

## Argos Therapeutics (ARGS)

Overweight

### MRCC Trial on Track At Least In Terms of Patient Prognosis

#### CONCLUSION

Argos reported 2Q results yesterday, ending the quarter with \$78M and guided to operating cash sufficient into 2H16. The headline Phase III in metastatic RCC (mRCC) for cancer vaccine candidate AGS-003 (+Sutent), ADAPT, is on track to complete enrollment by 1Q15, not meaningfully different from our expectation for YE14. More importantly, the trial continues to enroll ~70% intermediate risk patients. Recall those were the patients that performed best in the Phase II of AGS-003 plus Sutent, with a median survival of 57 months vs. 30.1 for the combined intermediate/high risk group. HIV vaccine candidate AGS-004 is also making progress, with extensive data from the Phase IIb in the coming weeks. We reiterate our Overweight rating and are moving our target discount period to 2015, resulting in a \$20 target (from \$18, Exhibits 1 and 2).

- **ADAPT appears to be progressing largely according to plan.** The company is pleased with the rate of enrollment, of screen failures, and with the proportion of intermediate risk patients. Interim analyses at 25, 50, and 75% of deaths are still expected in 2015 and top-line data around mid-'16. No reason was given for the change in timing from enrollment completion from YE14 to 1Q15. Argos will begin Phase II studies in non-clear cell RCC, in early stage RCC, and other solid tumors will start before YE, with data expected about a year from initiation.
- **The most near term catalyst should be data from the Phase II for AGS-004 in HIV, we expect.** Management indicated they will likely hold a conference call in the coming weeks to present a large amount of data including viral load and replication information, detailed immune cell and inflammatory marker responses. We will be particularly interested in the outcome of the planned Phase II for AGS-004 in combination with an HIV latency reversing agent (not least because of our coverage of SGM0, which has a very different approach to HIV). Management remains confident in the potential of the latency-reversing approach on the basis of prior results, recent in vitro data notwithstanding. The other Phase II, in pediatric patients on ART (the "ART elimination" study), is expected to start this year following protocol finalization in September.
- **Argos continues to seek non-dilutive financing** and we have moved a \$20M projected debt financing to 3Q from 2Q. The company will announce in the coming weeks the initiation of construction of its automated manufacturing facility for Arcelis (the name of the vaccine technology platform, including AGS-003 and 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\$6.11

TARGET: US\$20.00

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

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	US\$18.00	US\$20.00
FY14E Rev (mil)	US\$6.8	US\$5.3
FY15E Rev (mil)	US\$0.0	US\$8.0
FY14E EPS	US\$(3.36)	US\$(2.01)
FY15E EPS	US\$(4.00)	US\$(1.28)
52-Week High / Low	US\$13.74 / US\$5.61	
Shares Out (mil)		19.7
Market Cap. (mil)		US\$120.4
Avg Daily Vol (ooo)		42
Book Value/Share		US\$3.08
Net Cash Per Share		US\$3.65
Debt to Total Capital		0%
Div (ann)		NA
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	27.4x	—	—	—	(36.19)	(147.37)	NM
2014E	0.8A	0.5A	2.0	2.0	5.3	22.7x	(1.05)A	(0.61)A	(0.31)	(0.31)	(2.01)	NM
2015E	2.0	2.0	2.0	2.0	8.0	15.0x	(0.31)	(0.32)	(0.32)	(0.33)	(1.28)	NM

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## Exhibit 1

## CURRENT VALUATION

	NPV (000s \$)	NPV Per Share (\$)
<b>AG-003 (U.S. only)</b>	866,241	\$ 30.59
<b>Operating costs</b>	(476,889)	\$ (16.84)
<b>Terminal value</b>	0	\$ -
<b>Pipeline value</b>	100,000	\$ 3.53
Cash (YE15 est)	113,765	\$ 4.02
Long-term debt (YE14 est)	(29,000)	\$ (1.02)
<b>Total NPV</b>	<b>574,117</b>	<b>\$ 20.27</b>

Source: Piper Jaffray

## Exhibit 2

## PRIOR VALUATION

	NPV (000s \$)	NPV Per Share (\$)
<b>AG-003 (U.S. only)</b>	666,339	\$ 29.80
<b>Operating costs</b>	(402,113)	\$ (17.98)
<b>Terminal value</b>	0	\$ -
<b>Pipeline value</b>	100,000	\$ 4.47
Cash (YE14 est)	69,553	\$ 3.11
Long-term debt (YE14 est)	(29,000)	\$ (1.30)
<b>Total NPV</b>	<b>404,780</b>	<b>\$ 18.10</b>

