

Aldeyra Therapeutics (ALDX - \$ 7.38)

1Q15: After a Balance Sheet Boost, ALDX Could Further Explore NS2 R&D on Multiple Fronts

This morning, ALDX reported 1Q15 financial results with a net loss of (\$2.1MM), vs. Laidlaw and the Street (\$2.6MM) estimates. Net loss per share was (\$0.32) vs. (\$0.38) for Laidlaw and the Street. After the recent financing, we estimate ALDX has cash of >\$30MM (pro forma), enough to support its operations deep into 2017, in our opinion.

- **Boosted balance sheet could enable other opportunities for aldehyde trapping therapies.** Two equity financings in 1H15 which raised a total of ~\$28MM could have very positive impact on the development of NS2 or other aldehyde trapping agents. This is in addition to commencing two NS2 Phase II clinical studies (in Sjögren-Larsson Syndrome or SLS and noninfectious anterior uveitis or NAU). ALDX indicated that the top-line results from both studies could be available in late 2015. The SLS study (n=15) results are more likely available by 4Q15. Interim results of NAU trial could be available in late 2015, with more complete data available in 2016 mainly determined by patient enrollment pace. As a reminder, the NS2 in NAU trial is a POC study for exploring aldehyde trapping agent's anti-inflammatory potential.
- **Possible fronts for additional aldehyde trapping therapy research.** Given the scenario that 1) excess accumulated aldehyde could cause other diseases; and 2) aldehyde trapping agents potentially have anti-inflammatory activities, ALDX could explore the use of topical NS2 clinically to treat other localized diseases supported by expanded funding. In addition, ALDX is actively developing systemically delivered aldehyde trapping agents (by injection or orally administered). If successful, we believe such agents could further expand the treatment potential in many other indications, such as in succinic semialdehyde dehydrogenase (SSADH) deficiency or for treating the neurological symptoms of SLS. Together, we anticipate ALDX will generate more milestone events beyond the current clinical development of SLS and NAU in 2015 and beyond.
- **Action.** We are reiterating our Buy rating and our \$30 target price based on peer comparable probability adjusted DCF analyses. This reflects our view that NS2 could take a shorter time to market than the two leading orphan indications currently under study. We view the ALDX story as under-exposed and the shares as under-valued, in our opinion.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-15E	-0.32A	-0.28	-0.36	-0.40	-1.38	N.A.
FY-14A	-0.04	-1.43	-0.36	-0.39	-2.51	N.A.
FY-13A	-13.03	-5.47	2.76	18.47	3.49	N.A.
FY-12A	NA	NA	NA	NA	-124.44	N.A.

Source: Laidlaw & Company estimates

Healthcare/Biotechnology

Ticker:	ALDX
Rating:	Buy
Price Target:	\$ 30.00

Trading Data:

Last Price (05/13/2015)	\$ 7.38
52-Week High (1/28/2015)	\$ 13.50
52-Week Low (8/4/2014)	\$ 3.00
Market Cap. (MM)	\$ 71
Shares Out. (MM)	10

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Anticipated milestones in 2015 and beyond

Product	Indication	Event	Timing	Importance
NS2 cream	Sjögren-Larsson Syndrome	Potentially report Phase II study top-line results	4Q15	****
NS2 eyedrop	Noninfectious anterior uveitis	Potentially report Phase II study top-line results	4Q15	****
Next gen NS2		Other delivered format, including systemic	2015 / 2016	***
		Potentially to start clinical studies in other indications	2015 / 2016	****

**** / ***** Major catalyst event that could impact share price very significantly while *** event is more informative

Source: Laidlaw & Company and company presentation

Major Risks

Risks of clinical study failure could have a major impact on ALDX share value. Although promising aspects of the company's lead products, NS2 in the two indications under clinical trials; it remains too early to predict the safety and efficacy from the two ongoing Phase II studies. The clinical validation for these programs has not been established. The success of the each study could illustrate NS2 treatment potential of separate disease areas. It is important that one or both studies demonstrate a positive outcome in order to increase the company's assets and shareholder value. Negative results of either of the Phase II studies could impair shareholder value. Further, should these programs further advance into later clinical stage development, it remains too early to predict any potential success of such clinical trials. In SLS, it is possible that elevated fatty alcohol, instead of elevated aldehyde, affects the progression of the disease. If so, NS2 might not have the therapeutic effect on of elevated fatty alcohol levels. We view this to be a very modest risk, however.

