

Ardelyx Inc. (ARDX)

Q3:14 Earnings, Accelerated Data Release for Tenapanor Phase 2b Study in ESRD

- ARDX reported Q3 EPS of \$0.00, in line with consensus of \$0.00 and below our estimate of \$0.13 due to higher-than-expected R&D and personnel costs, ending the quarter with \$112M in cash. We continue to expect little to no cash burn going forward since ARDX's lead program, tenapanor is being funded by partner AstraZeneca (AZN, not covered).
- Due to faster-than-expected enrollment, ARDX now expects to report results in Q1:15 for a Phase 2b trial evaluating lead product candidate tenapanor in end-stage renal disease (ESRD) patients with hyperphosphatemia. ARDX had indicated previously that data would be available in H1:15. We view the increased enrollment rate as a positive sign of investigator enthusiasm. We continue to expect an expeditious path to approval for tenapanor in ESRD, due to the need for treatments with greater tolerability and acceptance of surrogate endpoints for approval.
- Management also reiterated Phase 2a data for tenapanor in chronic kidney disease patients is expected in H2:15, and expects to release progress on a Phase III trial for tenapanor in irritable bowel syndrome (IBS-C) after discussions with partner AstraZeneca (AZN, not covered).
- Reiterate OUTPERFORM rating and \$31 price target. Our price target of \$31 is derived by applying a 6 multiple to ARDX's share of 2022 tenapanor sales in the US, added to a 15 multiple of the royalty ARDX is expected to receive in 2022 for ex-US sales of tenapanor.

Risks to the achievement of our price target include clinical or regulatory failure for tenapanor and failure to achieve sales or earnings estimates.

November 7, 2014

Price
\$24.01

Rating
OUTPERFORM

12-Month Price Target
\$31

David M. Nierengarten, Ph.D.
(415) 274-6862
david.nierengarten@wedbush.com

Heather Behanna, Ph.D.
(415) 274-6874
heather.behanna@wedbush.com

Dilip Joseph
(415) 273-7308
dilip.joseph@wedbush.com

Company Information

Shares Outst (M)	18.4
Market Cap (M)	\$441.2
52-Wk Range	\$11.37 - \$25.23
Book Value/sh	\$3.43
Cash/sh	\$6.10
Enterprise Value (M)	\$329.1
LT Debt/Cap %	0.0
Cash Burn (M)	\$0.0

Company Description

Ardelyx Inc. is developing small-molecule drugs for the treatment of cardio-renal, GI and metabolic diseases. Its lead product candidate, tenapanor, is in three ongoing Phase II trials for ESRD, CKD and IBS-C.



Source: Thomson Reuters

FYE Dec	2013A	2014E			2015E		
REV	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	--	8.6A		N/AA	12.1E	12.0E	\$12.6E
Q2 Jun	--	9.1A		9.1A	14.1E	14.0E	24.0E
Q3 Sep	--	7.6A	8.4A	7.6A	20.7E	20.6E	17.6E
Q4 Dec	--	8.6E	8.5E	10.0E	22.7E	22.6E	31.6E
Year*	28.9A	33.9E	34.6E	\$36.7E	69.5E	69.2E	73.9E
Change	--	17%			105%		
EPS	2013A	2014E			2015E		
	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Mar	--	(\$2.44)A		--	\$0.20E	\$0.24E	\$0.19E
Q2 Jun	--	\$0.20A		\$0.18E	\$0.19E	\$0.23E	\$0.76E
Q3 Sep	--	\$0.00A	\$0.13E	\$0.00E	\$0.36E	\$0.27E	\$0.18E
Q4 Dec	--	\$0.09E	\$0.12E	\$0.08E	\$0.20E	\$0.23E	\$0.88E
Year*	(\$5.82)A	\$0.23E	\$0.52E	\$0.15E	\$0.95E	\$0.97E	\$1.61E
P/E	--	--			--		
Change	--	104%			314%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.

