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EQUITY RESEARCH
Company Report

August 11, 2015

Aldeyra Therapeutics (ALDX - $ 8.23)

Healthcare/Biotechnology

2Q15: Slight Delay on the Completion of Two Ongoing Trials and Allergic Conjunctivitis Trial Soon to Start

Ticker:	**ALDX**
Rating:	**Buy**
Price Target:	**$ 30.00**

This morning, ALDX reported 2Q15 financial results with a net loss of ($2.2MM), vs. Laidlaw ($2.8MM) and the Street ($2.6MM) estimates. Net loss per share was ($0.27) vs. ($0.28) and ($0.41) for Laidlaw and the Street, respectively. ALDX ended 2Q15 with cash of ~$33.6MM, enough to support its operations deep into 2017, in our opinion.

- **Completion dates of the two ongoing trials slightly pushed out.** ALDX reported this morning that the completion dates of the two ongoing NS2 Phase II trials (Sjögren-Larsson Syndrome or SLS and noninfectious anterior uveitis or NAU) will be pushed out for approximately one to two quarters from earlier projections. The NAU trial could complete in 2Q16 (from 4Q15) due to slower than expected patient recruitment and ALDX is correcting the problem. The SLS study will complete in 1Q15 (from earlier 4Q15) due to single clinical site logistical issues. We do not believe such a small hiccup has any fundamental impact on the potential of these developments since minor timeline changes are common for clinical studies. We anticipate study results could be available shortly (within one quarter) after the study completion since the time needed for measuring endpoints is relatively short.
- **Allergic conjunctivitis trial to start in 3Q15.** ALDX announced it will start a topical NS2 in allergic conjunctivitis Phase IIa trial and we estimate enrollment of the first patient could start in late 3Q or early 4Q15. The formula for the conjunctivitis trial is the same as the one for anterior uveitis. We estimate the top-line results could be available in 2H16.
- **Systemic NS2 would be available in 2016.** ALDX expects systemically delivered aldehyde trapping agents could start human clinical studies in 2016. We believe such agents could be used initially for the treatment of orphan indications, like succinic semialdehyde dehydrogenase (SSADH) deficiency and neurological symptoms of SLS. Larger inflammatory disorders could be future indications as well. We view the potential success of systemic NS2 represents a significant upside for ALDX investors.
- **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 for 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.

Trading Data:

Last Price (08/11/2015)	$ 8.23
52–Week High (1/28/2015)	$ 13.50
52–Week Low (8/28/2014)	$ 3.31
Market Cap. (MM)	$ 79
Shares Out. (MM)	10

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-15E	-0.32A	-0.27A	-0.33	-0.36	-1.28	N.A.
FY-14A	-0.04	-1.43	-0.36	-0.39	-2.51	N.A.
FY-13A	-13.03	-5.47	2.76	18.47	3.49	N.A.
FY-12A	NA	NA	NA	NA	-124.44	N.A.

Source: Laidlaw & Company estimates

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Table 1: Estimated and reported 2Q15 results

2Q15 Estimates and Reported Results			
($,000)	**Laidlaw Estimate**	**Actual**	**Consensus**
Total revenue	**$0.0**	**$0.0**	**$0.0**
Total op. profit (loss)	**($2,730)**	**($2,204)**	**($2,770)**
R&D	$1,739	$1,249	
SG&A	$992	$955	
EPS	**($0.28)**	**($0.27)**	**($0.41)**
Net income (loss)	($2,758)	($2,232)	($2,603)

Source: Bloomberg, SEC filings and Laidlaw and Co.

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Anticipated milestones in 2015 and beyond

Product	Indication	Event	Timing	Importance
NS2 cream	Sjögren-Larsson Syndrome (SLS)	Potentially report Phase II study top-line results	**1Q/2Q16**	****
NS2 eyedrop	Noninfectious anterior uveitis	Potentially report Phase II study top-line results	**2Q/3Q16**	****
	Allergic conjunctivitis	Potentially report Phase II study top-line results	**2H16**	****
Systemic delvered NS2	Succinic Semi-aldehyde Dehydrogenase (SSADH) Deficiency and /or CNS disorders of SLS	Potentially report pre-clinical data	**2016**	***
		Potentially to start clinical studies	**2016**	****

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

Source: Laidlaw & Company and company presentation

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Major Risks

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.

