

Argos Therapeutics (ARGS)

Overweight

Phase 3 Enrollment And Cash Bode Well For Value Creation

CONCLUSION

Argos reported 2013 financials and updated the company's clinical programs. Lead pivotal program, ADAPT, the Phase III of dendritic cell "vaccine" AGS-003 for treating metastatic renal cell carcinoma (mRCC) remains on track for completion of enrollment this year, interim analyses in 2015, and final data in 1H16. The Phase IIb for AGS-004 in chronic HIV remains on track for mid-'14 data and two additional Phase IIs in HIV are also on track for initiation in 2H14. Management guided to cash sufficient through the ADAPT data and \$45-50M in 2014 cash burn, consistent with our expectations. With the mRCC phase III enrolling well in terms of patient numbers and characteristics, we reiterate our Overweight rating and \$18 price target on Argos.

- **AGS-003 making progress.** Consistent with prior guidance, Argos plans to initiate additional Phase II studies this year in early stage RCC, non-clear-cell metastatic RCC, and a general solid tumor study. The pivotal Phase III in metastatic RCC (ADAPT) is about 1/3 enrolled and management indicated it is enrolling according to the target 75% intermediate-risk, 25% poor-risk patient population.
- **AGS-004 is Argos' DC vaccine for HIV and the lead infectious disease candidate.** The Phase IIb has completed enrollment and is fully funded by the NIH. Two new planned studies, one in adults looking at viral eradication through the use of HDAC inhibitors plus AGS-004 and another attempting to eliminate the need for HAART in pediatric patients are being designed and expect to start in 2H14. Argos has a verbal indication from the NIH that the pediatric study will be funded by the institute. The adult study clinical costs are funded by CARE, while Argos is responsible for manufacturing. Although technically intriguing, we continue to keep the HIV programs as upside to our valuation framework at this time pending additional data or clarity on a capital efficient route through clinical development.

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\$10.26

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

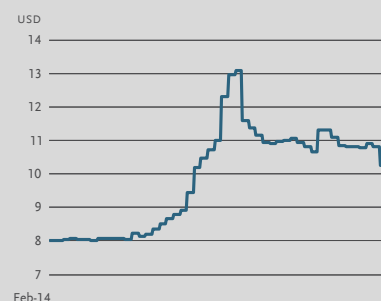
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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$18.00
FY14E Rev (mil)	—	US\$8.0
FY15E Rev (mil)	—	US\$0.0
FY14E EPS	—	US\$(1.61)
FY15E EPS	—	US\$(2.09)
52-Week High / Low	US\$13.74 / US\$7.97	
Shares Out (mil)		19.9
Market Cap. (mil)		US\$204.2
Book Value/Share		US\$4.50
Net Cash Per Share		US\$5.10
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	46.4x	—	—	—	(36.19)	(147.37)	NM
2014E	2.0	2.0	2.0	2.0	8.0	25.5x	(0.40)	(0.40)	(0.40)	(0.40)	(1.61)	NM
2015E	—	—	—	—	0.0	NA	—	—	—	—	(2.09)	NM

