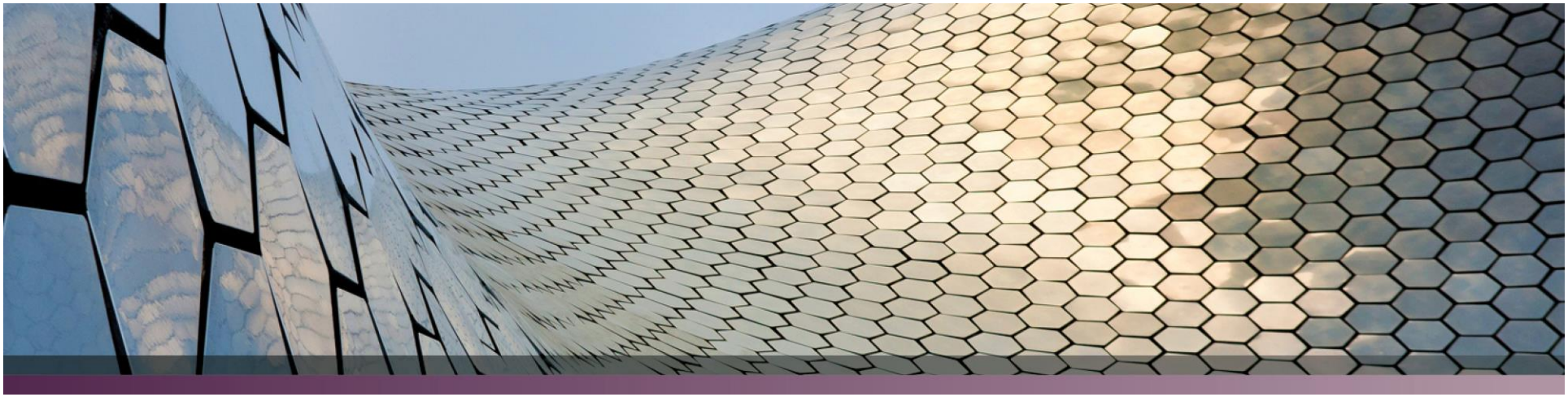

# Dermira (DERM, BUY, $15.50)

## Initiating Coverage with a BUY Rating and $22 PT: A Company With Differentiated Drugs That Target Large Market Opportunities

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**Dermira (DERM) is a medical dermatology company focused on bringing innovative and differentiated products to the market.** The company's three key pipeline drugs are Cimzia (psoriasis), DRM04 (hyperhidrosis) and DRM01 (acne). Dermira also has two early-stage assets (DRM02 in inflammatory diseases and DRM05 in acne).

**Our investment thesis is threefold:**
**#1** – We expect total company sales to reach almost $500 million by 2021, only three years after the first products start launching. Dermira has a portfolio of three late-stage assets that have established Proof of Concept in Phase 2 trials (all statistically significant) and we expect them to successfully move into Phase 3 trials and ultimately be approved starting in 2018.
**#2** – These drugs address large unmet needs in the $21 billion dermatology market including: psoriasis, hyperhidrosis and acne. We estimate these areas of unmet need are growing double digits while the overall dermatology market is growing mid-single digits.
**#3** – In our view, Dermira is an attractive company in a consolidating industry (supports our valuation), and the company is focused on in-licensing and/or acquiring dermatology assets (could drive potential upside to EPS expectations).

**Dermira raised $125 million in gross proceeds from its October IPO (10/3/14).** The use of proceeds, per the company, are as follows:
- ~$50 million to fund external R&D associated with the development of Cimzia, net of development milestone payments from its partner UCB
- ~$30 million to fund external R&D associated with the development of DRM04
- ~$15 million to fund external R&D associated with the development of DRM01
- Balance used to fund internal R&D associated with all of Dermira's products, working capital, capital expenditures and other general corporate purposes.

**We expect profitability as early as 2019, but we forecast 2020 to be conservative.**

**Next Potential Stock-Moving Catalysts:**
1.) Cimzia – Initiation of Phase 3 trials in 1H15. We estimate results in 2017 and approval in 2018.
2.) DRM04 – Report Phase 2b HH02 data in 1H15.
3.) DRM04 – Initiation of Phase 3 trials in 2H15.
4.) DRM01 – Initiation of Phase 2b trial in 1H15. We estimate results in ~1H16.

# Investment Thesis

# Dermira (DERM): Initiating with BUY Rating and $22 Price Target (+42% Proj. Upside)

**Our Investment Thesis:**

1) We expect total company sales to reach almost $500 million by 2021, only three years after the first products start launching. Dermira has a portfolio of three late-stage assets that have established Proof of Concept in Phase 2 trials (all statistically significant) and we expect them to successfully move into Phase 3 trials and ultimately be approved starting in 2018.
2)These drugs address large unmet needs in the $21 billion dermatology market, including psoriasis, hyperhidrosis and acne. We estimate these areas of unmet need are growing double digits while the overall dermatology market is growing mid-single digits.
3) In our view, Dermira is an attractive company in a consolidating industry (supports our valuation), and the company is focused on in-licensing and/or acquiring dermatology assets (could drive potential upside to EPS expectations).

**Performance Drivers and Potential Stock Catalysts:**

1) Cimzia – Initiation of Phase 3 trials in 1H15. We estimate results in 2017 and approval in 2018.
2) DRM04 – Report Phase 2b HH02 data in 1H15.
3) DRM04 – Initiation of Phase 3 trials in 2H15.
4) DRM01 – Initiation of Phase 2b trial in 1H15, we estimate results in ~1H16.

