

Adamas Pharmaceuticals, Inc.

First-Quarter Earnings Largely a Non-event as Development Programs Continue, Namenda FDC Milestone Expected Soon

- After the close on Tuesday, May 13, Adamas Pharmaceuticals reported first-quarter earnings, the company's first quarterly report since its initial public offering. We view the company's financial results over the next several quarters as less important than the ongoing development of the company's wholly owned product, ADS-5102, for treatment of levodopa-induced dyskinesia (LID).
- ADS-5102, an extended-release version of the FDA-approved drug amantadine, allows for more tolerable and effective dosing, which we believe has led to best-in-class data from its Phase II/III study. Adamas plans to initiate its second Phase III study for ADS-5102 in the near term, with data likely to report in 2016. In addition to ADS-5102, Adamas has a partnership with Forest Laboratories (FRX \$93.01) for the development of an extended-release version of the FDA-approved drug memantine, also known as Namenda XR, as well as a Namenda XR/donepezil fixed dose combination drug (MDX-9704). The Namenda XR/donepezil fixed dose combination NDA has been filed with the FDA by Forest, and pending an acceptance of that NDA we believe the company will receive a significant milestone payment. Beyond milestone payments, royalties from this partnership are to begin in 2018. Following the high-profile acquisition of Forest Laboratories by Actavis (ACT \$206.97), a company challenging the Namenda patent franchise, for \$25 billion, we believe this royalty stream for Namenda has been de-risked.
- For the company's financial results in the first quarter of 2014, Adamas reported \$176,000 in revenue, down 99% year-over-year, and below our estimate of \$4.0 million. First quarter 2014 revenue was derived primarily from milestone payments resulting from the collaboration with Forest Laboratories and governmental contracts. First quarter 2014 R&D costs were \$2.8 million, slightly lower than our estimate of \$3.0 million, and G&A expenses were \$3.1 million, which was slightly higher than our estimate of \$2.9 million. Reported loss per share was \$0.67 versus our estimate of a loss of \$0.09 per share and consensus of a loss of \$0.35 per share. Reported estimates and our estimates are detailed in exhibit 1, on page 2.
- On April 15, Adamas completed a 3,000,000 share common stock offering priced at \$16 per share. The company is now trading at \$19.50 per share, an increase of 21% since the IPO. Net proceeds from the offering were about \$42.7 million. We continue to expect the company to receive a milestone payment from Forest during first half 2014 following the MDX-8704 NDA acceptance, which we estimate to approximate \$25 million. More importantly, in second half 2014, Adamas expects to initiate its second Phase III trial of ADS-5102 in LID as well as a Phase II/III study for ADS-5102 in chronic traumatic brain injury. We believe the duration of ADS-5102 will be important, as the Phase II/III study spanned eight weeks and we believe there remains some concern over the durability of the efficacy for amantadine therapy for the treatment of LID. We believe data from several randomized discontinuation studies of patients on long-term amantadine therapy suggests durability of effect for over one year of treatment.

Adamas Pharmaceuticals is a developer of specialty therapeutics for the treatment of disorders affecting the central nervous system. The company is based in Emeryville, California.

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May 14, 2014

Stock Rating: **Outperform**
Company Profile: **Aggressive Growth**
Price Target: \$35.00

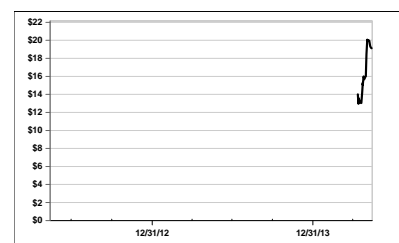
Symbol: ADMS (NASDAQ)
Price: \$19.50 (52-Wk.: \$12-\$22)
Market Value (mil.): \$320
Fiscal Year End: December
Long-Term EPS Growth Rate:
Dividend/Yield: None

	2013A	2014E	2015E
Estimates			
EPS Q1	NA	A\$-0.67	NA
Q2	NA	\$2.07	NA
Q3	NA	\$-0.68	NA
Q4	NA	\$-0.80	NA
FY	\$5.99	\$-0.10	\$0.40
CY		\$-0.10	\$0.40
Sales (mil.)	71	26	36
Valuation			
FY P/E	3.3x	NM	48.8x
CY P/E		NM	48.8x

Trading Data (FactSet)	
Shares Outstanding (mil.)	10
Float (mil.)	10
Average Daily Volume	176,212

Financial Data (FactSet)	
Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	5.9
Return on Equity (TTM)	85.5

Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

- We have made changes to our estimates based on current operating trends. We now expect 2014 loss per share of \$0.10, a decrease from our prior estimate of earnings of \$0.95; this is largely based on decreased revenue associated with amortized milestone payments and government contracts. We continue to believe the company will be profitable in 2015 based on full recognition of a milestone payment next year associated with the Namenda FDC. However, we do not believe the profitability of the company will likely be a focus of investors until the company reaches sustainable profitability, which we do not anticipate until 2018 based on sales of ADS-5102. We have included our updated estimates in exhibit 2, on page 3, as well as our updated income statement, on page 5.
- We continue to rate shares with an Outperform rating given our belief that ADS-5102 is an effective compound that should produce best-in-class ON/OFF time and reductions in dyskinesia in levodopa-induced dyskinesia (LID). While data from the Phase II/III EASED study compared ADS-5102 with placebo, we believe the product provides clear benefits over immediate release amantadine given our review of literature available in this setting. We ultimately believe the product will gain a significant penetration into the moderate and severe Parkinson's disease patient population and estimate peak-year sales to exceed \$500 million. Our risk-adjusted NPV suggests a value of \$35 per share based on the Namenda franchise royalty stream from Actavis and our belief that ADS-5102 sales will exceed \$500 million. Near-term catalysts include the ongoing Namenda franchise conversion to Namenda XR and the approval of Namenda XR/donepezil fixed dose combination. The usual regulatory, clinical, and competitive risks in development stage pharmaceuticals apply to shares of Adamas.

Exhibit 1
Adamas Pharmaceuticals, Inc.
First Quarter Results

	ADMS Q1 14A	WB Q1 14E	Consensus Q1 14E	Y/Y Growth
(\$ in thousands except EPS)				
Contract/Service/Other Revenue	\$ 176	\$ 4,000	NA	-99%
Total Revenue	\$ 176.0	\$ 4,000.0	NA	-99%
R&D	\$ 2,758.0	\$ 3,075.0	NA	33%
G&A	\$ 3,109	\$ 2,900	NA	178%
Operating Income	\$ (5,691)	\$ (1,975)	NA	-121%
(Loss) income before taxes	\$ (6,379.0)	\$ (1,225.0)	NA	-124%
Net Income	\$ (6,380)	\$ (1,450.0)	NA	-124%
EPS	\$ (0.67)	\$ (0.09)	\$ (0.35)	-139%

Source: Company reports, William Blair & Company L.L.C. estimates
Consensus estimates reported by FactSet

Exhibit 2
Adamas Pharmaceuticals
Revised and New Estimates

	ADMS Old 2014E	ADMS New 2014E	ADMS Old 2015E	ADMS New 2015E	ADMS Old 2016E	ADMS New 2016E
Product Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Royalty/Milestone Revenue	\$ 41,000	\$ 25,536	\$ 42,000	\$ 36,000	\$ 6,000.0	\$ 4,000
Total Revenue	\$41,000.0	\$ 25,536	\$42,000.0	\$36,000.0	\$ 6,000.0	\$ 4,000.0
COGS	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
R&D	\$ 15,375	\$ 15,375	\$ 17,000	\$ 17,000	\$ 20,000.0	\$ 20,000.0
SG&A	\$ 13,300	\$ 13,158	\$ 16,000	\$ 16,000	\$ 29,500.0	\$ 29,500.0
Operating Income	\$ 12,325	\$ (3,031)	\$ 9,000	\$ 3,000	\$(43,500.0)	\$(45,500.0)
Income Before Taxes	\$ 15,325	\$ (1,469)	\$ 1,100	\$ 5,000	\$(42,000.0)	\$(45,000.0)
Net Income	\$ 15,798	\$ (972)	\$ 10,000	\$ 4,000	\$(43,000.0)	\$(45,000.0)
EPS	\$ 0.95	\$ (0.10)	\$ 0.59	\$ 0.40	\$ (2.48)	\$ (4.30)

Sources: Company reports, William Blair & Company, L.L.C. estimates

Exhibit 3
Adamas Pharmaceuticals, Inc.
Timeline and Events

Date	Product	Event	Description/Comments
2014			
H1 2014	MDX-8704 (Forest)	Legal	NDA acceptance (up to \$25 million milestone)
H2 2014	ADS-5102	Clinical	Initiate Phase III PD-LID study
H2 2014	ADS-5102	Clinical	Initiate Phase II/III chronic traumatic brain injury study
2015			
H1 2015	MDX-8704 (Forest)	Regulatory	Potential approval of NDA filing (up to \$30 million milestone)
H2 2015	ADS-5102	Clinical	Complete enrollment of Phase III PD-LID study
H1 2015	ADS-5102	Clinical	Initiate additional Phase II/III study for ADS-5102

