October 16, 2014

WELLS FARGO SECURITIES

Equity Research

Alder Biopharmaceuticals, Inc.

ALDR: : '403 A Competitive Asset In Large Migraine Space

Outperform / V

Sector: Biotechnology
Market Weight

Company Note

- **Summary:** This week we had the opportunity to spend time with several members of ALDR's management team, where we spoke with them extensively about the company's development programs. Coming out of this, our view remains that ALD403 could be a competitive entrant within what we believe is a large, underappreciated migraine prophylaxis space, and that additional maturity of the program as well as data from competitors should help further de-risk the story and increase attention to the substantial long-term opportunity. Though this could take some time to play out, if '403 is successful we believe ALDR has the potential for some of the most significant appreciation within our coverage universe.

- **ALD403 stacking up well vs. competition.** While several other larger companies are also developing anti-CGRP antibodies for migraine prophylaxis, we continue to believe ALDR's asset is as good or better, and that the market will be broad enough to support multiple entrants. To that end, we believe ALDR made a reasonable case as well for the potential differentiation of ALD403 from other antibodies, including a combination of PK/PD and clinical data supporting its potential more rapid onset and longer durability of action (vs. LLY's antibody, arguably their most important competitor). ALDR also noted that injection site pain was not observed in their prior SC study nor is it being seen in the ongoing ph.I - something which could serve as another potential commercial advantage. The company's market research suggests to them that having both IV and SC formulations could give them more flexibility, though we still believe the SC will be preferable for most patients.

- **Phase II plan for '403 proceeding on track.** The ph.IIb study for chronic migraine (15+ headache days/month) is set to kick off next month, on track, though it will likely be about a year before 12-week primary endpoint data is available. Recall the study will test 4 single IV doses, lower than the 1000mg IV dose used in the initial proof-of-concept study, which should both help identify a minimally effective/durable dose as well as establish efficacy in a more severe population -- one in which an antibody may be initially most adopted commercially and in which several competitors are not yet pursuing. The next ph.IIb study, in high frequency migraine patients, will be a 6-month study testing monthly SC doses, set to begin 2Q15 and read out mid-2016. Dosing for the latter study will be guided by results of an ongoing ph.I study of the SC form, which should read out 1Q15 and help show safety/tolerability with multiple doses, as well as confirm good bioavailability of SC -- providing an incremental near-term catalyst.

- *Continued on following page*

Valuation Range: $19.00 to $21.00
Our valuation range is based on applying a 25x multiple to our 2022 estimated EPS and discounting at 15%, blended with 7x sales multiple of 2022 estimated sales, and discounting at 12%. Risks include emergence of a safety signal, and competition in the migraine/RA spaces.

Investment Thesis:
We believe Alder is undervalued based on the long-term promise of ALD403 and Clazakizumab.

	2013A	2014E		2015E	
EPS		Curr.	Prior	Curr.	Prior
Q1 (Mar.)	NE	($5.38) A	NC	NE	
Q2 (June)	(5.27)	(0.40) A	NC	NE	
Q3 (Sep.)	NE	(0.28)	NC	NE	
Q4 (Dec.)	NE	(0.31)	NC	NE	
FY	($20.57)	($1.53)	NC	($1.20)	NC
CY	($20.57)	($1.53)		($1.20)	
FY P/EPS	NM	NM		NM	
Rev.(MM)	$19	$19		$20	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile, = Company is on the Priority Stock List

Ticker	ALDR
Price (10/15/2014)	$11.41
52-Week Range:	$9-23
Shares Outstanding: (MM)	29.9
Market Cap.: (MM)	$341.2
S&P 500:	1,862.49
Avg. Daily Vol.:	172,921
Dividend/Yield:	$0.00/0.0%
LT Debt: (MM)	$0.0
LT Debt/Total Cap.:	0.0%
ROE:	NM
3-5 Yr. Est. Growth Rate:	NM
CY 2014 Est. P/EPS-to-Growth:	NM
Last Reporting Date:	08/05/2014 After Close

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Please see page 3 for rating definitions, important disclosures and required analyst certifications
All estimates/forecasts are as of 10/16/14 unless otherwise stated.

