

Argos Therapeutics (ARGS)

Overweight

ASCO '14 – Overlooked Data Shows '003 Potential & Progress

CONCLUSION

Argos oncology pipeline was the subject of a couple presentations at ASCO that we believe may be being overlooked by investors: One being a more in-depth look at the Phase II data for AGS-003 ('003) + Sutent which focused on poor-risk patients, the other an enrollment update for the ADAPT Phase III. The latter is more impactful in the immediate-term, in our view, and our KOL diligence and review of the data bodes well for the conduct and progress in ADAPT. In advance of additional updates from this Phase III program that we anticipate in 2H14 and interim data in the next ~12 months, we reiterate our Overweight rating and \$18 price target on Argos.

- **ADAPT Trial progressing well.** An important variable to the conduct of, and probability of a favorable efficacy outcome from the ADAPT trial, we and KOLs believe, is the level (%) of enrollment of intermediate risk patients. The company has a target of roughly 3/4 intermediate risk as these patients had superior performance in the Phase II. According to the data presented at ASCO, the study has enrolled 69% intermediate risk and 31% poor risk patients through May 12th. Our KOL diligence suggests that 50% intermediate risk could impact study performance and levels higher than 55% are acceptable, so the study is well within an adequate range, and favorable risk patients (defined by the Heng criteria) have not been enrolled. Additionally, over 130 patients had been enrolled and randomized at over 120 sites according to the published poster. The sites are primarily U.S. sites, but include sites in Canada, Spain, Italy, the UK, the Czech Republic, and Israel. Our diligence indicates that enrollment is brisk and we guesstimate that ~140 patients are enrolled and randomized at this point reflecting enrollment progress following the poster publication.
- **We continue to expect that Argos will hit its target of completing enrollment by year end.** Beyond updates likely on quarterly earnings calls, the company plans to present ADAPT updates at the 13th Annual Kidney Cancer Symposium in October 24-25 (Chicago, IL) and the Society of Urologic Oncology (SUO) Winter Meeting December 3-5 (Bethesda, MD). We look forward to these updates and additional progress in 2015 including possible interim safety and efficacy looks.

RISKS TO ACHIEVEMENT OF PRICE TARGET

Failure of AGS-003 in mRCC Phase III or other studies.

COMPANY DESCRIPTION

Argos Therapeutics develops dendritic cell vaccines for oncology and infectious diseases.

PRICE: US\$8.39

TARGET: US\$18.00

DCF of AGS-003 in metastatic renal cell carcinoma in the U.S. + a technology/pipeline value of ~\$5/share

Charles C. Duncan, PhD

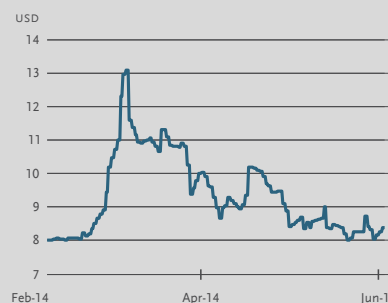
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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$18.00
FY14E Rev (mil)	—	US\$6.8
FY15E Rev (mil)	—	US\$0.0
FY14E EPS	—	US\$(3.36)
FY15E EPS	—	US\$(4.00)
52-Week High / Low	US\$13.74 / US\$7.97	
Shares Out (mil)		19.9
Market Cap. (mil)		US\$167.0
Avg Daily Vol (000)		65
Book Value/Share		US\$6.93
Net Cash Per Share		US\$8.04
Debt to Total Capital		0%
Div (ann)		NA
Fiscal Year End		Dec

Price Performance - 1 Year



Source: Bloomberg

YEAR	REVENUE (US\$ m)						EARNINGS PER SHARE (US\$)					
	Mar	Jun	Sep	Dec	FY	FY RM	Mar	Jun	Sep	Dec	FY	FY P/E
2013A	—	—	—	0.7	4.4	37.9x	—	—	—	(36.19)	(147.37)	NM
2014E	0.8A	2.0	2.0	2.0	6.8	24.6x	(1.05)A	(0.77)	(0.77)	(0.77)	(3.36)	NM
2015E	—	—	—	—	0.0	NA	—	—	—	—	(4.00)	NM

