

## COMPANY NOTE

Target | Estimate Change

USA | Healthcare | Pharmaceuticals/Specialty

November 19, 2014

# Jefferies

## Corium (CORI) Wider Q4 Loss; Pipeline Focus Shifts to CNS Given Multiple Opportunities

### Key Takeaway

**CORI reported a F4Q net loss of \$6.4M, \$3.1M more than our -\$3.3M est. Revs were inline (\$11.1M vs \$10.9M JEF) but much higher than expected COGS due to ongoing contract mfg activities significantly pressured gross profit (\$1.5M vs \$4.0M JEF). In terms of the pipeline, mgt noted that several development activities are progressing smoothly and indicated a near-term strategy shift towards its CNS pipeline, which features multiple high-value opportunities.**

**Contract R&D COGS Drag on Net Income, Lead to Wider Loss:** F4Q revs were inline with our ests (\$11.1M vs JEF \$10.9M), but higher contract mfg costs (\$4.2M vs \$2.5M JEF) depressed gross profit. OPEX was generally inline, with slightly higher R&D (+\$0.7M vs JEF) mostly offset by lower SG&A (-\$0.5M vs JEF). All told, net income was \$3.1M less than we forecasted.

**Pipeline Focus Shifts to CNS Compounds; Tamsulosin on the Sidelines Until Partner is Secured:** Mgt indicated that while many of its pipeline programs are progressing nicely, due to a combination of limited resources and several promising CNS opportunities – including transdermal patches of Aricept, Namenda and Abilify – the co has decided to press forward with early pre-clinical studies for these CNS assets in lieu of completing its “large” Ph2 study for Tamsulosin. Mgt believes that by focusing on its CNS pipeline – and given successful outcomes – it would then have the option to either partner these programs or vertically integrate into a marketing co. While we understand mgt’s strategy, the tradeoff is that CORI will have to delay its Tamsulosin program until an external partner is identified.

**Our New Model Reflects Initial FY15 Guidance, Timing of R&D Pipeline:** Mgt noted that its preliminary FY15 outlook calls for revs to be “consistent” with FY14. As such, we are revising our FY15 sales to \$43.0M (vs \$55.0M). The change is mostly due to lower than anticipated (unprofitable) contract R&D revs (\$9.1M from \$17.3M) as we had modeled feasibility studies with a large partner. Further, we push back our Tamsulosin milestone (\$10M over 10 years) to FY17, Tamsulosin launch to FY19, and MicroCor PTH milestone (\$30M over 10 years) to FY16 given the timing of Ph2 trials. With moderating clonidine and fentanyl sales but solid Whitestrips growth, we update our FY15 “base” revs (\$32.9M vs \$33.7M).

### Valuation/Risks

Our new PT is \$10 (vs \$13): 25x our new 2020 EPS est of \$1.22, discounted annually at 25%. Risks include competition to current drugs, mfg issues and pipeline setbacks.

USD	Prev.	2013A	Prev.	2014A	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	50.3	42.3	42.4	55.0	43.0	59.0	49.0
<b>EPS</b>								
Dec	--	--	--	--	--	(0.29)	--	--
Mar	--	--	--	(0.47)	--	(0.32)	--	--
Jun	--	--	--	(0.28)	--	(0.29)	--	--
Sep	--	--	(0.19)	(0.35)	--	(0.30)	--	--
FY Sep	--	--	(0.94)	(1.11)	(0.34)	(0.85)	(0.62)	(1.01)
FY P/E				NM		NM		NM

**BUY**

Price target \$10.00

(from \$13.00)

Price \$5.44

### Financial Summary

Net Debt (MM): \$12.0

### Market Data

52 Week Range: \$8.49 - \$4.30

Total Entprs. Value (MM): \$109.9

Market Cap. (MM): \$97.9

Shares Out. (MM): 18.0

Float (MM): 7.5

Avg. Daily Vol.: 14,950

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### Price Performance



**CORI**

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**Corium International****Buy: \$10 Price Target****Scenarios****Target Investment Thesis**

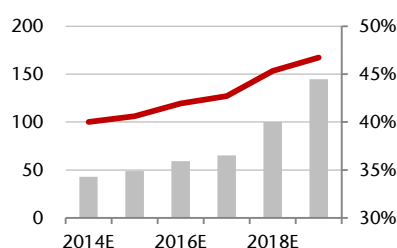
- Stable base business largely due to strong Whitestrips performance
- Twirla Phase 3 trial is successful and reads out in early FY16
- MicroCor PTH and Corplex Tamsulosin are partnered in FY16 and FY17 following completion of Phase 2 trials
- 2020 EPS: \$1.22; Target Multiple: 25x; Discount Rate: 25%; Target Price \$10

