

Dermira, Inc.

DERM - BUY - Post 2Q15, Continue to Believe that Peak Sales of DERM's Drugs Will Exceed Expectations

August 14, 2015

Conclusion: During 2Q15, DERM continued to advance its pipeline of drugs that address large unmet needs in the dermatology market. We have even greater conviction in our positive investment thesis for DERM now that the company has enough cash to fund operations through '17 and its key data releases, which include Phase 2b results for DRM01, Cimzia Phase 3 data, and DRM04 Phase 3 results. Over the past few months, the company has initiated Phase 3 studies for DRM04 in axillary hyperhidrosis (data expected 2H16) and a Phase 2b for DRM01 in acne vulgaris (data expected 1H16). We continue to think stock price appreciation will be driven by upward earnings revisions because we estimate sales from DERM's three late-stage assets could reach ~\$500MM by '21. Also, DERM is an attractive company in a consolidating industry, in our view.

Positives: 1) Dosed first patient in DRM01 Phase 2b acne trial; 2) Initiated DRM04 Phase 3 trial for axillary hyperhidrosis; 3) Cimzia Phase 3 trial continues to enroll patients; and 4) Completed a follow-on offering of ~\$104MM net proceeds in early 3Q, cash on hand of ~\$194MM expected at year end.

DERM reported 2Q15 EPS of (\$0.69), \$0.07 higher than consensus and \$0.04 above our estimate. Our Variance Analysis has details. Since DERM is a development-stage company, we think pipeline advancements are more important than quarterly earnings. Management reaffirmed its '15 spending guidance of \$80-85MM. We updated our model for 2Q15, which increased our '15 EPS estimates.

Potential Catalysts. 1) DRM01 Ph2b results 1H16; 2) DRM04 Ph3 data 2H16; 3) Cimzia Ph3 data in '17, approval in '18; 4) Business development.

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DERM BUY EARNINGS RELEASE

Investment Thesis: Growth

SHARE PRICE	\$25.27
PRICE TARGET	\$40.00

Revenue (\$M) (FY Dec)	1Q	2Q	3Q	4Q	FY
2014	0.0	0.0	0.0	7.3	7.3
2015	0.0	0.0	0.0E	0.0E	0.0E
2016	—	—	—	—	13.0E

Adjusted EPS (\$)	1Q	2Q	3Q	4Q	FY
2014	(0.82)	(0.80)	(0.57)	(0.29)	(2.49)
P/E					NM
2015	(0.57)	(0.69)	(0.77)E	(0.97)E	(3.00)E
Prior	—	(0.73)	—	—	(3.04)E
P/E					NM
2016	—	—	—	—	(2.51)E
P/E					NM

Market Data & Valuation Multiples

52-Week Range	\$12.68 - \$27.74
Shares Out (M)	29.2
Market Cap (M)	\$737
ADV (3 mo; 000)	117



SCENARIO	VALUATION	INVESTMENT THESIS
Bull Case	2021E EPS: \$6.00 12-Month Bull-Case Scenario: \$60 Probability: 13% Upside/Downside Potential: 137%	<ul style="list-style-type: none"> • Cimzia launch in 2018, 2021 sales of \$140.7 million • DRM04 launch in 2018, 2021 sales of \$145.3 million • DRM01 launch in 2019, 2021 sales of \$330.1 million • Accretive business development and/or M&A
Base Case	2021E EPS: \$5.02 12-Month Bull-Case Scenario: \$40 Probability: 74% Upside/Downside Potential: 58%	<ul style="list-style-type: none"> • Cimzia launch in 2018, 2021 sales of \$113.5 million • DRM04 launch in 2018, 2021 sales of \$127.7 million • DRM01 launch in 2019, 2021 sales of \$241.7 million • No business development and/or M&A
Bear Case	2021E EPS: \$4.25 12-Month Bull-Case Scenario: \$22 Probability: 13% Upside/Downside Potential: -13%	<ul style="list-style-type: none"> • Cimzia launch in 2018, 2021 sales of \$95.2 million • DRM04 launch in 2019, 2021 sales of \$110.3 million • DRM01 launch in 2020, 2021 sales of \$180.7 million • No business development and/or M&A

Source: Guggenheim Securities, LLC

VALUATION METHODOLOGY AND RISKS

We use Discounted Cash Flow (DCF) to get to our 12-month price target of \$40. We use a WACC of 20% and an exit multiple of 9 times forward EBIT. Risks to our valuation include: 1) Larger companies with more resources developing dermatology products that compete with DERM; 2) Pipeline setbacks; 3) Actions taken by development partners on collaborations; and 4) Competition to Cimzia, DRM 01 and DRM04 coming to market before DERM's products.