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Argos (\$ in thousands, except per share amounts)	2011	2012	2013	1Q14	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E
Income Statement																
Revenue																
License and milestone fees, grants	7,643	7,039	4,422	799	2,000	2,000	2,000	6,799	-	-	-	-	-	-	-	-
% total revenue	100%	100%	100%	100%	100%	100%	100%	100%	na	na	na	na	na	na	0%	0%
Revenues under collaborative agreements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% total revenue	0%	0%	0%	0%	0%	0%	0%	0%	na	na	na	na	na	na	0%	0%
Product sales and royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33,503	109,677
% total revenue	0%	0%	0%	0%	0%	0%	0%	0%	na	na	na	na	na	na	100%	100%
Total Revenues	7,643	7,039	4,422	799	2,000	2,000	2,000	6,799	-	-	-	-	-	-	33,503	109,677
Costs & Expenses:																
Cost of product revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,350	10,968
R&D	12,668	17,617	23,991	8,472	6,000	6,000	6,000	26,472	6,090	6,181	6,274	6,368	24,914	27,405	28,775	30,214
SG&A	3,704	6,136	4,662	1,933	4,000	4,000	4,000	13,933	4,060	4,121	4,183	4,245	16,609	17,440	21,799	25,069
Total Operating Expenses	16,372	23,752	28,653	10,406	10,000	10,000	10,000	40,406	10,150	10,302	10,457	10,614	41,523	44,844	53,925	66,251
Operating Income (loss)	(8,729)	(16,713)	(24,232)	(9,607)	(8,000)	(8,000)	(8,000)	(33,607)	(10,150)	(10,302)	(10,457)	(10,614)	(41,523)	(44,844)	(20,422)	43,426
Investment income	1	5	3	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(6,656)	(292)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expense	(4,756)	6,530	308	(394)	-	-	-	(394)	-	-	-	-	-	-	-	-
Income (loss) before income taxes	(20,141)	(10,471)	(23,922)	(10,001)	(8,000)	(8,000)	(8,000)	(34,001)	(10,150)	(10,302)	(10,457)	(10,614)	(41,523)	(44,844)	(20,422)	43,426
Income tax (benefit) provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax rate	-	-	-	-	35.0%	35.0%	35.0%	26.3%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Net operating loss	-	0	31,054	34,387	37,054	39,721	42,387	42,387	45,771	49,205	52,690	56,228	56,228	71,176	77,984	63,508
Net operating loss offset	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(20,141)	(10,471)	(23,922)	(10,001)	(8,000)	(8,000)	(8,000)	(34,001)	(10,150)	(10,302)	(10,457)	(10,614)	(41,523)	(44,844)	(20,422)	43,426
Net loss from non-controlling interest	(63)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss) available to common stockholders	(20,078)	(10,471)	(23,922)	(10,001)	(8,000)	(8,000)	(8,000)	(34,001)	(10,150)	(10,302)	(10,457)	(10,614)	(41,523)	(44,844)	(20,422)	43,426
Add back: accretion of redeemable convertible preferred stock	(927)	(352)	4,773	-	-	-	-	-	-	-	-	-	-	-	-	-
Less: net income attributable to participating securities	-	-	(14,726)	(863)	-	-	-	(863)	-	-	-	-	-	-	-	-
Net income (loss) to common shareholders	(21,004)	(10,824)	(33,875)	(10,864)	(8,000)	(8,000)	(8,000)	(34,864)	(10,150)	(10,302)	(10,457)	(10,614)	(41,523)	(44,844)	(20,422)	43,426
Basic Earnings Per Share	(32.88)	(9.10)	(\$147.37)	(\$1.05)	(\$0.77)	(\$0.77)	(\$0.77)	(\$3.36)	(\$0.98)	(\$0.99)	(\$1.01)	(\$1.02)	(\$4.00)	(\$2.74)	(\$1.25)	\$2.65
Diluted Earnings Per Share	(32.88)	(9.10)	(\$147.37)	(\$1.05)	(\$0.77)	(\$0.77)	(\$0.77)	(\$3.36)	(\$0.98)	(\$0.99)	(\$1.01)	(\$1.02)	(\$4.00)	(\$2.74)	(\$1.25)	\$2.65
Basic Shares Outstanding	639	1,190	230	10,377	10,377	10,377	10,377	10,377	10,377	10,377	10,377	10,377	10,377	16,377	16,377	16,377
Diluted Shares Outstanding	639	1,190	230	10,377	10,377	10,377	10,377	10,377	10,377	10,377	10,377	10,377	10,377	16,377	16,377	16,377

Proprietary to Piper Jaffray & Co. May 15, 2014
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Current disclosure information for this company can be found at:
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R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	354	61.78	90	25.42
HOLD [N]	203	35.43	21	10.34
SELL [UW]	16	2.79	0	0.00

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

Analyst Certification — Charles C. Duncan, PhD, Sr. Research Analyst — Roy Buchanan, Ph.D., Research Analyst

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- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
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