

Achaogen (AKAO)

Achaogen Reports 3Q14; Maintain NEUTRAL Rating

- **Achaogen reported 3Q14 loss per share of \$0.47**, a greater loss than our estimate (\$0.16) and consensus (\$0.27) due to decreased revenue and increased R&D expense. The company ended the quarter with \$72M in cash which we believe is sufficient to see it through 2016.
- **CARE up and running but tweaks to enrollment anticipated.** Achaogen's pivotal study for its next-generation aminoglycoside, plazomicin, began enrollment in 3Q14 with all sites expected to be on-line in 1Q15. The company noted that enrollment has been slower than anticipated; however, Achaogen management believes data in 1H17 is still achievable. The company is working with regulators to make amendments to improve pace of enrollment; we anticipate an update in 1Q15.
- **Supportive study details expected early next year.** Achaogen is working with regulators to define parameters of supportive studies for plazomicin, needed to fill out the plazomicin safety database with an additional 120 patients on drug. We anticipate these studies are likely to be open label and may enroll patients not eligible for the pivotal study, such as those resistant to last-resort drug colistin.
- **Federal initiatives could be upside.** There are two initiatives being discussed in congress - ADAPT and DISARM - that could make the regulatory and commercial environment for antibiotics more favorable. In our view, ADAPT could be beneficial to Achaogen as it may require less clinical data for approval of a drug that targets patients with high mortality rates stemming from resistant infections. DISARM has potential to allow greater pricing flexibility in the hospital setting for antibiotics which we believe would be a boon for antibiotic companies in general.
- **We maintain our NEUTRAL rating and \$9 price target.** Our price target is achieved by applying a 5x multiple on plazomicin peak US sales of ~\$225M and a 15x multiple on plazomicin peak royalty revenue from EU sales, discounted by 35%. Risks to our price target include failure of plazomicin to enroll its pivotal study on time for data in 1H17 or failure of plazomicin to be superior to colistin in its pivotal study.

November 10, 2014

Price
\$9.68

Rating
NEUTRAL

12-Month Price Target
\$9

Heather Behanna, Ph.D.
(415) 274-6874
heather.behanna@wedbush.com

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

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

Company Information

Shares Outst (M)	17.8
Market Cap (M)	\$171.9
52-Wk Range	\$7.72 - \$19.69
Book Value/sh	\$4.28
Cash/sh	\$4.20
Enterprise Value (M)	\$97.4
LT Debt/Cap %	0%
Cash Burn (M)	\$16.8

Company Description

Achaogen is a biopharmaceutical company based in South San Francisco, California, focused on antibiotics for multi-drug resistant infections.



Source: Thomson Reuters

FYE Dec	2013A	2014E			2015E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	\$3.5A	\$6.0A		\$6.0A	\$5.1E	\$4.0E	\$5.4E
Q2 Jun	\$4.5A	\$5.2A		5.2A	\$5.2E	\$4.0E	5.5E
Q3 Sep	\$5.3A	\$4.5A	\$6.0A	6.0A	\$5.5E	\$4.0E	5.7E
Q4 Dec	\$5.2A	\$5.0E	\$6.0E	6.1E	\$5.0E	\$4.0E	5.8E
Year*	\$18.5A	\$20.7E	\$23.2E	\$23.0E	\$20.8E	\$16.0E	\$23.6E
Change	-90%	12%			0%		
	2013A	2014E			2015E		
EPS	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	(\$10.00)A	(\$1.00)A		(\$1.00)A	(\$0.23)E	(\$0.36)E	(\$0.61)E
Q2 Jun	(\$11.09)A	(\$0.20)A		(0.20)A	(\$0.23)E	(\$0.37)E	(0.79)E
Q3 Sep	(\$0.38)A	(\$0.47)A	(\$0.16)A	(0.25)A	(\$0.24)E	(\$0.38)E	(0.72)E
Q4 Dec	(\$0.54)A	(\$0.22)E	(\$0.21)E	(0.24)E	(\$0.29)E	(\$0.39)E	(0.81)E
Year*	(\$33.83)A	(\$1.89)E	(\$1.57)E	(\$1.25)E	(\$1.00)E	(\$1.51)E	(\$1.10)E
P/E	--	--			--		
Change	-5222%	94%			47%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

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Figure 1: Estimated Financial Model



Heather Behanna, Ph.D.

11/10/2014

Achaogen

Annual Financial Results & Projections
(\$ in thousands except per share data)

