

Alder Biopharmaceuticals (ALDR)

SMALL & MID CAP RESEARCH

Competitor Labrys Acquired by Teva

The Teva deal to acquire ALDR's competitor Labrys supports our valuation for ALDR and peak sales of ALD403.

- **Labrys deal:** Teva will pay \$200M upfront and up to \$625M in future milestones. This compares to our \$15/share or \$743M value we assign to the ALD403 program at ALDR (majority of our \$20 target). We believe the amount paid supports both our current view and long term upside view of the value of this asset.
- **Peak sales:** Teva described LBR-101 as potentially a \$2-3B drug. Our current 2022 worldwide sales forecast for ALD403 is \$1.06B (\$913M US, \$145M ROW), which assumes multiple competitors in the market.
- **Competitive landscape:** There are four major competitors in the field (LLY, AMGN, ALDR, and Labrys). Currently LLY and ALDR have presented the only strong proof of efficacy data for an anti-CGRP approach to treating migraine. AMGN and Labrys have moved ahead by initiating large Phase II programs in chronic and frequent episodic migraine.

Rating	OUTPERFORM* [V]
Price (02 Jun 14, US\$)	12.26
Target price (US\$)	20.00 ¹
52-week price range	12.26 - 9.91
Market cap. (US\$ m)	366.61
Enterprise value (US\$ m)	307.91

*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\$)	-0.94	-1.10	-0.60	-1.85
Prev. EPS (US\$)	—	—	—	—
P/E (x)	-13.0	-11.2	-20.3	-6.6
P/E rel. (%)	-74.9	-70.0	-140.9	-51.2
Revenue (US\$ m)	18.8	18.7	59.3	25.3
EBITDA (US\$ m)	-19.8	-29.3	-19.2	-71.7
OCFPS (US\$)	-1.65	-1.68	-0.12	-2.36
P/OCF (x)	—	-7.3	-98.4	-5.2
EV/EBITDA (current)	-17.3	-11.7	-17.9	-4.8
Net debt (US\$ m)	-23	-59	-184	-90
ROIC (%)	37.60	82.64	41.19	303.60
Number of shares (m)	29.90	IC (current, US\$ m)		-55.22
BV/share (Next Qtr., US\$)	-1.6	EV/IC (x)		-7.0
Net debt (Next Qtr., US\$ m)	-15.0	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	42.4	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

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Exhibit 1: ALDR Milestones

Product	Catalyst	Expected Date
ALD403	Phase II 3 & 6m data - AAN	June / July 2014
Clazakizumab	Updated Phase IIb RA data at EULAR	June 2014
ALD403	Start Phase IIb dose ranging study	H2:14
Clazakizumab	Phase IIb dose exploration data in RA	H2:14
New target	Select new clinical stage candidate	H2:14
Clazakizumab	Phase II data in psoriatic arthritis	YE-2014
Clazakizumab	Phase III start	2015
ALD403	Phase IIb data	H2:15
New target	First clinical study start (one or more)	H2:15
ALD403	End of Phase II meeting with FDA	YE:15
ALD403	Start Phase III in migraine	2016

Source: Company data, Credit Suisse estimates

Exhibit 2: ALDR Earnings Model

	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Revenues										
US sales of ALD403								29.7	154.6	361.8
Ex-US royalties on ALD403									0.7	5.8
Royalties on Clazakizumab								2.2	4.9	10.4
Collaboration and license agreement	20.1	18.8	18.7	59.3	25.3	7.5	103.1	197.6	62.3	
Total Revenues	20.1	18.8	18.7	59.3	25.3	7.5	103.1	229.6	222.4	378.0
Expenses										
Cost of goods								3.0	15.5	36.2
Research and development	30.7	31.9	36.5	58.5	74.0	90.0	92.0	87.0	77.0	75.0
Sales, general, administrative	7.2	7.7	12.5	21.0	24.0	24.0	26.0	35.0	40.0	45.0
Total Operating Expenses	37.9	39.6	49.0	79.5	98.0	114.0	118.0	122.0	117.0	120.0
Operating income (loss)	(17.8)	(20.8)	(30.3)	(20.2)	(72.7)	(106.5)	(14.9)	107.6	105.4	258.0
Total Other Income (Expense)	0.0	0.1	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2
Pre Tax Income	(17.8)	(20.6)	(30.2)	(20.2)	(72.7)	(106.5)	(14.7)	107.8	105.6	258.2
Income tax										90.4
Net Income	(17.8)	(20.6)	(30.2)	(20.2)	(72.7)	(106.5)	(14.7)	107.8	105.6	167.8
EPS - diluted (proforma)	(\$3.55)	(\$3.84)	(\$1.10)	(\$0.60)	(\$1.85)	(\$2.26)	(\$0.31)	\$2.09	\$2.02	\$3.17
Shares outstanding - basic (proforma)	5.01	21.89	27.61	33.34	39.31	47.16	47.99	48.47	48.95	49.44
Shares outstanding - diluted (proforma)	5.01	21.89	27.61	33.34	39.31	47.16	50.97	51.60	52.24	52.90

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 02-Jun-2014)**Alder Biopharmaceuticals** (ALDR.OQ, \$12.26, OUTPERFORM[V], TP \$20.0)**Amgen Inc.** (AMGN.OQ, \$116.45, NEUTRAL, TP \$125.0)**Eli Lilly & Co.** (LLY.N, \$59.49, NEUTRAL, TP \$61.0)**Teva Pharmaceutical Ind.** (TEVA.N, \$51.95)

