

November 14, 2014

HEALTHCARE/SPECIALTY AND GENERIC PHARMACEUTICALS

**Stock Rating:**
**OUTPERFORM**

12-18 mo. Price Target \$12.00  
MRNS - NASDAQ \$6.36

3-5 Yr. EPS Gr. Rate NM  
52-Wk Range \$10.58-\$5.49  
Shares Outstanding 9.4M  
Float 5.5M  
Market Capitalization \$59.8M  
Avg. Daily Trading Volume 21,343  
Dividend/Div Yield \$0.00/0.00%  
Book Value \$4.68  
Fiscal Year Ends Dec  
2014E ROE NM  
LT Debt \$2.0M  
Preferred \$0.0M  
Common Equity \$44M  
Convertible Available No  
*Trading range since July 2014 IPO.*

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2014E	(0.41)A	(0.54)A	(0.22)A	(0.53)	(1.73)	NM
Prior (E)	(0.28)	(0.14)	(0.52)	(0.45)	(1.50)	NM
2015E	(0.59)	(0.66)	(0.51)	(0.40)	(2.11)	NM
Prior (E)	(0.53)	(0.44)	(0.41)	(0.34)	(1.69)	NM
2016E	--	--	--	--	(1.34)	NM
Prior (E)	--	--	--	--	(1.02)	NM
2017E	--	--	--	--	(1.23)	NM
Prior (E)	--	--	--	--	(0.92)	NM

