Ardelyx, Inc. (ARDX)

CSO Retirement: Minimal Impact on Share Price

MARKET DATA

Price	$14.14
52-Week Range:	$11.37 - $21.60
Shares Out. (M):	17.1
Market Cap ($M):	$241.8
Average Daily Vol. (000):	15.0
Cash (M):	$33
Cash/Share:	$1.95
Enterprise Value (M):	$238
LT Debt (M):	$0

Source: Thomson Reuters and JMP Securities LLC

FY DEC		2013A	2014E	2015E
Revenue ($M)	1Q	--	$8.6A	$13.3
	2Q	--	$9.1A	$34.0
	3Q	--	$12.1	$14.7
	4Q	--	$12.6	$40.6
	FY	**$28.9**	**$42.4**	**$102.6**
EPS	1Q	--	($0.23)A	$0.14
	2Q	--	$0.18A	$1.29
	3Q	--	$0.18	$0.09
	4Q	--	$0.16	$1.53
	FY	**($0.50)**	**$0.41**	**$2.81**
	P/E	NM	34.5x	5.0x

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE

MARKET OUTPERFORM | Price: $14.14 | Target Price: $26.00

INVESTMENT HIGHLIGHTS

We reiterate our Market Outperform rating, with a year-end price target of $26 based on DCF and SOTP valuation methodologies, after Ardelyx announced the upcoming retirement of Dominique Charmot, Ph.D., Chief Scientific Officer effective December 23, 2014. Dr. Charmot cites his desire to spend more time with family. Dr. Charmot's contribution has been instrumental to the discovery and early-stage development of ARDX pre-clinical and clinical stage assets from the company's inception in 2011 to its IPO earlier this year. We continue to believe that these assets, including tenapanor, will effectively progress in the clinic and will present important market catalysts.

ARDX is a biopharmaceutical company focused on the development of therapies for the treatment of various cardiovascular, renal, and digestive disorders. By leveraging its unique platform combining non-systemic small molecule inhibitors and a proprietary cell culture system, ARDX has advanced tenapanor, an innovative candidate for the treatment of kidney disease and irritable bowel syndrome (IBS-C) in partnership with AstraZeneca. In addition to demonstrating pre-clinical and clinical efficacy in reducing the absorption of dietary sodium and phosphate, tenapanor has been shown to be safe and well-tolerated having completed Phase I safety. ARDX expects data from its Phase IIB trial of tenapanor in IBS-C in 4Q14, from its Phase IIB trial in hyperphosphatemia patients with end-stage renal disease (ESRD-Pi) in 1H15, and from its Phase IIA trial in patients with chronic kidney disease (CKD) in 2H15.

Tenapanor is poised to capture considerable market share by treating symptoms of renal insufficiency.. The various readouts from multiple Phase II clinical studies offer attractive value inflection points that can drive market valuation to levels seen in companies with similar products that are approved or in development. The recent capital raise along with collaboration fees and milestones received from partnerships with AstraZeneca and Sanofi make us bullish on shares of ARDX.

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FIGURE 1. ARDX Milestones

Timing	Program	Catalyst
4Q14	Tenapanor	Ph. IIB IBS-C results expected
1H15	Tenapanor	Ph. IIB ESRD-Pi results expected (potential $20MM milestone payment)
2H15	Tenapanor	Ph. IIA CKD-T2DM results expected
2H15	Tenapanor	Initiation of Ph. III trial in ESRD-Pi (triggers $50 million milestone payment)

Source: Company Reports

Company Description

Ardelyx is a biopharmaceutical company focused on the development of therapies for the treatment of various cardiovascular, renal, and digestive disorders. By leveraging its unique platform combining nonsystemic small molecule inhibitors and proprietary cell culture system, Ardelyx has advanced tenapanor, an innovative candidate for the treatment of kidney disease and irritable bowel syndrome (IBS-C) in partnership with AstraZeneca. In addition to demonstrating preclinical and clinical efficacy in reducing the absorption of dietary sodium and phosphate, tenapanor has been shown to be safe and well-tolerated, having completed Phase I safety. Ardelyx expects data from its Phase IIB trial of tenapanor in IBS-C in 4Q2014, from its Phase IIB trial in hyperphosphatemia patients with end-stage renal disease (ESRD-Pi) in 1H2015, and its Phase IIA trial in patients with chronic kidney disease (CKD) in 2H15. Ardelyx also has research and development partnerships in place for its preclinical NaP2b inhibitor program with Sanofi.

