November 3, 2014

OUTPERFORM

Reason for report:

EARNINGS

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LEERINK

ALDER BIOPHARMACEUTICALS, INC.

3Q14 Recap: ALD403 Phase IIb Initiated, SQ Trial to Begin 1H15

• **Bottom Line:** We are updating our model to reflect 3Q results announced after the close. **Reiterate OP on ALDR and $24 Price Target.**

• **2Q14 Recap: results largely in line, revenues and EPS higher due to a recent termination of the Clazakizumab agreement with BMY (OP).** ALDR reported total revenues of $38.8MM versus $4.7MM in 2Q14 as the company accelerated the recognition of previously deferred revenue from Bristol. Meanwhile, OpEx of $10.2MM was slightly below our estimate of ~$11MM, and R&D decreased y/y due to the timing of providing additional ALD403 material for clinical studies. With $67.6MM in cash on its balance sheet as of 3Q14, ALDR expects that current funds will be sufficient for at least the next 12 months. We model a ~$125MM equity raise in 2016.

• **ALDR announced that it has initiated its Phase IIb for the IV formulation of ALD403 in patients with chronic migraine.** The Phase IIb study is a dose ranging, placebo-controlled trial that will enroll ~600 patients with 15 or more migraine days per month. The primary endpoint of the trial is the change in migraine days between ALD403 and placebo as judged by the difference in responder rates at week 12.

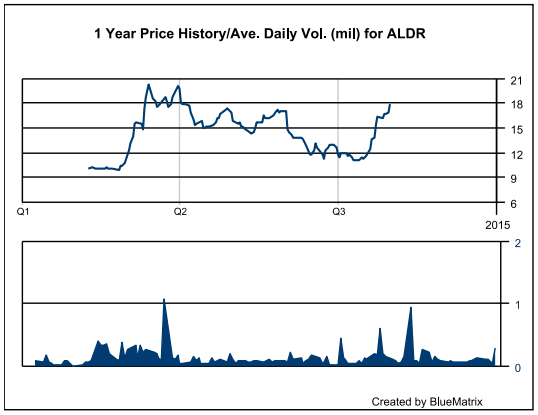
• **Additionally, ALDR plans to initiate a second '403 study with a subcutaneous formulation in patients with frequent episodic migraine in 1H15.** Similar to the IV Phase IIb, the study will be placebo controlled and dose ranging, and the primary endpoint of will be the change in migraine days between ALD403 and placebo as judged by the difference in responder rates at week 12. The study is expected to enroll ~400 individuals. All together, the two Phase IIb studies will inform ALDR on what dosing regimen and doses to advance to pivotal Phase IIIs which the company anticipates will begin in 2016. However, with ~1000 patients total, ALDR expects that the two Phase IIs will become a significant portion of the company's pivotal trial database for a BLA filing.

• **ALDR is actively seeking a new partner for Clazakizumab,** and Phase IIb data in psoriatic arthritis (PsA) will be presented at the American College of Rheumatology on November 16th at 4:30PM, EST. While ALDR regained the rights to Claza in 3Q, Bristol has agreed to continue funding the Phase IIb in Rheumatoid Arthritis patients which is expected to produce data in 1H15.

• **ALDR is currently evaluating 4 preclinical programs for clinical testing** and plans to initiate a phase I trial for a selected preclinical candidate in 2H15. For new products ALDR is looking to go after pain or orphan diseases where monoclonal antibodies have not yet been part of the treatment paradigm.

Key Stats:	**(NASDAQ:ALDR)**
S&P 600 Health Care Index:	**1,393.51**
Price:	**$18.02**
Price Target:	$24.00
Methodology:	Sum-of-the-parts DCF analysis, 12% discount rate, 2.5% terminal growth
52 Week High:	$22.95
52 Week Low:	$9.50
Shares Outstanding (mil):	34.3
Market Capitalization (mil):	$618.1
Cash Per Share:	$1.68
Dividend (ann):	$0.00
Dividend Yield:	0.0%
Est LT EPS Growth:	NA

General:
Cash Per Share: Est net cash at 4Q14 end.



Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	P/E
2013A	--	--	--	--	18.8	--	--	--	--	(3.84)	NM
2014E - New	**4.8A**	**4.7A**	**38.8A**	**0.0**	**48.2**	**(5.38)A**	**(0.40)A**	**0.88A**	**(0.19)**	**0.46**	**39.2x**
2014E - Old	4.8A	4.7A	4.8	4.8	19.0	(5.38)A	(0.40)A	(0.23)	(0.25)	(1.36)	NM
2015E - New	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**(0.44)**	**(0.46)**	**(0.48)**	**(0.49)**	**(1.87)**	**NM**
2015E - Old	3.0	3.0	0.0	0.0	6.0	(0.32)	(0.34)	(0.45)	(0.47)	(1.58)	NM

Source: Company Information and Leerink Partners LLC Research
Revenues in $MM; GAAP EPS presented; EPS estimates reflect the ALDR 5.7.14 IPO.

Please refer to pages 8 - 11 for Important Disclosures, Price Charts and Analyst Certification.

INVESTMENT THESIS

We Rate ALDR Share Outperform. Alder Biopharmaceuticals is developing two proprietary monoclonal antibodies ALD403 and Clazakizumab with affinity to validated targets for migraine prophylaxis (anti-Calcitonin Gene Related Peptide [CGRP]) and rheumatoid arthritis (anti-Interleukin-6 [IL-6]). ALDR's discovery platform is differentiated by its unique yeast-based manufacturing technology MabXpress, which we believe could enable a more efficient generation of monoclonal antibody therapeutics, potentially leading to higher yields, economies of scale and therefore pricing flexibility and/or a lower COGS margin. Lead product ALD403 recently produced "Breakthrough Therapy-like" Phase IIa data in high frequency migraine patients, where just a single dose of '403 precipitated a 75% reduction in migraine days in 32% of patients and an 100% reduction in migraine days in 16% of patients over the course of a 12-week study. ALD403 is now moving into a dose-ranging Phase IIb trial which we expect will support the advancement into two pivotal Phase IIIs. Clazakizumab data is anticipated at the American College of Rheumatology (11/16, 4:30pm EST) and then in 1H15, while a first Phase IIb dose ranging study showed comparable efficacy to blockbuster anti-TNF Humira on the ACR20/50/70 and a numerical trend toward superiority on the das28 remission score, which MEDACorp KOLs, with whom we spoke, view as most clinically significant. We expect ALDR shares to appreciate as both clinical and regulatory catalysts are realized for Clazakizumab and '403, and expect ALDR to move at least 1 new monoclonal antibody into the clinic in 2015, which currently presents upside to our valuation.

VALUATION

We derive a $24 price target for ALDR shares in 12 months, which assigns ~$18/share to ALD403, ~$4/share to Clazakizumab, ~$1/share to the pipeline and the rest to net cash. We model peak gross ALD403 US revenues of $1.25bn (~$750MM risk adjusted, using a 60% probability of approval) in 2025. We assume peak ex-US risk-adjusted sales of ~$340MM (2025), on which ALDR gets ~$50MM in royalties. We model peak gross WW Clazakizumab revenues of ~$550MM (~$165MM risk adjusted, using a 30% probability of approval) in 2023, translating into $33MM in royalties to ALDR. Based on a 60% approval probability for ALD403 and 30% for Clazakizumab and using a discount rate of 12% and a terminal growth rate of 2.5%, both of which we believe our conservative relative to ALDR's biotechnology peers, we derive an ALDR NOV of ~$800M for ALDR.

RISKS TO VALUATION

Risks to our valuation include delays in the clinical trial and approval process for either ALD403 or Clazakizumab. Delays in the approval process could generate increased competition from agents which benefit from the first mover advantage. We also anticipate the need for outside financing in the future which could present a risk to our price target.

