William Blair

Adamas Pharmaceuticals, Inc.

March 03, 2015

Fourth-Quarter Earnings a Non-Event; New Indication for ADS-5102 Expected in First Half; Remain Outperform

- After the close on Tuesday, March 3, Adamas announced fourth-quarter and full year 2014 earnings. In the fourth quarter, net income was reported as a gain of $9.7 million, or $0.51 per share, compared with our estimate of $12.4 million, or $0.64 per share, and consensus of a loss of $9.4 million, or a loss of $0.53 per share; however, we believe consensus did not include the Actavis milestone, which came with the Namzaric approval. R&D was $8.2 million, higher than our estimate of $8.0 million and consensus of $6.4 million. G&A was $5.1 million, higher than our $4.7 million estimate and consensus of $4.5 million. The company reported net income of $9.1 million, or $0.53 per share, for the full year, and ended the year with $158.7 million in cash, cash equivalents, and marketable securities.
- Adamas ended 2014 with the approval of Namzaric, the company's co-partnered product with Forest Laboratories, now a subsidiary of Actavis (ACT $296.23), which triggered a $30 million milestone payment in the fourth quarter. We expect Adamas to begin clinical testing on a potential new indication for its lead candidate, ADS-5102, in the first half of 2015, with the announcement likely tied to the opening of enrollment of a clinical trial. According to the press release, the new indication could be in hypokinetic or hyperkinetic movement disorders or neuropsychiatric disorders (such as Huntington's chorea, tardive dyskinesia, multiple sclerosis, and Alzheimer's disease). ADS-5102 is currently being studied in a broad Phase III clinical program, which will continue enrollment in the first quarter, with top-line expected near the end of 2015 or early 2016, 26 weeks after the completion of enrollment plus a week or two for data-lock and analysis, to treat levodopa-induced dyskinesia associated with Parkinson's disease (PD-LID).
- Adamas is in the process of conducting its broad Phase III clinical program for ADS-5102 for PD-LID, as shown in exhibit 1. The company plans for its comprehensive Phase III program to complete enrollment in 2015 with a planned NDA submission in the first half of 2016. The program consists of three ongoing trials for the treatment of PD-LID: 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; EASE LID, a Phase III trial that will assess the efficacy of 340 mg of ADS-5102 versus placebo once daily at bedtime for 26 weeks, with roughly 130 patients; and EASE LID 2, a Phase III open-label safety study of ADS-5102 in about 200 patients with PD-LID. The first trial expected to complete enrollment, EASE-LID in mid-2015, will report data after the 26-week treatment period and data-lock, so sometime at the end of 2015/early 2016. The primary endpoint of the studies is a reduction in dyskinesia as assessed by the Unified Dyskinesia Rating Scale, 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 as a secondary endpoint, similar to the company's completed Phase II/III EASED study. 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.

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.

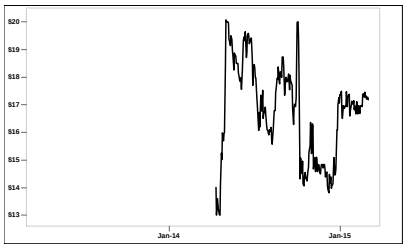
Stock Rating:	**Outperform**
Company Profile:	**Aggressive Growth**
Price Target:	$35.00
Symbol:	ADMS (NASDAQ)
Price:	$17.25 (52-Wk.: $12-$22)
Market Value (mil.):	$296
Fiscal Year End:	December
Long-Term EPS Growth Rate:	
Dividend/Yield:	None

		2014A	2015E	2016E
Estimates				
EPS	Q1	$-0.67	NA	NA
	Q2	$0.88	NA	NA
	Q3	$-0.57	NA	NA
	Q4	$-0.51	NA	NA
	FY	$0.53	$-3.06	-$2.40
	CY		$-3.06	-$2.40
Sales (mil.)		56	0	4
Valuation				
FY P/E		32.5x	NM	NM
CY P/E		32.5x	NM	NM

Trading Data (FactSet)	
Shares Outstanding (mil.)	17
Float (mil.)	3
Average Daily Volume	104,075

Financial Data (FactSet)	
Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	7.8
Return on Equity (TTM)	69.1

Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

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- Overall, the company has identified three specific areas for additional testing of ADS-5102, with up to two studies set to begin in 2015: hyperkinetic movement disorders similar to LID (e.g., chorea associated with Huntington's disease, tardive dyskinesia, and Tourette syndrome); hypokinetic movement disorders (e.g., walking and fatigue issues associated with multiple sclerosis); and neuropsychiatric disorders (e.g., 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.

- We continue to rate ADMS shares with an Outperform rating, given our belief that ADS-5102 is an effective compound that should produce a best-in-class ON/OFF time and reduction in dyskinesia in Parkinson's patients with levodopa-induced dyskinesia (LID). While data from the Phase II/III EASED study compared ADS-5102 with placebo, we believe the product provides clear benefits over immediate-release amantadine, given our review of literature available in this setting. Ultimately, we believe the product will gain a significant penetration in the moderate and severe Parkinson's disease patient population, and we 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 movement disorders and/or neurocognitive disorders (e.g., Alzheimer's disease), as well as receive royalties related to Namenda XR and Namzaric from Actavis/Forest Laboratories.

