

Aldeyra Therapeutics (ALDX - \$ 6.83)

Last Patient for the NS2 in Allergic Conjunctivitis Phase II Trial Completed Dosing – Ahead of Our Projection

This morning, ALDX reported that the NS2 in allergic conjunctivitis Phase II trial has completed dosing the last patient, and as such, the top-line data could potentially be available in 1Q16, slightly ahead of projection.

- Details.** This morning, Aldeyra announced the completion of dosing the last patient of their NS2 in allergic conjunctivitis Phase II trial. It is a randomized, parallel, single center, double masked, vehicle controlled study (n=100). The study's objective is to determine the activity and safety of NS2 in patients with grass, tree or ragweed-pollen induced seasonal allergic conjunctivitis. Patients were randomized 1:1 to receive multiple doses of NS2 ophthalmic drops (0.5%) or placebo. Primary endpoints include examining ocular itching, redness, tearing, and lid swelling. Secondary endpoints include cytokine expression. We estimate that top-line results could be available in 1Q16.
- Implications.** We view today's news as a positive surprise given the time of patient recruitment completion and the expected data release are ahead of our prior projected 2Q16 and 2Q/3Q16, respectively. Since this is a clinical proof-of-concept (POC) study, a positive outcome would be a critical validation of the aldehyde trapping approach, and could have significant impact on ALDX shareholder value. Prior pre-clinical studies have demonstrated that NS2 could reduce ocular inflammation and redness (iris hyperemia) of the eye. As such, we believe these promising results could bode well for potential positive outcome of the ongoing NS2 in allergic conjunctivitis Phase II trial. In addition, ALDX indicated that the progress of two other NS2 Phase II studies, in SLS and noninfectious anterior uveitis, are also on track. As such, we estimate patient recruitment completion and top-line results of both could potentially occur in 1Q16 and mid-16, respectively. Given the compact timeline over the next few quarters for study completion and data releases, 2016 could be a year with a few inflection points for ALDX shareholders. Further, should the two ophthalmological clinical studies be successful, in our opinion, NS2 could have the potential for treating many other inflammatory diseases.
- 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 remain under-exposed and under-valued.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-16E	-0.35	-0.36	-0.36	-0.37	-1.44	N.A.
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.

Source: Laidlaw & Company estimates

Healthcare/Biotechnology

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

Trading Data:

Last Price (12/15/2015)	\$ 6.83
52-Week High (1/28/2015)	\$ 13.50
52-Week Low (10/13/2015)	\$ 4.84
Market Cap. (MM)	\$ 66
Shares Out. (MM)	10

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 (SLS)	Potentially report Phase II study top-line results	2Q/3Q16	****
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	1Q16	****
Systemic delivered 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

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.

Figure 1: Income Statement

Aldeyra Therapeutics – Income Statement															
(\$'000)	2014E	1Q15	2Q15	3Q15	4Q15E	2015E	1Q16E	2Q16E	3Q16E	4Q16E	2016E	2017E	2018E	2019E	2020E
Revenue															
Product revenue	0	-	-	-	-	0	-	-	-	-	0	1,492	12,162	49,287	123,139
Other revenue	0	-	-	-	-	0	-	-	-	-	0	0	0	0	0
Total revenue	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	3,708	1,136	1,249	2,076	2,492	6,954	2,284	2,444	2,542	2,720	9,989	11,288	12,304	13,411	14,484
General and administrative	3,563	972	955	1,261	1,312	4,500	1,312	1,338	1,351	1,405	5,406	6,163	6,471	6,795	7,134
Marketing and sales												15,000	16,500	25,575	26,854
Total Operating Expenses	7,271	2,109	2,204	3,338	3,803	11,453	3,596	3,782	3,893	4,125	15,395	32,451	35,275	45,781	48,472
Operating Incomes (losses)	(7,271)	(2,109)	(2,204)	(3,338)	(3,803)	(11,453)	(3,596)	(3,782)	(3,893)	(4,125)	(15,395)	(31,093)	(24,208)	(929)	63,585
Change in fair value of preferred stock warrant liabilities	2,328	-	-	-	-	0	-	-	-	-	0	0	0	0	0
Change in fair value of convertible preferred stock rights and rights	0	-	-	-	-	0	-	-	-	-	0	0	0	0	0
Value provided in excess of issuance price of Series B convertible	0	-	-	-	-	0	-	-	-	-	0	0	0	0	0
Interest income	0	-	-	-	-	0	-	-	-	-	0	0	0	0	0
Other expenses						0					0	0	0	0	0
Interest expense	(244)	(28)	(28)	(28)	(28)	(113)	(28)	(28)	(28)	(28)	(113)	(113)	(113)	(113)	(113)
Total Other Income (Expense)	2,083	(28)	(28)	(28)	(28)	(113)	(28)	(28)	(28)	(28)	(113)	(113)	(113)	(113)	(113)
Net loss and comprehensive loss	(5,187)	(2,137)	(2,232)	(3,366)	(3,832)	(11,566)	(3,624)	(3,810)	(3,921)	(4,153)	(15,508)	(31,206)	(24,321)	(1,042)	63,472
Accretion of preferred stock	(333)	-	-	-	-	0	-	-	-	-	0	0	0	0	0
Allocation of undistributed earnings to preferred stockholders	0	-	-	-	-	0	-	-	-	-	0	0	0	0	0
Deemed dividend	(4,054)	-	-	-	-	0	-	-	-	-	0	0	0	0	0
Tax	0	-	-	-	-	0	-	-	-	-	0	0	0	0	(23,485)
Net Income (Loss)	(9,574)	(2,137)	(2,232)	(3,366)	(3,832)	(11,566)	(3,624)	(3,810)	(3,921)	(4,153)	(15,508)	(31,206)	(24,321)	(1,042)	39,987
Net Income (Loss) Applicable to Common Shareholders	(9,574)	(2,137)	(2,232)	(3,366)	(3,832)	(11,566)	(3,624)	(3,810)	(3,921)	(4,153)	(15,508)	(31,206)	(24,321)	(1,042)	39,987
Net Earnings (Losses) Per Share—Basic	(\$2.51)	(\$0.32)	(\$0.27)	(\$0.35)	(\$0.38)	(\$1.33)	(\$0.35)	(\$0.36)	(\$0.36)	(\$0.37)	(\$1.44)	(\$2.65)	(\$1.91)	(\$0.08)	\$2.71
Net Earnings (Losses) Per Share—Diluted	(\$3.09)	(\$0.32)	(\$0.27)	(\$0.35)	(\$0.38)	(\$1.33)	(\$0.35)	(\$0.36)	(\$0.36)	(\$0.37)	(\$1.44)	(\$2.65)	(\$1.91)	(\$0.08)	\$2.71
Shares outstanding—basic	3,818	6,668	8,398	9,713	10,013	8,698	10,313	10,613	10,913	11,213	10,763	11,763	12,763	13,763	14,763
Shares outstanding—diluted	3,851	6,668	8,398	9,713	10,013	8,698	10,313	10,613	10,913	11,213	10,763	11,763	12,763	13,763	14,763
Margin Analysis (% of Sales/Revenue)															
Costs of goods												9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	756%	101%	27%	12%
SG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	413%	53%	14%	6%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-2084%	-199%	-2%	52%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-2091%	-200%	-2%	32%
Financial Indicator Growth Analysis (YoY%)															
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	715%	305%	150%
R&D	140%	156%	88%	74%	78%	88%	101%	96%	22%	9%	44%	13%	9%	9%	8%
SG&A	67%	21%	-3%	63%	30%	26%	35%	40%	7%	7%	20%	14%	5%	5%	5%
Marketing and sales													10%	55%	5%
Operating Income (Losses)	98%	69%	34%	70%	58%	58%	71%	72%	17%	8%	34%	102%	-22%	-96%	-6942%
Pretax Income	-140%	-632%	97%	68%	57%	123%	70%	71%	16%	8%	34%	101%	-22%	-96%	-6190%
Net Income	-963%	16037%	-58%	68%	72%	21%	70%	71%	16%	8%	34%	101%	-22%	-96%	-3937%
EPS	-172%	692%	-81%	-4%	-3%	-47%	10%	35%	4%	-3%	8%	84%	-28%	-96%	-3677%
Yale Jen, Ph.D. 212-953-4978															

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

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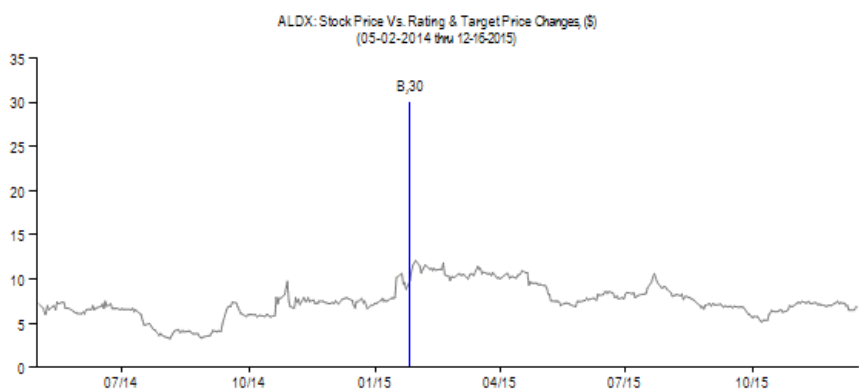
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Rating and Price Target Change History



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

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			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.	64.71%	26.47%	2.94%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	0.00%	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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