Source: Piper Jaffray

Argos (\$ in thousands, except per share amounts)	2011	2012	2013	1Q14	2Q14	3Q14E	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E
<b>Income Statement</b>																
<b>Revenue</b>																
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	-	-	-	-	-	-	-	-	-	-	-	-	-			
% 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%
<b>Total Revenues</b>	<b>7,643</b>	<b>7,039</b>	<b>4,422</b>	<b>799</b>	<b>473</b>	<b>2,000</b>	<b>2,000</b>	<b>5,272</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>8,000</b>	<b>-</b>	<b>33,503</b>	<b>109,677</b>
<b>Costs &amp; Expenses:</b>																
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
<b>Total Operating Expenses</b>	<b>16,372</b>	<b>23,752</b>	<b>28,653</b>	<b>10,406</b>	<b>12,435</b>	<b>8,000</b>	<b>8,000</b>	<b>38,841</b>	<b>8,120</b>	<b>8,242</b>	<b>8,365</b>	<b>8,491</b>	<b>33,218</b>	<b>36,125</b>	<b>43,025</b>	<b>53,716</b>
<b>Operating Income (loss)</b>	<b>(8,729)</b>	<b>(16,713)</b>	<b>(24,232)</b>	<b>(9,607)</b>	<b>(11,962)</b>	<b>(6,000)</b>	<b>(6,000)</b>	<b>(33,569)</b>	<b>(6,120)</b>	<b>(6,242)</b>	<b>(6,365)</b>	<b>(6,491)</b>	<b>(25,218)</b>	<b>(36,125)</b>	<b>(9,523)</b>	<b>55,961</b>
Investment income	1	5	3	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(6,656)	(292)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expense	(4,756)	6,530	308	(394)	(22)	-	-	(416)	-	-	-	-	-	-	-	-
<b>Income (loss) before income taxes</b>	<b>(20,141)</b>	<b>(10,471)</b>	<b>(23,922)</b>	<b>(10,001)</b>	<b>(11,984)</b>	<b>(6,000)</b>	<b>(6,000)</b>	<b>(33,985)</b>	<b>(6,120)</b>	<b>(6,242)</b>	<b>(6,365)</b>	<b>(6,491)</b>	<b>(25,218)</b>	<b>(36,125)</b>	<b>(9,523)</b>	<b>55,961</b>
Income tax (benefit) provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax rate	-	-	-	-	-	-	-	0.0%	-	-	-	-	0.0%	-	-	-
<b>Net income (loss)</b>	<b>(20,141)</b>	<b>(10,471)</b>	<b>(23,922)</b>	<b>(10,001)</b>	<b>(11,984)</b>	<b>(6,000)</b>	<b>(6,000)</b>	<b>(33,985)</b>	<b>(6,120)</b>	<b>(6,242)</b>	<b>(6,365)</b>	<b>(6,491)</b>	<b>(25,218)</b>	<b>(36,125)</b>	<b>(9,523)</b>	<b>55,961</b>
Net loss from non-controlling interest	(63)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net income (loss) available to common stockholders</b>	<b>(20,078)</b>	<b>(10,471)</b>	<b>(23,922)</b>	<b>(10,001)</b>	<b>(11,984)</b>	<b>(6,000)</b>	<b>(6,000)</b>	<b>(33,985)</b>	<b>(6,120)</b>	<b>(6,242)</b>	<b>(6,365)</b>	<b>(6,491)</b>	<b>(25,218)</b>	<b>(36,125)</b>	<b>(9,523)</b>	<b>55,961</b>
Add back: accretion of redeemable convertible preferred stock	(927)	(352)	4,773	-	-	-	-	-	-	-	-	-	-	-	-	-
Less: net income attributable to participating securities	-	-	(14,726)	(863)	-	-	-	(863)	-	-	-	-	-	-	-	-
<b>Net income (loss) to common shareholders</b>	<b>(21,004)</b>	<b>(10,824)</b>	<b>(33,875)</b>	<b>(10,864)</b>	<b>(11,984)</b>	<b>(6,000)</b>	<b>(6,000)</b>	<b>(34,848)</b>	<b>(6,120)</b>	<b>(6,242)</b>	<b>(6,365)</b>	<b>(6,491)</b>	<b>(25,218)</b>	<b>(36,125)</b>	<b>(9,523)</b>	<b>55,961</b>
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
<b>Diluted Earnings Per Share</b>	<b>(32.88)</b>	<b>(9.10)</b>	<b>(\$147.37)</b>	<b>(\$1.05)</b>	<b>(\$0.61)</b>	<b>(\$0.31)</b>	<b>(\$0.31)</b>	<b>(\$2.01)</b>	<b>(\$0.31)</b>	<b>(\$0.32)</b>	<b>(\$0.32)</b>	<b>(\$0.33)</b>	<b>(\$1.28)</b>	<b>(\$1.41)</b>	<b>(\$0.37)</b>	<b>\$2.18</b>
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
<b>Diluted Shares Outstanding</b>	<b>639</b>	<b>1,190</b>	<b>230</b>	<b>10,377</b>	<b>19,655</b>	<b>19,655</b>	<b>19,655</b>	<b>17,336</b>	<b>19,655</b>	<b>19,655</b>	<b>19,655</b>	<b>19,655</b>	<b>19,655</b>	<b>25,655</b>	<b>25,655</b>	<b>25,655</b>

Proprietary to Piper Jaffray & Co. August 14, 2014  
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			Count	Percent
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## **Analyst Certification — Charles C. Duncan, PhD, Sr. Research Analyst** **— Roy Buchanan, Ph.D., Research Analyst**

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