**Guggenheim Points of Differentiation:**

1) **Based on Dermira's studies thus far, we believe Cimzia can be a sizeable drug because it demonstrates the safety of Enbrel, but appears as effective as Humira.** There is concern that Cimzia (TNF inhibitor for psoriasis) is being launched into a competitive market. Although Humira and Enbrel have been on the market for a while and there are a host of new products as well as pipeline drugs, we think Cimzia will still get market share because doctors seem to trust TNF inhibitors and Cimzia is considered safe as well as effective.
2) **We expect multiple positive catalysts between now and 2018 that could drive Dermira's share price higher.** There has been some argument that there are better investment opportunities than Dermira because the company's products do not launch until 2018. We disagree because Dermira will be announcing trial data between now and 2018, and we think this data will be positive and could drive the stock higher (potentially lower discount rate and improved earnings visibility). Also, Dermira is an attractive company in a consolidating industry, in our view. We would note that most, if not all, of the stand-alone dermatology companies have been acquired.

# Valuation

# Dermira: Valuation

**We use a DCF analysis to get to our 12-month price target of $22.**

- We use a WACC of 20% and an exit multiple of 6x forward EBIT to arrive at our price target.
- This compares favorably to Dermira's peers, which trade, on average, at a forward EV/EBIT of 16x.
- This compares favorably to other dermatology companies that have been acquired in the industry for 13x EV/EBITDA, which means the EV/EBIT could be even higher.

**Risks to our valuation are as follows:**

1. Dermira faces competition in each of its businesses from a number of large and small companies, some of which have greater financial, R&D, production, and other resources than Dermira.
2. Other companies are already first to market with drugs that compete with Cimzia and DRM01, and Dermira will compete with several companies that could come to market sooner with competing drugs for DRM04.
3. Pipeline failures could delay the company's time needed to achieve profitability.
4. Dermira may not fully control product development, regulatory strategy and commercialization decision-making on collaborations.

# Dermira (DERM): Bull, Bear, and Base Case Analyses

**Based on the probability of each scenario, we arrive at a 12-month value of $22 per share.**

| Scenario | Valuation | Investment Thesis |
|---|---|---|
| **BULL CASE** | **2021E EPS:** $6.00<br><br>**12-Month Bull-Case Scenario:** $35<br><br>**Probability:** 14%<br><br>**Upside/Downside Potential:** 126% | •Cimzia launch in 2018, 2021 sales of $140.7 million<br>•DRM04 launch in 2018, 2021 sales of $145.3 million<br>•DRM01 launch in 2019, 2021 sales of $330.1 million<br>•Accretive business development and/or M&A |
| **BASE CASE** | **2021E EPS:** $4.83<br><br>**12-Month Base-Case Scenario:** $22<br><br>**Probability:** 73%<br><br>**Upside/Downside Potential:** 42% | •Cimzia launch in 2018, 2021 sales of $113.5 million<br>•DRM04 launch in 2018, 2021 sales of $127.7 million<br>•DRM01 launch in 2019, 2021 sales of $241.7 million<br>•No business development and/or M&A |
| **BEAR CASE** | **2021E EPS:** $4.00<br><br>**12-Month Bear-Case Scenario:** $12<br><br>**Probability:** 13%<br><br>**Upside/Downside Potential:** -23% | •Cimzia launch in 2018, 2021 sales of $95.2 million<br>•DRM04 launch in 2018, 2021 sales of $110.3 million<br>•DRM01 launch in 2019, 2021 sales of $180.7 million<br>•No business development and/or M&A |

Source: Guggenheim Securities, LLC and Company Reports

# Detailed Investment Highlights

# Dermira: Investment Highlight #1

**#1: Robust portfolio with three late-stage assets that could achieve $500 million in sales only three years after launching.**

- Established Proof of Concept for each of the three drugs. These drugs address large unmet needs in the dermatology space.
  - **Cimzia:** 176-patient Phase 2 trial was statistically significant. Data support product with favorable safety results and best-in-class efficacy.
  - **DRM04:** First of two Phase 2b trials (DRM04-HH01) was positive. With 198 patients, results were statistically significant at most doses. Data support opportunity for first-line therapeutic treatment that is convenient and effective.
  - **DRM01:** Phase 2 trial was statistically significant. Met three FDA recommended primary endpoints. Data support opportunity for leading product profile.
- Near-term catalysts are value-creation opportunities, in our view.
  - **Cimzia**: Start Phase 3 trials in 1H15. We expect results in 2017 and approval in 2018.
  - **DRM04:** Second Phase 2b trial data expected in 1H15.
  - **DRM01:** Initiate Phase 2b in 1H15. We expect results in ~1H16.
- Commercialize in the U.S. and Canada. Partner to reach new markets.


Source: Dermira S-1 dated, 9/12/14 page 96

# Dermira: Investment Highlight #2

**#2: These drugs address large unmet needs in the $21 billion dermatology market, including psoriasis, hyperhidrosis and acne.**

**Dermatology Represents a Large, Growing, Specialty Market Supported by Strong Patient Demand**

- According to VisionGain, the medical dermatology market was valued at over $21 billion in global pharmaceutical sales in 2012.
- In the same year, the psoriasis market alone accounted for approximately $6.1 billion in global pharmaceutical sales, which increased by 15% to ~$7.0 billion in 2013.
- The acne market accounted for approximately $3.7 billion in global pharmaceutical sales.
- The symptoms of medical dermatology diseases are often visible, and as a result, patients can be particularly motivated and willing to pay out of pocket for treatments.