Exhibit 1
Adamas Pharmaceuticals, Inc.
Clinical Program for ADS-5102 in PD-LID

Trial	Phase	N	Length	Dose/Regimen	Initiated	Completed Enrollment	Data
EASED	II/III	83	8 week	Three doses (260 mg, 340 mg, 420 mg) administered once at bedtime v Placebo	July 2011	N/A	Primary Completion Date (Final data collection date for primary outcome measure): May 2013; Study Completion Date: Oct 2013
EASE LID 2	III	~200	12 months (up to 52 weeks)	Open-label safety study	July 2014	expected in 2015	Primary Completion Date (Final data collection date for primary outcome measure): August 2017
EASE LID	III	~130	26 weeks	340 mg dose of ADS-5102 administered once at bedtime v Placebo	June 9, 2014	expected in mid-2015	YE15
EASE LID 3	III	~70	13 weeks	340 mg dose of ADS-5102 administered once at bedtime v Placebo	October 28, 2014	expected in 2H2015	January 2016
NDA submission still guided for 1H16							

Source: Company reports

Exhibit 2
Adamas Pharmaceuticals, Inc.
Fourth Quarter 2014 Results

	ADMS Q4 14A	WB Q4 14E	Consensus Q4 14E	Q/Q Growth
($ in thousands except EPS)				
Contract/Service/Other Revenue	$ 30,301	$ 30,180	$ -	NM
Total Revenue	$ 30,301.0	$ 30,180.0	$ -	NM
R&D	$ 8,166.0	$ 8,000.0	$ 6,400.0	51%
G&A	$ 5,099	$ 4,700	$ 4,500.0	17%
Operating Income	$ 17,036	$ 17,480	$ (8,800.0)	NM
(Loss) income before taxes	$ 16,920.0	$ 18,230.0	$ (9,100.0)	NM
Net Income	$ 9,731	$ 12,396.0	$ (9,400.0)	NM
EPS	$ 0.51	$ 0.64	$ (0.53)	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 for the company's royalty stream from both Namenda XR and Namzaric. 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 have risk adjusted 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 shares of Adamas Pharmaceuticals.

Risks
An investment in shares of Adamas Pharmaceuticals involves clinical, regulatory, and financial risks that are typical for developmental-stage, biopharmaceutical companies. Although Adamas was profitable in 2014, we estimate that the company will incur losses beginning in 2015 as it executes on their Phase III clinical program for ADS-5102 and prepares for a potential regulatory submission. In addition to the risks associated with ADS-5102 development, there are intellectual property, manufacturing, and competitive risks to consider.

Our model is included on the following page.

William Blair

Adamas Pharmaceuticals
Earnings Model
3/3/15
($ in millions except EPS data)

