

Adamas Pharmaceuticals, Inc. (ADMS)

Overweight

4Q Update; ADS-5102 Phase III Data On Tap Before Year-End; Reiterate Overweight

CONCLUSION

We are updating our model to reflect Adamas' 4Q14 results. During 4Q14, ADMS recognized a \$30M milestone payment from partner Actavis related to the FDA approval of Namzaric, a fixed-dose combination of Namenda XR (i.e., memantine XR) and donepezil, for the treatment of moderate-to-severe dementia associated with Alzheimer's disease. With strong visibility on an attractive royalty stream related to sales of Namenda XR and Namzaric, along with the potential for ADS-5102 in levodopa-induced dyskinesias (LID) (we believe peak U.S. sales in LID of at least \$200M are realistic), we believe ADMS shares are attractively valued in the context of a market cap of under \$300M. We reiterate our Overweight rating and are raising our PT to \$37 from \$31, reflecting the rolling forward of the discounting period used in our PT calculation.

- **Phase III data for ADS-5102 expected before year-end.** Recall that in 2014, ADMS initiated three Phase III studies for ADS-5102, its extended-release (ER) formulation of amantadine for LID, and the company expects to have top-line results from the first of these studies before the end of 2015. We also note that ADMS intends to pursue expansion opportunities for the product (the company will likely provide color on other opportunities for ADS-5102 it intends to pursue, and these could include other movement disorders such as chorea associated with Huntington's disease, as well as neuropsychiatric disorders).
- **Namzaric launch expected in 2Q15.** We would expect to see ACT price Namzaric at a discount to Namenda XR, bearing in mind that donepezil is a commoditized generic at this point (the idea here is that ACT is looking to maximize Medicare Part D access). We note that Namenda XR accounts for around 40% of all prescription volumes for memantine, per IMS (and there has been an uptick in conversions to Namenda XR since ACT began a direct-to-consumer (DTC) campaign in January). Recall that ADMS is entitled to receive royalties on sales of Namenda XR and Namzaric starting five years following their respective launches. ADMS will receive a low-to-mid single digit royalty on Namenda XR sales (starting in 2018) and will receive a low-to-mid teens royalty on Namzaric sales (starting in 2020). With a strong patent estate protecting both products, we believe ADMS will benefit from a number of years of cash flows from these products (patents expire as late as 2029).
- **Cash resources look sufficient to reach profitability.** ADMS finished 2014 with \$121M in cash and short-term investments, up from \$85M at the end of 2013. Given the current cash balance, which was bolstered by the \$30M milestone payment from ACT, we do not believe that ADMS will need to access additional capital in order to reach profitability, which we expect will occur 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
2014A	0.2	25.2	0.2	30.3	55.8	5.2x	(0.67)	0.88	(0.57)	0.57	0.53	32.5x
2015E	0.0	0.0	0.0	0.0	0.0	NA	(0.60)	(0.60)	(0.61)	(0.63)	(2.44)	NM
2016E	—	—	—	—	0.0	NA	—	—	—	—	(2.26)	NM

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Adamas Pharmaceuticals, Inc.

PRICE: US\$17.25

TARGET: US\$37.00

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

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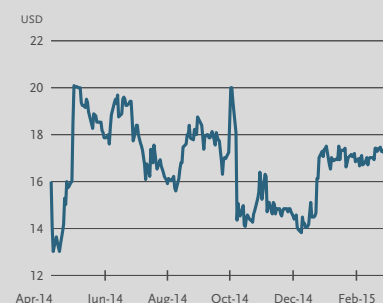
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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	US\$31.00	US\$37.00
FY15E Rev (mil)	30.0	0.0
FY16E Rev (mil)	—	0.0
FY15E EPS	(0.31)	(2.44)
FY16E EPS	—	(2.26)
52-Week High / Low	US\$21.63 / US\$12.02	
Shares Out (mil)	16.8	
Market Cap. (mil)	US\$289.8	
Avg Daily Vol (000)	126	
Book Value/Share	US\$8.65	
Net Cash Per Share	US\$3.61	
Debt to Total Capital	0%	
Div (ann)	US\$0.00	
Fiscal Year End	Dec	

