

COMPANY NOTE

Estimate Change

USA | Healthcare | Pharmaceuticals/Specialty

August 12, 2014

Jefferies

Corium (CORI)

Wider Q3 Loss; A New Partnership Disclosed; Proprietary Pipeline Advancing

Key Takeaway

Corium posted a wider than expected F3Q net loss of \$5M, \$1.8M greater than our est, primarily due to lower than projected revs of \$10.2M (-\$2.4M vs our est) – reflecting lower than expected sales of generic Fentanyl TDS as well as timing of contract R&D revs, which can be lumpy. More importantly, Corium continues to advance key proprietary and partnered pipeline candidates which are critical to our investment thesis and Buy rating.

Generic TDS Declines Modestly Offset by Whitestrip Gains: As expected, sales of Fentanyl TDS declined \$2.1M Y/Y due to additional competitors entering the market – although the magnitude was slightly greater than we had forecasted. And despite Actavis' recent approval for generic Clonidine TDS (-\$0.3M Y/Y), mgt noted that it has not experienced increased competition, although acknowledged that it may still be too early to assess the situation. That said, mgt believes that these partnered generic franchises have largely stabilized and indicates that any further sequential rev decline in the remainder of the year would be "unexpected" as they already have customer purchase orders. These declines were modestly offset by increased sales (~\$3.1M, +\$0.5M Y/Y) of Crest Whitestrips from partner P&G.

New Partnership Disclosed for Transdermal Abilify: Mgt disclosed a new feasibility/development program with Canada-based Aequus for a transdermal aripiprazole (Bristol Myer's \$6B+ Abilify brand) for treating CNS disorders, including schizophrenia, bipolar, and MDD. While Bristol has introduced a long-acting injectable formulation to address compliance issues, Aequus believes that a long-acting transdermal could have further compliance (i.e., no injections) as well as safety benefits, as orals and injectables are not reversible once patients have been dosed. Corium indicates that Aequus is moving forward quickly, with "aggressive timelines." This partnership further highlights Corium's transdermal capabilities and potentially represents a significant future rev opportunity.

Valuation/Risks

Our PT remains \$13, based on applying a 25x multiple to our 2020 EPS est of \$1.54 and discounting annually at 25%. Risks to our PT include competition to currently marketed products, mfg deficiencies and clinical setbacks for proprietary and partnered programs.

USD	Prev.	2013A	Prev.	2014E	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	50.3	45.4	42.3	57.0	55.0	61.1	59.0
EPS								
Dec	--	--	--	--	--	--	--	--
Mar	--	--	--	(0.47)A	--	--	--	--
Jun	--	--	(0.17)	(0.28)A	--	--	--	--
Sep	--	--	--	(0.19)	--	--	--	--
FY Sep	--	--	(0.83)	(0.94)	(0.29)	(0.34)	(0.56)	(0.62)
FY P/E				NM		NM		NM

BUY

Price target \$13.00

Price \$5.66

Financial Summary

Net Debt (MM): (\$18.0)

Market Data

52 Week Range: \$8.49 - \$5.61
 Total Entprs. Value (MM): \$81.6
 Market Cap. (MM): \$99.6
 Shares Out. (MM): 17.6
 Float (MM): 6.9
 Avg. Daily Vol.: 21,945

