Equity Research Report – Alder Biopharmaceuticals Inc. (ALDR)

Authors

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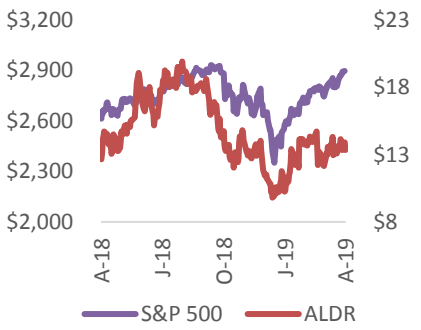
Rating	**NEUTRAL**
Price (Apr 13, 2019)	US$ 13.22
Target Price*	US$ 24.87
52 Week Price Range**	US$ 9.44 – 20.87
Market Cap	US$ 1,099m
Enterprise Value	US$ 1,693.68m

*12-Month Target Price
** Current

Alder Biopharmaceuticals *is a clinical-stage biopharmaceutical company focused on transforming the migraine treatment paradigm through the discovery, development and commercialization of novel therapeutic antibodies. Eptinezumab (ALD403) is ALDR's pivotal-stage monoclonal antibody (mAb) that inhibits calcitonin gene-related peptide (CGRP), a neuropeptide that plays an important role in migraine pathophysiology. Its other product candidate, ALD1910 is currently undergoing Investigational New Drug (IND)-enabling preclinical studies.*



Stock Price Movement

Submission for BLA review of ALD403 – Foreboding an upward stock trend

- **We initiated coverage of ALDR with a Outperform[V] rating and target price of US$ 24.87.**
- **Punching up the market ladder:** We rated Alder Biopharmaceuticals **Outperform** taking into consideration its recent application for BLA and volatile**[V]** rating pertaining to the stock price volatility in the recent past. ALD403's BLA is expected to be approved by early 2020 with commercialization of the product starting in Q4 2020. Since the beginning of the year ALDR's stock has been trading well above the 100-day MA with a stable RSI around 50, indicating a neutral buy/sell pressure. The MACD line indicator and Bollinger bands depict some sluggishness for ALDR's stock. We recommend to buy/hold the stock for at least the next 12-18 months
- **Augmentation catalysts: 1.** ALDR submitted BLA for ALD403 to the FDA in February 2019 and expects an approval by early 2020.
  2. ALD403 is currently in late-stage clinical development and, if approved, will be the first-to-market infusion therapy for migraine prevention
  3. Toxicology study for ALD1910 in progress to enable phase 1 studies expected to be initiated by the end of 2019
  4. Appointment of new COO having a relevant commercial experience in launching novel neurological drugs in competitive markets
- **ALDR entry barriers:** The concern over the ability of ALD403 to capture the market has strengthened insomuch due to the launch of similar competitive products with CGRP inhibiting therapies like Amgen's Aimovig, Lilly's Emgality and Teva's Ajovy in 2018. However, given the fact that Eptinezumab is the only potent and selective anti-CGRP monoclonal antibody, we remain optimistic about ALD403's potential.

Financial and Valuation Metrics

	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue (m US$)	0	91	387	625	884	1,026	1,231
EBITDA (m US$)	-284	-222	33	238	465	587	765
EBIT (m US$)	-291	-227	29	234	461	583	762
EV/EBITDA (x)	-5.8	-7.4	49.3	6.9	3.6	2.8	2.2
EV/SALES (x)	-	18.2	4.3	2.6	1.9	1.6	1.3
EV/EBIT (x)	-5.7	-7.3	56.6	7.0	3.6	2.8	2.2
P/E (current) (x)	-2.7	-3.3	-55.3	4.7	2.1	1.7	1.2
EPS (x)	-4.9	-4.0	-0.2	2.8	6.1	7.9	10.5

Source: Company Financials, Our Analysis

- **Valuation:** The valuation is derived by simulating different scenarios based on variations in ALD403's expected market share. We have adopted a more conservative approach in projecting the sales based on the expected market shares incorporating the population growth statistics. As a result, we extrapolated a **$11.55-$36.53** target price range employing a discount rate of **17.29%** - which includes weighted cost of equity **13.9%** and weighted cost of debt **2.78%** and an alpha component of **0.6%** based on regression analysis of ALDR stock return against S&P 500 return. We considered a terminal growth rate of **0.5%**. Potential risks include competing products like Aimovig, Emgality and Ajovy. ALDR is expected to make substantial capital expenditure during 2019 through 2021 for setting up of new infrastructure. This we expect to be funded by infusion of equity. The growth in EPS is from US **$-4.87 in 2018A to US$ 8.5 in 2025E** with a CAGR of **-208%** (this number is mathematically negative as the beginning period EPS is negative).

