

Adamas Pharmaceuticals, Inc.

(ADMS)

SMALL & MID CAP RESEARCH

Spotlight Remains on Pipeline; Fine-Tuning Model and Target Price Post 2Q14 Results

- **Bottom Line:** We are fine-tuning our ADMS forecasts following Thursday's 2Q14 release and 10-Q filing. While there were no significant updates, Adamas seems to be on track to complete enrollment of phase 3 trials for its lead asset ADS-5102 for the treatment of levodopa-induced dyskinesia (LID) in 2015. Moreover, we view recent issuance of additional US patents covering controlled-release amantadine products as a positive. We reiterate Outperform, and increased DCF-derived target price to \$30 (from \$26), driven by higher cash balance and lower diluted share count relative to previous forecasts.
- **Remain bullish on ADMS.** We continue to see Adamas as a quality specialty pharma company that is poised to deliver value by developing improved versions of existing drugs through important formulation enhancements. Extended-release versions of amantadine and memantine are the key focus of the story. The company is led by an experienced management team and post IPO is well capitalized to execute on its wholly-owned drug ADS-5102, while the partnership with ACT on the memantine franchise provides an important source of economics. Several catalysts are also in place that should drive interest and generate value.

Rating **OUTPERFORM* [V]**
Price (11 Aug 14, US\$) 16.11
Target price (US\$) (from 26.00) 30.00¹
52-week price range 20.07 - 13.00
Market cap. (US\$ m) 269.98
Enterprise value (US\$ m) 139.97

*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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Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	3.51	-0.27	-1.03	-2.71
Prev. EPS (US\$)	—	-0.43	-0.92	-2.58
P/E (x)	4.6	-59.2	-15.7	-5.9
P/E rel. (%)	25.2	-351.3	-104.1	-43.8
Revenue (US\$ m)	71.1	25.3	27.0	—
EBITDA (US\$ m)	57.1	-2.6	-14.9	-43.7
OCFPS (US\$)	1.70	0.01	-0.82	-2.57
P/OCF (x)	—	NM	-19.6	-6.3
EV/EBITDA (current)	2.2	-48.9	-8.4	-2.9
Net debt (US\$ m)	-79	-130	-116	-75
ROIC (%)	-1,536.54	103.31	471.43	1,630.99
Number of shares (m)	16.76	IC (current, US\$ m)		-3.63
BV/share (Next Qtr., US\$)	8.5	EV/IC (x)		-36.6
Net debt (Next Qtr., US\$ m)	-136.9	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	-102.7	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.

ADMS Financial Exhibits

Exhibit 1: ADMS Income Statement (2013A-2023E)
in \$ thousands, except for per share data

