

Reason for report:
COMPANY UPDATE

DERMIRA, INC.

Clean Validation of DRM04 (Hyperhidrosis) Sets Up Ph III Start; We're Bullish

• **Bottom Line:** After the close DERM announced positive Phase 2b results for DRM04 in patients with hyperhidrosis (HH; excessive underarm sweating). The consistency of the 105 patient HH02 dataset with previously reported 198 patient data reaffirms our high expectations for Ph III success. The data and well-characterized glycopyrrolate mechanism validate our 75% probability of success on DRM04. We forecast a ~\$300M market which, probability-adjusted, contributes ~\$10/shr to our \$32/shr valuation. We include charts compiling DRM04 data & market oppt'y starting on p.3 and our initiation can be found [HERE](#). We remain very positive on DERM's portfolio and are particularly bullish on prospects for DRM01 (acne) and DRM04 (hyperhidrosis). Reiterate OP rating and \$32 price target.

• **Consistency of data on two clear metrics validates DRM04's efficacy.** The demonstrated -80% change in sweat production and 50% improvement in HDSS response rate (a patient reported outcome measure) with the 3% dose are: (a) impressively consistent with the statistically significant -76% change and 53% response rate in the larger HH01 study with the reference agent; (b) clinically meaningful; and (c) comparable to data for standard-of-care Botox injections. Mgmt confirmed that the HH02 study even achieved statistical significance in some arms despite the small numbers in this bridging study to a new salt formulation.

• **Side effects were largely as-expected and represent a preferable option vs. burdensome Botox injections.** An acceptable incidence of dry mouth, application site pain, and headache were reported in HH02. In our conversation with mgmt, they noted that application site pain was actually higher in the vehicle group and may simply reflect alcohol in the vehicle – but that this likely will balance out in larger Ph 3 studies. With no side-effect-related discontinuations, we continue to view DRM04's safety profile as favorable – particularly since repeat Botox injections remain the only second line treatment option.

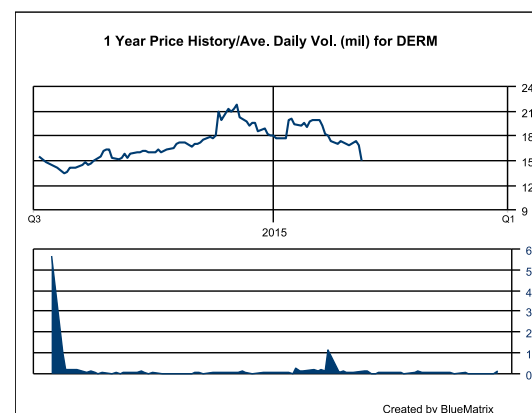
• **Next up: FDA meeting should confirm Ph 3 start in 2H15; 1H16 DRM01 data remain key value inflection.** Given the validated endpoints and clear separation between DRM04 and vehicle, we expect the end of Ph 2 meeting to go smoothly and expect a 2H15 start. Ph 3 data are expected in 2H16, and we forecast a 2018 launch for hyperhidrosis. Our ~\$300M market estimate is based on relatively modest mid-to-high teens percent penetration with MEDACorp KOL checks confirming both a vast market and high unmet need. For DERM, we continue to believe value inflection is keyed to Ph 2b DRM01 acne data expected in 1H16 (see initiation for details).

Key Stats: (NASDAQ:DERM)

S&P 600 Health Care Index:	1,499.18
Price:	\$15.73
Price Target:	\$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):	24.6
Market Capitalization (mil):	\$387.0
Book Value/Share:	\$6.80
Cash Per Share:	\$7.30
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
2013A	0.0	0.0	0.0	0.0	0.0	(\$1.33)	(\$1.07)	(\$1.00)	(\$1.47)	(\$2.31)	NM
2014E	0.0A	0.0A	0.0A	0.0	0.0	(\$0.88)A	(\$0.80)A	(\$0.57)A	(\$0.59)	(\$2.69)	NM
2015E	--	--	--	--	\$9.0	--	--	--	--	(\$2.80)	NM

