

Aldeyra Therapeutics (ALDX)
Rating: Buy

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With Clinical Trials Underway, Focus Turns to Data; Raising Price Target to \$14

Stock Data		03/19/2015	
Price		\$10.60	
Exchange		NASDAQ	
Price Target		\$14.00	
52-Week High		\$13.50	
52-Week Low		\$3.00	
Enterprise Value (MM)		\$24	
Market Cap (MM)		\$66	
Public Market Float (MM)		1.0	
Shares Outstanding (MM)		6.2	
3 Month Avg Volume		23,183	
Short Interest (MM)		0.02	
Balance Sheet Metrics			
Cash (MM)		\$8.5	
Total Debt (MM)		\$1.3	
Total Cash/Share		\$1.53	
Book Value/Share		\$1.13	
EPS Diluted			
Full Year - Dec	2013A	2014A	2015E
1Q	(13.03)	(0.40)	(0.39)
2Q	(5.47)	(1.56)	(0.39)
3Q	2.76	(0.36)	(0.40)
4Q	18.47	(0.36)	(0.40)
FY	3.49	(2.51)	(1.59)
Revenue (\$M) Diluted			
Full Year - Dec	2013A	2014A	2015E
1Q	0.00	0.00	0.00
2Q	0.00	0.00	0.00
3Q	0.00	0.00	0.00
4Q	0.00	0.00	0.00
FY	0.00	0.00	0.00



A pivotal year for clinical studies. Aldeyra plans to conduct two clinical studies with its lead drug candidate, NS2, in 2015. The first study is a Phase 2, double-blind, placebo-controlled trial for Sjogren-Larsson Syndrome (SLS) being conducted at the University of Nebraska medical center, the leading US center for SLS. The study began enrolling patients on March 17, and the results from the study are expected in 2H15. The second study is a Phase 2 trial of NS2 for treating noninfectious anterior uveitis. Aldeyra announced that the US Food and Drug Administration has accepted its amended protocol for this study, and the company plans to initiate the trial in the near-future, pending approval by Institutional Review Boards. We expect enrollment in this second study to begin in 1H15, and preliminary results could be available by the end of 2015.

Management considering new products and indications. Management has been exploring potential new indications for NS2, including autoimmune diseases and local inflammation. For example, at the 2015 Annual Meeting of the Association for Research in Vision and Ophthalmology, the company presented efficacy evidence using NS2 to treat ocular fibrosis in a preclinical model of photorefractive keratectomy. We believe management is also considering developing additional drug candidates, such as other aldehyde traps and treatments for rare diseases.

Strong cash position. In January 2015, Aldeyra completed two private placements with gross proceeds of approximately \$9.8 million. With pro forma cash of nearly \$18 million, we believe the company could fund operations through 2016.

Financial update. Aldeyra reported 2014 results on March 17 and held its conference call early yesterday morning. The company reported no revenues, in-line with our estimate, and a net loss of \$9.6 million, compared to our estimate of \$9.8 million.

Changes to our financial model. We are adjusting our financial model to reflect 2014 financials and 2015 guidance. The changes to our model include: 1) decreasing the projected general and administrative expenses; and 2) adjusting the number of discount periods. For 2015, we currently model no revenues and estimate a net loss of \$10.5 million.

Valuation. We continue to rate the shares of Aldeyra as Buy and are raising our 12-month price target to \$14.00 per share, up from \$13.00. We derive our per share price based on the average of two valuation methods: 1) price-sales multiple (8x 2025 sales estimate at 15% discount); and 2) price-earnings multiple (25x 2025 earnings estimate at 15% discount).

Risks: 1) clinical; 2) commercial; 3) regulatory; 4) financial; and 5) intellectual property.

