

Adamas Pharmaceuticals, Inc. (ADMS)

Overweight

3Q Update: Color On Expansion Opportunities for ADS-5102; Reiterate Overweight

CONCLUSION

We are updating our model to reflect Adamas' 3Q14 results. Enrollment for pivotal Phase III studies for ADS-5102, Adamas' extended-release (ER) form of amantadine for levodopa-induced dyskinesias (LID) in Parkinson's disease (PD) patients, is ongoing, with initial data expected in 2H15. ADMS noted that it expects to initiate up to two additional studies evaluating ADS-5102 in other movement and/or neuropsychiatric disorders in 2015 (more on this below). We continue to believe that ADMS has the potential to deliver compelling cash flows over the longer-term driven by royalties from Actavis on two Namenda line extensions (i.e., Namenda XR and the fixed-dose combination of Namenda XR and donepezil (aka Aricept)) and sales of ADS-5102 (a potentially \$200M+ opportunity in LID in our view). We reiterate our Overweight rating and are lowering our PT to \$31 from \$32 (reflecting an adjustment to the share count).

- **New color on ADS-5102.** Enrollment for Phase III trials in LID is ongoing, with initial data read-outs still expected in 2H15 (recall that ADMS recently announced that it had initiated an additional 70-patient safety and efficacy trial for ADS-5102 in LID, per its original clinical development plan). Regarding expansion opportunities for ADS-5102, ADMS noted that it has shifted its focus from traumatic brain injury to movement disorders (i.e., other hyperkinetic movement disorders such as chorea associated with Huntington's disease; and hypokinetic movement disorders (i.e., decreased movement or muscle rigidity)), as well as neuropsychiatric disorders (such as depression and Alzheimer's). ADMS plans to initiate up to two additional studies in these settings in 2015.
- **FDA action on Namenda XR/donepezil fixed-dose combination (FDC) looming.** We would expect an approval decision sometime in early 2015. Given that a significant majority of Namenda (i.e., memantine) patients take donepezil in combination, we would expect to see a sizable portion of patients switch over to the FDC during 2015. This is bearing in mind that Actavis has noted that it is likely to price the FDC lower than Namenda XR, and that generic versions of the immediate-release form of Namenda will not be on the market until July 2015. Further, recall that ACT will continue to supply the IR form of Namenda to the market only through the end of November.
- **Color on cash resources.** ADMS finished 3Q14 with \$138M in cash and equivalents. Given the current cash balance, as well as an additional cash infusion on tap with ADMS set to receive a \$30M milestone payment from Actavis related to the approval of the FDC, ADMS has ample cash resources to fund operations to sustainable profitability (we are modeling profitability in 2018).

RISKS TO ACHIEVEMENT OF PRICE TARGET

Clinical setbacks for ADS-5102 and commercial risks for the Namenda line extensions.

COMPANY DESCRIPTION

Adamas is focused on treatments for diseases of the central nervous system.

YEAR	REVENUE (m)						EARNINGS PER SHARE ()					
	Mar	Jun	Sep	Dec	FY	FY RM	Mar	Jun	Sep	Dec	FY	FY P/E
2013A	—	—	—	—	71.1	3.8x	—	—	—	—	2.63	6.2x
2014E	0.2A	25.2A	0.2A	0.0	25.5	10.7x	(0.67)A	0.88A	(0.57)A	(0.49)	(0.51)	NM
2015E	30.0	0.0	0.0	0.0	30.0	9.1x	1.05	(0.50)	(0.51)	(0.52)	(0.31)	NM

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Adamas Pharmaceuticals, Inc.

PRICE: US\$16.21

Price as of the close November 4, 2014

TARGET: US\$31.00

15x 2020E EPS of \$5.10, disc. 20%

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	US\$32.00	US\$31.00
FY14E Rev (mil)	55.3	25.5
FY15E Rev (mil)	0.0	30.0
FY14E EPS	1.49	(0.51)
FY15E EPS	(2.13)	(0.31)
52-Week High / Low	US\$21.63 / US\$12.02	
Shares Out (mil)	16.8	
Market Cap. (mil)	US\$272.3	
Avg Daily Vol (ooo)	62	
Book Value/Share	US\$7.70	
Net Cash Per Share	US\$8.21	
Debt to Total Capital	0%	
Div (ann)	US\$0.00	
Fiscal Year End	Dec	

Price Performance - 1 Year



Source: Bloomberg

Exhibit 1

3Q14: ACTUAL VS. PJC/STREET ESTIMATES FOR ADMS

	Actuals	PJC Estimates	Consensus ⁽¹⁾
<i>Revenue</i>			
ADS-5102 Net Sales	\$0.0	\$0.0	
Namenda royalties	\$0.0	\$0.0	
Milestone Payments	\$0.2	\$0.0	
Total Revenue	\$0.2	\$0.0	\$0.0
<i>Expenses</i>			
COGS	\$0.0	\$0.0	
R&D	\$5.4	\$4.9	
SG&A	\$4.4	\$3.3	
Operating income	(\$9.6)	(\$8.2)	
Net Income	(\$9.6)	(\$8.2)	
Diluted shares outstanding	16.8	15.9	
Non-GAAP EPS, diluted	(\$0.57)	(\$0.52)	(\$0.44)

(1) Consensus estimates are prior to 3Q14 earnings release

Source: Company reports and PJC estimates.

