November 4, 2014

WELLS FARGO SECURITIES

Equity Research

Alder Biopharmaceuticals, Inc.

ALDR: Q3 2014--403 Entering Ph.IIb--CGRP Entering Spotlight

Outperform / V

Sector: Biotechnology
Market Weight

- **Summary:** On November 3 after the close, ALDR reported Q3 2014 results, and formally disclosed that their ph.IIb dose-ranging study of ALD403 IV for chronic migraine had started, consistent with expected timelines and the recent clinicaltrials.gov listing. We are encouraged by the continued progress with '403, a program we believe is underappreciated, and believe that with data from competitor CGRP antibodies reading out over the next 6 months, there will be increasing attention to the large opportunity within the migraine prophylaxis space, driving additional share upside for ALDR. EPS for 2014E moves to $0.43 from -$1.53 and we adjust 2015E to -$1.44 from -$1.20, reflecting an anticipated increase in R&D spending in 2015 for the ph.IIb program and adjustments to revenue recognition from the discontinued Clazakizumab partnership. Increasing valuation range to $24-26 from $19-21 based on model changes and an incrementally increased probability of success for '403 based on more detailed data from '403 and other CGRP programs validating the efficacy and safety of the approach.
- **Financials:** EPS was $0.88 versus our estimate of -$0.28, due to a one-time acceleration of recognition of previously deferred revenue, following BMY's discontinuation of its partnership for Clazakizumab. The company anticipates recognizing an additional $6.3MM deferred revenue in Q4 2014. R&D expenses came in at $7.0MM versus our estimate of $9.7MM and decreased from $8.9MM in Q3 2013, which had been driven by expenses from production of ALD403 antibody material for usage in migraine trials. G&A expenses of $3.2MM were near our estimate of $3.1MM, and increased from $1.9MM in Q3 2013, driven by operational, legal, and consulting fee expenses. Alder ended the quarter with $67.6MM in cash and equivalents, which it believes will be sufficient for the next 12 months.
- *Continued on following page*

Valuation Range: $24.00 to $26.00 from $19.00 to $21.00
Our valuation range is based on applying a 25x multiple to our 2022 estimated EPS and discounting at 15%, blended with 7x sales multiple of 2022 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.

Earnings Estimates Revised Up

EPS	2013A	2014E Curr.	2014E Prior	2015E Curr.	2015E Prior
Q1 (Mar.)	NE	($5.38) A	NC	NE	
Q2 (June)	(5.27)	(0.40) A	NC	NE	
Q3 (Sep.)	NE	**0.88 A**	**(0.28)**	NE	
Q4 (Dec.)	NE	**(0.16)**	**(0.31)**	NE	
FY	($20.57)	**$0.43**	**(1.53)**	**($1.44)**	**(1.20)**
CY	($20.57)	$0.43		($1.44)	
FY P/EPS	NM	41.9x		NM	
Rev.(MM)	$19	$56		$8	

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

The sum of the quarterly earnings per share amounts may not equal the total for the year due to the effects of rounding and dilution as a result of issuing common shares during the year.

Ticker	ALDR
Price (11/03/2014)	$18.02
52-Week Range:	$9-23
Shares Outstanding: (MM)	29.9
Market Cap.: (MM)	$538.8
S&P 500:	2,017.81
Avg. Daily Vol.:	143,128
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:	11/03/2014 After Close

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

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Please see page 5 for rating definitions, important disclosures and required analyst certifications
All estimates/forecasts are as of 11/04/14 unless otherwise stated.

Continued from Front-page Bullets

- **Next steps for ALD403 have kicked off.** ALDR announced initiation of a 600-patient phase IIb dose-ranging trial testing four single doses of IV '403 in the chronic migraine population, with primary endpoint data due in 2H15, and continues to plan a second ph.IIb trial of SC-administered '403 in high-frequency episodic patients to start in 1H15 testing monthly doses and reading out in mid-2016. We believe the program's design 403 has strong strategic rationale, and results of the IV study should both help identify a minimally effective/durable dose as well as establish efficacy in a more severe population -- one in which an antibody may be initially most adopted commercially and in which several competitors are not yet pursuing. Lastly, the size of the phase IIb program, while increasing near-term R&D costs, should help bring ALDR most of the way to filling the requirements for FDA's safety review in a BLA filing, which will follow guidelines set by the International Conference on Harmonization (ICH) including monitoring of safety for a 6-month period in 300 patients treated at the expected commercial dose level, and a further number of patients for a year.

