

May 13, 2015

HEALTHCARE/SPECIALTY AND GENERIC PHARMACEUTICALS

Stock Rating:
OUTPERFORM

12-18 mo. Price Target \$12.00
MRNS - NASDAQ \$7.99

3-5 Yr. EPS Gr. Rate NM
52-Wk Range \$16.60-\$5.49
Shares Outstanding 14.1M
Float 5.4M
Market Capitalization \$112.7M
Avg. Daily Trading Volume 50,729
Dividend/Div Yield \$0.00/0.00%
Book Value \$2.46
Fiscal Year Ends Dec
2015E ROE NM
LT Debt \$6.1M
Preferred \$0.0M
Common Equity \$35M
Convertible Available No
Trading range since July 2014 IPO.

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2014A	(7.09)	(7.99)	(0.22)	(0.26)	(2.17)	NM
2015E	(0.50)A	(0.53)	(0.41)	(0.41)	(1.82)	NM
Prior (E)	(0.53)	(0.52)	--	(0.40)	(1.83)	NM
2016E	--	--	--	--	(1.22)	NM
Prior (E)	--	--	--	--	(1.21)	NM

Marinus Pharmaceuticals

1Q15 Results: Pipeline on Track

SUMMARY

Shares of Marinus have been weak over the past few months, trading down almost 30% since the beginning of March. We note that GW Pharma's and SAGE's shares have increased roughly 40% and 30%, respectively, in that same timeframe. Epilepsy prescription growth has remained strong, with scripts up nearly 9% y/y in 2014 and 9% y/y in 1Q15. Additionally, the ganaxolone pipeline remains on track, with the epilepsy program likely to be fully enrolled later this year. We continue to believe that the valuation gap between Marinus and the other epilepsy plays will compress, and that for long-term investors, Marinus' shares represent favorable risk/reward. We maintain our Outperform rating.

KEY POINTS

- **Headline Results:** MRNS reported a net loss of (\$0.50) vs. our/consensus (\$0.53)/(\$0.47). R&D expense of \$5.5M came in \$1M shy of our estimate, but picked up Q/Q, we believe on the timing of payments in the 603 study (ganaxolone in epilepsy). We expect those study costs to increase going forward in 2015.
- **Ganaxolone Programs:** The clinical programs remain on track. With respect to PCDH19/Fragile X, management anticipates completing early-stage studies in 2H15. With respect to the epilepsy program, the company expects top-line data in 1Q16. We continue to give credit only to the epilepsy indication in our valuation, and leave the PCDH19/Fragile X opportunity as upside.
- **Cash Balances:** Cash and equivalents stands at roughly \$46M. Management expects the burn to reach \$5-7M per quarter, and continues to estimate current cash will fund operations and CapEx requirements until ~mid-2016.
- **Model Forecasts:** Epilepsy Rx's grew 9% y/y in 2013/2014, according to Symphony Health data, and grew 9% y/y in 1Q15 as well. We conservatively estimate 5% y/y growth for FY15 and 3% growth in the out years. We do not anticipate ganaxolone revenues until 2020 and forecast sales of ~\$34M/~\$625M for 2020/2024.
- **Valuation:** We believe fair value for MRNS is \$12, which represents ~50% potential upside from current levels. Our valuation is based on a DCF methodology. Using a discount rate of ~27%, and an exit EBITDA multiple of 4.0x the 2025E terminal year EBITDA of ~\$500 million, we arrive at our valuation.

Stock Price Performance



Company Description

Marinus is a clinical stage biopharmaceutical company focused on developing and commercializing neuropsychiatric therapeutics.