Alder P&L ($MM except EPS)	2012	2013	1Q14	2Q14	3Q14	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E
ALD403 US Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ALD403 Ex-US Royalties/Miles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Clazakizumab Royalties	-	-	-	-	-	-	-	-	-	-	-			-
Clazakizumab Milestones	20.1	18.8	4.8	4.7	38.8	6.3	54.5	-	-	-	-	-	15.0	15.0
Other Collaborations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pipeline	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Revenues	**20.1**	**18.8**	**4.8**	**4.7**	**38.8**	**6.3**	**54.5**	**-**	**-**	**-**	**-**	**-**	**15.0**	**15.0**
Cost of Goods	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross Profit	20.1	18.8	4.8	4.7	38.8	6.3	54.5	-	-	-	-	-	15.0	15.0
R&D	30.7	31.9	7.0	9.4	7.0	9.0	32.4	10.5	11.0	11.5	12.0	45.0	49.5	56.9
SG&A	7.2	7.7	3.2	2.7	3.2	3.2	12.3	3.3	3.4	3.4	3.5	13.6	25.0	45.0
Operating Expenses	37.9	39.6	10.2	12.1	10.2	12.2	44.7	13.8	14.4	14.9	15.5	58.6	74.5	101.9
Operating Income	(17.8)	(20.8)	(5.5)	(7.4)	28.6	(5.9)	9.8	(13.8)	(14.4)	(14.9)	(15.5)	(58.6)	(59.5)	(86.9)
Interest income (expense)	0.0	0.1	0.0	-	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.4)	0.6
Other Income (expense)	-	0.1	-	0.0	0.1	-	0.1	-	-	-	-	-	-	-
EBT	(17.8)	(20.6)	(5.4)	(7.4)	28.6	(5.9)	9.9	(13.8)	(14.4)	(14.9)	(15.5)	(58.6)	(59.9)	(86.3)
Tax	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income	**(17.8)**	**(20.6)**	**(5.4)**	**(7.4)**	**28.6**	**(5.9)**	**9.9**	**(13.8)**	**(14.4)**	**(14.9)**	**(15.5)**	**(58.6)**	**(59.9)**	**(86.3)**
Basic EPS	$ (3.55)	$ (3.84)	$ (5.38)	$ (0.40)	$ 0.93	$ (0.19)	$ 0.49	$ (0.44)	$ (0.46)	$ (0.48)	$ (0.49)	$ (1.87)	$ (1.65)	$ (2.26)
Diluted EPS	$ (3.55)	$ (3.84)	$ (5.38)	$ (0.40)	$ 0.88	$ (0.19)	$ 0.46	$ (0.44)	$ (0.46)	$ (0.48)	$ (0.49)	$ (1.87)	$ (1.65)	$ (2.26)
Basic Shares Outstanding	5.0	5.4	1.0	18.6	30.8	31.0	20.3	31.1	31.2	31.3	31.4	31.3	36.3	38.3
Diluted Shares Outstanding	5.0	5.4	1.0	20.7	32.5	32.7	21.7	33.2	33.3	33.4	33.5	33.4	38.4	40.4

Alder BS and CFS ($MM)	2012	2013	1Q14	2Q14	3Q14	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E
Change in Cash	**6.4**	**(30.5)**	**(10.3)**	**67.3**	**(12.7)**	**(12.0)**	**32.4**	**(12.6)**	**(13.2)**	**(13.6)**	**(14.2)**	**(53.6)**	**65.1**	**56.9**
Net Cash	**59.4**	**23.2**	**12.9**	**80.3**	**67.6**	**55.6**	**55.6**	**43.0**	**29.8**	**16.2**	**2.0**	**2.0**	**67.1**	**124.0**
Cash & Cash Equivalents	59.4	23.2	12.9	80.3	67.6	55.6	55.6	43.0	29.8	16.2	2.0	2.0	67.1	124.0
Debt		-	-	-	-	-	-	-	-	-	-	-	-	-
Operating Cash Flow	**(29.9)**	**(36.1)**	**(9.8)**	**(11.4)**	**(11.2)**	**(11.5)**	**(43.8)**	**(11.6)**	**(12.2)**	**(12.6)**	**(13.2)**	**(49.6)**	**(48.0)**	**(73.1)**
Net Income	(17.8)	(20.6)	(5.4)	(7.4)	28.6	(5.9)	9.9	(13.8)	(14.4)	(14.9)	(15.5)	(58.6)	(59.9)	(86.3)
SOE	0.5	0.6	0.6	0.7	0.6	0.7	2.7	1.4	1.4	1.5	1.6	5.9	7.5	10.2
Milestone Cash/Amort Adj	-	-	(4.8)	(4.7)	(38.8)	(6.3)	(54.5)	-	-	-	-	-	(4.5)	(15.0)
Other	(12.8)	(16.3)	(0.2)	-	(1.7)	-	(1.9)	-	-	-	-	-	-	-
D&A	0.2	0.2	0.4	0.4	0.4	0.4	1.6	0.8	0.8	0.8	0.8	3.2	9.0	18.0
Investing Cash Flow	**(1.6)**	**5.5**	**(0.5)**	**(0.5)**	**(1.5)**	**(0.5)**	**(3.0)**	**(1.0)**	**(1.0)**	**(1.0)**	**(1.0)**	**(4.0)**	**(12.0)**	**(20.0)**
CapEx	(1.2)	(1.2)	(0.5)	(0.5)	(1.5)	(0.5)	(3.0)	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)	(12.0)	(20.0)
Other	(0.4)	6.7	-	-	-	-	-	-	-	-	-	-	-	
Financing Cash Flow	**37.9**	**0.0**	**-**	**79.2**	**-**	**-**	**79.2**	**-**	**-**	**-**	**-**	**-**	**125.0**	**150.0**
Equity Raise (Buyback)	37.9	0.0	-	79.2	-	-	79.2	-	-	-	-	-	125.0	150.0
Debt Issue (Retirement)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: SEC Filings and Leerink Partners Research

