

Alder Biopharmaceuticals (ALDR)

SMALL & MID CAP RESEARCH

Robust Phase IIb Migraine Program to Start in H2:14

We continue to view the anti-CGRP drug class as an emerging multi-billion dollar market for migraines. ALDR is advancing both an IV and subcutaneous formulation of ALD403 into Phase IIb trials in H2:14 and H1:15 respectively, with the goal of developing quarterly IV and monthly subcutaneous treatment options. Changes to our model primary reflect more accurate share count pre and post IPO and cause our 2014 EPS to decrease to (\$1.61) from (\$1.15).

■ **ALDR pushing ahead with both subcutaneous and IV formulations of ALD403:** The Phase IIb in chronic migraine patients will start in H2:14 and test a single IV dose at multiple descending doses. A 75% response though 12 weeks is the primary endpoint, and durability of response will be used to make decisions on which dose can deliver a quarterly dosing schedule. The Phase IIb in frequent episodic migraine patients will start in H1:15 and test multiple subcutaneous doses using a monthly dosing regimen. ALDR will use the same endpoints in the frequent episodic trial. ALDR hopes FDA will collapse these two patient populations into a single indication for patients with 5 or more migraine days per month.

■ **Clazakizumab Phase II data:** ALDR expects its partner Bristol will report Phase IIb data in psoriatic arthritis by YE:14 Phase IIb and results in rheumatoid arthritis in H1:15. The RA/PsA program includes up to \$394M in potential future clinical and regulatory milestones.

■ **Valuation:** Our \$20 target price includes \$15 for ALD403, \$4 for Clazakizumab and \$1.50 for NOLs. We ascribe a 55% probability of success to ALD403 and first sales in 2019. We believe the probability of success and market estimates are both conservative.

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	-0.94	-1.61	-0.60	-1.85
Prev. EPS (US\$)	—	-1.15	—	—
P/E (x)	-16.6	-9.7	-25.9	-8.5
P/E rel. (%)	-91.2	-57.7	-172.0	-62.5
Revenue (US\$ m)	18.8	18.8	59.3	25.3
EBITDA (US\$ m)	-19.8	-32.0	-19.2	-71.7
OCFPS (US\$)	-1.65	-2.40	-0.12	-2.36
P/OCF (x)	—	-6.5	-125.7	-6.6
EV/EBITDA (current)	-23.2	-14.3	-23.9	-6.4
Net debt (US\$ m)	-23	-57	-182	-88
ROIC (%)	37.60	88.24	40.61	295.05
Number of shares (m)	30.80	IC (current, US\$ m)		-55.22
BV/share (Next Qtr., US\$)	-148.2	EV/IC (x)		-9.4
Net debt (Next Qtr., US\$ m)	-12.9	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	34.8	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

Rating **OUTPERFORM* [V]**
Price (05 Aug 14, US\$) 15.66
Target price (US\$) 20.00¹
52-week price range 20.34 - 9.91
Market cap. (US\$ m) 482.39
Enterprise value (US\$ m) 425.77

*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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Exhibit 1: Q2:14 Variance Table

Income Statement	2Q:14 Act.	<u>CS</u> 2Q:14		<u>Consensus</u> 2Q:14	
		Est	Delta	Est	Delta
Revenues	\$ -	\$ -	\$ -		
Royalties on Clazakizumab	\$ -	\$ -			
Collaboration and license agreement	\$ 4.7	\$ 4.7	\$ 0.0		
Total Revenues	\$ 4.7	\$ 4.7	\$ 0.0	\$ 5.0	\$ (0.30)
Expenses	\$ -	\$ -	\$ -		
Research and development	\$ 9.4	\$ 8.0	\$ 1.4		
Sales, general, administrative	\$ 2.7	\$ 3.0	\$ (0.3)		
Total Operating Expenses	\$ 12.1	\$ 11.0	\$ 1.1	\$ (12.0)	\$ 24.11
Operating income (loss)	\$ (7.4)	\$ (6.3)	\$ (1.1)		
Total Other Income (Expense)	\$ 0.0	\$ 0.0	\$ (0.0)		
Pre Tax Income	\$ (7.4)	\$ (6.3)	\$ (1.1)		
Income tax	\$ -	\$ -	\$ -		
Net Income	\$ (7.4)	\$ (6.3)	\$ (1.1)	\$ (6.7)	\$ (0.75)
EPS - basic (proforma)	(\$0.40)	(\$0.24)	(\$0.16)	(\$0.23)	\$ (0.17)

Source: Company data, Credit Suisse estimates

Exhibit 2: ALDR Pipeline

Drug	Target	Indication	Stage	Partner
Clazakizumab	IL-6	Rheumatoid Arthritis	Phase IIb	Bristol-Myers Squibb
		Psoriatic Arthritis	Phase II	Bristol-Myers Squibb
ALD403	CGRP	Migraine	Phase II	Proprietary
4 preclinical programs	TBA	TBA	Preclinical	Proprietary

Source: Company data, Credit Suisse estimates.