Price Performance - 1 Year



Source: Bloomberg

Exhibit 1

4Q14: 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	\$30.3	\$0.0	
Total Revenue	\$30.3	\$0.0	\$10.0
<i>Expenses</i>			
COGS	\$0.0	\$0.0	
R&D	\$8.5	\$5.1	
SG&A	\$4.7	\$3.3	
Operating income	\$17.0	(\$8.4)	
Net Income	\$9.7	(\$8.4)	
Diluted shares outstanding	17.0	17.0	
Non-GAAP EPS, diluted	\$0.57	(\$0.49)	(\$0.24)

(1) Consensus estimates are prior to 4Q14 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	1H15
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	2015E		2016E		2017E		2018E	
	Current	Prior	Current	Prior	Current	Prior	Current	Prior
<i>Revenue</i>								
ADS-5102 Net Sales	\$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	\$16.7	\$16.7
Milestone Payments	\$0.0	\$30.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total revenue	\$0.0	\$30.0	\$0.0	\$0.0	\$48.5	\$48.5	\$108.6	\$108.6
<i>Consensus ⁽¹⁾</i>	<i>\$29.0</i>		<i>\$1.3</i>					
<i>Expenses</i>								
COGS	\$0.0	\$0.0	\$0.0	\$0.0	\$9.7	\$9.7	\$18.4	\$18.4
R&D	\$25.6	\$21.9	\$24.1	\$24.1	\$22.9	\$22.9	\$23.5	\$23.5
SG&A	\$17.5	\$13.8	\$19.0	\$19.0	\$34.0	\$34.0	\$38.6	\$38.6
Operating income	(\$43.1)	(\$5.7)	(\$43.1)	(\$43.1)	(\$18.0)	(\$18.0)	\$28.2	\$28.2
Net Income	(\$43.1)	(\$5.7)	(\$43.1)	(\$43.1)	(\$18.0)	(\$18.0)	\$28.2	\$28.2
Share Outstanding, diluted	17.7	18.4	19.0	19.0	20.0	20.0	30.0	30.0
Non-GAAP EPS, diluted	(\$2.44)	(\$0.31)	(\$2.26)	(\$2.26)	(\$0.90)	(\$0.90)	\$0.94	\$0.94
<i>Consensus ⁽¹⁾</i>	<i>(\$1.57)</i>		<i>(\$2.69)</i>					

(1) Consensus estimates are prior to 4Q14 earnings release

Source: Company reports and PJC estimates.

