

Equity Research

Alder Biopharmaceuticals, Inc.

ALDR: Q4--Seeking Faster Path To Capitalize On '403 Opportunity

• **Summary:** On 3/4, ALDR reported Q4 2014 results. There were relatively few clinical updates, with lead drug ALD403's clinical program remaining on track. Data from the placebo-controlled ph.IIb study of IV '403 in chronic migraine continues to be expected 2H15, and based on prior ph.II data in high-frequency migraine patients, as well as recently-reported data from a similar agent against CGRP in chronic patients, we see high probability of '403 achieving positive results. How this study, as well as the upcoming (1H15 start) study of '403 in high-frequency episodic patients, will fit into the pivotal program, is still to be determined, but with their greater resources, ALDR appeared to be engaged in discussions on how they might creatively accelerate development--something we think will be important given the competitive landscape. We continue to view ALDR as key potential player in the future migraine prophylaxis space and see shares as undervaluing '403's risk/reward. We are increasing our valuation range to \$36-39 from \$34-37, based on an increase in probability of success for '403 following the recent competitive data readouts, offset somewhat by increased expected R&D spend and a modestly lower future '403 price point given the competitive/reimbursement environment. Adjusting 2015E EPS to -\$1.80 from -\$1.44.

• **Financial:** ALDR reported Q4 2014 net loss of \$6.9MM, or -\$0.22/share, and ended 2014 with cash and equivalents of \$55.9MM. Including the capital raise of \$190.7MM in Q1 2015, the company anticipates sufficient cash to support operations through 2016.

Valuation Range: \$36.00 to \$39.00 from \$34.00 to \$37.00

Our valuation range is based on applying a 40x multiple to our 2022 estimated EPS and discounting at 15%, blended with 8x sales multiple of 2022 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.

Outperform / V

Sector: Biotechnology

Market Weight

Earnings Estimate Revised Down

EPS	2014A	2015E		2016E	
		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	(\$5.38)	(\$0.45)	(11.08)	NE	
Q2 (June)	(0.40)	(0.44)	(0.75)	NE	
Q3 (Sep.)	0.88	(0.45)	(0.36)	NE	
Q4 (Dec.)	(0.22)	(0.46)	(0.47)	NE	
FY	\$0.35	(\$1.80)	(1.44)	(\$1.56)	
CY	\$0.35	(\$1.80)		(\$1.56)	
FY P/EPS	76.1x	NM		NM	
Rev.(MM)	\$55	\$1		\$32	

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

The sum of the quarterly earnings per share amounts may not equal the total for 2014 due to the effects of rounding and dilution as a result of issuing common shares during the year.

Ticker	ALDR
Price (03/04/2015)	\$26.62
52-Week Range:	\$9-33
Shares Outstanding: (MM)	29.9
Market Cap.: (MM)	\$795.9
S&P 500:	2,098.53
Avg. Daily Vol.:	249,838
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 2015 Est. P/EPS-to-Growth:	NM
Last Reporting Date:	03/04/2014
	After Close

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

Brian Abrahams, M.D., Senior Analyst
(212) 214-8060

brian.abrahams@wellsfargo.com

Matthew J. Andrews, Senior Analyst
(617) 603-4218

matthew.j.andrews@wellsfargo.com

Shin Kang, Ph.D., Associate Analyst
(212) 214-5036

shin.kang@wellsfargo.com

Please see page 4 for rating definitions, important disclosures and required analyst certifications

All estimates/forecasts are as of 03/05/15 unless otherwise stated.

Wells Fargo Securities, LLC 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 the report and investors should consider this report as only a single factor in making their investment decision.

Together we'll go far



Upcoming Milestones

Product	Event	Timeline
ALD403	Initiate ph.IIb SC dose-ranging study in high-frequency migraine	May 2015
	Topline data from ph.IIb IV study in chronic migraine	2H15
	Potentially initiate ph.III program	2016
	Potential ph.III data	2017/2018
Clazakizumab	Completion of dose-ranging ph.IIb RA follow-on study	1H15
	Partnership discussions	2015
ALD1613	Move into IND-enabling preclinical studies	mid-2015
	Initiate ph.I study	1H16

Source: Company reports and Wells Fargo Securities, LLC estimates

Product Pipeline

Product (partner)	Indication/mechanism	Status
ALD403	Migraine (anti-CGRP antibody)	Phase IIb
Clazakizumab	RA, psoriatic arthritis (anti-IL-6 antibody)	Phase IIb
ALD1613	Cushings disease	preclinical

Source: Company reports and Wells Fargo Securities, LLC

Alder Biopharmaceuticals, Inc.