Products may not be approved or reach anticipated sales. Aldeyra's current pipeline products have exhibited the potential to generate positive clinical outcomes from current and future trials. However it remains too early to project whether any of these products will be approved by regulatory agencies. Even if the products were to enter the market, sales could be significantly below projections due to the specific product label under approval, physician consensus for prescribing the drug, changes of treatment paradigms, entrance of competitors, and possibly the changes in pricing flexibility and payer reimbursement. A revenue outlook below expectations could also negatively affect ALDX shareholder value.

Limited product offering and further validation of technology represent limited diversification to investors. The major technology platform of ALDX is aldehyde trapping and the company currently has only one drug, NS2, in two different delivery forms, in clinical studies. As such, ALDX has a very concentrated product offering portfolio and hence, exhibits limited diversification for investors. In addition, although aldehyde trapping is a novel and logical approach in drug development, it remains too early to gain greater buy-in within medical and investor communities since clinical validation remains very limited.

Additional financings could dilute shareholder value. Although the company currently has ~\$17MM (pro forma) cash after recent financing, ALDX could need more financial resources going forward if they want to expand and further develop its pipeline. Should the product not receive FDA approval, or product revenue does not reach expectations; the company might need to issue new equity to raise additional cash. Under such a scenario, the share value of existing shareholders could be diluted.

Limited trading liquidity limits shareholder options. Given ALDX shares only entered the public market recently; daily trading volume and name recognition are relatively modest. With relatively illiquid trading volume, shareholders wanting to increase or reduce their positions in a volatile stock market may face constraints.

