

Due Diligence Report: Quick Bounce of the Bottom and Now Heading Skywards

Summary

Keryx Biopharmaceuticals, Inc., incorporated on October 22, 1998, is a biopharmaceutical company. The Company is focused on the development of products for the treatment of renal diseases. The Company's lead product Auryxia (ferric citrate), an oral, absorbable iron-based compound, received marketing approval from the United States Food and Drug Administration (FDA), for the control of serum phosphorus levels in patients with chronic kidney disease (CKD) on dialysis. The approval of Auryxia was based on data from its Phase III registration program, in which Auryxia effectively reduced serum phosphorus levels to well within the National Kidney Foundation Kidney Disease Outcomes Quality Initiative (KDOQI) guidelines range of 3.5 to 5.5 milligrams per deciliter. In addition to the effects on serum phosphorus levels, Auryxia's pharmacodynamic properties resulted in increased ferritin, iron and transferrin saturation (TSAT), whereas these parameters remained relatively constant in patients treated with active control (Renvela and/or PhosLo). The most common adverse events for Auryxia treated patients were gastrointestinal-related, including diarrhea, nausea, constipation, vomiting and cough.

Keryx Biopharmaceuticals has a current market capitalization of \$486.95 M with 105.17 M outstanding shares. Its daily average volume traded is 3.18 M shares.

Key Indicators (Q2 2015)

Shares Outstanding	105.17 M
Revenue (FY 2014)	2.51 M
Gross Profit	1.76 M
Net Loss (basic/diluted)	-26.88 M
Cash and Short-term Inv	131.29 M
Total Debt	1.87 M

Performance (6 months)



Recent News and Analysis:

KERYX recently announced that it has entered into an agreement to raise \$125 million through the private placement of convertible senior notes with funds managed by The Baupost Group, L.L.C. The zero-coupon notes will mature in Oct 2020. The notes carry conversion feature. Price of the notes on conversion shall be equal to the closing price of Keryx's common stock on the day prior to closing, Oct 14, 2015, or \$3.74 per share, subject to certain adjustments under the terms of the notes. As per the terms of the deal, Baupost will have the right to appoint a director to Keryx's board by the end of 2015. Keryx will increase the number of directors on its board to eight. Keryx intends to use the net proceeds from this offering for working capital and general corporate purposes including ongoing commercialization and development of Auryxia in the U.S. It is worth noting that Auryxia was approved by the FDA for the control of serum phosphorus levels in patients suffering from chronic kidney disease (CKD) on dialysis. Fexeric (EU trade name for Auryxia) was cleared in the EU last month, for the control of serum phosphorus levels, or hyperphosphatemia, in patients suffering from CKD (both non-dialysis and dialysis-dependent). Meanwhile, the company completed patient enrolment in a phase III study on Auryxia for stages 3-5 non-dialysis dependent CKD and iron-deficiency anemia in patients who showed no response to prior treatment or were intolerant to oral iron therapy. Data from the study is expected to mature early in the second quarter of 2016. In addition, the company also announced the implementation of a cost reduction plan to significantly reduce the company's cash operating expenses. Excluding cost of goods sold, the company expects 2016 cash operating expenses to be in between \$87 million and \$92 million. Keryx plans to provide further details on 2016 financial guidance in early 2016.

Keryx is expecting to decrease operating expenses by more than 25% annually. This is certainly seen as a positive move by the company and may help in turning the company for a net loss generator to a net income generator. It remains to be seen how management will implement these cost cutting measures and whether they will be successful. Investors have liked the mention of this and the stock price has reflected the positive vibe on the stock. Share price has recently bounced from a recent 52-week low of \$3.04 and closed at \$4.62 on Wednesday.

In addition, the Baupost Group, which was founded by the legendary investor Seth Klarman, has been an investor in Keryx's stock for quite some time, and it currently holds roughly 25% of all of the common shares outstanding. If Baupost chooses to convert its investment into common shares down the road, its ownership position could certainly grow substantially from here, as Keryx's current market capitalization, even after today's big move, is still only about \$430 million in total. This investment certainly shows that Baupost has some faith in the future prospects of Keryx, so I think the market was correct to bid up shares today. Between this capital infusion, the European approval, and the 50% increase in the sales force, Keryx may finally have everything it needs to take meaningful market share away from Renvela, which is something that Sanofi investors should probably keep an eye on. The

Baupost Group is certainly bullish on the future prospects of Keryx; otherwise, they wouldn't have made this new investment.