	FY 2012	FY 2013	FY 2014				FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
			Mar-14 1QA	Jun-14 2QE	Sep-14 3QE	Dec-14 4QE										
ADS-5102 US Revenue	0	0	0	0	0	0	0	0	0	29,864	60,437	94,993	122,114	142,080	163,803	187,268
US Milestones and Royalty Revenue	37,471	71,095	176	25,154	0	0	25,330	27,000	0	0	6,677	11,792	99,808	131,083	132,611	134,279
Ex US Milestones and Royalty Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Revenue	\$37,471	\$71,095	\$176	\$25,154	\$0	\$0	\$25,330	\$27,000	\$0	\$29,864	\$67,114	\$106,785	\$221,923	\$273,163	\$296,414	\$321,547
COGS	0	0	0	0	0	0	0	0	0	4,480	8,461	13,299	15,875	18,470	19,656	22,472
Gross Profit	37,471	71,095	176	25,154	0	0	25,330	27,000	0	25,384	58,653	93,486	206,048	254,693	276,758	299,075
Total SG&A	8,330	6,667	3,109	3,262	2,500	1,129	10,000	15,000	23,860	41,411	49,019	53,767	58,757	62,870	66,642	69,974
R&D Expenses - LID Indication	9,192	7,410	2,021	4,173	3,500	3,306	13,000	12,000	5,000	3,000	0	0	0	0	0	0
R&D Expenses - Other Programs	0	0	737	1,000	1,400	1,863	5,000	15,000	15,000	15,000	5,000	0	0	0	0	0
R&D Expenses	9,192	7,410	2,758	5,173	4,900	5,169	18,000	27,000	20,000	18,000	5,000	0	0	0	0	0
EBIT	19,949	57,018	(5,691)	16,719	(7,400)	(6,298)	(2,670)	(15,000)	(43,860)	(34,026)	4,635	39,719	147,291	191,823	210,116	229,101
Interest income (expense), net	(376)	(88)	107	100	181	171	559	672	582	375	221	243	435	992	1,598	2,266
Other income (expense), net	(1,537)	(4,818)	(795)	(212)	(250)	(293)	(1,550)	(1,000)	0	0	0	0	0	0	0	0
Pretax Income	18,036	52,112	(6,379)	16,607	(7,469)	(6,420)	(3,661)	(15,328)	(43,278)	(33,651)	4,855	39,961	147,726	192,815	211,714	231,367
Income Tax	300	1,191	1	178	0	0	179	853	0	0	97	799	31,546	72,306	79,393	86,762
Net Income	\$17,736	\$50,921	(\$6,380)	\$16,429	(\$7,469)	(\$6,420)	(\$3,840)	(\$16,180)	(\$43,278)	(\$33,651)	\$4,758	\$39,162	\$116,180	\$120,509	\$132,321	\$144,604
Weighted Average Shares - Diluted	15,801	15,801	9,525	18,590	18,621	18,653	16,347	18,731	18,934	19,121	19,309	19,496	19,684	19,871	20,059	20,246
EPS- Diluted	\$1.12	\$3.51	(\$0.67)	\$0.88	(\$0.48)	(\$0.41)	(\$0.27)	(\$1.03)	(\$2.71)	(\$2.09)	\$0.25	\$2.01	\$5.90	\$6.06	\$6.60	\$7.14
Depreciation & Amortization	41	66	22	35	22	28	107	146	165	210	233	290	358	536	666	844
EBITDA	\$19,990	\$57,084	(\$5,669)	\$16,754	(\$7,378)	(\$6,270)	(\$2,563)	(\$14,854)	(\$43,695)	(\$33,816)	\$4,867	\$40,008	\$147,649	\$192,358	\$210,782	\$229,945
Margin Analysis																
Overall Gross Margin									NM	85.0%	87.4%	87.5%	92.8%	93.2%	93.4%	93.0%
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	138.7%	81.1%	56.6%	48.1%	44.2%	40.7%	37.4%
R&D Margin									NM	60.3%	7.4%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT Margin									NM	NM	6.9%	37.2%	66.4%	70.2%	70.9%	71.2%
EBITDA Margin									NM	NM	7.3%	37.5%	66.5%	70.4%	71.1%	71.5%
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%	37.5%
Effective Tax Rate	2.3%	NM	1.1%	0.0%	0.0%	0.0%	NM	NM	0.0%	0.0%	2.0%	2.0%	21.4%	37.5%	37.5%	37.5%
Net Income									NM	NM	7.1%	36.7%	52.4%	44.1%	44.6%	45.0%
Year/Year Changes																
Product Revenue									NM	NM	102.4%	57.2%	28.6%	16.4%	15.3%	14.3%
Revenue									-100.0%	NM	124.7%	59.1%	107.8%	23.1%	8.5%	8.5%
Gross Profit									-100.0%	NM	131.1%	59.4%	120.4%	23.6%	8.7%	8.1%
SG&A									59.1%	73.6%	18.4%	9.7%	9.3%	7.0%	6.0%	5.0%
R&D									-25.9%	-10.0%	-72.2%	-100.0%	NM	NM	NM	NM
EBITDA									NM	NM	722.0%	269.0%	30.3%	9.6%	9.1%	9.1%
EBIT									NM	NM	757.0%	270.8%	30.2%	9.5%	9.0%	9.0%
Net Income									NM	NM	723.1%	196.7%	3.7%	9.8%	9.8%	9.3%

Source: Company data, Credit Suisse estimates

Exhibit 2: ADMS Balance Sheet (2013A-2023E)
in \$ thousands, except for per share data