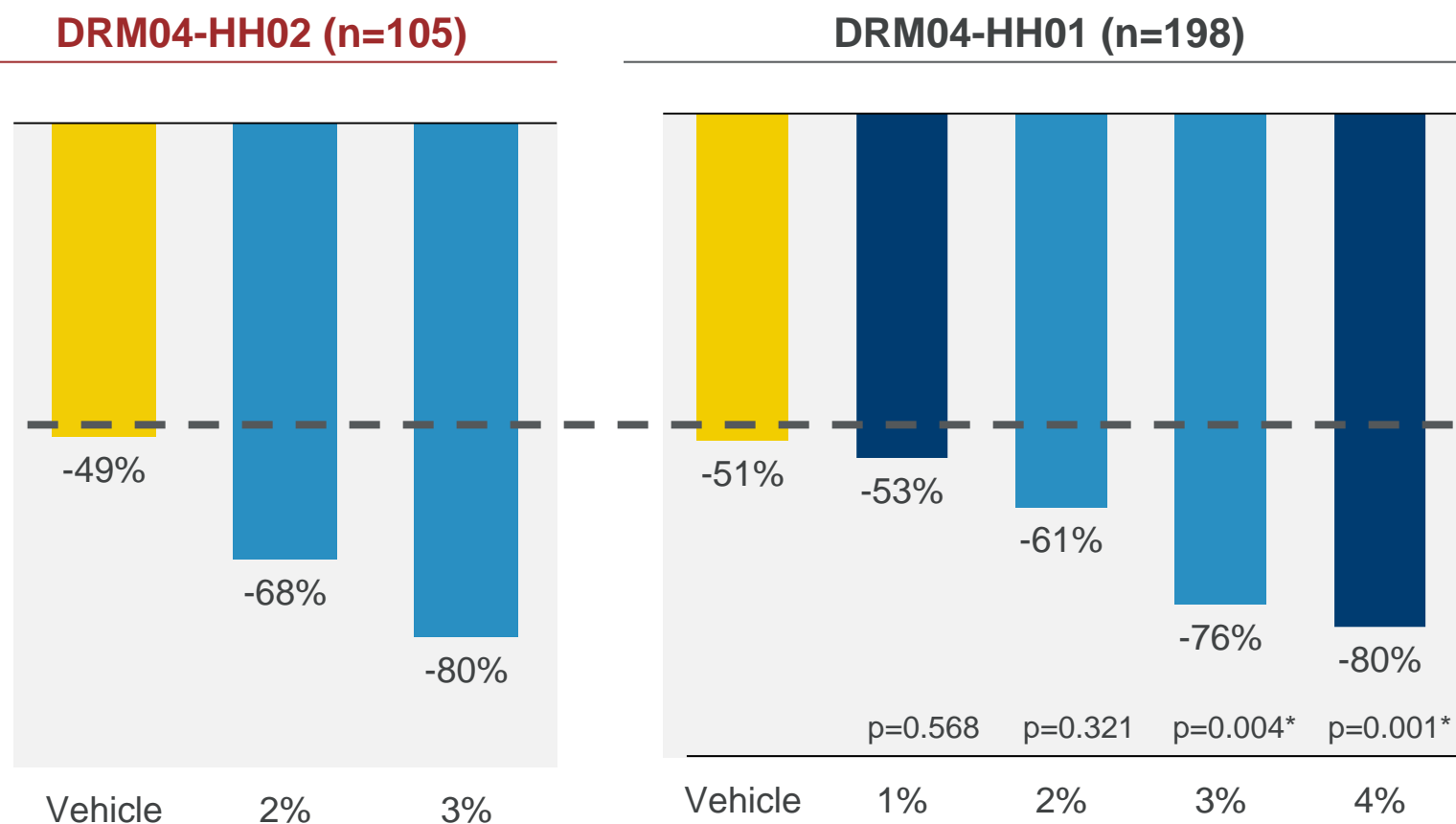
Source: Company Information and Leerink Partners LLC Research
Revenues in \$MM.
GAAP EPS.

Dermira (DERM): Investment Summary

- **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 \$32/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 \$10-12 per share. This price target equates to 18x 2021E EPS of \$3.56 discounted back 6 years at 12%. Fully valued, with 100% probability for all three programs, we arrive at a DCF-based price target of \$49/share with Cimzia and DRM04 contributing \$10/share and \$12/share, respectively, and DRM01 contributing \$27/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.

DRM04 Demonstrates Consistency and Powerful Comparison to Botox on Hard Endpoint of Change in Sweat Production

Mean Percent Change in Sweat Production at Week 4 (gravimetry)

