Specialty Pharmaceuticals

# Aridis Pharmaceuticals Inc.

**EQUITY RESEARCH**
**September 3, 2019**

**Price: $11.68**
**Price Target: $25.00**

**Rating: Overweight**

**Key Statistics:**

| | |
|---|---|
| Symbol | NYSE: ARDS |
| 52-Week Range | $6.92 - $13.71 |
| Market Cap (M) | $104 |
| ADV (3 mo) | 5,536 |
| Shares Out (M) | 8.9 |


**Research Analysts:**

**Louise Chen**
212-915-1794
Louise.Chen@cantor.com

**Brandon Folkes, CFA**
212-294-8081
Brandon.Folkes@cantor.com

**Jennifer Kim**
212-829-4860
Jennifer.Kim@cantor.com


**One-Year Price History**




## Quick Take

## Minor Setback For A Major Comeback, AR-105 Does Not Meet Phase 2 Primary Endpoint

### Takeaways

- This morning (9/3), ARDS reported that the first-in-patient Phase 2 clinical trial evaluating AR-105 did not meet its primary endpoint of demonstrating superiority in Clinical Cure rates on Day 21 compared to placebo. We still view ARDS's lead antibody programs AR-301 and AR-501 to progress on track and deliver positive outcomes. Thus, underscoring our Overweight rating and $25 PT for the shares.
- In addition to not meeting its Phase 2 primary endpoint, AR-105 exhibited a statistically significant imbalance in all-cause mortality, as well as Serious Adverse Event (SAE) rates between treatment groups that favored placebo. However, no SAE or mortality in the study was deemed to be drug related by the study investigators or the study's Data Monitoring Committee.
- ARDS has decided to no longer allocate further development resources to AR-105. Upcoming catalysts for lead programs include Interim Phase 3 data in 1H20 for AR-301 and Phase 1 data in healthy patients for AR-501 by the end of 1Q20. Additionally, we await the decision whether ARDS will initiate Phase 2/3 trial for AR-101 (HAP/VAP) in light of the AR-105 program conclusion.

Aridis Pharmaceuticals, Inc. discovers and develops anti-infectives to be used as add-on treatments to standard-of-care antibiotics. ARDS is utilizing its proprietary MabIgX® technology platform to rapidly identify rare, potent antibody-producing B-cells from patients who have successfully overcome an infection to produce mAbs. By bypassing the humanization and binding sequence optimization steps, and the entire process of generation of genetically engineered antibody producing cell lines, MabIgX® enables high gross-margins and expedited progression to clinical development. Ongoing clinical programs utilizing this technology are AR-301, AR-101, AR-501, AR-401, and AR-201.

### Investment Thesis

ARDS is focused on the discovery and development of targeted immunotherapy using fully human monoclonal antibodies (mAbs) to treat life-threatening infections. We expect upward earnings revisions and multiple expansion to move ARDS's stock higher. That should be driven by the successful advancement of ARDS's pipeline.

**The Disclosure Section may be found on pages 3 - 4.**

**Valuation**

We used a blend of DCF and EV/EBITDA analyses to arrive at our 12-month PT of $25.

**Risks**

**Competing in crowded market with many established players at a meaningfully higher price point.** There are already many approved generic and branded antibiotics on the market. Some are marketed by companies that are better-capitalized and/or have deeper pockets than Aridis. Most of the generic and branded antibiotics have price points below the expected $10-15K that Aridis could potentially charge for its drug. That said, Aridis's drug could address many unmet needs of currently marketed drugs.

**Not a lot of precedents on how payors will reimburse the use of mAbs to treat infections.** There are currently very few approved anti-infective immunotherapy drugs on the market. Therefore, it is unclear how payors will reimburse for these drugs when more are available on the market. Positive pharmacoeconomic data that will become available after Aridis's drug is approved could move reimbursement out of the DRG and into the way oncology and rare/orphan disease drugs are reimbursed. This could accelerate uptake of the product.

**Competing directly with AstraZeneca/Medimmune and potentially others.** Aridis is competing with AstraZeneca/Mediummune (Not Covered) and potentially others. Aridis expects to enter the market as early as 2022. It is not clear yet when its competitors plan to receive approval. Aridis believes it is the only company with FTO (freedom to operate).