Rating: Outperform
Company Profile: Aggressive Growth
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	2014(A)	Q1(E)	Q2(E)	Q3(E)	Q4(E)	2015(E)	2016(E)	2017(E)	2018(E)
Product Revenue	-					-	-	-	-
ADS-5102	-	-	-	-	-	-	-	17,228	105,570
Royalty/Milestone Revenue	55,846	100	100	100	100	400	4,000	4,000	4,818
Total Revenue	55,846	100	100	100	100	400	4,000	21,227.8	110,388.0
yr/yr growth	NM	-43.2%	-99.6%	-53.5%	-99.7%	-99.3%	900.0%	NM	420.0%
q/q growth		-99.7%	0.0%	-99.8%	0.0%				
incremental rev q/q									
Cost of Goods Sold	-	-	-	-	-	-	-	1,723	10,557
Gross Profit	55,846	100	100	100	100	400	4,000	19,505	99,831
SG&A	15,472	5,226	5,357	5,491	5,628	21,703	29,500	35,400	38,940
Growth	132%					40%	40%	20%	10%
R&D	21,860	8,411	8,663	8,923	9,191	35,188	20,000	23,000	25,300
Growth	195%	-	-	-	-	61%	-43%	15%	10%
Total Operating Expenses	37,332	13,637	14,020	14,414	14,819	56,891	49,500	58,400	64,240
growth	165%	132%	66%	48%	12%	52%	-13%	18%	10%
Total Operating Expenses (-stock based comp)	18,030.0	10,637.5	11,020.4	11,414.3	11,819.2	44,891.4	37,500.0	46,400.0	60,640.0
Operating Income	18,514	(13,537)	(13,920)	(14,314)	(14,719)	(56,491)	(45,500)	(38,895.0)	35,591.0
EBIT Margin	NM					NM	NM	NM	32%
growth y/y (%)	NM	138%	-183%	50%	-186%	NM	NM	NM	NM
Interest and other income (expense)	(917)	500	500.0	500.0	500.0	2,000	1,500	1,500	8,000
Interest expense									
Income Before Taxes	17,597	(13,037)	(13,420)	(13,814)	(14,219)	(54,491)	(44,000)	(37,395)	43,591
Income Tax Provision	7,374	(250)	(250)	(250)	(250)	(1,000)	(1,000)	(1,000)	11,334
Effective Tax Rate	NM	1.9%	1.9%	1.8%	1.8%	NA	NA	3%	26%
Net Income	$ 10,223.1	(12,787)	(13,170)	(13,564)	(13,969)	(53,491)	(43,000)	(36,395)	32,257
Net income to preferred	$ 1,255.0								
Net income to common (basic)	$ 8,968.1	(12,787)	(13,170)	(13,564)	(13,969)	(53,491)	(43,000)	(36,395)	32,257
Net income to common (diluted)	$ 9,069.0	(12,787)	(13,170)	(13,564)	(13,969)	(53,491)	(43,000)	(36,395)	32,257
Net income to common per share (basic)	0.60	(0.74)	(0.76)	(0.77)	(0.79)	(3.06)	(2.40)	(1.99)	1.67
Net income to common per share (diluted)	0.53	(0.74)	(0.76)	(0.77)	(0.79)	(3.06)	(2.40)	(1.99)	1.52
Basic avg. number of shares used in computing net income	14,837	17,337	17,437	17,537	17,637	17,487	17,887	18,287	19,287
Diluted avg. number of shares used in computing net income	17,107	17,337	17,437	17,537	17,637	17,487	17,887	18,287	21,287
Key Ratios (GAAP unless noted)									
Gross Margin	NM	NM	NM	NM	NM	NM	NM	90.0%	90.0%
R&D (% Total Rev.)	NM	NM	NM	NM	NM	NM	NM	108.3%	22.9%
SG&A (% Total Rev.)	NM	NM	NM	NM	NM	NM	NM	166.8%	35.3%
Operating Margin	NM	NM	NM	NM	NM	NM	NM	-183.2%	32.2%
Net Income Margin	NM	NM	NM	NM	NM	NM	NM	-171.4%	29.2%
Revenue Growth									
Growth Yr/Yr	NM	NM	NM	NM	NM	NM	NM	431%	420%
Growth Q/Q		NM	NM	NM	NM				
SG&A Growth									
Growth Yr/Yr	132%	90%	64%	26%	10%	40%	36%	20%	10%
Growth Q/Q		2%	2%	2%	2%				
R&D Growth									
Growth Yr/Yr	195%	171%	67%	65%	13%	61%	-43%	15%	10%
Growth Q/Q		3%	3%	3%	3%				

IMPORTANT DISCLOSURES

William Blair was a manager or co-manager of a public offering of equity securities for Adamas Pharmaceuticals, Inc. within the prior 12 months.

William Blair is a market maker in the security of Adamas Pharmaceuticals, Inc.

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.

This report is available in electronic form to registered users via R*Docs™ at www.rdocs.com or www.williamblair.com.

Please contact us at +1 800 621 0687 or consult williamblair.com/Research-and-Insights/Equity-Research/Coverage.aspx for all disclosures.

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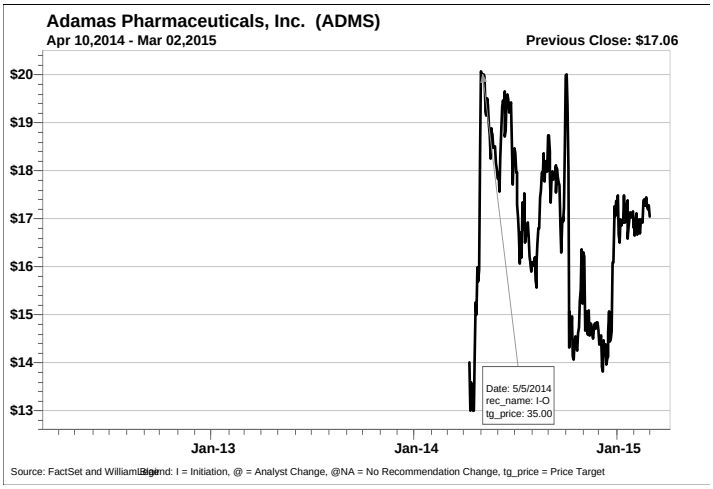
DOW JONES: 18,288.63
S&P 500: 2,117.39
NASDAQ: 5,008.10



Current Rating Distribution (as of 02/28/15)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	65	Outperform (Buy)	16
Market Perform (Hold)	32	Market Perform (Hold)	2
Underperform (Sell)	2	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.

The compensation of the research analyst is based on a variety of factors, including performance of his or her stock recommendations; contributions to all of the firm's departments, including asset management, corporate finance, institutional sales, and retail brokerage; firm profitability; and competitive factors.

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The ratings, price targets (where used), valuation methodologies, and company profile assessments reflect the opinion of the individual analyst and are subject to change at any time.

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