

Reason for report:
EARNINGS

CORIUM INTERNATIONAL, INC.

Pipeline Progressing; Headwinds to Base Biz Lower Our PT to \$10/shr; Remain OP

• **Bottom Line:** After the close, CORI reported F'1Q results – sales of ~\$9.8m and a net loss of ~\$6.8m, which were slightly lower than our sales and net loss estimates of \$10.1m and \$6.4m, respectively. The miss came from lower-than-expected product sales and higher R&D expense. Important F'1Q updates included: (1) mgmt. reiterated guidance that F'15 sales should be flat relative to F'14 levels; (2) R&D expense was a little high at ~\$4m for the qtr, as CORI is advancing more programs than originally envisioned at the time of IPO; (3) pipeline updates – clinical trials of transdermal CNS products are expected to start later in calendar '15 and one of CORI's partnered ANDA products (we assume g-scopolamine) was highlighted as a potential new product launch in late 2015. Next up: top-line data from the Ph. 2a MicroCor PTH study by mid-year. We remain OP but lower our price target to ~\$10/shr (from \$11).

• **We modestly reduce our F'15 and out-year product revenue ests due to competitive headwinds to base biz.** In F'1Q our sales ests for CORI's product revenues came in lighter than we forecast as g-clonidine and g-fentanyl continue to face competitive headwinds and we under-called the impact of new competition on market pricing. In the clonidine patch market, IMS script data showed TEVA (OP)/CORI's g-clonidine share was up slightly to ~55% from ~53% in the prior qtr, but we believe this was likely due to TEVA discounting to maintain share in the face of new competition. Mgmt has previously commented that they expect these trends to continue in F'15+. We are lowering our F'15 product revenue ests from ~\$30m to ~\$27m and modestly reduce our out-year forecasts to better reflect mgmt's revenue guidance of flat/declining revenues.

• **Phase 2a MicroCor PTH data on track for mid-year readout.** Mgmt reiterated that the MicroCor PTH (parathyroid hormone) program is still scheduled to report top-line data from its Phase 2a study in 1H'15. Recall, MicroCor PTH is similar to LLY's (OP) Forteo for treatment of osteoporosis, a drug that 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). Assuming positive data, mgmt plans to initiate a Ph. 2b trial in early F'16.

• **Mgmt reiterated timing for key pipeline programs.** On the CC, CORI continues to expect: (1) lead Alzheimer's disease program donepezil (Aricept) to begin Ph.1 PK trials by mid-2015; (2) memantine (Namenda) to enter PK studies shortly after donepezil in late 2015; & (3) mgmt noted they expect the launch of a partnered ANDA product; however they did not provide details about the commercial opportunity.

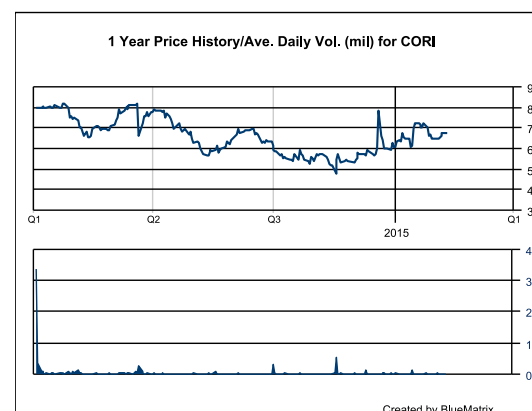
Sep Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	P/E
2014A	\$10.5	\$10.7	\$10.2	\$11.1	\$42.4	(\$0.21)	\$0.33	(\$0.28)	(\$0.35)	(\$0.99)	NM
2015E - New	\$9.8A	\$9.3	\$9.8	\$12.8	\$41.3	(\$0.37)A	(\$0.37)	(\$0.37)	(\$0.31)	(\$1.44)	NM
2015E - Old	\$10.1	\$10.1	\$10.4	\$10.7	\$44.8	(\$0.35)	(\$0.40)	(\$0.42)	(\$0.25)	(\$1.23)	NM
2016E - New	--	--	--	--	\$62.5	--	--	--	--	(\$0.95)	NM
2016E - Old	--	--	--	--	\$64.9	--	--	--	--	(\$0.74)	NM

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

Key Stats:

(NASDAQ:CORI)