Discounted Cash Flow

Diluted Shares Outstanding 4Q14E	33.1
Discount Rate	12%
Terminal Growth Rate	2.5%
ALD403 Approval Probability	60%
Clazakizumab Approval Probability	30%

ALDR Valuation	Per/Share	Val ($MM)	% Total
Total	**$ 24.08**	**$ 797**	100%
ALD403	$ 18.27	$ 605	76%
Clazakizumab	$ 3.65	$ 121	15%
Pipeline	$ 0.48	$ 16	2%
Net Cash 4Q14E	$ 1.68	$ 56	7%

ALD403	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
US Sales ($MM)	**-**	**-**	**-**	**-**	**-**	**-**	**73.3**	**176.0**	**323.1**	**498.1**	**670.1**	**716.7**	**750.4**	**638.8**	**500.1**	**403.6**	**271.5**	**102.7**	
Ex US Royalties/Milestones ($MM)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2.6**	**12.1**	**26.1**	**45.2**	**48.4**	**50.7**	**43.1**	**33.8**	**27.2**	**18.3**	**6.9**	
COGS	-	-	-	-	-	-	11.0	26.4	48.5	74.7	100.5	97.9	96.0	75.6	52.2	36.0	19.3	3.6	
R&D	27.1	27.6	36.0	39.6	45.5	43.8	34.4	30.3	25.0	18.3	20.2	22.2	18.3	20.1	22.1	24.4	26.8	29.5	
SG&A	7.1	11.4	12.6	23.8	42.8	59.9	83.8	117.3	98.1	123.7	166.4	196.7	220.6	195.0	168.3	141.1	67.9	23.0	
Other Income (Expense)	-	-	-	-	-	-	0.7	0.8	1.5	2.5	3.9	5.1	6.4	7.3	7.4	7.2	6.2	3.3	
EBT	(34.2)	(39.0)	(48.6)	(63.4)	(88.3)	(103.7)	(55.2)	5.4	165.1	310.0	432.1	453.4	472.5	398.4	298.6	236.5	182.1	56.9	
Tax	-	-	-	-	-	-	-	-	12.5	62.8	106.5	118.6	126.0	104.3	78.4	61.1	37.1	10.8	
Net Income	(34.2)	(39.0)	(48.6)	(63.4)	(88.3)	(103.7)	(55.2)	5.4	152.7	247.2	325.6	334.8	346.5	294.1	220.2	175.4	145.0	46.0	
SOE+CapEx+Non Cash Adj.	-	-	-	-	-	-	0.9	4.3	4.0	7.7	9.5	11.1	13.6	11.5	12.2	13.4	12.4	8.4	
Free Cash Flow	(34.2)	(39.0)	(48.6)	(63.4)	(88.3)	(103.7)	(54.3)	9.7	156.7	254.9	335.1	345.9	360.1	305.5	232.4	188.8	157.4	54.5	
Discount Periods	-	-	0.3	1.3	2.3	3.3	4.3	5.3	6.3	7.3	8.3	9.3	10.3	11.3	12.3	13.3	14.3	15.3	
NPV FCF	**-**	**(9.7)**	**(47.3)**	**(55.0)**	**(68.4)**	**(71.7)**	**(33.5)**	**5.4**	**77.2**	**112.1**	**131.6**	**121.3**	**112.7**	**85.4**	**58.0**	**42.1**	**31.3**	**9.7**	**104.4**