Investment Risks

Clinical and Regulatory. If tenapanor is not able to meet any of its primary outcomes or suffers from safety and tolerability issues, Ardelyx and AstraZeneca may choose to end development in any of its current indications. Additionally, if the FDA and EMEA do not approve tenapanor, Ardelyx's stock price would likely suffer.

Partnering. Ardelyx has partnered with AstraZeneca in the development of tenapanor and with Sanofi in the development of RDX002. AstraZeneca is responsible for the continued clinical and commercial development of tenapanor and may decide to end development for one or more indications. Additionally, Sanofi may not exercise its option to license RDX002 for clinical development. If it were necessary for Ardelyx to develop and market any of its programs due to the loss or inability to retain a partner, it may be difficult to develop an internal commercial structure. Management has limited experience in commercial and marketing activities.

Reimbursement and Commercial. The reimbursement landscape for dialysis drugs has shifted dramatically in recent years. In 2010, CMS introduced requirements for the fixed reimbursement "bundle" that have forced negative pricing pressure on injectables, such as erythropoietin-stimulating agents (e.g., EPO). The Protecting Access to Medicare Act of 2014 places ESRD oral therapeutics into the bundle beginning in 2024. The potential lack of separate reimbursement under Part D could make tenapanor unprofitable if these impacts on revenue are outpaced by rising costs of manufacture and marketing.

Competitive. There are a number of marketed and OTC therapies for several indications that Ardelyx is pursuing. There are several prescribed phosphate binders approved (Renagel/Renvela, PhosLo/Phoslyra, and Fosrenol), and in development (Zerenex, Alfaren, and Velphoro) for hyperphosphatemia. Sevlamer, the active ingredient in Renagel, goes off patent in 2014. Additionally, the IBS-C market has a number of OTC competitors (Miralax, Metamucil, Fibercon, Ex-lax) and several recently approved therapeutics (Linzess and Amitza). The CKD market is populated by a number of generic Angiotensin-converting enzyme (ACE) inhibitors and Angiotensin II receptor blockers (ARBs) that have similar minor efficacy in type 2 diabetic patients with moderately increased albuminuria.

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Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.
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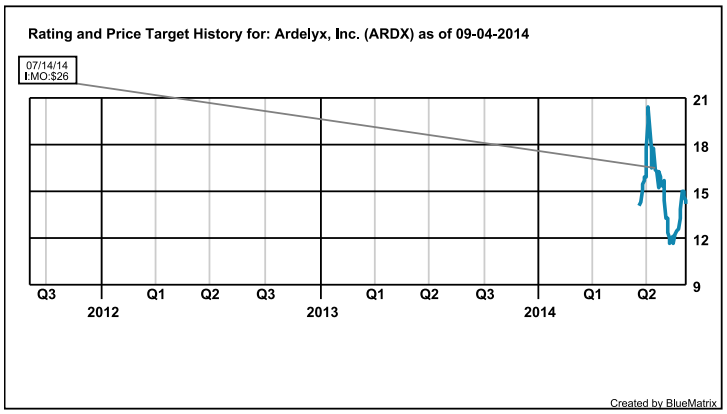
MARKET OUTPERFORM	Buy	272	*60.44%*	Buy	272	*60.44%*	105	*38.60%*
MARKET PERFORM	Hold	138	*30.67%*	Hold	138	*30.67%*	19	*13.77%*
MARKET UNDERPERFORM	Sell	4	*0.89%*	Sell	4	*0.89%*	0	*0%*
COVERAGE IN TRANSITION		36	*8.00%*		36	*8.00%*	0	*0%*
TOTAL:		450	*100%*		450	*100%*	124	*27.56%*

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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