

## COMPANY NOTE

Estimate Change

USA | Healthcare | Pharmaceuticals/Specialty

May 14, 2014

# Jefferies

## Corium (CORI) Post Financing, Attention Now Turns to Execution, Pipeline

### Key Takeaway

**Corium presented to the investment community for the first time as a public company. Revs were in line with expectations (\$10.7M vs \$10.4M JEF), but EPS figures were highly distorted due to the recapitalization associated with the company's recent IPO. The call was largely uneventful as the company now proceeds with self-funded trials for MicroCor and Corplex and Agile's initiation of its Ph3 Twirla program.**

**Revenues in Line; Recapitalization Complicates EPS Calculations:** Total revs came in at \$10.7M, slightly ahead of our \$10.4M est. due to unaccounted for licensing rev. EPS calculations were complicated by the fact that the company's recapitalization as part of its IPO triggered a one-time, non-cash gain of \$6.3M and also led to a much lower diluted share count than anticipated (5.9M vs JEF 18.3M). Looking ahead to FY3Q2014, we expect a stronger topline performance (\$12.6M est.) owing to positive seasonal effects for the Crest Whitestrips franchise.

**Pipeline Programs Coming Into Focus:** Corium is now sufficiently funded to conduct its proprietary programs for Corplex Tamsulosin and MicroCor PTH. As discussed in our initiation, MicroCor aims to solve one of the biggest challenges in pharmaceuticals – the noninvasive delivery of biologics. If the Ph2 PTH program is successful, Corium intends to partner with an established marketer. We view this program as very high risk, but note the major market opportunity – Forteo generated \$1.2B in sales during 2013 despite ~50% patient non-compliance. The co is preparing its Ph2 study for Corplex Tamsulosin as well. Agile, Corium's partner for Twirla, has retained Parexel to manage the pending pivotal Ph3 trial.

### Valuation/Risks

We maintain our Buy rating and \$13 PT, derived by applying a 25x multiple to our 2020 reported EPS estimate of \$1.54 and discounting back 5 years at 25%. We believe this multiple and discount rate is appropriate for emerging specialty pharmaceutical companies with high growth, high risk programs. Risks to our PT include competition to currently marketed products, manufacturing deficiencies and clinical setbacks for proprietary and partnered programs.

USD	Prev.	2013A	Prev.	2014E	Prev.	2015E	Prev.	2016E
Rev. (MM)	--	50.3	44.2	45.4	--	57.0	--	61.1
<b>EPS</b>								
Dec	--	--	--	--	--	--	--	--
Mar	--	--	(0.17)	(0.47)A	--	--	--	--
Jun	--	--	(0.14)	(0.17)	--	--	--	--
Sep	--	--	(0.11)	(0.19)	--	--	--	--
FY Sep	--	--	(0.42)	(0.83)	--	(0.29)	--	(0.56)
FY P/E				NM		NM		NM

**BUY**

Price target \$13.00

Price \$6.56

### Financial Summary

Net Debt (MM): (\$18.0)

### Market Data

52 Week Range: \$8.48 - \$6.10

Total Entprs. Value (MM): \$97.5

Market Cap. (MM): \$115.5

Shares Out. (MM): 17.6

Float (MM): 6.5

Avg. Daily Vol.: NA

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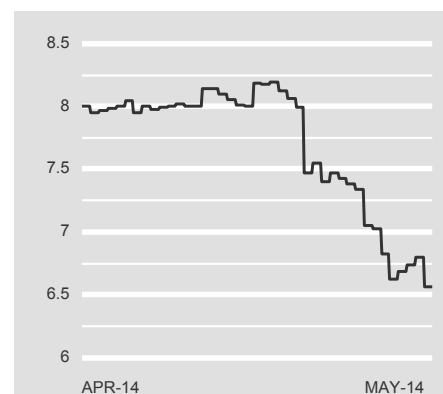
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### Price Performance



