

Reason for report:  
**EARNINGS**

## CORIUM INTERNATIONAL, INC.

### F'3Q Keyed by Incremental Updates on Early Stage Pipeline

• **Bottom Line:** This evening CORI reported its fiscal 3Q results which were relatively in line with our forecasted sales and net less of \$11.1m and -\$5m, respectively, vs. reported \$10.2m and -\$5m, respectively. Important F'3Q updates included: (1) initiation of preclinical testing of several transdermally delivered CNS molecules targeting large end markets; and (2) Phase 2a data for MicroCor PTH are expected in 1H'15. Unlike its historical approach to partnership, CORI is looking to moving up the value chain by taking its proprietary products further through development. On the CC, mgmt commented they aim to take MicroCor PTH through Phase 2b and the CNS products potentially through commercialization. We remain OP-rated with a price target of ~\$12/shr.

• **Incremental pipeline updates mainly on the CNS programs.** On the CC, CORI announced that the company will commence preclinical testing on three proprietary, transdermal delivery programs: (1) memantine, same as ACT's (OP) Namenda franchise, an estimated \$1.6B in peak US sales product; (2) donepezil, same as PFE's (MP) Aricept, a \$2B blockbuster before losing patent exclusivity; and (3) aripiprazole, same as BMJ (OP)/Otsuka's Abilify, a \$1.6B US sales product. Next steps could include Phase 1 pharmacokinetic testing starting 1H15, and mgmt believes it may be able to take one or more of these products to market and build a vertically integrated spec pharma company around these (wholly owned) products. CORI believes transdermal delivery of these drugs has the potential to improve adherence and tolerability of the drugs.

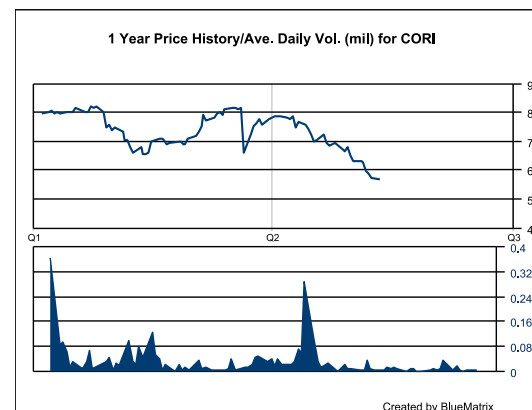
• **PTH Phase 2 data still expected next year.** On the F'3Q update, mgmt commented that the MicroCor PTH (parathyroid hormone) program will yield Phase 2a data in the 1H'15. Recall, MicroCor PTH is similar to LLY's (OP) Forteo for treatment of osteoporosis, a drug which generated annual US and international sales of \$510m and \$730m, respectively. Forteo is a once-daily subcutaneous injection with patent coverage through 2019. CORI's transdermal delivery system aims to achieve a similar dosing profile to Forteo but improve on the PK characteristics (faster onset and better tolerability). Next steps include a Phase 2b safety/efficacy trial and a 12-month, Phase 3 non-inferiority trial.

• **Competitor headwinds to base biz largely factored into our numbers.** Two of CORI's partnered products, g-clonidine and g-fentanyl, face challenging Y/Y comparables as competition in each respective market intensifies in F'14. In the less competitive clonidine patch market, ACT recently launched a generic competitor, although its product captured minimal F'3Q share, but overall we continue to expect the ACT product to take 25-35% share of the market. We note that ACT has significant capacity to mfg transdermal capacity at its Salt Lake facility.

#### Key Stats: (NASDAQ:CORI)

<b>S&amp;P 600 Health Care Index:</b>	<b>1,281.85</b>
<b>Price:</b>	<b>\$5.66</b>
Price Target:	\$12.00
Methodology:	Sum-of-Parts DCF Analysis
52 Week High:	\$8.49
52 Week Low:	\$5.61
Shares Outstanding (mil):	17.6
Market Capitalization (mil):	\$99.6
Book Value/Share:	\$0.00
Cash Per Share:	\$0.35
Dividend (ann):	\$0.00
Dividend Yield:	0.0%

*Cash Per Share: Net cash per share*



Sep Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	P/E
2013A	--	--	--	--	50.3	--	--	--	--	( 2.40)	NM
2014E - New	10.5A	10.7A	10.2A	9.8	41.2	( 0.21)A	0.33A	( 0.28)A	( 0.56)	( 0.99)	NM
2014E - Old	10.5A	10.7A	11.1	10.4	42.7	( 0.21)A	0.33A	( 0.26)	( 0.35)	( 0.67)	NM
2015E	--	--	--	--	48.8	--	--	--	--	( 0.97)	NM

Source: Company Information and Leerink Partners LLC Research  
Revenues in millions.  
GAAP EPS.