Figure 1: Income Statement

Aldeyra Therapeutics – Income Statement													
(\$'000)	2012	2013	2014E	1Q15	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue													
Product revenue	0	0	0	-	-	-	-	0	0	1,492	12,162	49,287	123,139
Other revenue	0	0	0	-	-	-	-	0	0	0	0	0	0
Total revenue	0	0	0	-	-	-	-	0	0	1,492	12,162	49,287	123,139
Costs of goods										134	1,095	4,436	11,083
Gross sales										1,358	11,067	44,851	112,057
Research and development	469	1,542	3,708	1,136	1,739	2,573	3,088	8,537	10,927	12,347	13,458	14,670	15,843
General and administrative	645	2,135	3,563	972	992	1,011	1,052	4,027	4,389	5,004	5,254	5,517	5,792
Marketing and sales										15,000	16,500	25,575	26,854
Total Operating Expenses	1,114	3,676	7,271	2,109	2,730	3,585	4,140	12,563	15,316	32,351	35,212	45,761	48,490
Operating Incomes (losses)	(1,114)	(3,676)	(7,271)	(2,109)	(2,730)	(3,585)	(4,140)	(12,563)	(15,316)	(30,993)	(24,145)	(910)	63,567
Change in fair value of preferred stock warrant liabilities	(9)	721	2,328	-	-	-	-	0	500	500	500	500	500
Change in fair value of convertible preferred stock rights and rig	(126)	16,175	0	-	-	-	-	0	0	0	0	0	0
Value provided in excess of issuance price of Series B convert	(21,485)	0	0	-	-	-	-	0	0	0	0	0	0
Interest income	0	0	0	-	-	-	-	0	0	0	0	0	0
Other expenses	1	0	0	0	0	-	-	0	0	0	0	0	0
Interest expense	(342)	(159)	(244)	(28)	(28)	(28)	(28)	(112)	(112)	(112)	(112)	(112)	(112)
Total Other Income (Expense)	(21,951)	16,737	2,083	(28)	(28)	(28)	(28)	(112)	(112)	(112)	(112)	(112)	(112)
Net loss and comprehensive loss	(23,075)	13,060	(5,187)	(2,137)	(2,758)	(3,613)	(4,168)	(12,675)	(15,428)	(31,105)	(24,258)	(1,022)	63,455
Accretion of preferred stock	(389)	(823)	(333)	-	-	-	-	0	0	0	0	0	0
Allocation of undistributed earnings to preferred stockholders		(11,128)	0	-	-	-	-	0	0	0	0	0	0
Deemed dividend	(15,662)	0	(4,054)	-	-	-	-	0	0	0	0	0	0
Tax	0	0	0	-	-	-	-	0	0	0	0	0	(23,478)
Net Income (Loss)	(39,126)	1,110	(9,574)	(2,137)	(2,758)	(3,613)	(4,168)	(12,675)	(15,428)	(31,105)	(24,258)	(1,022)	39,977
Net Income (Loss) Applicable to Common Shareholders	(39,126)	1,110	(9,574)	(2,137)	(2,758)	(3,613)	(4,168)	(12,675)	(15,428)	(31,105)	(24,258)	(1,022)	39,977
Net Earnings (Losses) Per Share—Basic	(\$124.44)	\$3.49	(\$2.51)	(\$0.32)	(\$0.28)	(\$0.36)	(\$0.40)	(\$1.38)	(\$1.38)	(\$2.55)	(\$1.84)	(\$0.07)	\$2.63
Net Earnings (Losses) Per Share—Diluted	(\$124.44)	(\$17.58)	(\$3.09)	(\$0.32)	(\$0.28)	(\$0.36)	(\$0.40)	(\$1.38)	(\$1.38)	(\$2.55)	(\$1.84)	(\$0.07)	\$2.63
Shares outstanding—basic	314	318	3,818	6,668	9,768	10,068	10,368	9,218	11,218	12,218	13,218	14,218	15,218
Shares outstanding—diluted	314	857	3,851	6,668	9,768	10,068	10,368	9,218	11,218	12,218	13,218	14,218	15,218
Margin Analysis (% of Sales/Revenue)													
Costs of goods									9%	9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	827%	111%	30%	13%
SG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	335%	43%	11%	5%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	-2077%	-199%	-2%	52%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	-2085%	-199%	-2%	32%
Financial Indicator Growth Analysis (YoY%)													
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	715%	305%	150%
R&D	NA	229%	140%	156%	162%	115%	120%	130%	28%	13%	9%	9%	8%
SG&A	NA	231%	67%	21%	1%	31%	4%	13%	9%	14%	5%	5%	5%
Marketing and sales											10%	55%	5%
Operating Income (Losses)	NA	230%	98%	69%	66%	82%	72%	73%	22%	102%	-22%	-96%	-7086%
Pretax Income	NA	-157%	-140%	-632%	143%	80%	70%	144%	22%	102%	-22%	-96%	-6309%
Net Income	NA	-103%	-963%	16037%	-48%	80%	88%	32%	22%	102%	-22%	-96%	-4011%
EPS	NA	-103%	-172%	692%	-80%	-1%	2%	-45%	0%	85%	-28%	-96%	-3754%
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Source: Bloomberg LP; Company reports; Laidlaw & Company estimates

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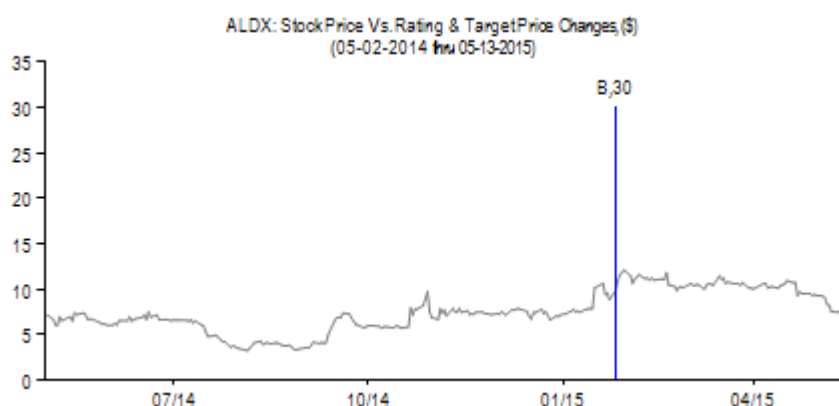
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Source: Laidlaw & Company

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3 Year Rating Change History

Date	Rating	Closing Price (\$)
01/26/2015	Buy (B)	9.86

3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
01/26/2015	30.00	9.86

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			Investment Banking	Brokerage
Strong Buy (SB)	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	73.08%	30.77%	7.69%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	3.85%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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