

Alder Biopharmaceuticals (ALDR)

SMALL & MID CAP RESEARCH



Rating	OUTPERFORM* [V]
Price (04 Mar 15, US\$)	26.62
Target price (US\$)	34.00 ¹
52-week price range	30.56 - 9.91
Market cap. (US\$ m)	979.79
Enterprise value (US\$ m)	840.11

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

[V] = Stock considered volatile (see Disclosure Appendix).

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Migraine Program on Track for H2:15 Data

ALDR is on track for ALD403 Phase IIb data in chronic migraine in H12:15 (primary clinical catalyst for ALDR shares), and plans to initiate a Phase IIb in frequent episodic migraine in H1:15. In 2015, we also anticipate a global deal for clazakizumab, and following the recent capital raise, we now expect an ex-US partner for ALD403 in 2016 (previously 2015). Our EPS estimate for 2015 decreases to (\$1.80) from (\$1.45) on lower forecast partnering revenue.

- **Phase IIb underway in migraine.** ALDR has initiated a Phase IIb in chronic migraine (data in H2:15) and plans to start a Phase IIb trial in frequent episodic migraine in H1:15 (data in 2016). We believe these trials will be major derisking events. Our current probability of success is 60%, so new data could provide a significant value inflection.
- **Route of administration could differentiate ALD403.** ALDR is developing ALD403 as an infrequent IV infusion and plans to start trials for a subcutaneous formulation. Its competitors are solely focused on subcutaneous administration, and an IV formulation may offer the benefit of less frequent dosing and financial incentives for neurologists with infusion centers.
- **ALDR plans to partner clazakizumab.** Clazakizumab is an attractive asset in our opinion, with significant Phase II data and sufficient material to support a Phase III program. We believe the most likely timing for a new partnership is after the Phase IIb data in RA in H1:15. We currently include clazakizumab with a 25% probability of success. Clean Phase IIb data and a new partner would take this probability up significantly. Importantly, Bristol continues to fund the program through June 2015 and ALDR is not going to commit resources to this program, keeping the focus on ALD403.

Financial and valuation metrics

Year	12/14A	12/15E	12/16E	12/17E
EPS (CS adj.) (US\$)	0.29	-1.80	-2.15	-2.23
Prev. EPS (US\$)	—	-1.45	—	—
P/E (x)	92.4	-14.8	-12.4	-11.9
P/E rel. (%)	512.3	-83.5	-79.2	-85.9
Revenue (US\$ m)	54.7	2.1	15.5	15.5
EBITDA (US\$ m)	9.5	-64.4	-81.8	-97.8
OCFPS (US\$)	-1.37	-1.40	-0.70	-2.46
P/OCF (x)	-21.3	-19.0	-38.1	-10.8
EV/EBITDA (current)	97.7	-14.4	-11.3	-9.5
Net debt (US\$ m)	-52	-140	-112	-165
ROIC (%)	130.43	1,357.40	145.74	240.41
Number of shares (m)	36.81	IC (current, US\$ m)		6.75
BV/share (Next Qtr., US\$)	1.4	EV/IC (x)		136.9
Net debt (Next Qtr., US\$ m)	-37.8	Dividend (current, US\$)		—
Net debt/tot eq (Next Qtr., %)	-84.6	Dividend yield (%)		—

Source: Company data, Credit Suisse estimates

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Exhibit 1: ALDR Variance Table

Income Statement	4Q:14 Act.	CS 4Q:14	
		Est	Delta
Revenues	\$ -	\$ -	\$ -
Royalties on Clazakizumab	\$ -	\$ -	
Collaboration and license agreement	\$ 6.4	\$ 6.2	\$ 0.2
Total Revenues	\$ 6.4	\$ 6.2	\$ 0.2
Expenses	\$ -	\$ -	\$ -
Research and development	\$ 10.0	\$ 7.5	\$ 2.5
Sales, general, administrative	\$ 3.4	\$ 3.5	\$ (0.1)
Total Operating Expenses	\$ 13.4	\$ 11.0	\$ 2.4
Operating income (loss)	\$ (7.0)	\$ (4.8)	\$ (2.2)
Total Other Income (Expense)	\$ 0.0	\$ 0.0	\$ 0.0
Pre Tax Income	\$ (6.9)	\$ (4.8)	\$ (2.2)
Income tax	\$ -	\$ -	\$ -
Net Income	\$ (6.9)	\$ (4.8)	\$ (2.2)
EPS - basic (proforma)	(\$0.22)	(\$0.15)	(\$0.07)

Source: Company data, Credit Suisse estimates

Exhibit 2: ALDR News Flow

Product	Catalyst	Expected Date	Price Sensitivity
Clazakizumab	Phase IIb dose exploration data in RA	H1:15	Medium
ALD403	Start Phase IIb dose ranging study in frequent episodic migraine patients	H1:15	Low
ALD403	Phase IIb dose ranging study data in chronic migraine (IV)	H2:15	High
Clazakizumab	Potential development partner	2015	High
ALD403	Data from frequent episodic migraine study	H1:16	High
ALD1613	Initiate Phase I for Cushing's disease	2016	Low
ALD403	Start Phase III in migraine	2016	Medium

Source: Company data, Credit Suisse

Exhibit 3: ALDR Pipeline

Drug	Target	Indication	Stage	Partner
ALD403	CGRP	Migraine	Phase II	Proprietary
Clazakizumab	IL-6	Rheumatoid Arthritis	Phase IIb	Proprietary
		Psoriatic Arthritis	Phase II	Proprietary
ALD1613	ACTH	Cushing's disease	Phase I in 2016	Proprietary
4 preclinical programs	TBA	TBA	Preclinical	Proprietary

Source: Company data, Credit Suisse

Exhibit 4: ALDR Model

	2013A	2014A	Q1:15E	Q2:15E	Q3:15E	Q4:15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues														
US sales of ALD403											32.4	168.6	394.7	547.5
Ex-US royalties on ALD403											0.7	0.7	6.3	23.7
Royalties on Clazakizumab											1.4	3.1	6.5	10.4
Collaboration and license agreement	18.8	54.7		0.7	0.7	0.7	2.1	15.5	15.5	79.9	120.0	12.0	6.0	
Total Revenues	18.8	54.7		0.7	0.7	0.7	2.1	15.5	15.5	79.9	153.8	184.4	413.5	581.6
Expenses														
Cost of goods											3.2	16.9	39.5	54.8
Research and development	31.9	33.4	10.5	11.5	14.0	15.0	51.0	74.0	90.0	92.0	87.0	77.0	75.0	72.0
Sales, general, administrative	7.7	12.5	3.7	4.0	4.2	4.3	16.2	24.0	24.0	26.0	35.0	40.0	45.0	40.0
Total Operating Expenses	39.6	45.9	14.2	15.5	18.2	19.3	67.2	98.0	114.0	118.0	122.0	117.0	120.0	112.0
Operating income (loss)	(20.8)	8.8	(14.2)	(14.8)	(17.5)	(18.6)	(65.1)	(82.5)	(98.5)	(38.1)	31.8	67.4	293.5	469.6
Total Other Income (Expense)	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.2
Pre Tax Income	(20.6)	8.9	(14.2)	(14.8)	(17.5)	(18.6)	(65.1)	(82.4)	(98.4)	(37.9)	32.0	67.6	293.7	469.8
Income tax													102.8	164.4
Net Income	(20.6)	8.9	(14.2)	(14.8)	(17.5)	(18.6)	(65.1)	(82.4)	(98.4)	(37.9)	32.0	67.6	190.9	305.4
EPS - basic (proforma)	(\$3.84)	\$0.44	(\$0.45)	(\$0.39)	(\$0.46)	(\$0.49)	(\$1.80)	(\$2.15)	(\$2.23)	(\$0.84)	\$0.71	\$1.47	\$4.12	\$6.53
EPS - diluted (proforma)	(\$3.84)	\$0.29	(\$0.45)	(\$0.39)	(\$0.46)	(\$0.49)	(\$1.80)	(\$2.15)	(\$2.23)	(\$0.84)	\$0.66	\$1.38	\$3.84	\$6.06
Shares outstanding - basic (proforma)	21.89	20.31	31.35	37.51	37.70	37.89	36.11	38.36	44.17	44.95	45.40	45.85	46.31	46.77
Shares outstanding - diluted (proforma)	21.89	30.93	31.35	37.51	37.70	37.89	36.11	38.36	44.17	47.93	48.53	49.14	49.76	50.40

Source: Company data, Credit Suisse estimates

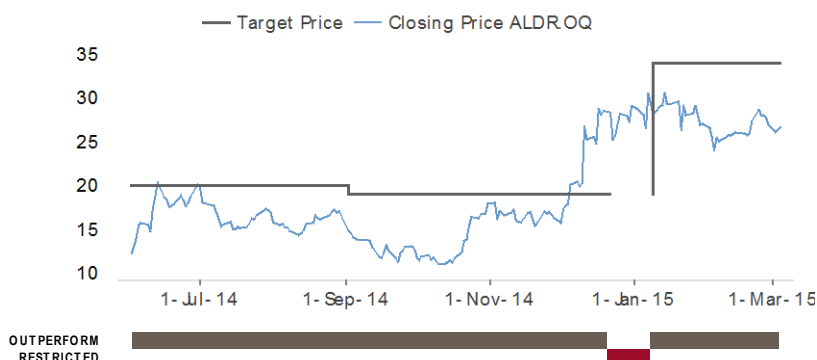
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3-Year Price and Rating History for Alder Biopharmaceuticals (ALDR.OQ)

ALDR.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
02-Jun-14	12.26	20.00	O *
02-Sep-14	14.80	19.00	
22-Dec-14	28.33		R
09-Jan-15	29.39	34.00	O

* Asterisk signifies initiation or assumption of coverage.



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Price Target: (12 months) for Alder Biopharmaceuticals (ALDR.OQ)

Method: Our \$34 valuation is justified by a fully-taxed, probability weighted, product level DCF for each of the two clinical stage programs plus the value of future NOLs. We assume an ex-US partner for ALD403 and significant dilution from future equity raises prior to profitability. Our DCF gets us to \$38 using current share count and \$30 assuming additional dilution (with no credit for the added cash). We use a blended valuation to arrive at our \$34 target.

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When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay the purchase price only.