**The Dermatology Market Is Ripe for Innovation with Significant Commercial Opportunities**

- We believe that an overall lack of innovation in the research and development of new dermatology products has resulted in a limited number of treatment options, severely underserving dermatologists and their patients across a number of medical dermatology conditions.
- For example, the three mechanisms of action most commonly used to treat acne have been available for over 30 years. However, the few truly innovative therapies launched over the past few decades have resulted in significant sales. For example, the launch of injectable, immune-modifying, biologic therapies targeting specific inflammatory mediators for the treatment of moderate-to-severe plaque psoriasis beginning in 2002 has created a growing, global market representing approximately $4.0 billion in sales in 2012, according to Decision Resources.
- Recent advances in the understanding of skin disease biology are creating significant new opportunities for innovative product development, as illustrated by the recent development and commercial success of these biologics. We believe that companies focused on medical dermatology can accelerate the pace of innovation in this field.

**The Development of Dermatology Products Can Be Relatively Efficient in Terms of Time and Cost**

- In comparison to many other segments of the biopharmaceutical industry, we believe that product development in dermatology can be relatively efficient in terms of time and cost.
- In many cases, efficacy can be determined based on short durations of therapy using comparatively small samples.
- Efficient commercialization with <11k dermatologists in the U.S. compared to ~216k GPs.

Source: Dermira S-1 dated 9/12/14, page 91

# Dermira: Investment Highlight #2 (Continued)

## #2: These drugs address large unmet needs in the $21 billion dermatology market, including psoriasis, hyperhidrosis and acne.

| Indication | Global Market Size | Current Treatments | Dermira Solution |
|---|---|---|---|
| **Psoriasis** | $6.1 billion in 2012, and was estimated to increase to ~$7.0 billion in 2013, per VisionGain | •**Humira** (TNF inhibitor) - $10.7 billion in WW sales in 2013; 15% Yr-on-Yr Growth; $5.2 billion in the U.S., and $1.1 billion in psoriasis sales in 2012 (12% of total sales)<br>•**Enbrel** (TNF inhibitor) - $4.6 billion in WW sales in 2013; 7% Yr-on-Yr Growth; $4.3 billion in the U.S., and $1.1 billion in psoriasis sales in 2012 (26% of total sales)<br>•**Remicade** (TNF inhibitor) - $110 million in psoriasis sales in 2012<br>•**Stelara** (inhibits two inflammatory molecules: interleukin 12 and interleukin 23) - $630 million in psoriasis sales in 2012 | **Cimzia** - >$800 million 2013 net sales (+27% Yr-on-Yr). UCB pharma anticipates peak sales of >$2 billion. |
| **Hyperhidrosis** | Up to $16 billion spent on antiperspirants, injected botulinum, devices and surgery annually | •**Antiperspirants** - ~$14 billion to $16 billion in annual sales, over 500k Rx's annually for prescription-strength antiperspirants<br>•**Injected Botulinum** - $100 million annually in hyperhidrosis sales<br>•**Devices** - <$50 million in annual sales<br>•**Surgery** - $100 million in annual sales | **DRM04** - topical small molecule anticholinergic agent. Could offer advantages over botulinum and orals. Currently in Phase 2 trials for axillary hyperhidrosis, which affects ~50% of all hyperhidrosis patients. |
| **Acne** | $3.7 billion in 2012 | •**Topical retinoids** - ~$880 million in U.S. sales in 2012<br>•**Topical and oral antimicrobials** - ~$1.9 billion in U.S. sales in 2012<br>•**Oral isotretinoin** - ~$670 million in U.S. sales in 2012<br>•**Oral hormonal therapies** - ~10% of oral contraceptives are primarily used for the treatment of acne (~$1.7 billion)<br>•**Accutane** - ~$760 million in peak sales in 2000<br>•**Solodyn** - ~$400 million in peak sales in 2010 | **DRM01** - topical small-molecule lipid synthesis inhibitor. Company intends to initiate Phase 2b trials in 1H15. |

Source: Abbvie and Amgen Press Releases, Dermira S-1 dated 9/12/14, pages 99 and 117 - 119, Guggenheim estimates

# Dermira: Investment Highlight #3

**#3: Dermira is an attractive company in a consolidating industry.**

• There has been an increasing number of M&A deals in both medical and aesthetic dermatology, which we believe supports Dermira's valuation.

•The pace and size of deals has been rising. Large specialty pharmaceutical companies such as Valeant and Allergan, among others, have been consolidating dermatology assets and acquisition multiples have been robust (on average, 3.6x EV/Sales and 11.1x EV/EBITDA).

• Dermira itself expects to in-license and acquire new product candidates or commercial-stage assets (since its founding in 2010, Dermira has executed 3 significant transactions resulting in a portfolio of 5 products). We think this could drive upside to EPS expectations.