Conclusions:

KERYX has struggled lately with its share price, but appears to have reached a bottom and bounced off it quite well. The company attracted a large institutional investor when it made the most sense too financially. The company was able to raise a significant amount of money and the investor was able to lock in a 'good deal'. This cash injection gives Keryx more than \$225 M on the balance sheet in cash and gives them enough cash to operate for the next several years based on projections of operating expenses. Additionally, approval from the FDA and the European regulatory body has provided the company with new streams of revenue. Is profitability achievable in the near future? The Baupost Group seems to believe so.

Sources:

1. <http://www.reuters.com/finance/stocks/companyProfile?symbol=KERX.O>
2. <http://stockcharts.com/h-sc/ui?s=KERX&p=D&b=5&g=0&id=p21064696824>
3. <http://www.google.ca/finance?q=NASDAQ%3AKERX&hl=en&gl=ca&ei=Jv8nVvHmF9CT2Aa2kqK4Bw>
4. <https://ca.finance.yahoo.com/q?s=KERX&ql=0>
5. <http://finance.yahoo.com/news/keryx-raise-125m-private-placement-203008963.html>
6. <http://finance.yahoo.com/news/keryx-biopharmaceuticals-host-conference-call-130500357.html>
7. http://www.fool.com/investing/general/2015/10/15/why-keryx-biopharmaceutical-is-up-big-today.aspx?source=eogyholnk0000001&utm_source=yahoo&utm_medium=feed&utm_campaign=article

Risk Factors

An investment in the common stock of the company is subject to a number of risks. The information below contains latest filings and risk factors that should be considered by all investors. Investors should carefully consider the risk factors set out below and consider all other information contained herein, and in the company's SEC filings, before making an investment decision. We assume no obligation to update or revise any such forward looking statements to reflect events or circumstances that occur after such statements are made. A complete list of filings including the risk factors for the company can be found here: <http://www.sec.gov/cgi-bin/browse-edgar?CIK=prgn&Find=Search&owner=exclude&action=getcompany>

Disclosure: I, Robert Borowski, research analyst have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions and I have no business relationship with any company whose stock is mentioned in the article.

The information contained herein is not intended to be investment advice and does not constitute any form of invitation or inducement by Robert Borowski to engage in investment activity. Neither the information nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Securities, financial instruments, strategies, or commentary mentioned herein may not be suitable for all investors and this material is not intended for any specific investor and does not take into account an investor's particular investment objectives, financial situations or needs. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only current as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fluctuate, and an investor may, upon selling an investment lose a portion of, or the entire principal amount invested. Past performance is no guarantee of future results. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

FORWARD-LOOKING STATEMENT

This report may contain certain forward-looking statements and information, as defined within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and is subject to the Safe Harbor created by those sections. This material contains statements about expected future events and/or financial results that are forward-looking in nature and subject to risks and uncertainties. Such forward- looking statements by definition involve risks, uncertainties and other factors, which may cause the actual results, performance or achievements of mentioned company to be materially different from the statements made herein.

COMPLIANCE PROCEDURE

Content is researched, written and reviewed on a best-effort basis. This document, article or report is written and authored by Robert Borowski. An outsourced research services provider represented by Robert Borowski, provided Broad Street Alerts this article or report. However, we are only human and may make mistakes. If you notice any errors or omissions, please notify us below. Broad Street Alerts is not entitled to veto, interfere or alter the articles, documents or report once created and reviewed by the outsourced research provider represented by Robert Borowski. All parties responsible for the creation and dissemination of this report do not engage in high frequency trading.

NO WARRANTY OR LIABILITY ASSUMED

Broad Street Alerts has not been compensated for the creation or dissemination of this report. Broad Street Alerts is not responsible for any error, mistake or shortcoming which may be occasioned at the time of printing of this document. Broad Street Alerts does not hold any positions in profiled company(s). No liability is accepted by Broad Street Alerts whatsoever for any direct, indirect or consequential loss arising from the use of this document. Broad Street Alerts expressly disclaim any fiduciary responsibility or liability for any consequences, financial or otherwise arising from any reliance placed on the information in this document. Broad Street Alerts does not guarantee the accuracy, timeliness, completeness or correct sequencing of the information, or warrant any results from use of the information. The included information is subject to change without notice.

Broad Street Alerts is the party responsible for hosting the full analyst report. Broad Street Alerts has compensated Robert Borowski seventy five dollars for the right to disseminate this report. Information in this report is fact checked and produced on a best efforts basis by Robert Borowski.