	FY 2013	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	130,009	116,477	75,030	44,134	48,530	87,049	198,448	319,642	453,155	599,080
Accounts receivable, net	129	200	200	800	2,864	5,516	8,777	15,200	16,465	17,054	17,619
Prepaid expenses and other current assets	267	504	820	877	1,597	1,562	1,677	1,866	2,034	2,157	2,311
Total current assets	86,008	130,713	117,497	76,707	48,594	55,609	97,503	215,514	338,140	472,367	619,010
Property and equipment, net	199	792	1,246	1,581	1,771	2,209	2,987	4,849	6,498	8,204	9,932
Other assets	9	20	20	100	149	336	534	1,110	1,366	1,482	1,608
TOTAL ASSETS	86,216	131,525	118,763	78,388	50,514	58,154	101,024	221,472	346,004	482,053	630,550
LIABILITIES & STOCKHOLDERS' EQUITY											
Current liabilities:											
Accounts payable	2,097	2,071	3,370	3,605	5,251	5,135	5,512	6,134	6,685	7,093	7,598
Accrued liabilities	2,119	2,015	2,050	2,193	3,195	3,124	3,353	3,732	4,067	4,315	4,622
Convertible notes payable	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue	0	0	0	0	0	0	0	0	0	0	0
Interest payable and other current liabilities	2	126	205	219	319	312	335	373	407	431	462
Total current liabilities	4,218	4,212	5,625	6,017	8,765	8,572	9,201	10,239	11,159	11,839	12,683
Warrant liability	6,232	0	0	0	0	0	0	0	0	0	0
Other non current liabilities	12	15	20	30	60	134	214	444	546	593	643
Total liabilities	10,462	4,227	5,645	6,047	8,825	8,706	9,415	10,683	11,706	12,432	13,326
Commitments and contingencies											
Convertible preferred stock, \$0.001 par value	19,149	0	0	0	0	0	0	0	0	0	0
Stockholders' equity											
Common stock, \$0.001 par value	14	21	21	21	22	22	22	22	22	22	23
Additional paid-in capital	77,163	151,690	153,690	156,190	159,189	162,189	165,189	168,189	171,189	174,189	177,188
Accumulated deficit	(20,572)	(24,412)	(40,593)	(83,870)	(117,522)	(112,763)	(73,601)	42,578	163,088	295,409	440,013
Total stockholders' equity	56,605	127,299	113,118	72,341	41,689	49,448	91,610	210,789	334,299	469,620	617,224
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	86,216	131,525	118,763	78,388	50,514	58,154	101,024	221,472	346,004	482,053	630,550

Source: Company data, Credit Suisse estimates

Exhibit 3: ADMS Cash Flow Statement (2013A-2023E)
in \$ thousands, except for per share data

	FY 2013	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	(3,840)	(16,180)	(43,278)	(33,651)	4,758	39,162	116,180	120,509	132,321	144,604
Depreciation and amortization	66	107	146	165	210	233	290	358	536	666	844
Stock-based compensation	640	3,870	2,000	2,500	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Change in preferred stock warrant value	4,526	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
Noncash interest expense	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
Changes in assets and liabilities											
Prepaid expenses and other assets	79	(298)	(316)	(57)	(720)	35	(115)	(189)	(168)	(124)	(154)
Accounts receivable	761	(71)	0	(600)	(2,064)	(2,653)	(3,261)	(6,423)	(1,264)	(589)	(565)
Accounts payable	(1,157)	(602)	1,299	235	1,646	(116)	377	622	551	408	505
Accrued liabilities and other liabilities	523	(104)	35	143	1,002	(71)	229	378	335	248	307
Deferred revenue	(29,611)	0	0	0	0	0	0	0	0	0	0
Other assets and liabilities	0	32	84	(56)	81	(119)	(96)	(308)	(120)	(45)	(45)
Net Cash From (Used in) Operating Activities	26,801	76	(12,932)	(40,947)	(30,496)	5,068	39,587	113,618	123,379	135,885	148,497
				(335)	(55)	(2,923)	(2,865)	(5,920)	(666)	(103)	49
Cash Flow From (Used in) Investing Activities:											
Purchase of property and equipment	(167)	(700)	(600)	(500)	(400)	(671)	(1,068)	(2,219)	(2,185)	(2,371)	(2,572)
Net Cash From (Used in) Investing Activities	(167)	(700)	(600)	(500)	(400)	(671)	(1,068)	(2,219)	(2,185)	(2,371)	(2,572)
Cash Flow From (Used in) Financing Activities:											
Proceeds from issuance of convertible preferred stock, ne	0	1,557	0	0	0	0	0	0	0	0	0
Proceeds from issuance of common stock	21	43,464	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
Principal payments on convertible promissory notes	(4,000)	0	0	0	0	0	0	0	0	0	0
Net Cash From (Used in) Financing Activities	(3,979)	45,021	0	0	0	0	0	0	0	0	0
Net increase in cash and cash equivalents	22,655	44,397	(13,532)	(41,447)	(30,896)	4,397	38,519	111,399	121,194	133,513	145,925
Cash and cash equivalents at beginning of period	62,957	85,612	130,009	116,477	75,030	44,134	48,530	87,049	198,448	319,642	453,155
Cash and cash equivalents at end of period	85,612	130,009	116,477	75,030	44,134	48,530	87,049	198,448	319,642	453,155	599,080