Sources: Company reports and William Blair & Company, L.L.C. estimates

Valuation

We derive our \$35 price target from a risk-adjusted net present value (NPV) for the company's royalty stream from both Namenda XR and MDX-8704. Adamas's royalty stream for both products will not begin until five years after launch for either product. For our valuation of ADS-5102, we assume the product will launch in 2017, following the company's second Phase III study in 2016 and subsequent filing that year. Given the strength of data to date and the known efficacy of amantadine in Parkinson's disease, we are risk-adjusting the probability of success by 75%. We assume peak-year sales six years after launch, which we believe is conservative given the familiarity of physicians treating with amantadine. We continue to assign an Outperform rating to shares of Adamas Pharmaceuticals.

Exhibit 4
Adamas Pharmaceuticals, Inc.
Sum-of-the-Parts Valuation

Namenda Royalty	Life of Royalty	Discount Rate	Probability of Success	NPV Value	Value Per Share
Namenda Royalty	2018-2029	9%	65%	\$ 340	\$ 16.44
Cash (\$M)					
\$86					\$ 4.14
Base Value					\$ 20.57
	Peak Sales	Discount Rate	Probability of Success	Peak Sales	Value Per Share
ADS-5102	\$514	9%	75%	2019	\$ 16.35
NPV Value					\$ 733.22
NPV of Future Losses Per Share					\$ (1.50)
NPV Value Per Share					\$ 35.42

Source: William Blair & Company, L.L.C. estimates

Risks

An investment in shares of Adamas Pharmaceuticals involves clinical, regulatory, and financial risks that are typical for developmental-stage biopharmaceutical companies. We estimate that Adamas will be profitable over 2014 and 2015; however, the company might incur losses beginning in 2016 as preparations for the launch of ADS-5102 begin. In addition to the risks associated with ADS-5102 development, there are intellectual property, manufacturing, and competition risks to consider.



Adamas Pharmaceuticals
Earnings Model
 5/14/14
 (\$ in millions except EPS data)

Rating: Outperform
Company Profile: Aggressive Growth
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	2011(A)	2012(A)	2013(A)	Q1(A)	Q2(E)	Q3(E)	Q4(E)	2014(E)	2015(E)	2016(E)	2017(E)	2018(E)
Product Revenue	-	-	-	-	-	-	-	-	-	-	-	-
ADS-5102	-	-	-	-	-	-	-	-	-	-	-	-
Royalty/Milestone Revenue	1,982	37,471	71,095	176	25,000	180	180	25,536	36,000	4,000	17,228	105,570
											4,000	6,263
Total Revenue	1,982	37,471	71,095	176	25,000	180	180	25,536	36,000	4,000	21,227.8	111,833.4
yr/yr growth	NA	NA	NM	NA	NA	NA	NA	NM	41.0%	-88.9%	NM	426.8%
q/q growth	NA	NA		NA	14104.5%	-99.7%	0.0%					
incremental rev q/q												
Cost of Goods Sold	-	-	-	-	-	-	-	-	-	-	1,723	10,557
Gross Profit	1,982	37,471	71,095	176	25,000	180	180	25,536	36,000	4,000	19,505	101,276
SG&A	3,388	8,330	6,667	2,758	3,300	3,500	3,600	13,158	16,000	29,500	35,400	38,940
Growth								97%	22%	40%	20%	10%
R&D	6,652	9,192	7,410	3,109	3,500.0	3,800.0	5,000.0	15,375	17,000	20,000	23,000	25,300
Growth			-19%					107%	11%	18%	15%	10%
Total Operating Expenses	10,040	17,522	14,077	5,867	6,800	7,300	8,600	28,567	33,000	49,500	58,400	64,240
growth				NA	NA	NA	NA	103%	16%	50%	18%	10%
Operating Income	(8,058)	19,949	57,018	(5,691)	18,200	(7,120)	(8,420)	(3,031)	3,000	(45,500)	(38,895.0)	37,036.4
EBIT Margin								NM	NM	NM	NM	33%
growth y/y (%)				NA	NA	NA	NA	NM	NM	NM	NM	NM
Depreciation and Amortization	-	-	1,322.3	-	250	250	250	1,000	1,000	1,000	1,000	1,000
EBITDA		19,949.0	58,340.3	(5,691)	18,450	(6,870)	(8,170)	(2,281.0)	4,000.0	(44,500.0)	(37,895)	38,036
								NM	NM	NM	NM	34%
Interest and other income (expense)	(138)	(1,537)	(4,818)	-688	750.0	750.0	750.0	3,000	2,000	1,500	1,500	8,000
Interest expense	(29)	(376)	(88)									
Income Before Taxes	(8,225.0)	18,036	52,112	(6,379)	18,950	(6,370)	(7,670)	(1,469)	5,000	(44,000)	(37,395)	45,036
Income Tax Provision	(19)	(300)	(1,191)	1	(948)	225	225	(497)	1,000	1,000	(7,479)	11,709
Effective Tax Rate			2.3%	NA	5.0%	NA	NA	NM	NA	NA	20%	26%
Net Income	\$ (8,244.0)	\$ 17,736.0	\$ 33,068	(6,380)	19,898	(6,595)	(7,895)	\$ (972.4)	4,000	(45,000)	(29,916)	33,327
Net income to common (diluted)	\$ (8,980.0)	\$ 11,596.0	\$ 35,353	(6,380)	19,898	(6,595)	(7,895)	\$ (972.4)	4,000	(45,000)	(29,916)	33,327
Net income to common per share (diluted)	\$ (3.12)	\$ 2.34	\$ 5.99	(0.67)	2.07	(0.68)	(0.80)	(0.10)	0.40	(4.30)	(2.75)	2.18
Basic avg. number of shares used in computing net income	2,878	4,744	4,753	9,525	9,625	9,725	9,825	9,675	10,075	10,475	10,875	14,125
Diluted avg. number of shares used in computing net income	2,878	4,962	5,903	9,525	9,625	9,725	9,825	9,675	10,075	10,475	10,875	15,275

