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EQUITY RESEARCH
Company Report

November 12, 2015

Aldeyra Therapeutics (ALDX - $ 7.35)

Healthcare/Biotechnology

3Q15: The Stage is Being Set for Potential Releases of Clinical Data from the Three Phase II Trials in 2016

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

This morning, ALDX reported 3Q15 financial results with a net loss of ($3.3MM), vs. Laidlaw ($2.8MM) and the Street ($2.6MM) estimates. Net loss per share was ($0.35) vs. ($0.33) and ($0.31) for Laidlaw and the Street, respectively. ALDX ended 3Q15 with cash of ~$30.6MM, enough to support its operations deep into 2017, in our opinion.

- **2016 should be a clinical data driven catalyst-rich year.** ALDX reported that the completion of patient recruitment for the NS2 Phase II trials in Sjögren-Larsson Syndrome (SLS with n=12) and the two ophthalmological indications, noninfectious anterior uveitis (n=45) and allergic conjunctivitis (n~100), is expected in 1Q16 and 2Q16, respectively. As such, we estimate that the top-line results could be available in 2Q to early 3Q16. Since all three trials are clinical proof-of-concept studies, positive outcomes would be a critical validation of the aldehyde trapping approach, and with significant impact on ALDX shareholder values. The varying scenarios could also have different implications from a commercial prospective: 1) For orphan indications with etiology triggered by the accumulation of excess aldehyde, such as SLS and succinic semialdehyde dehydrogenase (SSADH) deficiency, aldehyde trapping could address the disease's root cause and has potential as a premium-priced orphan drug. and 2) For inflammatory driven indications, such as the two ophthalmological conditions, positive clinical results could potentially suggest aldehyde trapping as a new inflammation treatment modality and with a much larger market potential. The potential of the latter could be further expanded especially if systemically delivered aldehyde traps become available.
- **Systemically delivered aldehyde trap could enter clinical study in 2016.** Management indicated during the 3Q15 conference call that a systemically delivered aldehyde trap will enter clinical study in 2016. ALDX recently reported a pre-clinical study that demonstrated an IV delivered NS2 has the ability for trapping aldehydes in different organs in a SSADH knock-out mice model.
- **Action.** We are reiterating our Buy rating and our $30 target price based on peer comparable probability adjusted DCF analyses. Clinical NS2 development in orphan and inflammatory indications are all under study. We view the ALDX shares under-exposed and under-valued.

Trading Data:

Last Price (11/12/2015)	$ 7.35
52–Week High (1/28/2015)	$ 13.50
52–Week Low (10/13/2015)	$ 4.84
Market Cap. (MM)	$ 71
Shares Out. (MM)	10

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-15E	-0.32A	-0.27A	-0.35A	-0.38	-1.33	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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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	**2Q16**	****
NS2 eyedrop	Noninfectious anterior uveitis	Potentially report Phase II study top-line results	**Mid-16**	****
	Allergic conjunctivitis	Potentially report Phase II study top-line results	**Mid-16**	****
Systemic delvered NS2	Succinic Semi-aldehyde Dehydrogenase (SSADH) Deficiency and /or CNS disorders of SLS	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	3Q15	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	2,076	2,492	6,954	10,013	11,315	12,333	13,443	14,519
General and administrative	645	2,135	3,563	972	955	1,261	1,312	4,500	5,130	5,848	6,140	6,447	6,770
Marketing and sales										15,000	16,500	25,575	26,854
Total Operating Expenses	1,114	3,676	7,271	2,109	2,204	3,338	3,803	11,453	15,143	32,163	34,974	45,466	48,142
Operating Incomes (losses)	(1,114)	(3,676)	(7,271)	(2,109)	(2,204)	(3,338)	(3,803)	(11,453)	(15,143)	(30,805)	(23,907)	(614)	63,915
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 converti	(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)	(3,366)	(3,832)	(11,566)	(15,256)	(30,918)	(24,019)	(727)	63,802
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	0	(23,607)
Net Income (Loss)	(39,126)	1,110	(9,574)	(2,137)	(2,232)	(3,366)	(3,832)	(11,566)	(15,256)	(30,918)	(24,019)	(727)	40,195
Net Income (Loss) Applicable to Common Shareholders	(39,126)	1,110	(9,574)	(2,137)	(2,232)	(3,366)	(3,832)	(11,566)	(15,256)	(30,918)	(24,019)	(727)	40,195
Net Earnings (Losses) Per Share—Basic	($124.44)	$3.49	($2.51)	($0.32)	($0.27)	($0.35)	($0.38)	($1.33)	($1.43)	($2.64)	($1.89)	($0.05)	$2.73
Net Earnings (Losses) Per Share—Diluted	($124.44)	($17.58)	($3.09)	($0.32)	($0.27)	($0.35)	($0.38)	($1.33)	($1.43)	($2.64)	($1.89)	($0.05)	$2.73
Shares outstanding—basic	314	318	3,818	6,668	8,398	9,713	10,013	8,698	10,698	11,698	12,698	13,698	14,698
Shares outstanding—diluted	314	857	3,851	6,668	8,398	9,713	10,013	8,698	10,698	11,698	12,698	13,698	14,698
Margin Analysis (% of Sales/Revenue)													
Costs of goods									9%	9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	758%	101%	27%	12%
SG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	392%	50%	13%	5%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	-2064%	-197%	-1%	52%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	-2072%	-198%	-1%	33%
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%	74%	78%	88%	44%	13%	9%	9%	8%
SG&A	NA	231%	67%	21%	-3%	63%	30%	26%	14%	14%	5%	5%	5%
Marketing and sales											10%	55%	5%
Operating Income (Losses)	NA	230%	98%	69%	34%	70%	58%	58%	32%	103%	-22%	-97%	-10505%
Pretax Income	NA	-157%	-140%	-632%	97%	68%	57%	123%	32%	103%	-22%	-97%	-8877%
Net Income	NA	-103%	-963%	16037%	-58%	68%	72%	21%	32%	103%	-22%	-97%	-5630%
EPS	NA	-103%	-172%	692%	-81%	-4%	-3%	-47%	7%	85%	-28%	-97%	-5253%

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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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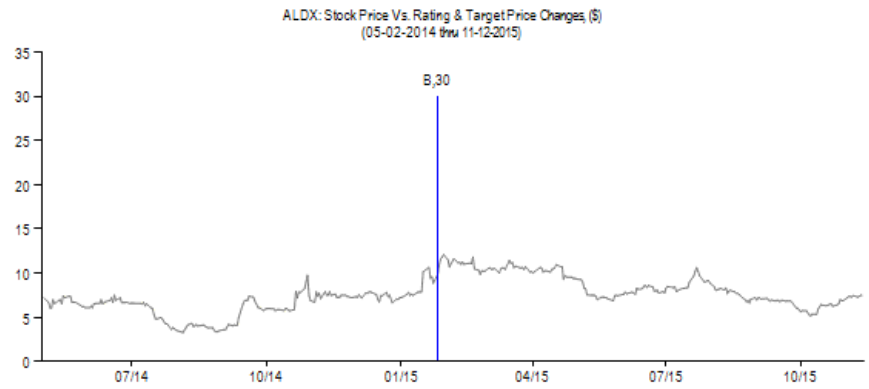
RATINGS INFORMATION

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.	71.88%	25.00%	6.25%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	3.13%	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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