Alder Biopharmaceuticals (ALDR)

Statement of Operations

	2013A	10A	20A	30A	40A	2014A	10E	20E	30E	40E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Revenues																			
Citrazakumab sales (PSA or smaller autoimmune/inflammm market)																			
ALD403 sales																			
Citrazakumab royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	-	76,949	\$101,666	\$200,189	\$280,880	\$370,732
ALD403 U.S. sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	261,767	538,905	663,837	1,217,874
ALD403 Ex-U.S. royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	-	76,949	16,267	33,051	47,751	64,878
Collaborative and license agreements/revenue (1)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	76,949	222,300	424,628	645,071	884,835
	18,796	4,800	4,703	38,794	6,436	54,723	-	-	-	1,000	1,000	31,571	26,571	61,571	31,571	84,071	34,071	26,571	8,000
Total revenues, net	\$18,796	\$4,800	\$4,703	\$38,794	\$6,436	\$54,723	\$0	\$0	\$0	\$1,000	\$1,000	\$31,571	\$26,571	\$61,571	\$108,520	\$329,347	\$511,158	\$756,584	\$1,014,330
Expenses																			
Cost of goods sold																			
Research and development	\$31,883	\$7,000	\$9,377	\$7,047	\$9,995	\$33,419	\$12,500	\$13,500	\$14,000	\$15,000	\$55,000	\$75,900	\$94,875	\$113,850	\$118,404	\$112,464	\$28,724	\$45,155	\$61,938
Selling, general and administrative	\$7,674	\$3,200	\$2,736	\$3,158	\$3,408	\$12,502	\$3,500	\$3,300	\$3,474	\$3,749	\$14,023	\$15,425	\$21,595	\$64,794	\$97,177	\$126,330	\$151,596	\$111,134	\$115,579
Total operating expenses	\$39,557	\$10,200	\$12,113	\$10,205	\$13,403	\$45,921	\$16,000	\$16,800	\$17,474	\$18,749	\$69,023	\$91,325	\$116,470	\$178,634	\$210,581	\$238,794	\$268,179	\$313,948	\$341,484
Operating income	(\$20,761)	(\$5,400)	(\$7,410)	\$28,579	(\$6,967)	\$8,802	(\$16,000)	(\$16,800)	(\$17,474)	(\$17,749)	(\$68,023)	(\$59,753)	(\$89,895)	(\$117,063)	(\$12,447)	\$74,573	\$222,979	\$442,636	\$672,846
Interest income	\$54	\$9	\$9	-	\$25	\$43	\$54	\$83	77	\$78	\$392	\$383	\$375	\$246	\$100	\$89	\$288	\$755	\$1,573
Other income	158	-	-	67	-	67	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other expense	(64)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other income	\$148	\$9	\$9	\$67	\$25	\$110	\$54	\$83	\$77	\$78	\$292	\$383	\$375	\$246	\$100	\$89	\$288	\$755	\$1,573
Income before taxes	(\$20,613)	(\$5,391)	(\$7,401)	\$28,646	(\$6,942)	\$8,912	(\$15,946)	(\$16,717)	(\$17,397)	(\$17,671)	(\$67,731)	(\$59,381)	(\$89,524)	(\$116,817)	(\$12,346)	\$75,072	\$223,267	\$443,390	\$674,419
Income tax (expenses)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$1,501)	(\$6,698)	(\$24,603)	(\$67,442)
Net income	(\$20,613)	(\$5,391)	(\$7,401)	\$28,646	(\$6,942)	\$8,912	(\$15,946)	(\$16,717)	(\$17,397)	(\$17,671)	(\$67,731)	(\$59,381)	(\$89,524)	(\$116,817)	(\$12,346)	\$73,570	\$216,569	\$418,787	\$606,978
Earnings Per Share	(\$20.57)	(\$5.39)	(\$9.40)	\$9.88	(\$9.22)	\$9.35	(\$9.45)	(\$9.44)	(\$9.45)	(\$9.46)	(\$1.80)	(\$1.59)	(\$2.16)	(\$2.80)	(\$2.50)	\$1.43	\$4.15	\$7.90	\$11.37
Shares Outstanding (Basic)	1,002	1,002	15,557	30,805	30,863	20,314	35,643	38,093	38,243	38,363	37,593	35,193	41,093	41,683	44,293	44,893	45,493	45,093	46,693
Shares Outstanding (Diluted)	1,002	7,691	25,245	32,513	37,562	25,798	42,332	44,782	32,513	45,062	41,177	44,882	47,762	48,382	50,862	51,582	52,182	52,782	53,382