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Price Performance

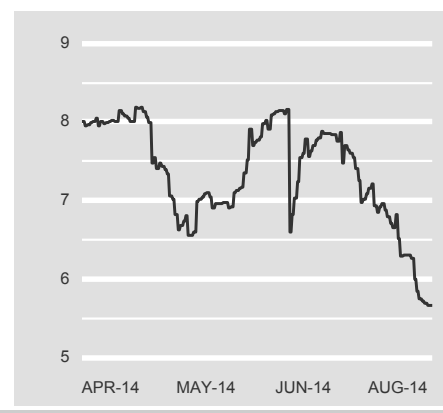


Chart 1: CORI Quarterly Variance Analysis

	3Q14A	3Q14E	Change	% Change	3Q13A	Change	% Change
Total Revenues	\$10,183	\$12,626	(\$2,443)	-19.3%	\$12,566	(\$2,383)	-19.0%
Costs&Exp.							
COGS	8,355	8,834	(479)	-5.4%	8,847	(\$492)	-5.6%
Gross Profit	1,828	3,792	(1,964)	-51.8%	3,719	(\$1,891)	-50.8%
R&D	1,614	2,226	(612)	-27.5%	1,393	\$221	15.9%
SG&A	3,497	4,350	(853)	-19.6%	1,463	\$2,034	139.0%
Total C&E	13,580	15,566	(1,986)	-12.8%	11,795	\$1,785	15.1%
Operating Income	(3,397)	(2,940)	(457)	15.5%	771	(\$4,168)	-540.6%
Net interest/other income	(1,584)	(227)	(1,357)	597.8%	(1,980)	\$396	-20.0%
Pretax Income	(4,981)	(3,167)	(1,814)	57.3%	(1,209)	(\$3,772)	312.0%
Taxes	0	0	0	NM	0	\$0	NM
Net Income	(4,981)	(3,167)	(1,814)	57.3%	(1,209)	(\$3,772)	312.0%
Reported EPS - diluted	(\$0.28)	(\$0.17)	(\$0.11)	68.6%	(\$0.54)	\$0.26	-48.0%
Shares outstanding (diluted)	17,624	18,892	(1,268)	-6.7%	2,226	15,398	691.6%

Source: Jefferies estimates, company data

Pipeline Products Moving Along Well

Corium is also quickly moving forward with the development of its own proprietary candidates, having initiated a Phase 2a study for its transdermal PTH program. Using its MicroCor platform, PTH TDS could potentially address one of the biggest challenges in pharmaceuticals – the noninvasive delivery of biologics. We view this program as a high risk, but potentially high reward opportunity, as Forteo generated \$1.2B in sales during 2013 despite ~50% patient non-compliance. Management expects Phase 2a data readout for this key program in 1H15. Key partnered product Twirla also remains on track to enter a new Phase 3 trial in Q3, following Agile's recent successful IPO.

Chart 2: CORI Income Statement (\$ in '000s, except per share data)

FY: SEP	2011A	2012A	2013A	1Q14A	2Q14A	3Q14A	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Revenues:														
Product Revenues	\$36,224	\$35,952	\$38,704	\$8,100	\$7,240	\$7,856	\$7,536	\$30,732	\$33,714	\$36,886	\$44,382	\$58,321	\$92,819	\$142,877
Contract R&D Revenues	6,986	6,838	10,750	2,064	3,173	2,023	3,133	10,393	17,254	18,116	18,479	18,848	19,225	19,610
License/Collaboration Revenues	77	70	816	304	304	304	304	1,216	4,000	4,000	4,000	4,000	4,000	4,000
TOTAL REVENUES	\$43,287	\$42,860	\$50,270	\$10,468	\$10,717	\$10,183	\$10,972	\$42,340	\$54,967	\$59,002	\$66,861	\$81,170	\$116,044	\$166,487
Cost of Goods Sold:														
COGS	33,945	34,604	36,684	8,766	8,909	8,355	6,972	33,002	36,964	39,783	44,059	51,482	69,367	95,007
COGS on Product Revenues	24,802	24,360	24,828	5,229	4,998	4,566	4,521	19,314	20,228	21,847	25,765	32,822	50,334	75,593
COGS on Contract R&D	9,143	10,244	11,856	3,537	3,911	3,789	2,451	13,688	16,736	17,935	18,294	18,660	19,033	19,414
GROSS PROFIT	\$9,342	\$8,256	\$13,586	\$1,702	\$1,808	\$1,828	\$4,000	\$9,338	\$18,003	\$19,220	\$22,802	\$29,687	\$46,677	\$71,480
Operating Expenses:														
R&D	3,678	3,966	5,496	861	1,267	1,614	2,878	6,620	12,243	18,977	19,925	20,324	20,730	21,145
G&A	4,006	4,645	6,525	1,810	1,236	3,497	3,082	9,625	10,235	10,440	11,640	12,222	12,833	13,475
Amortization of intangible assets	497	512	541	130	131	138	249	648	630	662	695	729	766	804
Other Operating Expenses	-	(57)	(177)	(37)	(32)	(24)	(57)	(150)	(152)	(153)	(155)	(156)	(158)	(159)
Total Operating Expenses	42,126	43,670	49,069	11,530	11,511	13,580	13,124	49,745	59,921	69,707	76,165	84,602	103,539	130,272
OPERATING INCOME	1,161	(810)	1,201	(1,062)	(794)	(3,397)	(2,152)	(7,405)	(4,953)	(10,705)	(9,304)	(3,432)	12,505	36,215
Net interest income (expense)	(3,839)	(5,243)	(7,696)	(2,022)	(1,779)	(1,584)	(1,165)	(6,550)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)
Other Income	314	603	(7,381)	986	(231)	-	-	755	-	-	-	-	-	-
PRETAX INCOME	(2,364)	(5,450)	(13,876)	(2,098)	(2,804)	(4,981)	(3,317)	(13,200)	(6,553)	(12,305)	(10,904)	(5,032)	10,905	34,615
Reported taxes	(23)	(7)	1	0	0	0	0	0	0	0	0	0	0	0
Fully taxed (37.5%)	-	-	0	0	0	0	0	0	0	0	0	0	4,089	12,981
NET INCOME	(2,341)	(5,443)	(13,877)	(2,098)	(2,804)	(4,981)	(3,317)	(13,200)	(6,553)	(12,305)	(10,904)	(5,032)	10,905	34,615
NET INCOME (fully taxed)	(2,364)	(5,450)	(13,876)	(2,098)	(2,804)	(4,981)	(3,317)	(13,200)	(6,553)	(12,305)	(10,904)	(5,032)	6,816	21,635
Shares outstanding (basic)					2,232	17,624	17,924	12,594	19,224	19,524	19,824	20,124	20,424	20,724
Shares outstanding (diluted)					5,930	17,624	17,924	12,594	19,524	19,824	20,124	20,424	22,224	22,524
Reported EPS (diluted)					(\$0.47)	(\$0.28)	(\$0.19)	(\$0.94)	(\$0.34)	(\$0.62)	(\$0.54)	(\$0.25)	\$0.49	\$1.54

