

## ADDEX PHARMACEUTICALS (SIX: ADXN)

Findings in XNPT's XP'279 Study in Parkinson's Disease Highlights Dipraglurant's Potential Positioning; Maintaining BUY Rating and Price Target of CHF 17.00 (\$18.40).

INVESTMENT RATING BUY  
Prior Rating

Price Target CHF17.00  
Prior Target

Price (intraday) CHF 5.90  
52 Week Range CHF5.00 – CHF11.95  
Shares Outstanding 7.8 MM  
Market Capitalization CHF 46.0 MM  
Cash (June 30, 2011) CHF 50.2 MM

FISCAL YEAR END December

### REVENUES (CHF MM'S):

	Current	Prior
2012E	CHF 6.0	
2011E	CHF 6.2	
2010A	CHF 4.0	

### EPS:

	Current	Prior	P/E
2012E	(CHF 3.20)		NA
2011E	(CHF 4.39)		NA
2010A	(CHF 5.69)		NA

### SEMESTER EPS:

	Current	Prior
20011E		
JuneA	(CHF 2.07)	
Dec	(CHF 2.32)	
20012E		
June	(CHF 1.69)	
Dec	(CHF 1.51)	

### Highlights

Earlier this week, Xenoport (Nasdaq: XNPT, \$4.60, Neutral) reported results from a Phase 2 clinical study of XP'279 (L-dopa/carbidopa) in patients with advanced Parkinson's Disease (PD).

The study compared Sinemet against XP'279 and comprised of two phases. The trial enrolled patients on a stable regimen of Sinemet (dosed 4 to 5 times a day).

In the open label phase, doses of Sinemet were optimized (while maintaining the 4-5 times a day dose frequency). At the end of the open-label phase, patients on Sinemet had a mean daily "off time" reduction vs. baseline of 2.0 hours for Sinemet (vs. 3.4 hours for XP'279).

Thereafter, patients were enrolled in a double blind randomized phase (at optimized doses). At the end of the double blind phase, patients on Sinemet had a mean daily "off time" reduction vs. baseline of 2.6 hours (vs. 2.9 hours for XP'279). The baseline mean daily "off time" was 6.4 hours.

Importantly, the report indicates the incidence of new or worsening dyskinesias during the double-blind phase trial was 11% for Sinemet and 13% for XP' 279.

**How does this apply to diplaglurant?** We believe the Xenoport data indicates optimization of L-dopa dosing results in clinical meaningful improvements. However, in clinical practice, there is certain level of reluctance in starting L-dopa early in the disease and in maximizing L-dopa doses. The fear of levodopa-induced dyskinesias (LID) is an important factor contributing to this behavior. However, it is believed the initiation of L-dopa early in the disease and optimal dosing may have a favorable effect in long-term outcomes.

We believe the data highlights the potential utility of diplaglurant in maximizing the utility of L-dopa. The value proposition of diplaglurant extends beyond its first potential indication: the treatment/prevention of acute episodes of dyskinesia which occur upon L-dopa dosing. We believe diplaglurant could enable: 1) initiation of L-dopa earlier in PD; 2) the use of higher doses of L-dopa without triggering/worsening dyskinesia, 3) the use of L-dopa while delaying or reducing the need for dopamine agonists and MAO inhibitors; 4) the lengthening of time a PD patient can be treated with L-dopa before deep brain stimulation becomes the only alternative. In other words, the patient population which could benefit from diplaglurant includes patients with early disease, moderate disease and advanced disease. In addition, diplaglurant has the potential of treating anxiety and depression symptoms highly prevalent in PD patients.

We look forward for top-line data from the ongoing diplaglurant Phase 2 study in LID in 1H2012.

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Disclosures and Analyst Certifications can be found in Appendix A.

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Table 1: Bi-Annual Financial Model (in CHF MM, except per share amounts)

	2009A	1H	2H	2010A	1H	2HE	2011E	1HE	2HE	2012E
<b>Revenues</b>										
Collaboration Fees & Research Funding	4,503	2,700	1,300	4,000	2,721	3,500	6,221	3,000	3,000	6,000
Other	-				452					
<b>Total Revenues</b>	4,503	2,700	1,300	4,000	3,173	3,500	6,221	3,000	3,000	6,000
R&D	39,961	16,700	14,479	31,165	14,558	16,300	30,858	13,200	12,000	25,200
G&A	7,596	3,300	3,144	6,433	3,299	3,650	6,949	3,150	3,100	6,250
Extraordinary Expenses						1,750	1,750			
<b>Operating Expenses</b>	47,557	20,000	17,623	37,598	17,857	21,700	39,557	16,350	15,100	31,450
<b>Operating Income/Loss</b>	(43,054)	(17,300)	(16,323)	(33,598)	(14,684)	(18,200)	(33,336)	(13,350)	(12,100)	(25,450)
<b>Other Income</b>	362	-	(60)	(47)	(143)	10	(133)	12	5	17
<b>Pretax Income</b>	(42,692)	(17,300)	(16,383)	(33,645)	(14,827)	(18,190)	(33,469)	(13,338)	(12,095)	(25,433)
Income tax paid/(benefit)	-	-	-	-	-	-	-	-	-	-
<b>Net Income/ (Loss)</b>	(42,692)	(17,300)	(16,383)	(33,645)	(14,827)	(18,190)	(33,469)	(13,338)	(12,095)	(25,433)
<b>Earnings/ (Loss) Per Share</b>	(7.44)	(3.01)	(2.68)	(5.69)	(2.07)	(2.32)	(4.39)	(1.69)	(1.51)	(3.20)
<b>Shares Outstanding (MM)*</b>	5,738	5,748	6,113	5,913	7,163	7,836	7,623	7,900	8,000	7,950

Source: Corporate reports and Ladenburg Thalmann estimates.

