

**Aldeyra Therapeutics (ALDX - \$ 11.30)****4Q14: Overall Uneventful but 2015 Could Be Transformative As Two Key Clinical Results Become Available**

This morning, ALDX reported 4Q14 financial results with a net loss of (\$2.2MM), overall in-line with the estimates of Laidlaw (\$2.1MM) and the Street (\$2.3MM). Net loss per share was (\$0.39) vs. (\$0.37) for Laidlaw and the Street. After the recent financing, we estimate ALDX has cash of ~\$17MM (pro forma), enough to support its operations deep into 2016, in our opinion. In our view, quarterly earnings performance is not yet the key investment focus of ALDX share value. Instead the focus is on progress toward the success of NS2 in SLS and noninfectious anterior uveitis clinical studies.

- **Both cylinders are firing.** ALDX recently announced that the clinical studies of Sjögren-Larsson Syndrome or SLS and noninfectious anterior uveitis are ready to take off. The NS2 (cream) in SLS Phase II study has started, with the first patient to be enrolled shortly. With FDA acceptance of the amended study protocol for the NS2 (eye drop) in noninfectious anterior uveitis Phase II trial; the company expects IRB approvals from clinical study sites near term. Patient recruitment should commence shortly thereafter. We estimate the study will begin patient enrollment in 2Q15. ALDX guided that the top-line results from both studies could be available in 2H15. Since the SLS study is conducted at just one clinical site (University of Nebraska that has already treated many SLS patients), and the very small patient size (n=15) of the study; we estimate the preliminary top-line data could be available in 3Q15. We also estimate the NS2 in noninfectious anterior uveitis Phase II study top-line preliminary data could be available by year-end 2015.
- **2015 is a critical year for ALDX.** Since we have not seen clinical results from patients treated by NS2, the two data releases expected in 2H15 could provide investors with a first look at the drug's possible efficacy in the two indications. A positive outcome, in our opinion, could catalyze ALDX share value appreciation substantially by providing the critical initial validation of aldehyde trapping as a treatment modality.
- **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
<b>FY-15E</b>	-0.38	-0.40	-0.42	-0.43	-1.71	N.A.
<b>FY-14A</b>	-0.04	-1.43	-0.36	-0.39	-2.51	N.A.
<b>FY-13A</b>	-13.03	-5.47	2.76	18.47	3.49	N.A.
<b>FY-12A</b>	NA	NA	NA	NA	-124.44	N.A.

Source: Laidlaw & Company estimates

*Healthcare/Biotechnology*

Ticker:	<b>ALDX</b>
Rating:	<b>Buy</b>
Price Target:	<b>\$ 30.00</b>

**Trading Data:**

Last Price (03/18/2015)	\$ 11.30
52-Week High (1/28/2015)	\$ 13.50
52-Week Low (8/4/2014)	\$ 3.00
Market Cap. (MM)	\$ 62
Shares Out. (MM)	6

**Yale Jen, Ph.D.**

Managing Director/Senior  
Biotechnology Analyst  
(212) 953-4978  
yjen@laidlawltd.com

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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	3Q15	****
		Potentially report pre-clinical results	March 28-31, 2015	***
NS2 eyedrop	Acute anterior uveitis	Potentially enroll first patient for Phase II study	2Q15	***
		Presentation of pre-clinical data at the Association for Research in Vision and Ophthalmology (ARVO) 2015 Annual Meeting	May 3-7, 2015	***
		Potentially report Phase II study top-line results	4Q15	****