### Company Description

*Aridis Pharmaceuticals, Inc. is a biopharmaceutical company focused on the development of novel, differentiated therapies for infectious diseases. Aridis's product portfolio includes three clinical stage monoclonal antibodies (AR-301, AR-105, AR-101), one clinical-stage small molecule anti-infective (AR-501), and two additional preclinical anti-infective drug candidates (AR-401, AR-201). The company also has a proprietary platform technology (MabIgX) to discover rare, potent human mAbs from patients.*

# Disclosures Appendix

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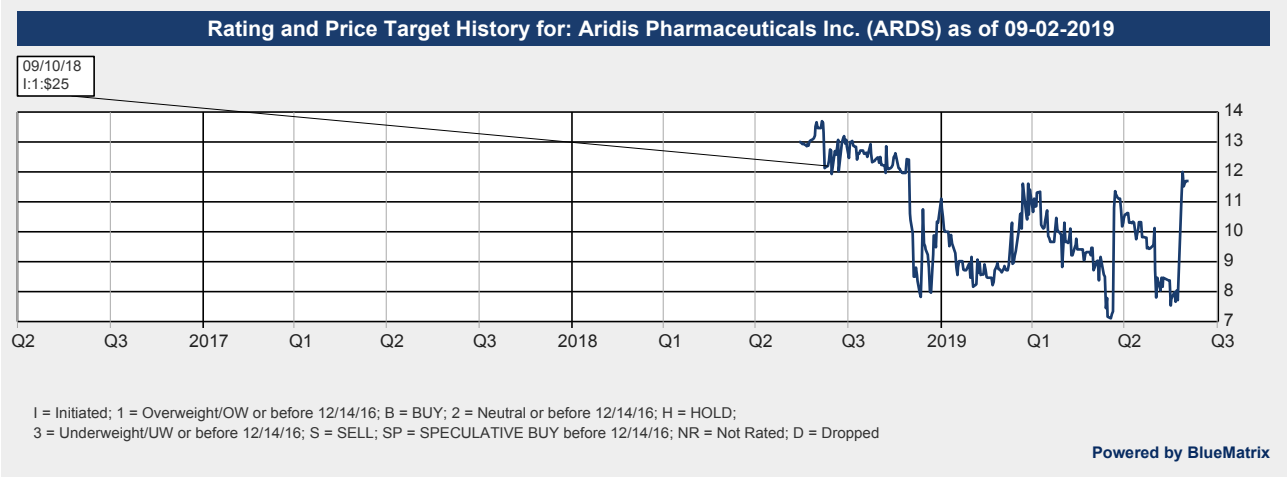


**Distribution of Ratings/Investment Banking Services (IB) as of 09/03/19**

**Cantor**

| | | | IB Serv./Past 12 Mos. | |
|---|---|---|---|---|
| **Rating** | **Count** | **Percent** | **Count** | **Percent** |
| **BUY [1/B]** | **171** | **77.37** | **82** | **47.95** |
| **HOLD [2]** | **50** | **22.62** | **8** | **16.00** |
| **SELL [SL/3]** | **0** | **0.00** | **0** | **0.00** |

## U.S. Equity Research Analysts & Management

### Biotechnology

**Alethia Young**
**Head of Healthcare Research**
212-359-8739
Alethia.Young@cantor.com

**Emma Nealon**
212-558-4571
Emma.Nealon@cantor.com

**Eileen Maysek**
212-915-1221
Eileen.Maysek@cantor.com

**Charles C. Duncan, Ph.D.**
212-915-1236
Charles.Duncan@cantor.com

**Pete Stavropoulos, Ph.D.**
212-915-1966
Pete.Stavropoulos@cantor.com

**Varun Kumar, Ph.D.**
212-610-3509
Varun.Kumar@cantor.com

**Matthew Lillis**
212-915-1706
Matt.Lillis@cantor.com

**Eliana Merle, CFA**
212-915 1767
Eliana.Merle@cantor.com

**Elemer Piros, Ph.D.**
212-610-2416
Elemer.Piros@cantor.com

**Kristen Kluska**
212-915-1927
Kristen.Kluska@cantor.com

### Healthcare IT

### Managed Care

**Steven Halper**
212-915-1240
Steven.Halper@cantor.com

**Kyle Mikson, CFA**
212-829-5207
Kyle.Mikson@cantor.com

### Life Science Tools & Diagnostics

**Jordan Abrams**
212-359-8721
JAbrams@cantor.com

### Medical Devices & Supplies

**Craig Bijou**
212-915-1219
Craig.Bijou@cantor.com

**Dennis Pak**
212-294-8016
Dennis.Pak@cantor.com

### Specialty Pharmaceuticals

**Louise Chen**
212-915-1794
Louise.Chen@cantor.com

**Jennifer Kim**
212-829-4860
Jennifer.Kim@cantor.com

### Specialty Pharmaceuticals

**Brandon Folkes, CFA**
212-294-8081
Brandon.Folkes@cantor.com

### Financial Technology

### Outsourcing

### Professional Services

**Joseph Foresi**
212-610-2423
JForesi@cantor.com

**Drew Kootman, CFA, CMT**
212-829-5289
Drew.Kootman@cantor.com

### Product Manager

**Alice Avanian, CFA**
212-915-1702
Alice.Avanian@cantor.com