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Figure 1: Income Statement

Aldeyra Therapeutics – Income Statement

($'000)	2012	2013	2014E	1Q15	2Q15	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E
Revenue													
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	3,708	1,136	1,249	1,849	2,218	6,453	8,259	9,333	10,173	11,089	11,976
General and administrative	645	2,135	3,563	972	955	974	1,013	3,914	4,266	4,863	5,107	5,362	5,630
Marketing and sales										15,000	16,500	25,575	26,854
Total Operating Expenses	1,114	3,676	7,271	2,109	2,204	2,823	3,231	10,366	12,525	29,196	31,780	42,025	44,459
Operating Incomes (losses)	(1,114)	(3,676)	(7,271)	(2,109)	(2,204)	(2,823)	(3,231)	(10,366)	(12,525)	(27,839)	(20,713)	2,826	67,597
Change in fair value of preferred stock warrant liabilities	(9)	721	2,328	-	-	-	-	0	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
Interest income	0	0	0	-	-	-	-	0	0	0	0	0	0
Other expenses	1	0		-	-	-	-	0	0	0	0	0	0
Interest expense	(342)	(159)	(244)	(28)	(28)	(28)	(28)	(113)	(113)	(113)	(113)	(113)	(113)
Total Other Income (Expense)	(21,951)	16,737	2,083	(28)	(28)	(28)	(28)	(113)	(113)	(113)	(113)	(113)	(113)
Net loss and comprehensive loss	(23,075)	13,060	(5,187)	(2,137)	(2,232)	(2,851)	(3,260)	(10,479)	(12,638)	(27,951)	(20,825)	2,713	67,485
Accretion of preferred stock	(389)	(823)	(333)	-	-	-	-	0	0	0	0	0	0
Allocation of undistributed earnings to preferred stockholders		(11,128)	0	-	-	-	-	0	0	0	0	0	0
Deemed dividend	(15,662)	0	(4,054)	-	-	-	-	0	0	0	0	0	0
Tax	0	0	0	-	-	-	-	0	0	0	0	(1,004)	(24,969)
Net Income (Loss)	(39,126)	1,110	(9,574)	(2,137)	(2,232)	(2,851)	(3,260)	(10,479)	(12,638)	(27,951)	(20,825)	1,709	42,515
Net Income (Loss) Applicable to Common Shareholders	(39,126)	1,110	(9,574)	(2,137)	(2,232)	(2,851)	(3,260)	(10,479)	(12,638)	(27,951)	(20,825)	1,709	42,515
Net Earnings (Losses) Per Share—Basic	($124.44)	$3.49	($2.51)	($0.32)	($0.27)	($0.33)	($0.36)	($1.28)	($1.24)	($2.50)	($1.71)	$0.13	$3.00
Net Earnings (Losses) Per Share—Diluted	($124.44)	($17.58)	($3.09)	($0.32)	($0.27)	($0.33)	($0.36)	($1.28)	($1.24)	($2.50)	($1.71)	$0.13	$3.00
Shares outstanding—basic	314	318	3,818	6,668	8,398	8,698	8,998	8,190	10,190	11,190	12,190	13,190	14,190
Shares outstanding—diluted	314	857	3,851	6,668	8,398	8,698	8,998	8,190	10,190	11,190	12,190	13,190	14,190
Margin Analysis (% of Sales/Revenue)													
Costs of goods									9%	9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	625%	84%	22%	10%
SG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	326%	42%	11%	5%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	-1866%	-170%	6%	55%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	-1873%	-171%	3%	35%
Financial Indicator Growth Analysis (YoY%)													
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	715%	305%	150%
R&D	NA	229%	140%	156%	88%	55%	58%	74%	28%	13%	9%	9%	8%
SG&A	NA	231%	67%	21%	-3%	26%	1%	10%	9%	14%	5%	5%	5%
Marketing and sales											10%	55%	5%
Operating Income (Losses)	NA	230%	98%	69%	34%	43%	34%	43%	21%	122%	-26%	-114%	2292%
Pretax Income	NA	-157%	-140%	-632%	97%	42%	33%	102%	21%	121%	-25%	-113%	2387%
Net Income	NA	-103%	-963%	16037%	-58%	42%	47%	9%	21%	121%	-25%	-108%	2387%
EPS	NA	-103%	-172%	692%	-81%	-9%	-8%	-49%	-3%	101%	-32%	-108%	2212%

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

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Additional information available upon request.

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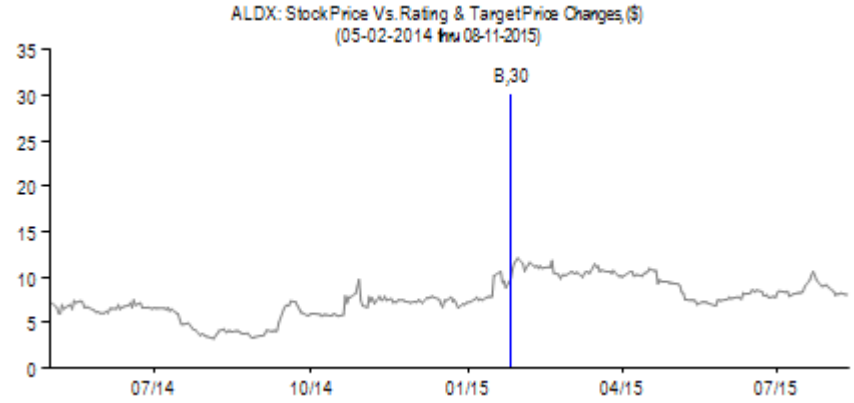
Rating and Price Target Change History



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

Source: Laidlaw & Company **Created by: Blue-Compass.net**

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			Investment Banking	Brokerage
Strong Buy (SB)	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	75.00%	32.14%	7.14%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	3.57%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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