S&P 600 Health Care Index:	1,503.39
Price:	\$6.72
Price Target:	\$10.00 from \$11.00
Methodology:	Sum-of-Parts DCF Analysis
52 Week High:	\$8.49
52 Week Low:	\$4.30
Shares Outstanding (mil):	18.0
Market Capitalization (mil):	\$121.0
Book Value/Share:	\$0.00
Cash Per Share:	\$2.00
Dividend (ann):	\$0.00
Dividend Yield:	0.0%



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 (2014-20E) (\$MM, except per share data)

Total EPS Forecasts 2014-20E							
	2014	2015E	2016E	2017E	2018E	2019E	2020E
New	(0.99)	(1.44)	(0.95)	(0.60)	(0.19)	(0.05)	0.09
Old	(0.99)	(1.23)	(0.74)	(0.52)	(0.17)	(0.02)	0.11
Difference	-	(0.21)	(0.21)	(0.08)	(0.03)	(0.03)	(0.02)
Total Revenue Forecasts 2014-20E							
	2014	2015E	2016E	2017E	2018E	2019E	2020E
New	42.4	41.3	62.5	82.0	103.7	117.4	130.9
Old	42.4	44.8	64.9	83.9	105.5	119.4	132.4
Difference	-	(3.5)	(2.5)	(1.9)	(1.9)	(2.1)	(1.5)

Source: Leerink Partners, LLC estimates, Company information

VALUATION

Our ~\$10 (from \$11) price target, reduced to reflect headwinds to the base business, is based on a sum-of-the-parts valuation analysis: (1) base business = ~\$5.67, based on ~2.5x multiple on ~\$41m F'15E revenue from base business products; (2) Twirla = ~\$1.73; (3) Ph. II products = ~\$2.00; (4) MicroCor = ~55c; and (5) net cash -44c.

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 transdermal delivery system (TDS) markets; & (3) product recalls and/or cGMP issues relating to existing commercial products could negatively impact valuation.

CORI P&L Summary (Adj. Basis)

