William Blair

Adamas Pharmaceuticals, Inc.

November 04, 2014

Third-Quarter Results Highlighted by 2026 IP Settlement and a Broad Clinical Program for ADS-5102

- After the markets closed Tuesday, November 4, Adamas Pharmaceuticals reported third-quarter earnings, provided an update on the company's pipeline, and announced continued solidification of the company's intellectual property. While we largely view the company's operating results to be of less importance than the advancement of the company's pipeline, the company reported a net loss of $9.6 million or $0.57 per share, below our estimates of a loss of $6.37 million or $0.35 per share and consensus of a loss of $7.5 million or $0.44 per share. Excluding non-cash expenses, Adamas used about $7.6 million in cash during the quarter. We believe Adamas sits in a healthy financial position to advance the ADS-5102 clinical program after ending the quarter with $137.5 million in cash and cash equivalents. The increase in loss per share was due to higher-than-expected costs associated with R&D of $5.4 million (including $0.6 million in stock expense) and SG&A of $4.35 million (which included $1.4 million in stock expense). These results were higher than our estimates of $3.8 million for R&D and $3.5 million in SG&A and consensus estimates of $4.6 million in R&D and $3.1 million in SG&A (exhibit 1).

- The increases in operating expenses were primarily due to a roughly $2 million charge for stock-based compensation for the quarter. We have updated operating expenses in our model and now assume about $4.8 million in stock-based compensation over the next several years as well as a ramping up of R&D expense given the expansion of the Phase III clinical program for ADS-5102, the company's wholly owned product for levodopa-induced dyskinesia in patients with Parkinson's disease (PD-LID). The company plans for the comprehensive Phase III program to complete enrollment in 2015 with a planned NDA submission in 2016.

- The company has also identified three specific areas for testing of ADS-5102, with up to two studies set to begin in 2015: hyperkinetic movement disorders similar to LID (i.e., chorea associated with Huntington's disease, tardive dyskinesia, and Tourette's syndrome), hypokinetic movement disorders (i.e., walking and fatigue issues associated with multiple sclerosis), and neuropsychiatric disorders (i.e., depression and Alzheimer's disease). We view the broadening of the program as a positive as literature already suggests potential efficacy of immediate release amantadine in several of these indications.

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.

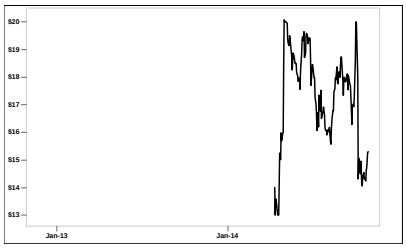
Stock Rating:	**Outperform**
Company Profile:	**Aggressive Growth**
Price Target:	$35.00
Symbol:	ADMS (NASDAQ)
Price:	$16.21 (52-Wk.: $12-$22)
Market Value (mil.):	$273
Fiscal Year End:	December
Long-Term EPS Growth Rate:	
Dividend/Yield:	None

	2013A	2014E	2015E
Estimates			
EPS Q1	NA	A$-0.67	NA
Q2	NA	A$0.88	NA
Q3	NA	A$-0.57	NA
Q4	NA	$-0.70	NA
FY	$5.99	$-0.78	$-1.00
CY		$-0.78	$-1.00
Sales (mil.)	71	26	36
Valuation			
FY P/E	2.7x	NM	NM
CY P/E		NM	NM

Trading Data (FactSet)	
Shares Outstanding (mil.)	16
Float (mil.)	4
Average Daily Volume	70,794

Financial Data (FactSet)	
Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	8.4
Return on Equity (TTM)	69.1

Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

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- In addition to ADS-5102, Adamas has a partnership with Forest Laboratories, now a subsidiary of Actavis (ACT $245.32), for Namenda XR, the extended release formulation of Namenda, and the development of a Namenda XR/donepezil fixed-dose combination drug (MDX-9704). During the quarter, this franchise has seen a further strengthening of its intellectual property and protections against generic competition. In early November, Forest and Merz entered a settlement with Wockhardt Limited whereby Wockhardt Limited received a nonexclusive license to make and sell its generic versions of Namenda XR starting March 23, 2026, only two months before the expiration of the last-to-expire patents.