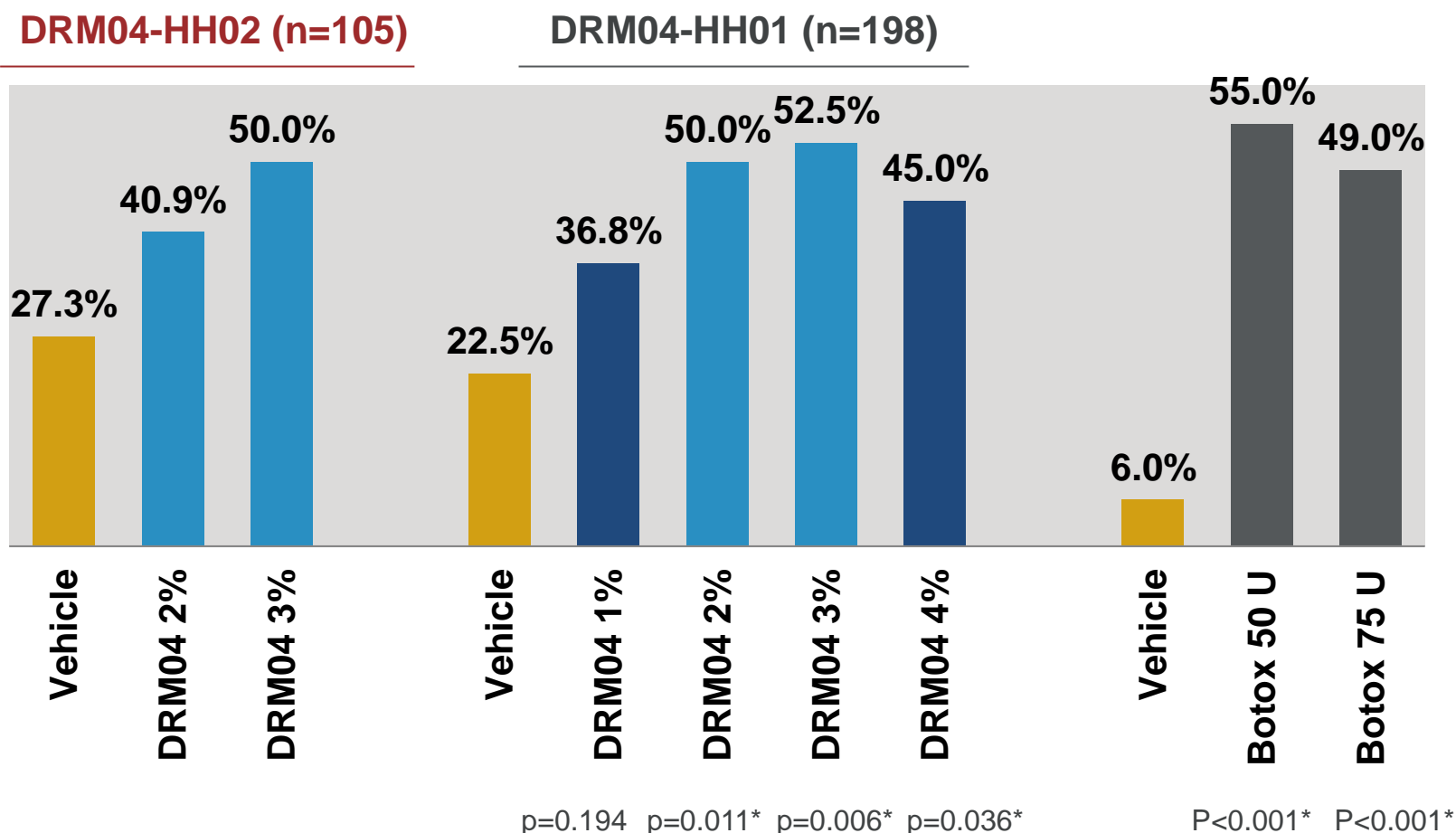


With Botox, 80.8-85.5% of patients were able to achieve a >50% decrease in sweat production at Week 4

The average reduction in sweat production from baseline to week four ranged from 67.7% to 79.8% (72.7 to 105.3 mg per five minutes) in patients in the two arms treated with DRM04, compared to 48.7% (53.9 mg per five minutes) in patients who received the vehicle only. .

DRM04 Demonstrates Consistency and Comparability to Botox on Validated Patient Reported Outcome Scale (HDSS)

HDSS Response Rate at Week 4 (% of patients achieving ≥ 2 point improvement)



The proportion of patients who achieved at least a two-grade improvement in HDSS score from baseline to week four ranged from 40.9% to 50.0% in patients in the two arms treated with DRM04, compared to 27.3% in patients who received the vehicle only.

Appendix: DERM Catalysts

Timing	Event / Description
2015 Events	
1H15	Initiate Phase 3 program for Cimzia (psoriasis)
1H15	Phase 2b data for DRM04 (hyperhydrosis)
1H15	Initiate Phase 2b program for DRM01 (acne)
2H15	Initiate Phase 3 program for DRM04 (hyperhydrosis)
2015	Preclinical data for DRM02 (inflammatory diseases)
2015	Preclinical data for DRM05 (acne)
2016-2018 Events	
1H16	Phase 2b data for DRM01 (acne)
2H16	Phase 3 data for DRM04 (hyperhydrosis)
mid-2017	Phase 3 data for Cimzia (psoriasis)
2018	Phase 3 data for DRM01 (acne)

Source: Leerink Partners LLC estimates & company information

DRM04: Topical Anticholinergic for Hyperhidrosis (HH) Treatment

Appendix

DRM04: First topical pharmaceutical wipe for axillary hyperhidrosis (excessive underarm sweating) with a well-characterized mechanism and strong Phase II data

