Alder Biopharmaceuticals (ALDR)

SMALL & MID CAP RESEARCH

Rating	**OUTPERFORM* [V]**
Price (26 Jun 14, US$)	17.98
Target price (US$)	20.00[1]
52-week price range	20.34 - 9.91
Market cap. (US$ m)	553.85
Enterprise value (US$ m)	496.15

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.
[V] = Stock considered volatile (see Disclosure Appendix).

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Migraine Results Remain Robust at 6 Months

ALDR presented updated data from its proof of concept trial of ALD403 in migraine prevention. The new results included 6-month follow up (primary endpoint was at 3 months). The strong efficacy signal seen at 3 months was maintained through 6 months, suggesting a lasting benefit to patients. Results were presented in a poster at the Annual Scientific Meeting of the American Headache Society.

- **6-month results show continued benefit:** Using a strict responder criteria, 26% maintained a 75% response through 6 months (vs. 8% for placebo) and 11% maintained a 100% response (vs. 0% for placebo) (Exhibit 1). These results are similar to the 3-month data showing 32% at the 75% response level and 16% at the 100% response level (Exhibit 2).
- **Programs on track:** ALDR still anticipates starting a Phase IIb dose ranging study for ALD403 in H2:14, and expects partner Bristol to release additional clazakizumab Phase II data in psoriatic arthritis by year-end 2014. The next major data readout for ALD403 is likely in H2:15.
- **Updating model for recently published 10Q:** ALDR reported Q1:14 results after its IPO, and we now include these actuals in our model. Our new proforma 2014 EPS estimate is ($1.15), previously ($1.10).

Financial and valuation metrics

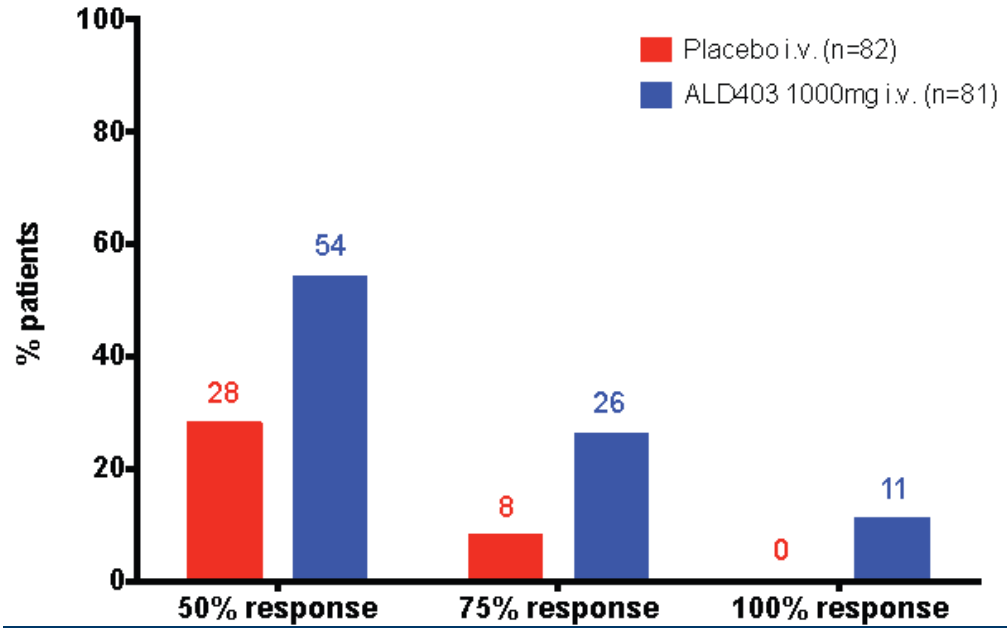
Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US$)	-0.94	-1.15	-0.60	-1.85
Prev. EPS (US$)	—	-1.10	—	—
P/E (x)	-19.1	-15.6	-29.7	-9.7
P/E rel. (%)	-106.0	-94.1	-199.6	-72.5
Revenue (US$ m)	18.8	18.8	59.3	25.3
EBITDA (US$ m)	-19.8	-30.9	-19.2	-71.7
OCFPS (US$)	-1.65	-1.74	-0.12	-2.36
P/OCF (x)	—	-10.3	-144.4	-7.6
EV/EBITDA (current)	-26.8	-17.2	-27.6	-7.4
Net debt (US$ m)	-23	-58	-183	-89
ROIC (%)	37.60	85.32	40.61	295.05

