William Blair

Adamas Pharmaceuticals, Inc.

May 20, 2014

Adamas Receives $25 Million Milestone Payment From Forest, Further Validating IP Strategy; Outperform

- Tuesday, May 20, Adamas Pharmaceuticals reported that the company has received its previously agreed on $25 million milestone payment from Forest Laboratories (FRX $92.66) for the development of MDX-8704, a fixed-dose combination of memantine hydrochloride and donepezil hydrochloride to treat moderate to severe dementia associated with Alzheimer's disease. This development was largely expected, and it represents the next step in the continuing transition associated with the Namenda franchise.

- Namenda is currently a $1.6 billion franchise for Forest, which will be acquired by Actavis (ACT $206.10) for $25 billion, as announced earlier this year. The product is the last remaining brand on the market for the treatment of moderate to severe Alzheimer's disease. While this franchise has been significantly profitable for Forest Pharmaceuticals, the immediate-release formulation of the product will face generic competition starting in 2015. Because of this impending generic competition, Forest Pharmaceuticals and Actavis are currently transitioning patients on two to three times daily Namenda immediate release to the once-daily Namenda XR, which was approved and became available in U.S. pharmacies during June 2013.

- During 2013, Forest management noted publicly the likelihood of a "hard switch" from Namenda to Namenda XR in 2014. With a recent announcement that Forest Pharmaceuticals will discontinue Namenda immediate release by August 2014, the "hard switch" appears to be well underway. As shown in exhibit 1, as of the most recent IMS Health weekly prescription data, Namenda XR holds roughly 27% market share in the total Namenda franchise, up from 16% at year-end 2013.

- The milestone payment was the result of an accepted NDA for MDX-8704, the fixed-dose combination of Namenda XR/donepezil. Forest previously had paid Adamas a $65 million upfront cash payment in 2012 as well as a $40 million payment in fourth quarter 2013 as part of the partnership. As shown in exhibit 2, in addition to these milestone payments, Adamas will receive up to a $30 million payment upon FDA approval, totaling $95 million in development milestones (in addition to the $65 million upfront payment) for MDX-8704 through FDA approval. Royalties on U.S. net sales of Namenda XR and MDX-8704 are set to begin five years after launch, or in 2018 for Namenda XR and 2019 for MDX-8704. Namenda XR and MDX-8704 are covered by 13 U.S. issued patents that expire as late as 2029 and are exclusively licensed to Forest. We believe the continuing commitment by Actavis, a leader in generics, to the MDX-8704 program continues to validate the Adamas IP strategy of patents based on unique pharmacokinetic profiles tied to best-in-class efficacy.

Adamas Pharmaceuticals is a developer of specialty therapeutics for the treatment of disorders affecting the central nervous system. The company is based in Emeryville, California.

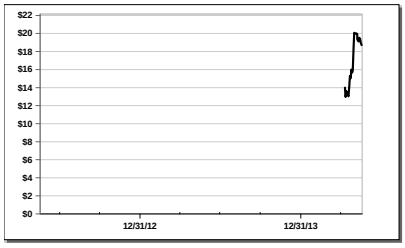
Stock Rating:	**Outperform**
Company Profile:	**Aggressive Growth**
Price Target:	$35.00
Symbol:	ADMS (NASDAQ)
Price:	$18.88 (52-Wk.: $12-$22)
Market Value (mil.):	$305
Fiscal Year End:	December
Long-Term EPS Growth Rate:	
Dividend/Yield:	None

	2013A	2014E	2015E
Estimates			
EPS FY	$5.99	$-0.10	$0.40
CY		$-0.10	$0.40
Sales (mil.)	71	26	36
Valuation			
FY P/E	3.2x	NM	47.2x
CY P/E		NM	47.2x

Trading Data (FactSet)	
Shares Outstanding (mil.)	10
Float (mil.)	10
Average Daily Volume	154,877

Financial Data (FactSet)	
Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	5.9
Return on Equity (TTM)	69.1