- **Our KOL checks confirm a vast hyperhidrosis market where treatment options are limited to ineffective antiperspirants or burdensome Botox injections.** Hyperhidrosis (HH) is an area of severe unmet need where patients' excessive sweating can carry significant psychosocial burden and most noninvasive treatments provide little relief. We estimate that of the nearly 9 million Americans estimated to have hyperhidrosis (HH), only one in five are on treatment. Though we expect inexpensive industrial strength deodorants and anticholinergic orals to remain first-line treatments, KOLs note significant need for noninvasive second-line treatment options to challenge the effective but burdensome use of every-6-month Botox injections.
- **Well-characterized glycopyrrolate mechanism, clear dose-response curve, give us confidence in DRM04's clinical effect headed into 1H15 data from DRM04's Ph 2b bridging study.** DRM04 – a convenient, easy to use glycopyrrolate wipe – is initially intended to inhibit axillary sweat production by blocking acetylcholine neurotransmission. Phase 2b data from DERM's 200 patient HH01 dose-finding study demonstrated a dose-dependent, statistically significant impact on sweat production measured via gravimetry as well as the widely used patient-reported outcome (PRO) score (HDSS) with the reference agent. The demonstrated -76% change in sweat production and 52% improvement in HDSS response rate with the 3% dose are both clinically meaningful and comparable to data for standard-of-care Botox injections. The data remove much of the technical risk in KOLs' opinions. The 2 & 3% doses, while highly active, appear to have a low incidence of dry mouth and blurred vision – data from HH01 together with the bridging study data will determine the like go-forward dose(s).
- **Potential competition from topical botulin toxins are factored into our assumptions, although there are significantly more questions and fewer patients exposed via this approach.** Commercial risk is expected to be much greater in the hyperhidrosis market where we note that underreporting by patients and under-diagnosis by providers underlies the challenges of market growth. In fact, the potential introduction of topical Botox options from Anterios (ANT-1207) and RVNC (RT001) in a similar 2018-19 timeframe could be positive for increasing overall HH awareness and investment. We forecast peak sales estimates of ~\$300M based on relatively modest mid-to-high teens percent penetration of the overall market and similar monthly pricing to Botox. We apply a 75% probability of success, validated by the Phase 2b results.

DRM04 Summary: Product Overview & KOL Commentary

MARKET OPPORTUNITY & UNMET NEED

- Our KOL checks confirm a vast hyperhidrosis market where treatment options are limited to ineffective antiperspirants or burdensome Botox injections.
 - 9M Americans suffer from excessive sweating, 1M from severe hyperhidrosis (HH)
 - Significant psychosocial burden
 - Most noninvasive treatments provide little relief
- KOLs note significant need for noninvasive second-line treatment options to challenge the effective but burdensome use of every-6-month Botox injections. DRM04 – a convenient, easy to use glycopyrrolate wipe – is initially intended to inhibit axillary sweat production.

EFFICACY DATA

- In KOLs' opinions, Ph 2 demonstration of statistically significant reduction in sweat production and 40-50% improvement in HH score (HDSS) removes much of the technical risk for DRM04 program.
- Sweat production, though reported differently, seems to demonstrate Botox-like results. Botox trials show 80-85% of subjects demonstrating at least 50% reduction from baseline in axillary sweating at 4 weeks, while **DRM04 achieving greater than 50% reduction in sweat production** in various doses 1%, 2%, 3%, and 4% providing 53%, 61%, 76%, and 77% change from baseline, respectively.