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 11-Aug-2014)

Actavis (ACT.N, \$202.72)

Adamas Pharmaceuticals, Inc. (ADMS.OQ, \$16.11, OUTPERFORM[V], TP \$30.0)

Disclosure Appendix

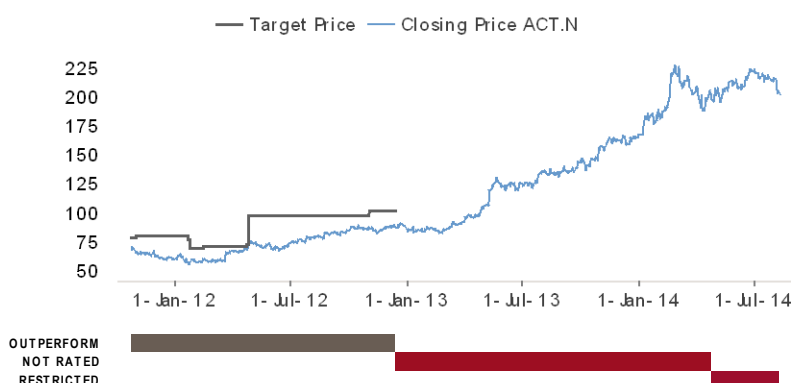
Important Global Disclosures

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 Actavis (ACT.N)

ACT.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
25-Oct-11	68.69	79.00	O
02-Nov-11	66.45	80.00	
22-Jan-12	58.14	77.00	
25-Jan-12	57.61	70.00	
15-Feb-12	59.69	71.00	
24-Apr-12	68.60	73.00	
26-Apr-12	74.41	98.00	
02-Nov-12	86.73	102.00	
14-Dec-12	87.74		NR
28-Apr-14	196.90		R

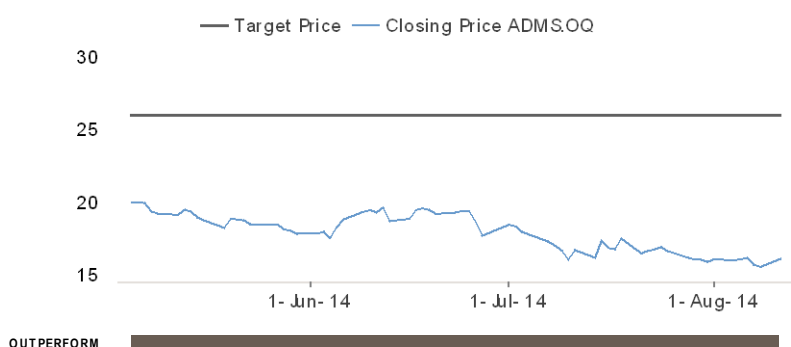
* Asterisk signifies initiation or assumption of coverage.



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 *

* 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

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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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Neutral/Hold*	40%	(50% banking clients)
Underperform/Sell*	13%	(45% banking clients)
Restricted	3%	

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

Method: Our \$30 target price 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 \$30 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, ACT.N) 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, ACT.N) within the past 12 months.

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

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

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

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

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The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (ADMS.OQ, ACT.N) within the past 12 months

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