

Adamas Pharmaceuticals, Inc.

(ADMS)

SMALL & MID CAP RESEARCH



Rating **OUTPERFORM* [V]**
Price (06 Nov 14, US\$) 15.08
Target price (US\$) (from 30.00) 27.00¹
52-week price range 20.07 - 13.00
Market cap. (US\$ m) 258.26
Enterprise value (US\$ m) 129.41

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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3Q Uneventful; Shift Away From cTBI Lowers TP to \$27

- **Bottom Line:** ADMS reported 3Q 2014 earnings that were essentially in-line with our expectations. The most noteworthy item in the company release was their decision to shift away from chronic traumatic brain injury (cTBI) as the second indication for their lead wholly-owned pipeline asset ADS-5102. Approximately 10% of our ADMS DCF was coming from probability-adjusted revenues in cTBI. Removing these revenues leads to our DCF-derived target price coming down to \$27 (from \$30). We also make adjustments to our 2014-2016 EPS estimates, including increasing our operating expense forecasts per higher run rate in 3Q14 (partly driven by stock-based compensation expense).
- **Multiple options for an ADS-5102 second indication.** ADMS has highlighted movement disorders (both hyperkinetic and hypokinetic) and neuropsychiatric disorders (e.g. Alzheimer's, depression) as possibilities for additional indications they will pursue for ADS-5102 in the near-term, with two phase 2/3 studies likely to begin in 2015. We will analyze the potential for these indications and the potential impact on ADMS's valuation once more clarity is obtained from the company on their future development plans.
- **CS Healthcare Conference next venue to hear the ADMS story.** The Chairman and CEO (Dr. Greg Went) will be presenting at our conference next Tuesday, Nov 11 at 7:30 am Mountain time. We look forward to hearing more about progress the company is making on the patent/IP side, the potential new indications for ADS-5102 and other pipeline/business development opportunities the company may be pursuing.

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	3.51	-0.66	-1.21	-2.83
Prev. EPS (US\$)	—	-0.27	-1.03	-2.71
P/E (x)	4.3	-23.0	-12.5	-5.3
P/E rel. (%)	25.0	-144.4	-87.3	-41.5
Revenue (US\$ m)	71.1	25.5	27.0	—
EBITDA (US\$ m)	57.1	-8.3	-19.8	-49.8
OCFPS (US\$)	1.70	-0.06	-0.87	-2.67
P/OCF (x)	—	-237.1	-17.4	-5.7
EV/EBITDA (current)	2.0	-13.6	-5.7	-2.3
Net debt (US\$ m)	-79	-129	-113	-66
ROIC (%)	-1,536.54	182.62	514.35	1,512.59
Number of shares (m)	17.13	IC (current, US\$ m)		-3.63
BV/share (Next Qtr., US\$)	7.9	EV/IC (x)		-25.3
Net debt (Next Qtr., US\$ m)	-137.5	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	-103.6	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Exhibit 1: ADMS Income Statement 2013A to 2023E