## INVESTMENT THESIS

**We rate CORI shares Outperform.** CORI's current valuation largely reflects its base business -- a stable, transdermal patch mfg business. While CORI's pipeline gets little credit in the current valuation, we view the risk/reward as favorable keyed by Phase 3 Twirla, a contraceptive patch partnered with Agile Therapeutics. We view Twirla as a low development risk (75% POS) product with potential to reach \$400m in peak US sales. Beyond Twirla – CORI has several self-funded Phase 2 assets which have the potential to generate non-dilutive partnership dollars sometime in 2015. With its recent IPO proceeds, we believe CORI will be able to leverage its transdermal formulation expertise & secure better partnership terms which should dramatically alter the margin profile of the company. Lastly, we are confident in CORI mgmt's ability to build a diversified transdermal-delivery spec pharma company based on their experience at Alza, a pioneer in transdermal and modified delivery drugs.

## CHANGES TO MODEL

### EPS & Total Sales Forecasts (2013-19E) (\$MM, except per share data)

Total EPS Forecasts 2013-19E							
	2013	2014E	2015E	2016E	2017E	2018E	2019E
New	(2.40)	(0.99)	(0.97)	(0.74)	(0.52)	(0.17)	(0.02)
Old	(2.40)	(0.67)	(0.97)	(0.68)	(0.25)	0.15	0.34
Difference	-	(0.31)	-	(0.05)	(0.27)	(0.31)	(0.36)
Total Revenue Forecasts 2013-19E							
	2013	2014E	2015E	2016E	2017E	2018E	2019E
New	50	41	49	65	84	106	119
Old	50	43	49	65	84	106	119
Difference	-	(2)	-	-	-	-	-

Source: Leerink Partners, LLC estimates

## VALUATION

Our ~\$12 price target is based on a sum-of-the-parts valuation analysis: (1) base business = ~\$6.93, based on 2.5x multiple on ~\$50m F'15E revenue from base business products, (2) Twirla = ~\$1.79, (3) Ph. II products = ~\$2.07, (4) MicroCor = ~57c and (5) net cash ~35c.

## RISKS TO VALUATION

Potential risks to CORI valuation include: (1) clinical failure of Twirla Ph. III; (2) incremental competitive headwinds in fentanyl and/or clonidine TDS markets; & (3) product recalls and/or cGMP issues relating to existing commercial products could negatively impact valuation.

## CORI P&amp;L Summary (Adj. Basis)

(Fiscal Year End Last Friday of September)