Exhibit 2

CALENDAR OF UPCOMING EVENTS

Product/ Program	Event	Expected Date
Namenda XR	Hard-switch away from Namenda IR	4Q14/1H15
Namenda XR/Aricept	FDA action in Alzheimer's	1Q15
ADS-5102	Possible first read-out of Phase III data for levodopa-induced dyskinesia in Parkinson's patients	2H15
Misc.	Additional details on other ER amantadine-based development opportunities	2015
ADS-5102	Possible NDA submission	2016

Source: Company reports and PJC estimates.

Exhibit 3

SUMMARY OF CURRENT AND PRIOR ADMS ESTIMATES

\$ in millions, except per share	2014E		2015E		2016E		2017E		2018E	
	Current	Prior	Current	Prior	Current	Prior	Current	Prior	Current	Prior
<i>Revenue</i>										
ADS-5102 Net Sales	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$48.5	\$48.5	\$91.8	\$91.8
Namenda royalties	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$16.7	\$16.7
Milestone Payments	\$25.5	\$55.3	\$30.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total revenue	\$25.5	\$55.3	\$30.0	\$0.0	\$0.0	\$0.0	\$48.5	\$48.5	\$108.6	\$108.6
<i>Consensus ⁽¹⁾</i>	<i>\$33.0</i>		<i>\$23.3</i>		<i>\$1.3</i>					
<i>Expenses</i>										
COGS	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$9.7	\$9.7	\$18.4	\$18.4
R&D	\$18.4	\$17.9	\$21.9	\$21.9	\$24.1	\$24.1	\$22.9	\$22.9	\$23.5	\$23.5
SG&A	\$14.0	\$13.0	\$13.8	\$13.8	\$19.0	\$19.0	\$34.0	\$34.0	\$38.6	\$38.6
Operating income	(\$6.9)	\$24.4	(\$5.7)	(\$35.7)	(\$43.1)	(\$43.1)	(\$18.0)	(\$18.0)	\$28.2	\$28.2
Net Income	(\$7.9)	\$23.4	(\$5.7)	(\$35.7)	(\$43.1)	(\$43.1)	(\$18.0)	(\$18.0)	\$28.2	\$28.2
Share Outstanding, diluted	15.5	15.8	18.4	16.7	19.0	18.1	20.0	19.1	30.0	29.1
Non-GAAP EPS, diluted	(\$0.51)	\$1.49	(\$0.31)	(\$2.13)	(\$2.26)	(\$2.38)	(\$0.90)	(\$0.94)	\$0.94	\$0.97
<i>Consensus ⁽¹⁾</i>	<i>\$0.16</i>		<i>(\$0.86)</i>		<i>(\$2.63)</i>					

(1) Consensus estimates are prior to 3Q14 earnings release

Source: Company reports and PJC estimates.