Adamas Pharmaceuticals - Quarterly and Annual Income Statement

2015E														
Fiscal Year Ends December 31														
(\$ In millions, except for EPS)														
	2012A	2013A	2014A	1QE	2QE	3QE	4QE	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	\$55.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Revenue	\$37.5	\$71.1	\$55.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$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	\$55.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$38.8	\$90.2	\$123.8	\$234.6	\$255.8
Research & development	9.2	7.4	21.9	6.1	6.3	6.5	6.7	25.6	24.1	22.9	23.5	22.9	22.3	21.7
Selling, general and administrative	8.3	6.7	15.5	4.2	4.3	4.4	4.6	17.5	19.0	34.0	38.6	42.8	46.4	47.7
Total expenses	\$17.5	\$14.1	\$37.3	\$10.3	\$10.6	\$10.9	\$11.3	\$43.1	\$43.1	\$56.9	\$62.0	\$65.7	\$68.7	\$69.4
Operating Income	\$19.9	\$57.0	\$18.5	(\$10.3)	(\$10.6)	(\$10.9)	(\$11.3)	(\$43.1)	(\$43.1)	(\$18.0)	\$28.2	\$58.1	\$165.9	\$186.4
Other income (expense), net	(1.9)	(4.9)	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income (loss) before taxes	\$18.0	\$52.1	\$17.6	(\$10.3)	(\$10.6)	(\$10.9)	(\$11.3)	(\$43.1)	(\$43.1)	(\$18.0)	\$28.2	\$58.1	\$165.9	\$186.4
Income tax provision	(0.3)	(1.2)	(7.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(18.6)
Net income (loss)	\$11.6	\$35.4	\$9.1	(\$10.3)	(\$10.6)	(\$10.9)	(\$11.3)	(\$43.1)	(\$43.1)	(\$18.0)	\$28.2	\$58.1	\$165.9	\$167.7
Non-GAAP EPS, basic	\$1.22	\$2.63	\$0.60	(\$0.60)	(\$0.60)	(\$0.61)	(\$0.63)	(\$2.44)	(\$2.26)	(\$0.90)	\$1.34	\$2.67	\$7.36	\$7.20
Non-GAAP EPS, diluted	\$1.17	\$2.63	\$0.53	(\$0.60)	(\$0.60)	(\$0.61)	(\$0.63)	(\$2.44)	(\$2.26)	(\$0.90)	\$0.94	\$1.86	\$5.10	\$4.96
Shares outstanding, basic	9.5	13.4	14.8	17.3	17.5	17.8	18.0	17.7	19.0	20.0	21.0	21.8	22.5	23.3
Shares outstanding, diluted	9.9	13.4	17.1	17.3	17.5	17.8	18.0	17.7	19.0	20.0	30.0	31.3	32.5	33.8
Expenses (as % of total revenues):														
COGS (as % of product sales)										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%	10.0%
Y-O-Y Growth rates:														
Total revenue											123.6%	35.5%	77.8%	9.5%
R&D								17.1%	-5.9%	-5.0%	2.5%	-2.5%	-2.5%	-2.5%
Selling, general and administrative								13.1%	22.8%	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. March 3, 2015

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Current disclosure information for this company can be found at <http://www.piperjaffray.com/researchdisclosures>

Adamas - Annual Cash Flow Statement

(\$ in millions)

	2012A	2013A	2014A	2015E	2016E	2017E	2018E	2019E
Beginning Cash & Equivalents	\$3.1	\$63.0	\$85.6	\$61.4	\$25.4	(\$9.1)	(\$23.2)	\$13.9
Operating Activities								
Net Income (loss)	\$17.7	\$50.9	\$9.1	(\$43.1)	(\$43.1)	(\$18.0)	\$28.2	\$58.1
Depreciation	\$0.0	\$0.1	\$0.2	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Other	\$1.9	\$4.6	(\$0.7)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)	(\$1.0)
Stock-based Compensation	\$0.8	\$0.6	\$7.2	\$4.0	\$6.0	\$8.0	\$10.0	\$11.0
Net Change in Assets and Liabilities	\$31.5	(\$29.4)	\$10.5	\$1.2	\$0.7	(\$6.0)	(\$2.9)	(\$1.9)
Cash From Operations	\$52.0	\$26.8	\$26.2	(\$38.8)	(\$37.3)	(\$16.9)	\$34.3	\$66.3
Investing Activities								
Capital Expenditures	(\$0.0)	(\$0.2)	(\$1.3)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)
Short-Term Investments	\$0.0	\$0.0	(\$96.1)	\$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)	(\$97.4)	(\$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	(\$0.4)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Stock and Option Issuances	\$4.0	\$0.0	\$47.4	\$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)	\$47.0	\$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	(\$24.2)	(\$36.0)	(\$34.5)	(\$14.1)	\$37.1	\$69.1
Year End Cash	\$63.0	\$85.6	\$61.4	\$25.4	(\$9.1)	(\$23.2)	\$13.9	\$83.0

Proprietary to Piper Jaffray. March 3, 2015

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Adamas - Annual Balance Sheet