# Marinus Pharmaceuticals

## 3Q14 Results: Ganaxolone Progressing on Track

### SUMMARY

The epilepsy market remains strong, with scripts up nearly 9% Q/Q, according to Symphony Health data, and up roughly 9% y/y for the first nine months of 2014. In the quarter, Marinus' LPS came in lower than expected due to timing of payments in the epilepsy study. However, financial metrics are less relevant in these early stages compared to the progression of the pipeline, which remains on track for all of the major programs in epilepsy, PCDH19, and Fragile X. Since the IPO at the end of July, shares of MRNS have traded down nearly 20% (vs. the S&P 500 +10%). We continue to believe 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 (\$0.22) vs. our/consensus (\$0.52)/(\$0.45). R&D expense of \$1.6M came in well below our \$6.0M estimate, but is largely related to timing of payments in the 603 study (ganaxolone in epilepsy). We expect those study costs to increase moving into 4Q and higher still for mid-2015.
- **Ganaxolone Programs:** All of the clinical programs remain on track, with PCDH19 POC data from ten patients expected in 1H15; Fragile X Phase 2 POC data from 60 patients expected in mid-2015; and epilepsy data, from what was previously labeled as a Phase 2b trial, from 300 patients expected by 2H15.
- **Cash Balances:** Cash and equivalents stands at roughly \$47M. Management expects the burn to increase in the quarters ahead, likely peaking in mid-2015 at close to ~\$7M per quarter. MRNS continues to estimate current cash will fund operations and CapEx requirements until roughly mid-2016.
- **Model Forecasts:** Epilepsy Rx's grew 9% y/y in 2013 and the first 9 months of 2014, according to Symphony Health data. We conservatively estimate 7% y/y growth for FY14 and 3% growth in the out years. We do not anticipate ganaxolone revenues until 2020 and forecast sales of ~\$32M/ ~\$625M for 2020/2024.
- **Valuation:** We believe fair value for MRNS is \$12, which represents ~90% of potential upside from current levels. Our valuation is based on a DCF methodology. Using a discount rate of ~25%, 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		2014E						2015E									
Income Statement (\$MM)	2013	1Q-14	2Q-14	3Q-14	Q4-14E	2014E	Q1-15E	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	32.1	
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	32.1	
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	3.2	
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	28.9	
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	0.9	2.7	0.9	0.9	0.9	0.9	3.4	3.8	4.2	8.5	23.5	75.4	
% of revenue	NM	NM	NM	NM	0.0%	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	5.3	11.8	5.8	7.0	7.0	5.8	25.6	23.0	21.0	17.0	14.0	12.8	
% of revenue	NM	NM	NM	NM	0.0%	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	0.0%	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	0.0%	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	6.2	14.5	6.7	7.9	7.9	6.7	29.0	26.8	25.2	25.5	37.5	88.2	
Operating Income	-5.4	-2.7	-3.3	-2.4	-6.2	-14.5	-6.7	-7.9	-7.9	-6.7	-29.0	-26.8	-25.2	-25.5	-37.5	-59.4	
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	-5.9	-14.0	-6.4	-7.6	-7.6	-6.3	-27.9	-25.6	-23.9	-24.0	-35.9	-57.6	
Adj. Operating margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-179.5%	
EBITDA	-5.4	-2.7	-3.3	-2.4	-6.2	-14.5	-6.7	-7.9	-7.9	-6.7	-29.0	-26.8	-25.2	-25.5	-37.5	-59.4	
Stock option compensation	0.2	0.0	0.0	0.2	0.2	0.5	0.2	0.3	0.3	0.3	1.1	1.2	1.3	1.5	1.6	1.8	
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	-5.9	-14.0	-6.4	-7.6	-7.6	-6.3	-27.9	-25.6	-23.9	-24.0	-35.9	-57.6	
Adj EBITDA margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-179.5%	
Interest income	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	
Interest expense	-0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	
Fair value change of derivatives	0.0	0.0	0.0	0.8	0.0	0.8	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	0.4	0.0	0.0	0.0	0.4	0.0	0.4	0.0	0.4	0.8	0.8	0.8	0.8	0.8	0.8	
Pretax Income	-5.3	-2.2	-3.3	-1.7	-6.2	-13.4	-6.7	-7.5	-7.9	-6.3	-28.3	-26.1	-24.5	-24.8	-36.8	-58.7	
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	-6.2	-13.4	-6.7	-7.5	-7.9	-6.3	-28.3	-26.1	-24.5	-24.8	-36.8	-58.7	
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	-6.2	-13.4	-6.7	-7.5	-7.9	-6.3	-28.3	-26.1	-24.5	-24.8	-36.8	-58.7	
Recurring Net Income ex SFAS	-5.0	-2.2	-3.3	-1.5	-6.0	-12.9	-6.4	-7.2	-7.6	-6.0	-27.2	-24.9	-23.2	-23.3	-35.2	-56.9	
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	-6.2	-15.9	-6.7	-7.5	-7.9	-6.3	-28.3	-26.1	-24.5	-24.8	-36.8	-58.7	
Basic GAAP EPS	-\$0.71	-\$0.28	-\$0.41	-\$0.18	-\$0.55	-\$1.45	-\$0.59	-\$0.66	-\$0.51	-\$0.40	-\$2.11	-\$1.34	-\$1.23	-\$1.21	-\$1.50	-\$2.35	
Diluted GAAP EPS	-\$0.71	-\$0.28	-\$0.41	-\$0.18	-\$0.55	-\$1.45	-\$0.59	-\$0.66	-\$0.51	-\$0.40	-\$2.11	-\$1.34	-\$1.23	-\$1.21	-\$1.50	-\$2.35	
Adjusted EPS (ex SFAS)	-\$0.68	-\$0.27	-\$0.40	-\$0.15	-\$0.53	-\$1.40	-\$0.57	-\$0.63	-\$0.49	-\$0.38	-\$2.03	-\$1.28	-\$1.16	-\$1.14	-\$1.44	-\$2.28	
EPS ex dividends	-\$1.22	-\$0.41	-\$0.54	-\$0.22	-\$0.55	-\$1.73	-\$0.59	-\$0.66	-\$0.51	-\$0.40	-\$2.11	-\$1.34	-\$1.23	-\$1.21	-\$1.50	-\$2.35	
Basic Shares	7.4	8.1	8.2	9.4	11.2	9.2	11.3	11.4	15.4	15.5	13.4	19.5	20.0	20.5	24.5	25.0	
Fully Diluted shares	7.4	8.1	8.2	9.4	11.2	9.2	11.3	11.4	15.4	15.5	13.4	19.5	20.0	20.5	24.5	25.0	
Margins																	
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 &amp; Co. estimates

## Investment Thesis

We rate Marinus Pharmaceuticals with an Outperform rating and 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, which represents ~90% of potential upside from current levels. Our valuation is based on a discounted cash flow methodology. Using a discount rate of approximately ~25%, 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 25% 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

