Ardelyx Inc. (ARDX)

Q2:14 Earnings, Multiple Near-Term Catalysts Ahead, Reiterate OUTPERFORM

- **ARDX reported Q2 net income of $3.8M and ended the quarter with $117.8M in cash, boosted by net proceeds of $61M from its June 19 IPO.** Because development for its lead programs are being funded by partners, we forecast little to no cash burn for ARDX going forward.
- **ARDX received a $25M milestone payment from partner AstraZeneca in May, triggered by the start of a Phase IIb trial of tenapanor in hyperphosphatemia in ESRD patients on hemodialysis.** Tenapanor is also currently being evaluated in Phase II trials for CKD and IBS-C.
- **We expect near-term catalysts to focus investor interest.** Data from all three Phase II tenapanor trials is expected in 2014/2015: data from the IBS-C study is expected in Q4:14, and data from the hyperphosphatemia and CKD studies are expected in H1:15 and H2:15, respectively.
- **We expect clinical success for tenapanor.** We believe tenapanor's dual inhibition of sodium and phosphorus uptake and the subsequent reduction in water absorption will produce a clinical benefit in patients suffering from excessive levels of phosphorus and sodium in serum. The diversion of minerals and water into the stool should also aid in the treatment of constipation-related symptoms. Considering that the financial risk for its programs has been assumed by partners and the large market size of the indications its drugs are targeting, we believe ARDX has a very attractive risk/reward ratio.
- **Reiterate OUTPERFORM rating and $31 price target.** Our price target of $31 is derived by applying a 6 multiple to ARDX's share of 2022 tenapanor sales in the US, added to a 15 multiple of the royalty ARDX is expected to receive in 2022 for ex-US sales of tenapanor.

  Risks to the achievement of our price target include clinical or regulatory failure for tenapanor and failure to achieve sales or earnings estimates.

August 8, 2014

Price
$12.03

Rating
OUTPERFORM

12-Month Price Target
$31

David M. Nierengarten, Ph.D.
(415) 274-6862
david.nierengarten@wedbush.com

Dilip Joseph
(415) 273-7308
dilip.joseph@wedbush.com

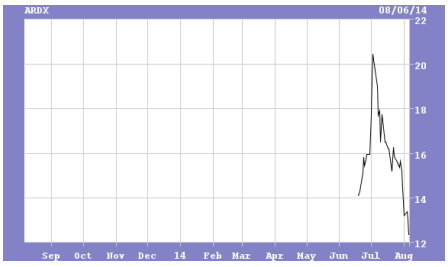
Liana Moussatos, Ph.D.
(415) 263-6626
liana.moussatos@wedbush.com

Company Information

Shares Outst (M)	18.3
Market Cap (M)	$220.6
52-Wk Range	$12.13 - $21.60
Book Value/sh	$N/A
Cash/sh	$6.43
Enterprise Value (M)	$102.8
LT Debt/Cap %	0.0
Cash Burn (M)	$0.0

Company Description

Ardelyx Inc. is developing small-molecule drugs for the treatment of cardio-renal, GI and metabolic diseases. Its lead product candidate, tenapanor, is in three ongoing Phase II trials for ESRD, CKD and IBS-C.



Source: Thomson Reuters

FYE Dec	2013A	2014E			2015E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	--	8.6A		N/AA	12.0E	15.3E	$14.3E
Q2 Jun	--	9.1A	11.2A	9.2A	14.0E	17.3E	25.6E
Q3 Sep	--	8.4E	11.5E	9.7E	20.6E	23.8E	19.2E
Q4 Dec	--	8.5E	11.8E	9.8E	22.6E	25.8E	33.2E
Year*	**28.9A**	**34.6E**	**43.0E**	**$37.3E**	**69.2E**	**82.2E**	**78.3E**
Change	--	19%			100%		
	2013A	**2014E**			**2015E**		
EPS	**ACTUAL**	**CURR.**	**PREV.**	**CONS.**	**CURR.**	**PREV.**	**CONS.**
Q1 Mar	--	($2.44)A		--	$0.24E	$0.21E	$0.10E
Q2 Jun	--	$0.20A	$3.86A	($0.00)A	$0.23E	$0.14E	$0.64E
Q3 Sep	--	$0.13E	$0.11E	$0.02E	$0.27E	$0.25E	$0.09E
Q4 Dec	--	$0.12E	$0.10E	$0.01E	$0.23E	$0.21E	$0.78E
Year*	**($5.82)A**	**$0.52E**	**$1.06E**	**($0.35)E**	**$0.97E**	**$0.81E**	**$1.42E**
P/E	--	--			--		
Change	--	109%			87%		

Consensus estimates are from Thomson First Call.
** Numbers may not add up due to rounding.*

Wedbush Securities does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Please see page 3 of this report for analyst certification and important disclosure information.

