

Ardelyx, Inc. (ARDX)

Reports 3Q14 Earnings

MARKET DATA

Price	\$24.01
52-Week Range:	\$11.37 - \$25.23
Shares Out. (M):	17.1
Market Cap (\$M):	\$410.6
Average Daily Vol. (000):	16.0
Cash (M):	\$112
Cash/Share:	\$6.56
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	\$33.3
	2Q	--	\$9.1A	\$14.0
	3Q	--	\$7.6A	\$14.7
	4Q	--	\$12.6	\$40.6
	FY	\$28.9	\$37.9	\$102.6
EPS	1Q	--	(\$0.23)A	\$1.27
	2Q	--	\$0.18A	\$0.08
	3Q	--	\$0.00A	\$0.05
	4Q	--	\$0.13	\$1.48
	FY	(\$0.50)	\$0.19	\$2.66
	P/E	NM	NM	9.0x
	Previous FY	NC	\$0.41	\$2.81

Source: Company reports and JMP Securities LLC

STOCK PRICE PERFORMANCE



MARKET OUTPERFORM | Price: \$24.01 | Target Price: \$32.00

INVESTMENT HIGHLIGHTS

Ardelyx Inc. reports 3Q14 earnings results, highlighting a strong cash runway and advancing development pipeline; we remain optimistic regarding upcoming catalysts and reiterate our Market Outperform rating with a year-end price target of \$32 based on our DCF and SOTP valuation methodologies. During the quarter, ARDX reported an advancing pipeline with strong tenapanor clinical results, a more relevant valuation metric than earnings, in our view. The company reported EPS of \$0.00 per basic and diluted share, better than our estimate of (\$0.16) per share. The company ended the quarter with cash and cash equivalents of \$112MM. We expect this level of cash to be sufficient to continue operations through 2015. Operating expenses were \$7.2MM, less than our expectations of \$9MM. Please see Figures 2 and 3 for our estimates and consensus and changes to our model based on our expectations regarding operating costs.

The company highlighted recent Phase IIb tenapanor results and expected ASN clinical results. As we have previously reported, top-line results of tenapanor in Phase IIb for constipation associated with irritable bowel syndrome met its primary efficacy endpoint of an increase in the complete spontaneous bowel movement (CSBM) responder endpoint at the 50 mg twice daily dose (60.7% vs. 33.7% $p < 0.001$) in this 371-patient, mid-stage trial. Encouragingly, there was a statistically significant result for the dual composite responder endpoint of CSBM/abdominal pain (50% vs 23.6%, $p < 0.001$). This compares favorably with the Week 6 responder data reported for the current IBS-C market leader Linzess (33.6% responder rate vs. 21% placebo).

Future clinical read-outs. ARDX updated its expectations for data read-outs from its Phase IIb trial in hyperphosphatemia patients with end-stage renal disease (ESRD-Pi) to 1Q15, earlier than previous guidance of 1H15, and its Phase IIa trial in patients with chronic kidney disease (CKD) in 2H15.

We believe Tenapanor is poised to capture considerable market share by treating symptoms of renal insufficiency, and also by creating a treatment regimen that leads to diet liberation and renal improvement. The various read-outs from multiple Phase II clinical studies offer attractive value inflection points that could drive market valuation to levels seen in companies with similar products that are approved or are in development, in our view. The recent capital raise, along with collaboration fees and milestones received from partnerships with AstraZeneca and Sanofi, makes us bullish on shares of ARDX.

FIGURE 1. ARDX Milestones

Timing	Program	Catalyst
1Q15	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)

FIGURE 2. Estimates vs. Actuals

2014 JMP Estimates vs. Actual (\$MM, except where noted)	3Q14 Actual	3Q14 JMP Estimates	3Q14 Street	Actual vs. JMP
License and milestone revenue				
Total Revenues	7.6	12.1	9.0	
Research and development	5.7	7.7		2.0
Selling, general and administrative	1.8	1.3		0.5
Total operating expenses	7.5	9.0		(1.5)
Operating Profit (Loss)	0.1	3.0	1.0	(2.9)
Other Income (expense)	-	-	-	
Pre-tax Income	0.1	3.0	1.3	(2.9)
Provision for income taxes				
% Tax Rate				
Net profit (Loss) allocable to common stockholders			3.0	-
Basic shares outstanding	18.4	17.1		1.3
Diluted shares outstanding	17.1	17.1		0.0
Basic GAAP net loss per common share	\$ 0.00	\$0.18		\$ (0.17)
Diluted GAAP net loss per common share	\$ 0.00	\$0.18	\$ 0.15	\$ (0.17)