Adamas Pharmaceuticals - Quarterly and Annual Income Statement

	2014E													
Fiscal Year Ends December 31 (\$ In millions, except for EPS)	2012A	2013A	1QA	2QA	3QA	4QE	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Product Sales														
ADS-5102 Net Sales	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$48.5	\$91.8	\$129.8	\$149.8	\$170.2
Namenda royalties	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$16.7	\$17.3	\$111.8	\$116.2
Milestone Payments ⁽¹⁾	\$37.5	\$71.1	\$0.2	\$25.2	\$0.2	\$0.0	\$25.5	\$30.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Revenue	\$37.5	\$71.1	\$0.2	\$25.2	\$0.2	\$0.0	\$25.5	\$30.0	\$0.0	\$48.5	\$108.6	\$147.1	\$261.6	\$286.4
Cost of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9.7	18.4	23.4	27.0	30.6
Gross Profit	\$37.5	\$71.1	\$0.2	\$25.2	\$0.2	\$0.0	\$25.5	\$30.0	\$0.0	\$38.8	\$90.2	\$123.8	\$234.6	\$255.8
Research & development	9.2	7.4	2.8	5.2	5.4	5.1	18.4	21.9	24.1	22.9	23.5	22.9	22.3	21.7
Selling, general and administrative	8.3	6.7	3.1	3.3	4.4	3.3	14.0	13.8	19.0	34.0	38.6	42.8	46.4	47.7
Total expenses	\$17.5	\$14.1	\$5.9	\$8.4	\$9.8	\$8.4	\$32.5	\$35.7	\$43.1	\$56.9	\$62.0	\$65.7	\$68.7	\$69.4
Operating Income	\$19.9	\$57.0	(\$5.7)	\$16.7	(\$9.6)	(\$8.4)	(\$6.9)	(\$5.7)	(\$43.1)	(\$18.0)	\$28.2	\$58.1	\$165.9	\$186.4
Other income (expense), net	(1.9)	(4.9)	(0.7)	(0.1)	(0.0)	0.0	(0.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income (loss) before taxes	\$18.0	\$52.1	(\$6.4)	\$16.6	(\$9.6)	(\$8.4)	(\$7.7)	(\$5.7)	(\$43.1)	(\$18.0)	\$28.2	\$58.1	\$165.9	\$186.4
Income tax provision	(0.3)	(1.2)	(0.0)	(0.2)	(0.0)	0.0	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	(18.6)
Net income (loss)	\$11.6	\$35.4	(\$6.4)	\$16.4	(\$9.6)	(\$8.4)	(\$7.9)	(\$5.7)	(\$43.1)	(\$18.0)	\$28.2	\$58.1	\$165.9	\$167.7
Non-GAAP EPS, basic	\$1.22	\$2.63	(\$0.67)	\$1.05	(\$0.57)	(\$0.49)	(\$0.54)	(\$0.32)	(\$2.26)	(\$0.90)	\$1.34	\$2.67	\$7.36	\$7.20
Non-GAAP EPS, diluted	\$1.17	\$2.63	(\$0.67)	\$0.88	(\$0.57)	(\$0.49)	(\$0.51)	(\$0.31)	(\$2.26)	(\$0.90)	\$0.94	\$1.86	\$5.10	\$4.96
Shares outstanding, basic	9.5	13.4	9.5	15.6	16.8	17.0	14.7	17.7	19.0	20.0	21.0	21.8	22.5	23.3
Shares outstanding, diluted	9.9	13.4	9.5	18.6	16.8	17.0	15.5	18.4	19.0	20.0	30.0	31.3	32.5	33.8
Expenses (as % of total revenues):														
COGS (as % of product sales)								0.0%	0.0%	20.0%	20.0%	18.0%	18.0%	18.0%
R&D										47.1%	21.6%	15.5%	8.5%	7.6%
Selling, general and administrative										70.0%	42.0%	33.0%	31.0%	28.0%
Margins:														
Gross margin (as % of total revenues)										80.0%	83.1%	84.1%	89.7%	89.3%
Operating margin											26.0%	39.5%	63.4%	65.1%
Net income											26.0%	39.5%	63.4%	58.6%
Income Tax										0.0%	0.0%	0.0%	0.0%	10.0%
Y-O-Y Growth rates:														
Total revenue											123.6%	35.5%	77.8%	9.5%
R&D								18.7%	10.0%	-5.0%	2.5%	-2.5%	-2.5%	-2.5%
Selling, general and administrative								-1.6%	35.5%	78.8%	13.5%	11.1%	8.4%	2.6%
Operating profit												106.1%	185.7%	12.3%
Net income												106.1%	185.7%	1.1%

(1) Milestone payments related to licensing agreement with Forest Laboratories on the Namenda line extensions (Namenda XR and MDX-8704, or a fixed dose combination of Namenda XR and Aricept)

Proprietary to Piper Jaffray. November 4, 2014

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Current disclosure information for this company can be found at

<http://www.piperjaffray.com/researchdisclosures>

Adams - Annual Cash Flow Statement

(\$ in millions)

	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E
Beginning Cash & Equivalents	\$3.1	\$63.0	\$85.6	\$119.4	\$119.9	\$84.9	\$70.4	\$107.0
Operating Activities								
Net Income (loss)	\$17.7	\$50.9	(\$7.9)	(\$5.7)	(\$43.1)	(\$18.0)	\$28.2	\$58.1
Depreciation	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Other	\$1.9	\$4.6	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)
Stock-based Compensation	\$0.8	\$0.6	\$1.0	\$4.0	\$6.0	\$8.0	\$10.0	\$11.0
Net Change in Assets and Liabilities	\$31.5	(\$29.4)	\$0.3	\$0.2	\$0.2	(\$6.4)	(\$3.4)	(\$2.4)
Cash From Operations	\$52.0	\$26.8	(\$7.5)	(\$2.4)	(\$37.8)	(\$17.3)	\$33.9	\$65.8
Investing Activities								
Capital Expenditures	(\$0.0)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)
Short-Term Investments	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Acquisition of Tangible Assets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Acquisition of Intangibles	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Investment	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash From Investing Activities	(\$0.0)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)
Financing Activities								
Debt Issuance	\$3.9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Debt Repayments	\$0.0	(\$4.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Share Repurchases	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Stock and Option Issuances	\$4.0	\$0.0	\$41.5	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0
Other, Net	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash From Financing Activities	\$7.9	(\$4.0)	\$41.5	\$3.0	\$3.0	\$3.0	\$3.0	\$3.0
Currency Translation Differences	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Change In Cash	\$59.8	\$22.7	\$33.8	\$0.4	(\$35.0)	(\$14.5)	\$36.7	\$68.6
Year End Cash	\$63.0	\$85.6	\$119.4	\$119.9	\$84.9	\$70.4	\$107.0	\$175.6

