August 6, 2014

WELLS FARGO SECURITIES

Equity Research

Alder Biopharmaceuticals, Inc.

ALDR: Q2 2014--Unveils Rational Ph.IIb Plan For '403, Capitalizing On Agent's Promise

Outperform / V

Sector: Biotechnology
Market Weight

- **Summary:** On August 5 after the close, ALDR reported Q2 2014 results, unveiling what we believe is a rational ph.IIb plan for ALD403 that should help position the company well in the emerging migraine prophylaxis landscape. We continue to believe the company's two lead programs, ALD403 and Clazakizumab, are significantly undervalued, and ALDR remains a favorite small-cap. We expect appreciation as the two programs mature and especially as enthusiasm around the CGRP space grows. EPS for 2014E moves to -$1.53 from -$1.00 and we lower 2015E to -$0.30 from -$0.19.
- **Financials:** EPS was -$0.40 versus our estimate of -$0.26, owing to a wider loss year over year ($7.4MM versus $5.1MM) primarily due to higher R&D expenses from production of ALD403 antibody material for usage in migraine trials. Alder ended the quarter with $80.3MM in cash and equivalents, after net proceeds of $80.1MM from the Q2 2014 IPO.
- **Go-forward plans for ALD403 unveiled.** ALDR announced plans to initiate a 12-week phase IIb study testing single doses of IV '403 in the chronic migraine population this year (from 1000mg downwards), followed by a second phase IIb testing multiple doses administered SC in high-frequency episodic patients to start 1H15; both studies will be randomized, double-blind, and placebo controlled, and will utilize 75% migraine reductions over 12 weeks as their primary endpoints.
- *Continued on the next page*

Earnings Estimate Revised Down

	2013A	2014E		2015E	
EPS		**Curr.**	**Prior**	**Curr.**	**Prior**
Q1 (Mar.)	NE	($5.38) A	NC	NE	
Q2 (June)	(5.27)	**(0.40) A**	**(0.26)**	NE	
Q3 (Sep.)	NE	**(0.28)**	**(0.24)**	NE	
Q4 (Dec.)	NE	**(0.31)**	**(0.26)**	NE	
FY	($20.57)	**($1.53)**	**(1.00)**	**($0.30)**	**(0.19)**
CY	($20.57)	($1.53)		($0.30)	
FY P/EPS	NM	NM		NM	
Rev.(MM)	$19	$19		$51	

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

2014 Qs do not sum due to share issuance from IPO

Valuation Range: $22.00 to $24.00
Our valuation range is based on applying a 30x multiple to our 2020 estimated EPS and discounting at 15%, blended with 3x sales multiple of 2020 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.

Ticker	ALDR
Price (08/05/2014)	$15.66
52-Week Range:	$9-23
Shares Outstanding: (MM)	29.9
Market Cap.: (MM)	$468.2
S&P 500:	1,920.21
Avg. Daily Vol.:	92,685
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:	08/05/2014 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 08/06/14 unless otherwise stated.

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.

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- **We believe the phase IIb plan for '403 makes good strategic sense, and reflects FDA recognition of the agent's potential benefits.** We believe ALDR's announced ph.IIb plan makes strategic sense for several reasons. It will enable ALDR to gain experience in the more severely affected chronic migraine population, in anticipation of potentially incorporating these patients into a phase III program to potentially achieve the broadest possible label (patients with 5+ headache days/month). Based on the equally high responses seen in the ph. IIa in patients with more frequent headaches, we see no reason why the drug would not be effective in the chronic population initially being tested. The chronic study should provide additional details on durability of effects at different doses that could help guide dose and frequency selection for the subsequent SC study. FDA's allowance of the 75% threshold for these and future studies (including pivotals) we believe should benefit ALDR, potentially highlighting the agent's strong activity in responders, providing differentiation from competition, and maximizing the likelihood of success—as the agent demonstrated more profound benefits on this measure in the ph. IIa than on mean reduction in migraine days. Finally, the larger size of these studies - ~100 patients/arm – could help build a more robust safety database, and should not be prohibitively expensive given migraine trials are not overly costly.
- **Clazakizumab timelines remain intact; low-risk milestones in coming years worth as much as company's entire current enterprise value.** The ph.II psoriatic arthritis study remains on track to be reported by year-end, and we believe ph.IIb lower-dose data for Claza in RA – the gating factor for ph.III initiation – will likely be available around EULAR in 1H15. ALDR remains eligible for $394M in potential clinical and regulatory milestones for the drug in these indications, and assuming BMY progresses Claza into ph.III as expected, we view these milestones as low risk given what we see as a high probability of ph.III success and approval.