in millions, unless otherwise stated

	FY 2013	FY 2014				FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	CAGR	
		Mar-14 1QA	Jun-14 2QA	Sep-14 3QA	Dec-14 4QE											'17-'22	'22-'26
ADS-5102 US Revenue	0	0	0	0	0	0	0	0	29,864	60,437	84,706	104,667	119,148	135,030	152,426	35%	10%
US Milestones and Royalty Revenue	71,095	176	25,154	215	0	25,545	27,000	0	0	6,516	11,508	97,403	127,924	129,415	131,043		
Ex US Milestones and Royalty Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
Total Revenue	\$71,095	\$176	\$25,154	\$215	\$0	\$25,545	\$27,000	\$0	\$29,864	\$66,953	\$96,213	\$202,070	\$247,071	\$264,445	\$283,469	55%	6%
COGS	0	0	0	0	0	0	0	0	4,480	8,461	11,859	13,607	15,489	16,204	18,291		
Gross Profit	71,095	176	25,154	215	0	25,545	27,000	0	25,384	58,492	84,355	188,463	231,582	248,241	265,178	58%	6%
Total SG&A	6,667	3,109	3,262	4,353	4,276	15,000	19,000	27,980	45,654	53,389	58,269	63,394	67,831	71,901	75,496	10%	4%
R&D Expenses	7,410	2,758	5,173	5,412	5,657	19,000	28,000	22,000	18,000	5,000	0	0	0	0	0	NM	NM
EBIT	57,018	(5,691)	16,719	(9,550)	(9,933)	(8,455)	(20,000)	(49,980)	(38,270)	103	26,085	125,069	163,751	176,340	189,682	NM	NM
Interest income (expense), net	(88)	107	100	181	172	559	662	567	332	155	154	284	844	1,364	1,928		
Other income (expense), net	(4,818)	(795)	(212)	(182)	(361)	(1,550)	(1,000)	0	0	0	0	0	0	0	0		
Pretax Income	52,112	(6,379)	16,607	(9,551)	(10,122)	(9,446)	(20,338)	(49,413)	(37,938)	258	26,240	125,353	164,595	177,704	191,609		
Income Tax	1,191	1	178	6	0	185	303	0	0	5	525	9,183	61,723	66,639	71,854		
Net Income	\$50,921	(\$6,380)	\$16,429	(\$9,557)	(\$10,122)	(\$9,631)	(\$20,642)	(\$49,413)	(\$37,938)	\$252	\$25,715	\$116,170	\$102,872	\$111,065	\$119,756	NM	NM
Weighted Average Shares - Diluted	15,801	9,525	18,590	16,787	16,881	15,446	17,115	17,443	17,631	17,818	18,006	18,193	18,381	18,568	18,756		
EPS- Diluted	\$3.51	(\$0.67)	\$0.88	(\$0.57)	(\$0.60)	(\$0.66)	(\$1.21)	(\$2.83)	(\$2.15)	\$0.01	\$1.43	\$6.39	\$5.60	\$5.98	\$6.39		
Margin Analysis																	
Overall Gross Margin								NM	85.0%	87.4%	87.7%	93.3%	93.7%	93.9%	93.5%		
COGS as % of Product Revenue								15.0%	15.0%	14.0%	14.0%	13.0%	13.0%	12.0%	12.0%		
SG&A as % of Product Revenue								NM	152.9%	88.3%	68.8%	60.6%	56.9%	53.2%	49.5%		
R&D Margin								NM	60.3%	7.5%	0.0%	0.0%	0.0%	0.0%	0.0%		
EBIT Margin								NM	NM	0.2%	27.1%	61.9%	66.3%	66.7%	66.9%		
EBITDA Margin								NM	NM	0.5%	27.4%	62.1%	66.5%	66.9%	67.2%		
Statutory Tax Rate	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%		
Effective Tax Rate	2.3%	NM	1.1%	NM	0.0%	NM	NM	0.0%	0.0%	2.0%	7.3%	37.5%	37.5%	37.5%	37.5%		
Net Income								NM	NM	0.4%	26.7%	57.5%	41.6%	42.0%	42.2%		
Year/Year Changes																	
Product Revenue								NM	NM	102.4%	40.2%	23.6%	13.8%	13.3%	12.9%		
Revenue								-100.0%	NM	124.2%	43.7%	110.0%	22.3%	7.0%	7.2%		
Gross Profit								-100.0%	NM	130.4%	44.2%	123.4%	22.9%	7.2%	6.8%		
SG&A								47.3%	63.2%	16.9%	9.1%	8.8%	7.0%	6.0%	5.0%		
R&D								-21.4%	-18.2%	-72.2%	-100.0%	NM	NM	NM	NM		
EBITDA								NM	NM	NM	7483.3%	375.3%	31.0%	7.7%	7.6%		
EBIT								NM	NM	NM	25288.8%	379.5%	30.9%	7.7%	7.6%		
Net Income								NM	NM	NM	10087.9%	351.8%	-11.4%	8.0%	7.8%		

Source: Company data, Credit Suisse estimates

Exhibit 2: ADMS Balance Sheet 2013A to 2023E
in millions, unless otherwise stated