| Year | Buyer Name | Seller Name | EV (MM) | EV /Sales | EV / EBITDA |
|---|---|---|---|---|---|
| 2006 | Stiefel Laboratories | Connetics Corporation | $640.0 | 3.6x | 16.3x |
| 2008 | Stiefel Laboratories | Barrier Therapeutics | 148.0 | 6.3x | NA |
| 2009 | Glaxo | Stiefel Laboratories | 3,600.0 | 4.0x | NA |
| 2009 | Leo Pharma | Warner Chilcott (U.S. rights to psoriasis portfolio and dermatology pipeline) | 1,000.0 | NA | NA |
| 2009 | Leo Pharma | Peplin | 287.5 | NA | NA |
| 2010 | Merz | BioForm Medical | 253.0 | 3.3x | NA |
| 2011 | Valeant | Dermik | 425.0 | 1.8x | NA |
| 2011 | Valeant | Ortho Dermatologics | 345.0 | 2.3x | NA |
| 2011 | Valeant | Medicis | 1,939.1 | 2.7x | 6.8x |
| 2011 | Medicis | Graceway Pharmaceuticals | 455.0 | 3.6x | 17.7x |
| 2011 | Allergan | Vicept | 275.0 | NA | NA |
| 2012 | Allergan | SkinMedica | 371.0 | 3.9x | NA |
| 2012 | Sun Pharmaceuticals | DUSA | 197.0 | 3.9x | NA |
| 2012 | Sandoz | Fougera Pharmaceuticals | 1,525.0 | 3.6x | 8.8x |
| 2013 | Almirall | Aqua | 380.0 | 3.0x | NA |
| 2013 | Valeant | Obagi | 437.0 | 3.5x | 15.0x |
| 2013 | Actavis | Warner Chilcott | 8,500.0 | 3.3x | 5.9x |
| 2014 | Valeant | PreCision Dermatology | 475.0 | 3.7x | NA |
| 2014 | Nestle/Galderma | Valeant Facial Filler & Toxin Business | 1,400.0 | 5.2x | 7.3x |
| 2014 | Valeant | Allergan | 58,026.9 | 8.3x | 20.9x |
| 2014 | Actavis | Allergan | $60,780.0 | 8.7x | 21.9x |
| | | Average | $6,736 | 4.2x | 13.4x |
| | | Median | $455 | 3.6x | 15.0x |
| | | High | $60,780 | 8.7x | 21.9x |
| | | Low | $148 | 1.8x | 5.9x |

**Source: Guggenheim Securities, LLC & Company Reports, EV = Enterprise Value. Multiples are calculated on historical sales**

(1) Valeant has made an offer for AGN; Actavis was reportedly (e.g., Reuters) planning to make an offer for AGN, which has not materialized. Our table above includes both. Excluding these, the average EV/Sales is 3.6x and 11.1x EV/EBITDA

# Company Overview

# Who Is Dermira? A Company Overview

**Dermira is a specialty biopharmaceutical company focused on developing and commercializing innovative and differentiated medical dermatology products.**

•Dermira has a product portfolio of five product candidates targeting significant market opportunities.

•Dermira has three late-stage product candidates: 1) Cimzia (certolizumab pegol), being developed with UCB Pharma S.A. for moderate-to-severe plaque psoriasis; 2) DRM04, for hyperhidrosis; and 3) DRM01, for the treatment of acne.

| Indication | Dermira Drug | Trends |
|---|---|---|
| **Moderate to Severe Plaque Psoriasis** | Cimzia | • Prevalent, chronic autoimmune skin disease<br>• Large, growing market for biologic psoriasis therapies<br>• Market remains unsatisfied with available products – Limited efficacy, toxic, inconvenient, expensive or limited safety and access<br>• ~50% of patients dissatisfied with current treatment<br>• TNF inhibitors have emerged as mainstay of moderate-severe psoriasis therapy |
| **Hyperhidrosis** | DRM04 | • Large population suffers from excessive sweating<br>• Lack of convenient, effective, well-tolerated therapies<br>• New market development opportunity<br>• Over 500,000 Rx written for prescription-strength antiperspirants<br>• Only 38% of HH sufferers have discussed their condition with a health care professional |
| **Acne** | DRM01, DRM05 | • Large need for more effective topical acne therapy<br>• Limited innovation in acne; products targeting 3 most common MOAs have been available for over 30 years<br>• Prevalence estimated at 40-50 million in the US and >150 million worldwide<br>• $3.7 billion global market |
| **Inflammatory Diseases** | DRM02 | • Large market with opportunities for new, effective therapies |

Source: Guggenheim Securities LLC and Dermira S-1 dated 9/12/14, pages 97 to 125

# Who Is Dermira? A Company Overview (Cont.)

**Dermira's valuation compares favorably to other early-stage public dermatology/aesthetic companies.**

| Metrics | Dermira | Kythera | Revance |
|---|---|---|---|
| **Market Capitalization** | $382 million | $833 million | $449 million |
| **NDAs Filed** | None | One | None |
| **First Launch** | Cimzia for Psoriasis in 2018 | ATX-101 in 2015 (May 13, 2015 PDUFA date) | RT001 for Crow's Feet Lines in 2017 |
| **Pipeline** | 5 products | Multiple early-stage research programs in hair and fat biology | 2 products (RT001 and RT002) in trials for multiple indications |
| **Product Source** | Internally developed and partnered | Internally developed (but in-licensed from LA Biomed) | Internally developed |
| **Royalties Out** | Low-to-mid single digits on DRM04 | Low-to-mid single digit to LA Biomed (acquired ex-US and Canadian rights from Bayer in March and so no longer owe milestone payments to them) | Single Digit |

Source: Guggenheim Securities LLC, Company Reports and Dermira S-1 dated 9/12/14

# Dermira: Timeline of the Company's History

**Aug 2010** - The company was founded in Delaware, under the name Skintelligence, Inc., by Tom Wiggans, Dr. Eugene Bauer, along with Bay City Capital

**Sep 2011** - The company changed its name from Skintelligence to Dermira Inc.

**Oct 2011** – Dermira raised $42 million in Series A financing

**Oct 2011** – The company acquired Valocor Therapeutics, which was renamed Dermira (Canada) Inc.

**Jun 2013** – Dermira raised $35 million in Series B financing. This round of financing included a new investor, Maruho Co., Ltd., joining current investors Bay City Capital, New Enterprise Associates, and Canaan Partners.

**Jan 2014** – Dermira announces DRM01, DRM02 and DRM04 progressed in Phase II trials.

**Jul 2014** – Dermira enters into a strategic agreement with UCB to develop, and subject to regulatory approval, market Cimzia in psoriasis.

**Aug 2014** – Dermira completed $51 million in Series C financing . New investors, included Apple Tree Partners, Aisling Capital, Rock Springs Capital, Sabby Capital . Dermira also appointed Andrew Guggenhime as COO and CFO

**Oct 2014** – Dermira completed its IPO under the ticker "DERM". The company raised $125 million in gross proceeds through the IPO, listing 7.8 million shares at $16.

