

Argos Therapeutics (ARGS)

Overweight

Increased Visibility on Both Viral and Cancer Programs in the Near Term

CONCLUSION

We recently caught up with Argos management and the company's immunotherapy programs remain on track, including completion of enrollment in the ADAPT Phase III of AGS-003 + Sutent vs. Sutent-alone in metastatic renal cell carcinoma (RCC) in 1Q15. By YE'14 we expect additional visibility on the RCC Phase III with tumor collection completed, a prelude to patient enrollment, and the HIV program (AGS-004). More impactful in terms of lead candidate market potential, in 2015 we look for the start of the Phase II AGS-003 studies in non-clear cell RCC and early stage RCC.

- **Additional thoughts.** Argos is also exploring potential combinations with checkpoint inhibitors and we could see developments along those lines in 2H'15. The company also recently entered into a debt financing agreement for \$25M to advance AGS-003 and commercial manufacturing facilities which Argos plans to build in North Carolina with ~\$9.5M in state and local incentives. In front of what could prove to be a transformational next 12 months, we reiterate our OW rating and \$20 price target.
- **Manufacturing financing and progress bodes well for Arcelis platform.** In our view, the recent debt financing reduces execution risk during this critical period of validation of the Arcelis technology platform through to its expected commercialization. We expect greater visibility on the RCC program in the next 3-6 months with completion of enrollment in ADAPT and an interim analysis at the first 25% of events. Additionally, the Phase II studies will get started yet this year and should be relatively rapid, 10-20 patient studies, we expect.
- **HIV is potential upside.** We don't consider the HIV program (AGS-004) in our valuation at this time as we await greater clinical validation of the program. Sustained viral load reductions in some patients like what we've seen for Sangamo's SB-728-T program would be helpful. At this time, the program could be seen as essentially a free call option for ARGS shares, in our view, as we don't believe many investors are giving the company value for AGS-004.

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\$9.70

TARGET: US\$20.00

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

Charles C. Duncan, PhD

Sr. Research Analyst, Piper Jaffray & Co.
212 284-5025, charles.c.duncan@pjc.com

Roy Buchanan, Ph.D.

Research Analyst, Piper Jaffray & Co.
212 284-9458, roy.d.buchanan@pjc.com

Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$20.00
FY14E Rev (mil)	—	US\$5.3
FY15E Rev (mil)	—	US\$8.0
FY14E EPS	—	US\$(2.01)
FY15E EPS	—	US\$(1.28)
52-Week High / Low	US\$13.74 /	US\$5.61
Shares Out (mil)		19.7
Market Cap. (mil)		US\$191.1
Avg Daily Vol (ooo)		51
Book Value/Share		US\$3.08
Net Cash Per Share		US\$3.65
Debt to Total Capital		0%
Div (ann)		NA
Yield		
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	43.4x	—	—	—	(36.19)	(147.37)	NM
2014E	0.8A	0.5A	2.0	2.0	5.3	36.1x	(1.05)A	(0.61)A	(0.31)	(0.31)	(2.01)	NM
2015E	2.0	2.0	2.0	2.0	8.0	23.9x	(0.31)	(0.32)	(0.32)	(0.33)	(1.28)	NM

Piper Jaffray does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decisions. This report should be read in conjunction with important disclosure information, including an attestation under Regulation Analyst certification, found on pages 4 - 5 of this report or at the following site: <http://www.piperjaffray.com/researchdisclosures>.

Model adjustments due to debt transaction. The Horizon loan is delivered in 2 tranches of \$12.5M each, one that closed Sept 29th and another tied to completion of randomization in the ADAPT Phase III, which we project for 1Q15. We had previously modeled a \$20M loan to Argos in 3Q14 tied to setting up manufacturing in Quebec. However, with this Horizon loan, we have revised our model appropriately (see appended). The loan is 1-month LIBOR (we assume 0.16% going forward) plus 8.75%. The 1st tranche has an interest only period of 2 years of its 4 year term. The 2nd is IO for 18 months of the 42 month term. We maintain an equity financing projected for 2016.