Aldeyra Historical Income Statement and Financial Projections

\$ ('000) Except Per Share Data	FY 2013A	FY 2014A	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E	FY 2025E
Revenues	-	-	-	-	1,175	6,753	14,321	21,396	31,464	41,672	53,989	66,476	77,144
COGS	-	-	-	-	76	405	788	1,070	1,573	2,084	2,699	3,324	3,857
Gross Income	-	-	-	-	1,098	6,348	13,534	20,326	29,890	39,589	51,289	63,153	73,287
Research & Development	1,542	3,708	6,243	6,734	7,007	7,292	7,588	7,896	7,816	7,508	9,896	12,230	14,250
G&A	2,135	3,563	4,131	4,299	4,586	4,964	5,373	5,816	8,388	11,076	14,384	17,693	20,478
Operating Income (Loss)	(3,676)	(7,271)	(10,374)	(11,033)	(10,495)	(5,908)	573	6,614	13,687	21,005	27,009	33,230	38,558
Pretax Income (Loss)	1,110	(9,574)	(10,542)	(11,201)	(10,663)	(6,076)	405	6,446	13,518	20,837	26,841	33,062	38,390
Income Taxes (Benefit)	-	-	-	-	-	-	-	-	-	-	5,278	11,241	13,052
Net Income	1,110	(9,574)	(10,542)	(11,201)	(10,663)	(6,076)	405	6,446	13,518	20,837	21,563	21,821	25,337
Basic EPS	3.49	(2.51)	(1.59)	(1.43)	(1.19)	(0.59)	0.03	0.55	1.11	1.66	1.67	1.64	1.84
Diluted EPS	0.45	(3.09)	(1.59)	(1.43)	(1.19)	(0.59)	0.03	0.54	1.10	1.64	1.65	1.62	1.83
Basic Shares Outstanding	318	3,818	6,645	7,814	8,984	10,538	11,322	11,722	12,122	12,522	12,922	13,322	13,722
Diluted Shares Outstanding	857	3,851	6,645	7,814	8,984	10,538	11,389	11,856	12,256	12,656	13,056	13,456	13,856

Source: Company reports and H.C. Wainwright estimates

Aldeyra Historical Balance Sheet

S ('000)	FY 2012A	FY 2013A	FY 2014A
Assets			
Cash & cash equivalents	1,224	3,262	8,527
Preferred stock issuance receivable	750	-	-
Prepaid expenses and other	3	8	233
Total Current Assets	1,977	3,271	8,760
Deferred offering costs	-	472	14
Total Assets	1,977	3,743	8,787
Liabilities & Shareholders' Equity			
Accounts payable	73	342	341
Convertible notes payable	-	85	-
Accrued interest on convertible notes payable	-	2	-
Accrued expenses	124	118	909
Current portion of credit facility	167	58	-
Total Current Liabilities	363	605	1,328
Credit facility, net of current portion of debt	266	1,129	1,175
Accrued deferred offering costs	-	394	-
Conv. preferred stock rights and right options	24,234	-	-
Conv. preferred stock warrant liability	2,268	3,519	-
Total Liabilities	27,132	5,647	2,503
Preferred stock (series A and B)	29,230	38,317	-
Common stock	0	0	6
Additional paid-in capital	-	1,103	52,790
Accumulated deficit	(54,385)	(41,324)	(46,512)
Total Shareholders' Equity	(54,385)	(40,222)	6,284
Total Liabilities & Shareholders' Equity	1,977	3,743	8,787

Source: Company Reports and H.C. Wainwright Estimates

Important Disclaimers

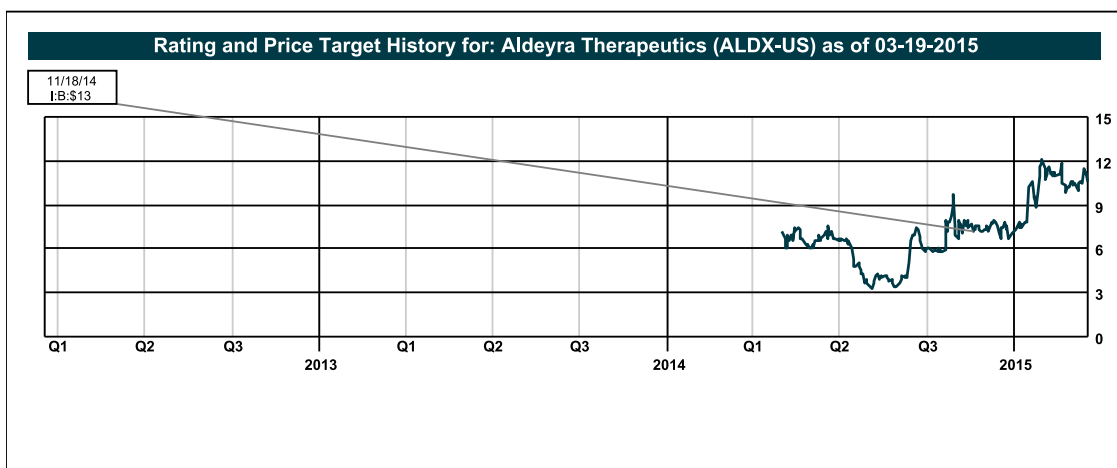
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RETURN ASSESSMENT

Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

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Distribution of Ratings Table				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	99	93.40%	39	39.39%
Neutral	7	6.60%	2	28.57%
Sell	0	0.00%	0	0.00%
Under Review	0	0.00%	0	0.00%
Total	106	100%	41	38.68%

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