AEGIS CAPITAL CORP

Biotechnology
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Company Update

November 23, 2016

Key Metrics

ALDR - NASDAQ	$25.28
Pricing Date	Nov 22 2016
Price Target	$41.00
52-Week Range	$39.43 - $15.82
Shares Outstanding (mm)	50.2
Market Capitalization (mm)	$1,269.1
3-Mo Average Daily Volume	631,015
Book Value/Share	$8.49
Price/Book	3.0x

EPS FY: December

	2015A	Prior 2016E	Curr. 2016E	Prior 2017E	Curr. 2017E
1Q-Mar	(0.40)	--	(0.76)A	--	--
2Q-Jun	(0.46)	--	(0.79)A	--	--
3Q-Sep	(0.62)	--	(0.70)A	--	--
4Q-Dec	(0.60)	--	(1.11)E	--	--
FY	(2.11)	--	(3.37)E	--	(3.78)E
P/E	NM		NM		NM

REVENUE

	2015A	Prior 2016E	Curr. 2016E	Prior 2017E	Curr. 2017E
1Q-Mar	0.0	--	0.0A	--	--
2Q-Jun	0.0	--	0.1A	--	--
3Q-Sep	0.0	--	0.0A	--	--
4Q-Dec	0.0	--	0.0E	--	--
FY	0.0	--	0.1E	--	10.0E

Company Description:
Alder BioPharmaceuticals, a clinical stage biopharmaceutical company, is dedicated to the discovery, development, and commercialization of therapeutic antibodies geared towards treating migraines, inflammatory diseases, and autoimmune diseases.

Alder Biopharmaceuticals Inc.

Rating: Buy

Legal Battle Spurs Buying Opportunity, Buy and $41 PT

Investment Highlights:

- **European Patent Office maintains claims related to CGRP use in Migraines.** On November 18, 2016 the Opposition Division (OD) of the European Patent Office (EPO) issued an oral ruling unfavorable to ALD-403. The court case stems from an opposition to European Patent No. 1957106 B1, filed by Alder and Eli Lilly in July 2014, asserting that the patent should be revoked in its entirety because the broad claims put forth under its filing are too broad and extend beyond what is allowed under the European Patent Convention. Patent No. 1957106 B1, which initially claimed rights related to calcitonin gene-related peptide (CGRP) antagonist antibodies and their use in therapy for preventing CGRP-associated vasomotor symptoms in humans, is now essentially amended to cover much narrower claims related to using CGRP antagonist antibodies as therapy for the prevention and treatment of headaches (e.g. Cluster headaches and Migraines) in humans. While the written form of the decision is anticipated within a few weeks, Alder and Eli Lilly have already stated they plan to pursue an appeal grounded in their initial argument that the broad claims granted by the EPO in the first place should have never been allowed and thus should be revoked in their entirety. The effects of the decision do not block Alder's right to continue clinical development of ALD403, nor do they have legal jurisdiction in the US, where Alder plans to continue moving ALD403 towards a potential BLA and eventual commercialization.
- **A buying opportunity in our view.** The EPO's ruling is certainly a setback in the intellectual property legal proceedings of Alder and Eli Lilly, however it is also, in our view, a buying opportunity as the valuation impact to Alder is minimal; an approximate $2 per share decrease from our estimated price target. This reasoning stems from our opinion that there will be limited, if any, carry over to the US, where the large bulk of the future value of ALD-403 is based.
- **EPO's Technical Board of Appeal might not uphold initial ruling.** The original claims contained in Patent No. 1957106 B1 were, in our opinion, undoubtedly too broad and not in-line with the requirements set forth by the European Patent Convention for patentability. As such, we believe there is considerable uncertainly surrounding whether or not the EPO's Technical Board of Appeals will uphold the OD's initial ruling. Because of the substantial differences in the patent systems between the US and the EU, we do not expect the read-through of European decisions to impact the US business. SEE VALUATION METHODOLOGY on page 2.

Required Disclosures

Price Target

$41

Valuation Methodology

We applied DCF methodology to ALDR under assumptions of initiation of ALD403 US sales in 2019, and ALD403 EU royalties in 2020. Our estimated 2025 EBITDA is $832 million and terminal value is 5x of 2025 estimated EBITDA. We layered a probability of clinical success of 65% in addition to 8% discount rate.

Risk Factors

Other than typical risks associated with investing in pre-clinical development companies in the healthcare industry, such as R&D, regulatory, manufacturing, and commercialization risks, investing in Alder BioPharmaceuticals carries firm-specific risks associated with: 1) binary events in relation to its development programs; 2) The company has not shown a history of profitability; 3) additional funding may be required to successfully commercialize its products and 4). Intellectual Property Rights related to ALD-403.

For important disclosures go to www.aegiscap.com.

I, Difei Yang, Ph.D., hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I also certify that I have not been, do not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendations in this report.

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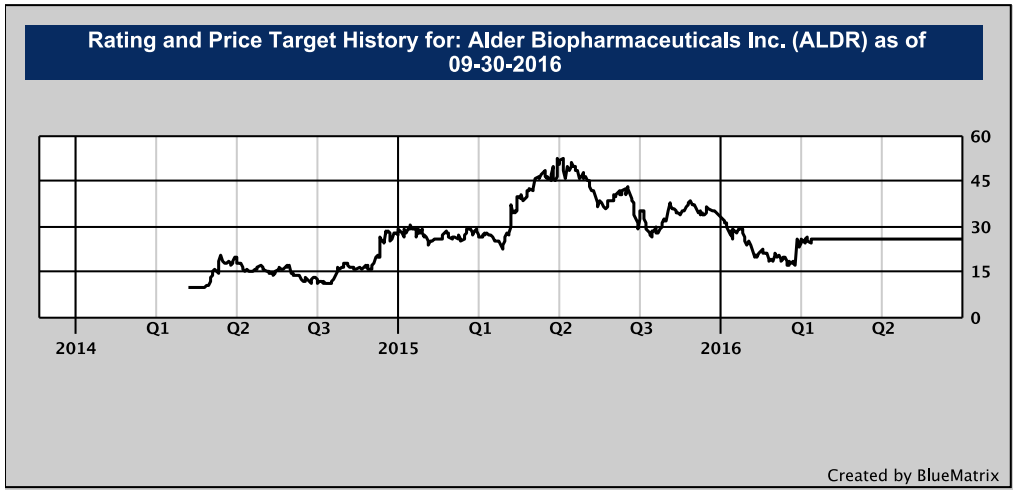

Rating	Percent	Investment Banking Services/Past 12 Mos. Percent
BUY [BUY]	85.58	38.20
HOLD [HOLD]	14.42	20.00
SELL [SELL]	0.00	0.00

Meaning of Ratings

A) A Buy rating is assigned when we do not believe the stock price adequately reflects a company's prospects over 12-18 months.

B) A Hold rating is assigned when we believe the stock price adequately reflects a company's prospects over 12-18 months.

C) A Sell rating is assigned when we believe the stock price more than adequately reflects a company's prospects over 12-18 months.

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