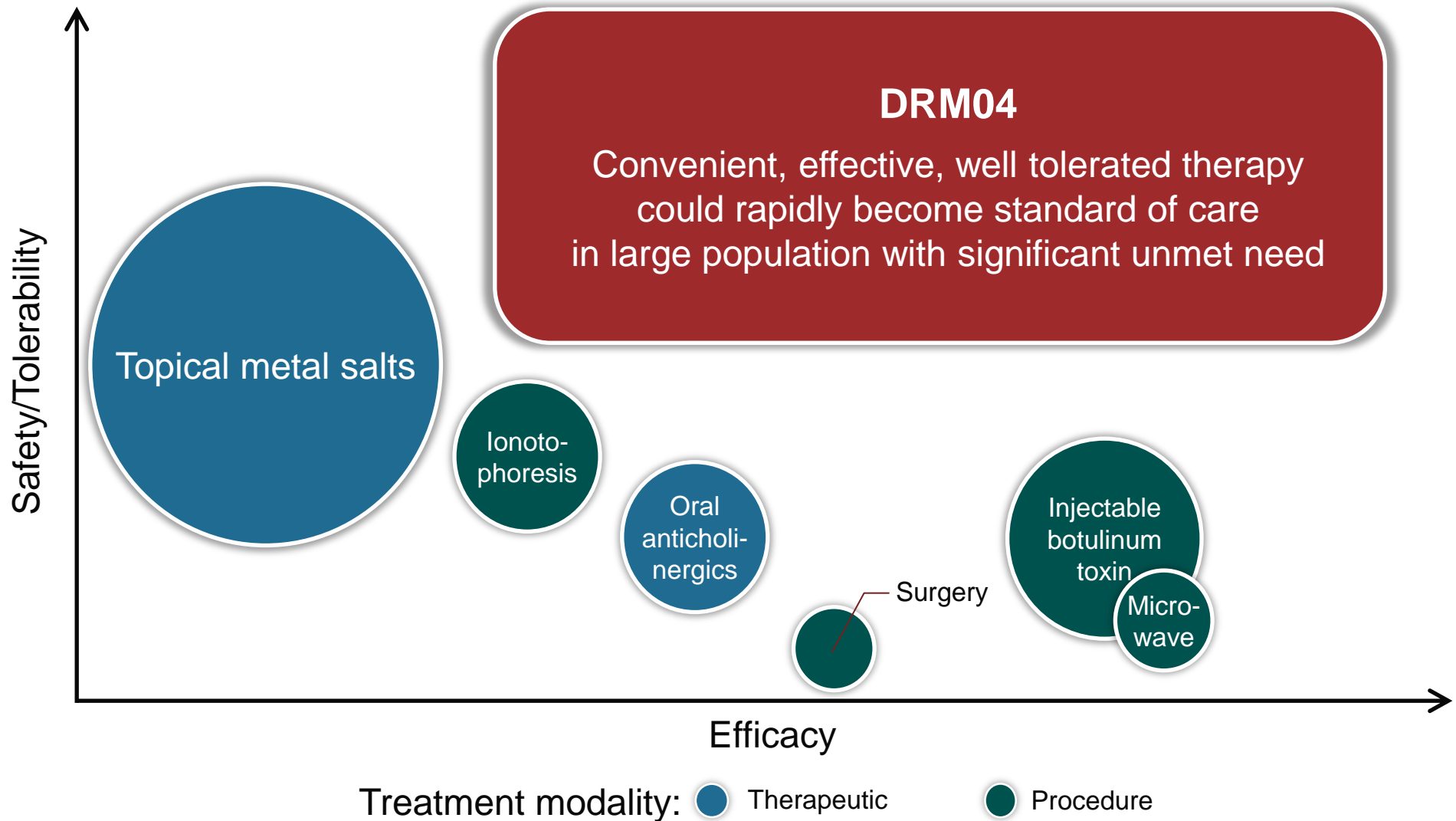
SAFETY & TOLERABILITY

- The 2% dose, while highly active, appears to have a low incidence of dry mouth and blurred vision.
- KOLs do not believe low-grade dry mouth is worrisome at MTD. Oral administration glycopyrrolate shows therapeutic effect with tolerable degree of dry mouth and dry eye. KOLs highlight that in practice they are convinced the locally applied wipe will result in noticeably less side effect concerns.
- Ph 2 data give the boundaries and show a sweet spot of 2-3% dose range; DERM could theoretically even go to 2.5% for pivotals; data from HH01 together with the bridging study data will determine the like go-forward dose(s).

DEVELOPMENT & COMMERCIAL POTENTIAL

- Ph 3 endpoints TBD – gravimetric test will definitely be used, ≥ 2 point reduction in HDSS also possible.
- KOLs believe that if successful and priced correctly, DRM04 could be the next step after antiperspirants followed by Botox or device use. Insurance coverage ought to follow given Botox's current coverage for HH.
- "RT-001 hasn't been as great as we might have expected," according to specialists, who also expect a high price. Price sensitivity for topical Botox agents is expected to be geared toward aesthetic / cosmetic uses.

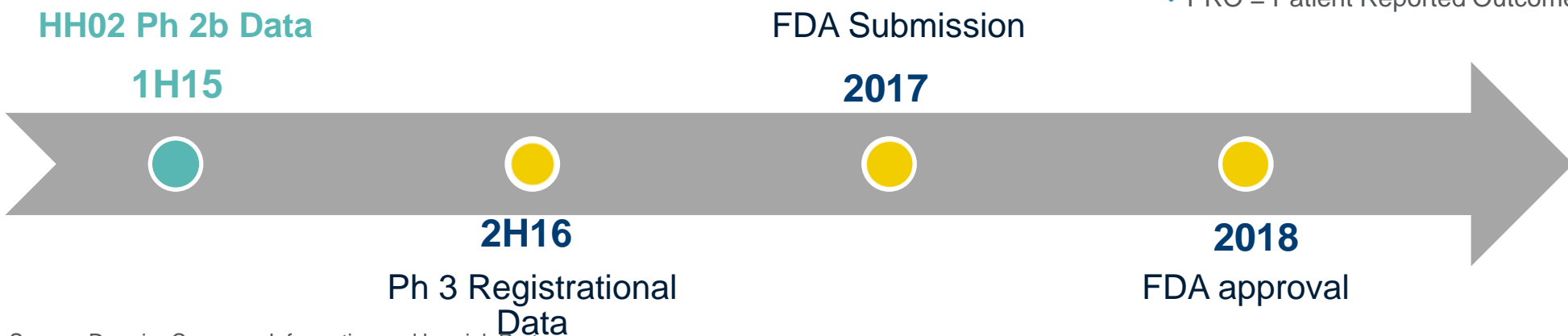
Background: Current Therapies Largely Ineffective/Inconvenient/Poorly Tolerated



Development: DRM04 Clinical Development Plan

	Ph 2a Clinical POC	Ph 2b: Dose-finding		Ph 3 Registration
	Phase 2a Clinical POC	Ph 2b: HH01 Dose-finding	Ph 2b: HH02 Dose-finding	Phase 3 Registration
Objective	Established POC	Dose-selection	Support switch / PRO development	<ul style="list-style-type: none"> Confirmatory Safety & Efficacy
Pop	N= 36	N= 200	N=100	N= 600
Dosing	QD (4 Weeks)	QD (4 Weeks)	QD (4 Weeks)	QD (4 Weeks)
Key Efficacy / Results	<ul style="list-style-type: none"> Attractive efficacy (HDSS, sweat production) Well tolerated 	<ul style="list-style-type: none"> HDSS score Sweat production Preliminary Pharmacokinetics 	<ul style="list-style-type: none"> HDSS score PRO score Sweat production Pharmacokinetics 	<ul style="list-style-type: none"> PRO score Sweat production 2H16 readout
	✓	✓	✓	