Investment Thesis

Ardelyx (NASDAQ:ARDX) is a clinical-stage company focused on developing small-molecule drugs that act locally within the gastrointestinal (GI) tract for the treatment of cardio-renal, GI and metabolic disorders. Its lead drug candidate, tenapanor, is an oral, non-absorbed inhibitor of NHE3, a sodium transporter expressed in the GI tract. Tenapanor is being developed to treat hyperphosphatemia in end-stage renal disease (ESRD) and late-stage chronic kidney disease (CKD), as well as constipation predominant irritable bowel syndrome (IBS-C). Clinical studies have demonstrated tenapanor's ability to reduce the absorption of dietary sodium and phosphorus and to increase the frequency of bowel movements, key factors in reducing the progression of kidney disease and alleviating the symptoms of IBS-C. AstraZeneca has licensed worldwide rights to tenapanor, while Ardelyx is eligible for milestones and royalties and retains US co-promotion rights.

Upcoming Milestones

Q4:14 Data from Phase 2b trial to treat IBS-C
H1:15 Data from Phase 2b trial to treat hyperphosphatemia in ESRD patients
H2:15 Data from a Phase 2a trial to treat late-stage CKD
H2:15 Potential start of pivotal Phase 3 trial(s) of tenapanor in hyperphosphatemia
H2:15 Potential start of Phase 2b trial of tenapanor to treat CKD

Financial Model

8/7/2014
Ticker: (ARDX:Nasdaq)
Ardelyx, Inc

Wedbush PacGrow Life Sciences
David M. Nierengarten, Ph.D.
415-274-6862

	2012	2013	Q1	Q2	Q3	Q4	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues:															
US Product Sales	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$10,264	$119,751	$277,496	$517,752	$800,125
ex-US royalties	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$5,482	$26,086	$52,235	$87,696
Licensing and other revenue	$3,182	$8,063	$3,236	$6,507	$5,609	$5,609	$20,961	$39,578	$84,720	$52,284	$52,284	$66,000	$66,000	$42,000	$42,000
Collaborative development revenue	$2,228	$20,865	$5,314	$2,630	$2,762	$2,900	$13,605	$29,598	$51,289	$62,342	$70,392	$76,195	$82,475	$89,274	$96,633
Total Revenues	**5,410**	**28,928**	**8,550**	**9,137**	**8,371**	**8,509**	**34,566**	**69,176**	**136,009**	**114,626**	**132,940**	**267,428**	**452,058**	**701,261**	**1,026,454**
Cost and Expenses:															
Cost of Sales	0	0	0	0	0	0	0	0	0	0	1,026	11,975	27,750	51,775	80,012
R&D	10,184	28,093	7,637	5,183	5,372	5,666	23,858	43,428	87,971	137,245	173,010	205,748	246,034	295,762	357,320
SG&A	4,031	3,700	1,377	1,203	1,275	1,352	5,207	6,268	7,913	9,990	15,178	55,377	94,813	154,877	225,470
Total Operating Expenses	**14,215**	**31,793**	**9,014**	**6,386**	**6,647**	**7,018**	**29,065**	**49,696**	**95,885**	**147,235**	**189,215**	**273,100**	**368,596**	**502,415**	**662,803**
Operating Income (Loss)	(8,805)	(2,865)	(464)	2,751	1,724	1,491	5,501	19,480	40,124	(32,610)	(56,275)	(5,672)	83,461	198,846	363,651
Net Interest Income (Expense)	(30)	(52)	(4)	(8)	884	909	1,781	3,893	5,046	5,688	5,876	4,541	4,991	7,286	11,948
Other non-operating Income (Expense)	(950)	(3,506)	(2,603)	1,010	0	0	0	0	0	0	0	0	0	0	0
Income Before Income Taxes	(9,785)	(6,423)	(3,071)	3,753	2,607	2,400	7,282	23,374	45,170	(26,922)	(50,399)	(1,132)	88,452	206,132	375,599
Provision for Income Taxes	0	141	0	0	138	127	265	5,477	15,810	0	0	595	14,690	72,146	131,460
Net Income (Loss)	(9,785)	(6,564)	(3,071)	3,753	2,469	2,273	7,017	17,897	29,361	(26,922)	(50,399)	(1,726)	73,762	133,986	244,139
GAAP EPS	**(11.32)**	**(5.82)**	**(2.44)**	**0.20**	**0.13**	**0.12**	**0.52**	**0.97**	**1.58**	**(1.37)**	**(2.55)**	**(0.09)**	**3.70**	**6.69**	**12.12**
Total Shares Outstanding	864	1,128	1,256	18,336	18,336	18,336	18,336	18,436	18,536	19,636	19,736	19,836	19,936	20,036	20,136
Cash Burn	0	0	0	0	0	0	0	0	0	(10,736)	(47,879)	(12,729)	0	0	0
Cash Balance	32,903	34,435	33,221	117,814	121,263	123,204	123,204	140,720	169,156	195,620	147,740	135,011	189,952	293,411	500,829

Analyst Biography

David Nierengarten, Ph.D.