- **PK work should reassure on formulation approach, hint at differentiation.** The company noted on the call that earlier PK work comparing IV and SC administration at equivalent dose levels had found both had very rapid onset of action as measured by biomarker testing in healthy volunteers, and shared similar half-life and durability of response. We believe the potency, rapidity of onset, and potential good tolerability with SC administration could potentially set ALD403 apart from competitors. An ongoing SC dose-finding study expected to read out 1Q15 could be a next incremental catalyst, and potentially reaffirm this while helping inform appropriate dosing and dose intervals for the SC high-frequency episodic ph.IIb study.

- **In re-partnership discussions for Clazakizumab; third program could be interesting.** ALDR noted discussions with several potential partners on Clazakizumab following return of the anti-IL-6 antibody from BMY, for which phase IIb data for the antibody in psoriatic arthritis is due to be presented on November 16 at the ACR meeting in Boston and ph.IIb dose-ranging RA data is still expected 1H15. Though a partnership agreement does not appear to be imminent, we believe it is prudent ALDR is de-prioritizing spending on the program, given the necessary ph.III expenses as well as the potential to capitalize on the promise of '403. A third antibody could be nominated by year-end, potentially in the orphan or pain area, and could highlight ALDR's platform productivity.

Upcoming Milestones

Product	Event	Timeline
ALD403	Ph.I SC dose-ranging data	1Q15
	Topline data from ph.IIb IV study in chronic migraine	2H15
	Initiate ph.IIb SC dose-ranging study in high-frequency migraine	1H15
	Topline data from ph.IIb SC study in high-frequency migraine	mid-2015
	Potentially initiate ph.III program	2016
	Potential ph.III data	2017/2018
Clazakizumab	Presentation of ph.IIb dose-ranging PsA data at ACR	4Q14 (ACR)
	Completion of dose-ranging ph.IIb RA follow-on study	1H15
	Partnership discussions	2015
Preclinical antibody	Nominate candidate	4Q14
	Initiate ph.I study	2H15

Source: Company reports and Wells Fargo Securities, LLC estimates

Product Pipeline

Product (partner)	Indication / mechanism	Status
ALD403	Migraine (anti-CGRP antibody)	Phase IIb
Clazakizumab	RA, psoriatic arthritis (anti-IL-6 antibody)	Phase IIb

Source: Company reports and Wells Fargo Securities, LLC

Alder Biopharmaceuticals (ALDR)
Statement of Operations

	2012A	2013A	1QA	2QA	3QA	4QE	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues																
Clazakizumab sales (PsA or smaller autoimmune/inflamm market)													*$101,666*	*$200,189*	*$280,890*	*$370,732*
ALD403 sales												*91,549*	*311,435*	*641,157*	*1,027,741*	*1,448,953*
Clazakizumab royalties	-	-	-	-	-	-	-	-	-	-	-	-	16,267	33,031	47,751	64,878
ALD403 U.S. sales	-	-	-	-	-	-	-	-	-	-	-	91,549	264,479	505,197	767,467	1,052,724
ALD403 Ex-U.S. royalties	-	-	-	-	-	-	-	-	-	-	-	-	7,982	23,113	44,247	67,359
Collaborative and license agreements/revenue (1)	20,067	18,796	4,800	4,703	38,784	7,800	56,087	8,000	31,571	26,571	61,571	31,571	84,071	34,071	26,571	8,000
Total revenues, net	**$20,067**	**$18,796**	**$4,800**	**$4,703**	**$38,784**	**$7,800**	**$56,087**	**$8,000**	**$31,571**	**$26,571**	**$61,571**	**$123,120**	**$372,799**	**$595,413**	**$886,036**	**$1,192,961**
Expenses																
Cost of goods sold												$6,408	$18,514	$35,364	$53,723	$73,691
Research and development	$30,669	$31,883	$7,000	$9,377	$7,047	$9,500	$32,924	$45,106	$62,246	$77,808	$93,369	$97,104	$92,249	$87,636	$91,142	$94,787
Selling, general and administrative	$7,217	$7,674	$3,200	$2,736	$3,158	$3,200	$12,294	$13,523	$14,876	$20,826	$62,478	$93,717	$121,832	$146,199	$152,047	$158,129
Total operating expenses	**$37,886**	**$39,557**	**$10,200**	**$12,113**	**$10,205**	**$12,700**	**$45,218**	**$58,629**	**$77,122**	**$98,634**	**$155,847**	**$197,230**	**$232,595**	**$269,199**	**$296,911**	**$326,607**
Operating Income	**($17,819)**	**($20,761)**	**($5,400)**	**($7,410)**	**$28,579**	**($4,900)**	**$10,869**	**($50,629)**	**($45,550)**	**($72,062)**	**($94,276)**	**($74,109)**	**$140,205**	**$326,214**	**$589,125**	**$866,354**
Interest income	$101	$54	$9	$9	-	$10	$28	$175	$293	$340	$210	$96	$218	$640	$1,512	$2,945
Other income	-	158	-	-	67	-	67	-	-	-	-	-	-	-	-	-
Interest expense	(88)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expense	-	(64)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other income	**$13**	**$148**	**$9**	**$9**	**$67**	**$10**	**$95**	**$175**	**$293**	**$340**	**$210**	**$96**	**$218**	**$640**	**$1,512**	**$2,945**
Income before taxes	**($17,806)**	**($20,613)**	**($5,391)**	**($7,401)**	**$28,646**	**($4,890)**	**$10,964**	**($50,454)**	**($45,258)**	**($71,722)**	**($94,066)**	**($74,013)**	**$140,422**	**$326,854**	**$590,637**	**$869,299**
Income tax (expenses)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	($2,808)	($19,611)	($70,876)	($191,246)
Net income	($17,806)	($20,613)	($5,391)	($7,401)	$28,646	($4,890)	$10,964	($50,454)	($45,258)	($71,722)	($94,066)	($74,013)	$137,614	$307,242	$519,760	$678,054
Earnings Per Share	**($19.54)**	**($20.57)**	**($5.38)**	**($0.40)**	**$0.88**	**($0.16)**	**$0.43**	**($1.44)**	**($1.27)**	**($1.82)**	**($2.35)**	**($1.66)**	**$2.65**	**$5.85**	**$9.78**	**$12.62**
Shares Outstanding (Basic)	911	1,002	1,002	18,557	30,805	30,955	20,330	35,055	35,655	39,455	40,055	44,655	45,255	45,855	46,455	47,055
Shares Outstanding (Diluted)			7,691	25,245	32,513	37,644	25,773	41,744	42,344	46,144	46,744	51,344	51,944	52,544	53,144	53,744