ALD403 Valuation	$ 605

Clazakizumab	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
Milestones from BMS ($MM)	**-**	**-**	**-**	**10.5**	**-**	**21.0**	**15.0**	**3.0**	**7.5**	**3.0**	**7.5**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	
Royalties from BMS ($MM)	**-**	**-**	**-**	**-**	**-**	**8.4**	**18.6**	**29.2**	**30.4**	**31.6**	**32.8**	**32.1**	**31.3**	**28.4**	**25.4**	**22.5**	**17.8**	**6.7**	
COGS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
R&D	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
SG&A	0.5	0.9	1.0	1.3	2.3	3.2	4.4	6.2	5.3	6.7	9.0	10.7	12.0	11.1	9.9	9.4	8.0	6.2	
Other Income (Expense)	-	0.1	0.0	(0.4)	0.6	0.2	0.3	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.2	
EBT	(0.5)	(0.8)	(0.9)	8.9	(1.6)	26.5	29.5	26.1	32.7	28.0	31.5	21.7	19.6	17.6	15.8	13.4	10.2	0.8	
Tax	-	-	-	-	-	-	-	-	1.4	4.1	6.0	5.0	4.9	4.3	3.7	3.2	2.3	0.7	
Net Income	(0.5)	(0.8)	(0.9)	8.9	(1.6)	26.5	29.5	26.1	31.3	23.9	25.5	16.7	14.7	13.2	12.1	10.2	7.9	0.1	
SOE+CapEx+Non Cash Adj.	-	(0.4)	1.3	1.2	1.2	1.3	0.4	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.7	0.8	0.5	
Free Cash Flow	(0.5)	(1.2)	0.4	10.0	(0.4)	27.7	29.9	26.9	31.8	24.4	26.0	17.1	15.2	13.7	12.7	10.9	8.7	0.6	
Discount Periods	-	-	0.3	1.3	2.3	3.3	4.3	5.3	6.3	7.3	8.3	9.3	10.3	11.3	12.3	13.3	14.3	15.3	
NPV FCF	**-**	**(0.3)**	**0.4**	**8.7**	**(0.3)**	**19.2**	**18.5**	**14.8**	**15.6**	**10.7**	**10.2**	**6.0**	**4.8**	**3.8**	**3.2**	**2.4**	**1.7**	**0.1**	**1.2**

Clazakizumab Valuation	$ 121

Pipeline/Platform	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	TV
Sales	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**75.1**	**137.8**	**181.8**	**233.4**	**293.4**	**322.7**	**355.0**	
R&D Multiple	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	
COGS	-	-	-	-	-	-	-	-	-	-	-	9.6	16.5	20.2	22.8	24.5	21.5	11.8	
R&D	4.8	4.9	9.0	9.9	11.4	18.8	34.4	45.5	58.3	73.3	80.7	88.7	103.7	114.1	125.5	138.1	151.9	167.0	
SG&A	-	-	-	-	-	-	-	-	3.2	4.0	5.4	6.4	7.2	15.5	19.8	37.6	84.5	94.4	
Other Income (Expense)	-	-	-	-	-	-	-	-	-	-	-	0.5	1.1	1.9	3.2	4.9	6.9	10.7	
EBT	(4.8)	(4.9)	(9.0)	(9.9)	(11.4)	(18.8)	(34.4)	(45.5)	(61.5)	(77.4)	(86.1)	(29.1)	11.4	34.0	68.5	98.0	71.8	92.4	
Tax	-	-	-	-	-	-	-	-	-	-	-	-	21.7	27.8	34.3	41.6	41.3	35.0	
Net Income	(4.8)	(4.9)	(9.0)	(9.9)	(11.4)	(18.8)	(34.4)	(45.5)	(61.5)	(77.4)	(86.1)	(29.1)	(10.2)	6.2	34.2	56.4	30.5	57.4	
SOE+CapEx+Non Cash Adj.	-	-	-	-	-	-	-	-	-	-	-	1.1	2.3	3.1	5.3	9.1	13.8	27.2	
Free Cash Flow	(4.8)	(4.9)	(9.0)	(9.9)	(11.4)	(18.8)	(34.4)	(45.5)	(61.5)	(77.4)	(86.1)	(28.0)	(7.9)	9.2	39.6	65.5	44.3	84.6	
Discount Periods	-	-	0.3	1.3	2.3	3.3	4.3	5.3	6.3	7.3	8.3	9.3	10.3	11.3	12.3	13.3	14.3	15.3	
NPV FCF	**-**	**(1.2)**	**(8.7)**	**(8.6)**	**(8.8)**	**(13.0)**	**(21.3)**	**(25.1)**	**(30.3)**	**(34.0)**	**(33.8)**	**(9.8)**	**(2.5)**	**2.6**	**9.9**	**14.6**	**8.8**	**15.0**	**162.2**