Continued from Front-page bullets

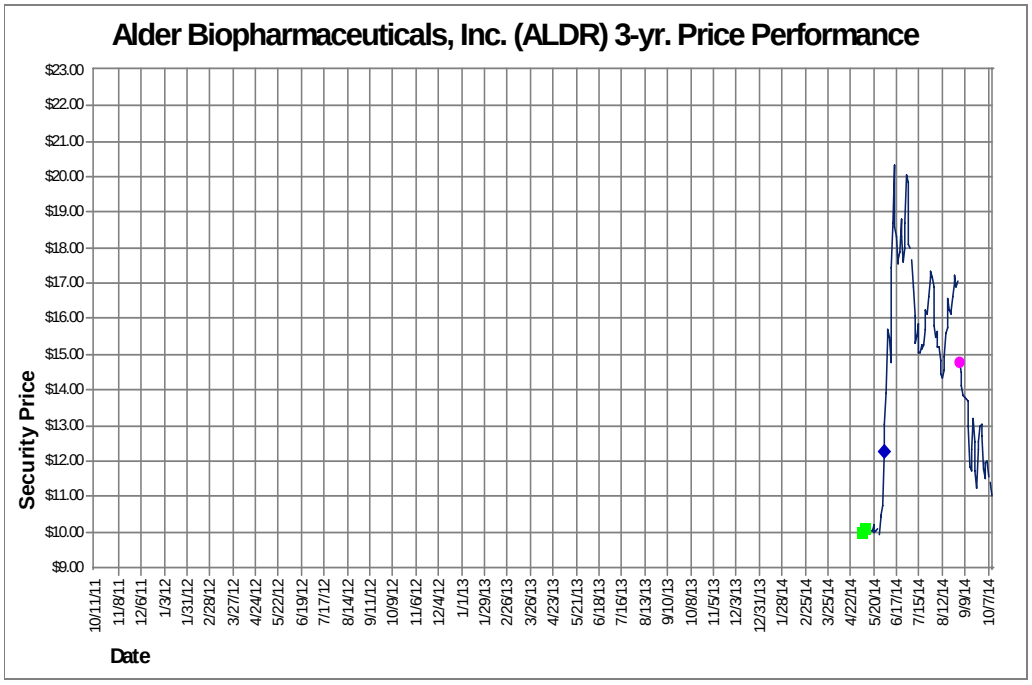
- **Strong validity for CGRP approach to preventing migraine remains.** We believe detailed data from both '403 and LLY's antibody, both recently published in Lancet Neurology, as well as the impressive full 6-month data for '403 showing durable migraine suppression, support the real activity of the approach. Additionally, we note that data from a prophylaxis study for MRK's small molecule CGRP antagonist telcagepant, published last month for the first time, also demonstrated evidence of a reduction in mean headache days; while the small molecule CGRP antagonists were discontinued years ago for toxicity, we believe this further corroborates that the anti-CGRP mechanism is effective for migraine prevention - helping de-risk '403. No concerning safety signals have emerged in the detailed published data for the CGRP antibodies, and we believe ALDR provided good reassurance that those few QTc prolongation cases noted in the '403 publication were just noise (no mean QTc differences vs. placebo, no issues seen in toxicology or primate studies, no biological rationale, no history of anti-CGRP link to QTc prolongation).

- **Clazakizumab awaiting potential partnership; third program to be announced shortly.** ALDR continues to work toward determining the best path forward for Clazakizumab following BMY's return of the anti-IL-6 antibody, but our clear sense was that ALDR is not committing significant resources to the program at this time. We believe this is a prudent prioritization of recourses (ALDR should have about one year of cash by end-2014), given the greater differentiation of '403. Claza re-partnership discussions are ensuing, with the potential for a partnership to provide non-dilutive capital, though the process is likely to take up to a year. In the meantime, psoriatic arthritis data for claza is still expected to be presented at ACR 4Q14. ALDR also appeared enthusiastic about another antibody they expect to move into the clinic next year for an orphan indication likely with less competition than the RA or migraine spaces, whose identity could be announced by early-'15 and which we believe could add another dimension to the story and platform.

Company Description:

Alder Biopharmaceuticals, based in Bothell, Washington, is a clinical stage biopharmaceutical company with differentiated antibody discovery and manufacturing platform to design and select antibodies that have the potential to maximize efficacy in various therapeutic indications including inflammatory and neurological conditions. Additionally, the company's proprietary manufacturing platform, MabXpress, has potential to streamline the manufacturing process compared with the more traditional biologics manufacturing systems, potentially resulting in faster, more scalable, and more cost effective. The company's lead and wholly-owned program, ALD403, is in ph.II and the clinical data thus far supports strong treatment effect in treating migraine. Clazakizumab (anti-IL-6 antibody) is partnered with BMY and it is currently undergoing studies in ph.II for RA and psoriatic arthritis. The company has 4 additional programs in preclinical stage expected to enter the clinic in the future.

Required Disclosures



	Date	Publication Price ($)	Rating Code	Val. Rng. Low	Val. Rng. High	Close Price ($)
❐	5/8/2014		IPO at $10.00			
	6/2/2014		Abrahams, M.D.			
◆	6/2/2014	10.74	1	22.00	24.00	12.26
●	9/2/2014	14.25	1	19.00	21.00	14.80

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

▼	Rating Downgrade	◆	Initiation, Resumption, Drop or Suspend
▲	Rating Upgrade	■	Analyst Change
●	Valuation Range Change	❐	Split Adjustment

Rating Code Key

1	Outperform/Buy	SR	Suspended
2	Market Perform/Hold	NR	Not Rated
3	Underperform/Sell	NE	No Estimate

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

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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

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As of: October 16, 2014

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