Adamas Pharmaceuticals, Inc. (ADMS) — Overweight

Namzaric Approval Provides More Visibility To Compelling Long-Term Cash Flows

CONCLUSION

Just prior to the Christmas holiday, Adamas and partner Actavis announced the approval of Namzaric, the trade name for the companies' fixed-dose combination (FDC) of memantine XR (Namenda XR) and donepezil for moderate-to-severe dementia associated with Alzheimer's disease (AD). Given that a significant majority of patients on memantine take donepezil in combination, we would expect to see a sizable chunk of memantine patients switch over to the FDC over time, and as such believe that peak Namzaric sales of north of $500M are realistic. Though the royalty stream to ADMS will not start until five years post-launch (planned for 2Q15), we believe that a strong patent estate points to a lengthy stream of cash flows (bearing in mind that the royalties will be in the teens as a percentage of sales). We reiterate our Overweight rating and $31 PT on ADMS.

- **Concomitant usage of memantine and donepezil is more common than not.** The NDA filing was based in part on data demonstrating that the combination pill is both bioequivalent to and has the same bioavailability to separate doses of Namenda XR and donepezil. Recall that Namenda and donepezil are mechanistically distinct from one another, and as such, the two agents are more often than not used together, with memantine often added to donepezil as patients progress from milder to more severe forms of AD-related dementia (ACT has previously estimated that over 70% of memantine patients take donepezil in combination).

- **Would expect to see Namzaric gain meaningful traction.** Though the eventual availability of generic versions of the immediate-release form of memantine (starting in July 2015) is not lost on us, we nonetheless believe that ACT will be able to drive strong Medicare Part D access for Namzaric, as has been the case for Namenda XR. ACT has suggested that it will likely price Namzaric lower than Namenda XR alone (bearing in mind that donepezil at this point is basically a commoditized generic; i.e., ACT has nothing to gain by pricing the combination higher than that of Namenda XR), which in our view can only help in driving managed care access. Given that dynamic, and given that ACT has already managed to convert a sizable chunk of the memantine market over to Namenda XR (per IMS, total prescriptions of Namenda XR now account for 36% of the overall memantine market as of the week of 12/12/14, compared to 30% at the beginning of 4Q14), along with demographics pointing to continued steady volume growth for AD-related dementia treatments over time, we believe that Namzaric is well positioned for meaningful uptake.

- **We believe peak Namzaric sales north of $500M are realistic.** Recall that per the agreement with ACT, ADMS will begin receiving royalties five years post-launch (2020), with a royalty rate in the low-to-mid teens (versus a low-to-mid single digit royalty on Namenda XR, with royalties on that product also starting at five years post-launch (i.e., 2018)). Our model reflects royalty revenue related to Namzaric of $93M in 2020 (on estimated Namzaric sales of $626M). Given that ADMS/ACT has a deep patent estate with various claims surrounding not only the formulation but also the pharmacokinetic properties of memantine XR (with expiries in the mid-to-late 2020's), we believe ADMS is likely to enjoy a relatively lengthy period of significant annual royalty streams.

COMPANY DESCRIPTION

Adamas is focused on treatments for diseases of the central nervous system.

PRICE: US$16.10
TARGET: US$31.00
15x 2020E EPS of $5.10, disc. 20%

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Related Companies:	Share Price:
ACT	254.20
ADMS	16.10

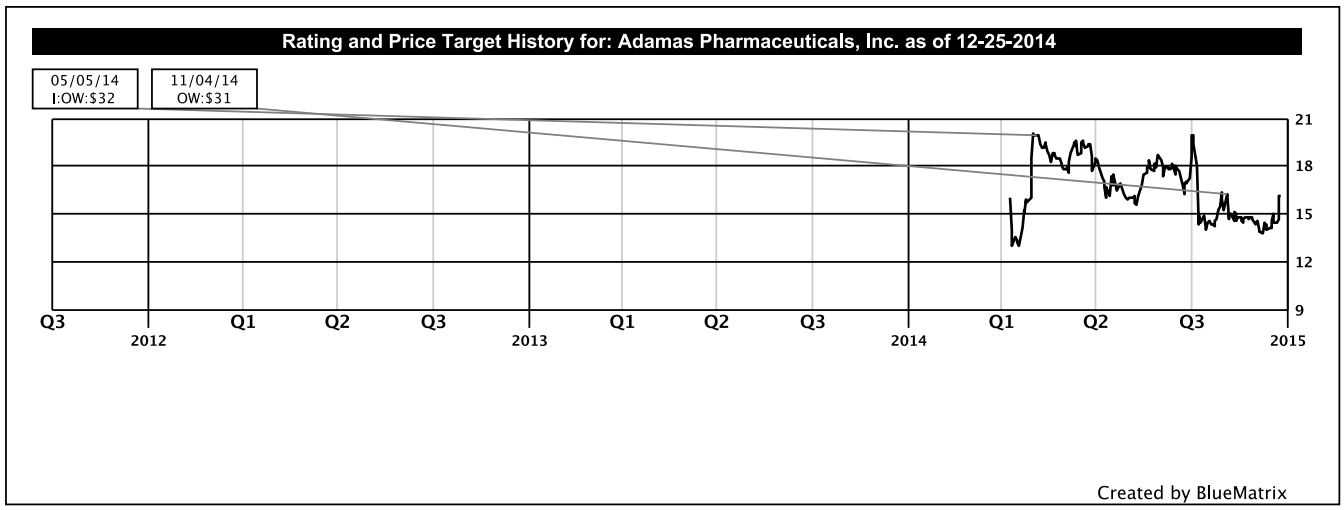
RISKS TO ACHIEVEMENT OF PRICE TARGET

Clinical setbacks for ADS-5102 and commercial risks for the Namenda line extensions.

Price Performance - 1 Year

Source: Bloomberg

IMPORTANT RESEARCH DISCLOSURES



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

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R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

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Piper Jaffray

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HOLD [N]	228	36.42	22	9.65
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