

Aldeyra Therapeutics (ALDX - \$ 4.10)

4Q15: Top-line Results of NS2 in Two Phase II Trials Expected in 2Q/3Q16 Are Near-term Catalysts

This morning, ALDX reported 4Q15 financial results with a net loss of (\$4.3MM), vs. Laidlaw (\$3.8MM) and the Street (\$3.7MM) estimates. Net loss per share was (\$0.44) vs. (\$0.38) and (\$0.37) for Laidlaw and the Street, respectively. ALDX ended 2015 with cash of \$27.6MM, enough to support its operations deep into 2017, in our opinion.

- Updates on three NS2 Phase II trials.** ALDX reported that the patient recruitment of NS2 in noninfectious anterior uveitis (n=45) and in Sjögren-Larsson Syndrome (SLS with n=12) Phase II trials are on track with prior guidance. As such, top-line results for the noninfectious anterior uveitis trial could be available in 2Q16, with SLS results shortly thereafter. ALDX also recently reported positive results for the NS2 in allergic conjunctivitis (AC) Phase IIa study. Since all three trials are clinical proof-of-concept studies, the positive NS2 in AC Phase IIa results were a critical first step for the validation of aldehyde trapping's anti-inflammatory activities. As such, we believe potential positive outcomes for the remaining two Phase II trials would have a significant impact on ALDX share value since one reconfirms NS2's anti-inflammatory activities from a second indication, and the other demonstrates the drug's ability as a replacement therapy for patients lacking critical essential enzymes. Together, they demonstrate that NS2 could clinically treat inflammatory and non-inflammatory indications and potentially increase its commercial potential, especially if an effective systemically delivered drug also becomes available. NS2 clinical data presentations from the three Phase II trials are expected at major ocular and other medical meetings later in 2016.
- Systemically delivered NS2 clinical development to start in 2016.** ALDX is scheduled to initiate clinical development of systemically delivered aldehyde traps in 2016, and likely in orphan inflammatory and inborn aldehyde metabolism errors indications, such as succinic semialdehyde dehydrogenase (SSADH) deficiency and neurological symptoms of SLS.
- 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	-0.47	-0.49	-0.50	-0.50	-1.95	N.A.
FY-15A	-0.32	-0.27	-0.35	-0.45	-1.40	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 (03/30/2016)	\$ 4.10
52-Week High (4/20/2015)	\$ 11.79
52-Week Low (2/9/2016)	\$ 3.39
Market Cap. (MM)	\$ 40
Shares Out. (MM)	10

Yale Jen, Ph.D.

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

FOR ANALYST CERTIFICATION AND DISCLOSURES, PLEASE SEE DISCLOSURES SECTION AT THE END OF THIS REPORT. This report has been prepared by Laidlaw & Co (UK), Ltd. Investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. All prices are those current at the end of the previous trading session unless otherwise indicated. Prices and consensus estimates are sourced from a reliable market source

Anticipated milestones in 2016 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	2Q16	****
	Allergic conjunctivitis	Potentially provide future development direction	2Q/3Q16	****
Systemic delivered (IV) NS2	Succinic Semi-aldehyde Dehydrogenase (SSADH) Deficiency, CNS disorders of SLS and /or autoimmune disorders	Potentially report pre-clinical data	2016	***
		Potentially to start Phase I studies	2H16	****
		Potentially to start Phase II studies	2017	***