VARIANCE ANALYSIS

	Actual 2Q15		Guggenheim Estimate 2Q15		Variance	Comments
	Amount	% Change YOY	Amount	% Change YOY		
Total Revenue	0.0	NM	0.0	NM	-	
COGS	0.0	NM	0.0	NM	-	
Gross Profit	0.0	NM	0.0	NM	-	
SG&A	3.8	NM	5.1	NM	(1.3)	
R&D	13.5	NM	13.3	NM	0.2	
Other Operating Expenses	0.0	NM	0.0	NM	-	
Operating Income	(17.3)	NM	(18.4)	NM	1.1	
Non Operating Items	0.2	NM	0.4	NM	(0.2)	
Pre-Tax Income	(17.2)	NM	(18.0)	NM	0.8	
Taxes	0.0	NM	0.0	NM	-	
Tax Rate	0.0%	NM	0.0%	NM	0.0%	
Net Income	(17.2)	NM	(18.0)	NM	0.8	
Averages Shares	24.7	NM	24.8	NM	(0.1)	
Operating EPS	(\$0.69)	NM	(\$0.73)	NM	\$0.04	
Margin Analysis						
Revenues	NM		NM			
COGS	NM		NM			
Gross Margin	NM		NM			
SG&A	NM		NM			
R&D	NM		NM			
Net Income	NM		NM			

Source: Guggenheim Securities, LLC and Company reports

CATALYST CALENDAR

Date	Driver	Upcoming Event
2015		
2015	DRM02	Assess preclinical data and determine next steps
2015	DRM05	Assess preclinical data and determine next steps
2016+		
1H16	DRM01	Report Phase 2b data
Mid-16	Cimzia	Complete enrollment of Phase 3 trials
2H16	DRM04	Complete enrollment of Phase 3 trials and Phase 3 data
1H17	DRM01	Initiate Phase 3 trials
2017	DRM04	Complete carcinogenicity study
2017	Cimzia	Phase 3 topline data
2017	DRM04	FDA Submission
2H17	Cimzia	FDA Submission
2018	Cimzia	FDA Approval (our assumption)
2018	DRM04	FDA Approval (our assumption)
1H18	DRM01	Complete enrollment of P3 trials
2018	DRM01	Report Phase 3 data
2018	DRM01	FDA Submission
2019	DRM01	FDA Approval (our assumption)

Source: Guggenheim Securities, LLC and Company reports

FINANCIAL MODEL

(\$ in MM, except per share amounts)	Dermira		Guggenheim
	2015 Guidance	Midpoint	2015 Estimate
Operating Expense	\$80 to \$85	\$83	\$83
R&D as a % of Total Operating Expenses	75%		75%
Cash and Cash Equivalents at Year End 2015	\$194		\$189

Source: Guggenheim Securities, LLC and Company Reports

(1) Of the total expected operating expenses for 2015, DERM expects R&D expenses to comprise approximately 75% and G&A to comprise the remaining 25%.

(2) DERM also expects that research and development and total operating expenses in the second half of 2015 will be significantly higher than in the first half of the year.

(3) DERM expects \$6MM in stock based compensation in 2015 and ~30MM shares outstanding at December 31, 2015