Pipeline/Platform Valuation	$ 16

Source: Leerink Partners Research; values in ($MM) except per/share numbers

ALD403 US Revenue Model ($MM)	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Patients Suffering from Migraine (MM)	36.0	36.3	36.7	37.0	37.3	37.6	38.0	38.3	38.7	39.0	39.4	39.7	40.1	40.4	40.8	41.2	41.5
% diagnosed	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%	62%
Diagnosed Migraine Patients (MM)	22.3	22.5	22.7	22.9	23.1	23.3	23.5	23.7	24.0	24.2	24.4	24.6	24.8	25.1	25.3	25.5	25.7
% candidates for prophylaxis	56%	56%	56%	56%	56%	56%	56%	56%	56%	56%	56%	56%	56%	56%	56%	56%	56%
Diagnosed Migraine Patients - Prophy Candidates	12.5	12.6	12.7	12.8	12.9	13.1	13.2	13.3	13.4	13.5	13.7	13.8	13.9	14.0	14.2	14.3	14.4
% receiving prophylaxis	50%	50%	50%	50%	50%	52%	53%	54%	55%	55%	55%	55%	55%	55%	55%	55%	55%
Diagnosed Migraine Patients Receiving Prophylaxis	6.2	6.3	6.4	6.4	6.5	6.8	7.0	7.2	7.4	7.4	7.5	7.6	7.6	7.7	7.8	7.9	7.9
% treated with anti-CGRP therapy	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	1.0%	2.5%	3.8%	5.0%	5.3%	5.5%	5.8%	6.0%	6.0%	6.0%	6.0%
Migraine Patients Receiving anti-CGRP	-	-	-	-	-	20,374	69,842	179,500	276,704	372,260	398,147	416,890	443,586	463,012	467,179	471,383	475,626
ALD403 Market Share	0.0%	0.0%	0.0%	0.0%	0.0%	50.0%	35.0%	25.0%	25.0%	25.0%	25.0%	25.0%	20.0%	15.0%	12.0%	8.0%	3.0%
Patients Receiving ALD403	-	-	-	-	-	10,187	24,445	44,875	69,176	93,065	99,537	104,222	88,717	69,452	56,061	37,711	14,269
Annual Cost	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000	$12,000
Gross Revenue ($MM)	$ -	$ -	$ -	$ -	$ -	$ 122	$ 293	$ 539	$ 830	$ 1,117	$ 1,194	$ 1,251	$ 1,065	$ 833	$ 673	$ 453	$ 171
Approval Probability	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Risk-Adjusted Revenue	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 73**	**$ 176**	**$ 323**	**$ 498**	**$ 670**	**$ 717**	**$ 750**	**$ 639**	**$ 500**	**$ 404**	**$ 272**	**$ 103**

Approval Probability	60%
Cost of Therapy	$12,000

ROW Sales (probability-weighted)	$ -	$ -	$ -	$ -	$ -	$ -	$ 18	$ 81	$ 174	$ 302	$ 322	$ 338	$ 287	$ 225	$ 182	$ 122	$ 46
% of US	0%	0%	0%	0%	0%	0%	10%	25%	35%	45%	45%	45%	45%	45%	45%	45%	45%
ALDR Royalty Rate	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Royalties to ALDR (probability-weighted)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 3**	**$ 12**	**$ 26**	**$ 45**	**$ 48**	**$ 51**	**$ 43**	**$ 34**	**$ 27**	**$ 18**	**$ 7**