## Chart 1: CORI Quarterly Variance Analysis

	<u>2Q14A</u>	<u>2Q14E</u>	<u>Change</u>	<u>% Change</u>	<u>2Q13A</u>	<u>Change</u>	<u>% Change</u>
<b>Total Revenues</b>	<b>\$10,717</b>	<b>\$10,362</b>	<b>\$355</b>	<b>3.4%</b>	<b>\$12,536</b>	<b>(\$1,819)</b>	<b>-14.5%</b>
COGS	8,909	7,755	1,154	14.9%	9,403	(\$494)	-5.3%
Gross Profit	1,808	2,607	(799)	-30.6%	3,133	(\$1,325)	-42.3%
R&D	1,267	1,929	(662)	-34.3%	1,520	(\$253)	-16.6%
SG&A	1,236	2,893	(1,657)	-57.3%	1,606	(\$370)	-23.0%
Total C&E	11,511	12,707	(1,196)	-9.4%	12,614	(\$1,103)	-8.7%
Operating Income	(794)	(2,345)	1,551	-66.1%	(78)	(\$716)	917.9%
Net interest/other income	(2,010)	(744)	(1,266)	170.2%	(1,921)	(\$89)	4.6%
Pretax Income	(2,804)	(3,089)	285	-9.2%	(1,999)	(\$805)	40.3%
Taxes	0	0	0	NM	0	\$0	NM
Net Income	(2,804)	(3,089)	285	-9.2%	(1,999)	(\$805)	40.3%
<b>Reported EPS - diluted</b>	<b>(\$0.47)</b>	<b>(\$0.17)</b>	<b>(\$0.31)</b>	<b>184.6%</b>	<b>(\$0.90)</b>	<b>\$0.43</b>	<b>-47.4%</b>
Shares outstanding (diluted)	5,930	18,592	(12,662)	-68.1%	2,226	3,705	166.4%

Source: Jefferies estimates, company data

## Chart 2: CORI Income Statement

Corium International (CORI)  
Income Statement (\$ in '000s, except per share data)

FY: SEP	2011A	2012A	2013A	1Q14A	2Q14A	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Revenues:</b>														
Product Revenues	\$36,224	\$35,952	\$38,704	\$8,100	\$7,240	\$9,162	\$8,123	\$32,626	\$35,633	\$38,882	\$46,454	\$60,466	\$95,038	\$145,170
Contract R&D Revenues	6,986	6,838	10,750	2,064	3,173	3,160	3,160	11,556	17,334	18,201	18,565	18,936	19,315	19,701
License/Collaboration Revenues	77	70	816	304	304	304	304	1,216	4,000	4,000	4,000	4,000	4,000	4,000
<b>TOTAL REVENUES</b>	<b>\$43,287</b>	<b>\$42,860</b>	<b>\$50,270</b>	<b>\$10,468</b>	<b>\$10,717</b>	<b>\$12,626</b>	<b>\$11,587</b>	<b>\$45,398</b>	<b>\$56,968</b>	<b>\$61,083</b>	<b>\$69,019</b>	<b>\$83,403</b>	<b>\$118,353</b>	<b>\$168,871</b>
<b>Cost of Goods Sold:</b>														
COGS	33,945	34,604	36,684	8,766	8,909	8,834	8,025	34,534	38,194	41,052	45,363	52,818	70,735	96,405
<b>GROSS PROFIT</b>	<b>\$9,342</b>	<b>\$8,256</b>	<b>\$13,586</b>	<b>\$1,702</b>	<b>\$1,808</b>	<b>\$3,792</b>	<b>\$3,562</b>	<b>\$10,864</b>	<b>\$18,773</b>	<b>\$20,031</b>	<b>\$23,656</b>	<b>\$30,585</b>	<b>\$47,618</b>	<b>\$72,466</b>
<b>Operating Expenses:</b>														
R&D	3,678	3,966	5,496	861	1,267	2,226	3,066	7,420	12,243	18,977	19,925	20,324	20,730	21,145
G&A	4,006	4,645	6,525	1,810	1,236	4,350	3,729	11,125	10,235	10,440	11,640	12,222	12,833	13,475
Total Operating Expenses	42,126	43,670	49,069	11,530	11,511	15,567	14,969	53,577	61,151	70,977	77,469	85,938	104,907	131,670
<b>OPERATING INCOME</b>	<b>1,161</b>	<b>(810)</b>	<b>1,201</b>	<b>(1,062)</b>	<b>(794)</b>	<b>(2,941)</b>	<b>(3,382)</b>	<b>(8,179)</b>	<b>(4,183)</b>	<b>(9,894)</b>	<b>(8,450)</b>	<b>(2,535)</b>	<b>13,446</b>	<b>37,201</b>
Net interest income (expense)	(3,839)	(5,243)	(7,696)	(2,022)	(1,779)	(227)	(227)	(4,255)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)
Other Income	314	603	(7,381)	986	(231)	-	-	755	-	-	-	-	-	-
<b>PRETAX INCOME</b>	<b>(2,364)</b>	<b>(5,450)</b>	<b>(13,876)</b>	<b>(2,098)</b>	<b>(2,804)</b>	<b>(3,168)</b>	<b>(3,609)</b>	<b>(11,679)</b>	<b>(5,783)</b>	<b>(11,494)</b>	<b>(10,050)</b>	<b>(4,135)</b>	<b>11,846</b>	<b>35,601</b>
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	4,442	13,350
<b>NET INCOME</b>	<b>(2,341)</b>	<b>(5,443)</b>	<b>(13,877)</b>	<b>(2,098)</b>	<b>(2,804)</b>	<b>(3,168)</b>	<b>(3,609)</b>	<b>(11,679)</b>	<b>(5,783)</b>	<b>(11,494)</b>	<b>(10,050)</b>	<b>(4,135)</b>	<b>11,846</b>	<b>35,601</b>
Shares outstanding (basic)					2,232	18,892	19,192	13,439	19,792	20,092	20,392	20,692	20,992	21,292
Shares outstanding (diluted)					5,930	18,892	19,192	13,439	20,092	20,392	20,692	20,992	22,792	23,092
<b>Reported EPS (diluted)</b>					<b>(\$0.47)</b>	<b>(\$0.17)</b>	<b>(\$0.19)</b>	<b>(\$0.83)</b>	<b>(\$0.29)</b>	<b>(\$0.56)</b>	<b>(\$0.49)</b>	<b>(\$0.20)</b>	<b>\$0.52</b>	<b>\$1.54</b>