	2013	2014	1Q 12/15	2Q 3/15E	3Q 6/15E	4Q 9/15E	2015E	2016E	2017E	2018E	2019E	2020E	CAGR 15-17E	CAGR 15-20E
<i>(Fiscal Year End Last Friday of September)</i>														
clonidine TDS, partner TEVA (brand: Catapres TTS)	12.5	9.4	1.6	1.5	1.4	1.4	6.0	5.6	5.3	5.2	5.1	5.0	-6%	-4%
fentanyl TDS, partner Par (brand: Duragesic)	16.4	11.0	2.3	2.3	2.3	2.2	9.2	9.0	8.9	8.8	8.7	8.6	-2%	-1%
Crest White Strips, partner P&G	9.8	10.0	2.6	2.8	3.1	3.5	12.0	13.2	14.5	16.0	17.6	19.3	10%	10%
Total in-line patch sales	38.7	30.4	6.5	6.7	6.9	7.1	27.2	27.8	28.7	30.0	31.4	32.9	3%	4%
scopolamine TDS, partner TEVA (brand: Transderm Scop)	-	-	-	-	-	3.0	3.0	3.0	3.0	3.0	3.0	3.0	0%	0%
oxybutynin TDS, partner TEVA (brand: Oxytrol)	-	-	-	-	-	-	-	-	-	-	-	-	na	na
AG200-15 contraceptive patch, partner Agile	-	-	-	-	-	-	-	4.0	10.0	16.0	20.0	26.0	na	na
P&G OTC cosmetic product	-	-	-	-	-	-	-	4.0	6.0	9.0	14.0	17.0	na	na
Corplex Tamsulosin	-	-	-	-	-	-	-	-	-	-	-	-	na	na
Alzheimer's TDS (505b2 path)	-	-	-	-	-	-	-	-	-	-	-	-	na	na
Parkinson's TDS (505b2 path)	-	-	-	-	-	-	-	-	-	-	-	-	na	na
Total pipeline patch product sales	-	-	-	-	-	3.0	3.0	11.0	19.0	28.0	37.0	46.0	152%	73%
hPTH (1-34) TDS	-	-	-	-	-	-	-	-	-	-	-	-	na	na
Product royalties	-	-	-	-	-	-	-	-	-	-	-	-	na	na
Contract Research & Development	10.8	9.0	2.9	2.1	2.4	1.6	9.0	16.0	20.0	24.0	26.0	28.0	49%	25%
License & Collaboration Revenue	0.8	1.2	-	0.5	0.5	1.0	2.0	7.7	14.3	21.7	23.0	24.0	165%	64%
Other revenues	-	1.8	0.3	-	-	0.0	0.3	-	-	-	-	-	-100%	-100%
Total Revenues	50	42	9.8	9.3	9.8	12.8	41.3	62	82	104	117	131	41%	26%
% Y/Y growth	17.3%	-15.6%	-6.7%	-13.4%	-4.0%	15.2%	-2.7%	51.3%	31.3%	26.4%	13.2%	11.6%		
COGS	36.7	35.6	7.8	7.4	7.7	10.0	32.9	49.6	62.7	76.7	86.7	96.4	38%	24%
% of net sales	73.0%	83.9%	79.9%	79.7%	78.7%	78.4%	79.7%	79.4%	76.5%	74.0%	73.8%	73.6%		
Gross Income	14	7	2.0	1.9	2.1	2.8	8.4	13	19	27	31	35	52%	33%
% of product sales	27.0%	16.1%	20.1%	20.3%	21.3%	21.6%	20.3%	20.6%	23.5%	26.0%	26.2%	26.4%		
G&A	6.5	9.1	2.7	2.5	2.6	2.4	10.2	10.4	10.5	10.6	10.6	10.8	1%	1%
% of net sales	13%	21.4%	27.5%	26.9%	26.6%	18.9%	24.7%	16.6%	12.8%	10.2%	9.0%	8.2%		
R&D	5.5	7.4	4.2	3.9	4.1	3.8	16.0	16.0	16.0	16.0	17.0	18.0	0%	2%
% of net sales	10.9%	17.4%	43.0%	42.0%	41.9%	29.8%	38.8%	25.6%	19.5%	15.4%	14.5%	13.7%		
Amortization	1	0.5	0.2	0.1	0.1	0.1	0.5	-	-	-	-	-	-100%	-100%
% of net sales	1.1%	1.3%	1.6%	1.4%	1.4%	0.5%	1.2%	0.0%	0.0%	0.0%	0.0%	0.0%		
Gain on equipment sale	(0)	(0)	0	-	-	(0)	-	-	-	-	-	-	na	na
% of net sales	-0.4%	-0.3%	0.1%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Operating Income	1.2	(10.1)	(5)	(5)	(5)	(4)	(18)	(14)	(7)	0	3	6	na	na
% of net sales	2.4%	-23.7%					-44.4%	-21.7%	-8.8%	0.3%	2.6%	4.4%		
Net financial expense	(15.1)	0.1	(1.7)	(2.0)	(2.0)	(2.3)	(8.0)	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)		
Pretax Income	(13.9)	(9.9)	(7)	(7)	(7)	(6)	(26.3)	(17.5)	(11.2)	(3.7)	(0.9)	1.7	na	na
% Pre-tax margin	-27.6%	-23.4%	-69.2%	-71.6%	-69.1%	-45.9%	-63.7%	-28.1%	-13.7%	-3.6%	-0.8%	1.3%		
Income Taxes (benefit)	0	0	0	-	-	(0)	-	-	-	-	-	-	na	na
% Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
GAAP Net Income	(13.9)	(9.9)	(6.8)	(6.6)	(6.8)	(5.8)	(26.3)	(17.5)	(11.2)	(3.7)	(0.9)	1.7	-35%	na
% of net sales			-69.2%	-71.6%	-69.1%	-45.9%								
Diluted GAAP EPS	(6.24)	(0.99)	(0.37)	(0.37)	(0.37)	(0.31)	(1.44)	(0.95)	(0.60)	(0.19)	(0.05)	0.09	na	na
% growth	nm	nm					nm	nm	nm	nm	-76%	nm		
Weighted Average Diluted Shares	2.2	10.0	18.0	18.2	18.3	18.7	18.3	18.5	18.8	19.2	19.6	20.0	1%	2%
% growth	1%	352%	78%	70%	4%	4%	82%	1%	2%	2%	2%	2%		

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

Sharecount based on what company reported, may not sum to FY due to rounding

Disclosures Appendix

Analyst Certification

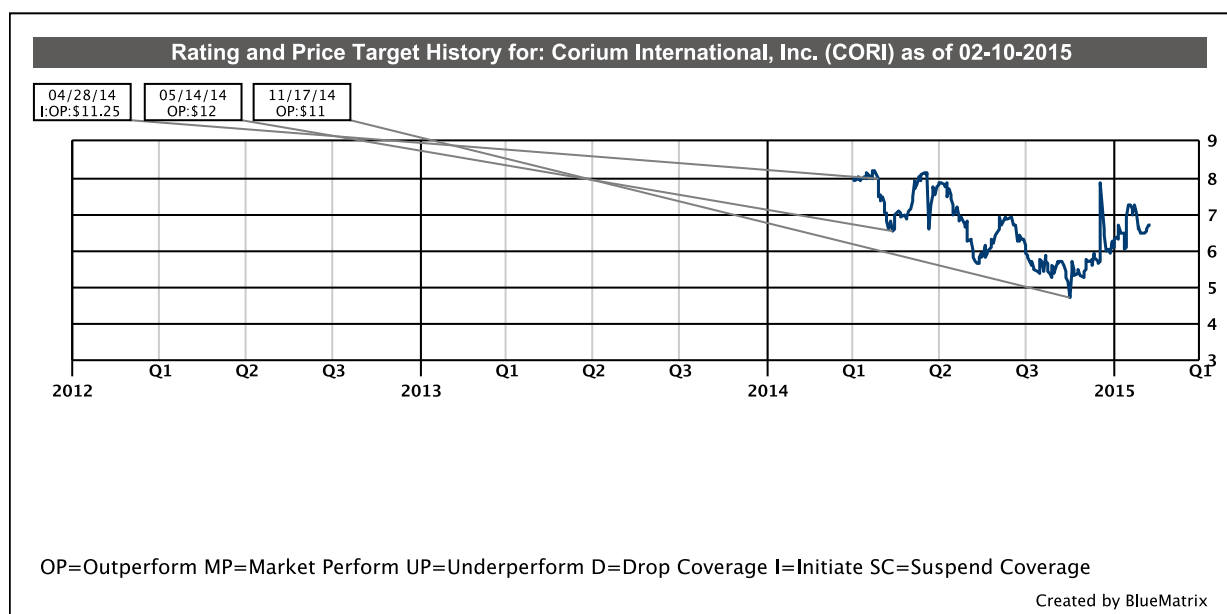
I, Jason M. Gerberry, JD, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

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Rating and Price Target History for: Eli Lilly and Company (LLY) as of 02-10-2015

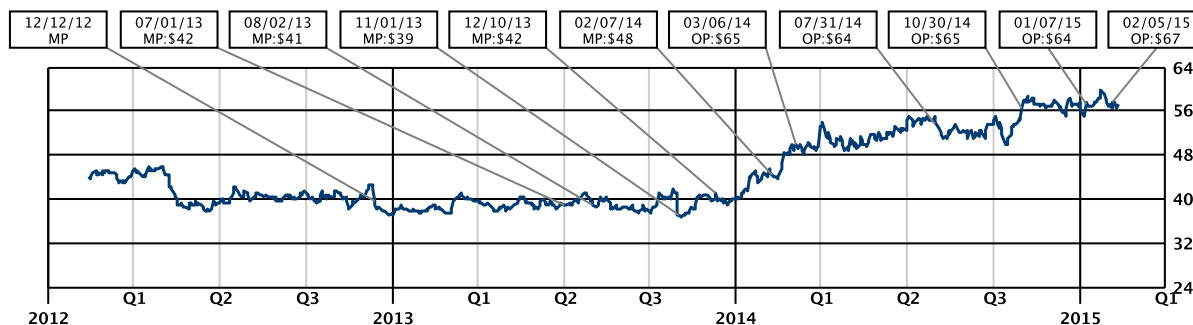


Leerink Swann placed a Market Perform rating on LLY on August 1, 2011. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

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: Teva Pharmaceutical Industries Ltd. (TEVA) as of 02-10-2015



Leerink Swann initiated coverage of TEVA with an Outperform rating on August 18, 2011. 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 12/31/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	150	70.00	61	41.00
HOLD [MP]	64	30.00	0	0.00
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.

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