Source: SEC Filings and Leerink Partners Research

WW Rheumatoid Arthritis Market Model ($MM)	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
WW RA Therapy Revenues (MM)	$12,300	$13,200	$14,100	$15,000	$15,750	$16,500	$17,250	$18,000	$18,750	$19,500	$20,250	$21,000	$21,750	$22,500	$23,250	$24,000	$24,750	$25,500
yoy growth		7%	7%	6%	5%	5%	5%	4%	4%	4%	4%	4%	4%	3%	3%	3%	3%	3%
Branded TNF Inhibitors																		
Sales (MM)	$9,000	$9,372	$9,870	$10,200	$10,395	$9,900	$10,005	$10,080	$10,125	$10,335	$10,530	$10,710	$10,875	$11,250	$11,625	$12,000	$12,375	$12,750
Market Share	73%	71%	70%	68%	66%	60%	58%	56%	54%	53%	52%	51%	50%	50%	50%	50%	50%	50%
anti-IL6/IL6-R																		
Sales (MM)	$1,115	$1,452	$1,692	$1,950	$2,205	$2,805	$3,105	$3,240	$3,375	$3,510	$3,645	$3,570	$3,480	$3,375	$3,255	$3,120	$2,970	$2,805
Market Share	9%	11%	12%	13%	14%	17%	18%	18%	18%	18%	18%	17%	16%	15%	14%	13%	12%	11%
Clazakizumab Share of IL-6						5%	10%	15%	15%	15%	15%	15%	15%	14%	13%	12%	10%	4%
Clazakizumab Gross Revenues						**$140**	**$311**	**$486**	**$506**	**$527**	**$547**	**$536**	**$522**	**$473**	**$423**	**$374**	**$297**	**$112**
Approval Probability		30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
P(w) Revenues						**$42**	**$93**	**$146**	**$152**	**$158**	**$164**	**$161**	**$157**	**$142**	**$127**	**$112**	**$89**	**$34**
Royalty Rate						20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
P(w) Royalties to ALDR						**$8**	**$19**	**$29**	**$30**	**$32**	**$33**	**$32**	**$31**	**$28**	**$25**	**$22**	**$18**	**$7**
Gross Milestones		$0	$0	$35	$0	$70	$50	$10	$25	$10	$25	$0	$0	$0	$0	$0	$0	$0
P(w) Milestones to ALDR		**$0**	**$0**	**$11**	**$0**	**$21**	**$15**	**$3**	**$8**	**$3**	**$8**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Other Biologics/Biosimilars																		
Sales (MM)	$2,185	$2,376	$2,538	$2,850	$3,150	$3,795	$4,140	$4,680	$5,250	$5,655	$6,075	$6,720	$7,395	$7,875	$8,370	$8,880	$9,405	$9,945
Market Share	18%	18%	18%	19%	20%	23%	24%	26%	28%	29%	30%	32%	34%	35%	36%	37%	38%	39%

Clazikizumab Approval Probability	30%

Source: Company Filings and Leerink Partners Research

Alder Biopharma Milestones

Product	Catalyst	Timing
ALD403	Phase IIb IV Initiation	3Q14
Clazakizumab	Phase II Psoriatic Arthritis Data	4Q14 - ACR
ALD403	Phase IIb SQ Initiation	1H15
Clazakizumab	Phase IIb Rheumatoid Arthritis Data	1H15
New Product	First in Man Study Initiation	2015
ALD403	Phase IIb Data	2H15
ALD403	Phase III Initiation	1H16
ALD403	FDA/EMA Approval	2019

Source: SEC Filings and Leerink Partners Research

Disclosures Appendix

Analyst Certification

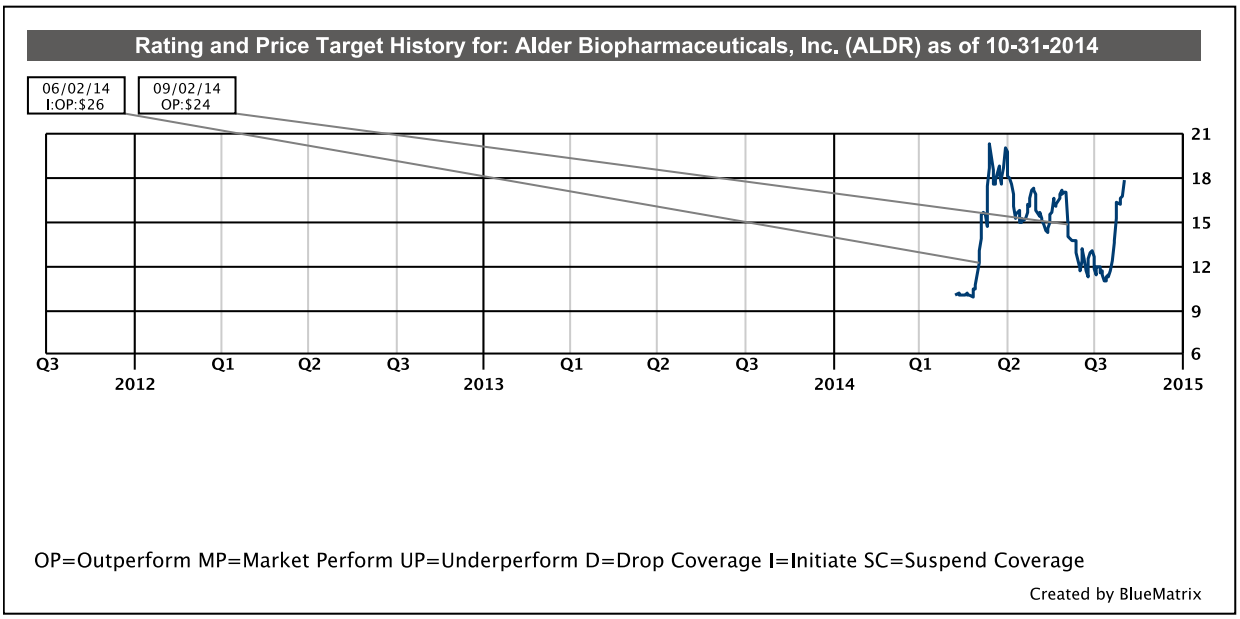
I, Joseph P. Schwartz, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