<b>MARGINS:</b>	2011A	2012A	2013A	1Q14A	2Q14A	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Gross	21.6%	19.3%	27.0%	16.3%	16.9%	30.0%	30.7%	23.9%	33.0%	32.8%	34.3%	36.7%	40.2%	42.9%
Gross (on product and royalties)	31.5%	32.2%	35.9%	35.4%	31.0%	38.0%	40.0%	36.3%	40.0%	40.8%	41.9%	43.7%	45.7%	47.0%
R&D	8.5%	9.3%	10.9%	8.2%	11.8%	17.6%	26.5%	16.3%	21.5%	31.1%	28.9%	24.4%	17.5%	12.5%
G&A	9.3%	10.8%	13.0%	17.3%	11.5%	34.5%	32.2%	24.5%	18.0%	17.1%	16.9%	14.7%	10.8%	8.0%
Operating	2.7%	NM	2.4%	NM	NM	NM	NM	NM	NM	NM	NM	NM	11.4%	22.0%
Pre-tax	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	10.0%	21.1%
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	10.0%	21.1%

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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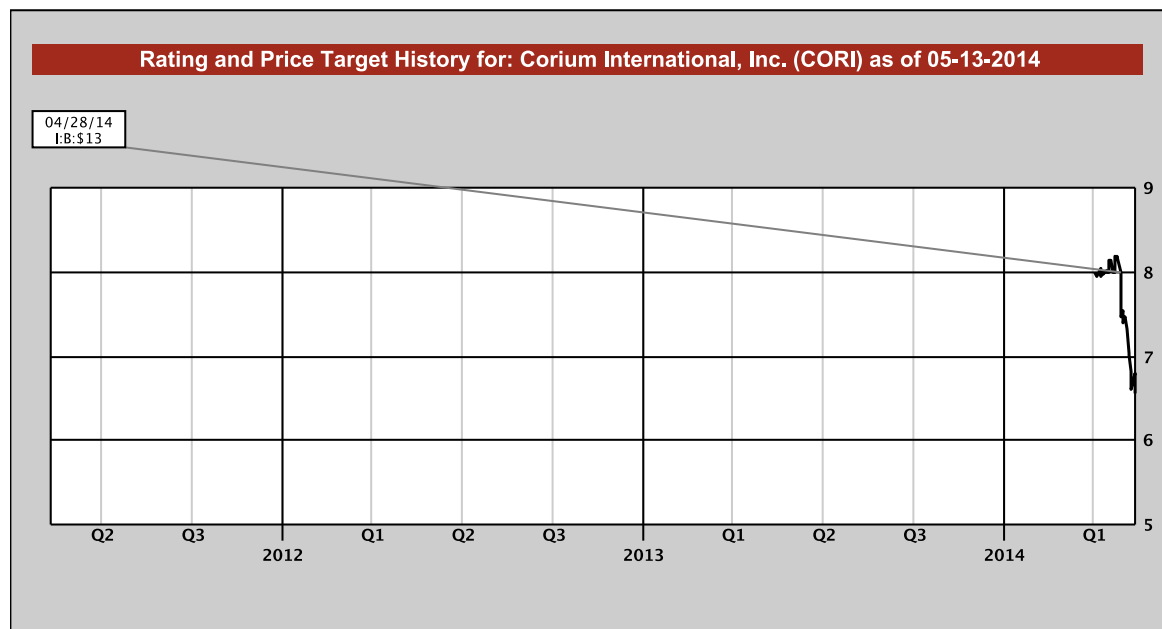
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			Count	Percent
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