**Upside Scenario**

- Stronger than forecasted growth of base business, potentially driven by expanded P&G collaboration
- Twirla Phase 3 data is outstanding
- Positive early results with MicroCor in various biologics leads to large collaboration with established commercial partner
- 2020 EPS: \$1.73; Target Multiple: 25x; Discount Rate: 22.5%; Target Price \$16

**Downside Scenario**

- Base business erosion due to lower than expected growth
- Twirla fails in its pivotal Phase 3 trial
- MicroCor PTH and/or Corplex Tamsulosin is not partnered due to poor Phase 2 study results
- 2020 EPS: \$0.81; Target Multiple: 20x; Discount Rate: 25%; Target Price \$5

**Long Term Analysis****REV (\$M) and Product GM (%)**

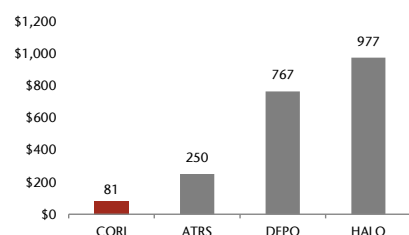
Source: Jefferies estimates

**Long Term Financial Model Drivers**

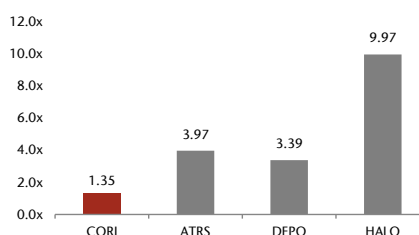
<b>2015-2020 Average Revenue Growth</b>	<b>28.2%</b>
2015-2020 Product GM expansion	130 bp/yr

**Other Considerations**

Since the first commercial introduction of a TDS product in 1979, there have been 6 publicly traded companies that specialized in transdermal drug delivery – all of which were eventually acquired. The most notable example is ALZA, a drug delivery pioneer, which was acquired by JNJ in 2001 for \$12.3B. At present, Corium is the only publicly traded corporation with proprietary transdermal expertise, making the company a somewhat unique asset.

**Peer Group****EV (\$M)**

Source: FactSet

**2015 EV/REV**

Source: FactSet

**Recommendation / Price Target**

Ticker	Rec.	PT
<b>CORI</b>	<b>Buy</b>	<b>\$10</b>
ATRS	NC	NA
DEPO	NC	NA
HALO	UP	\$5

**Catalysts**

- Initiation of Ph2a Trial for MicroCor PTH for osteoporosis in 1H15
- Topline Twirla data readout from partner Agile in early CY16
- Potential MicroCor collaboration with large commercial partner in FY15 to develop vaccines or other biologics

**Company Description**

Founded in 1999, Corium is a commercial stage pharmaceutical company with proven expertise in the niche field of transdermal drug delivery. The company is the exclusive supplier of six currently marketed products by well-known partners P&G, Teva and Par and boasts a deep pipeline of pre-clinical and clinical stage partnerships that focus on areas of significant unmet medical need. Corium also leverages its two proprietary core technologies, Corplex and Microcor, to develop improved formulations of both known existing therapeutics and potential New Chemical Entities (NCEs). Corium has manufacturing operations in Grand Rapids, MI and is headquartered in Menlo Park, CA.

Chart 1: CORI Income Statement (\$ in '000s, except per share data)