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Marinus Pharmaceuticals		2014						2015E									
Income Statement (\$MM)	2013	1Q-14	2Q-14	3Q-14	4Q-14	2014	1Q-15	Q2-15E	Q3-15E	Q4-15E	2015E	2016E	2017E	2018E	2019E	2020E	
		Mar-14	Jun-14	Sep-14	Dec-14		Mar-15	Jun-15	Sep-15	Dec-15							
Revenue																	
Products	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	34.2	
Total Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	34.2	
Cost of Services																	
Total Cost of Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.4	
Gross Profit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	30.8	
Gross margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	90.0%	
SG&A	1.2	0.5	0.5	0.9	1.4	3.2	1.4	0.9	0.9	0.9	4.0	3.8	4.2	8.5	23.5	80.4	
% of revenue	NM	NM	NM	NM	NM	NM	0.0%	0.0%	0.0%	0.0%	NM	0.0%	0.0%	0.0%	0.0%	235.0%	
Research & development	4.2	2.1	2.8	1.6	2.2	8.7	5.5	6.5	6.5	6.5	25.0	23.0	21.0	17.0	14.0	13.7	
% of revenue	NM	NM	NM	NM	NM	NM	0.0%	0.0%	0.0%	0.0%	NM	0.0%	0.0%	0.0%	0.0%	40.0%	
Contingent consideration	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
% of revenue	NM	NM	NM	NM	NM	NM	0.0%	0.0%	0.0%	0.0%	NM	0.0%	0.0%	0.0%	0.0%	0.0%	
Amortization of intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
% of revenue	NM	NM	NM	NM	NM	NM	0.0%	0.0%	0.0%	0.0%	NM	0.0%	0.0%	0.0%	0.0%	0.0%	
Depreciation and amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Gain on sale/Merger expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total operating expenses	5.4	2.7	3.3	2.4	3.6	11.9	6.9	7.4	7.4	7.4	29.0	26.8	25.2	25.5	37.5	94.1	
Operating Income	-5.4	-2.7	-3.3	-2.4	-3.6	-11.9	-6.9	-7.4	-7.4	-7.4	-29.0	-26.8	-25.2	-25.5	-37.5	-63.3	
Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-185.0%	
Adjusted Operating Income	-5.1	-2.6	-3.2	-2.2	-3.1	-11.2	-6.4	-6.8	-6.8	-6.7	-26.7	-24.4	-22.5	-22.5	-34.2	-59.7	
Adj. Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-174.5%	
EBITDA	-5.4	-2.7	-3.3	-2.4	-3.6	-11.9	-6.9	-7.4	-7.4	-7.4	-29.0	-26.8	-25.2	-25.5	-37.5	-63.3	
Stock option compensation	0.2	0.0	0.0	0.2	0.4	0.7	0.5	0.5	0.6	0.6	2.2	2.4	2.7	3.0	3.3	3.6	
Other adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Adjusted EBITDA	-5.1	-2.6	-3.2	-2.2	-3.1	-11.2	-6.4	-6.8	-6.8	-6.7	-26.7	-24.4	-22.5	-22.5	-34.2	-59.7	
Adj EBITDA margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-174.5%	
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	
Interest expense	-0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	
Fair value change of derivatives	0.0	0.4	0.0	0.8	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Gain on sale of assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Realized gain (loss) on investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Unrealized gain (loss) on investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Litigation settlement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Pretax Income	-5.3	-2.2	-3.3	-1.7	-3.6	-10.8	-7.0	-7.5	-7.4	-7.5	-29.4	-27.2	-25.6	-25.9	-37.9	-63.7	
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Tax rate	0.5%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Net Income	-5.3	-2.2	-3.3	-1.7	-3.6	-10.8	-7.0	-7.5	-7.4	-7.5	-29.4	-27.2	-25.6	-25.9	-37.9	-63.7	
Non-Controlling Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Income	-5.3	-2.2	-3.3	-1.7	-3.6	-10.8	-7.0	-7.5	-7.4	-7.5	-29.4	-27.2	-25.6	-25.9	-37.9	-63.7	
Recurring Net Income ex SFAS	-5.0	-2.2	-3.3	-1.5	-3.2	-10.1	-6.5	-6.9	-6.9	-6.8	-27.1	-24.7	-22.9	-22.9	-34.6	-60.1	
Preferred stock dividends	-3.8	-1.1	-1.1	-0.4	0.0	-2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Income less dividends	-9.1	-3.3	-4.4	-2.0	-3.6	-13.4	-7.0	-7.5	-7.4	-7.5	-29.4	-27.2	-25.6	-25.9	-37.9	-63.7	
Basic GAAP EPS	-\$11.38	-\$4.79	-\$6.00	-\$1.76	-\$0.26	-\$1.76	-\$0.50	-\$0.53	-\$0.41	-\$0.41	-\$1.82	-\$1.22	-\$1.12	-\$1.11	-\$1.39	-\$2.29	
Diluted GAAP EPS	-\$11.38	-\$4.79	-\$6.00	-\$0.18	-\$0.26	-\$1.76	-\$0.50	-\$0.53	-\$0.41	-\$0.41	-\$1.82	-\$1.22	-\$1.12	-\$1.11	-\$1.39	-\$2.29	
Adjusted EPS (ex SFAS)	-\$10.87	-\$4.74	-\$5.95	-\$0.15	-\$0.23	-\$1.65	-\$0.46	-\$0.49	-\$0.38	-\$0.37	-\$1.68	-\$1.11	-\$1.01	-\$0.99	-\$1.27	-\$2.16	
EPS ex dividends	-\$19.60	-\$7.09	-\$7.99	-\$0.22	-\$0.26	-\$2.17	-\$0.50	-\$0.53	-\$0.41	-\$0.41	-\$1.82	-\$1.22	-\$1.12	-\$1.11	-\$1.39	-\$2.29	
Basic Shares	0.5	0.5	0.6	0.9	14.0	6.2	14.1	14.2	18.2	18.3	16.2	22.3	22.8	23.3	27.3	27.8	
Fully Diluted shares	0.5	0.5	0.6	0.9	14.0	6.2	14.1	14.2	18.2	18.3	16.2	22.3	22.8	23.3	27.3	27.8	
Margins																	
Stock Based Compensation	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	10.5%	
Total Cost of Services	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	10.0%	
Source: Company Reports and Oppenheimer & Co. estimates																	

Source: Company Reports and Oppenheimer & Co. estimates

Investment Thesis

We rate Marinus Pharmaceuticals Outperform with a 12- to 18-month \$12 price target. Marinus is a clinical stage biopharmaceutical company focused on developing and commercializing neuropsychiatric therapeutics. The company's clinical stage product, ganaxolone, is a small molecule, add-on therapy for the treatment of partial onset seizures in adults with epilepsy. Our investment thesis for Marinus is threefold: (1) ganaxolone will show positive safety and efficacy results in phase 2b and potential phase 3 studies, (2) the company will gain FDA acceptance for ganaxolone in the epilepsy indication some time in the late 2019 or early 2020 time frame, and (3) ganaxolone will penetrate the epilepsy market as adjunctive treatment to existing therapy.