• PRO = Patient Reported Outcome



Patient-Based US Hyperhidrosis (DRM04) Market Model (p1)

	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
US Axillary Hyperhidrosis (HH) Market														
Prevalence Rate (2.8%)	8,851,607	8,940,124	9,029,525	9,119,820	9,211,018	9,303,128	9,442,675	9,584,315	9,728,080	9,874,001	10,041,859	10,212,571	10,386,185	10,562,750
Growth Rate		1.0%	1.0%	1.0%	1.0%	1.0%	1.5%	1.5%	1.5%	1.5%	1.7%	1.7%	1.7%	1.7%
Penetration Rate														
Seek Treatment	3,540,643	3,576,049	3,611,810	3,647,928	3,776,517	3,814,283	3,871,497	4,121,256	4,183,074	4,245,821	4,418,418	4,493,531	4,569,921	4,753,237
www.sweathelp.org	40%	40%	40%	40%	41%	41%	41%	43%	43%	43%	44%	44%	44%	45%
Recommended Treatment (% Receiving Rx)	2,301,418	2,324,432	2,347,676	2,371,153	2,454,736	2,479,284	2,516,473	2,720,029	2,760,829	2,802,242	2,982,432	3,033,134	3,084,697	3,255,968
	65%	65%	65%	65%	65%	65%	65%	66%	66%	66%	68%	68%	68%	69%
Fill Prescriptions	1,726,063	1,743,324	1,760,757	1,778,365	1,841,052	1,859,463	1,887,355	2,067,222	2,098,230	2,129,704	2,311,385	2,350,679	2,390,640	2,555,935
	75%	75%	75%	75%	75%	75%	75%	76%	76%	76%	78%	78%	78%	79%

Large Market underpenetrated by branded pharmaceuticals

- Nearly nine million Americans (2.8 % of US population) with hyperhidrosis (HH)
- 40% (2 in 5) seek help for treatment
- Two-thirds receive prescription
- 75% of patients fill the script

DRM04 Target Profile

- DRM04 represents the first topical wipe for hyperhidrosis with a well-characterized mechanism, positive Phase II data, and a well designed clinical program
- Topically targets local sweat gland activation
- Reduces sweat production and improves disease severity in hyperhidrosis patients
- Efficacy as comparable to systemic treatments
- Established pharmacology and well-tolerated 4-week Ph 2a clinical data

Patient-Based US Hyperhidrosis (DRM04) Market Model (p2)

	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
(1st Line) HH Market Share														
Clinical Strength Antiperspirant Topical Treated with Certain Dri OTC (AICI3)	70%	70%	70%	70%	69%	67%	62%	57%	53%	51%	50%	49%	48%	77%
Cost / Bottle (WAC \$4.30)	1,208,244	1,220,327	1,232,530	1,244,855	1,261,121	1,236,543	1,170,160	1,178,316	1,101,571	1,075,500	1,144,136	1,140,079	1,147,507	1,968,070
Treatment (Tx) Frequency Annualized	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81	\$5.81
Antiperspirant (Topical) Sales (\$ MM)	4	4	4	4	4	4	4	4	4	4	4	4	4	4
	\$28.1	\$28.3	\$28.6	\$28.9	\$29.3	\$28.7	\$27.2	\$27.4	\$25.6	\$25.0	\$26.6	\$26.5	\$26.6	\$45.7
Anticholinergic Orals	25%	25%	25%	25%	24%	23%	21%	18%	16%	14%	12%	11%	11%	10%
Treated with Glycopyrrolate Oral	431,516	435,831	440,189	444,591	441,853	418,379	386,908	372,100	335,717	287,510	277,366	258,575	262,970	255,593
Cost / Bottle / 100 pills (WAC \$88.49)	\$88.49	\$88.49	\$88.49	\$88.49	\$88.49	\$88.49	\$88.49	\$99.11	\$99.11	\$99.11	\$99.11	\$111.00	\$111.00	\$111.00
Tx Frequency Annualized	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Anticholinergic Orals Sales (\$ MM)	\$76.4	\$77.1	\$77.9	\$78.7	\$78.2	\$74.0	\$76.7	\$73.8	\$66.5	\$57.0	\$55.0	\$57.4	\$58.4	\$56.7
(2nd Line) HH Market Share														
AGN Botox Market Share	5%	5%	5%	5%	5%	5%	5%	5%	5%	4%	4%	4%	3%	3%
Treated with Botox	86,303	87,166	88,038	88,918	92,053	92,973	94,368	103,361	94,420	85,188	80,898	82,274	71,719	76,678
Cost 100U (4 mL) per axilla	\$525	\$541	\$557	\$574	\$591	\$609	\$627	\$646	\$665	\$685	\$706	\$727	\$749	\$771
Tx Frequency Annualized	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Botox Injectable Sales (\$ MM)	\$68.0	\$70.7	\$73.6	\$76.5	\$81.6	\$84.9	\$88.7	\$100.1	\$94.2	\$87.5	\$85.6	\$89.7	\$80.5	\$88.7
Needle-free Topicals to replace 2nd Line Botox														
Dermira DRM04 topical glycopyrrolate (Ph 2b)						1%	3%	7%	11%	15%	16%	17%	17%	17%
Treated with DRM04						23,243	56,621	144,706	230,805	319,456	369,822	399,615	406,409	434,509
Cost						\$101	\$101	\$107	\$112	\$117	\$123	\$127	\$131	\$135
Tx Frequency Annualized						7	7	7	7	7	7	7	7	7
Gross to Net Adjusted (\$ MM)						\$12.4	\$30.2	\$80.9	\$135.5	\$196.9	\$239.4	\$266.4	\$279.1	\$307.3
Anterios ANT-1207 topical Botox (Ph 2b)						1%	3%	5%	7%	9%	11%	11%	12%	12%
Treated with ANT-1207						23,243	55,784	84,931	144,706	178,350	223,619	242,695	270,328	274,924
Cost						\$609	\$609	\$682	\$682	\$682	\$682	\$682	\$763	\$763
Tx Frequency Annualized						1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Gross to Net Adjusted (\$ MM)						\$15.9	\$38.2	\$65.1	\$111.0	\$136.8	\$171.5	\$186.1	\$232.2	\$236.1
Revance (RVNC) RT001 topical Botox							1%	2%	4%	6%	8%	9%	10%	10%
Treated with RT001							18,874	41,344	73,438	117,134	173,354	199,808	227,111	255,593
Cost							\$627	\$627	\$627	\$627	\$627	\$702	\$702	\$702
Tx Frequency Annualized							1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Gross to Net Adjusted (\$ MM)							\$17.7	\$38.9	\$69.1	\$110.1	\$163.0	\$210.4	\$239.2	\$269.2
Total Sales (\$ MM)	\$172.4	\$176.2	\$180.1	\$184.1	\$189.1	\$215.9	\$278.7	\$386.1	\$501.9	\$613.3	\$741.0	\$836.5	\$916.0	\$1,003.8

