



June 19, 2014

Key Metrics

NRX - NASDAQ	\$5.96
Pricing Date	Jun 18 2014
Price Target	\$25.00
52-Week Range	\$13.00 - \$5.00
Shares Outstanding (mm)	8.6
Market Capitalization (\$mm)	\$51.3
3-Mo Average Daily Volume	15,030
Institutional Ownership	NM
Debt/Total Capital	NM
ROE	NM
Book Value/Share	\$3.77
Price/Book	1.6x
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
2Q-Jun	--	--	(0.24)E	--	(0.39)E
3Q-Sep	--	--	(0.30)E	--	(0.37)E
4Q-Dec	--	--	(0.38)E	--	(0.40)E
FY	(19.71)	--	(1.26)E	--	(1.58)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.

NephroGenex, Inc.**Rating: Buy****Phase 3 Pyridorin™ Program Initiated****Investment Highlights:**

- **Phase 3 PIONEER Trial Initiates Enrollment.** This morning, NephroGenex announced that it has begun enrollment in a Phase 3 trial of its lead drug candidate, Pyridorin™ (pyridoxamine HCl), which is aimed at evaluating the safety and efficacy of the drug in patients with diabetic nephropathy. We anticipate that this placebo-controlled, multi-center, randomized, double-blinded trial should complete enrollment early next year and report interim data before the end of 2015. In our view, positive results could catalyze a transformative licensing agreement or an acquisition of NephroGenex by an established pharmaceutical company. In the wake of the initiation of patient dosing in this study, we reiterate our Buy rating on NephroGenex with an 18-month price target of \$25.00 per share.
- **Clinical 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.
- **Attractive Valuation.** NephroGenex, which went public in February 2014 in an IPO underwritten by Aegis Capital Corp. as sole book runner, currently trades at a market cap of ~\$50mm, with an enterprise value of under \$17mm. We believe that in late 2015 the company could trade at a market cap of > \$320mm, assuming that positive interim data is released from the Phase 3 PIONEER trial of Pyridorin™.

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				
			1QA	2QE	3QE	4QE		1QE	2QE	3QE	4QE	2015E
Revenue												
Product revenue	-	-	-	-	-	-	-	-	-	-	-	-
Service revenue	-	-	-	-	-	-	-	-	-	-	-	-
Research and other	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-	-	-	-	-	-	-
Expenses												
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-	-
Research & development	2,352	1,479	457	900	1,300	1,900	4,557	2,200	2,500	2,800	3,000	10,500
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	350	1,026	1,034	1,200	1,300	1,400	4,934	1,500	1,600	1,700	1,800	6,600
Total expenses	2,702	2,506	1,492	2,100	2,600	3,300	9,492	3,700	4,100	4,500	4,800	17,100
Gain (loss) from operations	(2,702)	(2,506)	(1,492)	(2,100)	(2,600)	(3,300)	(9,492)	(3,700)	(4,100)	(4,500)	(4,800)	(17,100)
Other income/expense												
Interest income/expense	(200)	(382)	(68)	30	26	22	10	18	14	38	35	105
Change in value of preferred stock warrants	(2)	(3,417)	(140)	-	-	-	(140)	-	-	-	-	-
Other income/expense	-	-	-	-	-	-	-	-	-	-	-	-
Total investment income and other	(202)	(3,799)	(209)	30	26	22	(131)	18	14	38	35	105
Loss before provision for income taxes	(2,904)	(6,305)	(1,700)	(2,070)	(2,574)	(3,278)	(9,622)	(3,682)	(4,086)	(4,462)	(4,765)	(16,995)
Deferred income tax benefit	-	-	-	-	-	-	-	-	-	-	-	-
Net loss/income	(2,904)	(6,305)	(1,700)	(2,070)	(2,574)	(3,278)	(9,622)	(3,682)	(4,086)	(4,462)	(4,765)	(16,995)
Net loss per share (basic)	(9.08)	(19.71)	(0.37)	(0.24)	(0.30)	(0.38)	(1.26)	(0.42)	(0.39)	(0.37)	(0.40)	(1.58)
Net loss per share (diluted)	(9.08)	(19.71)	(0.37)	(0.24)	(0.30)	(0.38)	(1.26)	(0.42)	(0.39)	(0.37)	(0.40)	(1.58)
Weighted average number of shares outstanding (basic)	320	320	4,587	8,580	8,630	8,680	7,619	8,755	10,355	11,955	12,055	10,780
Weighted average number of shares outstanding (diluted)	320	320	4,587	8,580	8,630	8,680	7,619	8,755	10,355	11,955	12,055	10,780

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 \$53 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.

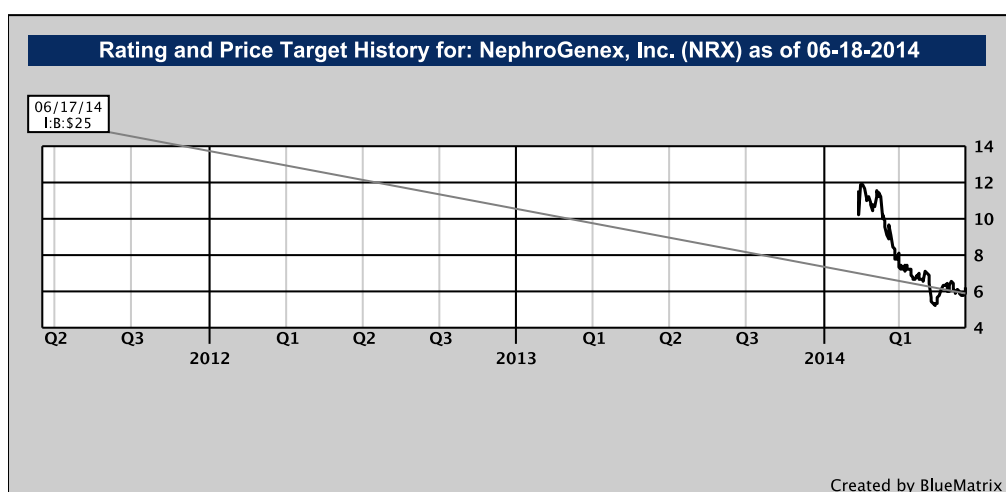
For important disclosures go to www.aegiscap.com.

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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]	83.02	50.00
HOLD [HOLD]	16.98	22.22
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.

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