Number of shares (m)	30.80	IC (current, US$ m)	-55.22
BV/share (Next Qtr., US$)	-6.8	EV/IC (x)	-10.8
Net debt (Next Qtr., US$ m)	-12.9	Dividend (current, US$)	—
Net debt/tot eq (Next Qtr., %)	34.8	Dividend yield (%)	—

Source: Company data, Credit Suisse estimates

Exhibit 1: Efficacy Difference Maintained at 6 Months

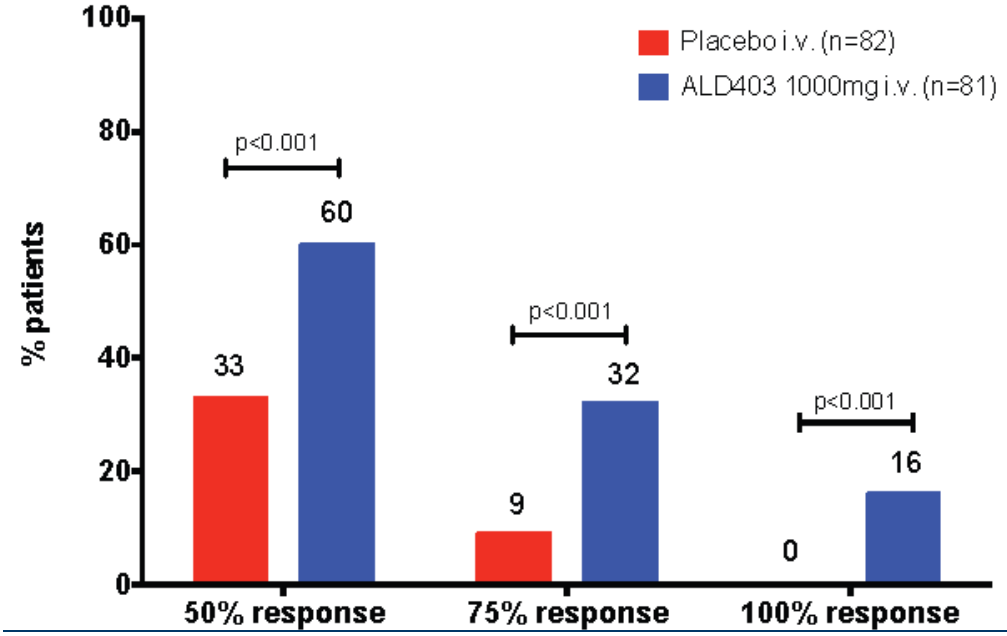
Patients maintained this degree of response for the full 24 weeks (1-24) of the study (Figure 3).



Source: Company data, Credit Suisse estimates

Exhibit 2: Primary Efficacy Analysis at 3 Months (previously disclosed)

More patients achieved a 50%, 75% and 100% reduction in migraine days for the entire 12 weeks (1-12) on ALD403 than on placebo (Figure 2).



Source: Company data, Credit Suisse estimates

Exhibit 3: **Efficacy Measures in Each Month of the Study**

Time period	Percent reduction migraine days	ALD403 1000mg iv Number (%) n=81	Placebo iv Number (%) n=82	P value
Week 1-4	50	57 (75.0)	40 (50.0)	p=0.0011
	75	39 (51.3)	19 (23.8)	p=0.0003
	100	21 (27.6)	4 (5.0)	p<0.0001
Week 5-8	50	59 (75.6)	43 (53.8)	p=0.0032
	75	35 (44.9)	28 (35.0)	p=0.1347
	100	21 (26.9)	12 (15.0)	p=0.0493
Week 9-12	50	55 (75.3)	52 (66.7)	p=0.1603
	75	39 (53.4)	24 (30.8)	p=0.0039
	100	30 (41.1)	13 (16.7)	p=0.0008

Source: Company data, Credit Suisse estimates

Exhibit 4: **ALDR News Flow**

Product	Catalyst	Expected Date
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
ALD403	BLA submission	Mid-2018
Clazakizumab	BLA submission	2018
ALD403	Potential approval	H1:2019
ALD403	Potential launch	Mid-2019