Patient-Based US Hyperhidrosis (DRM04) Market Model Assumptions

- Patient-based hyperhidrosis growth model that breaks down market share by 1st line, 2nd line, and alternative needle-free topical treatments to replace 2nd line Botox.
 - 1st Line – industrial strength deodorant or anticholinergic orals
 - 2nd Line – Botox providing excellent temporary relief, but insurance pushback given pricing
 - DRM04 will target 2nd line setting in replacing Botox as an injection-free topical alternative
 - Market Share analysis depicts competitive landscape including Anterios ANT-1207 and Revance (RVNC) RT001, achieving commercialization by 2018 and 2019, respectively.
- Key Financial Assumptions

Commercial Launch	2018
Peak Sales Year	2022 – 2024
Gross to Net Adjusted	25%
Pricing / Duration	In-line with Botox 7-month duration

Dermira - Income Statement Analysis 2013-2022E

(\$ in Millions, Except EPS)														CAGR
(Year Ended December 31)			2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	'18E-22E
	POS	LOE												
Product Revenue (POS adj.)			-	-	-	-	-	-	9	61	147	232	319	
DRM04	75%	2029	-	-	-	-	-	-	9	23	61	102	148	100%
DRM01	50%	2030	-	-	-	-	-	-	-	38	86	131	171	NM
Other DRM Pipeline	0%		-	-	-	-	-	-	-	-	-	-	-	NM
Royalty Revenue (POS adj.)			-	-	-	-	-	-	25	52	79	102	112	
Cimzia Royalty (from UCB)	90%		-	-	-	-	-	-	25	52	79	102	112	
Other Revenue (POS adj.)			-	-	-	9	9	18	-	22	10	10	-	
Total Revenue Incl 1x Milestones			-	-	-	9	9	18	34	135	236	345	431	
Total Revenue			-	-	-	-	-	-	34	113	226	335	431	89%
Growth (% y/y)										1	0	0	0	
COGS			-	-	-	-	-	-	2	9	24	38	54	120%
COGS (% of sales)							nm	nm	0	0	0	0	0	
Gross Profit			-	-	-	9	9	18	32	125	212	306	377	86%
Gross Profit (% of sales)					nm	nm	nm	nm	1	1	1	1	1	
SG&A			3.1	4	8	12	14	32	73	91	91	134	151	20%
SG&A (% of sales)					nm	nm	nm	nm	2	1	0	0	0	
R&D			17	18	32	66	69	54	40	35	50	67	86	21%
R&D (% of sales)					nm	nm	nm	nm	1	0	0	0	0	
Operating Income			(20.2)	(22)	(39)	(69)	(74)	(68)	(82)	(1)	71	105	140	NM
Operating Margin (% of sales)									(2)	(0)	0	0	0	
Total Interest and Other Income/ (Expense)			(0.1)	(0)	(0)	-	-	-	-	-	-	-	-	
Pre-tax Income			(20)	(22)	(40)	(69)	(74)	(68)	(82)	(1)	71	105	140	
Change in Unrealized Gain / loss														
Taxes										-	-	-	-	NM
Rate (% of pre-tax income)										-	-	-	-	
Net Income			(20.3)	(22)	(40)	(69)	(74)	(68)	(82)	(1)	71	105	140	
EPS (pro forma)			(\$27.99)	(\$2.31)	(\$2.69)	(\$2.80)	(\$3.01)	(\$2.28)	(\$2.76)	(\$0.03)	\$2.40	\$3.56	\$4.72	
Average Shares Outstanding			0.7	10	14.8	24.6	24.6	29.6	29.6	29.6	29.6	29.6	29.6	