	FY:13A	Q1	Q2	Q3	Q4	FY:14E	FY:15E	FY:16E	FY:17E	FY:18E	FY:19E	FY:20E
REVENUES												
Plazomicin US	0	0	0	0	0	0	0	0	0	899	6,543	21,112
Collaborations, contract revenue, royalties	18,512	5,988	5,203	4,520	5,000	20,711	20,764	18,000	0	0	0	0
TOTAL	18,512	5,988	5,203	4,520	5,000	20,711	20,764	18,000	0	899	6,543	3,368
EXPENSES												
COGS	0	0	0	0	0	0	0	0	0	0	796	1,915
R&D expense	23,484	6,605	6,195	10,678	6,700	30,178	29,509	34,067	36,000	32,000	32,000	32,000
SG&A	6,992	2,617	2,346	2,175	2,208	9,346	9,053	9,421	12,500	32,500	67,016	76,477
TOTAL	30,476	9,222	8,541	12,853	8,908	39,524	38,562	43,488	48,500	64,500	99,812	110,392
Operating Income	(11,964)	(3,234)	(3,338)	(8,333)	(3,908)	(18,813)	(17,798)	(25,488)	(48,500)	(63,601)	(93,269)	(89,110)
Interest (expense) and other, net	(1,341)	(221)	(217)	0	(39)	(477)	(39)	0	0	0	0	0
PRETAX INCOME	(13,112)	(3,455)	(3,507)	(8,333)	(3,947)	(19,290)	(17,837)	(25,488)	(48,500)	(63,601)	(93,269)	(89,110)
Taxes	0	0	0	0	0	0	0	0	0	0	0	0
NET INCOME	(13,112)	(3,455)	(3,507)	(8,333)	(3,947)	(19,242)	(17,837)	(25,488)	(48,500)	(63,601)	(93,269)	(89,110)
GAAP EPS (fully taxed)	(33.83)	(1.00)	(0.20)	(0.47)	(0.22)	(1.89)	(0.89)	(1.27)	(2.03)	(2.62)	(3.77)	(3.23)
Diluted Shares Outstanding	388	3,456	17,691	17,741	17,791	14,170	19,938	20,138	24,088	24,306	24,756	27,581
Cash Burn	(10,864)	(2,867)	(2,796)	(7,768)	(3,408)	(16,839)	(15,598)	(23,088)	(45,500)	(59,601)	(83,269)	(79,110)
Cash Balance	83,182	84,937	74,496	72,030	64,622	64,622	49,024	59,776	70,676	95,675	113,926	152,316

Source: Company data, Wedbush Securities, Inc.

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Analyst Biography

Heather Behanna, Ph.D. is an Analyst covering stocks in the Biotechnology/Biodefence sector. Her prior sell-side research experience at JMP Securities focused on anti-infective, orphan and oncology companies of various market caps.

Heather received her Ph.D.(Chemistry) at Northwestern University, M.Sc. (Organic Chemistry) from the Weizmann Institute of Science and B.S. (Biopsychology) from Tufts University. She also completed a postdoctoral fellowship at the Feinberg Medical School in CNS Drug Discovery.

Heather's Edge: Heather's experience working at a global pharmaceutical company as a medicinal chemist gives her a novel perspective for evaluating developmental stage biotech companies. Her experience in various therapeutic areas on the science and corporate side gives her focus on value creation.

Analyst Certification

I, Heather Behanna, Ph.D., David M. Nierengarten, Ph.D., Dilip Joseph, 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.

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Company	Disclosure
Achaogen	1

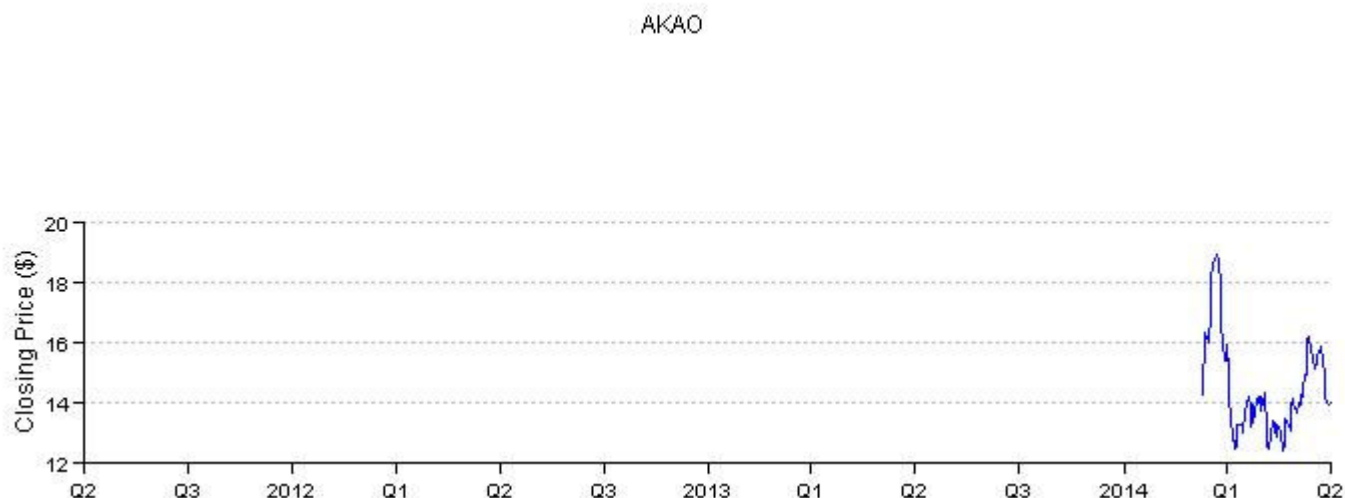
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WEDBUSH

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

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

RETAIL CHANNEL CHECKING GROUP

Lupine Skelly (505) 417-5427

INDUSTRIAL GROWTH TECHNOLOGY

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 Equipment

Scott Thompson (212) 938-9933

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

Entertainment: Retail

Michael Pachter (213) 688-4474
Alicia Reese (212) 938-9927
Nick McKay (213) 688-4343

Entertainment: Software

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343

Internet: Media and Gaming

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Alicia Reese (212) 938-9927

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
Alicia Reese (212) 938-9927
Nick McKay (213) 688-4343

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

Heather Behanna, Ph.D. (415) 274-6874

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

Los Angeles (213) 688-4470 / (800) 444-8076
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CORPORATE HEADQUARTERS

1000 Wilshire Blvd., Los Angeles, CA 90017-2465

Tel: (213) 688-8000 www.wedbush.com