- Although there are several other parties still involved, we believe this settlement, largely in line with the patent expiration date, reinforces the strength of the company's focus on patents related to pharmacokinetics and clinical outcomes. And while we anticipate additional settlements surrounding the IP of the Namenda franchise, we also believe the bolstering of the Namenda franchise IP should bode well for the IP surrounding ADS-5102. In addition to the settlement, in September, the New York Attorney General filed antitrust and state law violations in September against Forest/Actavis against Namenda claiming that they are pushing patients to newer patented drugs to avoid losses from generic alternatives coming out in 2015. We will look for more color regarding this litigation on the Actavis third-quarter conference call, which will take place on the morning of November 5.

- Last week, the company announced the initiation of an additional Phase III safety and efficacy study, EASE LID 3, a randomized, double-blind study that is expected to enroll 70 patients with PD-LID for treatment with 340 mg of ADS-5102 versus placebo, dosed once-daily at bedtime for 13 weeks. The primary endpoint of EASE LID3 is a reduction in dyskinesia as assessed by the Unified Dyskinesia Rating Scale (UDysRS), as well as "ON" time (periods without dyskinesia) and "OFF" time (periods when medication is not working well) and Unified Parkinson's Disease Rating Scale (MDS-UPDRS) as secondary endpoints, similar to the company's completed Phase II/III EASED study. The company now has three ongoing trials for the treatment of PD-LID, including EASE LID 3, EASE LID, a Phase III trial with roughly 130 patients that will assess the efficacy of 340 mg of ADS-5102 versus placebo once daily at bedtime for 26 weeks, and EASE LID 2, a Phase III open-label safety study of ADS-5102 in about 200 patients with PD-LID. We believe the study design of the clinical trials suggests a high probability for success given the company's clinical experience with ADS-5102 to date in combination with the literature for immediate release amantadine for the treatment of PD-LID.

- We continue to rate shares Outperform given our belief that ADS-5102 is an effective compound that should produce best in class ON/OFF time and reductions in dyskinesia in Parkinson's patients with Levodopa-induced dyskinesia (LID). While data from the Phase II/III EASED study compared ADS-5102 to 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. In addition to LID, we believe ADS-5102 will likely have a role in additional indications such as the movement disorders and/or neurocognitive disorders such as Alzheimer's. The next significant catalyst for shares of Adamas will be the FDA's regulatory decision for the Actavis partnered MDX-8704, which we anticipate near the end of 2014 or early 2015 and which will trigger a cash milestone payment.

Exhibit 1
Adamas Pharmaceuticals, Inc.
Third Quarter 2014 Results

	ADMS Q3 14A	WB Q3 14E	Consensus Q3 14E	Q/Q Growth
($ in thousands except EPS)				
Contract/Service/Other Revenue	$ 215	$ 180	$ 100.0	NM
Total Revenue	$ 215.0	$ 180.0	$ 100.0	NM
R&D	$ 5,412.0	$ 3,800.0	$ 4,600.0	5%
G&A	$ 4,353	$ 3,500	$ 3,100.0	33%
Operating Income	$ (9,550)	$ (7,120)	$ (7,500.0)	NM
(Loss) income before taxes	$ (9,551.0)	$ (6,370.0)	$ (7,500.0)	NM
Net Income	$ (9,557)	$ (6,595.0)	$ (7,500.0)	NM
EPS	$ (0.57)	$ (0.35)	$ (0.44)	NM

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

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 Adamas Pharmaceuticals.

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.

Our model is included on the following page.

William Blair

Adamas Pharmaceuticals
Earnings Model
11/4/14
($ in millions except EPS data)