Key Ratios (GAAP unless noted)

Gross Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	90.0%	90.0%
R&D (% Total Rev.)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	108.3%	22.6%
SG&A (% Total Rev.)	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	166.8%	34.8%
Operating Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-183.2%	33.1%
Net Income Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-140.9%	29.8%
Revenue Growth												
Growth Yr/Yr	NM	90%	NM	NM	NM	NM	NM	NM	NM	NM	431%	427%
Growth Q/Q	NM			NM	NM	NM	NM					
SG&A Growth												
Growth Yr/Yr	NM	-20%	NM	NM	NM	NM	NM	97%	22%	84%	20%	10%
Growth Q/Q	NM			NM	NM	NM	NM					
R&D Growth												
Growth Yr/Yr	NM	-19%	NM	NM	NM	NM	NM	107%	11%	18%	15%	10%
Growth Q/Q	NM			NM	NM	NM	NM					

IMPORTANT DISCLOSURES

William Blair was a manager or co-manager of a public offering of equity securities for Adamas Pharmaceuticals, Inc. within the prior 12 months.

William Blair is a market maker in the security of Adamas Pharmaceuticals, Inc. and may have a long or short position.

William Blair intends to seek investment banking compensation in the next three months from Adamas Pharmaceuticals, Inc.

Within the past 12 months William Blair has provided or is providing investment banking services to or has an investment services relationship with Adamas Pharmaceuticals, Inc.

Additional information is available upon request.

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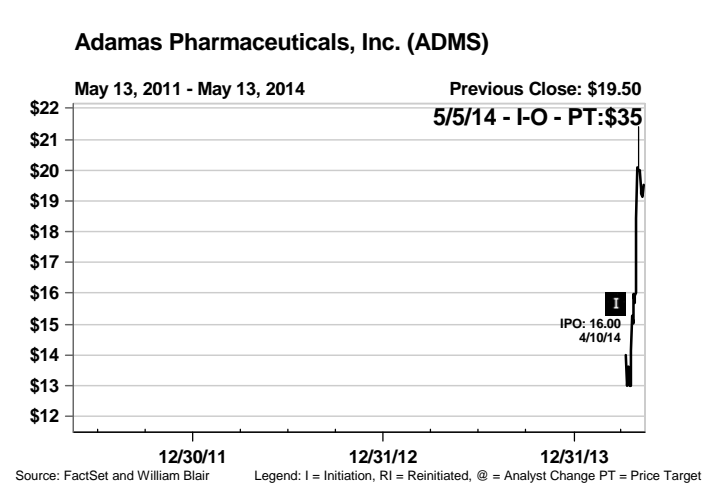
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DOW JONES: 16,715.44

S&P 500: 1,897.45

NASDAQ: 4,130.16



Current Rating Distribution (as of 04/30/14)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	66	Outperform (Buy)	14
Market Perform (Hold)	31	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

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