Source: JMP Securities LLC, Company reports, Thomson Reuters

FIGURE 3. Changes to Our Model

Changes to JMP Model (\$MM, except where noted)	4Q14E		FY14E		FY15E		FY16E	
	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW
License and milestone revenue	6.3	6.3	22.0	20.8	70.0	70.0	88.3	88.3
Total Revenues	12.6	12.6	44.8	37.9	102.6	102.6	124.2	124.2
Research and development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Selling, general and administrative	1.8	2.0	6.4	6.4	9.4	10.2	2.4	2.7
Total operating expenses	12.0	10.5	41.8	33.4	61.2	53.5	75.6	67.7
Operating Profit (Loss)	0.6	2.2	2.9	4.5	41.3	49.1	48.6	56.5
Other Income (expense)	0.0	0.0	(0.0)	(0.0)	0.0	0.0	0.0	0.0
Pre-tax Income	0.6	2.2	0.3	2.9	41.3	49.1	48.6	56.5
Provision for income taxes								
% Tax Rate								
Net profit (Loss) allocable to common stockholders	0.6	2.2	0.3	2.9	41.3	49.1	48.6	56.5
% Net Margin								
Basic shares outstanding	17.1	17.1	15.7	15.7	17.1	17.1	17.2	17.2
Diluted shares outstanding	17.1	17.1	15.7	15.7	18.5	18.5	18.6	18.6
Basic GAAP net loss per common share	\$ 0.04	\$ 0.13	\$ 0.02	\$ 0.19	\$ 2.42	\$ 2.87	\$ 2.83	\$ 3.29
Diluted GAAP net loss per common share	\$ 0.04	\$ 0.13	\$ 0.02	\$ 0.19	\$ 2.24	\$ 2.66	\$ 2.61	\$ 3.03

Source: JMP Securities LLC

FIGURE 4. Updated Income Statement

Ardelyx Income Statement	1Q14A	2Q14A	3Q14A	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Product Sales and Royalties																
Tenapanor - WWW Royalties					-	-	-	-	2.9	28.8	97.6	192.3	272.2	333.4	378.9	412.1
Total Sales and Royalties	-	-	-	-	-	-	-	-	2.9	28.8	97.6	192.3	272.2	333.4	378.9	412.1
Licensing revenue (amortization of upfront payments)	3.2	6.5	4.8	6.3	20.8	25.0	13.3	1.3	-	-	-	-	-	-	-	-
Milestones	-	-	-	-	-	45.0	75.0	65.0	117.5	130.0	225.0	106.8	70.0	-	-	-
Collaborative development revenue (reimbursement from AZN)	5.3	2.6	2.8	6.4	17.2	32.6	35.9	46.6	65.3	78.3	86.1	90.4	90.4	90.4	90.4	90.4
Total Revenues	8.6	9.1	7.6	12.6	37.9	102.6	124.2	112.9	185.7	237.1	408.8	389.5	432.7	423.8	469.3	502.5
% change																
Research and development	7.6	5.2	5.7	8.5	27.0	43.3	54.4	73.8	88.2	106.1	114.9	121.1	128.7	138.3	150.3	165.2
Selling, general and administrative	1.4	1.20	1.82	2.01	6.4	10.2	13.3	16.0	17.6	19.3	21.3	23.4	25.7	28.3	31.1	34.2
Total operating expenses	9.0	6.4	7.5	10.5	33.4	53.5	67.7	89.8	105.7	125.5	136.2	144.5	154.5	166.6	181.4	199.5
Operating Profit (Loss)	(0.5)	2.8	0.1	2.2	4.5	49.1	56.5	23.1	79.9	111.7	272.6	245.0	278.2	257.2	287.9	303.1
Margin(%)							45.5%	20.4%	43.0%	47.1%	66.7%	62.9%	64.3%	60.7%	61.4%	60.3%
Other income (expense)	(0.0)	(0.0)	(0.0)		(0.0)											
Total other income	(0.0)	(0.0)	(0.0)	-	(0.0)	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of preferred stock warrant liability	(2.6)	1.0			(1.6)											
Pretax income	(3.1)	3.8	0.1	2.2	2.9	49.1	56.5	23.1	79.9	111.7	272.6	245.0	278.2	257.2	287.9	303.1
Provision for income taxes					-	-	-	-	-	-	13.6	24.5	55.6	90.0	100.8	106.1
% Tax Rate											5.0%	10.0%	20.0%	35.0%	35.0%	35.0%
Net profit (loss) and comprehensive income	(3.1)	3.8	0.1	2.2	2.9	49.1	56.5	23.1	79.9	111.7	258.9	220.5	222.6	167.2	187.1	197.0
After Tax Margin(%)							45.5%	20.4%	43.0%	47.1%	63.3%	56.6%	51.4%	39.4%	39.9%	39.2%
Net profit (loss) attributable to common stockholders																
Basic		0.5														
Diluted		0.7														
Basic shares outstanding	13.3	2.6	18.4	17.1	15.7	17.1	17.2	17.2	17.3	17.4	17.4	17.5	17.6	17.7	17.7	17.8
Diluted shares outstanding	13.3	3.9	17.1	17.1	15.7	18.5	18.6	18.7	18.8	18.9	19.0	19.1	19.3	19.4	19.5	19.6
Basic GAAP EPS	\$ (0.23)	\$ 0.20	\$ 0.00	\$ 0.13	\$ 0.19	\$ 2.87	\$ 3.29	\$ 1.34	\$ 4.62	\$ 6.43	\$ 14.85	\$ 12.59	\$ 12.66	\$ 9.46	\$ 10.55	\$ 11.05
Diluted GAAP EPS	\$ (0.23)	\$ 0.18	\$ 0.00	\$ 0.13	\$ 0.19	\$ 2.66	\$ 3.03	\$ 1.23	\$ 4.25	\$ 5.90	\$ 13.60	\$ 11.52	\$ 11.56	\$ 8.63	\$ 9.60	\$ 10.04

