

Alder Biopharmaceuticals (ALDR)

SMALL & MID CAP RESEARCH



Rating	OUTPERFORM* [V]
Price (07 May 15, US\$)	30.19
Target price (US\$)	34.00 ¹
52-week price range	30.56 - 9.91
Market cap. (US\$ m)	1,145.90
Enterprise value (US\$ m)	957.81

*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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Q1 Earnings: New Pivotal Trial for ALD403

ALDR announced a new pivotal Phase II trial for ALD403 that will include both chronic and frequent episodic migraines, and a positive readout would expedite the regulatory timeline for the program. We believe results for ALD403 from its other Phase II trials will be major derisking events leading up to the pivotal result. Our EPS estimate for 2015 increases to (\$1.72) from (\$1.80).

- **New pivotal trial for ALD403 to start in H2:15:** It is a double blind, placebo-controlled, dose ranging trial using a quarterly IV dosing regimen in 800 to 1000 chronic and episodic migraine patients. The primary endpoint is responder rates over 12 weeks, which is the same as its other Phase II dose ranging trials. We are encouraged that ALDR can enroll both subsets of patients in the study, as this can reduce the development time for the program and bring ALDR more in-line with the competition.
- **Other migraine trials on track:** ALDR will report Phase IIb in chronic data in H2:15, start a Phase IIb dose-ranging trial in frequent episodic migraine in H2:15 with data in H2:16, and report Phase I subcutaneous study in healthy volunteers in H2:15.
- **Competitive landscape to become clearer soon:** We will gain additional insight into the competitive landscape with data releases from AMGN and TEVA at the International Headache Society meeting next week (May 14-17, Valencia, Spain).
- **Still planning to partner clazakizumab:** We believe clazakizumab will need to be partnered to move into Phase III studies as ALDR is focused on ALD403 development. Clazakizumab is an attractive asset in our opinion that recently showed positive results in its follow-on Phase IIb trial in RA.

Financial and valuation metrics

Year	12/14A	12/15E	12/16E	12/17E
EPS (CS adj.) (US\$)	0.30	-1.72	-2.10	-2.18
Prev. EPS (US\$)	—	-1.80	-2.15	-2.23
P/E (x)	99.7	-17.6	-14.4	-13.8
P/E rel. (%)	549.9	-98.2	-90.7	-97.7
Revenue (US\$ m)	54.7	2.1	15.5	15.5
EBITDA (US\$ m)	9.5	-64.9	-81.8	-97.8
OCFPS (US\$)	-1.62	-1.33	-0.50	-2.39
P/OCF (x)	-18.0	-22.8	-59.8	-12.6
EV/EBITDA (current)	115.6	-16.9	-13.4	-11.2
Net debt (US\$ m)	-47	-188	-167	-222
ROIC (%)	71.22	3,978.64	137.98	223.03
Number of shares (m)	37.96	IC (current, US\$ m)		12.36
BV/share (Next Qtr., US\$)	6.4	EV/IC (x)		91.7
Net debt (Next Qtr., US\$ m)	-225.3	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	-95.7	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

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Exhibit 1: ALDR Variance Table

Income Statement	1Q:15 Act.	CS 1Q:15	
		Est	Delta
Revenues	\$ -	\$ -	\$ -
Royalties on Clazakizumab	\$ -	\$ -	
Collaboration and license agreement	\$ -	\$ -	\$ -
Total Revenues	\$ -	\$ -	\$ -
Expenses	\$ -	\$ -	\$ -
Research and development	\$ 11.0	\$ 10.5	\$ 0.5
Sales, general, administrative	\$ 3.7	\$ 3.7	\$ (0.0)
Total Operating Expenses	\$ 14.7	\$ 14.2	\$ 0.5
Operating income (loss)	\$ (14.7)	\$ (14.2)	\$ (0.5)
Total Other Income (Expense)	\$ 0.1	\$ 0.0	\$ 0.0
Pre Tax Income	\$ (14.7)	\$ (14.2)	\$ (0.5)
Income tax	\$ -	\$ -	\$ -
Net Income	\$ (14.7)	\$ (14.2)	\$ (0.5)
EPS - basic (proforma)	(\$0.40)	(\$0.45)	\$0.06

Source: Company data, Credit Suisse estimates

Exhibit 2: ALDR News Flow

Product	Catalyst	Expected Date	Price Sensitivity
ALD403	Initiate pivotal dose ranging trial for both chronic and episodic migraine (IV)	H2:15	High
ALD403	Phase IIb primary endpoint data in chronic migraine (IV)	H2:15	High
ALD403	Phase I data for quarterly self administration	H2:15	Medium
ALD403	Start dose ranging study in frequent episodic migraine patients	H2:15	Low
Clazakizumab	Potential development partner	2015	High
ALD403	Data from frequent episodic migraine study	H2:16	High
ALD1613	Initiate Phase I for Cushing's disease	2016	Low

Source: Company data, Credit Suisse

Exhibit 3: ALDR Pipeline

Drug	Target	Indication	Stage	Partner
ALD403	CGRP	Migraine	Phase II	Proprietary
Clazakizumab	IL-6	Rheumatoid Arthritis	Phase IIb	Proprietary
		Psoriatic Arthritis	Phase II	Proprietary
ALD1613	ACTH	Cushing's disease	Phase I in 2016	Proprietary
4 preclinical programs	TBA	TBA	Preclinical	Proprietary

