Argos Therapeutics, Inc. (ARGS)

Data Read-out Coming Soon for Two Programs

MARKET OUTPERFORM | Price: $9.00 | Target Price: $17.00

MARKET DATA

Price	$9.00
52-Week Range:	$7.97 - $13.74
Shares Out. (M):	19.0
Market Cap ($M):	$171.0
Average Daily Vol. (000):	9.0
Cash (M):	$83
LT Debt (M):	$9

Source: Thomson Reuters and JMP Securities LLC

FY DEC		2013A	2014E	2015E
Revenue ($M)	1Q	$1.3	$0.8A	--
	2Q	$1.5	$0.8	--
	3Q	$1.0	$0.8	--
	4Q	$0.7	$0.3	--
	FY	**$4.4**	**$2.7**	**$0.2**
EPS	1Q	($34.19)	($1.05)A	--
	2Q	($29.91)	($0.57)	--
	3Q	($30.06)	($0.59)	--
	4Q	($36.19)	($0.64)	--
	FY	**($147.37)**	**($2.61)**	**($1.75)**
Previous FY		NC	($2.25)	($1.63)

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE

INVESTMENT HIGHLIGHTS

Argos reports 1Q14 ahead of data updates for two of its programs; reiterate our Market Outperform rating on Argos Therapeutics. Data is anticipated soon for two programs stemming from Argos' Arcelis platform - an immunotherapy platform designed to target mutated antigens from patients and jump-start adaptive immune responses without relying on a patient's CD4+ T cells to help. We expect an update on its Phase II combination study of AGS-003 immunotherapy for metastatic renal cell carcinoma (mRCC) at ASCO this month and top-line data from its AGS-004 program for HIV eradication later this summer. In our view, the read-out of these data and incremental data from open-label, Phase II AGS-003 studies beginning in 2H14 should increase investor confidence in the Arcelis platform mechanism of action. Our $17 price target is based on a risk-adjusted, NPV sum-of-the-parts analysis assigning ~$14/share to AGS-003 in mRCC and ~$3/share to AGS-003 in early stage RCC. We continue to believe the Arcelis platform is differentiated from the field of targeted immunotherapies and we recommend shares ahead of upcoming data.

ADAPT on track to complete screening this year. Almost one-third of patients have been enrolled in the ADAPT pivotal study, with screening failures holding steady around 50% mostly due to non-clear cell histology or co-morbidities. We anticipate more color into learning from the enrollment of ADAPT at ASCO in a poster presentation on Monday, June 2. In our view, the larger than anticipated non-clear cell population is supportive of Argos looking at this group of patients in a Phase II study to begin in 2H14, as these patients have no approved therapy.

Phase II trial update coming at ASCO. We anticipate an update on patients enrolled in the Phase II study of AGS-003 in combination with Sutent in mRCC on the Friday of ASCO. As a reminder, the overall median survival seen in patients from this study was 30.2 months (Figure 1), compared to the risk-matched historical control of ~15 months for patients on Sutent alone. The result was driven by the intermediate risk patients, with a median survival of 57.1 months, compared to an expected ~20 months in a risk-matched control. We look forward to an update on the entire cohort out to five years, including two patients still on combination therapy who remain in remission.

Phase 2b data for AGS-004 this summer can further validate Arcelis platform. We anticipate data in the coming months from an NIH-funded, placebo-controlled Phase IIb study of AGS-004 in chronic HIV patients (Figure 2). We see these data as an important value driver for Argos as additional proof of mechanism for the Arcelis platform, as AGS-004 and AGS-003 are derived from the same process. However, AGS-004 uses HIV mRNA in lieu of tumor RNA. The data expected this summer are from a 53-patient trial looking at viral load reduction in HIV patients after discontinuing anti-retroviral therapy (ART) for 12 weeks.