Source: JMP Securities LLC, 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 non-systemic small molecule inhibitors and a 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 of 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.

JMP FACTS AND DISCLOSURES

Analyst Certification:

The research analyst(s) who prepared this report does/do hereby certify that the views presented in this report are in accordance with my/our personal views on the securities and issuers discussed in this report. As mandated by SEC Regulation AC no part of my/our compensation was, is or will be directly or indirectly related to the specific views or recommendations expressed herein. This certification is made under the obligations set forth in SEC Regulation AC. Any other person or entity may not use it for any other purpose. This certification is made based on my/our analysis on the date of this report's publication. I/We assume no obligation to update this certification to reflect any facts, circumstances or events that may subsequently come to my/our attention. Signed Michael G. King

JMP Securities Disclosures:

JMP Securities currently makes a market in the security of Ardelyx, Inc.

JMP Securities expects to receive OR intends to seek compensation for investment banking services from Ardelyx, Inc. in the next 3 months.

JMP Securities was manager or co-manager of a public offering of securities for Ardelyx, Inc. (ARDX) in the past 12 months, and received compensation for doing so.

JMP Securities Investment Opinion Definitions:

Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

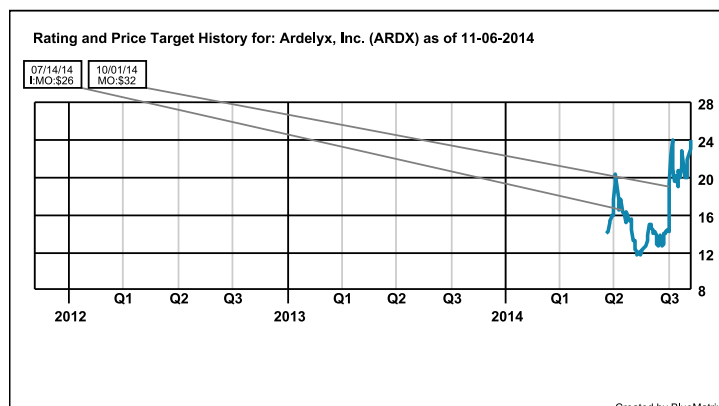
Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

JMP Securities Research Ratings and Investment Banking Services: (as of November 7, 2014)

JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Equivalent	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
MARKET OUTPERFORM	Buy	286	61.37%	Buy	286	61.37%	105	36.71%
MARKET PERFORM	Hold	140	30.04%	Hold	140	30.04%	15	10.71%
MARKET UNDERPERFORM	Sell	2	0.43%	Sell	2	0.43%	0	0%
COVERAGE IN TRANSITION		36	7.73%		36	7.73%	0	0%
TOTAL:		466	100%		466	100%	122	26.18%

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.



JMP Disclaimer:

JMP Securities LLC (the "Firm") compensates research analysts, like other Firm employees, based on the Firm's profitability, which includes revenues from the Firm's institutional sales, trading, and investment banking departments as well as on the quality of the services and activities performed that are intended to benefit the Firm's institutional clients. These data have been prepared by JMP Securities LLC for informational purposes only and are based on information available to the public from sources that we believe to be reliable, but we do not guarantee their accuracy or completeness. Any opinions and projections expressed herein reflect our judgment at this date and are subject to change without notice. These data are neither intended nor should be considered as an offer to sell or a solicitation or a basis for any contract for the purchase of any security or other financial product. JMP Securities LLC, its affiliates, JMP Group LLC, Harvest Capital Strategies LLC, and their respective partners, directors, officers, and associates may have a long or short position in, may act as a market maker for, or may purchase or sell a position in the securities mentioned herein. JMP Securities LLC or its affiliates may be performing, have performed, or seek to perform investment banking, advisory, or other services and may have acted as manager or co-manager for a public offering of securities for any company mentioned herein. The reader should assume that JMP Securities LLC will solicit business from the company covered in this report. Members of our Sales and Trading Department provide oral and/or written market opinions and trading strategies to our clients that reflect their personal opinions about stocks that are the subject of the firm's research reports. Our research analysts discuss trading strategies with clients that sometimes reflect short-term expectations for the price of the securities that are the subject of research reports. These trading strategies are distinct from the analysts' fundamental rating for the stock, which is based upon the analysts' view compared to other stocks under coverage for the relevant time period. © Copyright 2014. All rights reserved by JMP Securities LLC. JMP Securities LLC is a member of FINRA, NASDAQ, and SIPC.

