

Reason for report:

EARNINGS

DERMIRA, INC.

1Q Update Shows Continued Progress Toward Key 2016 Catalysts

• **Bottom Line:** DERM continues to advance its three late-stage dermatology assets with mgmt re-affirming its ongoing interest in incremental business development (BD). Updates included: (1) a productive End-of-Ph-2 meeting with the FDA keeping the DRM04 (hyperhidrosis; HH) program on track for a 2H15 Ph III start, (2) all three Ph III programs for Cimzia in psoriasis underway, and (3) DRM01's (acne) Ph IIb trial enrolling well and progressing toward expected top-line data in 1H16. We await further details on the Ph III HH program upon trial launch and note mgmt's unabated interest in potential BD for other poorly served dermatology conditions. We reiterate our \$34 PT and OP rating.

• **With DRM04 (HH) End-of-Phase-2 complete, we await trial details and Ph III start in 2H15.** Mgmt is not yet providing guidance on potential clinical endpoints and the total number of patients that will be included in its Ph III study for the topical wipe for excessive underarm sweating. Mgmt did note a productive meeting with the FDA and has previously highlighted impressive Ph IIb data on the new, proprietary patient-reported outcome instrument, the Axillary Sweating Daily Diary (ASDD) along with efficacy on historical FDA measures.

• **DRM01 (acne) on track to deliver potential confirmatory Ph IIb results in 1H16.** DRM01's Ph IIb program started in April and mgmt noted that current enrollment projections ought to allow for top-line data in 1H16. Read-through to Ph III should be clear given (1) 100 pts 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, which already delivered statistically significant and clinically meaningful improvements on all three endpoints.

• **Mgmt remains interested - though not rushing toward - BD.** It seems increasingly a question of when, not if, DERM will add to its already broad dermatology portfolio. Mgmt continues to emphasize that its greatest interest lies in areas of medical dermatology where severe unmet needs persist. In addition to atopic dermatitis and itch-related conditions noted previously, mgmt also suggested interest in orphan dermatologic conditions.

• **Mgmt continues to expect to have \$90M in cash at YE15.** The limited ~\$5M 1Q cash burn benefited from the \$7.3M development payment to DERM that was a receivable from UCB. We expect cash burn to increase significantly to \$20-30M per quarter over the remainder of the year - in line with mgmt's expectation of having ~\$90M in cash at YE15. We would not be surprised to see DERM leverage some portion of its cash to add to its already rich pipeline.

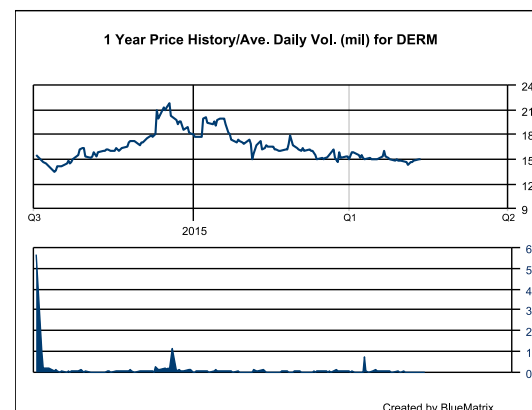
Key Stats:

(NASDAQ:DERM)