	2012	2013	1Q 12/13	2Q 3/14	3Q 6/14	4Q 9/14E	2014E	2015E	2016E	2017E	2018E	2019E	CAGR 14-16E	CAGR 14-19E
<b>Total Revenues</b>	<b>42.9</b>	<b>50.27</b>	<b>10.5</b>	<b>10.7</b>	<b>10.2</b>	<b>9.8</b>	<b>41.2</b>	<b>48.8</b>	<b>64.9</b>	<b>83.9</b>	<b>105.5</b>	<b>119.4</b>	<b>26%</b>	<b>24%</b>
% Y/Y growth	na	17.3%	-17.1%	-20.3%	-22.2%	-11.5%	-18.0%	18.3%	33.1%	29.2%	25.8%	13.2%		
COGS	34.6	36.7	8.8	8.9	8.4	9.4	35.4	40.3	52.1	64.1	78.1	88.2	21%	20%
% of net sales	80.7%	73.0%	83.7%	83.1%	82.0%	95.3%	85.9%	82.7%	80.3%	76.5%	74.0%	73.8%		
<b>Gross Income</b>	<b>8.3</b>	<b>13.6</b>	<b>1.7</b>	<b>1.8</b>	<b>1.8</b>	<b>0.5</b>	<b>5.8</b>	<b>8.5</b>	<b>12.8</b>	<b>19.7</b>	<b>27.4</b>	<b>31.3</b>	<b>48%</b>	<b>40%</b>
% of product sales	19.3%	27.0%	16.3%	16.9%	18.0%	4.7%	14.1%	17.3%	19.7%	23.5%	26.0%	26.2%		
G&A	4.6	6.5	1.8	1.2	3.5	3.0	9.5	10.2	10.4	10.5	10.6	10.6	5%	2%
% of net sales	11%	13%	17.3%	11.5%	34.4%	30.0%	23.1%	20.9%	16.0%	12.5%	10.0%	8.9%		
R&D	4.0	5.5	0.9	1.3	1.6	8.8	12.5	12.0	12.0	15.0	16.0	17.0	-2%	6%
% of net sales	9.3%	10.9%	8.2%	11.8%	15.8%	89.1%	30.3%	24.6%	18.5%	17.9%	15.2%	14.2%		
Amortization	0.5	1	0.1	0.1	0.1	0.1	0.5	-	-	-	-	-	-100%	-100%
% of net sales	1.2%	1.1%	1.2%	1.2%	1.4%	0.5%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%		
Gain on equipment sale	-0.1	-0.2	(0)	(0)	(0)	(0)	(0)	-	-	-	-	-	-100%	-100%
% of net sales	-0.1%	-0.4%	-0.4%	-0.3%	-0.2%	-0.1%	-0.2%	0.0%	0.0%	0.0%	0.0%	0.0%		
<b>Operating Income</b>	<b>(0.8)</b>	<b>1.2</b>	<b>(1)</b>	<b>(1)</b>	<b>(3)</b>	<b>(11)</b>	<b>(17)</b>	<b>(14)</b>	<b>(10)</b>	<b>(6)</b>	<b>1</b>	<b>4</b>	<b>-24%</b>	<b>NA</b>
% of net sales	-1.9%	2.4%					-40.2%	-28.2%	-14.8%	-6.9%	0.8%	3.1%		
Net financial expense	(4.6)	(15.1)	(1.0)	4.3	(1.6)	0.7	2.4	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)		
<b>Pretax Income</b>	<b>(5.5)</b>	<b>(13.9)</b>	<b>(2)</b>	<b>4</b>	<b>(5)</b>	<b>(11)</b>	<b>(14.2)</b>	<b>(17.7)</b>	<b>(13.6)</b>	<b>(9.8)</b>	<b>(3.2)</b>	<b>(0.3)</b>	<b>-2%</b>	<b>na</b>
% Pre-tax margin	-12.7%	-27.6%	-20.0%	33.0%	-48.9%	-107.9%	-34.4%	-36.3%	-21.0%	-11.6%	-3.0%	-0.3%		
Income Taxes (benefit)	(0)	0	-	-	-	-	-	-	-	-	-	-	na	na
% Tax rate	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
<b>GAAP Net Income</b>	<b>(5.4)</b>	<b>(13.9)</b>	<b>-2</b>	<b>4</b>	<b>-5</b>	<b>-11</b>	<b>(14.2)</b>	<b>(17.7)</b>	<b>(13.6)</b>	<b>(9.8)</b>	<b>(3.2)</b>	<b>(0.3)</b>	<b>NA</b>	<b>na</b>
% of net sales			-20.0%	33.0%	-48.9%	-107.9%								
<b>Diluted GAAP EPS</b>	<b>(2.47)</b>	<b>(2.40)</b>	<b>(0.21)</b>	<b>0.33</b>	<b>(0.28)</b>	<b>(0.56)</b>	<b>(0.99)</b>	<b>(0.97)</b>	<b>(0.74)</b>	<b>(0.52)</b>	<b>(0.17)</b>	<b>(0.02)</b>	<b>NA</b>	<b>NA</b>
% growth	nm	nm					nm	nm	nm	nm	nm	-90%		
Weighted Average Diluted Shares	2.2	5.8	10.1	10.7	17.6	18.8	14.3	18.2	18.5	18.8	19.2	19.6	14%	6%
% growth		163%	238%	155%	203%	85%	147%	27%	2%	2%	2%	2%		

Source: Company information, Leerink Research estimates.; Note: F2Q14 share ct may require adjustment after 10Q publishes