Adnex reports on a bi-annual basis

Note: 2011 Quarterly Estimates do not add to 2011 yearly estimates due to changes in share count

## APPENDIX A: IMPORTANT RESEARCH DISCLOSURES

### ANALYST CERTIFICATION

I, Juan Sanchez attest that the views expressed in this research report accurately reflect my personal views about the subject security and issuer. Furthermore, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report.

The research analyst(s) primarily responsible for the preparation of this research report have received compensation based upon various factors, including the firm's total revenues, a portion of which is generated by investment banking activities.

### COMPANY BACKGROUND

ADXN is a biopharmaceutical company primarily focused on the discovery and development of allosteric modulator small molecules. ADXN has two products in Phase 2 clinical development: ADX48621 for levadopa induced dyskinesia (PD-LID) and ASX71149 for schizophrenia.

### VALUATION METHODOLOGY

We use a risk-adjusted sum-of-the-parts analysis to value ADXN. We value Dipraglurant (IR+ER) for PD-LID at \$6.56 per share, Dipraglurant for dystonia+other indications (excluding GERD) at \$0.93 per share and ADX71149 at \$4.28 per share. We also incorporate cash at year end 2011 at \$1.90 per share and ADXN's platform technology and proprietary preclinical programs at \$1.90 per share.

### RISKS

**Clinical Risk:** ADX48621 (dipraglurant) and ADX71149 are currently in early development (Phase I/Phase IIa). There are many risks inherent in clinical development, especially for programs in early stage development, including failure to demonstrate efficacy or the potential of negative safety signals. Additionally, clinical trial design is important to satisfy regulator requirements. As with all new drug candidates, there is a risk clinical programs may fail clinical trials or fail to secure regulatory approval.

**Regulatory Risk.** Assuming positive clinical results, there is the potential manufacturing, clinical trial quality control deficiencies, safety issues or others issues may arise which could preclude regulatory approval.

**Commercial Risk:** The market for CNS drugs has many competitors and should clinical trials fail to demonstrate a competitive advantage compared to existing therapies, the commercial profile of drugs may fail to be competitive which could handicap the market potential of a new entrant.

**Reimbursement Risk:** ADX48621 (dipraglurant) and ADX71149 may be unable to obtain favorable formulary placement by third party payers which could limit initial uptake and patient use.

**Partner Risk:** ADXN may fail to secure a commercial partner for ADX71149 or other pipeline assets or fail to obtain favorable partnership terms. Additionally, it is unclear how much control ADXN has over each partnered asset and timing and development progress of each partnered asset could be dependent upon partner efforts.

**Financial Risk:** ADXN has CHF 63.8 million in cash (as of June 2011) and operating needs over the next 2 years, in our estimates, surpass \$65 million. For this reason, we incorporate future dilution in our model. We believe the partnering of pipeline assets could bring additional funds to ADXN.

**Additional Risks.** Investors should refer to ADXN's financial regulatory filings for further detail on risks associated with an investment in ADXN

### STOCK RATING DEFINITIONS

Buy: The stock's return is expected to exceed 12.5% over the next twelve months.

Neutral: The stock's return is expected to be plus or minus 12.5% over the next twelve months.

Sell: The stock's return is expected to be negative 12.5% or more over the next twelve months.

Investment Ratings are determined by the ranges described above at the time of initiation of coverage, a change in risk, or a change in target price. At other times, the expected returns may fall outside of these ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review.

### RATINGS DISPERSION AND BANKING RELATIONSHIPS (as of 11/30/11)

Buy	76%	(30% are banking clients)
Neutral	24%	(11% are banking clients)
Sell	0%	( 0% are banking clients)

### BIOTECHNOLOGY & HEALTHCARE SECTOR STOCKS UNDER AUTHOR ANALYST COVERAGE ("The Universe")

Addex Pharmaceuticals (ADXN), AMAG Pharmaceuticals (AMAG), Cadence Pharmaceuticals (CADX), Chelsea Therapeutics (CHTP), Concept Therapeutics Inc. (CORT), Ironwood Pharmaceuticals (IRWD), Micromet Inc. (MITI), NeurogesX (NGSX), NeuroMetrix Inc. (NURO), Optimer Pharmaceuticals (OPTR), pSivida (PSDV), Raptor Pharmaceutical Corp. (RPTP), Questcor

Pharmaceuticals, Inc. (QCOR), Targacept Inc. (TRGT), Trius Therapeutics (TSRX), Valeant Pharmaceuticals (VRX), XenoPort, Inc. (XNPT) and Harris & Harris Group, Inc. (TINY).

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