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

Source: Laidlaw & Company and company presentation

## Major Risks

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**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	1Q14	2Q14	3Q14	4Q14	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Revenue</b>																	
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	444	664	1,196	1,404	3,708	1,755	1,965	2,221	2,376	8,316	10,645	12,029	13,112	14,292	15,435
General and administrative	645	2,135	801	983	772	1,007	3,563	967	986	1,006	1,046	4,006	4,367	4,978	5,227	5,488	5,762
Marketing and sales														15,000	16,500	25,575	26,854
<b>Total Operating Expenses</b>	<b>1,114</b>	<b>3,676</b>	<b>1,245</b>	<b>1,646</b>	<b>1,968</b>	<b>2,411</b>	<b>7,271</b>	<b>2,722</b>	<b>2,952</b>	<b>3,227</b>	<b>3,422</b>	<b>12,322</b>	<b>15,012</b>	<b>32,007</b>	<b>34,838</b>	<b>45,355</b>	<b>48,051</b>
<b>Operating Incomes (losses)</b>	<b>(1,114)</b>	<b>(3,676)</b>	<b>(1,245)</b>	<b>(1,646)</b>	<b>(1,968)</b>	<b>(2,411)</b>	<b>(7,271)</b>	<b>(2,722)</b>	<b>(2,952)</b>	<b>(3,227)</b>	<b>(3,422)</b>	<b>(12,322)</b>	<b>(15,012)</b>	<b>(30,649)</b>	<b>(23,771)</b>	<b>(503)</b>	<b>64,006</b>
Change in fair value of preferred stock warrant liabilities	(9)	721	1,760	568	-	(0)	2,328	120	180	200	110	610	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	0
Other expenses	1	0	-	-	-	-	0	0	-	-	-	0	0	0	0	0	0
Interest expense	(342)	(159)	(113)	(56)	(41)	(34)	(244)	(34)	(34)	(34)	(34)	(135)	(135)	(135)	(135)	(135)	(135)
Total Other Income (Expense)	(21,951)	16,737	1,647	511	(41)	(34)	2,083	86	146	166	76	(135)	(135)	(135)	(135)	(135)	(135)
Net loss and comprehensive loss	(23,075)	13,060	402	(1,135)	(2,009)	(2,445)	(5,187)	(2,635)	(2,805)	(3,060)	(3,346)	(12,457)	(15,146)	(30,783)	(23,906)	(638)	63,871
Accretion of preferred stock	(389)	(823)	(192)	(142)	-	(0)	(333)	-	-	-	-	0	0	0	0	0	0
Allocation of undistributed earnings to preferred stockholders		(11,128)	(223)	-	-	223	0	-	-	-	-	0	0	0	0	0	0
Deemed dividend	(15,662)	0	-	(4,054)	-	-	(4,054)	-	-	-	-	0	0	0	0	0	0
Tax	0	0	-	-	-	-	0	-	-	-	-	0	0	0	0	0	(23,632)
<b>Net Income (Loss)</b>	<b>(39,126)</b>	<b>1,110</b>	<b>(13)</b>	<b>(5,330)</b>	<b>(2,009)</b>	<b>(2,221)</b>	<b>(9,574)</b>	<b>(2,635)</b>	<b>(2,805)</b>	<b>(3,060)</b>	<b>(3,346)</b>	<b>(12,457)</b>	<b>(15,146)</b>	<b>(30,783)</b>	<b>(23,906)</b>	<b>(638)</b>	<b>40,239</b>
Net Income (Loss) Applicable to Common Shareholders	(39,126)	1,110	(13)	(5,330)	(2,009)	(2,221)	(9,574)	(2,635)	(2,805)	(3,060)	(3,346)	(12,457)	(15,146)	(30,783)	(23,906)	(638)	40,239
Net Earnings (Losses) Per Share—Basic	(\$124.44)	\$3.49	(\$0.04)	(\$1.43)	(\$0.36)	(\$0.39)	(\$2.51)	(\$0.38)	(\$0.40)	(\$0.42)	(\$0.43)	(\$1.71)	(\$1.63)	(\$2.99)	(\$2.12)	(\$0.05)	\$3.03
Net Earnings (Losses) Per Share—Diluted	(\$124.44)	(\$17.58)	(\$4.00)	(\$1.56)	(\$0.36)	\$2.83	(\$3.09)	(\$0.38)	(\$0.40)	(\$0.42)	(\$0.43)	(\$1.71)	(\$1.63)	(\$3.00)	(\$2.12)	(\$0.05)	\$3.03
Shares outstanding—basic	314	318	327	3,738	5,565	5,642	3,818	6,942	7,042	7,342	7,842	7,292	9,292	10,292	11,292	12,292	13,292
Shares outstanding—diluted	314	857	444	3,769	5,565	5,624	3,851	6,924	7,024	7,324	7,824	7,274	9,274	10,274	11,274	12,274	13,274
<b>Margin Analysis (% of Sales/Revenue)</b>																	
Costs of goods													9%	9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	806%	108%	29%	13%
SG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	334%	43%	11%	5%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-2054%	-195%	-1%	52%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-2063%	-197%	-1%	33%
<b>Financial Indicator Growth Analysis (YoY%)</b>																	
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	715%	305%	150%
R&D	NA	229%	196%	104%	80%	251%	140%	295%	196%	86%	69%	124%	28%	13%	9%	9%	8%
SG&A	NA	231%	467%	49%	54%	21%	67%	21%	0%	30%	4%	12%	9%	14%	5%	5%	5%
Marketing and sales															10%	55%	5%
Operating Income (Losses)	NA	230%	327%	67%	69%	96%	98%	119%	79%	64%	42%	69%	22%	104%	-22%	-98%	-12819%
Pretax Income	NA	-157%	-110%	-28%	-122%	-126%	-140%	-756%	147%	52%	37%	140%	22%	103%	-22%	-97%	-10115%
Net Income	NA	-103%	-100%	210%	-329%	-137%	-963%	19804%	-47%	52%	51%	30%	22%	103%	-22%	-97%	-6409%
EPS	NA	-103%	-100%	-74%	-113%	-102%	-172%	839%	-72%	15%	8%	-32%	-5%	83%	-29%	-98%	-5934%
Yale Jen, Ph.D. 212-953-4978																	

Source: Bloomberg LP; Company reports; Laidlaw &amp; Company estimates

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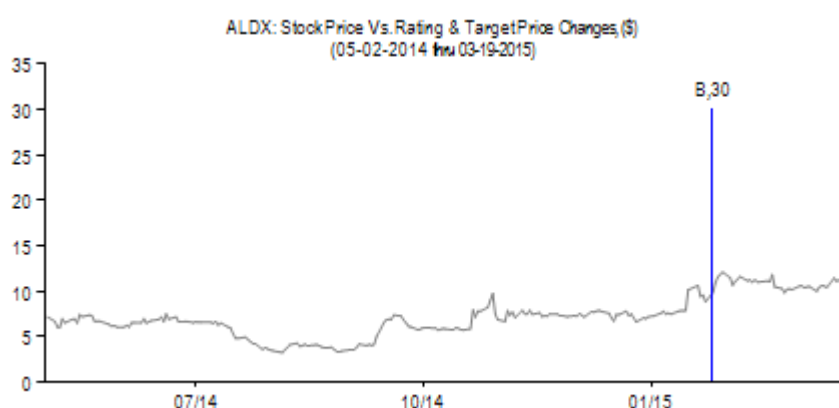
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Source: Laidlaw &amp; Company

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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

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			Investment Banking	Brokerage
<b>Strong Buy (SB)</b>	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
<b>Buy (B)</b>	Expected to outperform the sector average over 12 months.	81.82%	36.36%	9.09%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	4.55%	0.00%	0.00%
<b>Sell (S)</b>	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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