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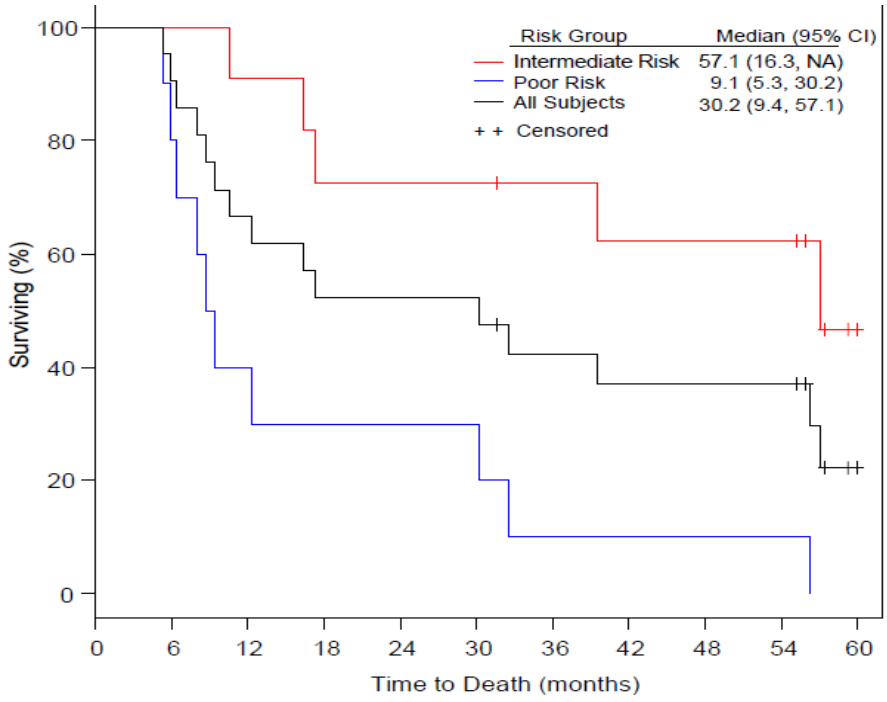
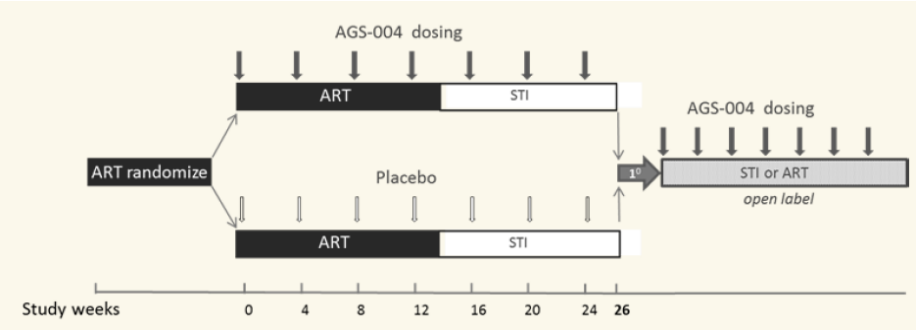
FIGURE 1. Survival Stratified by Risk at Last Data Cut



Source: Company reports

We believe that if patients with very few CD4+ T cells can launch an attack against the HIV virus due to AGS-004, it is supportive of the effect of AGS-003 where patients with tumor immunosuppression can launch an attack against a tumor. Minimally, we expect successful ART interruption for 12 weeks to correlate with the number of new memory cells targeting the virus, in line with what was observed in the subset of patients in the Phase IIa study who underwent a similar analysis. Although we believe the data should be positive, we consider this program as upside to our valuation as the regulatory and commercial path forward for the indication is unclear.

FIGURE 2. Phase 2b Design in Chronic HIV Patients



Source: Company reports

Phase 2 study in adults has begun. An investigator-initiated study in adults with chronic HIV has begun. The study is in two phases – the first is studying the kinetics of immune response with AGS-004 therapy and the second will look at the combination of AGS-004 with an HDAC inhibitor, vorinostat, that can release virus from the reservoir, allowing AGS-004 and the patient's immune system to attack the virus and potentially eradicate disease.

Earnings in line. Argos reported a loss per share of $1.05, greater than our estimate and consensus, based mostly on non-cash items. The company ended the quarter with $83M in cash, which we believe is sufficient to see it through to pivotal data. We anticipate an uptick in spend in 2H14 due to the initiation of various Phase 2 studies for AGS-003 and the leasing of a new commercial manufacturing facility.