S&P 600 Health Care Index:	1,606.69
Price:	\$14.99
Price Target:	\$34.00
Methodology:	DCF with 12% discount rate & 2% terminal growth rate
52 Week High:	\$22.94
52 Week Low:	\$12.68
Shares Outstanding (mil):	24.7
Market Capitalization (mil):	\$370.3
Book Value/Share:	\$6.77
Cash Per Share:	\$7.08
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	0.0A	0.0	0.0	0.0	0.0	(\$0.57)A	(\$0.81)	(\$0.92)	(\$1.11)	(\$3.42)	NM
2015E - Old	0.0A	0.0	0.0	0.0	0.0	(\$0.65)	(\$0.77)	(\$0.92)	(\$1.04)	(\$3.38)	NM
2016E - New	--	--	--	--	\$10.0	--	--	--	--	(\$3.27)	NM
2016E - Old	--	--	--	--	\$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 \$3.53 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)	2014	1Q15	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Product Revenue (POS adj.)	-	-	-	-	-	-	-	-	9	61	147	232	319
DRM04	-	-	-	-	-	-	-	-	9	23	61	102	148
DRM01	-	-	-	-	-	-	-	-	-	38	86	131	171
Other DRM Pipeline	-	-	-	-	-	-	-	-	-	-	-	-	-
Royalty Revenue (POS adj.)	-	-	-	-	-	-	-	-	25	52	79	102	112
Cimzia Royalty (from UCB)	-	-	-	-	-	-	-	-	25	52	79	102	112
Other Revenue (POS adj.)	7	-	-	-	-	-	10	19	-	22	10	10	-
Cimzia Development Milestones	7	-	-	-	-	-	10	19	-	-	-	-	-
Cimzia Regulatory Milestones	-	-	-	-	-	-	-	-	-	12	-	-	-
Cimzia Commercialization Milestones	-	-	-	-	-	-	-	-	-	10	10	10	-
Total Revenue Incl 1x Milestones	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	-	-	-	-	-	10	19	32	125	212	306	377
Gross Profit (% of sales)	nm					nm	nm	nm	nm	nm	94%	91%	87%
SG&A	8	4	5	5	6	20	22	34	73	91	91	134	151
SG&A (% of sales)	nm					nm	nm	nm	216%	81%	40%	40%	35%
R&D	31	10	15	18	22	65	69	54	40	35	50	67	86
R&D (% of sales)	nm					nm	nm	nm	118%	31%	22%	20%	20%
Operating Income	(32)	(14)	(20)	(23)	(28)	(85)	(81)	(68)	(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	(31.844)	(14.0)	(20)	(23)	(28)	(85)	(81)	(68)	(82)	(1)	71	105	140
Change in Unrealized Gain / loss													
Taxes	0									-	-	-	-
Rate (% of pre-tax income)										-	-	-	-
Net Income	(31.9)	(14.0)	(20.0)	(23.0)	(27.8)	(85.0)	(81.4)	(68.5)	(81.7)	(0.8)	71.1	105.4	139.8
EPS (pro forma)	(\$4.96)	(\$0.57)	(\$0.81)	(\$0.92)	(\$1.11)	(\$3.42)	(\$3.27)	(\$2.29)	(\$2.74)	(\$0.03)	\$2.38	\$3.53	\$4.68
Average Shares Outstanding	6.4	24.7	24.8	25.0	25.1	24.9	24.9	29.9	29.9	29.9	29.9	29.9	29.9

Source: Leerink Partners and Company Reports

Dermira - Income Statement Analysis 2013-2022E

(\$ in Millions, Except EPS)														CAGR
(Year Ended December 31)	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	'18-22
Product Revenue (POS adj.)	-	-	-	-	9	61	147	232	319	372	427	458	503	
DRM04	-	-	-	-	9	23	61	102	148	180	200	209	231	100%
DRM01	-	-	-	-	-	38	86	131	171	192	227	249	272	NM
Other DRM Pipeline	-	-	-	-	-	-	-	-	-	-	-	-	-	NM
Royalty Revenue (POS adj.)	-	-	-	-	25	52	79	102	112	117	120	112	109	
Cimzia Royalty (from UCB)	-	-	-	-	25	52	79	102	112	117	120	112	109	
Other Revenue (POS adj.)	7	-	10	19	-	22	10	10	-	-	-	-	-	
Cimzia Development Milestones	7	-	10	19	-	-	-	-	-	-	-	-	-	
Cimzia Regulatory Milestones	-	-	-	-	-	12	-	-	-	-	-	-	-	
Cimzia Commercialization Milestones	-	-	-	-	-	10	10	10	-	-	-	-	-	
Total Revenue Incl 1x Milestones	7	-	10	19	34	135	236	345	431	488	547	570	612	
Total Revenue	-	-	-	-	34	113	226	335	431	488	547	570	612	89%
Growth (% y/y)							100%	48%	29%	13%	12%	4%	7%	
COGS	-	-	-	-	2	9	24	38	54	64	73	77	85	120%
<i>COGS (% of sales)</i>			nm	nm	7%	8%	11%	11%	13%	13%	13%	14%	14%	
Gross Profit	7	-	10	19	32	125	212	306	377	424	475	493	527	86%
<i>Gross Profit (% of sales)</i>	nm	nm	nm	nm	nm	nm	94%	91%	87%	87%	87%	86%	86%	
SG&A	8	20	22	34	73	91	91	134	151	161	170	171	171	20%
<i>SG&A (% of sales)</i>	nm	nm	nm	nm	216%	81%	40%	40%	35%	0	0	0	0	
R&D	31	65	69	54	40	35	50	67	86	98	109	114	122	21%
<i>R&D (% of sales)</i>	nm	nm	nm	nm	118%	31%	22%	20%	20%	20%	20%	20%	20%	
Operating Income	(32)	(85)	(81)	(68)	(82)	(1)	71	105	140	165	196	208	233	NM
Operating Margin (% of sales)					(2)	(0)	0	0	0	0	0	0	0	
Total Interest and Other Income/ (Expense)	(0)	-	-	-	-	-	-	-	-	-	-	-	-	
Pre-tax Income	(31.844)	(85)	(81)	(68)	(82)	(1)	71	105	140	165	196	208	233	
Change in Unrealized Gain / loss														
Taxes	0					-	-	-	-	-	10	14	23	NM
<i>Rate (% of pre-tax income)</i>						-	-	-	-	-	0	0	0	
Net Income	(31.9)	(85.0)	(81.4)	(68.5)	(81.7)	(0.8)	71.1	105.4	139.8	165	186	194	211	
EPS (pro forma)	(\$4.96)	(\$3.42)	(\$3.27)	(\$2.29)	(\$2.74)	(\$0.03)	\$2.38	\$3.53	\$4.68	\$5.54	\$6.23	\$6.49	\$7.05	
Average Shares Outstanding	6.4	24.9	24.9	29.9	29.9	29.9	29.9	29.9	29.9	29.9	29.9	29.9	29.9	