Dermira - Quarterly Income Statement Analysis 2013-2021E

(\$ in Millions)													
(Year Ended December 31)	2013	2014	1Q15A	2Q15A	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Total Revenue	0.0	7.3	0.0	0.0	0.0	0.0	0.0	13.0	15.7	23.1	138.7	281.8	496.2
COGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.9	14.7	31.3	56.1
Gross Profit	0.0	7.3	0.0	0.0	0.0	0.0	0.0	13.0	15.7	20.3	124.0	250.5	440.2
SG&A	4.4	8.3	4.1	3.8	5.2	7.6	20.8	23.0	33.0	86.0	95.0	100.0	103.5
R&D	17.9	30.7	10.1	13.5	16.7	22.1	62.4	68.0	52.2	38.0	45.0	47.0	49.0
Other (Income)/Expense	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 Expense	22.3	39.0	14.2	17.3	22.0	29.7	83.3	91.0	85.2	124.0	140.0	147.0	152.5
Operating Income	(22.3)	(31.7)	(14.2)	(17.3)	(22.0)	(29.7)	(83.3)	(78.0)	(69.5)	(103.7)	(16.0)	103.5	287.7
Interest and Other Income (Expense)	(0.0)	0.0	0.2	0.2	0.4	0.8	1.6	1.9	1.1	1.9	0.9	0.5	1.0
Interest Expense	(0.0)	(0.2)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Non-Operating Items	(0.0)	(0.1)	0.2	0.2	0.4	0.7	1.5	1.8	1.0	1.8	0.8	0.4	0.9
Pre-tax Income	(22.4)	(31.8)	(14.0)	(17.2)	(21.6)	(28.9)	(81.7)	(76.2)	(68.5)	(101.9)	(15.2)	103.9	288.6
Tax Rate	0.0%	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	40.0%	40.0%
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	41.6	115.4
Net Income	(22.4)	(31.9)	(\$14.0)	(\$17.2)	(\$21.6)	(\$28.9)	(\$81.7)	(\$76.2)	(\$68.5)	(\$101.9)	(\$15.2)	\$62.3	\$173.2
Average Shares Diluted	9.7	12.8	24.7	24.7	28.1	29.9	27.2	30.3	33.3	33.6	33.9	34.2	34.5
Adjusted Diluted EPS	(\$2.31)	(\$2.49)	(\$0.57)	(\$0.69)	(\$0.77)	(\$0.97)	(\$3.00)	(\$2.51)	(\$2.06)	(\$3.03)	(\$0.45)	\$1.82	\$5.02
%Change YOY													
Total Revenue	NM		NM	NM	NM	-100.0%	-100.0%	NM	20.8%	47.4%	499.2%	103.2%	76.1%
COGS	NM		NM	NM	NM	NM	NM	NM	NM	NM	410.9%	113.3%	79.2%
Gross Profit	NM		NM	NM	NM	-100.0%	-100.0%	NM	20.8%	29.1%	511.6%	102.0%	75.7%
SG&A	89.8%		128.8%	121.1%	210.7%	148.5%	151.1%	10.5%	43.5%	160.6%	10.5%	5.3%	3.5%
R&D	71.2%		50.9%	93.8%	177.6%	100.5%	103.3%	8.8%	-23.2%	-27.2%	18.4%	4.4%	4.3%
Operating Income	NM		NM	NM	NM	NM	NM	-6.4%	-10.8%	49.2%	-84.6%	-747.3%	178.0%
Non-Operating Items	NM		NM	NM	NM	771.0%	NM	17.2%	-44.4%	81.7%	-57.6%	-42.4%	114.3%
Pre-tax Income	NM		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	177.7%
Tax Rate	NM		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	0.0%
Taxes	NM		NM	NM	NM	-100.0%	-100.0%	NM	NM	NM	NM	NM	177.7%
Net Income	NM		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	177.7%
Adjusted Diluted EPS	NM		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	175.2%

Source: Guggenheim Securities, LLC and Company Reports

(1) To be conservative, we assume a 40% tax rate upon profitability.

(2) Assume share dilution in 2017 from additional equity raise.

Dermira - Quarterly Margin Analysis 2013-2021E

	2013	2014	1Q15A	2Q15A	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	NM	0.0%	NM	NM	NM	NM	NM	0.0%	0.0%	12.4%	10.6%	11.1%	11.3%
Gross Margin	NM	100.0%	NM	NM	NM	NM	NM	100.0%	100.0%	87.6%	89.4%	88.9%	88.7%
SG&A	NM	113.5%	NM	NM	NM	NM	NM	176.9%	210.2%	371.5%	68.5%	35.5%	20.9%
R&D	NM	420.7%	NM	NM	NM	NM	NM	522.7%	332.5%	164.2%	32.4%	16.7%	9.9%
Operating Income	NM	-434.2%	NM	NM	NM	NM	NM	-599.6%	-442.7%	-448.1%	-11.5%	36.7%	58.0%
Pretax Income	NM	-436.2%	NM	NM	NM	NM	NM	-585.9%	-436.4%	-440.3%	-11.0%	36.9%	58.2%
Net Income	NM	-436.6%	NM	NM	NM	NM	NM	-585.9%	-436.4%	-440.3%	-11.0%	22.1%	34.9%