Source: Company reports and Wells Fargo Securities, LLC estimates

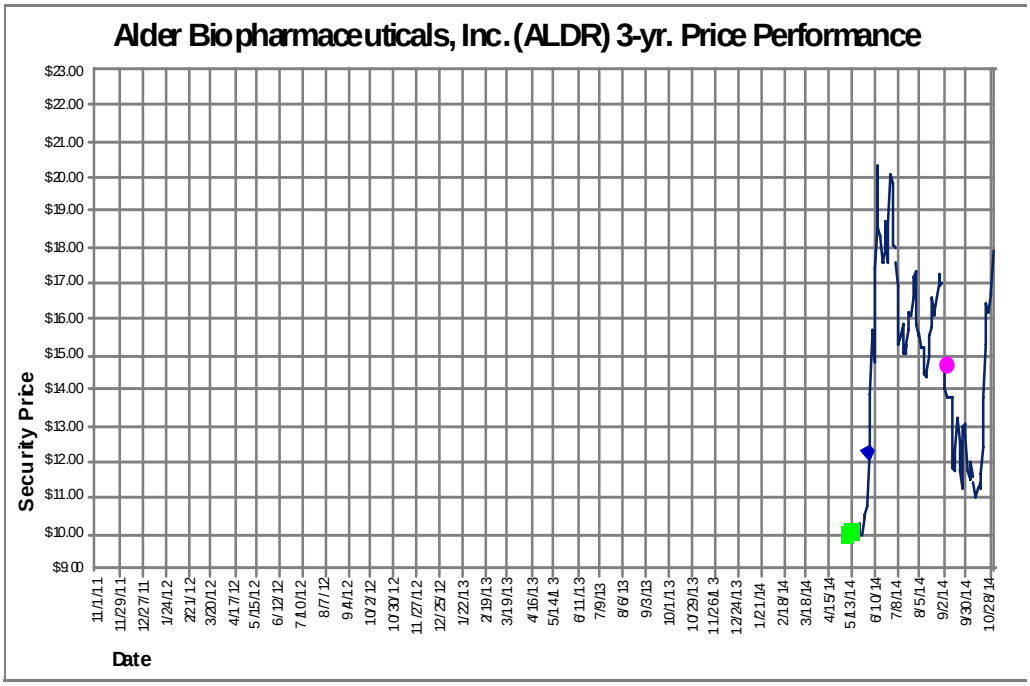
Note: In 000's $, except per share amounts; Fiscal year ends December 31

(1) includes milestone payments and amortization of upfront payments

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
●	9/2/2014	14.25	1	19.00	21.00	14.80

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

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

Rating Code Key

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

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ALDR: Risks include emergence of a safety signal, and competition in the migraine/RA spaces.

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As of: November 3, 2014

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