## Disclosures Appendix

### Analyst Certification

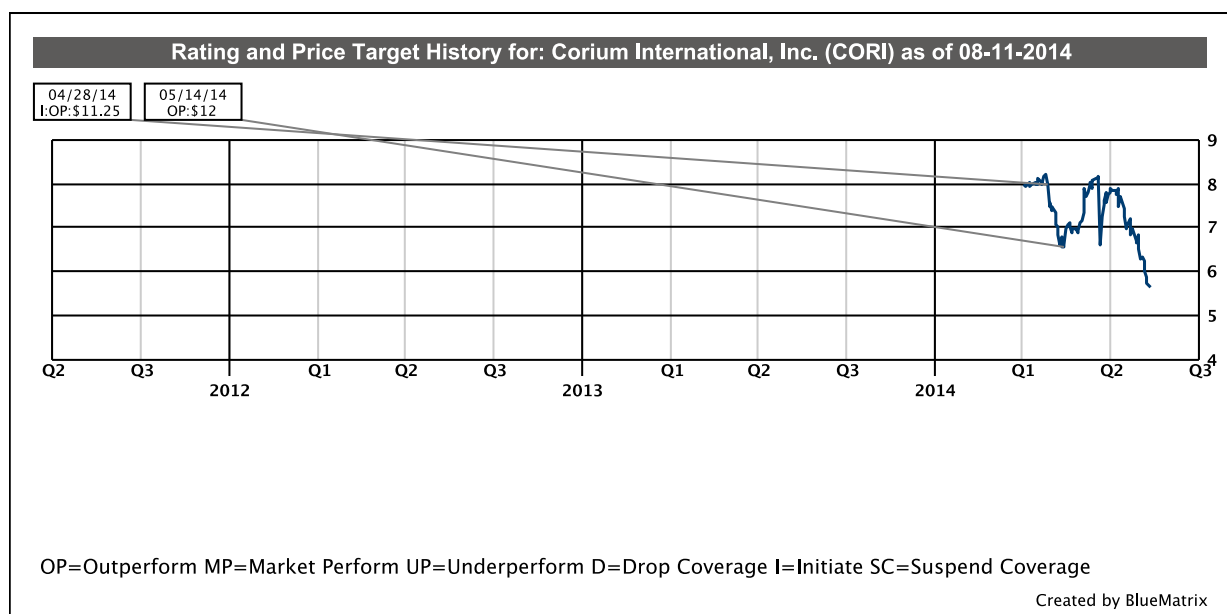
I, Jason M. Gerberry, JD, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

### Valuation

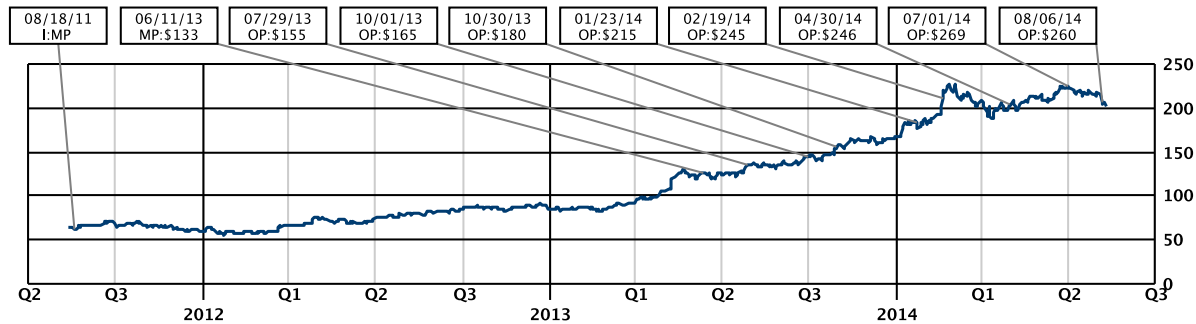
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### Rating and Price Target History for: Actavis, Inc. (ACT) as of 08-11-2014