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Floor Value (US$)	11.55

Our Floor Valuation is based on % market share (by revenue) of ALD403 by 2025 and possible delay in commercialization of the product. It is further based on DCF driven by a discount rate of 17.29% and terminal growth of 0.5%.

Ceiling Value (US$)	36.53

Our Floor Valuation is based on 21% market share (by revenue) of ALD403 by 2025 and existence of a higher population being able to buy the drug. It is further based on DCF driven by a discount rate of 17.29% and terminal growth of 0.5%.

- **Sensitivity Analysis:**

Enterprise Value

Discount Rates \ Terminal Growth Rates	0.25%	0.50%	1.00%	1.50%
15.00%	2,150	2,184	2,257	2,336
16.00%	1,922	1,951	2,012	2,077
17.29%	1,670	1,694	1,743	1,795
18.00%	1,550	1,571	1,614	1,661
19.00%	1,396	1,414	1,452	1,491

Target Share Price

Discount Rates \ Terminal Growth Rates	0.25%	0.50%	1.00%	1.50%
15.00%	31.57	32.08	33.15	34.30
16.00%	28.22	28.65	29.55	30.50
17.29%	24.53	24.87	25.59	26.36
18.00%	22.75	23.06	23.71	24.39
19.00%	20.50	20.76	21.32	21.90

- **Investment Risks:1**. Competing products like Aimovig, Emgality and Ajovy gaining more market share than expected

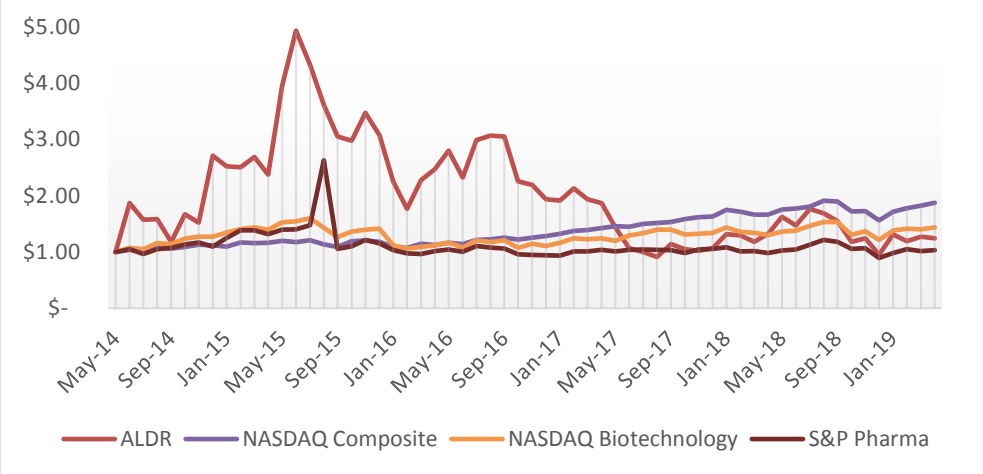
2. The FDA is yet to accept the BLA request made by ALDR. The regulatory approval process is lengthy, time-consuming and inherently unpredictable, and ALDR may experience significant delays in obtaining regulatory approval of ALD403, which would delay the commercialization of ALD403, adversely impact its ability to generate revenue.

3. Significant level of indebtedness could limit cashflow available for operations

4. Single supplier for Eptinezumab may prove to be a substantial challenge to the supply chain for ALDR

5. Pricing regulation might affect the potential commercialization of ALD403

- **Cumulative returns of US$ 1 invested on 8th May 2014 in ALDR and other indices**



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AIMT Income Statement, 2018A-2025E