		FY 2014													
	FY 2013	Mar-14 1QA	Jun-14 2QA	Sep-14 3QA	Dec-14 4QE	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
ASSETS															
Current assets:															
Cash and cash equivalents	85,612	79,799	144,607	137,526	128,845	128,845	113,429	66,374	30,963	30,897	56,827	168,859	272,800	385,550	507,097
Accounts receivable, net	129	251	218	120	200	200	200	800	2,864	5,503	7,908	13,840	14,892	15,215	15,533
Prepaid expenses and other current assets	267	542	956	1,284	795	795	940	1,000	1,703	1,671	1,753	1,925	2,083	2,203	2,345
Total current assets	86,008	80,592	145,781	138,930	129,840	129,840	114,569	68,174	35,530	38,071	66,488	184,624	289,775	402,967	524,975
Property and equipment, net	199	254	336	443	923	923	1,362	1,683	1,859	2,284	2,944	4,603	6,057	7,534	9,004
Other assets	9	1,949	70	70	20	20	20	100	149	335	481	1,010	1,235	1,322	1,417
TOTAL ASSETS	86,216	82,795	146,187	139,443	130,782	130,782	115,951	69,957	37,539	40,689	69,913	190,238	297,067	411,823	535,396
LIABILITIES & STOCKHOLDERS' EQUITY															
Current liabilities:															
Accounts payable	2,097	1,985	3,284	3,033	3,266	3,266	3,863	4,108	5,600	5,495	5,764	6,329	6,848	7,242	7,709
Accrued liabilities	2,119	2,430	2,556	3,517	3,179	3,179	2,350	2,499	3,407	3,343	3,506	3,850	4,166	4,405	4,689
Convertible notes payable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest payable and other current liabilities	2	4	151	146	199	199	235	250	341	334	351	385	417	441	469
Total current liabilities	4,218	4,419	5,991	6,696	6,643	6,643	6,448	6,857	9,347	9,171	9,621	10,564	11,431	12,087	12,867
Warrant liability	6,232	4,020	0	0	0	0	0	0	0	0	0	0	0	0	0
Other non current liabilities	12	11	8	0	15	15	20	30	60	134	192	404	494	529	567
Total liabilities	10,462	8,450	5,999	6,696	6,658	6,658	6,468	6,887	9,407	9,305	9,813	10,968	11,925	12,616	13,434
Commitments and contingencies															
Convertible preferred stock, \$0.001 par value	19,149	23,013	0	0	0	0	0	0	0	0	0	0	0	0	0
Stockholders' equity															
Common stock, \$0.001 par value	14	14	21	22	22	22	22	23	23	23	23	23	24	24	24
Additional paid-in capital	77,163	78,270	150,690	152,805	154,305	154,305	160,305	163,304	166,304	169,304	172,304	175,304	178,303	181,303	184,303
Accumulated deficit	(20,572)	(26,952)	(10,523)	(20,080)	(30,203)	(30,203)	(50,844)	(100,257)	(138,195)	(137,943)	(112,228)	3,943	106,814	217,880	337,635
Total stockholders' equity	56,605	51,332	140,188	132,747	124,124	124,124	109,483	63,070	28,132	31,384	60,099	179,270	285,141	399,207	521,962
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	86,216	82,795	146,187	139,443	130,782	130,782	115,951	69,957	37,539	40,689	69,913	190,238	297,067	411,823	535,396

Source: Company data, Credit Suisse estimates

Exhibit 3: ADMS Cash Flow Statement 2013A to 2023E
in millions, unless otherwise stated

	FY 2013	Mar-14 1QA	Jun-14 2QA	Sep-14 3QA	Dec-14 4QE	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Cash Flow From (Used in) Operating Activities:															
Net income	50,921	(6,380)	16,429	(9,557)	(10,123)	(9,631)	(20,642)	(49,413)	(37,938)	252	25,715	116,170	102,872	111,065	119,756
Depreciation and amortization	66	22	35	42	26	125	161	179	224	245	302	361	523	639	797
Stock-based compensation	640	1,047	1,823	2,037	1,500	6,407	6,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Change in preferred stock warrant value	4,526	664	319	0	0	983	0	0	0	0	0	0	0	0	0
Provision for employee notes receivable	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Noncash interest expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Issuance of common stock and vesting of restricted comm	52	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Changes in assets and liabilities															
Prepaid expenses and other assets	79	(275)	(475)	(327)	489	(588)	(145)	(60)	(704)	32	(82)	(172)	(158)	(120)	(142)
Accounts receivable	761	(122)	33	98	(80)	(71)	0	(600)	(2,064)	(2,639)	(2,405)	(5,932)	(1,052)	(323)	(318)
Accounts payable	(1,157)	(2,052)	2,663	325	233	1,169	597	245	1,492	(105)	269	565	519	393	467
Accrued liabilities and other liabilities	523	311	126	374	(338)	473	(829)	149	908	(64)	164	344	316	239	284
Deferred revenue	(29,611)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other assets and liabilities	0	0	0	80	118	198	41	(55)	71	(118)	(71)	(283)	(103)	(28)	(29)
Net Cash From (Used in) Operating Activities	26,801	(6,785)	20,953	(6,928)	(8,175)	(935)	(14,816)	(46,555)	(35,011)	603	26,892	114,053	105,917	114,866	123,816
Cash Flow From (Used in) Investing Activities:															
Purchase of property and equipment	(167)	(77)	(117)	0	(506)	(700)	(600)	(500)	(400)	(670)	(962)	(2,021)	(1,977)	(2,116)	(2,268)
Net Cash From (Used in) Investing Activities	(167)	(77)	(117)	0	(506)	(700)	(600)	(500)	(400)	(670)	(962)	(2,021)	(1,977)	(2,116)	(2,268)
Cash Flow From (Used in) Financing Activities:															
Proceeds from issuance of convertible preferred stock, ne	0	1,013	544	429	0	1,986	0	0	0	0	0	0	0	0	0
Proceeds from issuance of common stock	21	36	43,428	(582)	0	42,882	0	0	0	0	0	0	0	0	0
Proceeds from issuance of convertible promissory notes a	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal payments on convertible promissory notes	(4,000)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Cash From (Used in) Financing Activities	(3,979)	1,049	43,972	(153)	0	44,868	0	0	0	0	0	0	0	0	0
Net increase in cash and cash equivalents	22,655	(5,813)	64,808	(7,081)	(8,681)	43,233	(15,416)	(47,055)	(35,411)	(66)	25,930	112,032	103,941	112,750	121,548
Cash and cash equivalents at beginning of period	62,957	85,612	79,799	144,607	137,526	85,612	128,845	113,429	66,374	30,963	30,897	56,827	168,859	272,800	385,550
Cash and cash equivalents at end of period	85,612	79,799	144,607	137,526	128,845	128,845	113,429	66,374	30,963	30,897	56,827	168,859	272,800	385,550	507,097
Supplemental disclosure															
Cash paid for interest	279	107	100	181	172	559	662	567	332	155	154	284	844	1,364	1,928
Cash paid for income taxes	1,501	1	178	6	0	185	303	0	0	5	525	9,183	61,723	66,639	71,854
Supplemental disclosure of noncash items															
Issuance of warrants for preferred stock in connection w	200														
Accrued deferred offering costs	85	1,940													