Exhibit 3: ALDR News Flow

Product	Catalyst	Expected Date
ALD403	Start Phase IIb dose ranging study in chronic migraine patients	H2:14
New target	Select new clinical stage candidate	H2:14
Clazakizumab	Phase II data in psoriatic arthritis	YE-2014
Clazakizumab	Phase IIb dose exploration data in RA	H1:15
ALD403	Start Phase IIb dose ranging study in frequent episodic migraine patients	H1:15
ALD403	Phase IIb data	H2:15
New target	First clinical study start (one or more)	H2:15
Clazakizumab	Phase III start	2015
Clazakizumab	Phase III start	2015
ALD403	End of Phase II meeting with FDA	YE:15
ALD403	Start Phase III in migraine	2016

Source: Company data, Credit Suisse estimates.

Exhibit 4: ALDR Model

	2012A	2013A	Q1:14A	Q2:14A	Q3:14E	Q4:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues													
US sales of ALD403												29.7	154.6
Ex-US royalties on ALD403												0.7	0.9
Royalties on Clazakizumab												2.2	4.9
Collaboration and license agreement	20.1	18.8	4.8	4.7	4.7	4.7	18.8	59.3	25.3	7.5	103.1	197.6	62.3
Total Revenues	20.1	18.8	4.8	4.7	4.7	4.7	18.8	59.3	25.3	7.5	103.1	229.6	222.4
Expenses													
Cost of goods												3.0	15.5
Research and development	30.7	31.9	7.0	9.4	10.0	12.0	38.4	58.5	74.0	90.0	92.0	87.0	77.0
Sales, general, administrative	7.2	7.7	3.2	2.7	3.5	4.0	13.4	21.0	24.0	24.0	26.0	35.0	40.0
Total Operating Expenses	37.9	39.6	10.2	12.1	13.5	16.0	51.8	79.5	98.0	114.0	118.0	122.0	117.0
Operating income (loss)	(17.8)	(20.8)	(5.4)	(7.4)	(8.8)	(11.3)	(32.9)	(20.2)	(72.7)	(106.5)	(14.9)	107.6	105.4
Total Other Income (Expense)	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2
Pre Tax Income	(17.8)	(20.6)	(5.4)	(7.4)	(8.8)	(11.3)	(32.9)	(20.2)	(72.7)	(106.5)	(14.7)	107.8	105.6
Income tax													
Net Income	(17.8)	(20.6)	(5.4)	(7.4)	(8.8)	(11.3)	(32.9)	(20.2)	(72.7)	(106.5)	(14.7)	107.8	105.6
EPS - basic (proforma)	(\$3.55)	(\$3.84)	(\$5.38)	(\$0.40)	(\$0.28)	(\$0.36)	(\$1.61)	(\$0.60)	(\$1.85)	(\$2.26)	(\$0.31)	\$2.22	\$2.16
EPS - diluted (proforma)	(\$3.55)	(\$3.84)	(\$5.38)	(\$0.40)	(\$0.28)	(\$0.36)	(\$1.61)	(\$0.60)	(\$1.85)	(\$2.26)	(\$0.31)	\$2.09	\$2.02
Shares outstanding - basic (proforma)	5.01	21.89	1.00	18.56	31.04	31.20	20.45	33.34	39.31	47.16	47.99	48.47	48.95
Shares outstanding - diluted (proforma)	5.01	21.89	1.00	18.56	31.04	31.20	20.45	33.34	39.31	47.16	50.97	51.60	52.24

Source: Company data, Credit Suisse estimates

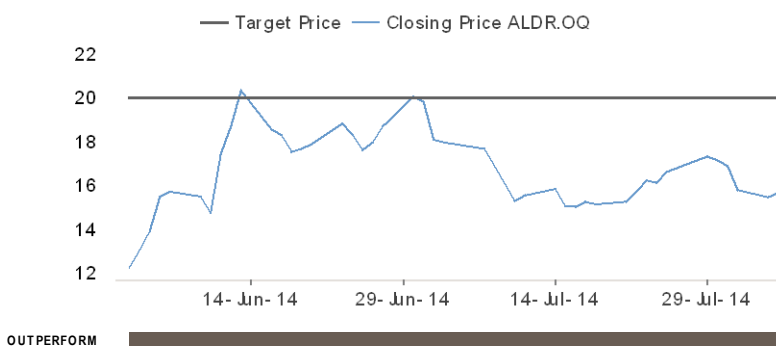
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3-Year Price and Rating History for Alder Biopharmaceuticals (ALDR.OQ)

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.



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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.

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When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.