

Equity Research

Alder Biopharmaceuticals, Inc.

ALDR: Q1 2014-'403 And Claza Moving Along Well

• **Summary:** On June 18, ALDR reported Q1 2014 results, with EPS of -\$5.38 versus our estimate of -\$0.25, owing to differences in share counts and no new updates on its programs given the healthcare conference fireside chat the day prior (see our 6/17/14 note "ALDR: Quick Take From The 2014 Wells Fargo Healthcare Conference"). The company reported cash/cash equivalents of \$12.9MM at end-Q1 2014, before net proceeds of \$80.1MM from the Q2 2014 IPO. There was \$4.8MM of collaborative revenue recorded in Q1, and a narrower loss year over year (\$5.4MM versus \$5.7MM) was primarily due to lower R&D expenses resulting from the timing of certain costs for clinical and preclinical development programs, though moderately higher G&A expense year over year was attributed to legal fees relating to patents. The next catalyst likely will come from finalization of phase IIb plans for ALD403 for migraine after dialogue with the FDA, and then a potential presentation of Clazakizumab data in psoriatic arthritis at year-end 2014. We continue to believe both '403 and Clazakizumab have the potential to address broad markets and that '403 could fulfill an important need in the migraine market for more effective prophylactic agents. Despite recent upside, we continue to view shares as undervaluing the opportunity of their programs. EPS for 2014E remains -\$1.00 and we lower 2015E to -\$0.19 from -\$0.15 to account for adjustments in SG&A and R&D run-rate.

Valuation Range: \$22.00 to \$24.00

Our valuation range is based on applying a 30x multiple to our 2020 estimated EPS and discounting at 15%, blended with 3x sales multiple of 2020 estimated sales, and discounting at 12%. Risks include emergence of a safety signal, and competition in the migraine/RA spaces.

Investment Thesis:

We believe Alder is undervalued based on the long-term promise of ALD403 and Clazakizumab.

Please see page 2 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 06/19/14 unless otherwise stated.

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Outperform / V

Sector: Biotechnology

Market Weight

Earnings Estimate Revised Down

EPS	2013A	2014E		2015E	
		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	NE	(\$5.38) A	(0.25)	NE	
Q2 (June)	NE	(0.26)	NC	NE	
Q3 (Sep.)	NE	(0.24)	NC	NE	
Q4 (Dec.)	NE	(0.26)	(0.25)	NE	
FY	(\$0.94)	(\$1.00)	NC	(\$0.19)	(0.15)
CY	(\$0.94)	(\$1.00)		(\$0.19)	
FY P/EPS	NM	NM		NM	
Rev.(MM)	\$19	\$18		\$51	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, * = Company is on the Priority Stock List

2014 quarters do not sum to the full-year total due to additional share issuances from IPO.

Ticker	ALDR
Price (06/19/2014)	\$17.76
52-Week Range:	\$9-23
Shares Outstanding: (MM)	29.9
Market Cap.: (MM)	\$531.0
S&P 500:	1,957.69
Avg. Daily Vol.:	161,456
Dividend/Yield:	\$0.00/0.0%
LT Debt: (MM)	\$0.0
LT Debt/Total Cap.:	0.0%
ROE:	NM
3-5 Yr. Est. Growth Rate:	NM
CY 2014 Est. P/EPS-to-Growth:	NM
Last Reporting Date:	06/18/2014

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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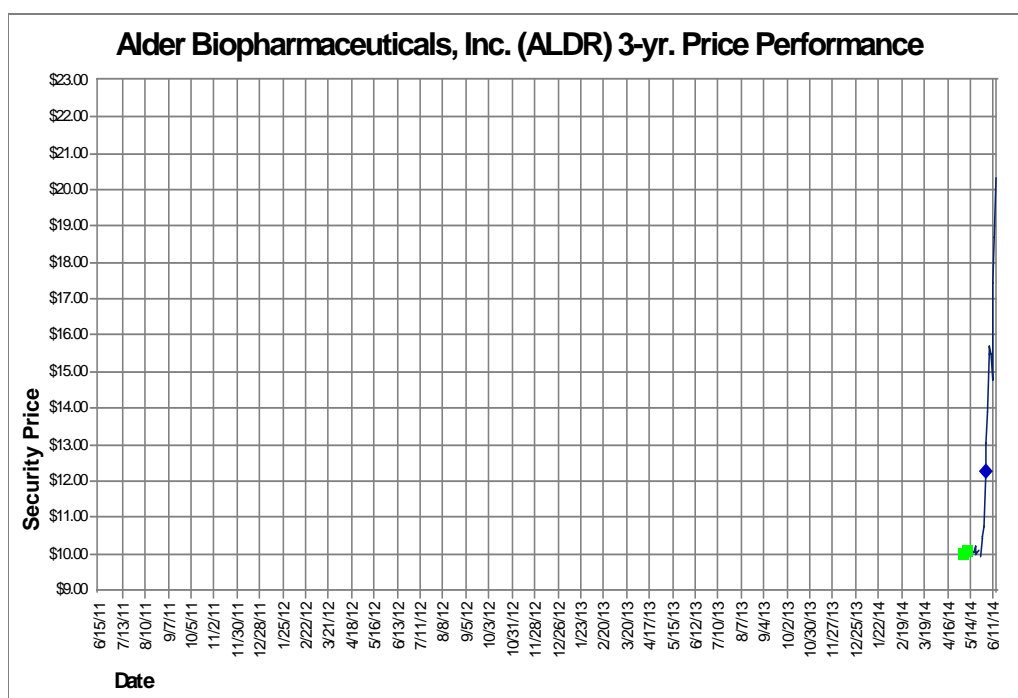
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Together we'll go far



Company Description:

Alder Biopharmaceuticals, based in Bothell, Washington, is a clinical stage biopharmaceutical company with differentiated antibody discovery and manufacturing platform to design and select antibodies that have the potential to maximize efficacy in various therapeutic indications including inflammatory and neurological conditions. Additionally, the company's proprietary manufacturing platform, MabXpress, has potential to streamline the manufacturing process compared with the more traditional biologics manufacturing systems, potentially resulting in faster, more scalable, and more cost effective. The company's lead and wholly-owned program, ALD403, is in ph.II and the clinical data thus far supports strong treatment effect in treating migraine. Clazakizumab (anti-IL-6 antibody) is partnered with BMY and it is currently undergoing studies in ph.II for RA and psoriatic arthritis. The company has 4 additional programs in preclinical stage expected to enter the clinic in the future.

Required Disclosures

	Date	Publication Price (\$)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price (\$)
□	5/8/2014		IPO at \$10.00			
	6/2/2014		Abrahams, M.D.			
◆	6/2/2014	10.74	1	22.00	24.00	12.26

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

Rating Code Key

- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

Additional Information Available Upon Request

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- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
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ALDR: Risks include emergence of a safety signal, and competition in the migraine/RA spaces.

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1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: June 19, 2014

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