**** / ***** 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	4Q15	2015	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	3,112	7,574	3,268	3,497	3,637	3,709	14,111	15,946	17,381	18,945	20,460
General and administrative	3,563	972	955	1,261	1,227	4,415	1,276	1,288	1,301	1,353	5,218	5,949	6,246	6,559	6,887
Marketing and sales												15,000	16,500	25,575	26,854
Total Operating Expenses	7,271	2,109	2,204	3,338	4,339	11,989	4,544	4,785	4,938	5,063	19,330	36,895	40,127	51,079	54,201
Operating Incomes (losses)	(7,271)	(2,109)	(2,204)	(3,338)	(4,339)	(11,989)	(4,544)	(4,785)	(4,938)	(5,063)	(19,330)	(35,537)	(29,060)	(6,227)	57,856
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	-	-	-	-	11	-	-	-	-	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)	(102)	(28)	(28)	(28)	(28)	(113)	(113)	(113)	(113)	(113)
Net loss and comprehensive loss	(5,187)	(2,137)	(2,232)	(3,366)	(4,367)	(12,091)	(4,572)	(4,813)	(4,966)	(5,091)	(19,442)	(35,650)	(29,173)	(6,340)	57,743
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	(21,365)
Net Income (Loss)	(9,574)	(2,137)	(2,232)	(3,366)	(4,367)	(12,091)	(4,572)	(4,813)	(4,966)	(5,091)	(19,442)	(35,650)	(29,173)	(6,340)	36,378
Net Income (Loss) Applicable to Common Shareholders	(9,574)	(2,137)	(2,232)	(3,366)	(4,367)	(12,091)	(4,572)	(4,813)	(4,966)	(5,091)	(19,442)	(35,650)	(29,173)	(6,340)	36,378
Net Earnings (Losses) Per Share—Basic	(\$2.51)	(\$0.32)	(\$0.27)	(\$0.35)	(\$0.45)	(\$1.40)	(\$0.47)	(\$0.49)	(\$0.50)	(\$0.50)	(\$1.95)	(\$3.25)	(\$2.44)	(\$0.49)	\$2.60
Net Earnings (Losses) Per Share—Diluted	(\$3.09)	(\$0.32)	(\$0.27)	(\$0.35)	(\$0.45)	(\$1.40)	(\$0.47)	(\$0.49)	(\$0.50)	(\$0.50)	(\$1.95)	(\$3.25)	(\$2.44)	(\$0.49)	\$2.60
Shares outstanding—basic	3,818	6,668	8,398	9,713	9,758	8,634	9,818	9,918	10,018	10,118	9,968	10,968	11,968	12,968	13,968
Shares outstanding—diluted	3,851	6,668	8,398	9,713	9,758	8,634	9,818	9,918	10,018	10,118	9,968	10,968	11,968	12,968	13,968
Margin Analysis (% of Sales/Revenue)															
Costs of goods	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	9%	9%	9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1069%	143%	38%	17%
SG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	399%	51%	13%	6%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-2382%	-239%	-13%	47%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-2389%	-240%	-13%	30%
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%	122%	104%	188%	180%	75%	19%	86%	13%	9%	9%	8%
SG&A	67%	21%	-3%	63%	22%	24%	31%	35%	3%	10%	18%	14%	5%	5%	5%
Marketing and sales													10%	55%	5%
Operating Income (Losses)	98%	69%	34%	70%	80%	65%	115%	117%	48%	17%	61%	84%	-18%	-79%	-1029%
Pretax Income	-140%	-632%	97%	68%	79%	133%	114%	116%	48%	17%	61%	83%	-18%	-78%	-1011%
Net Income	-963%	16037%	-58%	68%	97%	26%	114%	116%	48%	17%	61%	83%	-18%	-78%	-674%
EPS	-172%	692%	-81%	-4%	14%	-44%	45%	83%	43%	12%	39%	67%	-25%	-80%	-633%
Yale Jen, Ph.D. 212-953-4978															

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

DISCLOSURES:

ANALYST CERTIFICATION

The analyst responsible for the content of this report hereby certifies that the views expressed regarding the company or companies and their securities accurately represent his personal views and that no direct or indirect compensation is to be received by the analyst for any specific recommendation or views contained in this report. Neither the author of this report nor any member of his immediate family or household maintains a position in the securities mentioned in this report.

