



AEGIS CAPITAL CORP

Biopharmaceuticals
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Company Update / Estimates Change

November 3, 2016

Key Metrics

AERI - NASDAQ	\$33.60
Pricing Date	Nov 2 2016
Price Target	\$63.00
52-Week Range	\$41.72 - \$10.82
Shares Outstanding (mm)	33.3
Market Capitalization (mm)	\$1,118.9
3-Mo Average Daily Volume	1,157,380
Book Value/Share	\$(0.65)
Price/Book	(51.7)x

EPS FY: December

	2015A	Prior 2016E	Curr. 2016E	Prior 2017E	Curr. 2017E
1Q-Mar	(0.59)	--	(0.72)A	--	(0.65)E
2Q-Jun	(0.59)	--	(0.72)A	--	(0.76)E
3Q-Sep	(0.56)	(0.53)E	(0.67)A	--	(0.76)E
4Q-Dec	(0.64)	(0.45)E	(0.39)E	--	(0.70)E
FY	(2.38)	(2.37)E	(2.45)E	--	(2.88)E
P/E	NM		NM		NM

REVENUE

	2015A	Prior 2016E	Curr. 2016E	Prior 2017E	Curr. 2017E
1Q-Mar	0.0	--	0.0A	--	0.0E
2Q-Jun	0.0	--	0.0A	--	0.0E
3Q-Sep	0.0	--	0.0A	--	0.0E
4Q-Dec	0.0	--	0.0E	--	2.0E
FY	0.0	--	0.0E	--	2.0E

Company Description:

Aerie Pharmaceutical, Inc. is a clinical-stage pharmaceutical company geared towards the discovery, development, and commercialization of therapies for treating glaucoma.

Aerie Pharmaceuticals, Inc.

Rating: Buy

Uneventful Q3 and Rhopressa NDA filing January 2017, reiterate BUY and \$63

Investment Highlights:

- **Uneventful Q3.** Q3 EPS loss came in at \$(0.67) with operating expenses within company's guidance range of \$75-85 million for full year 2016. We believe the quarterly financial performance has little impacts to share price especially given the strong balance sheet the company has. Instead, clinical development successes and regulatory approvals are more important catalysts for the company.
- **Rhopressa NDA filing is now January 2017.** Because of an issue that is related to the third party manufacturing site, while not specifically related to Rhopressa manufacturing, the contract manufacturer informed Aerie that it is not ready for FDA's inspection associated with the Rhopressa NDA filing. As a result, Aerie withdrew its NDA filing and plans to refile when the manufacturer is ready in January 2017.
- **Risks.** Investing in development stage companies in pharmaceuticals industry is speculative in nature and is only appropriate for those that have high tolerance for price volatility.

AERIE PHARMACEUTICALS, INC.: CONSOLIDATED INCOME STATEMENT																			
(U.S. dollars in thousands, except shares and per share amounts)																			
Period Ending	2011A	2012A	2013A	2014A	Q115A	Q215A	Q315A	Q415A	2015A	Q116A	Q216A	Q316A	Q416E	2016E	Q117E	Q217E	Q317E	Q417E	2017E
Revenues																			
Rhopressa	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2,000	2,000
Roclatan	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	2,000	2,000
Expenses																			
Cost of Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(300)	(300)
% of net sales																	15%	15%	
Gross Profit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	1,700	1,700
Operating Expenses																			
Research & Development	(10,695)	(9,273)	(11,883)	(29,869)	(11,618)	(10,627)	(9,904)	(12,302)	(44,451)	(12,309)	(13,304)	(10,627)	(8,000)	(44,240)	(8,000)	(8,000)	(5,000)	(5,000)	(26,000)
Selling General and Administrative	(3,521)	(5,020)	(10,287)	(20,103)	(8,023)	(7,502)	(7,462)	(7,648)	(30,635)	(9,801)	(9,386)	(12,688)	(9,000)	(40,875)	(18,000)	(22,000)	(25,000)	(25,000)	(90,000)
Intangible Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Impairment of goodwill	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Operating Expenses	(14,216)	(14,293)	(22,170)	(49,972)	(19,641)	(18,129)	(17,366)	(19,950)	(75,086)	(22,110)	(22,690)	(23,315)	(17,000)	(85,115)	(26,000)	(30,000)	(30,000)	(30,000)	(116,000)
Operating Income or Loss	(14,216)	(14,293)	(22,170)	(49,972)	(19,641)	(18,129)	(17,366)	(19,950)	(75,086)	(22,110)	(22,690)	(23,315)	(17,000)	(85,115)	(26,000)	(30,000)	(30,000)	(28,300)	(114,300)
Total Other Income/Expenses Net	1,249	(685)	(8,978)	1,839	2,402	(505)	(523)	(512)	862	(548)	(482)	(460)	(460)	(1,950)	(460)	(460)	(460)	(460)	(1,840)
Earnings Before Interest And Taxes	(12,967)	(14,978)	(31,148)	(48,133)	(17,239)	(18,634)	(17,889)	(20,462)	(74,224)	(22,658)	(23,172)	(23,775)	(17,460)	(87,065)	(26,460)	(30,460)	(30,460)	(28,760)	(116,140)
Interest Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Income Before Tax	(12,967)	(14,978)	(31,148)	(48,133)	(17,239)	(18,634)	(17,889)	(20,462)	(74,224)	(22,658)	(23,172)	(23,775)	(17,460)	(87,065)	(26,460)	(30,460)	(30,460)	(28,760)	(116,140)
Income Tax Expense	0	0	0	0	0	(152)	(72)	85	(139)	(46)	(47)	(39)	0	(132)	0	0	0	0	0
Gain from settlement of retention option																			
Effective Tax Rate																			
Net Income From Continuing Ops	(12,967)	(14,978)	(31,148)	(48,133)	(17,239)	(18,786)	(17,961)	(20,377)	(74,363)	(22,704)	(23,219)	(23,814)	(17,460)	(87,197)	(26,460)	(30,460)	(30,460)	(28,760)	(116,140)
Other Adjustment	(452)	(665)	(450)	(13)	0	0	9				58								
Net Income	(13,419)	(15,643)	(31,598)	(48,146)	(17,239)	(18,786)	(17,952)	(20,377)	(74,363)	(22,704)	(23,161)	(23,814)	(17,460)	(87,197)	(26,460)	(30,460)	(30,460)	(28,760)	(116,140)
Preferred Stock And Other Adjustments																			
Net Income Applicable To Common Shares	(13,419)	(15,643)	(31,598)	(48,146)	(17,239)	(18,786)	(17,952)	(20,377)	(74,363)	(22,704)	(23,161)	(23,814)	(17,460)	(87,197)	(26,460)	(30,460)	(30,460)	(28,760)	(116,140)
Number of Shares Outstanding (in 000)	926	955	4,956	24,086	24,603	25,842	26,061	26,593	25,781	26,723	26,773	29,380	33,000	28,969	33,165	33,331	33,497	33,665	33,415
GAAP-EPS	(14.59)	(16.38)	(6.38)	(2.00)	(0.70)	(0.73)	(0.69)	(0.76)	(2.88)	(0.85)	(0.87)	(0.81)	(0.53)	(3.01)	(0.80)	(0.91)	(0.91)	(0.85)	(3.48)
Loss on warrant valuation			\$0.74	\$0.00					\$0.00					\$0.00					\$0.00
Stock-based compensation costs			\$0.58	\$0.39	\$0.11	\$0.14	\$0.13	\$0.12	\$0.50	\$0.13	\$0.15	\$0.14	\$0.14	\$0.56	\$0.15	\$0.15	\$0.15	\$0.15	\$0.60
Amortization of financing costs			\$0.78	\$0.00					\$0.00					\$0.00					\$0.00
Loss on conversion of notes payable to related parties			\$0.54	\$0.00					\$0.00					\$0.00					\$0.00
Accretion related to convertible preferred stock			\$0.12	\$0.00					\$0.00					\$0.00					\$0.00
Non-GAAP EPS	(14.59)	(16.38)	(3.64)	(1.62)	(0.59)	(0.59)	(0.56)	(0.64)	(2.38)	(0.72)	(0.72)	(0.67)	(0.39)	(2.45)	(0.65)	(0.76)	(0.76)	(0.70)	(2.88)