Two-Year Price Performance Chart



Sources: FactSet, William Blair & Company estimates

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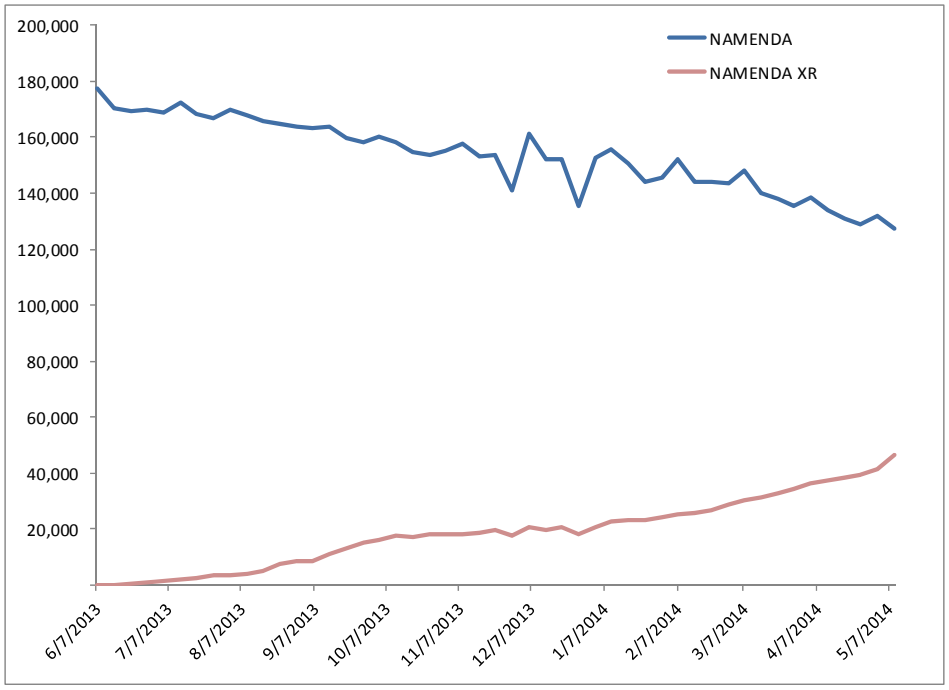
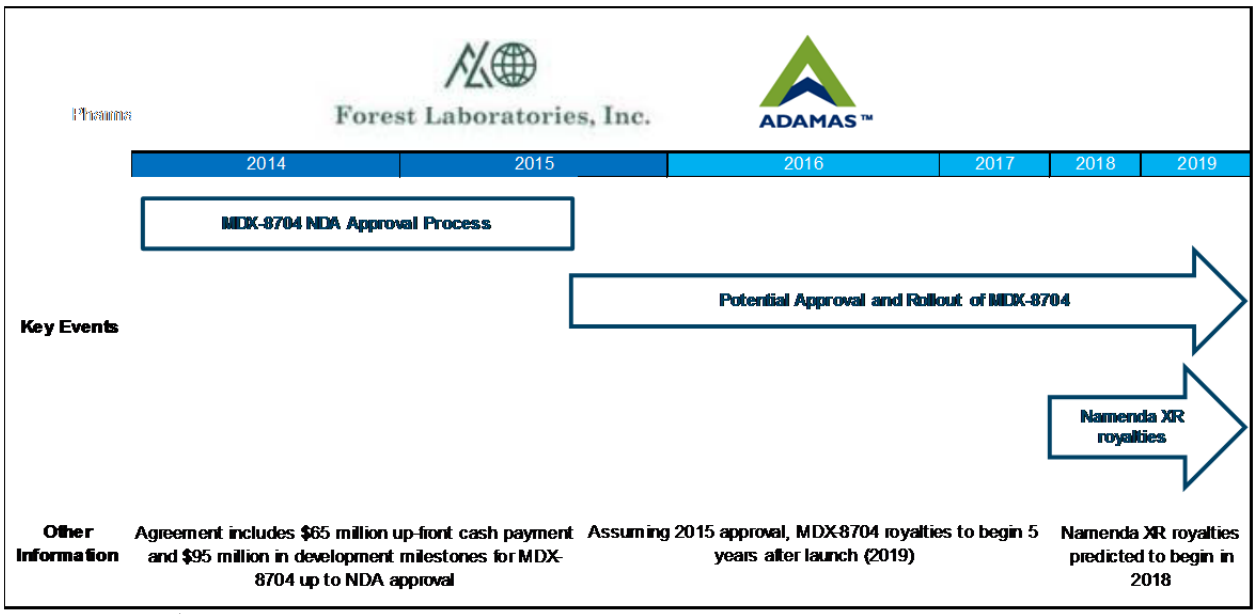
- We continue to rate the company Outperform given our belief that ADS-5102 is an effective compound that should produce best-in-class ON/OFF time and reductions in dyskinesia in Levodopa-induced dyskinesia (LID). While data from the Phase II/III EASED study compared ADS-5102 to placebo, we believe the product provides clear benefits over immediate-release amantadine given our review of literature available in this setting. We ultimately believe the product will gain a significant penetration into the moderate and severe Parkinson's disease patient population, and we estimate peak-year sales in excess of $500 million. Our risk-adjusted net present value (NPV) suggests a value of $35 per share based on the Namenda franchise royalty stream from Actavis and our belief that ADS-5102 sales will exceed $500 million. Near-term catalysts include the continuing Namenda franchise conversion to Namenda XR and the approval of Namenda XR/donepezil fixed-dose combination in early 2015. The usual regulatory, clinical, and competitive risks in development stage pharmaceuticals apply to Adamas.