	2018A	2019E	2020E Q1	2020E Q2	2020E Q3	2020E Q4	2020E	2021E	2022E	2023E	2024E	2025E
ALD403 Sales	-	-	-	-	-	88318	88318	370837	581337	819809	951344	1150266
ALD403 Licensing Revenue	-	-	-	-	-	2600	2600	16000	45700	74000	93200	108800
Total Revenue	**-**	**-**	**-**	**-**	**-**	**90918**	**90918**	**386837**	**627037**	**893809**	**1044544**	**1259066**
COGS	-	-	-	-	3533	5299	8832	37084	58134	81981	95134	115027
Gross Profit	**0**	**-**	**-**	**-**	**(3533)**	**85619**	**82086**	**349753**	**568903**	**811828**	**949410**	**1144040**
Research and Development	239108	239108	48778	73167	73167	48778	243890	248768	253743	258818	263995	269274
General and Administrative	47474	52221	13055	19583	19583	13055	65277	71804	78985	82934	85422	87985
Total Operating expenses	**286582**	**291329**	**61833**	**92750**	**92750**	**61833**	**309167**	**320572**	**332728**	**341752**	**349417**	**357259**
Income(loss) from operations - EBIT	**(286582)**	**(291329)**	**(61833)**	**(92750)**	**(96283)**	**23786**	**(227080)**	**29181**	**236175**	**470075**	**599993**	**786780**
Other income	(9625)	(9625)	(2406)	(2406)	(2406)	(2406)	(9625)	(9625)	(9625)	(9625)	(9625)	(9625)
Net Income/(Loss) before Tax	**(296207)**	**(300954)**	**(64240)**	**(95156)**	**(98689)**	**21380**	**(236705)**	**19556**	**226550**	**460450**	**590368**	**777155**
Income Tax	-	-	-	-	-	-	-	-	-	-	-	(142995)
Net Income /(Loss) after Tax	**(296207)**	**(300954)**	**(64240)**	**(95156)**	**(98689)**	**21380**	**(236705)**	**19556**	**226550**	**460450**	**590368**	**634160**
Equity in net loss of unconsolidated entity	(222)	(222)	(56)	(56)	(56)	(56)	(222)	(222)	(222)	(222)	(222)	(222)
Net Income /(Loss)	**(296429)**	**(301176)**	**(64295)**	**(95212)**	**(98745)**	**21324**	**(236927)**	**19334**	**226328**	**460228**	**590146**	**776933**
Deemed dividends on convertible preferred stock	(29460)	(29460)	-	(14730)	-	(14730)	(29460)	(29460)	(29460)	(29460)	(29460)	(29460)
Dividends on convertible preferred stock	(6045)	(6045)	-	(3023)	-	(3023)	(6045)	(6045)	(6045)	(6045)	(6045)	(6045)
Net loss attributable to Eq. Share Holders	**(331934)**	**(336681)**	**(64295)**	**(112964)**	**(98745)**	**3572**	**(272432)**	**(16171)**	**190823**	**424723**	**554641**	**741428**
Weighted Avg. No. of Equity shares	68099	68099	68099	68099	68099	68099	68099	68099	68099	68099	68099	68099
EPS Diluted	**(4.87)**	**(4.94)**	**(0.94)**	**(1.66)**	**(1.45)**	**0.05**	**(4.00)**	**(0.24)**	**2.80**	**6.24**	**8.14**	**10.89**
Depreciation & Amortizations	2567	3280	1156	1156	1156	1156	4624	4299	4039	3831	3665	3532
EBITDA	**(284015)**	**(288049)**	**(60677)**	**(91594)**	**(95127)**	**24942**	**(222456)**	**33480**	**240214**	**473907**	**603658**	**790312**
Margin Analysis												
Gross Margin	-	-	-	-	-	-	90%	90%	91%	91%	91%	91%
R&D Margin	-	-	-	-	-	-	268%	64%	40%	29%	25%	21%
SD&A Margin	-	-	-	-	-	-	72%	19%	13%	9%	8%	7%
EBITDA Margin	-	-	-	-	-	-	-245%	9%	38%	53%	58%	63%
Operating Margin	-	-	-	-	-	-	-250%	8%	38%	53%	57%	62%
Statutory Tax Rate	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Effective Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	-18%
Net Income Margin	-	-	-	-	-	-	-260%	5%	36%	52%	57%	50%
Year-Year Changes												
Total Revenue	-	-	-	-	-	-	-	325%	62%	43%	17%	21%
Gross Profit	-	-	-	-	-	-	-	326%	63%	43%	17%	21%
R&D	-	0%	-	-	-	-	2%	2%	2%	2%	2%	2%
SG&A	-	10%	-	-	-	-	25%	10%	10%	5%	3%	3%
EBITDA	-	1%	-	-	-	-	-23%	-115%	617%	97%	27%	31%
Operating Margin	-	2%	-	-	-	-	-22%	-113%	709%	99%	28%	31%
Net Income	-	2%	-	-	-	-	-21%	-108%	1058%	103%	28%	7%

Source: Company Financials, Our Analysis

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