

Reason for report:

EARNINGS**DERMIRA, INC.****Strong Execution with 2016 Catalysts Lined Up; BD Increasingly on the Table**

• **Bottom Line:** DERM's 4Q14 update call highlights mgmt's continued execution advancing three late-stage dermatology assets with interest in incremental business development (BD). Updates included: (1) \$7.5M development payment received from UCB based on first patient dosed in Cimzia's (psoriasis) ongoing Ph III; (2) DRM01's (acne) Ph IIb initiation is on track to start in April; and (3) DRM04's (hyperhidrosis; HH) Ph III is on track for 2H15 start. With key clinical catalysts lined up for 2016, mgmt seems increasingly focused on new BD opportunities, and has an interest in other poorly served dermatology conditions with few available treatment options. We increase our price target to \$34 from \$32.

• **DRM01 on track to deliver potential confirmatory Ph IIb results in 1H16.** DRM01's Ph IIb program is set to start in April. Read-through to Ph III should be clear given (1) 100 patients in each of three DRM01 dosing arms, and (2) adherence to the three co-primary endpoints laid out in the FDA's guidance for novel acne therapies. The 400-patient study has ~2x the number of pts per active arm relative to the Ph IIa study, which already delivered statistically significant and clinically meaningful improvements on all three endpoints. Exploration of 7.5% QD and 4.5% QD dosing (in addition to the 7.5% BID dosing in the Ph IIa) highlights mgmt's conviction in the high dose BID arm.

• **DRM04 Ph III to start in 2H15; trial details to follow.** Mgmt will use the end of Ph II meeting with the FDA to gain input on clinical endpoints and the total number of patients to include in its Ph IIb study for the topical wipe for excessive underarm sweating. Trial details will be announced to investors at the start of the Ph III program. Mgmt noted impressive data on the new, proprietary patient-reported outcome instrument, the Axillary Sweating Daily Diary (ASDD) in the DRM04 study along with efficacy on historical FDA measures. Feedback from MEDACorp dermatologists suggests strong interest in DRM04.

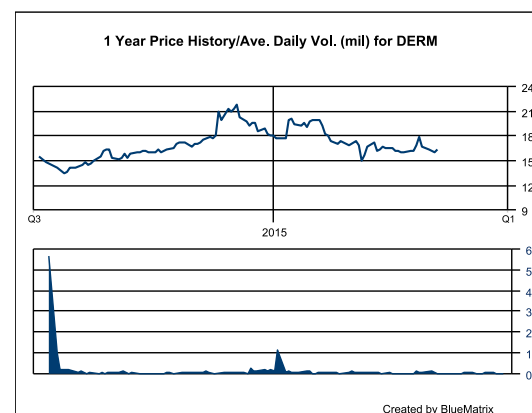
• **BD increasingly on the minds of DERM mgmt.** DERM mgmt emphasized that its greatest interest lies in areas of medical dermatology where severe unmet needs continue to persist. Atopic dermatitis and other itch-related conditions were noted, though mgmt suggested a number of other areas of interest as well. We would not be surprised to see DERM leverage some portion of its \$163M in cash to add to its already rich pipeline.

Key Stats:**(NASDAQ:DERM)**

S&P 600 Health Care Index:	1,613.23
Price:	\$14.65
Price Target:	\$34.00 from \$32.00
Methodology:	DCF with 12% discount rate & 2% terminal growth rate
52 Week High:	\$22.94
52 Week Low:	\$12.68
Shares Outstanding (mil):	22.8
Market Capitalization (mil):	\$334.0
Book Value/Share:	\$7.34
Cash Per Share:	\$6.28
Net Debt to Total Capital:	0%
Dividend (ann):	\$0.00
Dividend Yield:	0.0%
Est LT EPS Growth:	NM

Book Value/Share: Pro Forma including proceeds from recent stock offering.

Cash Per Share: Pro Forma including proceeds from recent stock offering.



Dec Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	P/E
2014A	0.0	0.0	0.0	\$7.3	\$7.3	(\$9.56)	(\$9.72)	(\$8.66)	(\$0.29)	(\$4.96)	NM
2015E - New	0.0	0.0	0.0	0.0	0.0	(\$0.65)	(\$0.77)	(\$0.92)	(\$1.04)	(\$3.38)	NM
2015E - Old	--	--	--	--	\$9.0	--	--	--	--	(\$2.80)	NM
2016E	--	--	--	--	\$10.0	--	--	--	--	(\$3.20)	NM

Source: Company Information and Leerink Partners LLC Research
Revenues in \$MM.