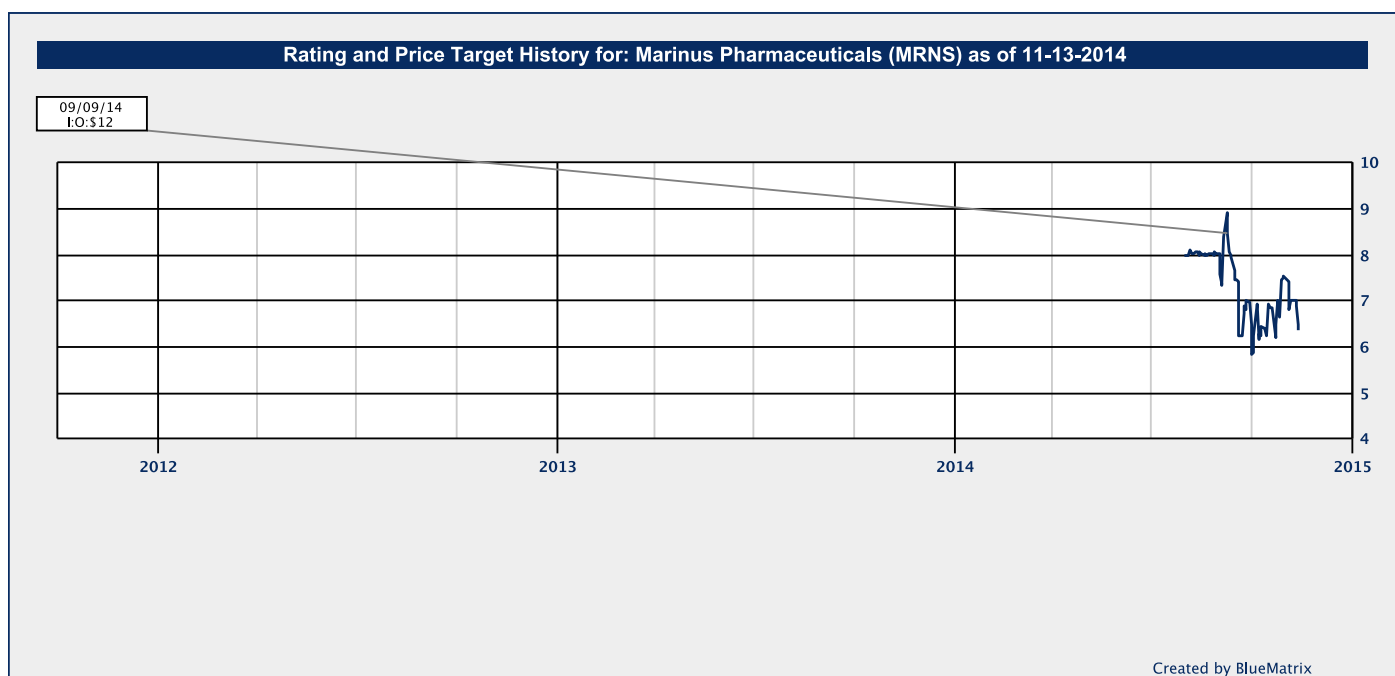
Key risks to Marinus' outperformance and price target include include the following: clinical development risk and either a failure by ganaxolone to meet clinical trial endpoints or show efficacy, or an inability by Marinus to gain approval from the FDA for ganaxolone; a failure to successfully introduce ganaxolone into the market or a failure to penetrate the highly competitive epilepsy market; an inability to gain formulary acceptance or to receive unfavorable payor reimbursement; a failure to develop a commercial organization capable of manufacturing, selling, marketing and distributing any products that the company intends to sell in the markets in which it chooses to commercialize on its own; the performance of third-party CROs and CMOs; forecasting error in determining Marinus' market opportunity due to the company's lack of having yet established a track record of profitability; limited intellectual property (IP) to protect and control trade secrets and other technological innovation; the ability of competitors to independently develop similar or better proprietary information and techniques and disclose them publicly; the success of competing therapies and products that are or become available; Medicare, Medicaid, and insurer increased efforts to manage drug spend; economic weakness impacting unemployment, commercial insurance coverage, and utilization; a small float which could lead to illiquidity; and liquidity risk as more than 50% of the shares are tied up through insider holdings. Other risks include that the company may require substantial additional funding or may finance future cash needs primarily through public or private offerings, debt financings or strategic collaborations, which may dilute stockholdings in the company.

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Rating	IB Serv/Past 12 Mos.			
	Count	Percent	Count	Percent
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PERFORM [P]	259	44.27	95	36.68
UNDERPERFORM [U]	7	1.20	0	0.00

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