Source: Guggenheim Securities, LLC and Company Reports

Dermira - Quarterly Revenue Model 2013-2021E

(\$ in Millions)													
(Year Ended December 31)	2013	2014	1Q15A	2Q15A	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Cimzia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.7	34.1	74.5	113.5
DRM04	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.5	37.0	79.4	127.7
DRM01	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	54.3	114.5	241.7
DRM02	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
DRM05	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Milestones	0.0	7.3	0.0	0.0	0.0	0.0	0.0	13.0	15.7	0.0	13.4	13.4	13.4
TOTAL REVENUES	0.0	7.3	0.0	0.0	0.0	0.0	0.0	13.0	15.7	23.1	138.7	281.8	496.2
%Change YOY													
Cimzia		NM	NM	NM	NM	NM	NM	NM	NM	NM	192.2%	118.7%	52.4%
DRM04		NM	NM	NM	NM	NM	NM	NM	NM	NM	222.0%	114.6%	60.9%
DRM01		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	111.1%	111.1%
DRM02		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
DRM05		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Other		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
TOTAL REVENUES		NM	NM	NM	NM	-100.0%	-100.0%	NM	20.8%	47.4%	499.2%	103.2%	76.1%

Source: Guggenheim Securities, LLC and Company Reports

Dermira - Annual Revenue Model 2013-2021E

(\$ in Millions)																		
	Year Ended December 31st,									2014/	2015E/	2016E/	2017E/	2018E/	2019E/	2020E/	2021E/	CAGR
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	16E-21E
Late Stage Pipeline Drug Sales																		
Cimzia	0.0	0.0	0.0	0.0	0.0	11.7	34.1	74.5	113.5	NM	NM	NM	NM	NM	192.2%	118.7%	52.4%	NM
DRM04	0.0	0.0	0.0	0.0	0.0	11.5	37.0	79.4	127.7	NM	NM	NM	NM	NM	222.0%	114.6%	60.9%	NM
DRM01	0.0	0.0	0.0	0.0	0.0	0.0	54.3	114.5	241.7	NM	NM	NM	NM	NM	NM	111.1%	111.1%	NM
Total Late Stage Pipeline Drug Sales	0.0	0.0	0.0	0.0	0.0	23.1	125.3	268.4	482.9	NM	NM	NM	NM	NM	441.4%	114.2%	79.9%	NM
Early Stage Pipeline Drug Sales																		
DRM02	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM
DRM05	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM
Total Early Stage Pipeline Drug Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM
Other Drug Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM
Milestones	0.0	7.3	0.0	13.0	15.7	0.0	13.4	13.4	13.4	NM	-100.0%	NM	20.8%	-100.0%	NM	0.0%	0.0%	0.6%
TOTAL REVENUES	0.0	7.3	0.0	13.0	15.7	23.1	138.7	281.8	496.2	NM	-100.0%	NM	20.8%	47.4%	499.2%	103.2%	76.1%	107.2%

Source: Guggenheim Securities, LLC and Company Reports

Dermira - Cash Flow Analysis 2013-2021E

(\$ in Millions)									
(Year ended December 31)	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Cash flows provided by Operating Activities:									
Net Income	(22.4)	(31.9)	(81.7)	(76.2)	(68.5)	(101.9)	(15.2)	62.3	173.2
Depreciation and Amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.3	1.9	-	-	-	-	-	-	-
Net Changes in Working Capital	9.9	(1.5)	1.7	(2.6)	(0.5)	(1.5)	(17.0)	(12.1)	(9.8)
Net cash provided by Operating Activities	(12.2)	(31.4)	(79.9)	(78.7)	(69.0)	(103.4)	(32.2)	50.3	163.4
Cash flows from Investing Activities									
Purchases of PP&E	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Net proceeds from sale of assets	-	-	-	-	-	-	-	-	-
Acquisitions, net of cash acquired	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Net cash used in Investing Activities	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Cash flows from Financing Activities									
(Repayment) or Issuance of long term debt	2.0	53.8	0.0	-	-	-	-	-	-
Cash dividends paid	-	-	-	-	-	-	-	-	-
Other	24.5	120.3	104.0	-	150.0	-	-	-	-
Net cash (used in) provided by Financing Activities	26.5	174.1	104.0	-	150.0	-	-	-	-
Net (decrease) increase in cash and equivalents	14.3	142.5	23.9	(78.9)	80.8	(103.5)	(32.3)	50.2	163.2
Cash and equivalents at beginning of year	7.9	22.1	164.7	188.6	109.7	190.5	87.0	54.7	104.9
Cash and equivalents at end of year	22.1	164.7	188.6	109.7	190.5	87.0	54.7	104.9	268.1

Source: Guggenheim Securities, LLC and Company Reports

Dermira - Balance Sheet Analysis 2013-2021E

(\$ in Millions)