Disclosure Appendix

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

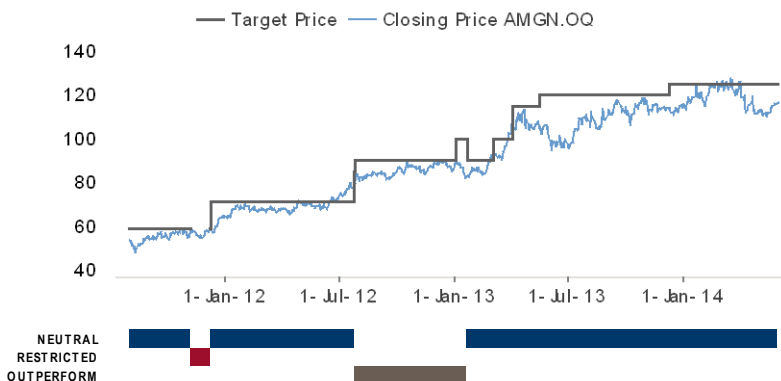
ALDR.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
02-Jun-14	12.26	20.00	O *

* Asterisk signifies initiation or assumption of coverage.

**3-Year Price and Rating History for Amgen Inc. (AMGN.OQ)**

AMGN.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
01-Aug-11	53.77	59.00	N
07-Nov-11	58.43		R
08-Dec-11	58.41	59.00	N
09-Dec-11	58.59	71.00	
25-Jul-12	77.96	85.00	O
26-Jul-12	79.30	90.00	
03-Jan-13	88.59	100.00	
22-Jan-13	83.29	90.00	N
04-Mar-13	92.73	100.00	
04-Apr-13	105.90	115.00	
17-May-13	105.63	120.00	
10-Dec-13	114.10	125.00	

* Asterisk signifies initiation or assumption of coverage.

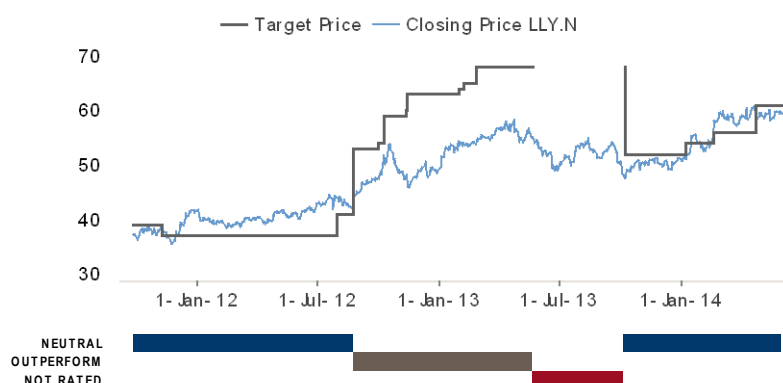


3-Year Price and Rating History for Eli Lilly & Co. (LLY.N)

LLY.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
27-Sep-11	37.18	39.00	N
09-Nov-11	37.85	37.00	
30-Jul-12	44.05	41.00	
24-Aug-12	43.86	53.00	O
30-Sep-12	47.41	54.00	
09-Oct-12	51.81	59.00	
12-Nov-12	48.30	60.00	
13-Nov-12	47.14	63.00	
31-Jan-13	53.69	64.00	
07-Feb-13	53.78	65.00	
26-Feb-13	54.43	68.00	
22-May-13	54.92		NR
08-Oct-13	48.05	52.00	N *
07-Jan-14	51.19	54.00	
19-Feb-14	58.09	56.00	
24-Apr-14	58.68	61.00	

* Asterisk signifies initiation or assumption of coverage.

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

Method: Our rounded \$20 target includes \$15 for ALD-403, \$4 for Clazakizumab, and \$1.50 for its NOLs. Our \$20 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. For our DCF analysis, we use a 12% discount rate and 35% tax rate.

Risk: Risks to our \$20 TP include: 1) unexpected negative result for proprietary or partnered clinical program, 2) financing risk from expected future equity raises, 3) unexpected strong clinical result(s) from the competition in the migraine and RA settings, and 4) significant delay in one or more clinical programs that pushes potential approval timeline(s) out.

Price Target: (12 months) for Amgen Inc. (AMGN.OQ)

Method: Our \$125 target price for AMGN implies about 14.9x our 2015 ex-option EPS estimate of \$8.39, representing about a 2% premium to the S&P 500 2015 PE multiple. This multiple for AMGN is justified due to its <10% growth to 2017 and lower visibility in growth post 2017.

Risk: We see several risks to AMGN's achievement of our \$125 target price. (1) More or less biosimilar competition relative to our model. (2) Denosumab could exceed or miss our expectations. (3) Erythropoietin safety concerns could be more or less than our model. (4) Pipeline exceeds expectations. (5) Share buyback could be less aggressive than our model.

Price Target: (12 months) for Eli Lilly & Co. (LLY.N)

Method: Our TP of \$61 for LLY is based on 75/25 blend of DCF value (\$63) and forward P/E (\$52). We apply 7.0% WACC and perpetuity growth forecast of -1% for DCF valuation and 19.0 times 2014 EPS for P/E valuation.

Risk: Key risks to our target price of \$61 include: (1) Pipeline failures, particularly on their key diabetes phase 3 assets and autoimmune assets; (2) inability to appropriately contain costs in keeping with long-term targets.

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