Jeffrey H. Spurr
Director of Research
 (415) 835-3903

RESEARCH PROFESSIONALS

FINANCIAL SERVICES

Alternative Asset Managers

Devin Ryan (212) 906-3578
 Brian McKenna (212) 906-3545

Commercial & Specialty Finance

Christopher York (415) 835-8965
 Hannah Kim, CFA (415) 835-8962

Consumer Finance

David M. Scharf (415) 835-8942
 Douglas Greiner (212) 906-3525

Financial Processing & Outsourcing

David M. Scharf (415) 835-8942
 Douglas Greiner (212) 906-3525

Insurance

Matthew J. Carletti (312) 768-1784
 Christine Worley (312) 768-1786

Investment Banks & Brokers

Devin Ryan (212) 906-3578
 Brian McKenna (212) 906-3545

Mortgage Operating Companies

REITs: Agency, Hybrid, & Commercial Mortgage

Steven C. DeLaney (404) 848-7773
 Trevor Cranston, CFA (415) 869-4431
 Charter Robinson (757) 613-8955
 Benjamin Zucker (212) 906-3529

HEALTHCARE

Biotechnology

Liisa A. Bayko (312) 768-1785
 Masha Chapman (415) 835-8944
 Andrew Prigodich, PhD (312) 768-1788
 Bhumika Sharma, PhD (312) 768-1795
 Jason N. Butler, PhD (212) 906-3505
 Caroline Palomeque (212) 906-3509
 Michael G. King, Jr. (212) 906-3520
 Bryan Czyzewski, PhD (212) 906-3577

Healthcare Services & Facilities

Peter L. Martin, CFA (415) 835-8904
 Aaron Hecht (415) 835-3963
 Arthur Kwok (415) 835-8908

Life Science Tools & Diagnostics

J. T. Haresco, III, PhD (415) 869-4477
 Marie T. Casey, PhD (415) 835-3955

Medical Devices

J. T. Haresco, III, PhD (415) 869-4477
 Marie T. Casey, PhD (415) 835-3955

Medical Devices & Supplies

David Turkaly (212) 906-3563
 John Gillings (212) 906-3564

Specialty Pharmaceuticals

Oren G. Livnat, CFA (212) 906-3566
 Nazibur Rahman (212) 906-3519

REAL ESTATE

Housing & Land Development

Peter L. Martin, CFA (415) 835-8904
 Aaron Hecht (415) 835-3963
 Bharathwajan Iyengar (415) 835-3902

Lodging & Leisure

Robert A. LaFleur (212) 906-3510
 Whitney Stevenson (212) 906-3538

Property Services

Mitch Germain (212) 906-3546
 Peter Lunenburg (212) 906-3537

REITs: Healthcare, Residential, & Specialty

Peter L. Martin, CFA (415) 835-8904
 Aaron Hecht (415) 835-3963
 Arthur Kwok (415) 835-8908

REITs: Office, Industrial, & Diversified

Mitch Germain (212) 906-3546
 Peter Lunenburg (212) 906-3537

Residential Services

Peter L. Martin, CFA (415) 835-8904
 Aaron Hecht (415) 835-3963
 Bharathwajan Iyengar (415) 835-3902

TECHNOLOGY

Communications Infrastructure & Internet Security

Erik Suppiger (415) 835-3918
 John Lucia (415) 835-3920

Internet & Digital Media

Ronald V. Josey III (212) 906-3528
 Andrew Boone, CFA (415) 835-3957
 Ignatius Njoku (415) 835-8960
 Michael Wu (415) 835-8996

Software

Patrick Walravens (415) 835-8943
 Peter Lowry (415) 869-4418
 Mathew Spencer (415) 835-8930
 Greg McDowell (415) 835-3934
 Rishi Jaluria (415) 835-3961

Wireless & Cloud Computing Technologies

Alex Gauna (415) 835-8998

ADDITIONAL CONTACTS

Thomas R. Wright
Director of Equities
 (212) 906-3599

Dan Wychulis
Director of Institutional Sales
 (617) 235-8530

600 Montgomery Street, Suite 1100
 San Francisco, CA 94111
www.jmpsecurities.com