Argos (\$ in thousands, except per share amounts)	2011	2012	2013	1Q14	2Q14	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	473	2,000	2,000	5,272	2,000	2,000	2,000	2,000	8,000			
% total revenue	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	na	0%	0%
Revenues under collaborative agreements	-	-	-	-	-	-	-	-	-	-	-	-	-	na	0%	0%
% total revenue	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	na	0%	0%
Product sales and royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	-	33,503	109,677
% total revenue	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	na	100%	100%
Total Revenues	7,643	7,039	4,422	799	473	2,000	2,000	5,272	2,000	2,000	2,000	2,000	8,000	-	33,503	109,677
Costs & Expenses:																
Cost of product revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,350	10,968
R&D	12,668	17,617	23,991	8,472	10,569	6,000	6,000	31,041	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	1,866	2,000	2,000	7,799	2,030	2,060	2,091	2,123	8,305	8,720	10,900	12,535
Total Operating Expenses	16,372	23,752	28,653	10,406	12,435	8,000	8,000	38,841	8,120	8,242	8,365	8,491	33,218	36,125	43,025	53,716
Operating Income (loss)	(8,729)	(16,713)	(24,232)	(9,607)	(11,962)	(6,000)	(6,000)	(33,569)	(6,120)	(6,242)	(6,365)	(6,491)	(25,218)	(36,125)	(9,523)	55,961
Investment income	1	5	3	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(6,656)	(292)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expense	(4,756)	6,530	308	(394)	(22)	-	-	(416)	-	-	-	-	-	-	-	-
Income (loss) before income taxes	(20,141)	(10,471)	(23,922)	(10,001)	(11,984)	(6,000)	(6,000)	(33,985)	(6,120)	(6,242)	(6,365)	(6,491)	(25,218)	(36,125)	(9,523)	55,961
Income tax (benefit) provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax rate	-	-	-	-	-	-	-	0.0%	-	-	-	-	0.0%	-	-	-
Net income (loss)	(20,141)	(10,471)	(23,922)	(10,001)	(11,984)	(6,000)	(6,000)	(33,985)	(6,120)	(6,242)	(6,365)	(6,491)	(25,218)	(36,125)	(9,523)	55,961
Net loss from non-controlling interest	(63)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss) available to common stockholders	(20,078)	(10,471)	(23,922)	(10,001)	(11,984)	(6,000)	(6,000)	(33,985)	(6,120)	(6,242)	(6,365)	(6,491)	(25,218)	(36,125)	(9,523)	55,961
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)	(11,984)	(6,000)	(6,000)	(34,848)	(6,120)	(6,242)	(6,365)	(6,491)	(25,218)	(36,125)	(9,523)	55,961
Basic Earnings Per Share	(32.88)	(9.10)	(\$147.37)	(\$1.05)	(\$0.61)	(\$0.31)	(\$0.31)	(\$2.01)	(\$0.31)	(\$0.32)	(\$0.32)	(\$0.33)	(\$1.28)	(\$1.41)	(\$0.37)	\$2.18
Diluted Earnings Per Share	(32.88)	(9.10)	(\$147.37)	(\$1.05)	(\$0.61)	(\$0.31)	(\$0.31)	(\$2.01)	(\$0.31)	(\$0.32)	(\$0.32)	(\$0.33)	(\$1.28)	(\$1.41)	(\$0.37)	\$2.18
Basic Shares Outstanding	639	1,190	230	10,377	19,655	19,655	19,655	17,336	19,655	19,655	19,655	19,655	19,655	25,655	25,655	25,655
Diluted Shares Outstanding	639	1,190	230	10,377	19,655	19,655	19,655	17,336	19,655	19,655	19,655	19,655	19,655	25,655	25,655	25,655

Proprietary to Piper Jaffray & Co. October 8, 2014
Argos: Charles Duncan; 212.284.2505
Current disclosure information for this company can be found at:
<http://www.piperjaffray.com/researchdisclosures>

IMPORTANT RESEARCH DISCLOSURES



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

Legend:

I: Initiating Coverage
R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	368	60.93	101	27.45
HOLD [N]	225	37.25	25	11.11
SELL [UW]	11	1.82	0	0.00

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

Analyst Certification — Charles C. Duncan, PhD, Sr. Research Analyst — Roy Buchanan, Ph.D., Research Analyst

The views expressed in this report accurately reflect my personal views about the subject company and the subject security. In addition, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Research Disclosures

Piper Jaffray was making a market in the securities of Argos Therapeutics, Inc. at the time this research report was published. Piper Jaffray will buy and sell Argos Therapeutics, Inc. securities on a principal basis.