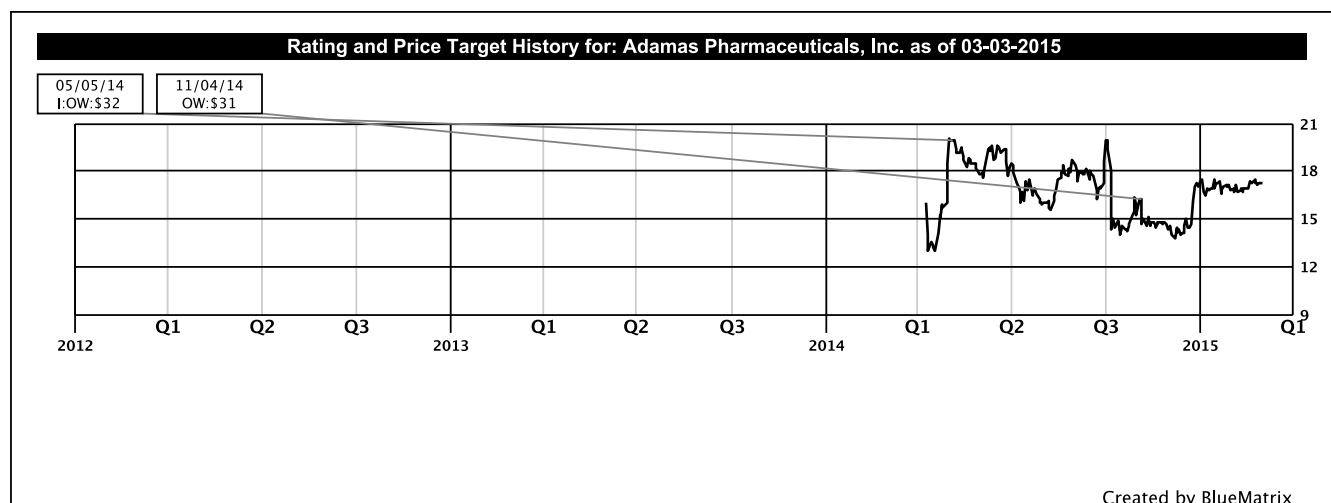
(\$ in millions)

	2012A	2013A	2014A	2015E	2016E	2017E	2018E	2019E
Current Assets								
Cash & Equivalents	\$63.0	\$85.6	\$61.4	\$25.4	(\$9.1)	(\$23.2)	\$13.9	\$83.0
Accounts Receivable, net	\$0.9	\$0.1	\$0.5	\$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	\$61.6	\$64.6	\$67.9	\$71.3	\$74.8	\$78.6
Total Current Assets	\$64.2	\$86.0	\$123.5	\$90.0	\$58.7	\$54.7	\$99.0	\$174.5
Property, Plant & Equipment, Net	\$0.1	\$0.2	\$1.2	\$1.3	\$1.4	\$1.5	\$1.6	\$1.7
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	\$36.4	\$36.4	\$36.4	\$36.4	\$36.4	\$36.4
Total Assets	\$64.3	\$86.2	\$161.2	\$127.8	\$96.6	\$92.6	\$137.1	\$212.7
Liabilities & Equity								
Current Liabilities	\$38.5	\$4.2	\$12.5	\$13.2	\$13.8	\$14.5	\$15.2	\$16.0
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	\$1.6	\$1.6	\$1.6	\$1.6	\$1.6	\$1.6
Equity	\$24.1	\$75.8	\$147.1	\$113.1	\$81.2	\$76.6	\$120.3	\$195.1
Total Liabilities & Equity	\$64.3	\$86.2	\$161.2	\$127.8	\$96.6	\$92.6	\$137.1	\$212.7

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ADMS: David Amsellem; 212.284.9455

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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

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	375	59.81	101	26.93
HOLD [N]	237	37.80	19	8.02
SELL [UW]	15	2.39	1	6.67

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

Analyst Certification — David Amsellem, Sr. Research Analyst

— Traver A. Davis, Research Analyst

— Michael C. Chang, Research Analyst

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- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

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