Rating: Outperform
Company Profile: Aggressive Growth
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	2011(A)	2012(A)	2013(A)	Q1(A)	Q2(A)	Q3(A)	Q4(E)	2014(E)	2015(E)	2016(E)	2017(E)	2018(E)
Product Revenue	-	-	-					-	-	-	-	-
ADS-5102	-	-	-	-	-	-	-	-	-	-	17,228	105,570
Royalty/Milestone Revenue	1,982	37,471	71,095	176	25,154	215	180	25,725	36,000	4,000	4,000	6,263
Total Revenue	1,982	37,471	71,095	176	25,154	215	180	25,725	36,000	4,000	21,227.8	111,833.4
yr/yr growth	NA	NA	NM	NA	NA	NA	NA	NM	39.9%	-88.9%	NM	426.8%
q/q growth	NA	NA		NA	14192.0%	-99.1%	-16.3%					
incremental rev q/q												
Cost of Goods Sold	-	-	-	-	-	-	-	-	-	-	1,723	10,557
Gross Profit	1,982	37,471	71,095	176	25,154	215	180	25,725	36,000	4,000	19,505	101,276
SG&A	3,388	8,330	6,667	2,758	3,262	4,353	4,700	15,073	20,005	29,500	35,400	38,940
Growth								126%	33%	40%	20%	10%
R&D	6,652	9,192	7,410	3,109	5,173.0	5,412.0	8,000.0	15,375	34,473	20,000	23,000	25,300
Growth			-19%	-	-	-	-	107%	124%	-42%	15%	10%
Stock-based compensation						2,000.0	1,200.0	3,200.0	4,800.0	4,800.0	4,800.0	3600.0
Total Operating Expenses	10,040	17,522	14,077	5,867	8,435	9,765	12,700	36,767	54,478	49,500	58,400	64,240
growth				NA	NA	NA	NA	161%	48%	-9%	18%	10%
Total Operating Expenses (-stock based comp)						7,765.0	11,500.0	19,265.0	49,677.8	44,700.0	53,600.0	60,640.0
Operating Income	(8,058)	19,949	57,018	(5,691)	16,719	(9,550)	(12,520)	(11,042)	(18,478)	(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)	16,969	(9,300)	(12,270)	(10,292.0)	(17,477.8)	(44,500.0)	(37,895)	38,036
								NM	NM	NM	NM	34%
Interest and other income (expense)	(138)	(1,537)	(4,818)	-688	-112.0	-1.0	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)	16,607	(9,551)	(11,770)	(11,093)	(16,478)	(44,000)	(37,395)	45,036
Income Tax Provision	(19)	(300)	(1,191)	1	178	6	225	410	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)	16,429	(9,557)	(11,995)	$ (11,502.9)	(17,478)	(45,000)	(29,916)	33,327
Net income to common (diluted)	$ (8,980.0)	$ 11,596.0	$ 35,353	(6,380)	16,429	(9,557)	(11,995)	$ (11,503.0)	(17,478)	(45,000)	(29,916)	33,327
Net income to common per share (diluted)	$ (3.12)	$ 2.34	$ 5.99	(0.67)	0.88	(0.57)	(0.70)	(0.78)	(1.00)	(2.51)	(1.63)	1.47
Basic avg. number of shares used in computing net income	2,878	4,744	4,753	9,525	15,604	16,800	17,250	14,795	17,500	17,900	18,300	21,550
Diluted avg. number of shares used in computing net income	2,878	4,962	5,903	9,525	18,590	16,800	17,250	15,541	17,500	17,900	18,300	22,700
Key Ratios (GAAP unless noted)												
Gross Margin		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	108.3%	22.6%
SG&A (% Total Rev.)		NM	NM	NM	NM	NM	NM	NM	NM	NM	166.8%	34.8%
Operating Margin		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	-140.9%	29.8%
Revenue Growth												
Growth Yr/Yr		NM	90%	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	126%	33%	47%	20%	10%
Growth Q/Q		NM		NM	NM	NM	NM					
R&D Growth												
Growth Yr/Yr		NM	-19%	NM	NM	NM	NM	107%	124%	-42%	15%	10%
Growth Q/Q		NM		NM	NM	NM	NM					

IMPORTANT DISCLOSURES

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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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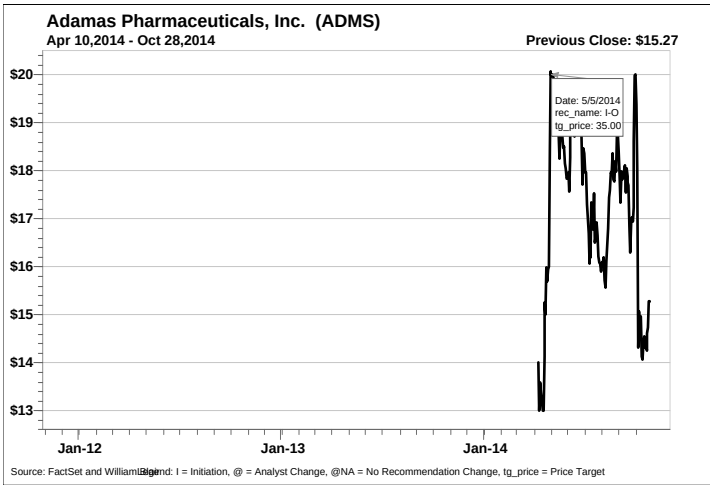
DOW JONES: 17,366.24
S&P 500: 2,017.81
NASDAQ: 4,638.91



Current Rating Distribution (as of 10/31/14)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	65	Outperform (Buy)	16
Market Perform (Hold)	31	Market Perform (Hold)	3
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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