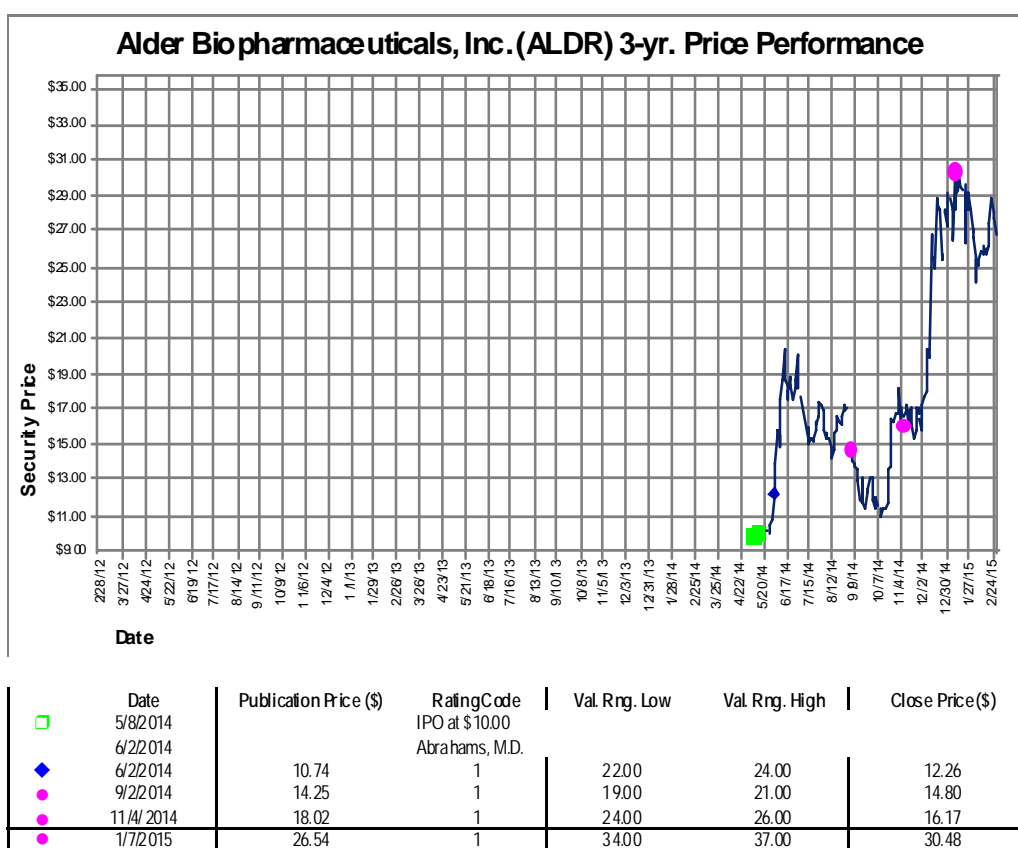
Source: Company reports and Wells Fargo Securities, LLC estimates

Note: in 000's \$, except per share amounts; Fiscal year ends December 31

(1) includes milestone payments and amortization of upfront payments

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.

Required Disclosures

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- Valuation Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

Rating Code Key

- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

Additional Information Available Upon Request

Alder Biopharmaceuticals, Inc.

I certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

- Wells Fargo Securities, LLC maintains a market in the common stock of Alder Biopharmaceuticals, Inc.
- Wells Fargo Securities, LLC or its affiliates managed or co-managed a public offering of securities for Alder Biopharmaceuticals, Inc. within the past 12 months.
- Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from Alder Biopharmaceuticals, Inc.
- Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from Alder Biopharmaceuticals, Inc. in the past 12 months.
- Alder Biopharmaceuticals, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided investment banking services to Alder Biopharmaceuticals, Inc.
- Alder Biopharmaceuticals, Inc. currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided noninvestment banking securities-related services to Alder Biopharmaceuticals, Inc.
- Wells Fargo Securities, LLC received compensation for products or services other than investment banking services from Alder Biopharmaceuticals, Inc. in the past 12 months.

ALDR: Risks include emergence of a safety signal, and competition in the migraine/RA spaces.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

STOCK RATING

1=Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

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

SECTOR RATING

O=Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

M=Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

U=Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

VOLATILITY RATING

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: March 4, 2015

44% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Outperform.

Wells Fargo Securities, LLC has provided investment banking services for 42% of its Equity Research Outperform-rated companies.

55% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.

Wells Fargo Securities, LLC has provided investment banking services for 29% of its Equity Research Market Perform-rated companies.

2% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underperform.

Wells Fargo Securities, LLC has provided investment banking services for 33% of its Equity Research Underperform-rated companies.

Important Disclosure for International Clients

EEA – The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited (“WFSIL”). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 (“the Act”), the content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

Australia – Wells Fargo Securities, LLC is exempt from the requirements to hold an Australian financial services license in respect of the financial services it provides to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under U.S. laws which differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC in the course of providing the financial services will be prepared in accordance with the laws of the United States and not Australian laws.

Canada – This report is distributed in Canada by Wells Fargo Securities Canada, Ltd., a registered investment dealer in Canada and member of the Investment Industry Regulatory Organization of Canada (IIROC) and Canadian Investor Protection Fund (CIPF). This report has not been prepared subject to Canadian disclosure requirements.

Hong Kong – This report is issued and distributed in Hong Kong by Wells Fargo Securities Asia Limited (“WFSAL”), a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission of Hong Kong (“the SFC”) to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance (Cap. 571 of The Laws of Hong Kong), “the SFO”). This report is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). Any securities and related financial instruments described herein are not intended for sale, nor will be sold, to any person other than professional investors (as defined in the SFO). The author or authors of this report is or are not licensed by the SFC. Professional investors who receive this report should direct any queries regarding its contents to Mark Jones at WFSAL (email: wfsalresearch@wellsfargo.com).

Japan – This report is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd, registered with the Kanto Local Finance Bureau to conduct broking and dealing of type 1 and type 2 financial instruments and agency or intermediary service for entry into investment advisory or discretionary investment contracts. This report is intended for distribution only to professional investors (Tokutei Touseika) and is not intended for, and should not be relied upon by, ordinary customers (Ippan Touseika).

The ratings stated on the document are not provided by rating agencies registered with the Financial Services Agency of Japan (JFSA) but by group companies of JFSA-registered rating agencies. These group companies may include Moody’s Investors Services Inc., Standard & Poor’s Rating Services and/or Fitch Ratings. Any decisions to invest in securities or transactions should be made after reviewing policies and methodologies used for assigning credit ratings and assumptions, significance and limitations of the credit ratings stated on the respective rating agencies’ websites.

About Wells Fargo Securities

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Institutional Securities, LLC, a member of FINRA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Securities Canada, Ltd., a member of IIROC and CIPF, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Conduct Authority.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC, to be reliable, but Wells Fargo Securities, LLC does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Wells Fargo Securities, LLC, at this time, and are subject to change without notice. For the purposes of the U.K. Financial Conduct Authority’s rules, this report constitutes impartial investment research. Each of Wells Fargo Securities, LLC and Wells Fargo Securities International Limited is a separate legal entity and distinct from affiliated banks. Copyright © 2015 Wells Fargo Securities, LLC.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE
