

## Adamas Pharmaceuticals, Inc.

### Second-Quarter Earnings a Non-event as Company Strengthens IP Portfolio and Clinical Programs Continue

- After the close on Thursday, August 7, Adamas Pharmaceuticals reported second-quarter earnings. We continue to view the company's financial results over the next several quarters as less important than the ongoing development of the company's wholly owned product, ADS-5102, an extended-release amantadine HCl for the treatment of levodopa-induced dyskinesia, or LID, as well as the ongoing milestone payments from Forest Laboratories. We list the expected events for the company through 2015 in exhibit 1, on page 2.
- ADS-5102 allows for more tolerable and effective dosing, which we believe has led to best-in-class data from the Phase II/III study. The company's second Phase III study for ADS-5102 is in progress, with enrollment to be completed in 2015 and data likely to report in 2016. The company also recently announced that it was issued a patent, U.S. Patent No. '337, entitled, "Composition and Method For Treating Neurological Disease" with claims directed toward the method for treating human subjects with amantadine therapy. Previously, the company received U.S. Patent No. '343, entitled, "Method of Administering Amantadine Prior to a Sleep Period" with claims directed toward administration before bedtime of certain formulations of amantadine HCl. ADS-5102 is now covered by three method-of-use patents that expire in 2027 and 2030 and has several patent applications within and outside the United States.
- In addition to ADS-5102, Adamas has a partnership with Forest Laboratories for Namenda XR and the development of a Namenda XR/donepezil fixed dose combination drug (MDX-9704). The Namenda XR/donepezil fixed dose combination NDA has been filed with the FDA by Forest and we expect approval by the end of first quarter 2015 or possibly sooner. Upon approval of MDX-9704, Adamas is set to receive up to a \$30 million milestone payment, with royalties from this partnership to begin in 2018. Following the high-profile acquisition of Forest Laboratories by Actavis (ACT \$203.94), a company that was challenging the Namenda patent franchise, for \$25 billion, we believe this royalty stream for Namenda has largely been de-risked.
- For the company's financial results in second quarter 2014, Adamas reported \$25.154 million in revenue, in line with consensus and our estimate of \$25.0 million, which was primarily due to a \$25 million milestone payment from Forest Laboratories for the development of MDX-8704, a fixed-dose combination of memantine HCl and donepezil HCl to treat moderate-to-severe dementia associated with Alzheimer's disease. R&D costs were \$5.173 million, up 88% from the first quarter, and higher than our estimate of \$3.5 million and consensus of \$3.9 million. G&A expenses were \$3.262 million, up 5% from the first quarter, which was in line with our estimate of \$3.3 million and slightly higher than consensus of \$3 million. Net income was \$16.429 million, below our estimate of \$19.898 million and above consensus of \$11 million. Quarterly numbers, consensus estimates, and our estimates are detailed in exhibit 2, on page 2. We continue to estimate Adamas will be profitable in 2015 based on full recognition of a milestone payment next year associated with the Namenda FDC. However, we do not believe the profitability of the company will likely be a focus of investors until it reaches sustainable profitability, which we do not anticipate until 2018 based on sales of ADS-5102.

*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.*

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Stock Rating: **Outperform**  
Company Profile: **Aggressive Growth**  
Price Target: \$35.00

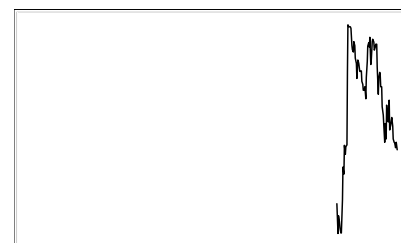
Symbol: ADMS (NASDAQ)  
Price: \$15.71 (52-Wk.: \$12-\$22)  
Market Value (mil.): \$262  
Fiscal Year End: December  
Long-Term EPS Growth Rate:  
Dividend/Yield: None

	2013A	2014E	2015E
<b>Estimates</b>			
EPS Q1	NA	A\$-0.67	NA
Q2	NA	A\$0.88	NA
Q3	NA	\$-0.35	NA
Q4	NA	\$-0.42	NA
FY	\$5.99	\$-0.27	\$0.21
CY		\$-0.27	\$0.21
Sales (mil.)	71	26	36
<b>Valuation</b>			
FY P/E	2.6x	NM	74.8x
CY P/E		NM	74.8x

<b>Trading Data (FactSet)</b>	
Shares Outstanding (mil.)	10
Float (mil.)	4
Average Daily Volume	94,849

<b>Financial Data (FactSet)</b>	
Long-Term Debt/Total Capital (MRQ)	0.0
Book Value Per Share (MRQ)	5.4
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 shares with an Outperform rating given our belief that ADS-5102 is an effective compound that should produce best-in-class ON/OFF time and reductions in dyskinesia in Parkinson's patients with levodopa-induced dyskinesia (LID). While data from the Phase II/III EASED study compared ADS-5102 with 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 estimate peak-year sales to exceed \$500 million. Our risk-adjusted NPV suggests a value of \$35 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 ongoing Namenda franchise conversion to Namenda XR, and the approval of Namenda XR/donepezil fixed dose combination. The usual regulatory, clinical, and competitive risks in development stage pharmaceuticals apply to shares of Adamas.

**Exhibit 1**  
**Adamas Pharmaceuticals, Inc.**  
**Timeline and Events**

Date	Product	Event	Description/Comments
<b>2014</b>			
H2 2014	ADS-5102	Clinical	Initiate Phase 2/3 chronic TBI study
<b>2015</b>			
H1 2015	MDX-8704 (Forest)	Regulatory	Potential approval of NDA filing (up to \$30MM milestone)
H2 2015	ADS-5102	Clinical	Complete enrollment of Phase 3 PD-LID study
H1 2015	ADS-5102	Clinical	Initiate additional Phase 2/3 study for ADS-5102

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

**Exhibit 2**  
**Adamas Pharmaceuticals, Inc.**  
**Second Quarter Results**

	ADMS Q1 14A	ADMS Q2 13A	ADMS Q2 14A	WB Q2 14E	Consensus Q2 14E	Q/Q Growth
(\$ in thousands except EPS)						
Contract/Service/Other Revenue	\$ 176	NA	\$ 25,154	\$ 25,000	\$ 25,000.0	14192%
Total Revenue	\$ 176.0	NA	\$ 25,154.0	\$ 25,000.0	\$ 25,000.0	14192%
R&D	\$ 2,758.0	NA	\$ 5,173.0	\$ 3,500.0	\$ 3,900.0	88%
G&A	\$ 3,109	NA	\$ 3,262	\$ 3,300	\$ 3,000.0	5%
Operating Income	\$ (5,691)	NA	\$ 16,719	\$ 18,200	\$ 11,900.0	194%
(Loss) income before taxes	\$ (6,379.0)	NA	\$ 16,607.0	\$ 18,950.0	\$ 11,900.0	160%
Net Income	\$ (6,380)	NA	\$ 16,429	\$ 19,898.0	\$ 11,000.0	158%
EPS	\$ (0.67)	NA	\$ 0.88	\$ 2.07	\$ 0.81	-231%

Source: Company reports, William Blair & Company L.L.C. estimates  
Consensus estimates reported by FactSet

**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. Given the strength of data to date and the known efficacy of amantadine in Parkinson's disease, we are risk-adjusting the probability of success by 75%. We assume peak-year sales six years after launch, which we believe is conservative given the familiarity of physicians treating with amantadine. We continue to assign an Outperform rating to shares of Adamas Pharmaceuticals.

**Exhibit 3**  
**Sum of the Parts Valuation**

Namenda Royalty	Life of Royalty	Discount Rate	Probability of Success	NPV Value	Value Per Share
Namenda Royalty	2018-2029	9%	65%	\$ 340	\$ 16.44
<b>Cash (\$M)</b>					
\$86					\$ 4.14
Base Value					\$ 20.57
	Peak Sales	Discount Rate	Probability of Success	Peak Sales	Value Per Share
ADS-5102	\$460	9%	75%	2019	\$ 16.35
NPV Value					\$ 706.29
NPV of Future Losses Per Share					\$ (2.80)
NPV Value Per Share					\$ 34.12

Source: William Blair & Company L.L.C. estimates

For per share numbers we use fully diluted share count of 20.7 million

**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 over 2014 and 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.



**Adamas Pharmaceuticals**  
**Earnings Model**  
 8/7/14  
 (\$ in millions except EPS data)

**Rating: Outperform**  
**Company Profile: Aggressive Growth**  
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	2011(A)	2012(A)	2013(A)	Q1(A)	Q2(A)	Q3(E)	Q4(E)	2014(E)	2015(E)	2016(E)	2017(E)	2018(E)
Product Revenue	-	-	-	-	-	-	-	-	-	-	-	-
ADS-5102	-	-	-	-	-	-	-	-	-	-	17,228	105,570
Royalty/Milestone Revenue	1,982	37,471	71,095	176	25,154	180	180	25,690	36,000	4,000	4,000	6,263
<b>Total Revenue</b>	1,982	37,471	71,095	176	25,154	180	180	25,690	36,000	4,000	21,227.8	111,833.4
yr/yr growth	NA	NA	NM	NA	NA	NA	NA	NM	40.1%	-88.9%	NM	426.8%
q/q growth	NA	NA		NA	14192.0%	-99.7%	0.0%					
incremental rev q/q												
<b>Cost of Goods Sold</b>	-	-	-	-	-	-	-	-	-	-	1,723	10,557
<b>Gross Profit</b>	1,982	37,471	71,095	176	25,154	180	180	25,690	36,000	4,000	19,505	101,276
<b>SG&amp;A</b>	3,388	8,330	6,667	2,758	3,262	3,500	3,600	13,120	16,000	29,500	35,400	38,940
Growth								97%	22%	40%	20%	10%
<b>R&amp;D</b>	6,652	9,192	7,410	3,109	5,173.0	3,800.0	5,000.0	15,375	17,000	20,000	23,000	25,300
Growth			-19%					107%	11%	18%	15%	10%
<b>Total Operating Expenses</b>	10,040	17,522	14,077	5,867	8,435	7,300	8,600	30,202	33,000	49,500	58,400	64,240
growth				NA	NA	NA	NA	115%	9%	50%	18%	10%
Operating Income	(8,058)	19,949	57,018	(5,691)	16,719	(7,120)	(8,420)	(4,512)	3,000	(45,500)	(38,895.0)	37,036.4
EBIT Margin								NM	NM	NM	NM	33%
growth y/y (%)				NA	NA	NA	NA	NM	NM	NM	NM	NM
Depreciation and Amortization	-	-	1,322.3	-	250	250	250	1,000	1,000	1,000	1,000	1,000
EBITDA		19,949.0	58,340.3	(5,691)	16,969	(6,870)	(8,170)	(3,762.0)	4,000.0	(44,500.0)	(37,895)	38,036
Interest and other income (expense)	(138)	(1,537)	(4,818)	-688	-112.0	750.0	750.0	3,000	2,000	1,500	1,500	8,000
Interest expense	(29)	(376)	(88)									
Income Before Taxes	(8,225.0)	18,036	52,112	(6,379)	16,607	(6,370)	(7,670)	(3,812)	5,000	(44,000)	(37,395)	45,036
Income Tax Provision	(19)	(300)	(1,191)	1	178	225	225	629	1,000	1,000	(7,479)	11,709
Effective Tax Rate			2.3%	NA	5.0%	NA	NA	NM	NA	NA	20%	26%
<b>Net Income</b>	\$ (8,244.0)	\$ 17,736.0	\$ 33,068	(6,380)	16,429	(6,595)	(7,895)	\$ (4,440.9)	4,000	(45,000)	(29,916)	33,327
Net income to common (diluted)	\$ (8,980.0)	\$ 11,596.0	\$ 35,353	(6,380)	16,429	(6,595)	(7,895)	\$ (4,440.9)	4,000	(45,000)	(29,916)	33,327
Net income to common per share (diluted)	\$ (3.12)	\$ 2.34	\$ 5.99	(0.67)	0.88	(0.35)	(0.42)	(0.27)	0.21	(2.31)	(1.51)	1.37
Basic avg. number of shares used in computing net income	2,878	4,744	4,753	9,525	15,604	15,704	15,804	14,159	16,054	16,454	16,854	23,090
Diluted avg. number of shares used in computing net income	2,878	4,962	5,903	9,525	18,590	18,690	18,790	16,399	19,040	19,440	19,840	24,240
<b>Key Ratios (GAAP unless noted)</b>												
Gross Margin		NM	NM	NM	NM	NM	NM	NM	NM	NM	90.0%	90.0%
R&D (% Total Rev.)		NM	NM	NM	NM	NM	NM	NM	NM	NM	108.3%	22.6%
SG&A (% Total Rev.)		NM	NM	NM	NM	NM	NM	NM	NM	NM	166.8%	34.8%
Operating Margin		NM	NM	NM	NM	NM	NM	NM	NM	NM	-183.2%	33.1%
Net Income Margin		NM	NM	NM	NM	NM	NM	NM	NM	NM	-140.9%	29.8%
<b>Revenue Growth</b>												
Growth Yr/Yr		NM	90%	NM	NM	NM	NM	NM	NM	NM	431%	427%
Growth Q/Q		NM		NM	NM	NM	NM					
<b>SG&amp;A Growth</b>												
Growth Yr/Yr		NM	-20%	NM	NM	NM	NM	97%	22%	84%	20%	10%
Growth Q/Q		NM		NM	NM	NM	NM					
<b>R&amp;D Growth</b>												
Growth Yr/Yr		NM	-19%	NM	NM	NM	NM	107%	11%	18%	15%	10%
Growth Q/Q		NM		NM	NM	NM	NM					

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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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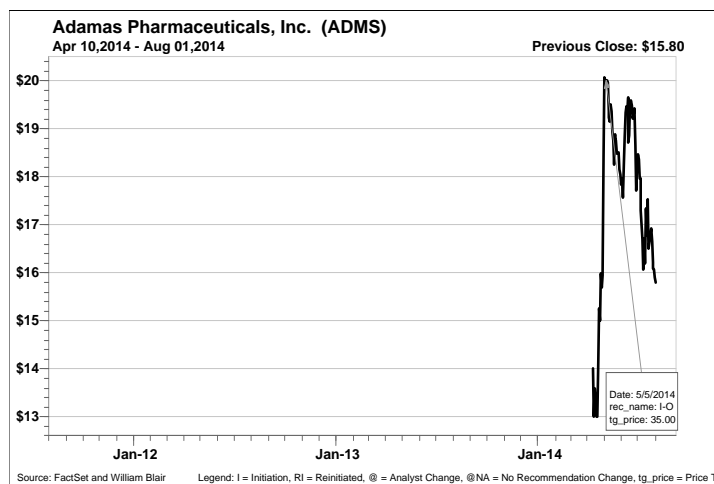
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DOW JONES: 16,368.27

S&P 500: 1,909.57

NASDAQ: 4,334.97



### **Current Rating Distribution (as of 07/31/14)**

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	66	Outperform (Buy)	16
Market Perform (Hold)	31	Market Perform (Hold)	3
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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