

Argos Therapeutics (ARGS)

Overweight

3Q14 - Good Cash and Arcelis Platform Gaining Momentum

CONCLUSION

Argos reported 3Q results, ending the quarter with \$69.5M in cash and guided to operating funds sufficient into 2H16, dependent on an NIH grant and Hercules debt funding. For lead product candidate AGS-003, the ADAPT Phase III for AGS-003 + Sutent (vs. Sutent alone) in metastatic renal cell carcinoma (mRCC) is progressing well, with a 1Q15 target for completion and has so far maintained the target of enrolling ~70+% intermediate risk patients. YE into 2015 is catalyst rich, with interim analyses of ADAPT being the major catalyst, but also '004 data in HIV before YE could be an overlooked catalyst by investors. We reiterate our Overweight rating and \$20 price target on Argos for the company's unique and advanced DC vaccine platform and in anticipation of clinical validation in 2015 and beyond.

- **'003 tracking well, in our view.** Management reiterated guidance for top-line data from ADAPT by mid-'16. More importantly, the company is tracking to the target enrollment for ~70+% intermediate risk patients. Recall those were the patients that performed particularly well in the Phase IIb. The company is observing good enrollment in the U.S., Europe, and Israel, but is likely to not be able to start in Russia, which may have slowed the projected pace of enrollment. However, we believe that not enrolling in Russia may in the end be a positive as it may provide for a more consistent set of data, despite the company's efforts to identify high quality investigative sites. Also, Argos fully expects to start a combo therapy with an approved checkpoint inhibitor, either in oncology or possibly HIV, in 2015 and considers this the highest priority in terms of combos. Management plans to provide updates on the solid tumor trial plans for '003 at the next quarterly call.
- **'004 possibly not on many investors' radar, but may gain visibility soon.** Treatment of all patients in the Phase IIb study of chronically infected HIV patients has been completed, with data later in the year and possibly a presentation at CROI. The company is finalizing plans for the monotherapy pediatric study which will be informed by the Phase IIb data at YE. The pediatric study may start in early '15. The combo study with a latency-reversing agent is ongoing, and expects to enroll 6 acute and 6 chronically infected patients. 5 patients have completed the 1st stage with 2 more expected to be dosed in January and 7 in screening.
- **Model adjustments.** Given the R&D run rate for 3Q was higher than our expectations, we have increased our R&D projections (see appended model). The company intends to provide 2015 expense guidance at the next earnings call.

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\$8.57

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\$20.00
FY14E Rev (mil)	US\$5.3	US\$3.7
FY15E Rev (mil)	—	US\$8.0
FY14E EPS	US\$(2.01)	US\$(2.88)
FY15E EPS	US\$(1.28)	US\$(2.55)
52-Week High / Low	US\$13.74 /	US\$5.61
Shares Out (mil)		19.7
Market Cap. (mil)		US\$168.8
Avg Daily Vol (ooo)		49
Book Value/Share		US\$2.38
Net Cash Per Share		US\$3.54
Debt to Total Capital		1%
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	38.4x	—	—	—	(36.19)	(147.37)	NM
2014E	0.8A	0.5A	0.4A	2.0	3.7	45.6x	(1.05)A	(0.61)A	(0.77)A	(0.61)	(2.88)	NM
2015E	2.0	2.0	2.0	2.0	8.0	21.1x	(0.62)	(0.63)	(0.64)	(0.65)	(2.55)	NM

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Argos (\$ in thousands, except per share amounts)	2011	2012	2013	1Q14	2Q14	3Q14	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	399	2,000	3,671	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	399	2,000	3,671	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	12,998	12,000	44,040	12,180	12,363	12,548	12,736	49,827	54,810	57,550	60,428
SG&A	3,704	6,136	4,662	1,933	1,866	2,320	2,000	8,119	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	15,318	14,000	52,159	14,210	14,423	14,639	14,859	58,132	63,530	71,800	83,930
Operating Income (loss)	(8,729)	(16,713)	(24,232)	(9,607)	(11,962)	(14,920)	(12,000)	(48,489)	(12,210)	(12,423)	(12,639)	(12,859)	(50,132)	(63,530)	(38,298)	25,747
Investment income	1	5	3	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(6,656)	(292)	(1)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expense	(4,756)	6,530	308	(394)	(22)	(181)	-	(597)	-	-	-	-	-	-	-	-
Income (loss) before income taxes	(20,141)	(10,471)	(23,922)	(10,001)	(11,984)	(15,101)	(12,000)	(49,086)	(12,210)	(12,423)	(12,639)	(12,859)	(50,132)	(63,530)	(38,298)	25,747
Income tax (benefit) provision	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Tax rate	-	-	-	-	-	-	-	0.0%	-	-	-	-	0.0%	-	-	-
Net income (loss)	(20,141)	(10,471)	(23,922)	(10,001)	(11,984)	(15,101)	(12,000)	(49,086)	(12,210)	(12,423)	(12,639)	(12,859)	(50,132)	(63,530)	(38,298)	25,747
Net loss from non-controlling interest	(63)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income (loss) available to common stockholders	(20,078)	(10,471)	(23,922)	(10,001)	(11,984)	(15,101)	(12,000)	(49,086)	(12,210)	(12,423)	(12,639)	(12,859)	(50,132)	(63,530)	(38,298)	25,747
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)	(15,101)	(12,000)	(49,949)	(12,210)	(12,423)	(12,639)	(12,859)	(50,132)	(63,530)	(38,298)	25,747
Basic Earnings Per Share	(32.88)	(9.10)	(\$147.37)	(\$1.05)	(\$0.61)	(\$0.77)	(\$0.61)	(\$2.88)	(\$0.62)	(\$0.63)	(\$0.64)	(\$0.65)	(\$2.55)	(\$2.48)	(\$1.49)	\$1.00
Diluted Earnings Per Share	(32.88)	(9.10)	(\$147.37)	(\$1.05)	(\$0.61)	(\$0.77)	(\$0.61)	(\$2.88)	(\$0.62)	(\$0.63)	(\$0.64)	(\$0.65)	(\$2.55)	(\$2.48)	(\$1.49)	\$1.00
Basic Shares Outstanding	639	1,190	230	10,377	19,655	19,656	19,656	17,336	19,656	19,656	19,656	19,656	19,656	25,656	25,656	25,656
Diluted Shares Outstanding	639	1,190	230	10,377	19,655	19,656	19,656	17,336	19,656	19,656	19,656	19,656	19,656	25,656	25,656	25,656

Proprietary to Piper Jaffray & Co. November 15, 2014
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D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

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			Count	Percent
BUY [OW]	374	61.51	96	25.67
HOLD [N]	222	36.51	23	10.36
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