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Argos (\$ in thousands, except per share amounts)	2011	2012	1st 9 months 2013	4Q13	2013	1Q14E	2Q14E	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E
Income Statement																		
Revenue																		
License and milestone fees, grants	7,643	7,039	3,706	716	4,422	2,000	2,000	2,000	2,000	8,000	-	-	-	-	-	-	-	-
% total revenue	100%	100%	100%	-	100%	100%	100%	100%	100%	100%	na	na	na	na	na	na	0%	0%
Revenues under collaborative agreements	-	-	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
% total revenue	0%	0%	0%	-	0%	0%	0%	0%	0%	0%	na	na	na	na	na	na	0%	0%
Product sales and royalties	-	-	0	-	-	-	-	-	-	-	-	-	-	-	-	-	33,503	109,677
% total revenue	0%	0%	0%	-	0%	0%	0%	0%	0%	0%	na	na	na	na	na	na	100%	100%
Total Revenues	7,643	7,039	3,706	716	4,422	2,000	2,000	2,000	2,000	8,000	-	-	-	-	-	-	33,503	109,677
Costs & Expenses:																		
Cost of product revenue	-	-	0	-	-	-	-	-	-	-	-	-	-	-	-	-	3,350	10,968
R&D	12,668	17,617	16,922	7,069	23,991	6,000	6,000	6,000	6,000	24,000	6,090	6,181	6,274	6,368	24,914	27,405	28,775	30,214
SG&A	3,704	6,136	3,042	1,620	4,662	4,000	4,000	4,000	4,000	16,000	4,060	4,121	4,183	4,245	16,609	17,440	21,799	25,069
Total Operating Expenses	16,372	23,752	19,964	8,689	28,653	10,000	10,000	10,000	10,000	40,000	10,150	10,302	10,457	10,614	41,523	44,844	53,925	66,251
Operating Income (loss)	(8,729)	(16,713)	(16,258)	(7,973)	(24,232)	(8,000)	(8,000)	(8,000)	(8,000)	(32,000)	(10,150)	(10,302)	(10,457)	(10,614)	(41,523)	(44,844)	(20,422)	43,426
Investment income	1	5	3	-	3	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(6,656)	(292)	(1)	-	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expense	(4,756)	6,530	355	(47)	308	-	-	-	-	-	-	-	-	-	-	-	-	-
Income (loss) before income taxes	(20,141)	(10,471)	(15,901)	(8,021)	(23,922)	(8,000)	(8,000)	(8,000)	(8,000)	(32,000)	(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%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Net income (loss)	(20,141)	(10,471)	(15,901)	(8,021)	(23,922)	(8,000)	(8,000)	(8,000)	(8,000)	(32,000)	(10,150)	(10,302)	(10,457)	(10,614)	(41,523)	(44,844)	(20,422)	43,426
Net loss from non-controlling interest	(63)	-	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss) available to common stockholders	(20,078)	(10,471)	(15,901)	(8,021)	(23,922)	(8,000)	(8,000)	(8,000)	(8,000)	(32,000)	(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)	5,250	(477)	4,773	-	-	-	-	-	-	-	-	-	-	-	-	-
Less: net income attributable to participating securities	-	-	(14,726)	-	(14,726)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss) to common shareholders	(21,004)	(10,824)	(25,377)	(8,498)	(33,875)	(8,000)	(8,000)	(8,000)	(8,000)	(32,000)	(10,150)	(10,302)	(10,457)	(10,614)	(41,523)	(44,844)	(20,422)	43,426
Basic Earnings Per Share	(32.88)	(9.10)	(\$18.53)	(\$36.19)	(\$147.37)	(\$0.40)	(\$0.40)	(\$0.40)	(\$0.40)	(\$1.61)	(\$0.51)	(\$0.52)	(\$0.53)	(\$0.53)	(\$2.09)	(\$1.73)	(\$0.79)	\$1.68
Diluted Earnings Per Share	(32.88)	(9.10)	(\$18.53)	(\$36.19)	(\$147.37)	(\$0.40)	(\$0.40)	(\$0.40)	(\$0.40)	(\$1.61)	(\$0.51)	(\$0.52)	(\$0.53)	(\$0.53)	(\$2.09)	(\$1.73)	(\$0.79)	\$1.68
Basic Shares Outstanding	639	1,190	1,369	235	230	19,893	19,893	19,893	19,893	19,893	19,893	19,893	19,893	19,893	19,893	25,893	25,893	25,893
Diluted Shares Outstanding	639	1,190	1,369	235	230	19,893	19,893	19,893	19,893	19,893	19,893	19,893	19,893	19,893	19,893	25,893	25,893	25,893

Proprietary to Piper Jaffray & Co. March 29, 2014
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T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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SELL [UW]	20	3.38	0	0.00

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

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