Upcoming Milestones

Product	Event	Timeline
ALD403	Initiate ph.IIb IV dose-ranging study in chronic migraine	2H14
	Initiate ph.IIb IV dose-ranging study in high-frequency migraine	1Q15
	Data from ph.IIb studies	2015
	Potentially initiate ph.III program	2016
	Potential ph.III data	2017/2018
Clazakizumab	Publication of ph.II psoriatic arthritis study by BMY	4Q14 (ACR)
	Potential publication of previously-presented ph.II RA study	4Q14
	Completion of dose-ranging ph.IIb RA follow-on study	1H15
	Presentation of ph.IIb dose-ranging RA data	Mid-2015 (EULAR)
	Initiation of ph.III program	2015

Source: Company reports and Wells Fargo Securities, LLC estimates

Product Pipeline

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

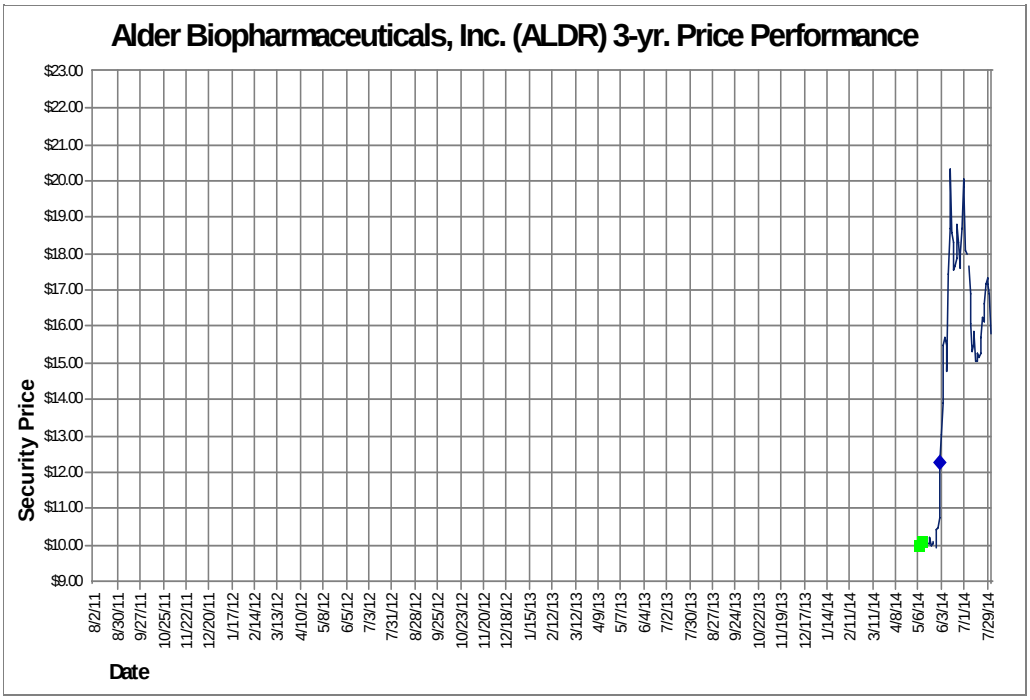
Source: Company reports and Wells Fargo Securities, LLC

