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EQUITY RESEARCH
Company Report

March 31, 2017

Aldeyra Therapeutics (ALDX - $5.15)

Healthcare/Biotechnology

4Q16: Await Initiations of Four Trials (2 P2 and 2P3) With Multiple Data Read-Outs

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

ALDX reported 4Q16 financial results yesterday with a net loss of ($4.7MM) vs. Laidlaw ($5.1MM) and the Street ($8.3MM) estimates. Net loss/share was ($0.37) vs. ($0.40) for Laidlaw and ($0.66) of the Street. We believe estimated current cash of ~$30MM (pro forma) could support ALDX operations deep into 2H18.

- **Clinical program updates** ALDX is preparing to start ADX-102 (ocular) in 1) noninfectious anterior uveitis (NAU) Phase III; 2) allergic conjunctivitis Phase IIb; and 3) dry eye symptom Phase II trials in 2Q17. Top-line results from the allergic conjunctivitis and dry eye trials could be available in 2H17. NAU Phase III study top-line results could be available in late 2018. An ADX-102 (1% dermatologic topical) in SLS Phase III study could start in 2H17 after an EOP2 meeting with the FDA, with top-line results expected in 2019. The pivotal SLS trial could potentially suffice for approval in the U.S. and Europe. The data read-outs of the two ophthalmological studies in 2H17 could potentially guide the future clinical paths of the two indications.
- **Two formulations for dry eye syndrome.** ALDX is exploring two formulations of ocular aldehyde trapper, ADX-102 and ADX-103 for treating dry eye syndrome. The initial Phase II trial will test ADX-102 as a novel anti-inflammatory agent with similar MOA as marketed Restasis or Xiidra. Shortcomings of current therapy Restasis is it is slow acting (need 90 days for showing effect), while Xiidra could cause eye irritation and reduce visual acuity in 5-25% patients. ALDX believes an aldehyde trapper could potentially be a more fast-acting treatment. In addition, one of the three components of tear film is an oily (lipid) component, which plays a critical role in preventing quick tear evaporation and increasing lubrication. ALDX designed ADX-103 with added protection for the lipid component of the tear to potentially increase the lubrication effect. This could create differentiation from other ophthalmological aldehyde trappers with the added benefit of pricing flexibility. Given it is rather quick and inexpensive to run a mid-clinical stage dry eye trial; we believe ALDX would potentially conduct an ADX-103 trial afterward if the ADX-102 study outcome is promising.
- **Action.** We are reiterating our Buy rating and our $30 target price based on peer comparable probability adjusted DCF analyses. Clinical ADX-102 development in orphan and inflammatory indications are all under study. We view the ALDX shares remain under-exposed and under-valued.

Trading Data:

Last Price (3/30/2017)	$5.15
52–Week High (9/27/2016)	$8.19
52–Week Low (3/30/2016)	$3.94
Market Cap. (MM)	$76
Shares Out. (MM)	11.352

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY-17E	-0.38	-0.38	-0.39	-0.40	-1.55	N.A.
FY-16A	-0.51	-0.41	-0.38	-0.37	-1.65	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.

Source: Laidlaw & Company estimates

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Table 1: Estimated and reported 4Q16 results

4Q16 Estimates and Reported Results			
($,000)	**Laidlaw Estimate**	**Actual**	**Consensus**
Total revenue	**$0.0**	**$0.0**	**$0.0**
Total op. profit (loss)	**($5,055)**	**($4,656)**	**($9,200)**
R&D	$3,616	$3,450	
SG&A	$1,439	$1,206	
EPS	**($0.40)**	**($0.37)**	**($0.66)**
Net income (loss)	($5,054)	($4,654)	($8,300)

Source: Bloomberg, SEC filings and Laidlaw and Co.

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Anticipated milestones in 2017 and beyond

Product	Indication	Event	Timing	Importance
ADX-102 cream	Sjögren-Larsson Syndrome (SLS)	Start Phase III study	**2H17**	***
		Potentially Phase III study results	**2019**	****
ADX-102 eyedrop	Noninfectious anterior uveitis	Potentially start Phase III trial	**2Q17**	***
		Potentially report Phase III study top-line results	**4Q18**	****
		Potentially start 2nd Phase III trial	**2019**	***
	Allergic conjunctivitis	Potentially start Phase IIb dose-optimizing trial	**2Q17**	***
		Potentially report Phase IIb study top-line results	**2H17**	****
	Dry eye syndrome	Potentially start Phase II dose-optimizing trial	**2Q17**	***
		Potentially report Phase II dose-optimizing trial results	**2H17**	****
Oral ADX-102 or new trapper		Potentially to start safety Phase I study	**1Q18**	***
	Succinic Semi-aldehyde Dehydrogenase (SSADH)	Potentially to start Phase IIa study	**2H18**	***
		Potentially to report Phase IIa study results	**2019**	****
	Sjögren-Larsson Syndrome (SLS) CNS disorders	Potentially to start Phase I study	**2H18**	***
New aldehyde trapper		Provide more updates	**1H17**	***

***** / ***** 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, ADX-102 in the two indications under clinical trials; it remains too early to predict the safety and efficacy from the two ongoing and upcoming clinical studies. The clinical validation for these programs has not been established. The success of each study could illustrate ADX-102 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 clinical 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, ADX-102 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, ADX-102, 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 had ~$29MM cash at the end of 3Q16, ALDX could need more financial resources going forward if it wants 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,

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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)	2014	2015	1Q16	2Q16	3Q16	4Q16	2016	1Q17E	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E
Revenue															
Product revenue	0	0	-	-	-	-	0	-	-	-	-	0	0	0	2,944
Other revenue	0	0	-	-	-	-	0	-	-	-	-	0	0	0	0
Total revenue	0	0	-	-	-	-	0	-	-	-	-	0	0	0	2,944
Costs of goods								0	-	-	-	0	0	0	265
Gross sales								0	-	-	-	0	0	0	2,679
Research and development	3,708	7,574	3,511	2,835	3,380	3,450	13,176	3,622	3,695	3,917	4,018	15,252	16,625	18,121	19,571
General and administrative	3,563	4,415	1,456	1,462	1,397	1,206	5,520	1,242	1,205	1,217	1,253	4,917	5,162	5,421	5,692
Marketing and sales													16,500	16,500	16,500
Total Operating Expenses	7,271	11,989	4,967	4,297	4,776	4,656	18,696	4,864	4,900	5,133	5,272	20,169	38,288	40,042	41,763
Operating Incomes (losses)	(7,271)	(11,989)	(4,967)	(4,297)	(4,776)	(4,656)	(18,696)	(4,864)	(4,900)	(5,133)	(5,272)	(20,169)	(38,288)	(40,042)	(39,083)
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 rig	0	0	-	-	-	-	0	-	-	-	-	0	0	0	0
Value provided in excess of issuance price of Series B convertil	0	0	-	-	-	-	0	-	-	-	-	0	0	0	0
Interest income	0	11	25	22	28	28	102	27	27	27	27	108	119	131	131
Other expenses		0	-	-	-	-	0	-	-	-	-	0	0	0	0
Interest expense	(244)	(113)	(25)	(28)	(27)	(26)	(106)	(27)	(27)	(27)	(27)	(108)	(108)	(108)	(108)
Total Other Income (Expense)	2,083	(102)	(0)	(6)	1	2	(3)	0	0	0	0	0	11	23	23
Net loss and comprehensive loss	(5,187)	(12,091)	(4,967)	(4,303)	(4,775)	(4,654)	(18,699)	(4,864)	(4,900)	(5,133)	(5,272)	(20,169)	(38,277)	(40,019)	(39,061)
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	0
Net Income (Loss)	(9,574)	(12,091)	(4,967)	(4,303)	(4,775)	(4,654)	(18,699)	(4,864)	(4,900)	(5,133)	(5,272)	(20,169)	(38,277)	(40,019)	(39,061)
Net Income (Loss) Applicable to Common Shareholders	(9,574)	(12,091)	(4,967)	(4,303)	(4,775)	(4,654)	(18,699)	(4,864)	(4,900)	(5,133)	(5,272)	(20,169)	(38,277)	(40,019)	(39,061)
Net Earnings (Losses) Per Share—Basic	($2.51)	($1.40)	($0.51)	($0.41)	($0.38)	($0.37)	($1.65)	($0.38)	($0.38)	($0.39)	($0.40)	($1.55)	($2.74)	($2.67)	($2.45)
Net Earnings (Losses) Per Share—Diluted	($3.09)	($1.40)	($0.51)	($0.41)	($0.38)	($0.37)	($1.65)	($0.38)	($0.38)	($0.39)	($0.40)	($1.55)	($2.74)	($2.67)	($2.45)
Shares outstanding—basic	3,818	8,634	9,713	10,622	12,475	12,599	11,352	12,749	12,899	13,049	13,199	12,974	13,974	14,974	15,974
Shares outstanding—diluted	3,851	8,634	9,713	10,622	12,475	12,599	11,352	12,749	12,899	13,049	13,199	12,974	13,974	14,974	15,974
Margin Analysis (% of Sales/Revenue)															
Costs of goods														9%	9%
R&D	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	665%
SG&A	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	193%
Operating Income (loss)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-1327%
Net Income	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	-1327%
Financial Indicator Growth Analysis (YoY%)															
Total Revenue	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
R&D	140%	104%	209%	127%	63%	11%	74%	3%	30%	16%	16%	16%	9%	9%	8%
SG&A	67%	24%	50%	53%	11%	-2%	25%	-15%	-18%	-13%	4%	-11%	5%	5%	5%
Marketing and sales															
Operating Income (Losses)	98%	65%	136%	95%	43%	7%	56%	-2%	14%	7%	13%	8%	90%	5%	-2%
Pretax Income	-140%	133%	132%	93%	42%	7%	55%	-2%	14%	7%	13%	8%	90%	5%	-2%
Net Income	-963%	26%	132%	93%	42%	7%	55%	-2%	14%	7%	13%	8%	90%	5%	-2%
EPS	-172%	-44%	60%	52%	10%	-17%	18%	-25%	-6%	3%	8%	-6%	76%	-2%	-9%

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

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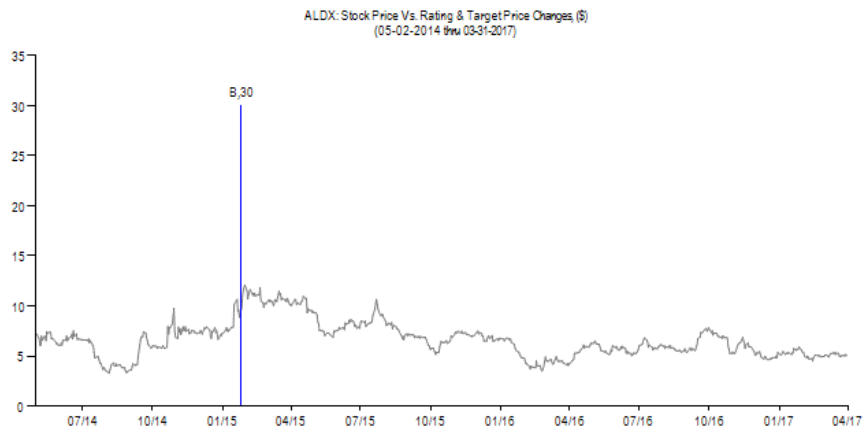
Rating and Price Target Change History



3 Year Rating Change History

Date	Rating	Closing Price ($)
01/26/2...	Buy (B)	9.86

3 Year Price Change History

Date	Target Price ($)	Closing Price, ($)
01/26/2...	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.	2.38%	2.38%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	64.29%	28.57%	2.38%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	2.38%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	4.76%	0.00%	0.00%

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