Source: Company data, Credit Suisse

Exhibit 4: ALDR Model

	2013A	2014A	Q1:15A	Q2:15E	Q3:15E	Q4:15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues														
US sales of ALD403											32.4	168.6	394.7	547.5
Ex-US royalties on ALD403											0.7	0.7	6.3	23.7
Royalties on Clazakizumab											1.4	3.1	6.5	10.4
Collaboration and license agreement	18.8	54.7		0.7	0.7	0.7	2.1	15.5	15.5	79.9	120.0	12.0	6.0	
Total Revenues	18.8	54.7		0.7	0.7	0.7	2.1	15.5	15.5	79.9	153.8	184.4	413.5	581.6
Expenses														
Cost of goods											3.2	16.9	39.5	54.8
Research and development	31.9	33.4	11.0	11.5	14.0	15.0	51.5	74.0	90.0	92.0	87.0	77.0	75.0	72.0
Sales, general, administrative	7.7	12.5	3.7	4.0	4.2	4.3	16.2	24.0	24.0	26.0	35.0	40.0	45.0	40.0
Total Operating Expenses	39.6	45.9	14.7	15.5	18.2	19.3	67.7	98.0	114.0	118.0	122.0	117.0	120.0	112.0
Operating income (loss)	(20.8)	8.8	(14.7)	(14.8)	(17.5)	(18.6)	(65.6)	(82.5)	(98.5)	(38.1)	31.8	67.4	293.5	469.6
Total Other Income (Expense)	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.2	0.2	0.2	0.2	0.2
Pre Tax Income	(20.6)	8.9	(14.7)	(14.8)	(17.5)	(18.6)	(65.5)	(82.4)	(98.4)	(37.9)	32.0	67.6	293.7	469.8
Income tax													102.8	164.4
Net Income	(20.6)	8.9	(14.7)	(14.8)	(17.5)	(18.6)	(65.5)	(82.4)	(98.4)	(37.9)	32.0	67.6	190.9	305.4
EPS - basic (proforma)	(\$3.84)	\$0.43	(\$0.40)	(\$0.38)	(\$0.45)	(\$0.48)	(\$1.72)	(\$2.10)	(\$2.18)	(\$0.82)	\$0.69	\$1.44	\$4.03	\$6.39
EPS - diluted (proforma)	(\$3.84)	\$0.30	(\$0.40)	(\$0.38)	(\$0.45)	(\$0.48)	(\$1.72)	(\$2.10)	(\$2.18)	(\$0.82)	\$0.65	\$1.35	\$3.76	\$5.94
Shares outstanding - basic (proforma)	21.89	20.51	36.90	38.44	38.64	38.83	38.20	39.32	45.15	45.94	46.40	46.86	47.33	47.81
Shares outstanding - diluted (proforma)	21.89	29.43	36.90	38.44	38.64	38.83	38.20	39.32	45.15	48.92	49.53	50.15	50.79	51.43

Source: Company data, Credit Suisse estimates

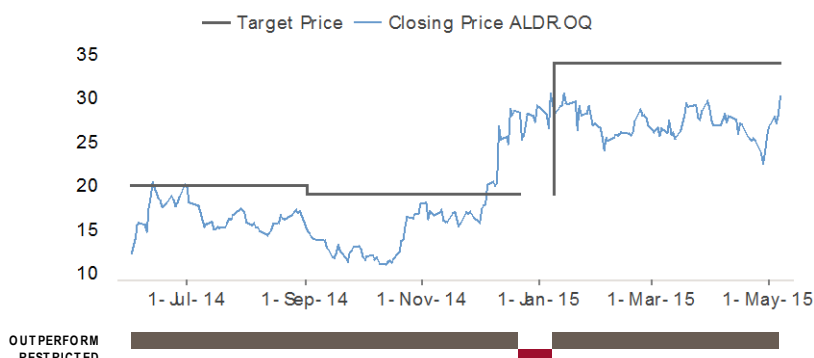
Companies Mentioned (Price as of 07-May-2015)**Alder Biopharmaceuticals** (ALDR.OQ, \$30.19, OUTPERFORM[V], TP \$34.0)**Disclosure Appendix****Important Global Disclosures**

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3-Year Price and Rating History for Alder Biopharmaceuticals (ALDR.OQ)

ALDR.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
02-Jun-14	12.26	20.00	O *
02-Sep-14	14.80	19.00	
22-Dec-14	28.33		R
09-Jan-15	29.39	34.00	O
05-May-15	27.16	34.00	*

* Asterisk signifies initiation or assumption of coverage.



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Price Target: (12 months) for Alder Biopharmaceuticals (ALDR.OQ)

Method: Our \$34 valuation is justified by a fully-taxed, probability weighted, product level DCF for each of the two clinical stage programs plus the value of future NOLs. We assume an ex-US partner for ALD403 and significant dilution from future equity raises prior to profitability. Our DCF gets us to \$38 using current share count and \$30 assuming additional dilution (with no credit for the added cash). We use a blended valuation to arrive at our \$34 target.

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