Alder Biopharmaceuticals (ALDR)
Statement of Operations

	2012A	2013A	1QA	2QA	3QE	4QE	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues																
Clazakizumab sales											*$68,280*	*$321,087*	*$604,979*	*$886,793*	*$1,195,036*	*$1,525,578*
ALD403 sales												*91,549*	*311,435*	*641,157*	*1,027,741*	*1,448,953*
Clazakizumab royalties	-	-	-	-	-	-	-	-	-	-	10,242	48,163	96,797	146,321	203,156	266,976
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	4,536	4,536	18,574	51,143	34,714	84,714	184,714	92,571	87,571	37,571	72,571	79,000
Total revenues, net	**$20,067**	**$18,796**	**$4,800**	**$4,703**	**$4,536**	**$4,536**	**$18,574**	**$51,143**	**$34,714**	**$84,714**	**$194,956**	**$232,284**	**$456,830**	**$712,202**	**$1,087,441**	**$1,466,059**
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	$9,700	$10,800	$36,877	$47,940	$66,157	$82,697	$99,236	$103,205	$98,045	$93,143	$96,869	$100,743
Selling, general and administrative	$7,217	$7,674	$3,200	$2,736	$3,100	$3,200	$12,236	$13,460	$14,806	$20,728	$62,183	$93,275	$121,258	$145,509	$151,329	$157,383
Total operating expenses	**$37,886**	**$39,557**	**$10,200**	**$12,113**	**$12,800**	**$14,000**	**$49,113**	**$61,400**	**$80,963**	**$103,424**	**$161,419**	**$202,889**	**$237,816**	**$274,016**	**$301,921**	**$331,817**
Operating income	**($17,819)**	**($20,761)**	**($5,400)**	**($7,410)**	**($8,264)**	**($9,464)**	**($30,539)**	**($10,257)**	**($46,249)**	**($18,710)**	**$33,537**	**$29,395**	**$219,013**	**$438,187**	**$785,520**	**$1,134,242**
Interest income	$101	$54	$9	$9	$10	$10	$38	$161	$262	$266	$220	$234	$446	$1,067	$2,257	$4,165
Other income	-	158	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(88)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expense	-	(64)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other income	**$13**	**$148**	**$9**	**$9**	**$10**	**$10**	**$38**	**$161**	**$262**	**$266**	**$220**	**$234**	**$446**	**$1,067**	**$2,257**	**$4,165**
Income before taxes	**($17,806)**	**($20,613)**	**($5,391)**	**($7,401)**	**($8,254)**	**($9,454)**	**($30,501)**	**($10,096)**	**($45,987)**	**($18,444)**	**$33,757**	**$29,629**	**$219,459**	**$439,254**	**$787,778**	**$1,138,407**
Income tax (expenses)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	($675)	($1,185)	($19,751)	($74,673)	($173,311)	($295,986)
Net income	($17,806)	($20,613)	($5,391)	($7,401)	($8,254)	($9,454)	($30,501)	($10,096)	($45,987)	($18,444)	$33,082	$28,443	$199,708	$364,581	$614,467	$842,421
Earnings Per Share	**($19.54)**	**($20.57)**	**($5.38)**	**($0.40)**	**($0.28)**	**($0.31)**	**($1.53)**	**($0.30)**	**($1.32)**	**($0.52)**	**$0.78**	**$0.66**	**$4.56**	**$8.20**	**$13.64**	**$18.46**
Shares Outstanding (Basic)	911	1,002	1,002	18,557	29,900	30,050	19,877	34,150	34,750	35,350	35,950	36,550	37,150	37,750	38,350	38,950
Shares Outstanding (Diluted)			7,691	25,245	36,589	36,739	26,566	40,839	41,439	42,039	42,639	43,239	43,839	44,439	45,039	45,639

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

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

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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2=Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD
3=Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

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V = A stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

As of: August 5, 2014

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