We derive a $24 price target for ALDR shares in 12 months, which assigns ~$18/share to ALD403, ~$4/share to Clazakizumab, ~$1/share to the pipeline and the rest to net cash. We model peak gross ALD403 US revenues of $1.25bn (~$750MM risk adjusted, using a 60% probability of approval) in 2025. We assume peak ex-US risk-adjusted sales of ~$340MM (2025), on which ALDR gets ~$50MM in royalties. We model peak gross WW Clazakizumab revenues of ~$550MM (~$165MM risk adjusted, using a 30% probability of approval) in 2023, translating into $33MM in royalties to ALDR. Based on a 60% approval probability for ALD403 and 30% for Clazakizumab and using a discount rate of 12% and a terminal growth rate of 2.5%, both of which we believe our conservative relative to ALDR's biotechnology peers, we derive an ALDR NOV of ~$800M for ALDR.

Risks to Valuation

Risks to our valuation include delays in the clinical trial and approval process for either ALD403 or Clazakizumab. Delays in the approval process could generate increased competition from agents which benefit from the first mover advantage. We also anticipate the need for outside financing in the future which could present a risk to our price target.



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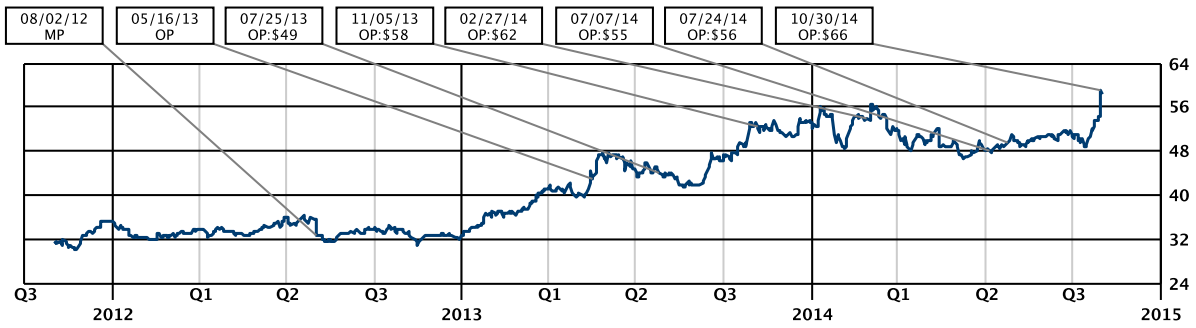

Leerink Swann placed an Outperform rating on BMY on June 11, 2010. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

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Distribution of Ratings/Investment Banking Services (IB) as of 09/30/14				
			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OP]	138	69.30	51	37.00
HOLD [MP]	61	30.70	2	3.30
SELL [UP]	0	0.00	0	0.00

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.
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Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months.The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.
For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than $2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over $2 billion.

Important Disclosures

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In the past 12 months, the Firm has received compensation for providing investment banking services to Alder Biopharmaceuticals, Inc. .

Leerink Partners LLC makes a market in Alder Biopharmaceuticals, Inc.

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