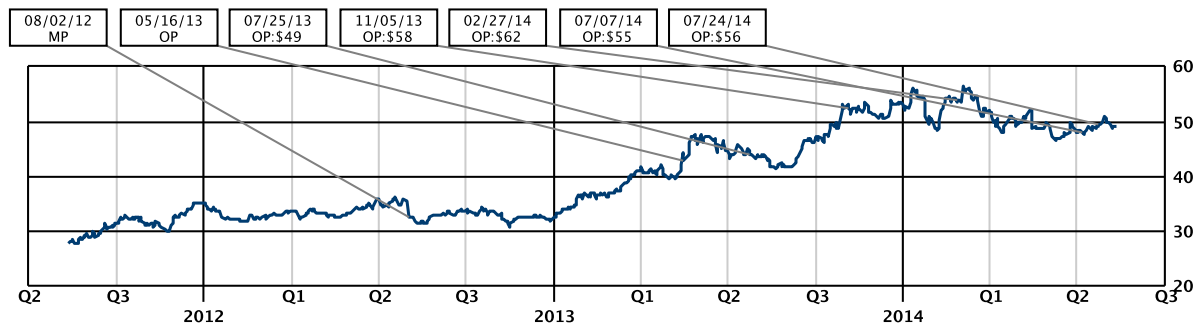


On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

### Rating and Price Target History for: Bristol-Myers Squibb (BMY) as of 08-11-2014

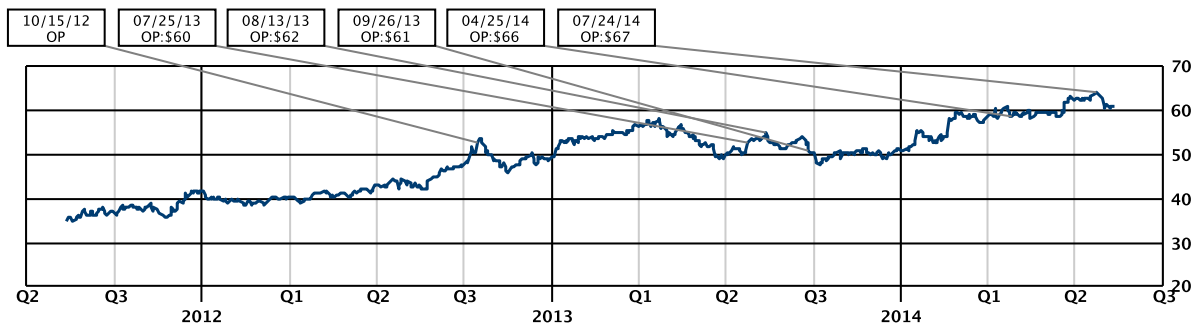


Leerink Swann placed an Outperform rating on BMY on June 11, 2010. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

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### Rating and Price Target History for: Eli Lilly & Company (LLY) as of 08-11-2014

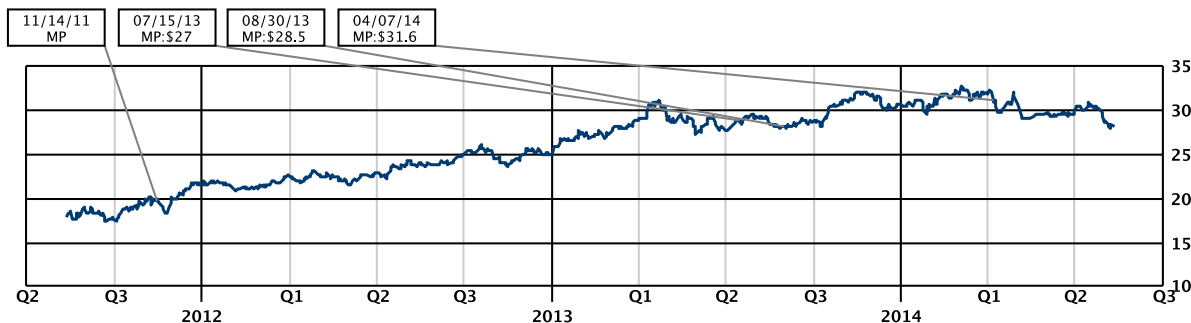


Leerink Swann placed a Market Perform rating on LLY on August 1, 2011. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

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### Rating and Price Target History for: Pfizer Inc. (PFE) as of 08-11-2014



Leerink Swann placed an Outperform rating on PFE on Feb. 12, 2009. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

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Distribution of Ratings/Investment Banking Services (IB) as of 06/30/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	138	69.00	50	36.20
HOLD [MP]	62	31.00	2	3.20
SELL [UP]	0	0.00	0	0.00

## Explanation of Ratings

**Outperform (Buy):** We expect this stock to outperform its benchmark over the next 12 months.

**Market Perform (Hold/Neutral):** We expect this stock to perform in line with its benchmark over the next 12 months.

**Underperform (Sell):** We expect this stock to underperform its benchmark over the next 12 months. The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than \$2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over \$2 billion.

## Important Disclosures

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In the past 12 months, the Firm has received compensation for providing investment banking services to Corium International, Inc. .

Leerink Partners LLC makes a market in Corium International, Inc.

Leerink Partners LLC is willing to sell to, or buy from, clients the common stock of Actavis, Inc., Bristol-Myers Squibb, Eli Lilly & Company and Pfizer Inc. on a principal basis.

Leerink Partners LLC has acted as the manager for a public offering of Corium International, Inc. in the past 12 months.

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