David is an Analyst covering stocks in the Biotechnology/Biopharmaceuticals/BioDefense sector. His prior sell-side research experience at Robert W. Baird & Co. covered biotechnology companies of all market capitalizations, with a focus on oncology and rare diseases.

David received his B.S. (Biochemistry) from the University of Wisconsin-Madison and Ph.D. (Molecular and Cell Biology) from the University of California-Berkeley.

David's Edge: David's early stage venture capital investing experience gives him a balanced perspective on developmental-stage biotechnology companies and their ultimate risk/reward potential. His experience on the other side of that equation in a clinical-stage, venture backed biotechnology company provides him with insights into corporate operations. The combination of experiences creates a focus on value creation in this event-driven space.

Analyst Certification
I, David M. Nierengarten, Ph.D., Dilip Joseph, Liana Moussatos, Ph.D., certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

Disclosure information regarding historical ratings and price targets is available at http://www.wedbush.com/ResearchDisclosure/DisclosureQ214.pdf

Investment Rating System:
Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.
Underperform: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating Distribution (as of July 30, 2014)	**Investment Banking Relationships (as of June 30, 2014)**
Outperform:54% Neutral: 42% Underperform: 4%	Outperform:25% Neutral: 1% Underperform: 0%

The Distribution of Ratings is required by FINRA rules; however, WS' stock ratings of Outperform, Neutral, and Underperform most closely conform to Buy, Hold, and Sell, respectively. Please note, however, the definitions are not the same as WS' stock ratings are on a relative basis.

The analysts responsible for preparing research reports do not receive compensation based on specific investment banking activity. The analysts receive compensation that is based upon various factors including WS' total revenues, a portion of which are generated by WS' investment banking activities.

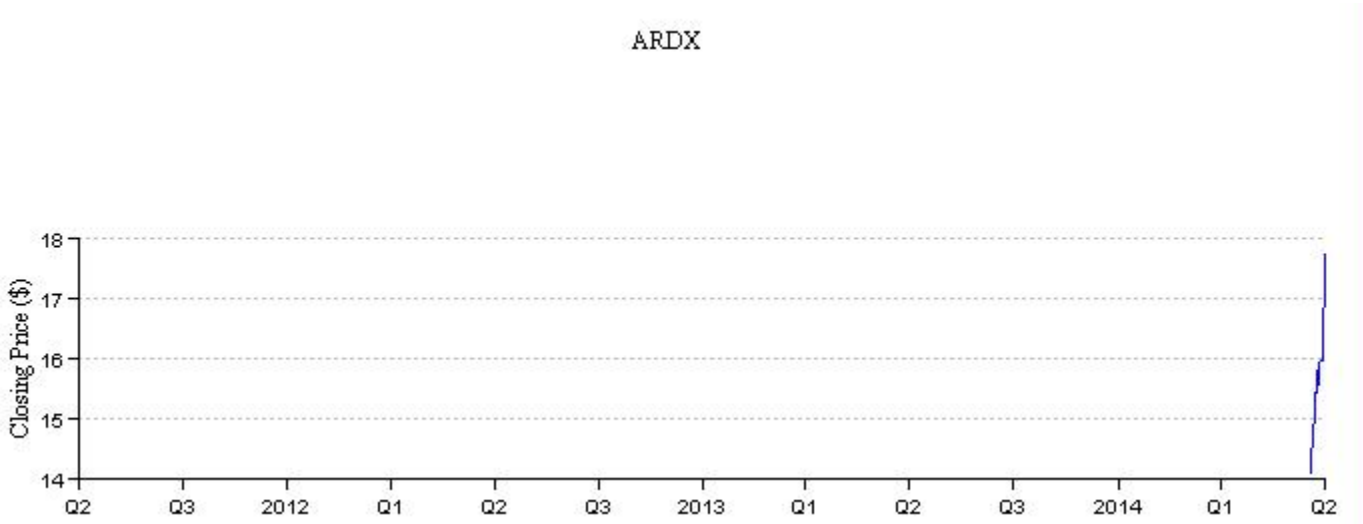
Wedbush Equity Research Disclosures as of August 8, 2014

Company	Disclosure
Ardelyx Inc.	1,3,5,7

Research Disclosure Legend
1. WS makes a market in the securities of the subject company.
2. WS managed a public offering of securities within the last 12 months.
3. WS co-managed a public offering of securities within the last 12 months.
4. WS has received compensation for investment banking services within the last 12 months.
5. WS provided investment banking services within the last 12 months.
6. WS is acting as financial advisor.
7. WS expects to receive compensation for investment banking services within the next 3 months.
8. WS provided non-investment banking securities-related services within the past 12 months.
9. WS has received compensation for products and services other than investment banking services within the past 12 months.

