONEER program comprises two identical Phase 3 trials, designed to evaluate Pyridorin™ at a 300mg twice-daily dose vs. placebo in reducing the rate of renal disease progression in Type 2 diabetic patients. Each study will enroll ~600 patients randomized in a 1:1 ratio. About 100 centers are slated to participate worldwide, with the majority located in the U.S. Primary efficacy endpoints are time to a 50% increase in serum creatinine (SCr) levels, or end-stage renal disease (ESRD). The first Phase 3 study is 90% powered to detect a 28% treatment effect. Previous Phase 2b study results showed a >50% treatment effect in the target patient population. NephroGenex previously reached agreement with the FDA on a Special Protocol Assessment (SPA) for the PIONEER program, and has also received fast track designation from the FDA for Pyridorin™ in diabetic nephropathy. We believe that NephroGenex is likely to start the second Phase 3 trial once interim data become available from the first study.
- **Additional Catalysts.** The company expects to continue to add value to the Pyridorin™ asset by, firstly, reaching an agreement with the FDA on the interim analysis plan for the ongoing Phase 3 trial; secondly, completing the regulatory filing with the European Medicines Agency (EMA) for the new renal endpoint that is proposed to be used in the PIONEER program by end-2014; and finally, initiating preclinical studies with an intravenous formulation of the drug.

The Disclosure section may be found on pages 3 - 4 of this report.

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

FY end December 31
$ in thousands, except per share data

		2014E					2015E				
	2013A	1QA	2QA	3QE	4QE	2014E	1QE	2QE	3QE	4QE	2015E
Revenue											
Product revenue	-	-	-	-	-	-	-	-	-	-	-
Research and other	-	-	-	-	-	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-	-	-	-	-	-
Expenses											
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-
Research & development	1,479	457	3,875	2,500	2,600	9,432	2,700	2,800	2,900	3,000	11,400
General and administrative	1,026	1,034	1,560	1,600	1,700	5,894	1,800	1,900	2,000	2,100	7,800
Total expenses	2,506	1,492	5,435	4,100	4,300	15,327	4,500	4,700	4,900	5,100	19,200
Gain (loss) from operations	(2,506)	(1,492)	(5,435)	(4,100)	(4,300)	(15,327)	(4,500)	(4,700)	(4,900)	(5,100)	(19,200)
Other income/expense											
Interest income/expense	(382)	(68)	12	20	18	(18)	16	14	38	35	103
Change in value of preferred stock warrants	(3,417)	(140)	-	-	-	(140)	-	-	-	-	-
Total investment income and other	(3,799)	(209)	12	20	18	(159)	16	14	38	35	103
Loss before provision for income taxes	(6,305)	(1,700)	(5,423)	(4,080)	(4,282)	(15,485)	(4,484)	(4,686)	(4,862)	(5,065)	(19,097)
Deferred income tax benefit	-	-	-	-	-	-	-	-	-	-	-
Net loss/income	(6,305)	(1,700)	(5,423)	(4,080)	(4,282)	(15,485)	(4,484)	(4,686)	(4,862)	(5,065)	(19,097)
Net loss per share (basic)	(19.71)	(0.37)	(0.61)	(0.46)	(0.48)	(1.98)	(0.50)	(0.44)	(0.40)	(0.41)	(1.73)
Net loss per share (diluted)	(19.71)	(0.37)	(0.61)	(0.46)	(0.48)	(1.98)	(0.50)	(0.44)	(0.40)	(0.41)	(1.73)
Weighted average number of shares outstanding (basic)	320	4,587	8,885	8,880	8,930	7,821	9,005	10,605	12,205	12,305	11,030
Weighted average number of shares outstanding (diluted)	320	4,587	8,885	8,880	8,930	7,821	9,005	10,605	12,205	12,305	11,030

Source: Company Reports and Aegis Capital Corp. estimates

Required Disclosures

Price Target

Our 18-month price target is $25.00 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 $25.00 per share, given our estimate of a $270 million risk-adjusted net present value (rNPV) for the firm's pipeline. This assumes that the shares trade in line with the comp group average enterprise value of $270 million and that the firm has roughly 13 million shares outstanding and $45 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.

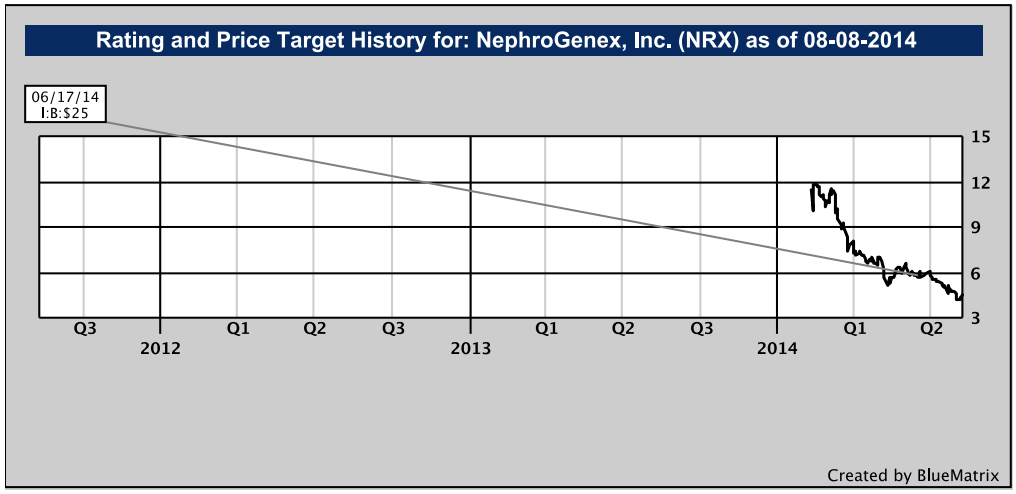
For important disclosures go to www.aegiscap.com.

Research analyst compensation is dependent, in part, upon investment banking revenues received by Aegis Capital Corp.

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	Percent	Investment Banking Services/Past 12 Mos. Percent
BUY [BUY]	81.13	55.81
HOLD [HOLD]	18.87	20.00
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

The information contained herein is based upon sources believed to be reliable but is not guaranteed by us and is not considered to be all inclusive. It is not to be construed as an offer or the solicitation of an offer to sell or buy the securities mentioned herein. Aegis Capital Corp., its affiliates, shareholders, officers, staff, and/or members of their families, may have a position in the securities mentioned herein, and, before or after your receipt of this report, may make or recommend purchases and/or sales for their own accounts or for the accounts of other customers of the Firm from time to time in the open market or otherwise. Opinions expressed are our present opinions only and are subject to change without notice. Aegis Capital is under no obligation to provide updates to the opinions or information provided herein. Additional information is available upon request.

Aegis Capital Corp.
(212) 813-1010
810 Seventh Avenue, 18th Floor
New York, New York 10019