Source: Company data, Credit Suisse estimates

Exhibit 5: ALDR Model

	2012A	2013A	Q1:14A	Q2:14E	Q3:14E	Q4:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues															
US sales of ALD403												29.7	154.6	361.8	501.9
Ex-US royalties on ALD403													0.7	5.8	21.7
Royalties on Clazakizumab												2.2	4.9	10.4	16.7
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		35.0
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**	**378.0**	**575.3**
Expenses															
Cost of goods												3.0	15.5	36.2	50.2
Research and development	**30.7**	31.9	7.0	8.0	10.0	12.0	37.0	58.5	74.0	90.0	92.0	87.0	77.0	75.0	72.0
Sales, general, administrative	**7.2**	7.7	3.2	3.0	3.5	4.0	13.7	21.0	24.0	24.0	26.0	35.0	40.0	45.0	40.0
Total Operating Expenses	**37.9**	**39.6**	**10.2**	**11.0**	**13.5**	**16.0**	**50.7**	**79.5**	**98.0**	**114.0**	**118.0**	**122.0**	**117.0**	**120.0**	**112.0**
Operating income (loss)	**(17.8)**	(20.8)	(5.4)	(6.3)	(8.8)	(11.3)	(31.9)	(20.2)	(72.7)	(106.5)	(14.9)	107.6	105.4	258.0	463.3
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	0.2	0.2
Pre Tax Income	**(17.8)**	(20.6)	(5.4)	(6.3)	(8.8)	(11.3)	(31.8)	(20.2)	(72.7)	(106.5)	(14.7)	107.8	105.6	258.2	463.5
Income tax														90.4	162.2
Net Income	**(17.8)**	**(20.6)**	**(5.4)**	**(6.3)**	**(8.8)**	**(11.3)**	**(31.8)**	**(20.2)**	**(72.7)**	**(106.5)**	**(14.7)**	**107.8**	**105.6**	**167.8**	**301.3**
EPS - basic (proforma)	**($3.55)**	($3.84)	($0.25)	($0.24)	($0.28)	($0.36)	($1.15)	($0.60)	($1.85)	($2.26)	($0.31)	$2.22	$2.16	$3.39	$6.03
EPS - diluted (proforma)	**($3.55)**	($3.84)	($0.25)	($0.24)	($0.28)	($0.36)	($1.15)	($0.60)	($1.85)	($2.26)	($0.31)	$2.09	$2.02	$3.17	$5.62
Shares outstanding - basic (proforma)	**5.01**	21.89	21.89	26.33	31.04	31.20	27.61	33.34	39.31	47.16	47.99	48.47	48.95	49.44	49.94
Shares outstanding - diluted (proforma)	**5.01**	21.89	21.89	26.33	31.04	31.20	27.61	33.34	39.31	47.16	50.97	51.60	52.24	52.90	53.56

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 26-Jun-2014)*

Alder Biopharmaceuticals (ALDR.OQ, $17.98, OUTPERFORM[V], TP $20.0)

Disclosure Appendix

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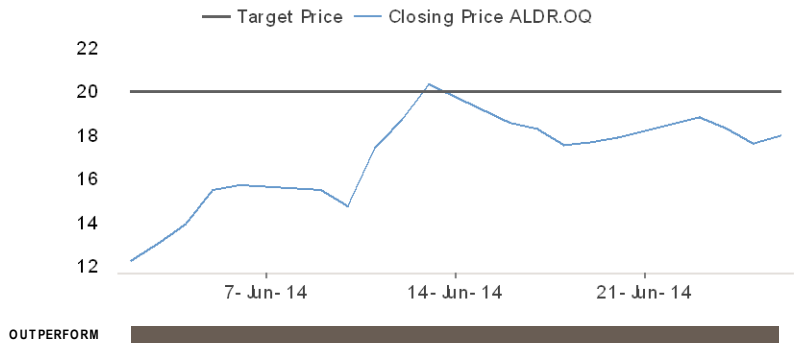
3-Year Price and Rating History for Alder Biopharmaceuticals (ALDR.OQ)

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.*



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Underperform/Sell*	13%	(47% banking clients)
Restricted	3%	

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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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