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Upcoming Milestones

Q1:15	Data from Phase 2b trial to treat hyperphosphatemia in ESRD patients
H2:15	Data from a Phase 2a trial to treat late-stage CKD
H2:15	Potential start of pivotal Phase 3 trial(s) of tenapanor in hyperphosphatemia
H2:15	Potential start of Phase 2b trial of tenapanor to treat CKD

11/6/2014
Ticker: (ARDX:Nasdaq)
Ardelyx, Inc

Wedbush PacGrow Life Sciences
David M. Nierengarten, Ph.D.
415-274-6862

	2012	2013	Q1	Q2	Q3	Q4	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues:															
US Product Sales	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$10,264	\$119,751	\$277,496	\$517,752	\$800,125
ex-US royalties	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,482	\$26,086	\$52,235	\$87,696
Licensing and other revenue	\$3,182	\$8,063	\$3,236	\$6,507	\$4,767	\$5,609	\$20,119	\$39,578	\$84,720	\$52,284	\$52,284	\$66,000	\$66,000	\$42,000	\$42,000
Collaborative development revenue	\$2,228	\$20,865	\$5,314	\$2,630	\$2,831	\$2,973	\$13,748	\$29,890	\$51,603	\$62,724	\$70,824	\$76,662	\$82,981	\$89,822	\$97,226
Total Revenues	5,410	28,928	8,550	9,137	7,598	8,582	33,867	69,468	136,323	115,008	133,372	267,895	452,564	701,808	1,027,046
Cost and Expenses:															
Cost of Sales	0	0	0	0	0	0	0	0	0	0	1,026	11,975	27,750	51,775	80,012
R&D	10,184	28,093	7,637	5,183	5,694	5,739	24,253	43,720	88,286	137,628	173,442	206,215	246,539	296,310	357,913
SG&A	4,031	3,700	1,377	1,203	1,823	1,932	6,335	8,961	11,313	14,282	20,597	61,632	101,068	161,132	231,725
Total Operating Expenses	14,215	31,793	9,014	6,386	7,517	7,672	30,589	52,680	99,599	151,909	195,065	279,822	375,357	509,217	669,650
Operating Income (Loss)	(8,805)	(2,865)	(464)	2,751	81	910	3,278	16,788	36,725	(36,901)	(61,693)	(11,927)	77,207	192,592	357,396
Net Interest Income (Expense)	(30)	(52)	(4)	(8)	(7)	840	821	3,586	4,684	5,222	5,240	3,693	3,917	6,341	10,848
Other non-operating income (Expense)	(950)	(3,506)	(2,603)	1,010	0	0	0	0	0	0	0	0	0	0	0
Income Before Income Taxes	(9,785)	(6,423)	(3,071)	3,753	74	1,750	4,099	20,374	41,409	(31,680)	(56,453)	(8,234)	81,124	198,933	368,245
Provision for Income Taxes	0	141	0	0	0	93	93	2,773	14,493	0	0	405	4,300	69,627	128,886
Net Income (Loss)	(9,785)	(6,564)	(3,071)	3,753	74	1,657	4,006	17,601	26,916	(31,680)	(56,453)	(8,639)	76,825	129,306	239,359
GAAP EPS	(11.32)	(5.82)	(2.44)	0.20	0.00	0.09	0.23	0.95	1.45	(1.61)	(2.85)	(0.43)	3.85	6.44	11.86
Total Shares Outstanding	864	1,128	1,256	18,336	18,374	18,374	18,374	18,474	18,574	19,674	19,774	19,874	19,974	20,074	20,174
Cash Burn	0	0	0	0	(7,678)	0	0	0	0	(15,388)	(53,835)	(19,569)	0	0	0
Cash Balance	32,903	34,435	33,221	117,814	112,044	113,354	113,354	130,614	156,664	178,476	124,641	105,073	163,081	261,866	464,508

Source: Company data and Wedbush Securities

Analyst Biography

David Nierengarten, Ph.D.

David is an Analyst covering stocks in the Biotechnology/Biopharmaceuticals/BioDefense sector. His prior sell-side research experience at Robert W. Baird & Co. covered biotechnology companies of all market capitalizations, with a focus on oncology and rare diseases.

David received his B.S. (Biochemistry) from the University of Wisconsin-Madison and Ph.D. (Molecular and Cell Biology) from the University of California-Berkeley.

David's Edge: David's early stage venture capital investing experience gives him a balanced perspective on developmental-stage biotechnology companies and their ultimate risk/reward potential. His experience on the other side of that equation in a clinical-stage, venture backed biotechnology company provides him with insights into corporate operations. The combination of experiences creates a focus on value creation in this event-driven space.

Analyst Certification

I, David M. Nierengarten, Ph.D., Heather Behanna, Ph.D., Dilip Joseph, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

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Neutral: 43%	Neutral: 1%
Underperform: 3%	Underperform: 0%

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Company	Disclosure
Ardelyx Inc.	1,3,4,5

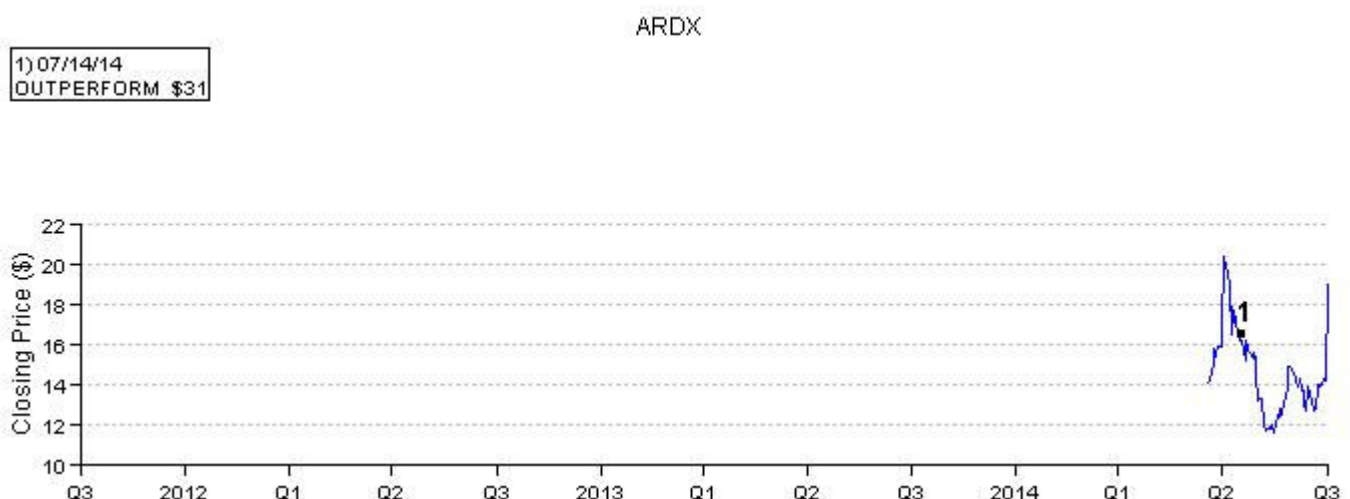
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EQUITY RESEARCH DEPARTMENT

(213) 688-4529

DIRECTOR OF RESEARCH

Mark D. Benson (213) 688-4435

MANAGER, RESEARCH OPERATIONS

Ellen Kang (213) 688-4529

RETAIL AND CONSUMER

Healthy Lifestyles

Kurt M. Frederick, CFA CPA (415) 274-6822
Alicia Reese (212) 938-9927

Restaurants

Nick Setyan (213) 688-4519
Colin Radke (213) 688-6624

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Joan L. Storms, CFA (213) 688-4537
John Garrett, CFA (213) 688-4523

Seth Basham, CFA (212) 938-9954

Specialty Retail: Softlines

Morry Brown (213) 688-4311
Taryn Kuida (213) 688-4505

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Lupine Skelly (505) 417-5427

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James Kim (213) 688-4380

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Scott Thompson (212) 938-9933

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Michael Pachter (213) 688-4474
Alicia Reese (212) 938-9927
Nick McKay (213) 688-4343

Entertainment: Software

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343

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Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Alicia Reese (212) 938-9927

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Shyam Patil, CFA (213) 688-8062
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Betsy Van Hees (415) 274-6869
Ryan Jue, CFA (415) 263-6669

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David M. Nierengarten, Ph.D. (415) 274-6862
Dilip Joseph (415) 273-7308

Heather Behanna, Ph.D. (415) 274-6874

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CORPORATE HEADQUARTERS

1000 Wilshire Blvd., Los Angeles, CA 90017-2465

Tel: (213) 688-8000 www.wedbush.com