Exhibit 1
Adamas Pharmaceuticals, Inc.
Namenda Franchise Weekly Prescriptions Since Namenda XR Launch



Source: IMS Health, William Blair & Company, L.L.C.

Exhibit 2
Adamas Pharmaceuticals, Inc.
Key Events in Adamas Pharmaceuticals/Forest Laboratories Partnership



Sources: Company reports and William Blair & Company, L.L.C.

Valuation

We derive our $35 price target from a risk-adjusted net present value (NPV) for the company's royalty stream from both Namenda XR and MDX-8704. Adamas's royalty stream for both products will not begin until five years after launch for either product. For our valuation of ADS-5102, we assume the product will launch in 2017, following the company's second Phase III study in 2016 and subsequent filing that year. We continue to assign an Outperform rating to Adamas Pharmaceuticals.

Risks

An investment in shares of Adamas Pharmaceuticals involves clinical, regulatory, and financial risks that are typical for developmental-stage biopharmaceutical companies. We estimate that Adamas will be profitable in 2015; however, the company might incur losses beginning in 2016 as preparations for the launch of ADS-5102 begin. In addition to the risks associated with ADS-5102 development, there are intellectual property, manufacturing, and competition risks to consider.

IMPORTANT DISCLOSURES

William Blair was a manager or co-manager of a public offering of equity securities for Adamas Pharmaceuticals, Inc. within the prior 12 months.

William Blair is a market maker in the security of Adamas Pharmaceuticals, Inc. and may have a long or short position.

William Blair intends to seek investment banking compensation in the next three months from Adamas Pharmaceuticals, Inc.

Within the past 12 months William Blair has provided or is providing investment banking services to or has an investment services relationship with Adamas Pharmaceuticals, Inc.

Additional information is available upon request.

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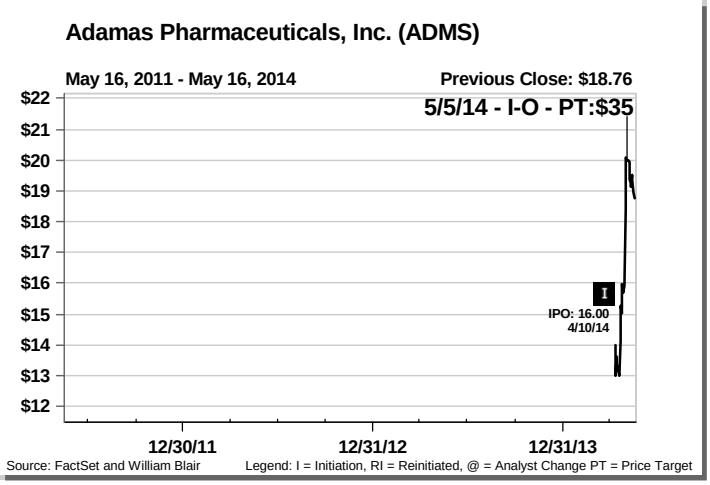
DOW JONES: 16,511.86
S&P 500: 1,885.08
NASDAQ: 4,125.82



Current Rating Distribution (as of 04/30/14)

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	66	Outperform (Buy)	14
Market Perform (Hold)	31	Market Perform (Hold)	2
Underperform (Sell)	1	Underperform (Sell)	0

*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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company fundamentals, industry outlook, confidence in earnings estimates, valuation (and our valuation methodology), and other factors. Outperform (O) – stock expected to outperform the broader market over the next 12 months; Market Perform (M) – stock expected to perform approximately in line with the broader market over the next 12 months; Underperform (U) – stock expected to underperform the broader market over the next 12 months; not rated (NR) – the stock is not currently rated. The valuation methodologies used to determine price targets (where used) include (but are not limited to) price-to-earnings multiple (P/E), relative P/E (compared with the relevant market), P/E-to-growth-rate (PEG) ratio, market capitalization/revenue multiple, enterprise value/EBITDA ratio, discounted cash flow, and others.

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