10. The research analyst, a member of the research analyst's household, any associate of the research analyst, or any individual directly involved in the preparation of this report has a long position in the common stocks.
11. WS or one of its affiliates beneficially own 1% or more of the common equity securities.
12. The analyst maintains Contingent Value Rights that enables him/her to receive payments of cash upon the company's meeting certain clinical and regulatory milestones.

Price Charts
Wedbush disclosure price charts are updated within the first fifteen days of each new calendar quarter per FINRA regulations. Price charts for companies initiated upon in the current quarter, and rating and target price changes occurring in the current quarter, will not be displayed until the following quarter. Additional information on recommended securities is available on request.



* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009.
Please access the attached hyperlink for WS' Coverage Universe: http://www.wedbush.com/services/cmg/equities-division/research/equity-research Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

OTHER DISCLOSURES

RESEARCH DEPT. * (213) 688-4505 * www.wedbush.com
EQUITY TRADING Los Angeles (213) 688-4470 / (800) 421-0178 * EQUITY SALES Los Angeles (800) 444-8076
CORPORATE HEADQUARTERS (213) 688-8000

WEDBUSH

EQUITY RESEARCH DEPARTMENT

(213) 688-4529

DIRECTOR OF RESEARCH
Mark D. Benson (213) 688-4435

MANAGER, RESEARCH OPERATIONS
Ellen Kang (213) 688-4529

RETAIL AND CONSUMER

Consumer Products
Rommel T. Dionisio (212) 938-9934
Alicia Reese (212) 938-9927

Footwear, Apparel and Accessories
Corinna Freedman (212) 668-9876

Healthy Lifestyles
Kurt M. Frederick, CFA CPA (415) 274-6822
Alicia Reese (212) 938-9927

Restaurants
Nick Setyan (213) 688-4519
Colin Radke (213) 688-6624

Specialty Retail: Hardlines
Joan L. Storms, CFA (213) 688-4537
John Garrett, CFA (213) 688-4523

Seth Basham, CFA (212) 938-9954

Specialty Retail: Softlines
Morry Brown (213) 688-4311
Taryn Kuida (213) 688-4505

INDUSTRIAL GROWTH TECHNOLOGY

Clean Technology
Craig Irwin (212) 938-9926

Environmental Services / Building Products
Al Kaschalk (213) 688-4539

Water and Renewable Energy Solutions
David Rose, CFA (213) 688-4319
James Kim (213) 688-4380

TECHNOLOGY, INTERNET, MEDIA & SOCIAL MEDIA

Communications and Application Software
Shyam Patil, CFA (213) 688-8062
Andy Cheng (213) 688-4548

Computer Services: Financial Technology
Gil B. Luria (213) 688-4501
Aaron Turner (213) 688-4429

Enterprise Software
Steve Koenig (415) 274-6801
Kevin Ikeda (213) 688-4423

Entertainment: Retail
Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Entertainment: Software
Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Internet: Media and Gaming
Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Internet: Social Media, Advertising & Technology
Shyam Patil, CFA (213) 688-8062
Andy Cheng (213) 688-4548

Media
James Dix, CFA (213) 688-4315

Movies and Entertainment
Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Semiconductors
Betsy Van Hees (415) 274-6869
Ryan Jue, CFA (415) 263-6669

LIFE SCIENCES AND HEALTH CARE

Biotechnology/Biopharmaceuticals/BioDefense
David M. Nierengarten, Ph.D. (415) 274-6862
Dilip Joseph (415) 273-7308

Emerging Pharmaceuticals
Liana Moussatos, Ph.D. (415) 263-6626

Healthcare Services - Managed Care
Sarah James (213) 688-4503

Medical Devices
Tao Levy (212) 938-9948

Medical Diagnostics and Life Sciences Tools
Zarak Khurshid (415) 274-6823

EQUITY SALES		EQUITY TRADING	
Los Angeles	(213) 688-4470 / (800) 444-8076	Los Angeles	(213) 688-4470 / (800) 421-0178
San Francisco	(415) 274-6800	San Francisco	(415) 274-6811
New York	(212) 938-9931	New York	(212) 344-2382
Boston	(617) 832-3700	Boston	(617) 832-3700
Minneapolis	(213) 688-6671	Milwaukee	(213) 688-4475
Chicago	(213) 688-4418		

CORPORATE HEADQUARTERS
1000 Wilshire Blvd., Los Angeles, CA 90017-2465
Tel: (213) 688-8000 www.wedbush.com