Company Description

North Carolina-based Argos Therapeutics is a biopharmaceutical company focused on personalized immunotherapy for cancer and infectious disease. Its products are based in Argos's proprietary Arcelis platform with lead candidate AGS-003 in Phase III development for metastatic renal cell carcinoma in combination with Sutent as first line therapy. Argos is also developing AGS-004 for HIV eradication.

Investment Risks

Clinical. Drug development is inherently risky and Argos's studies may not succeed. Argos is conducting a Phase III study based on a single arm Phase II trial, which carries various risks. It is possible that the study may not be powered properly to demonstrate a benefit of AGS-003. There is also risk that the combination of AGS-003 and Sutent will not outperform Sutent alone due to changes in patient population between Phase II and Phase III. Phase II data may be driven by factors outside of the mechanism of action of AGS-003 and may not translate into Phase III success. Manufacturing of AGS-003 may hinder enrollment rates, pushing out timelines to data. The company is also developing AGS-004 for HIV, an area where there has yet to be a successful vaccine. It is possible that AGS-004 will not succeed in allowing patients to discontinue anti-retroviral therapy.

Regulatory. AGS-003 pivotal study ADAPT is being conducted under a SPA with FDA; however, this does not guarantee approval. It is not known if the EMA will want more data, either clinical or on manufacturing before allowing Argos to file for EMA approval. For AGS-004, the regulatory path forward and potential commercial market is unclear. The timing of validation of automated manufacturing could lead to a delay in filing the BLA for AGS-003.

Commercial. Argos is developing personalized immunotherapies for cancer and infectious disease. The development of these products requires patient sample, either blood or tumor from surgery or biopsy, and patient cells obtained through leukapheresis. This may represent a paradigm shift in treatment and physicians may not be comfortable working these therapies into practice, creating commercial risk. Argos is finalizing automation of its manufacturing process; timing delays add risk to regulatory filing submissions. Unanticipated problems with automation may hinder Argos' ability to produce its therapies.

Competitive. Oncology drug development is competitive, with various companies bringing technologies forward that could make Argos's products obsolete. There are other targeted immunotherapies in development that, if successful, could be applied in RCC, adding direct competition to AGS-003.

Balance sheet. Following its IPO, Argos has cash to reach pivotal data; however, the company may seek additional equity financing, leading to dilution risk for shareholders. The company may seek debt financing for AGS-003 manufacturing facilities.

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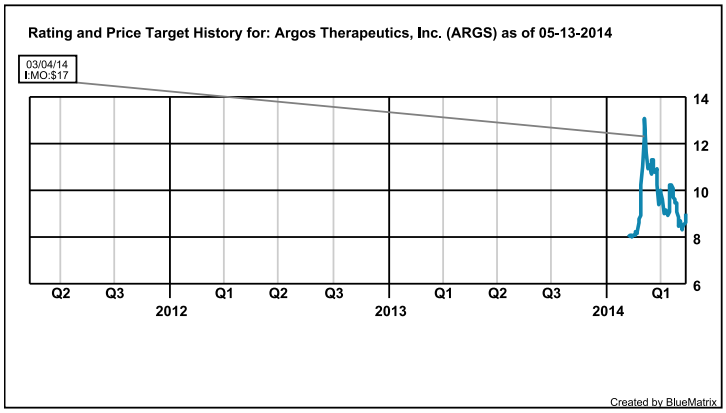
MARKET OUTPERFORM	Buy	254	*57.99%*	Buy	254	*57.99%*	98	*38.58%*
MARKET PERFORM	Hold	136	*31.05%*	Hold	136	*31.05%*	17	*12.50%*
MARKET UNDERPERFORM	Sell	5	*1.14%*	Sell	5	*1.14%*	0	*0%*
COVERAGE IN TRANSITION		43	*9.82%*		43	*9.82%*	0	*0%*
TOTAL:		438	*100%*		438	*100%*	115	*26.26%*

Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: JMP Securities.



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