FY: SEP	2012A	2013A	2014A	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Revenues:</b>													
Product Revenues	\$35,952	\$38,704	\$32,202	\$8,150	\$7,400	\$8,400	\$8,958	\$32,908	\$36,580	\$45,475	\$51,548	\$86,177	\$130,377
Contract R&D Revenues	6,838	10,750	9,026	2,250	2,350	2,250	2,266	9,116	9,390	9,624	9,817	10,013	10,214
License/Collaboration Revenues	70	816	1,212	250	250	250	250	1,000	3,000	4,000	4,000	4,000	4,000
<b>TOTAL REVENUES</b>	<b>\$42,860</b>	<b>\$50,270</b>	<b>\$42,440</b>	<b>\$10,650</b>	<b>\$10,000</b>	<b>\$10,900</b>	<b>\$11,475</b>	<b>\$43,025</b>	<b>\$48,970</b>	<b>\$59,100</b>	<b>\$65,365</b>	<b>\$100,191</b>	<b>\$144,590</b>
<b>Cost of Goods Sold:</b>													
COGS	34,604	36,684	35,595	8,427	8,351	8,829	9,529	28,588	31,025	35,936	39,255	57,030	79,560
<b>GROSS PROFIT</b>	<b>\$8,256</b>	<b>\$13,586</b>	<b>\$6,845</b>	<b>\$2,223</b>	<b>\$1,649</b>	<b>\$2,071</b>	<b>\$1,946</b>	<b>\$14,437</b>	<b>\$17,946</b>	<b>\$23,163</b>	<b>\$26,110</b>	<b>\$43,161</b>	<b>\$65,030</b>
<b>Operating Expenses:</b>													
R&D	3,966	5,496	7,365	3,050	3,050	3,000	3,125	12,225	18,338	19,254	19,639	20,032	20,433
G&A	4,645	6,525	9,095	2,525	2,550	2,575	2,575	10,225	10,787	11,327	11,893	12,488	13,112
Total Operating Expenses	43,670	49,069	52,490	14,119	14,073	14,536	15,375	51,555	60,697	67,097	71,401	90,198	113,790
<b>OPERATING INCOME</b>	<b>(810)</b>	<b>1,201</b>	<b>(10,050)</b>	<b>(3,469)</b>	<b>(4,073)</b>	<b>(3,636)</b>	<b>(3,900)</b>	<b>(8,530)</b>	<b>(11,727)</b>	<b>(7,997)</b>	<b>(6,036)</b>	<b>9,992</b>	<b>30,800</b>
Net interest income (expense)	(5,243)	(7,696)	(6,954)	(1,800)	(1,800)	(1,800)	(1,800)	(7,200)	(7,200)	(6,450)	(5,700)	(4,950)	(4,200)
Other Income	603	(7,381)	755	-	-	-	-	-	-	-	-	-	-
<b>PRETAX INCOME</b>	<b>(5,450)</b>	<b>(13,876)</b>	<b>(16,249)</b>	<b>(5,269)</b>	<b>(5,873)</b>	<b>(5,436)</b>	<b>(5,700)</b>	<b>(15,730)</b>	<b>(18,927)</b>	<b>(14,447)</b>	<b>(11,736)</b>	<b>5,042</b>	<b>26,600</b>
Reported taxes	(7)	1	1	0	0	0	0	0	0	0	0	0	0
<b>NET INCOME</b>	<b>(5,443)</b>	<b>(13,877)</b>	<b>(16,250)</b>	<b>(5,269)</b>	<b>(5,873)</b>	<b>(5,436)</b>	<b>(5,700)</b>	<b>(15,730)</b>	<b>(18,927)</b>	<b>(14,447)</b>	<b>(11,736)</b>	<b>5,042</b>	<b>26,600</b>
Shares outstanding (basic)		2,223	10,044	18,154	18,336	18,519	18,704	18,428	18,728	19,028	19,328	19,628	19,928
Shares outstanding (diluted)		2,223	10,044	18,154	18,336	18,519	18,704	18,428	18,728	19,028	19,328	21,528	21,828
<b>Reported EPS (diluted)</b>		<b>(\$6.24)</b>	<b>(\$1.11)</b>	<b>(\$0.29)</b>	<b>(\$0.32)</b>	<b>(\$0.29)</b>	<b>(\$0.30)</b>	<b>(\$0.85)</b>	<b>(\$1.01)</b>	<b>(\$0.76)</b>	<b>(\$0.61)</b>	<b>\$0.23</b>	<b>\$1.22</b>
<b>MARGINS:</b>													
Gross	19.3%	27.0%	16.1%	20.9%	16.5%	19.0%	17.0%	33.6%	36.6%	39.2%	39.9%	43.1%	45.0%
Gross (on product and royalties)	32.2%	35.9%	37.3%	40.0%	40.0%	40.0%	40.0%	40.0%	40.6%	41.9%	42.7%	45.3%	46.7%
R&D	9.3%	10.9%	17.4%	28.6%	30.5%	27.5%	27.2%	28.4%	37.4%	32.6%	30.0%	20.0%	14.1%
G&A	10.8%	13.0%	21.4%	23.7%	25.5%	23.6%	22.4%	23.8%	22.0%	19.2%	18.2%	12.5%	9.1%
Operating	NM	2.4%	NM	NM	NM	NM	NM	NM	NM	NM	NM	10.0%	21.3%
Pre-tax	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	5.0%	18.4%
Tax Rate (as reported)	NM	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	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	5.0%	18.4%

Source: Jefferies estimates, company data

## Company Description

Corium International, Inc. is a leader in applying advanced transdermal delivery systems and related technologies to address areas of unmet medical need. The company has developed two highly differentiated state of the art transdermal technologies, Microcor and Corplex, for the delivery of large and small molecules, respectively.