Piper Jaffray has received compensation for investment banking services from or has had a client relationship with Argos Therapeutics, Inc. within the past 12 months.

Within the past 12 months Piper Jaffray was a managing underwriter of a public offering of, or dealer manager of a tender offer for, the securities of Argos Therapeutics, Inc. or the securities of an affiliate.

Within the past 3 years Piper Jaffray participated in a public offering of, or acted as a dealer manager for, Argos Therapeutics, Inc. securities.

Piper Jaffray research analysts receive compensation that is based, in part, on overall firm revenues, which include investment banking revenues.

Rating Definitions

Stock Ratings: Piper Jaffray ratings are indicators of expected total return (price appreciation plus dividend) within the next 12 months. At times analysts may specify a different investment horizon or may include additional investment time horizons for specific stocks. Stock performance is measured relative to the group of stocks covered by each analyst. Lists of the stocks covered by each are available at www.piperjaffray.com/researchdisclosures. Stock ratings and/or stock coverage may be suspended from time to time in the event that there is no active analyst opinion or analyst coverage, but the opinion or coverage is expected to resume. Research reports and ratings should not be relied upon as individual investment advice. As always, an investor's decision to buy or sell a security must depend on individual circumstances, including existing holdings, time horizons and risk tolerance. Piper Jaffray sales and trading personnel may provide written or oral commentary, trade ideas, or other information about a particular stock to clients or internal trading desks reflecting different opinions than those expressed by the research analyst. In addition, Piper Jaffray technical research products are based on different methodologies and may contradict the opinions contained in fundamental research reports.

- **Overweight (OW):** Anticipated to outperform relative to the median of the group of stocks covered by the analyst.
- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

Other Important Information

The material regarding the subject company is based on data obtained from sources we deem to be reliable; it is not guaranteed as to accuracy and does not purport to be complete. This report is solely for informational purposes and is not intended to be used as the primary basis of investment decisions. Piper Jaffray has not assessed the suitability of the subject company for any person. Because of individual client requirements, it is not, and it should not be construed as, advice designed to meet the particular investment needs of any investor. This report is not an offer or the solicitation of an offer to sell or buy any security. Unless otherwise noted, the price of a security mentioned in this report is the market closing price as of the end of the prior business day. Piper Jaffray does not maintain a predetermined schedule for publication of research and will not necessarily update this report. Piper Jaffray policy generally prohibits research analysts from sending draft research reports to subject companies; however, it should be presumed that the analyst(s) who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication, and has had assistance from the company in conducting diligence, including visits to company sites and meetings with company management and other representatives.

Notice to customers: This material is not directed to, or intended for distribution to or use by, any person or entity if Piper Jaffray is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to such person or entity. Customers in any of the jurisdictions where Piper Jaffray and its affiliates do business who wish to effect a transaction in the securities discussed in this report should contact their local Piper Jaffray representative. **Europe:** This material is for the use of intended recipients only and only for distribution to professional and institutional investors, i.e. persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom, or persons who have been categorised by Piper Jaffray Ltd. as professional clients under the rules of the Financial Conduct Authority. **United States:** This report is distributed in the United States by Piper Jaffray & Co., member SIPC, FINRA and NYSE, Inc., which accepts responsibility for its contents. The securities described in this report may not have been registered under the U.S. Securities Act of 1933 and, in such case, may not be offered or sold in the United States or to U.S. persons unless they have been so registered, or an exemption from the registration requirements is available.

This report is produced for the use of Piper Jaffray customers and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Piper Jaffray & Co. Additional information is available upon request.

Copyright 2014 Piper Jaffray. All rights reserved.