Price Target Calculation

We believe fair value for Marinus' shares is \$12. Our valuation is based on a discounted cash flow methodology. Using a discount rate of approximately ~27%, and an exit EBITDA multiple of 4.0x on the estimated 2025 terminal year EBITDA of close to \$500 million, we arrive at a \$12 per share valuation. The 27% discount rate, we believe, adequately reflects the clinical development risk that yet remains with ganaxolone along with the execution risk for commercialization.

Key Risks to Price Target

Key risks to Marinus' outperformance and price target include the following: clinical development risk and either a failure by ganaxolone to meet clinical trial endpoints or show efficacy, or an inability by Marinus to gain approval from the FDA for ganaxolone; a failure to successfully introduce ganaxolone into the market or a failure to penetrate the highly competitive epilepsy market; the company may require substantial additional funding, which may dilute stockholdings in the company.

Stock prices of other companies mentioned in this report (as of 5/12/15):

GW Pharmaceuticals Plc (GWPH-NASDAQ, \$112.19, Not Covered)

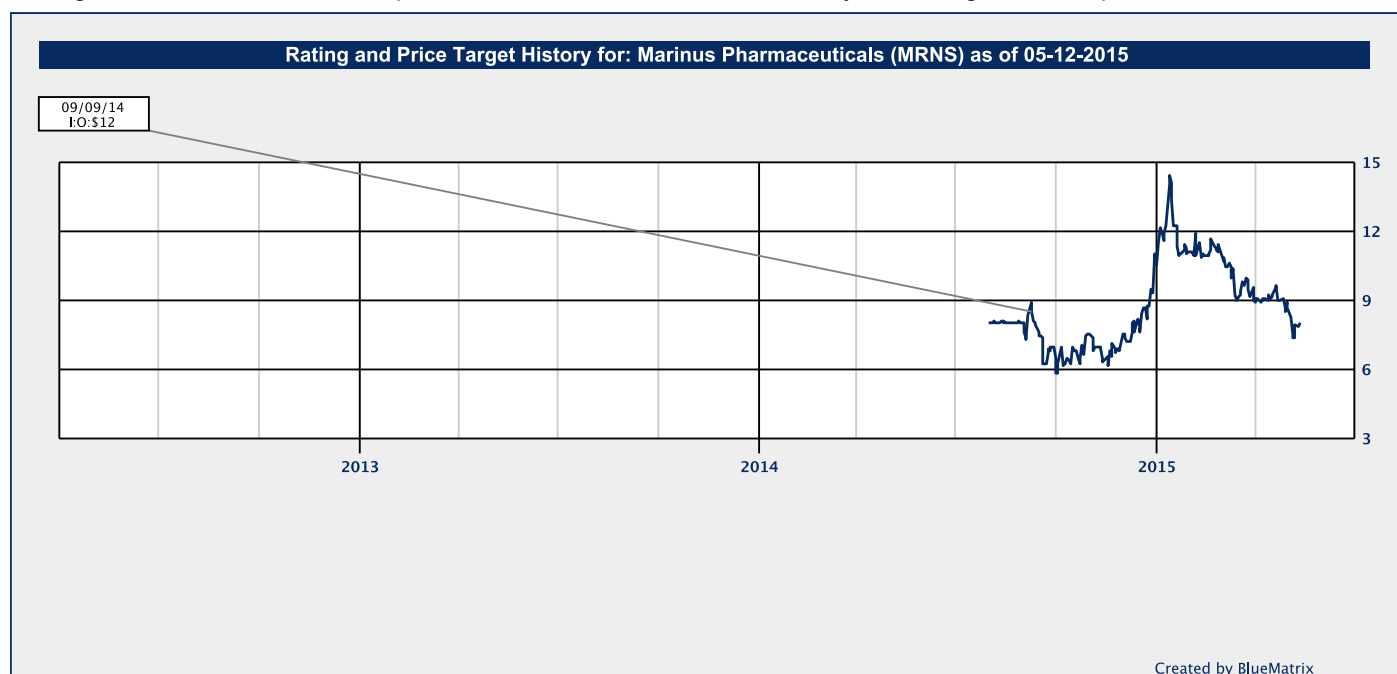
SAGE Therapeutics, Inc. (SAGE-NASDAQ, \$57.93, Not Covered)

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Distribution of Ratings/IB Services Firmwide				
Rating	IB Serv/Past 12 Mos.			
	Count	Percent	Count	Percent
OUTPERFORM [O]	323	55.59	146	45.20
PERFORM [P]	250	43.03	94	37.60
UNDERPERFORM [U]	8	1.38	2	25.00

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