GAAP EPS. Quarterly EPS may not sum to annual total due to change in shares outstanding.

INVESTMENT THESIS

We rate DERM Outperform. DERM represents an unique investment opportunity, with a highly experienced and proven management team developing three late-stage dermatology assets, each with robust, positive Phase II data and multi-hundred million dollar commercial potential. Cimzia is an extremely high probability psoriasis biologic partnered with UCB and likely to provide profits and milestones sufficient to fund Dermira's standalone operations. DRM04 represents the first topical pharmaceutical wipe for hyperhidrosis with a high probability of success given a well-characterized mechanism, positive Phase II data, in an area of high unmet need. DRM01 is a first-in-class topical sebum inhibitor with an on-target mechanism that acne KOLs have called the "holy grail" of topical acne treatment.

VALUATION

We value DERM at \$34/share. Our price target is based on a DCF valuation that assumes a 12% discount rate on probability-adjusted sales and profits through 2026E and applies a 2% terminal growth rate. Our valuation assumes late-stage assets Cimzia, DRM04, and DRM01 have 90%, 75%, and 50% probabilities of success, respectively, and each contributes \$10-13 per share. This price target equates to 19x 2021E EPS of \$3.54 discounted back 6 years at 12%. Fully valued, with 100% probability for all three programs, we arrive at a DCF-based price target of \$52/share with Cimzia and DRM04 contributing \$10/share and \$12/share, respectively, and DRM01 contributing \$30/share.

RISKS TO VALUATION

An investment in DERM involves a pooling of different risks including technical, regulatory, and commercial risk for three fundamentally different pipeline products. Most significant to DERM's overall valuation, in our opinion, is clinical success of DRM01 in acne. Important for Cimzia and DRM04 is commercial execution associated with launches into the highly competitive psoriasis and the underdeveloped hyperhidrosis markets, respectively. There are also competitive risks from other pipeline therapies. Finally, DERM may face financing risk beyond mid-2017.

Dermira - Income Statement Analysis 2013-2022E

(\$ in Millions, Except EPS)														
(Year Ended December 31)	2013A	1Q14A	2Q14A	3Q14A	4Q14A	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Total Revenue Incl 1x Milestones	-	-	-	-	7	7	-	10	19	34	135	236	345	431
Total Revenue	-	-	-	-	-	-	-	-	-	34	113	226	335	431
Growth (% y/y)												100%	48%	29%
COGS	-	-	-	-	-	-	-	-	-	2	9	24	38	54
COGS (% of sales)								nm	nm	7%	8%	11%	11%	13%
Gross Profit	-	-	-	-	7	7	-	10	19	32	125	212	306	377
Gross Profit (% of sales)						nm	nm	nm	nm	nm	nm	94%	91%	87%
SG&A	4	2	2	2	3	8	18	20	32	73	91	91	134	151
SG&A (% of sales)						nm	nm	nm	nm	2	1	0	0	0
R&D	18	7	7	6	11	31	66	69	54	40	35	50	67	86
R&D (% of sales)						nm	nm	nm	nm	118%	31%	22%	20%	20%
Operating Expense	22	8	9	8	14	39	84	89	86	113	126	141	201	237
Operating Income	(22)	(8)	(9)	(8)	(7)	(32)	(84)	(79)	(66)	(82)	(1)	71	105	140
Operating Margin (% of sales)										(2)	(0)	0	0	0
Total Interest and Other Income/ (Expense)	(0)	(0)	(0)	(0)	0	(0)	-	-	-	-	-	-	-	-
Pre-tax Income	(22)	(9)	(9)	(8)	(7)	(31.844)	(84)	(79)	(66)	(82)	(1)	71	105	140
Change in Unrealized Gain / loss														
Taxes					0	0					-	-	-	-
Rate (% of pre-tax income)											-	-	-	-
Net Income	(22)	(9)	(9)	(8)	(7)	(32)	(84)	(79)	(66)	(82)	(1)	71	105	140
EPS (pro forma)	(\$27.03)	(\$9.56)	(\$9.72)	(\$8.66)	(\$0.29)	(\$4.96)	(\$3.38)	(\$3.20)	(\$2.23)	(\$2.74)	(\$0.03)	\$2.38	\$3.54	\$4.69
Average Shares Outstanding	0.8	0.9	0.9	0.9	22.8	6.4	24.8	24.8	29.8	29.8	29.8	29.8	29.8	29.8

Source: Leerink Partners and Company Reports

Dermira - Income Statement Analysis 2013-2022E

(\$ in Millions, Except EPS)														
(Year Ended December 31)	2013A	2014	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
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Operating Income	(22)	(32)	(16)	(19)	(23)	(26)	(84)	(79)	(66)	(82)	(1)	71	105	140
Operating Margin (% of sales)										(2)	(0)	0	0	0
Total Interest and Other Income/ (Expense)	(0)	(0)	-	-	-	-	-	-	-	-	-	-	-	-
Pre-tax Income	(22)	(31.844)	(16)	(19)	(23)	(26)	(84)	(79)	(66)	(82)	(1)	71	105	140
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Net Income	(22)	(32)	(16)	(19)	(23)	(26)	(84)	(79)	(66)	(82)	(1)	71	105	140
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Average Shares Outstanding	0.8	6.4	24.6	24.8	24.9	25.1	24.8	24.8	29.8	29.8	29.8	29.8	29.8	29.8

Source: Leerink Partners and Company Reports

Disclosures Appendix

Analyst Certification

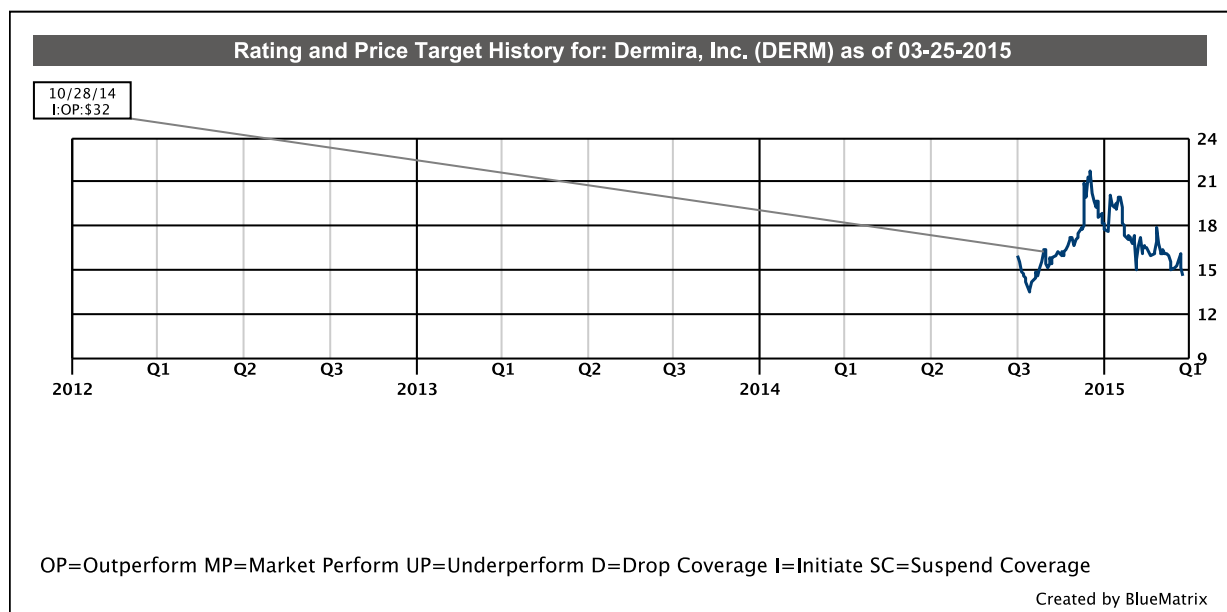
I, Seamus Fernandez, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

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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	60	40.00
HOLD [MP]	64	30.00	1	2.00
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.

Important Disclosures

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

Leerink Partners LLC makes a market in Dermira, Inc.

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

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