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Adamas - Annual Balance Sheet

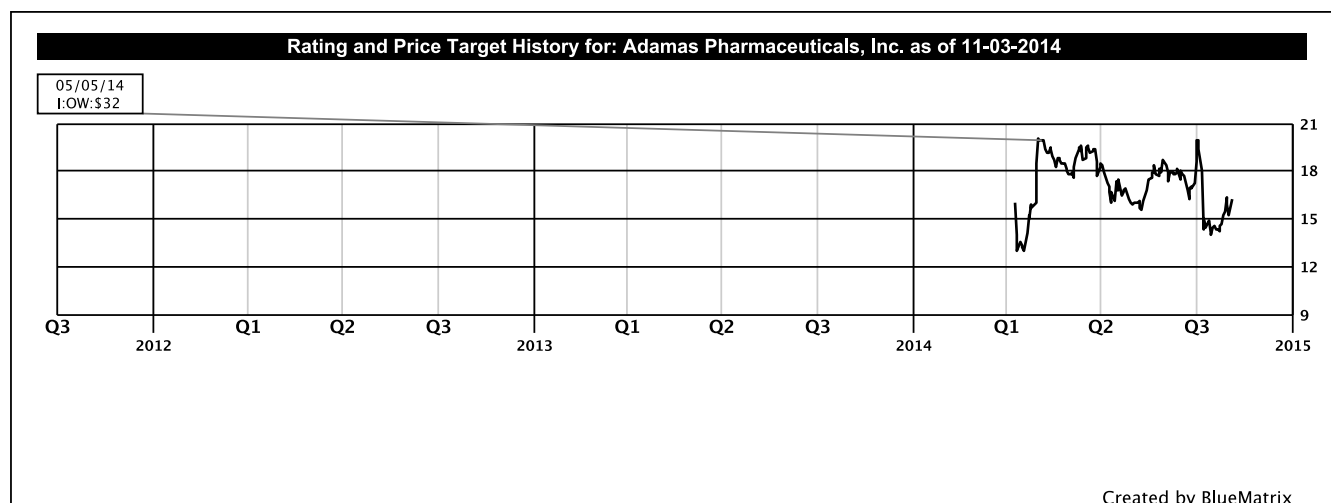
(\$ in millions)

	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E
Current Assets								
Cash & Equivalents	\$63.0	\$85.6	\$119.4	\$119.9	\$84.9	\$70.4	\$107.0	\$175.6
Accounts Receivable, net	\$0.9	\$0.1	\$0.0	\$0.0	\$0.0	\$3.7	\$5.5	\$7.8
Inventories	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$2.9	\$4.8	\$5.1
Other Current Assets	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.4
Total Current Assets	\$64.2	\$86.0	\$119.7	\$120.2	\$85.2	\$77.3	\$117.7	\$188.9
Property, Plant & Equipment, Net	\$0.1	\$0.2	\$0.3	\$0.4	\$0.5	\$0.6	\$0.7	\$0.8
Goodwill & other intangible assets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Assets	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Assets	\$64.3	\$86.2	\$120.0	\$120.6	\$85.7	\$78.0	\$118.4	\$189.8
Liabilities & Equity								
Current Liabilities	\$38.5	\$4.2	\$4.4	\$4.7	\$4.9	\$5.1	\$5.4	\$5.7
Long-Term Debt	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Liabilities	\$1.7	\$6.2	\$6.2	\$6.2	\$6.2	\$6.2	\$6.2	\$6.2
Equity	\$24.1	\$75.8	\$109.4	\$109.7	\$74.6	\$66.6	\$106.8	\$177.9
Total Liabilities & Equity	\$64.3	\$86.2	\$120.0	\$120.6	\$85.7	\$78.0	\$118.4	\$189.8

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I: Initiating Coverage
R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	373	61.25	95	25.47
HOLD [N]	224	36.78	24	10.71
SELL [UW]	12	1.97	0	0.00

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Analyst Certification — David Amsellem, Sr. Research Analyst

— Traver A. Davis, Research Analyst

— Michael C. Chang, Research Analyst

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