Source: Leerink Partners and Company Reports

Disclosures Appendix

Analyst Certification

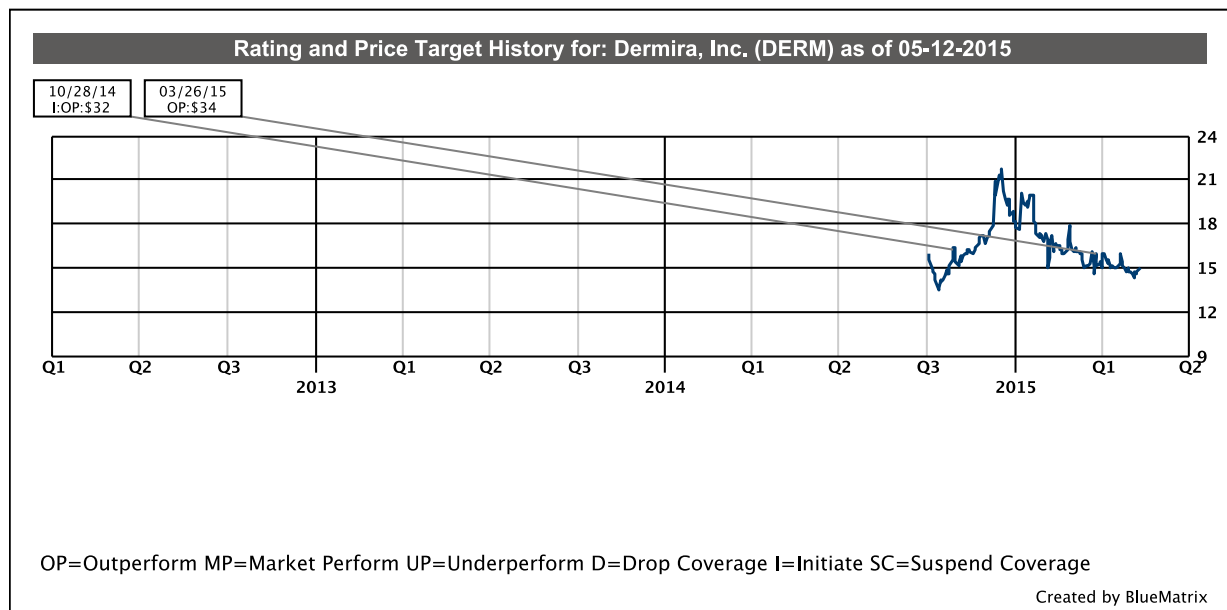
I, Seamus Fernandez, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

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Distribution of Ratings/Investment Banking Services (IB) as of 03/31/15				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	151	70.20	55	36.00
HOLD [MP]	64	29.80	2	3.00
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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MEDACorp is a network of healthcare professionals, attorneys, physicians, key opinion leaders and other specialists accessed by Leerink and it provides information used by its analysts in preparing research.

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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