(Year ended December 31)	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Assets									
Cash and Cash Equivalent	22.1	164.7	188.6	109.7	190.5	87.0	54.7	104.9	268.1
Accounts Receivable, less allowance for doubtful accounts	-	7.3	-	2.6	3.1	4.6	24.3	44.0	69.9
Inventories	-	-	-	-	-	1.4	5.4	9.2	13.7
Other current assets	0.3	-	-	-	-	-	-	-	-
Total Current Assets	22.5	172.0	188.6	112.3	193.7	93.1	84.5	158.1	351.7
Plant, Property & Equipment	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	1.0
Identifiable intangibles	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Goodwill	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other assets	0.0	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Total Other Assets	4.4	6.2	6.3	6.5	6.6	6.7	6.8	6.9	7.0
TOTAL ASSETS	26.9	178.2	194.9	118.8	200.2	99.8	91.3	165.0	358.7
Liabilities & Shareholder's Equity									
Accounts Payable and Accrued Expenses	4.3	5.6	-	-	-	1.4	8.2	19.6	40.1
Other	0.2	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.3
Total Current Liabilities	4.5	11.9	6.3	6.3	6.3	7.8	14.5	25.9	46.4
Long term debt	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Other liabilities	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8
Total Liabilities	17.1	24.6	19.1	19.1	19.1	20.5	27.2	38.6	59.1
Shareholders Equity	9.8	153.6	175.8	99.7	181.2	79.2	64.0	126.4	299.5
Total Stockholder's Equity	9.8	153.6	175.8	99.7	181.2	79.2	64.0	126.4	299.5
Noncontrolling Interest	-	-	-	-	-	-	-	-	-
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	26.9	178.2	194.9	118.8	200.2	99.8	91.3	165.0	358.7

Source: Guggenheim Securities, LLC and Company Reports

ANALYST CERTIFICATION

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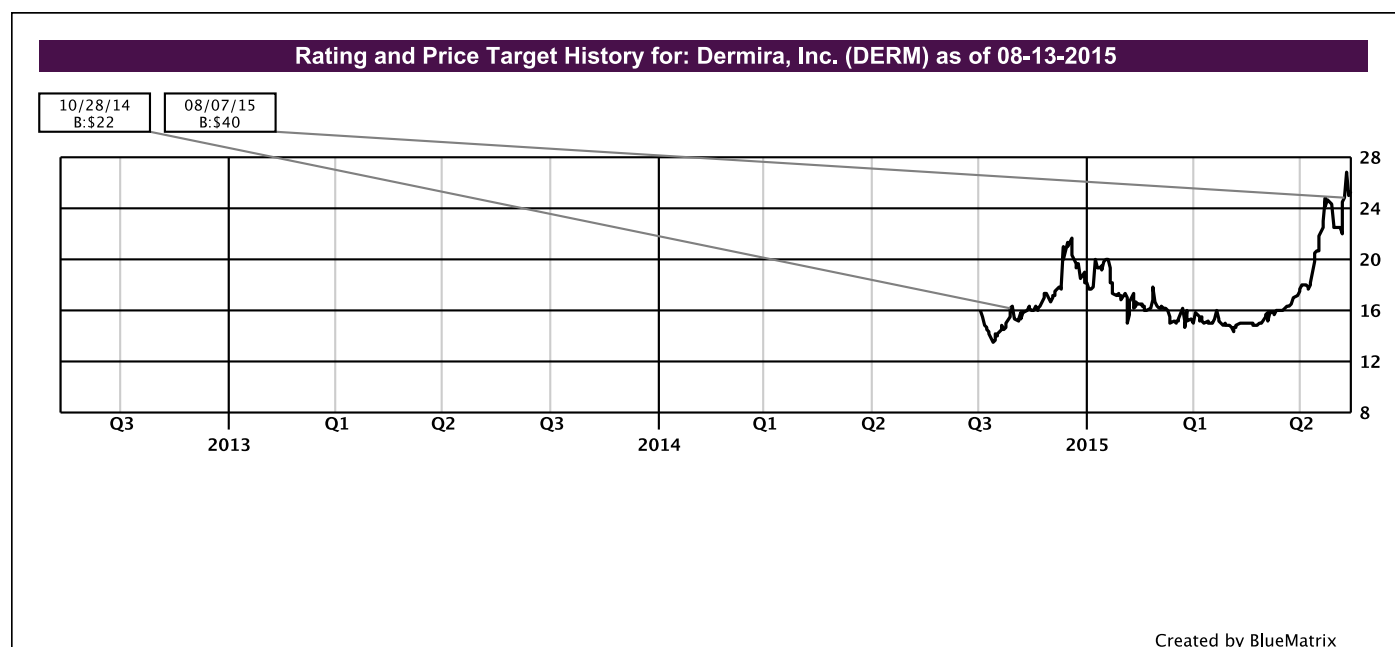
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August 14, 2015

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			Count	Percent
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