

June 3, 2014

ALDR-NASDAQ--Outperform (1) / V

Biotechnology

ALDR: Teva's Acquisition Of Labrys Biologics, Another Anti-CGRP Company, Has Positive Read-Throughs And Reinforces Our Belief ALDR Is Substantially Undervalued

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Sector Rating: Biotechnology, Market Weight

****This morning it was announced that Teva is acquiring Labrys Biologics for \$200M upfront and up to \$625M in potential contingent payments. Recall Labrys's drug LBR-101 is a humanized monoclonal antibody against CGRP for migraine prophylaxis, similar to Alder's ALD403.**

****We see mostly positive read-throughs from this announcement for Alder.**

****The fact that Teva is acquiring Labrys for \$200M+ -- with LBR-101 having not even completed proof-of-concept data and PFE being owed milestones and royalties on the drug as well as a liquidity payment on the transaction -- suggests Alder's ALD403, which has already demonstrated clear proof-of-concept in migraine and which ALDR has full rights to, is itself worth at least this much and likely more. With the additional value from Alder's other lead asset Clazakizumab -- from which it stands to gain ~\$400M in what we believe to be high-probability pre-commercial RA milestones in the next years, notwithstanding future sales royalties and milestones -- as well as its high efficiency antibody production platform, this suggests Alder's \$300M EV significantly undervalues its assets.**

****While one question might be why Teva chose to acquire Labrys' rather than Alder's asset, we believe that with the recent IPO funding Alder was committed to further developing '403 on its own to further enhance the agent's value given the promising data to date, and we do not see this as any negative implication for the Alder program. One minor negative from today's announcement is that of the four anti-CGRP antibodies in development, the other three besides Alder are all now in the hands larger companies with greater development and commercial resources.**

****We note Teva's press release cites potential sales for LBR-101 at \$2-3B, which we believe highlights the significant revenue potential opportunity for this class of drugs in migraine, another positive for ALDR.**

****BOTTOM LINE: We see positive read-throughs for ALDR on this transaction and believe ALDR shares significantly undervalue the promise of the company's assets.**

Alder Biopharmaceuticals, Inc. (ALDR-NASDAQ)

Price as of 6/2/2014: \$12.26

FY 14 EPS: \$-1.00

FY 15 EPS: \$-0.15

Shares Out.: 29.9 MM

Market Cap.: \$366.57 MM

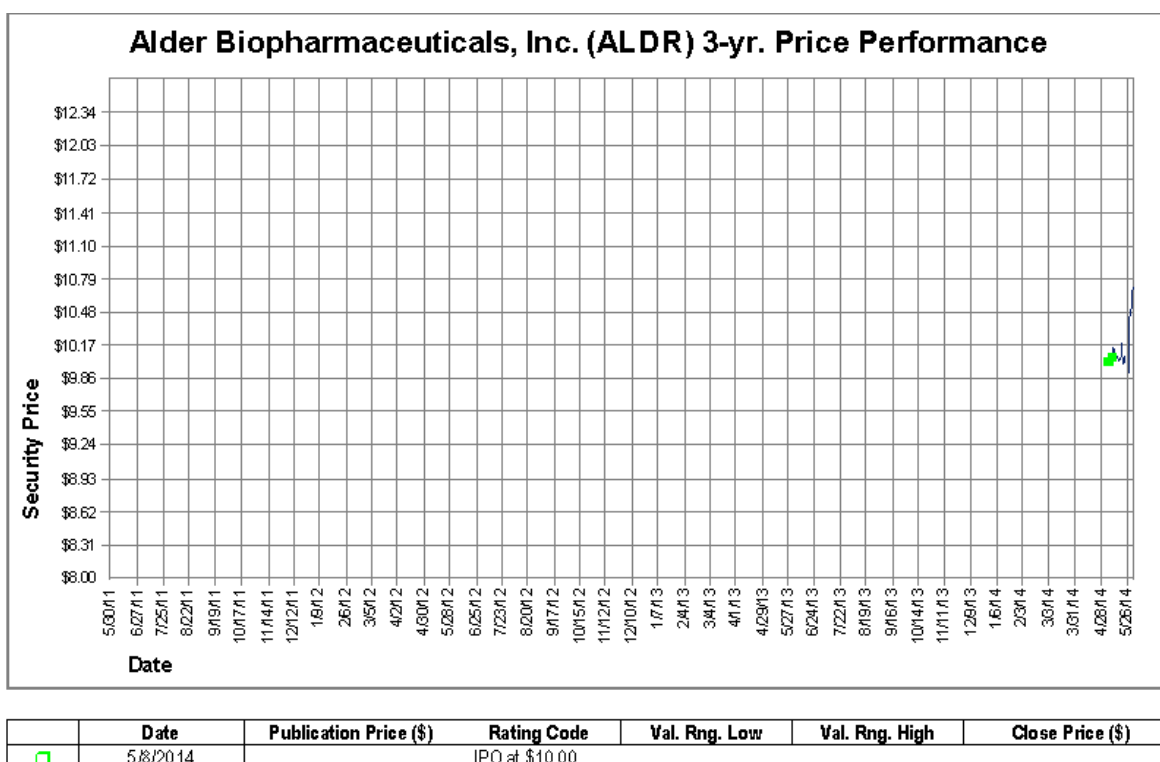
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Required Disclosures



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

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

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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.

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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: June 3, 2014

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