

Argos Therapeutics (ARGS)

Overweight

Steady Progress and Good Cash Sets-up Next 6-18 Month Newsflow

CONCLUSION

Argos reported 1Q14 results and most importantly updated the company's clinical programs. Two posters are being presented at ASCO in a few weeks, one of which will have updates on enrollment of the ongoing Phase III for AGS-003 + Sutent. Enrollment is largely on target, with ~70%+ at intermediate risk and completion around YE14. The company ended the quarter with \$83M, guided to fund operations into 2H15 and to cash utilization of \$45-50M during 2014. In light of a possible platform validation from the HIV Phase IIb within months and Phase III update as well as longer term potential in mRCC for AGS-003, we reiterate our Overweight rating and \$18 price target on Argos.

- **AGS-003 in metastatic renal cell carcinoma (mRCC)** remains the major focus for Argos. The data presented at ASCO is likely to bolster physician interest in and provide incremental (but not likely view-changing) details on the program. That said, the first poster (abstract #4524, poster board #16 presented May 30th, Friday at 1PM) from the prior Phase II of AGS-003 in mRCC will feature 2 patients still on treatment and in remission for over 5 years. An impressive feat in this patient population. Around 130 patients have been enrolled in the ADAPT Phase III as of last week. The ASCO update will be presented Monday June 2nd at the 1:15 to 5PM session (abstract #TPS4599, poster board #162A). Interim safety and futility/efficacy analyses are on track for 2015 with primary unblinding and analysis in 2016.
- **Proof of concept Phase IIb data** for AGS-004 in HIV will be presented in the coming months. Recall that this study is fully NIH funded. Prior data indicated a number of patients with extended reductions in viral load following anti-retroviral treatment interruption. The Phase II "viral eradication" study in adult patients recently began enrolling and a Phase II looking to eliminate ART in pediatric patients will start in the 2nd half. The adult study is an IST and is funded by CARE (The Collaboratory of AIDS Researchers for Eradication).

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\$9.00

TARGET: US\$18.00

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

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$18.00
FY14E Rev (mil)	US\$8.0	US\$6.8
FY15E Rev (mil)	—	US\$0.0
FY14E EPS	US\$(1.61)	US\$(3.36)
FY15E EPS	US\$(2.09)	US\$(4.00)
52-Week High / Low	US\$13.74 / US\$7.97	
Shares Out (mil)	19.9	
Market Cap. (mil)	US\$179.1	
Avg Daily Vol (ooo)	79	
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	40.7x	—	—	—	(36.19)	(147.37)	NM
2014E	0.8A	2.0	2.0	2.0	6.8	26.3x	(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

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N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

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			Count	Percent
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HOLD [N]	204	35.42	20	9.80
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