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 06-Nov-2014)

Adamas Pharmaceuticals, Inc. (ADMS.OQ, \$15.08, OUTPERFORM[V], TP \$27.0)

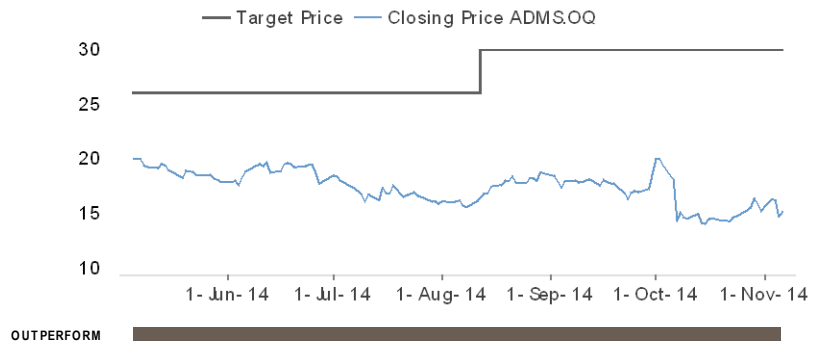
Disclosure Appendix**Important Global Disclosures**

I, Vamil Divan, MD, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Adamas Pharmaceuticals, Inc. (ADMS.OQ)

ADMS.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
05-May-14	20.00	26.00	O *
12-Aug-14	16.49	30.00	

* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

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Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

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Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	46%	(54% banking clients)
Neutral/Hold*	39%	(51% banking clients)
Underperform/Sell*	13%	(43% banking clients)
Restricted	3%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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Price Target: (12 months) for Adamas Pharmaceuticals, Inc. (ADMS.OQ)

Method: Our \$27 target price for ADMS is based on discounted cash flow valuation. We use a 10.5% weighted average cost of capital and forecast discounted cash flows through 2029, with no terminal value thereafter.

Risk: Risks to our \$27 target price are (1) Pipeline setbacks; (2) slower-than-expected membrane franchise growth; and (3) earlier-than-expected generic competition for key products.

Please refer to the firm's disclosure website at <https://rave.credit-suisse.com/disclosures> for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

The subject company (ADMS.OQ) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (ADMS.OQ) within the past 12 months.

Credit Suisse has managed or co-managed a public offering of securities for the subject company (ADMS.OQ) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (ADMS.OQ) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (ADMS.OQ) within the next 3 months.

As of the date of this report, Credit Suisse makes a market in the following subject companies (ADMS.OQ).

As of the end of the preceding month, Credit Suisse beneficially own 1% or more of a class of common equity securities of (ADMS.OQ).

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