MARGINS:	2011A	2012A	2013A	1Q14A	2Q14A	3Q14A	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Gross	21.6%	19.3%	27.0%	16.3%	16.9%	18.0%	36.5%	22.1%	32.8%	32.6%	34.1%	36.6%	40.2%	42.9%
Gross (on product and royalties)	31.5%	32.2%	35.9%	35.4%	31.0%	41.9%	40.0%	37.2%	40.0%	40.8%	41.9%	43.7%	45.8%	47.1%
R&D	8.5%	9.3%	10.9%	8.2%	11.8%	15.8%	26.2%	15.6%	22.3%	32.2%	29.8%	25.0%	17.9%	12.7%
G&A	9.3%	10.8%	13.0%	17.3%	11.5%	34.3%	28.1%	22.7%	18.6%	17.7%	17.4%	15.1%	11.1%	8.1%
Operating	2.7%	NM	2.4%	NM	NM	NM	NM	NM	NM	NM	NM	NM	10.8%	21.8%
Pre-tax	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	9.4%	20.8%
Tax Rate (as reported)	NM	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	NM	9.4%	20.8%

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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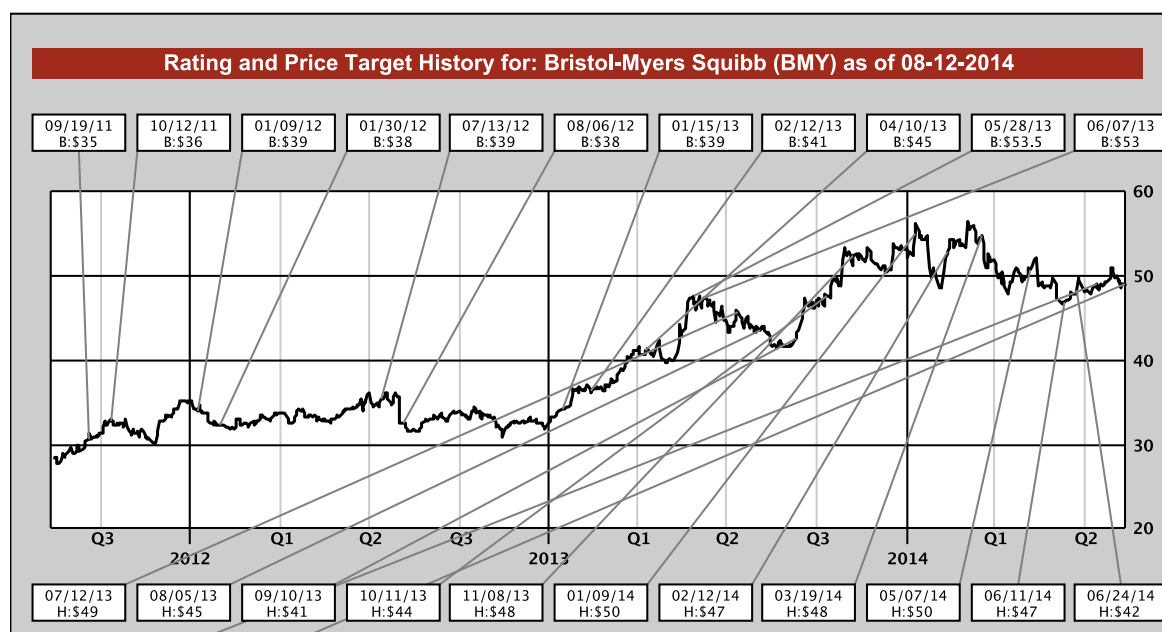
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- Corium International, Inc. (CORI: \$5.66, BUY)





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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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