EQUITY DISCLOSURES

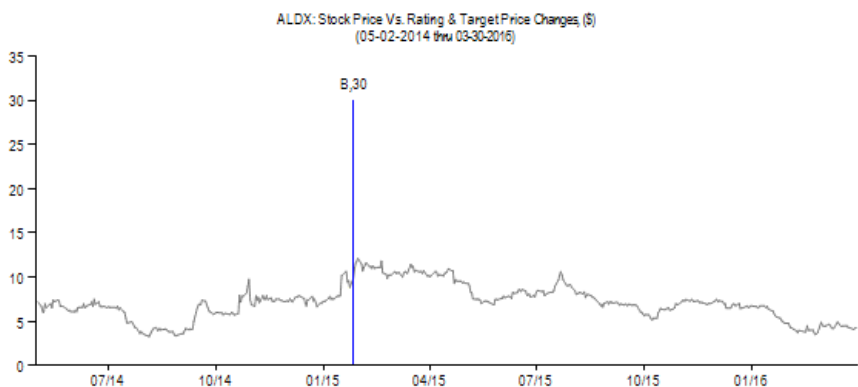
For the purpose of ratings distributions, regulatory rules require the firm to assign ratings to one of three rating categories (i.e. Strong Buy/Buy-Overweight, Hold, or Underweight/Sell) regardless of a firm's own rating categories. Although the firm's ratings of Buy/Overweight, Hold, or Underweight/Sell most closely correspond to Buy, Hold and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis against the analyst sector universe of stocks. An analyst's coverage sector is comprised of companies that are engaged in similar business or share similar operating characteristics as the subject company. The analysis sector universe is a sub-sector to the analyst's coverage sector, and is compiled to assist the analyst in determining relative valuations of subject companies. The composition of an analyst's sector universe is subject to change over time as various factors, including changing market conditions occur. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12-months relative to the analyst's sector universe.

Additional information available upon request.

‡ Laidlaw & Company has received compensation from the subject company for investment banking services in the past 12 months and expects to receive or intends to seek compensation for investment banking services from the company in the next three months.

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.	65.71%	25.71%	2.86%
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%

ADDITIONAL COMPANIES MENTIONED

ADDITIONAL DISCLOSURES

As of the date of this report, neither the author of this report nor any member of his immediate family or household maintains an ownership position in the securities of the company (ies) mentioned in this report.

This report does not provide individually tailored investment advice and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Laidlaw & Co (UK), Ltd. recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. This report is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy.

Associated persons of Laidlaw & Co (UK), Ltd not involved in the preparation of this report may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned herein and may trade them in ways different from those discussed in this report. While Laidlaw & Co (UK), Ltd., prohibits analysts from receiving any compensation. Bonus or incentive based on specific recommendations for, or view of, a particular company, investors should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

With the exception of information regarding Laidlaw & Co (UK), Ltd. this report is based on public information. Laidlaw & Co (UK), Ltd makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete and it should not be relied upon as such. Any opinions expressed are subject to change and Laidlaw & Co (UK), Ltd disclaims any obligation to advise you of changes in opinions or information or any discontinuation of coverage of a subject company. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other Laidlaw & Co (UK), Ltd business areas. Laidlaw & Co (UK), Ltd associated persons conduct site visits from time to time but are prohibited from accepting payment or reimbursement by the company of travel expenses for such visits. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

Any trademarks and service marks contained in this report are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. This report or any portion thereof may not be reprinted, sold or redistributed without the written consent of Laidlaw & Co (UK), Ltd. This report is disseminated and available primarily electronically, and, in some cases, in printed form.

The information and opinions in this report were prepared by Laidlaw & Co (UK), Ltd. For important disclosures, please see Laidlaw & Co (UK), Ltd.'s disclosure website at www.Laidlawltd.com, or contact your investment representative or Laidlaw & Co (UK), Ltd at 546 Fifth Ave, 5th Floor, New York, NY 10036 USA.

© 2016 Laidlaw & Co. (UK), Ltd.

NOTES: