

Aridis Pharmaceuticals (ARDS - \$8.55)

Healthcare / Biotechnology

Late Stage Readouts around the Corner at ARDS.

With multiple near term catalysts, we wanted to remind investors of the critical importance of 2019 at ARDS. We are encouraged that ARDS feels comfortable with their Phase 2 data readout of AR-105 in mid-2019, which is ahead of our anticipated 2H19. As a reminder, AR-105 was granted Fast Track Designation (FTD) and targets gram (-) *P.aeruginosa*. We view this trial as relatively de-risked since strong Phase 2a data in their main value driver (AR-301 for gram (+) *S. aureus*) attests to the strength of their differentiated MabIgX antibody discovery platform for targeted immunotherapy, in our opinion. We see positive Phase 2 data as de-risking their ongoing Phase 3 in AR-301, which could read out its interim look by YE19. Although a small *n* number in its Phase 2a, AR-301 reached its primary endpoints (no SAEs and expected PK), and showed encouraging trends of efficacy (improvements in time of ventilator, microbiological eradication rate and overall ICU stays). We are particularly encouraged by ARDS's ability to pre-negotiate their clinical cure primary endpoint to ultimately eliminate previous subjectivity in this reading. ARDS recently announced that they had enrolled their first patient in their inhaled AR-501 Phase 1/2a trial for the treatment of chronic lung infections in cystic fibrosis (CF). This two-part randomized double-blinded placebo controlled trial in healthy subjects followed by CF patients is completely funded by the CF Foundation (up to \$7.5M), and data readout for their Phase 1 and 2a trial is expected in 4Q19 and 4Q20, respectively. Although Phase 1 of this trial will simply look at safety, we see the entire program as also relatively de-risked since IV gallium has already demonstrated safety/efficacy in a recent Phase 2 study in CF patients. With its potential to be a 1x/week dosing vs. the SOC inhaled antibiotics (multiple times/day), we see this early program as an interesting call option. We are reiterating our Buy rating and \$23 PT.

Ticker: ARDS
Rating: **Buy**
Price Target: **\$23**

Trading Data:

Last Price (02/08/2019)	\$8.55
52-Week High (08/14/2018)	\$13.85
52-Week Low (12/04/2018)	\$7.59
Market Cap. (MM)	\$69.3
Shares Out. (MM)	8.1

- **AR-105 Phase 2 around the corner could significantly de-risk their MabIgX platform.** We are encouraged that ARDS expects to readout their Phase 2 data from AR-105 in mid-2019 vs. our previously expected 2H19. We believe positive data (clinical cure: primary endpoint) could de-risk (same platform) their Phase 3 data in AR-301, which could readout by YE19.
- **On the heels of AR-105 data, important catalysts to come.** ARDS could have Phase 3 data readout in AR-301 by YE19 as well as Phase 1 safety data in their recently initiated Phase 1/2a trial of fully funded AR-501 in CF.
- **Reiterating Buy rating, \$23 PT.** Our PT is based on a sum-of-the-parts analysis with AR-301 at \$11/share, AR-105 at \$5/share, AR-101 sales at \$2/share and \$5/share for cash and tech.

Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
FY19E	(2.22)	(2.18)	(1.42)	(1.40)	(6.85)	NA
FY18E	(1.40)A	(0.34)	(1.97)A	(2.23)	(5.51)	NA
FY17A	--	--	--	--	(5.38)	NA
FY16A	--	--	--	--	--	NA

Analyst

Francois Brisebois, MSc/ Specialty
Pharma & Biotech
(857) 317-5362
fbrisebois@laidlawltd.com

Source: Laidlaw & Company estimates

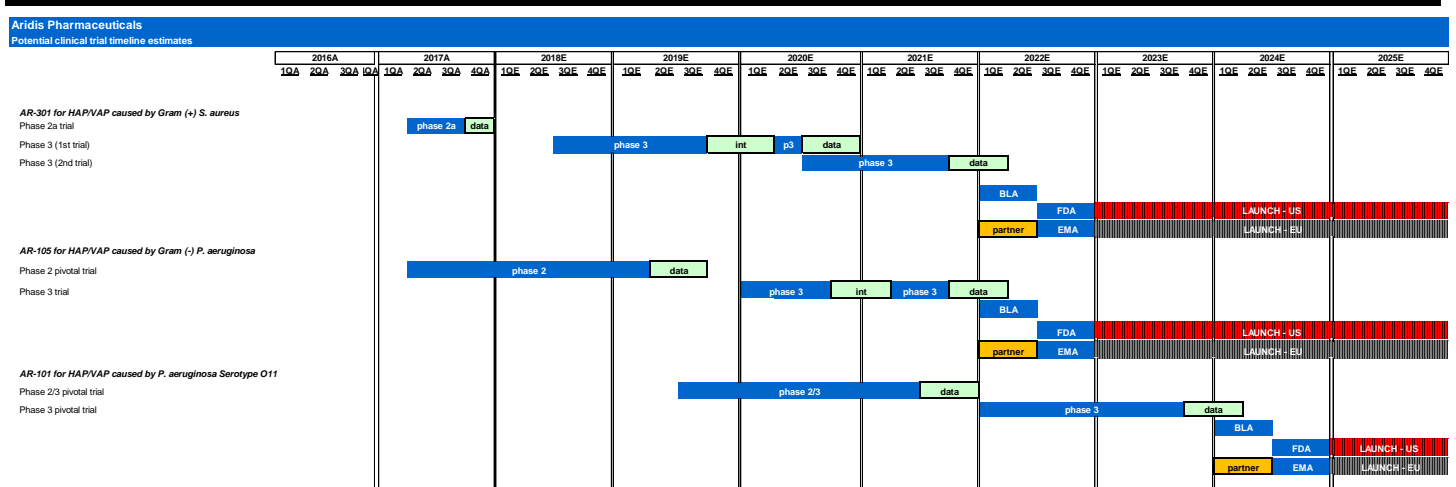
FOR ANALYST CERTIFICATION AND DISCLOSURES, PLEASE SEE DISCLOSURES SECTION AT THE END OF THIS REPORT. This report has been prepared by Laidlaw & Co (UK), Ltd. Investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider 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

Figure 1: Valuation

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
AR-301 US sales	\$82,177	\$11.00
AR-105 US sales	\$37,238	\$5.00
AR-101 US sales	\$12,327	\$2.00
Cash (end '19) & tech value	\$34,540	\$5.00
	\$153,954	\$23.00
2019 fully diluted shares out (000)		7,569

Source: Laidlaw & Company estimates

Figure 2: Clinical trials timeline



Source: Company reports; Laidlaw & Company estimates

Figure 3: Quarterly Income Statement

Aridis Pharmaceuticals						
Quarterly income statement						
(\$000 except per share)	2017A	2018E				2018E
	Year	1QA	2QE	3QA	4QE	Year
Revenues						
contract revenue						
collaboration revenue	771					
grant revenue	89	322	22	1022	500	1,866
Total Revenue	\$860	\$322	\$22	\$1,022	\$500	\$1,866
Expenses:						
COGS (% of US Revenue)	0	-	-	-	-	-
Gross Margin	860	322	22	1,022	500	1,866
G&A	3,160	1,066	687	735	1,250	3,738
R&D	17,438	6,626	3,885	6,907	7,500	24,918
Total operating expenses	20,598	7,692	4,572	7,642	8,750	28,656
Loss from operations	(19,738)	(7,370)	(4,550)	(6,620)	(8,250)	(26,790)
Interest and other income (expense), net	234	74	68	119	75	336
loss from equity method of investment				(20)		
change in fair value of warrant liability	(5,152)	(38)	3,058	(1,388)		1,632
Net loss	(24,656)	(7,334)	(1,424)	(7,909)	(8,175)	(24,842)
Preferred dividends	(2,793)	(817)	(535)	(5)	(1,000)	(2,357)
NI/(loss) as reported	(27,449)	(8,151)	(1,959)	(7,914)	(9,175)	(27,199)
Earning per Share (EPS)	(\$5.38)	(\$1.40)	(\$0.34)	(\$1.97)		
Adj EPS ex-1x & non-cash	(\$5.38)	(\$1.40)	(\$0.34)	(\$1.97)	(\$2.23)	(\$5.51)
Weighted avg. shares (000)	5,103	5,807	5,807	4,019	4,119	4,938
Fully diluted shares (000)	5,103	5,807	5,807	6,019	6,119	6,938

Source: Company reports; Laidlaw & Company estimates.

Figure 4: Annual Income Statement

Aridis Pharmaceuticals					
Annual income statement					
(\$000's except per share)	2016A	2017E	2018E	2019E	2020E
Revenues					
contract revenue	\$2,068				
collaboration revenue	\$201	\$771			
grant revenue		\$89	\$1,866	\$2,300	\$1,200
Total sales	\$2,269	\$860	\$1,866	\$2,300	\$1,200
COGS	1,927	0	0	0	0
Gross margin	342	860	1,866	2,300	1,200
R&D	6,261	17,438	24,918	31,750	45,000
SG&A	1,965	3,160	3,738	5,100	5,800
Adj. Net Income	(8,887)	(27,449)	(27,199)	(38,150)	(53,200)
NI/(loss) as reported	(8,887)	(27,449)	(27,199)	(38,150)	(53,200)
Adj-EPS ex-non-cash		(\$5.38)	(\$5.51)	(\$6.85)	(\$6.19)
EPS as reported		(\$5.38)			
Shares out (000)		5,103	4,938	5,569	8,594
Fully diluted shares (000)		5,103	6,938	7,569	10,594

Source: Company reports; Laidlaw & Company estimates.

Major Risks

Exogenous events could impact our outlook. We believe pharmaceutical companies have the least control over competitive, political, and regulatory risks. Although we have incorporated competitive assumptions into our forecasts, there may be other risks beyond the scope of our analysis. Changes in the drug reimbursement system, as well as any political or regulatory amendments, may significantly influence the earnings power of these companies.

Actual clinical results and the FDA's conclusions may deviate from expectations. Many of our assumptions are based on a review of incomplete clinical trial data available in the public domain. Often, our conclusions are drawn from early stage data, which may not be reflected by pivotal studies. Furthermore, the FDA's conclusions may not coincide with our own, materially changing our revenue and earnings assumptions.

Compliance issues, product recalls, and other mandates by regulatory authorities could materially change our expectations. Regulatory compliance issues, ranging from accounting irregularities to defective manufacturing practices, could materially change our assumptions and earnings outlook. Unanticipated product recalls and labeling changes could also have adverse consequences on our earnings assumptions.

Legal risks could lead to additional liabilities and revenue loss. In addition to the expenses incurred by patent challenges, product liability and other legal suits could occur and lead to additional liabilities and revenue loss, which could substantially change our financial assumptions.

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

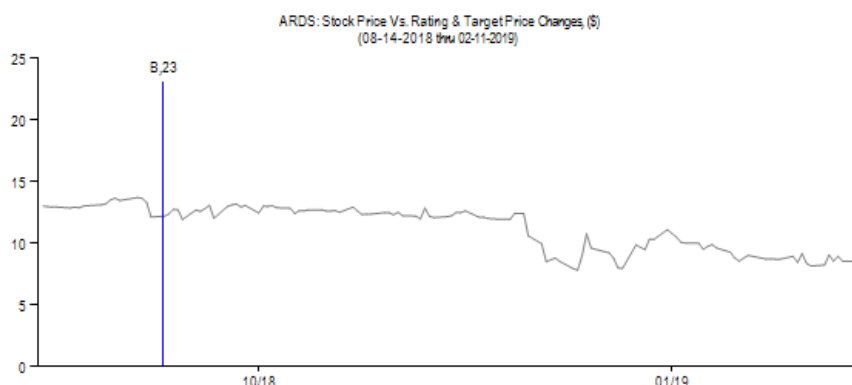
For the purpose of ratings distributions, regulatory rules require the firm to assign ratings to one of three rating categories (i.e. Strong Buy/Buy-Overweight, Hold, or Underweight/Sell) regardless of a firm's own rating categories. Although the firm's ratings of Buy/Overweight, Hold, or Underweight/Sell 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 & Co (UK) Ltd. has not provided any investment banking services for the company (ies) mentioned in this report over the last 12 months.

RATINGS INFORMATION

Rating and Price Target Change History



Date	Rating	Closing Price (\$)
09/10/2018	Buy (B)	12.19

Date	Target Price (\$)	Closing Price (\$)
09/10/2018	23.00	12.19

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.	63.33%	25.00%	3.33%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	5.00%	1.67%	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 521 Fifth Ave, 12th Floor, New York, NY 10175 USA.

© 2019 Laidlaw & Co. (UK), Ltd.

NOTES: