

Adamas Pharmaceuticals, Inc.

(ADMS)

SMALL & MID CAP RESEARCH

Strengthened Cash Position on MDX-8704 Milestone; On Track Towards 1Q15 Launch



Rating	OUTPERFORM* [V]
Price (20 May 14, US\$)	18.88
Target price (US\$)	26.00 ¹
52-week price range	20.07 - 13.00
Market cap. (US\$ m)	315.44
Enterprise value (US\$ m)	195.07

*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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■ **Bottom Line:** Adamas announced receipt of a \$25 million milestone payment from Forest following the FDA's acceptance of the new drug application for MDX-8704 (Namenda XR + donepezil). Today's news is fully in-line with our expectations following Forest's submission of the application in March. Nonetheless, this allows for potential FDA approval and launch in 1Q 2015 with ADMS poised to obtain mid-double digit royalties starting five years later (in 1Q 2020). The milestone payment also strengthens ADMS's cash position further as they work to advance their own internal, wholly-owned assets, most notably ADS-5102 (once daily amantadine). We reiterate our Outperform rating on ADMS and our DCF-derived target price of \$26.

■ **Remain bullish on ADMS.** We continue to see Adamas as a quality specialty pharma company that is poised to deliver value by developing improved versions of existing drugs through important formulation enhancements. Extended-release versions of amantadine and memantine are the key focus of the Adamas story. The company is led by an experienced management team and post IPO is well capitalized to execute on its wholly-owned drug ADS-5102, while the partnership with FRX on the memantine franchise provides an important source of near-term and long-term economics. Several catalysts are also in place that should drive interest and generate value.

Financial and valuation metrics

Year	12/13A	12/14E	12/15E	12/16E
EPS (CS adj.) (US\$)	3.51	-0.43	-0.92	-2.58
Prev. EPS (US\$)	—	—	—	—
P/E (x)	5.4	-43.8	-20.4	-7.3
P/E rel. (%)	31.0	-274.0	-142.0	-56.4
Revenue (US\$ m)	71.1	25.2	27.0	—
EBITDA (US\$ m)	57.1	-0.7	-13.9	-43.7
OCFPS (US\$)	1.70	-0.21	-0.75	-2.44
P/OCF (x)	—	-90.5	-25.1	-7.7
EV/EBITDA (current)	4.1	-267.7	-15.0	-5.7
Net debt (US\$ m)	-79	-120	-107	-66
ROIC (%)	-1,536.54	95.56	462.35	1,638.07
Number of shares (m)	16.71	IC (current, US\$ m)	—	-3.63
BV/share (Next Qtr., US\$)	5.4	EV/IC (x)	—	-167.1
Net debt (Next Qtr., US\$ m)	-75.8	Dividend (current, US\$)	—	—
Net debt/tot eq (Next Qtr., %)	-101.9	Dividend yield (%)	—	—

Source: Company data, Credit Suisse estimates

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

ADMS Financial Exhibits

Exhibit 1: ADMS Income Statement (2013A-2023E)

in \$ thousands, except for per share data

		FY 2014															CAGR	
	FY 2013	Mar-14 1QA	Jun-14 2QE	Sep-14 3QE	Dec-14 4QE	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023		'17-'22	'22-'26
ADS-5102 US Revenue	0	0	0	0	0	0	0	0	29,864	60,437	94,993	122,114	142,080	163,803	187,268	41%	11%	
US Milestones and Royalty Revenue	71,095	176	25,000	0	0	25,176	27,000	0	0	6,677	11,792	99,808	131,083	132,611	134,279			
Ex US Milestones and Royalty Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0			
Total Revenue	\$71,095	\$176	\$25,000	\$0	\$0	\$25,176	\$27,000	\$0	\$29,864	\$67,114	\$106,785	\$221,923	\$273,163	\$296,414	\$321,547	58%	7%	
COGS	0	0	0	0	0	0	0	0	4,480	8,461	13,299	15,875	18,470	19,656	22,472			
Gross Profit	71,095	176	25,000	0	0	25,176	27,000	0	25,384	58,653	93,486	206,048	254,693	276,758	299,075	61%	7%	
Total SG&A	6,667	3,109	2,500	2,500	1,891	10,000	15,000	23,860	41,411	49,019	53,767	58,757	62,870	66,642	68,641	10%	3%	
R&D Expenses - LID Indication	7,410	2,021	2,750	3,000	3,229	11,000	11,000	5,000	3,000	0	0	0	0	0	0			
R&D Expenses - Other Programs	0	737	1,200	1,400	1,663	5,000	15,000	15,000	15,000	5,000	0	0	0	0	0			
R&D Expenses	7,410	2,758	3,950	4,400	4,892	16,000	26,000	20,000	18,000	5,000	0	0	0	0	0	NM	NM	
EBIT	57,018	(5,691)	18,550	(6,900)	(6,783)	(824)	(14,000)	(43,860)	(34,026)	4,635	39,719	147,291	191,823	210,116	230,434	NM	NM	
Interest income (expense), net	(88)	107	100	172	164	542	644	557	350	195	217	410	965	1,571	2,239			
Other income (expense) ,net	(4,818)	(795)	(250)	(250)	(255)	(1,550)	(1,000)	0	0	0	0	0	0	0	0			
Pretax Income	52,112	(6,379)	18,400	(6,978)	(6,874)	(1,832)	(14,356)	(43,303)	(33,677)	4,830	39,936	147,701	192,788	211,687	232,672			
NOLs Used	(3,500)	0	(6,379)	0	0	(6,379)	(13,852)	0	0	(4,830)	(39,936)	(62,976)	0	0	0			
Taxable Income	\$48,612	(\$6,379)	\$12,021	(\$6,978)	(\$6,874)	(\$8,211)	(\$28,208)	(\$43,303)	(\$33,677)	\$0	\$0	\$84,725	\$192,788	\$211,687	\$232,672			
Income Tax	1,191	1	4,508	0	0	4,509	957	0	0	97	799	31,772	72,296	79,383	87,252			
Net Income	\$50,921	(\$6,380)	\$13,892	(\$6,978)	(\$6,874)	(\$6,340)	(\$15,313)	(\$43,303)	(\$33,677)	\$4,733	\$39,137	\$115,929	\$120,493	\$132,305	\$145,420	NM	NM	
Weighted Average Shares - Diluted	15,801	9,525	20,610	20,641	20,673	17,862	20,751	20,954	21,141	21,329	21,516	21,704	21,891	22,079	22,266			
EPS- Diluted	\$3.51	(\$0.67)	\$0.67	(\$0.42)	(\$0.42)	(\$0.43)	(\$0.92)	(\$2.58)	(\$1.99)	\$0.22	\$1.82	\$5.34	\$5.50	\$5.99	\$6.53			
Depreciation & Amortization	66	22	18	24	30	95	146	165	210	233	290	358	536	666	844			
EBITDA	\$57,084	(\$5,669)	\$18,568	(\$6,876)	(\$6,753)	(\$729)	(\$13,854)	(\$43,695)	(\$33,816)	\$4,867	\$40,008	\$147,649	\$192,358	\$210,782	\$231,277	NM	NM	
Margin Analysis																		
Overall Gross Margin								NM	85.0%	87.4%	87.5%	92.8%	93.2%	93.4%	93.0%			
COGS as % of Product Revenue								15.0%	15.0%	14.0%	14.0%	13.0%	13.0%	12.0%	12.0%			
SG&A as % of Product Revenue								NM	138.7%	81.1%	56.6%	48.1%	44.2%	40.7%	36.7%			
R&D Margin								NM	60.3%	7.4%	0.0%	0.0%	0.0%	0.0%	0.0%			
EBIT Margin								NM	NM	6.9%	37.2%	66.4%	70.2%	70.9%	71.7%			
EBITDA Margin								NM	NM	7.3%	37.5%	66.5%	70.4%	71.1%	71.9%			
Statutory Tax Rate	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%	37.5%			
Effective Tax Rate	2.3%	NM	24.5%	0.0%	0.0%	NM	NM	0.0%	0.0%	2.0%	2.0%	21.5%	37.5%	37.5%	37.5%			
Net Income								NM	NM	7.1%	36.7%	52.2%	44.1%	44.6%	45.2%			
Year/Year Changes																		
Product Revenue								NM	NM	102.4%	57.2%	28.6%	16.4%	15.3%	14.3%			
Revenue								-100.0%	NM	124.7%	59.1%	107.8%	23.1%	8.5%	8.5%			
Gross Profit								-100.0%	NM	131.1%	59.4%	120.4%	23.6%	8.7%	8.1%			
SG&A								59.1%	73.6%	18.4%	9.7%	9.3%	7.0%	6.0%	3.0%			
R&D								-23.1%	-10.0%	-72.2%	-100.0%	NM	NM	NM	NM			
EBITDA								NM	NM	722.0%	269.0%	30.3%	9.6%	9.7%	9.7%			
EBIT								NM	NM	NM	757.0%	270.8%	30.2%	9.5%	9.7%			
Net Income								NM	NM	NM	726.9%	196.2%	3.9%	9.8%	9.9%			

Source: Company data, Credit Suisse estimates

Exhibit 2: ADMS Balance Sheet (2013A-2023E)

in \$ thousands, except for per share data

	FY 2013	Mar-14 1QA	Jun-14 2QE	Sep-14 3QE	Dec-14 4QE	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
ASSETS															
Current assets:															
Cash and cash equivalents	85,612	79,799	137,414	131,025	124,389	124,389	111,321	69,965	39,044	43,416	81,909	193,057	314,234	447,731	594,322
Accounts receivable, net	129	251	200	200	200	200	200	800	2,864	5,516	8,777	15,200	16,465	17,054	17,619
Prepaid expenses and other current assets	267	542	516	552	543	543	800	877	1,597	1,562	1,677	1,866	2,034	2,157	2,278
Total current assets	86,008	80,592	138,130	131,777	125,132	125,132	112,321	71,643	43,505	50,494	92,363	210,123	332,732	466,942	614,219
Property and equipment, net	199	254	436	611	804	804	1,258	1,592	1,782	2,221	2,999	4,860	6,510	8,215	9,944
Other assets	9	1,949	20	20	20	20	20	100	149	336	534	1,110	1,366	1,482	1,608
TOTAL ASSETS	86,216	82,795	138,586	132,408	125,956	125,956	113,599	73,335	45,436	53,050	95,896	216,093	340,608	476,640	625,771
LIABILITIES & STOCKHOLDERS' EQUITY															
Current liabilities:															
Accounts payable	2,097	1,985	2,121	2,268	2,230	2,230	3,288	3,605	5,251	5,135	5,512	6,134	6,685	7,093	7,489
Accrued liabilities	2,119	2,430	2,064	2,208	2,171	2,171	2,000	2,193	3,195	3,124	3,353	3,732	4,067	4,315	4,556
Convertible notes payable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Deferred revenue	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest payable and other current liabilities	2	4	129	138	136	136	200	219	319	312	335	373	407	431	456
Total current liabilities	4,218	4,419	4,314	4,614	4,536	4,536	5,488	6,017	8,765	8,572	9,201	10,239	11,159	11,839	12,500
Warrant liability	6,232	4,020	4,020	4,020	4,020	4,020	4,020	4,020	4,020	4,020	4,020	4,020	4,020	4,020	4,020
Other non current liabilities	12	11	15	15	15	15	20	30	60	134	214	444	546	593	643
Total liabilities	10,462	8,450	8,349	8,649	8,571	8,571	9,528	10,067	12,845	12,726	13,435	14,703	15,726	16,452	17,163
Commitments and contingencies															
Convertible preferred stock, \$0.001 par value	19,149	23,013	23,013	23,013	23,013	23,013	23,013	23,013	23,013	23,013	23,013	23,013	23,013	23,013	23,013
Stockholders' equity															
Common stock, \$0.001 par value	14	14	17	17	17	17	17	17	17	17	18	18	18	18	18
Additional paid-in capital	77,163	78,270	120,267	120,767	121,267	121,267	123,267	125,767	128,767	131,767	134,766	137,766	140,766	143,766	146,766
Accumulated deficit	(20,572)	(26,952)	(13,060)	(20,038)	(26,912)	(26,912)	(42,226)	(85,529)	(119,206)	(114,473)	(75,336)	(40,593)	(161,086)	(293,390)	(438,811)
Total stockholders' equity	56,605	51,332	107,224	100,746	94,372	94,372	81,058	40,255	9,578	17,311	59,448	178,377	301,870	437,174	585,595
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	86,216	82,795	138,586	132,408	125,956	125,956	113,599	73,335	45,436	53,050	95,896	216,093	340,608	476,640	625,771

Source: Company data, Credit Suisse estimates

Exhibit 3: ADMS Cash Flow Statement (2013A-2023E)

in \$ thousands, except for per share data

		FY 2014													
	FY 2013	Mar-14 1QA	Jun-14 2QE	Sep-14 3QE	Dec-14 4QE	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Cash Flow From (Used in) Operating Activities:															
Net income	50,921	(6,380)	13,892	(6,978)	(6,874)	(6,340)	(15,313)	(43,303)	(33,677)	4,733	39,137	115,929	120,493	132,305	145,420
Depreciation and amortization	66	22	18	24	30	95	146	165	210	233	290	358	536	666	844
Stock-based compensation	640	1,047	500	500	500	2,547	2,000	2,500	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Change in preferred stock warrant value	4,526	664	0	0	0	664	0	0	0	0	0	0	0	0	0
Provision for employee notes receivable	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Noncash interest expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Issuance of common stock and vesting of restricted comm	52	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Changes in assets and liabilities															
Prepaid expenses and other assets	79	(275)	26	(36)	9	(276)	(257)	(77)	(720)	35	(115)	(189)	(168)	(124)	(120)
Accounts receivable	761	(122)	51	0	0	(71)	0	(600)	(2,064)	(2,653)	(3,261)	(6,423)	(1,264)	(589)	(565)
Accounts payable	(1,157)	(2,052)	136	148	(38)	(1,807)	1,058	317	1,646	(116)	377	622	551	408	396
Accrued liabilities and other liabilities	523	311	(366)	144	(37)	52	(171)	193	1,002	(71)	229	378	335	248	241
Deferred revenue	(29,611)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other assets and liabilities	0	0	2,058	9	(2)	2,065	69	(51)	81	(119)	(96)	(308)	(120)	(45)	(51)
Net Cash From (Used in) Operating Activities	26,801	(6,785)	16,315	(6,189)	(6,413)	(3,072)	(12,468)	(40,856)	(30,522)	5,043	39,562	113,367	123,363	135,868	149,164
Cash Flow From (Used in) Investing Activities:															
Purchase of property and equipment	(167)	(77)	(200)	(200)	(223)	(700)	(600)	(500)	(400)	(671)	(1,068)	(2,219)	(2,185)	(2,371)	(2,572)
Net Cash From (Used in) Investing Activities	(167)	(77)	(200)	(200)	(223)	(700)	(600)	(500)	(400)	(671)	(1,068)	(2,219)	(2,185)	(2,371)	(2,572)
Cash Flow From (Used in) Financing Activities:															
Proceeds from issuance of convertible preferred stock, ne	0	1,013	0	0	0	1,013	0	0	0	0	0	0	0	0	0
Proceeds from issuance of common stock	21	36	41,500	0	0	41,536	0	0	0	0	0	0	0	0	0
Proceeds from issuance of convertible promissory notes a	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal payments on convertible promissory notes	(4,000)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Cash From (Used in) Financing Activities	(3,979)	1,049	41,500	0	0	42,549	0	0	0	0	0	0	0	0	0
Net increase in cash and cash equivalents	22,655	(5,813)	57,615	(6,389)	(6,636)	38,777	(13,068)	(41,356)	(30,922)	4,372	38,494	111,148	121,177	133,496	146,591
Cash and cash equivalents at beginning of period	62,957	85,612	79,799	137,414	131,025	85,612	124,389	111,321	69,965	39,044	43,416	81,909	193,057	314,234	447,731
Cash and cash equivalents at end of period	85,612	79,799	137,414	131,025	124,389	124,389	111,321	69,965	39,044	43,416	81,909	193,057	314,234	447,731	594,322

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 20-May-2014)

Adamas Pharmaceuticals, Inc. (ADMS.OQ, \$18.88, OUTPERFORM[V], TP \$26.0)
Forest Laboratories Inc. (FRX.N, \$92.66)

Disclosure Appendix

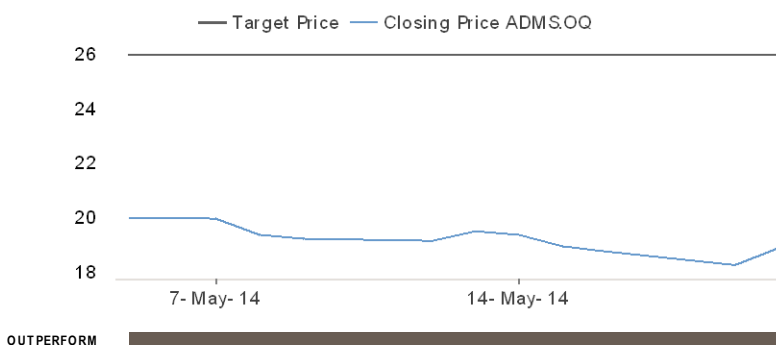
Important Global Disclosures

I, Vamil Divan, MD, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Adamas Pharmaceuticals, Inc. (ADMS.OQ)

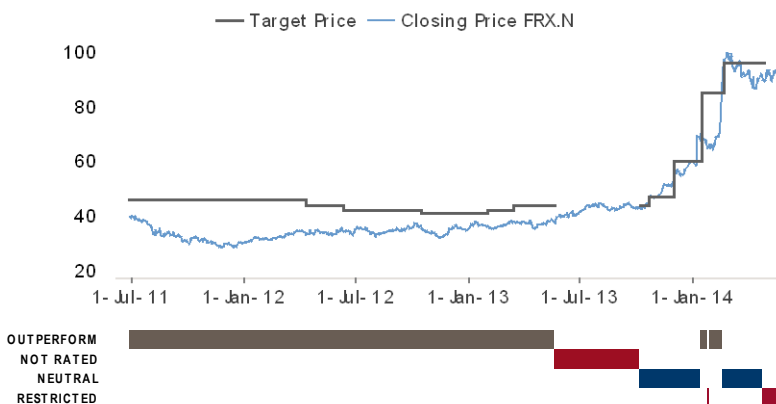
ADMS.OQ	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
05-May-14	20.00	26.00	O *

* Asterisk signifies initiation or assumption of coverage.

**3-Year Price and Rating History for Forest Laboratories Inc. (FRX.N)**

FRX.N	Closing Price	Target Price	
Date	(US\$)	(US\$)	Rating
28-Jun-11	39.71	46.00	O
11-Apr-12	33.54	44.00	
11-Jun-12	34.43	42.00	
16-Oct-12	35.43	41.00	
31-Jan-13	36.30	42.00	
15-Mar-13	38.04	44.00	
22-May-13	37.51		NR
08-Oct-13	42.65	44.00	N *
22-Oct-13	46.54	47.00	
02-Dec-13	56.32	60.00	
16-Jan-14	68.28	85.00	O
27-Jan-14	65.14		R
31-Jan-14	66.30	85.00	O
21-Feb-14	96.88	96.00	N
28-Apr-14	89.50		R

* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings

are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	44%	(54% banking clients)
Neutral/Hold*	40%	(50% banking clients)
Underperform/Sell*	13%	(46% banking clients)
Restricted	3%	

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Price Target: (12 months) for Adamas Pharmaceuticals, Inc. (ADMS.OQ)

Method: Our \$26 target price is based on discounted cash flow valuation. We use a 10.5% weighted average cost of capital and forecast discounted cash flows through 2029, with no terminal value thereafter.

Risk: Risks to our \$26 target price are (1) Pipeline setbacks; (2) slower-than-expected membrane franchise growth; and (3) earlier-than-expected generic competition for key products.

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See the Companies Mentioned section for full company names

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