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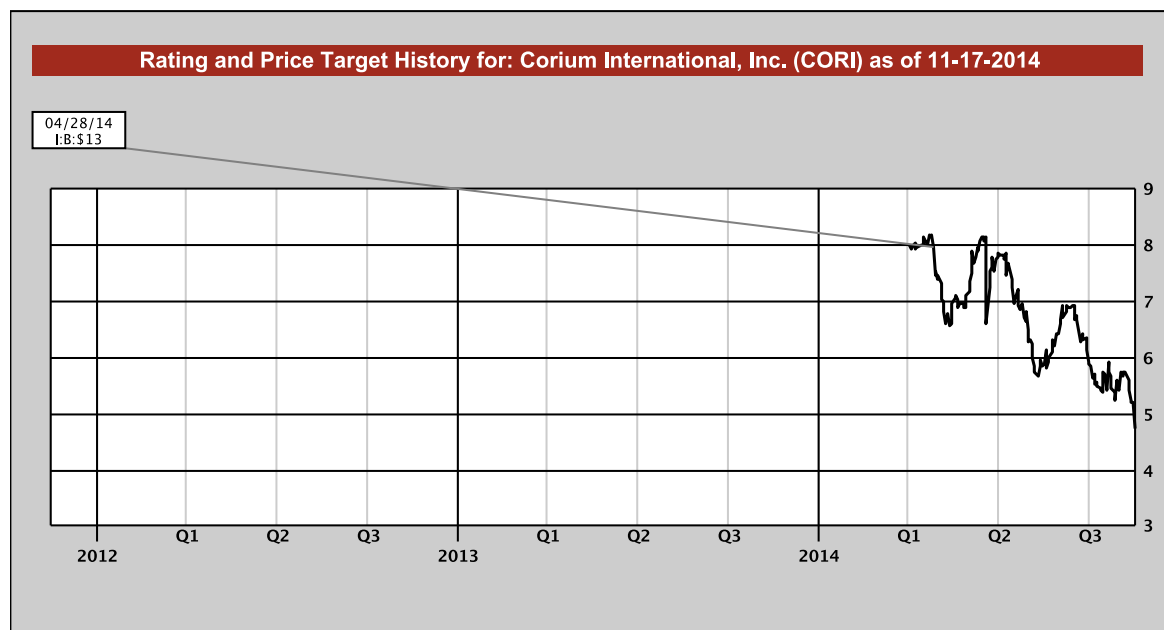
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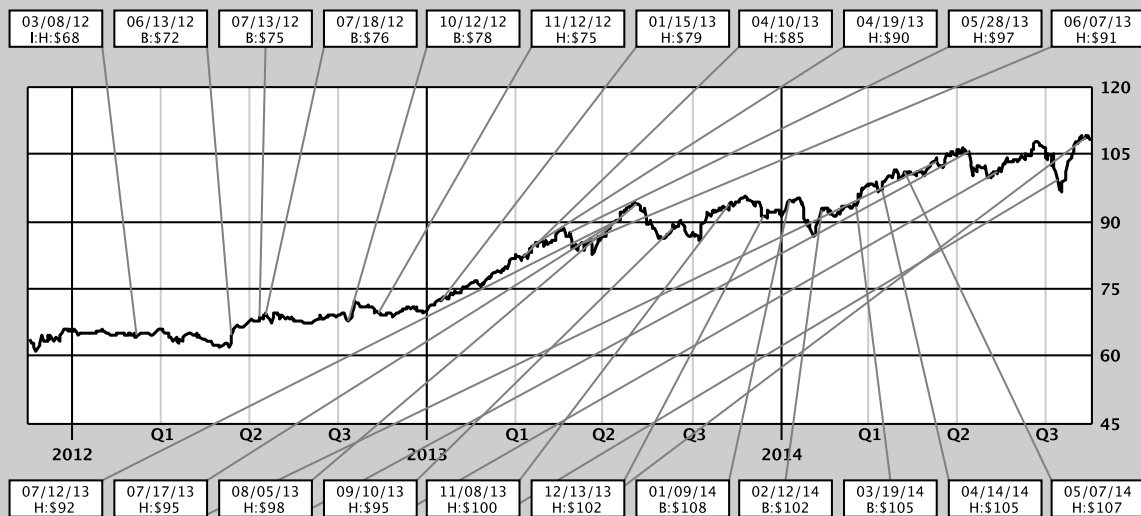
- Halozyne Therapeutics, Inc. (HALO: \$8.58, UNDERPERFORM)
- Johnson & Johnson (JNJ: \$108.83, HOLD)



## Rating and Price Target History for: Halozyme Therapeutics, Inc. (HALO) as of 11-17-2014



## Rating and Price Target History for: Johnson &amp; Johnson (JNJ) as of 11-17-2014



## Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1022	52.09%	269	26.32%
HOLD	800	40.77%	144	18.00%
UNDERPERFORM	140	7.14%	4	2.86%

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