Source: Leerink Partners and Company Reports

Disclosures Appendix

Analyst Certification

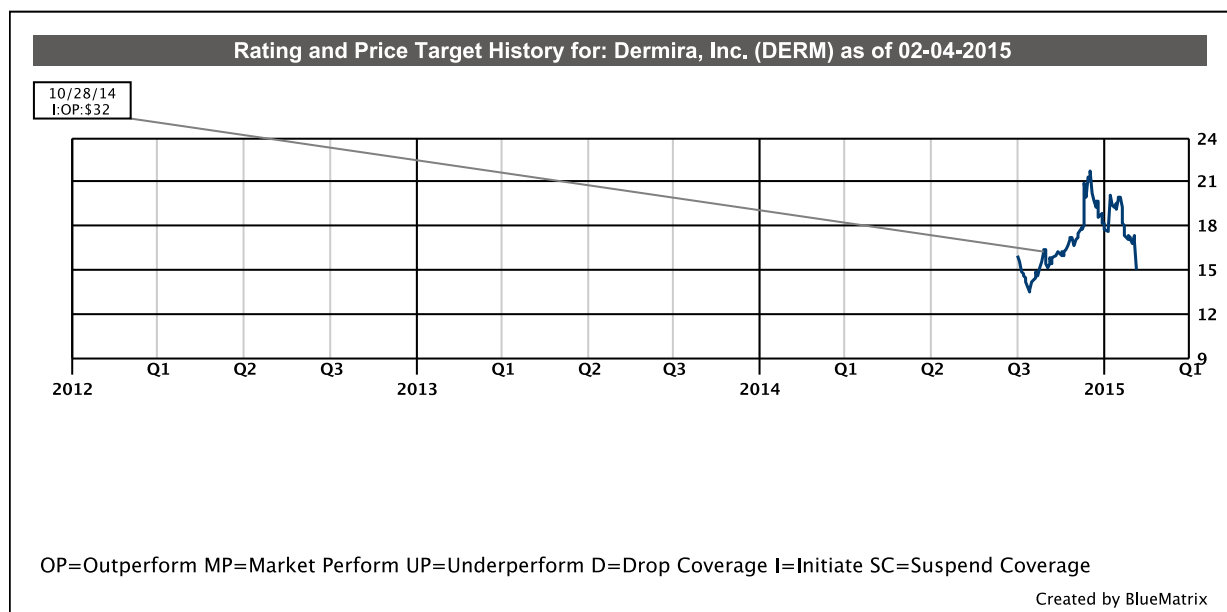
I, Seamus Fernandez, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

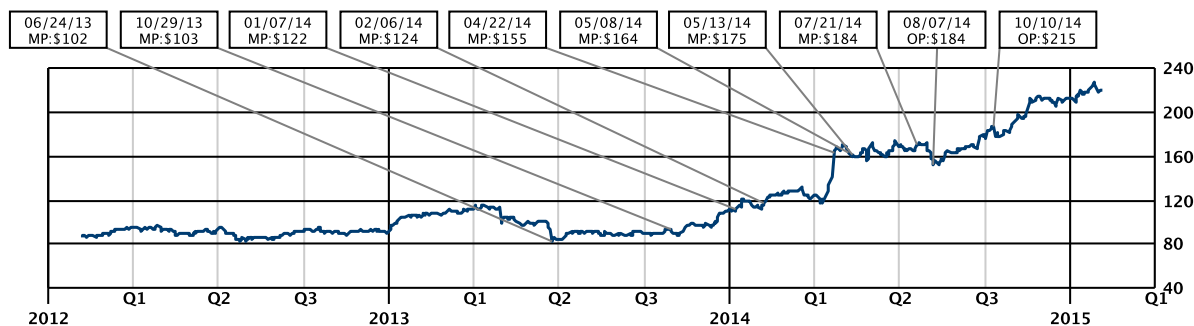
We value DERM at \$32/share. Our price target is based on a DCF valuation that assumes a 12% discount rate on probability-adjusted sales and profits through 2026E and applies a 2% terminal growth rate. Our valuation assumes late-stage assets Cimzia, DRM04, and DRM01 have 90%, 75%, and 50% probabilities of success, respectively, and each contributes \$10-12 per share. This price target equates to 18x 2021E EPS of \$3.56 discounted back 6 years at 12%. Fully valued, with 100% probability for all three programs, we arrive at a DCF-based price target of \$49/share with Cimzia and DRM04 contributing \$10/share and \$12/share, respectively, and DRM01 contributing \$27/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.



Rating and Price Target History for: Allergan, Inc. (AGN) as of 02-04-2015



Leerink Swann placed an Outperform rating on AGN on April 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

Created by BlueMatrix

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.

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 is willing to sell to, or buy from, clients the common stock of Allergan, Inc. on a principal basis.

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

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