Source: Aegis Capital Analysis

Required Disclosures

Price Target

\$63

Valuation Methodology

Our Target price of \$63 was determined by DCF analysis. We used DCF based on 2016-2025 EBITDA to determine our target price. Terminal value is 3x of estimated 2025 EBITDA. Investing in AERI is de-risked due to the fact that Rhopressa NDA has been submitted.

Risk Factors

Other than typical risks associated with investing in companies in the healthcare industries, such as R&D, regulatory, manufacturing, and commercialization risks, investing in Aerie Pharmaceuticals, Inc. carries several firm-specific risks: 1) potential multiple binary events; 2) intense competition; 3) pricing and reimbursement pressures; 4) The company has not shown a history of profitability; and 5) additional funding may be required to successfully commercialize its products.

For important disclosures go to www.aegiscap.com.

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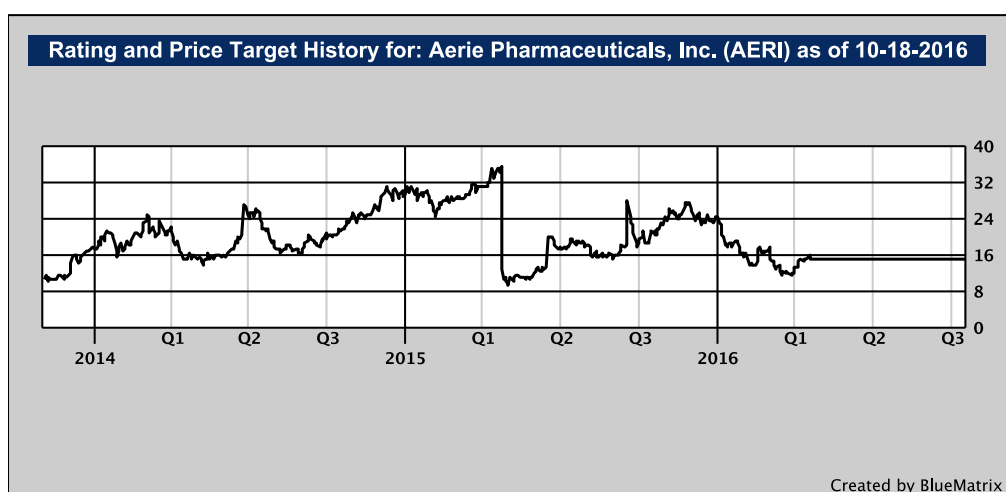
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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [BUY]	86.59	46.48
HOLD [HOLD]	13.41	36.36
SELL [SELL]	0.00	0.00

Meaning of Ratings

- A) A Buy rating is assigned when we do not believe the stock price adequately reflects a company's prospects over 12-18 months.
- B) A Hold rating is assigned when we believe the stock price adequately reflects a company's prospects over 12-18 months.
- C) A Sell rating is assigned when we believe the stock price more than adequately reflects a company's prospects over 12-18 months.

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