Source: Dermira S-1 dated 9/12/14, page F-7, Dermira website

# Dermira Intellectual Property

**Altogether, Dermira's issued U.S. and foreign patents and pending U.S. and foreign patent applications, if issued, for its lead product candidates, Cimzia, DRM04 and DRM01, will expire between 2014 and 2034.** As of 8/19/14, Dermira owns or has an exclusive license to 23 issued U.S. patents and 88 issued foreign patents, which include granted European patent rights that have been validated in various EU member states, and 10 pending U.S. patent applications and 37 pending foreign patent applications. Of these patents and patent applications:

•There are two issued U.S. patents, one issued Australian patent, five pending U.S. patent applications and four pending foreign applications (one each in Canada, the European Patent Office, Mexico and one under the Patent Cooperation Treaty) relating to DRM04. Dermira owns four of the pending U.S. patent applications and one of the pending foreign applications, and has exclusively licensed from Rose U worldwide rights to the two issued U.S. patents, one issued foreign patent, one pending U.S. patent application and three pending foreign patent applications. The issued DRM04 patents contain claims directed to individually packaged wipes for the treatment of hyperhidrosis where the wipes contain a composition comprising DRM04 or other related compounds, and methods of alleviating hyperhidrosis using such compositions. The DRM04 patent applications contain claims directed to compositions comprising DRM04 or other related compounds, individually packaged wipes comprising such compositions, absorbent pads comprising DRM04 pharmaceutical compositions and methods of treating hyperhidrosis with topical administration of DRM04 or other related compounds. ***The issued U.S. and foreign patents relating to DRM04 will expire between 2020 and 2029 and the pending U.S. and foreign patent applications relating to DRM04, if issued, will expire between 2028 and 2034.***

•There are 15 issued foreign patents (one each in Belgium, Denmark, France, Germany, Hong Kong, Ireland, Italy, Luxembourg, Mexico, the Netherlands, New Zealand, Singapore, Spain, Switzerland and the United Kingdom), one pending U.S. patent application and 13 pending foreign patent applications (two in Australia and one each in Brazil, Canada, China, the European Patent Office, Hong Kong, Israel, India, Japan, Russia, Singapore and South Korea) relating to DRM01. The DRM01 patents and patent applications cover the DRM01 compound and other related compounds, pharmaceutical compositions and treatment methods. ***The issued foreign patents relating to DRM01 will expire in 2030 and the pending U.S. and foreign patent applications relating to DRM01, if issued, will expire in 2030.***

• In addition, Dermira has patents and patent applications not included in the figures noted above related to Cimzia licensed to Dermira under the UCB agreement, including six issued U.S. patents and two issued Canadian patents. ***These patents cover the Cimzia TNF inhibitor and related molecules for making them, and will expire between 2014 and 2024.***

Source: Dermira S-1 dated 9/12/14, page 130

# Cimzia

# Cimzia, Novel TNF Inhibitor With Better Efficacy and Consistent Safety to Competitors

**If approved for psoriasis, Cimzia could have a competitive profile relative to other products on the market and those in development**

- Best-in-class efficacy opportunity
- Safety consistent with TNF inhibitor class
- Position as improved, differentiated product in entrenched product class
- Differentiated molecule presents opportunity to offer efficacy profile similar to Humira (mAb) with safety profile similar to Enbrel (non-mAb)
- TNF inhibitors have emerged as the mainstay of moderate-severe psoriasis therapy
- Emerging evidence suggests TNF inhibitor therapy may reduce the elevated risk of major adverse cardiovascular events in psoriasis patients
- ~50% of moderate-to-severe patients dissatisfied with treatment options
- Cimzia for other indications (approved in rheumatoid arthritis, psoriatic arthritis, ankylosing spondylitis, Crohn's disease), launched in 2008 by UCB Pharma, currently on market with >$800 million in sales; UCB expects peak sales >$2B

**Dermira entered into an international co-development partnership with UCB in July of 2014**

- If Cimzia is approved for psoriasis, Dermira will promote to dermatologists in the U.S. and Canada; UCB retains all other commercial rights
- Dermira funds development costs up to specified amount between $75 million to $95 million, 50% of any additional development plan or pediatric study costs and Dermira internal costs
- Following approval in psoriasis, Dermira receives a share of gross margin from Cimzia sales attributed to dermatologists for all indications in the U.S. and Canada
- Dermira share is between 90% and, on such sales of >$150 million in any one year, 50%; the agreement resets annually
- UCB contribution:
  - $109.5 million in cash and equity investment–$5 million equity investment + commitment to invest additional $15M
  - Up to $36 million development + $13.5 million regulatory milestone payments
  - Up to $40 million commercial milestone payments

Source: Dermira S-1 dated 9/12/14, pages 97 to 108

# Psoriasis is a Chronic Disease

**Psoriasis is a complex disease requiring long-term treatment**

- Prevalent, chronic autoimmune skin disease
  - Hallmark is excessive epidermal proliferation (scaly plaques)
  - Plaque psoriasis is most common form
  - Increasing evidence suggests skin symptoms represent dermal manifestation of systemic inflammatory disorder
- Severity measured by a combination of factors; includes consideration of lesion location, impact on quality of life, and body surface area (≥3% moderate to severe)
- Significant morbidity, co-morbidity
  - Physical, social function
  - Psoriatic arthritis occurs in up to 40% of psoriasis patients
  - Cardiovascular disease

Source: Dermira S-1 dated 9/12/14, pages 96 - 102

# Psoriasis: Prevalence and Management

- >9 million people (~2.8%) have psoriasis, up to 40% develop psoriatic arthritis
- 1.4 million (~20%) have moderate-to-severe disease
- ~50% of patients are dissatisfied with their current treatment
- $3.6 billion U.S. psoriasis prescription market
- Launch of new product class (Stelara by J&J) expanding market
- TNF inhibitors have emerged as mainstay of moderate-severe psoriasis therapy
  - Class has established role in safety-conscious specialty, contracting leverage with payers

| Treatment | Pros | Cons |
|---|---|---|
| Topical therapy | Topical, combinable with systemics | Limited efficacy |
| Non-biologic systemic therapy (e.g., retinoid, CsA, MTX), phototherapy | Familiar, moderately effective | Toxic,inconvenient |
| TNF inhibitors | Safe,convenient, highly effective | Expensive |
| Stelara (IL-12/23 inhibitor) | Convenient, highly effective | Limited safety experience, access |

Source: Dermira S-1 dated 9/12/14, page 97 - 100

# Cimzia Phase 2 Data Support Opportunity for Leading Product Profile

**Phase 2 trial design and results support potential success of Phase 3 trials**

•176 patients were randomized to receive 12 weeks of therapy in accordance with three regimens:

1.Initial loading dose of 400 mg of Cimzia, followed by Cimzia at a dose of 200 mg q2w (once every 2 weeks)

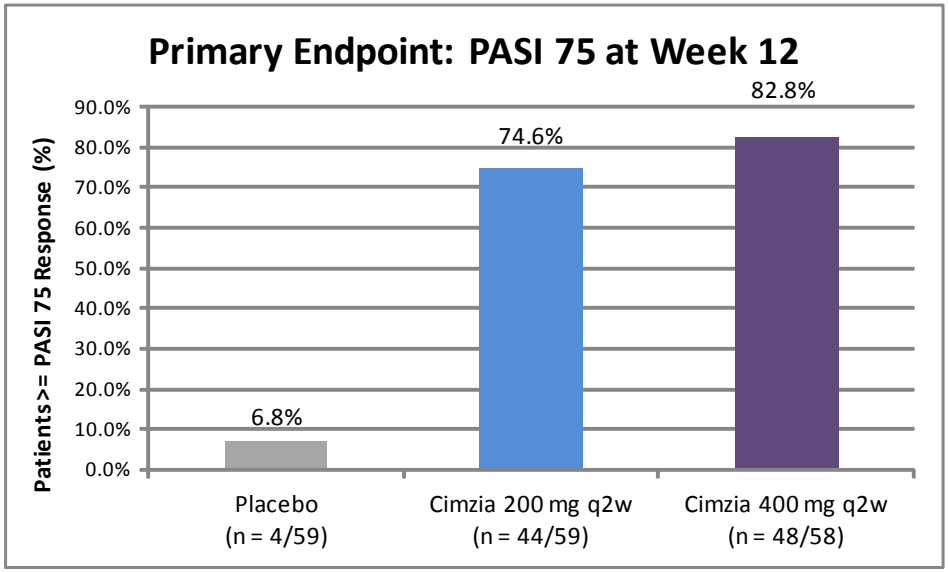
2.Cimzia at a dose of 400 mg q2w

3.Placebo

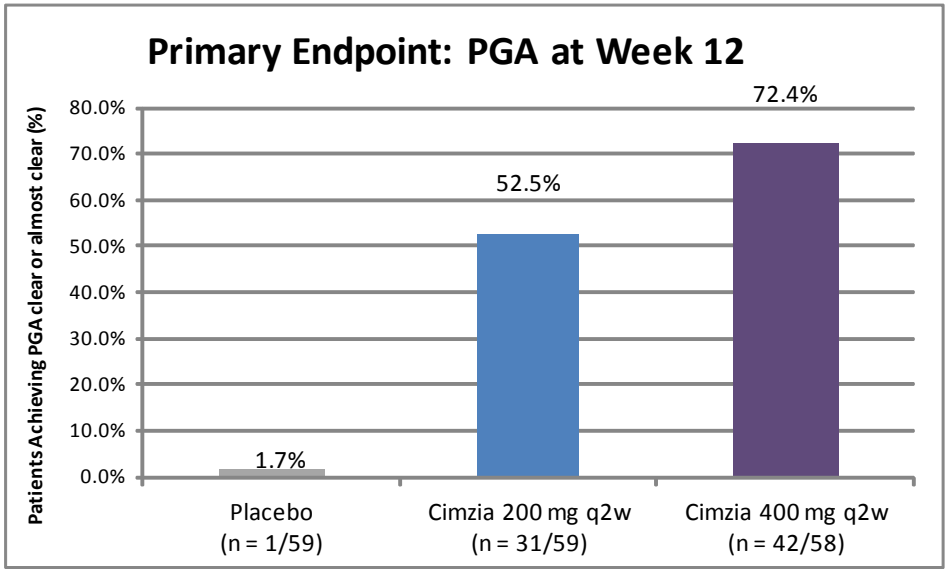
•The co-primary efficacy endpoints

–Proportion of patients achieving a PASI 75 response

–Proportion of patients achieving a score of ‘‘clear’’ or ‘‘almost clear’’ on a six-point PGA scale 12 weeks after the start of therapy.




Source: Dermira S-1 dated 9/12/14, pages 104 and 105
P < 0.001 versus placebo




Source: Dermira S-1 dated 9/12/14, pages 104 and 105
P < 0.001 versus placebo

# Cimzia Phase 2 Data Support Opportunity for Leading Product Profile (Cont.)

**Phase 2 trial design and results support potential success of Phase 3 trials**

Overall, the Phase 3 trial design is similar enough to the Phase 2 trial design, and given the positive outcome of the Phase 2 trials, we think there is a good likelihood that the Phase 3 trials will be successful.

**There are a few differences between the Phase 2 and Phase 3 trial designs, but they do not concern us:**

1) In the Phase 2 trial, the primary endpoints were measured at 12 weeks, in the Phase 3 trial, the primary endpoints will be measured at 16 weeks. Dermira used conservative assumptions in its statistics and assumed week 16 results would be similar to week 12 results. Approved drugs similar to Cimzia showed a rise in efficacy post 12 weeks and achieved peak efficacy at weeks 20 to 24. There has also been an increase in PASI 75 scores demonstrated in a Cimzia PSA trial up to 24 weeks of treatment.

2) Dermira changed the PGA from a 6 point to 5 point scale in the Phase 3 trials because that is what the FDA's dermatology division prefers. We think this is only a minor change with little risk. We would also note that this 5 point scale is what has been used in other studies for other approved drugs.

3) In the Phase 2 trial, there was one loading dose of 400mg of Cimzia. In the Phase 3 trials, there will be 3 doses at 400mg, 2 weeks apart, and then the protocol will follow the Phase 2 design. We think this could potentially improve the outcome of the trials because a higher efficacy rate upfront translates into a better result longer term .

# Cimzia Phase 3 Program Summary

**Dermira will start Phase 3 trials for Cimzia in 1H15**

- FDA: Conducted an end-of-Phase 2 (EOP2) meeting regarding psoriasis
- Requested and received feedback on Phase 3 clinical plan for psoriasis, including design and size
- Design based on feedback requested and received from regulators
- Team via UCB filed an IND (Investigational New Drug Application) in Sept '14. Initiate Phase 3 trials in 1H15. This is because Phase 2 trials were not conducted in the U.S..

| | 2 Placebo-Controlled Studies | 1 Active-Controlled Study |
|---|---|---|
| **Objective** | Superiority to placebo | Superiority to placebo and Enbrel |
| **Population** | Moderate-to-severe plaque psoriasis patients (n ≈ 450 total) | Moderate-to-severe plaque psoriasis patients(n ≈540) |
| **Treatment groups (a)** | Cimzia (200 mg q2w)<br>Cimzia (400 mg q2w)<br>Placebo | Cimzia (200 mg q2w)<br>Cimzia (400 mg q2w)<br>Placebo<br>Enbrel (50 mg biw) |
| **Primary outcome measures** | Response rates at week 16<br>PASI 75<br>PGA clear/ almost clear | PASI 75 response rate at week 12 |
| **Secondary outcome measures** | Other response rates<br>QOL<br>Safety, tolerability | Other response rates<br>QOL<br>Safety, tolerability |

(a) All patients treated with Cimzia will receive 400-mg loading dose at w 0, 2 and 4 of treatment.

Source: Dermira S-1 dated 9/12/14, pages 107 to 108

# DRM04

# DRM04: Topical Hyperhidrosis Therapy With Opportunity for First Line Treatment

**New Product Class Targeting Significant Unmet Need in Large Patient Population**

• Topical formulation of small molecule anticholinergic agent approved for systemic administration in other indications

•DRM04 will be used to treat primary axillary hyperhidrosis; it will be a once-a-day wipe with efficacy approaching systemics, but less irritation compared to topical aluminum chloride and less invasive than Botox, good tolerability with no significant systemic or local side effects

•Validated MOA (Mechanism of Action), inhibition of sweat production by blocking acetylcholine neurotransmission

**Clinical POC (Proof of Concept) established (Phase 2a data) with reference agent**

• Pre-IND meeting completed, DRM04 Phase 2b dose-finding ongoing, Phase 2b data HH02 data 1H15

• Positive results from DRM04-HH01 dose-ranging study

• Enrollment ongoing in DRM04-HH02 dose-ranging study

• Most common TEAEs were dry mouth and upper respiratory tract infection, no SAEs

• First batch of DRM04 GMP API (Active Pharmaceutical Ingredient) successfully manufactured

| Reference | Phase 2a | DRM04 –HH01 | DRM04 –HH02 | TBD |
|---|---|---|---|---|
| **Population** | • N=38 | • N=200 | • N=100 | • N = TBD |
| **Objectives** | • Establish clinical proof-of-concept | • Dose selection | • Support form switch<br>• Support PRO development | • Confirmatory<br>• Safety and efficacy |
| **Dosing** | • 2%, 4%<br>• Topical wipe<br>• 4 weeks QD | • 1%, 2%, 3%, 4%<br>• Topical wipe<br>• 4 weeks QD | • RefAgent: 2%, 3%<br>• DRM04: 1, 2<br>• Topical wipe<br>• 4 weeks QD | • %TBD<br>• Topical wipe<br>• 4 weeks QD |
| **Results** | • Efficacy signal(HDSS score, sweat production)<br>• Well tolerated | • HDSS score<br>• Sweat production<br>• Preliminary pharmacokinetics | • HDSS score<br>• PRO score<br>• Sweat production<br>• Pharmacokinetics | • PRO score<br>• Sweat production |

Source: Dermira S-1 dated 9/12/14, pages 110 and 116

# DRM04: Topical Hyperhidrosis Therapy With Opportunity for First Line Treatment (cont.)

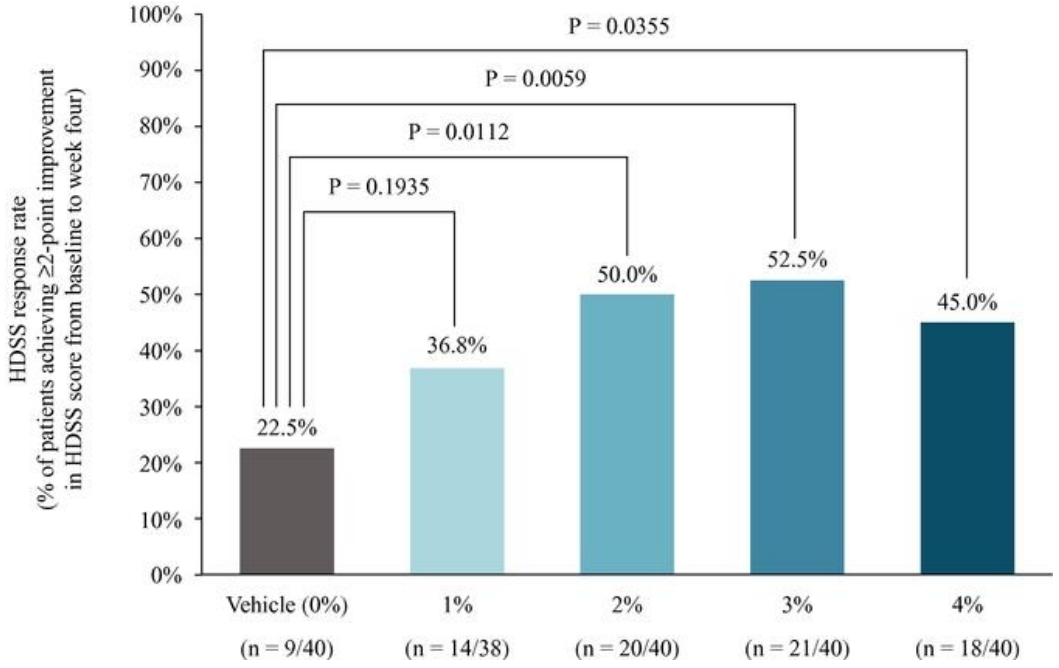
**Clinical POC (Proof of Concept) established (Phase 2a data) with reference agent**

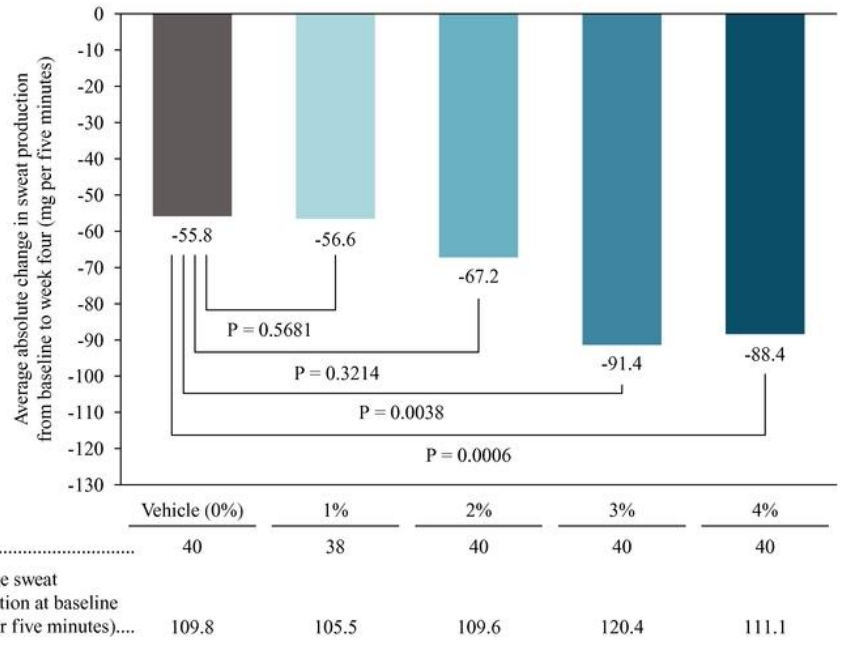
•In Study DRM04-HH01, 198 patients with severe primary axillary hyperhidrosis were randomized to receive a topical formulation containing one of four concentrations of the reference agent (1%, 2%, 3% or 4%) or vehicle only. The patients were instructed to apply the study product once daily for four weeks using wipes saturated with either the topical formulation of the reference agent or vehicle only, and efficacy was evaluated based on axillary sweat production and the HDSS.

•Assessments were conducted approximately weekly during the four-week treatment period and the two-week period after the end of this treatment period. All 198 patients enrolled in the clinical trial rated the severity of their disease as a three or a four on the four-point HDSS prior to the start of treatment. Trial inclusion criteria required that prior to the start of treatment, all patients produce at least 50 mg of sweat in each axilla over a five-minute period.

•The two primary efficacy endpoints evaluated in this trial were (1) the proportion of patients achieving an improvement of at least two points from baseline in HDSS score and (2) the average absolute change from baseline in sweat production, each as measured at the end of the four-week treatment period. For the purpose of the primary endpoint pertaining to sweat production, sweat production was assessed in each patient as the average of the amounts of sweat produced in each axilla during a five-minute period.

•As outlined below, the topical formulation of the reference agent demonstrated dose-dependent and, at certain doses, statistically significant improvements relative to vehicle in both primary efficacy endpoints. The following chart summarizes the impact of the reference agent on disease severity, assessed as the proportion of patients achieving an improvement of at least two points in HDSS score from baseline to the end of the four-week treatment period.




Source: Dermira S-1 dated 9/12/14, pages 114 and 115

# DRM04: Hyperhidrosis Overview and Market

**Hyperhidrosis is excessive sweating beyond what is physiologically required to maintain normal thermal regulation**

- ~7.8 million people in the U.S. have hyperhidrosis
- ~3.9 million people in the U.S. suffer from axillary hyperhidrosis
- Over 500,000 Rx written annually for prescription-strength antiperspirants
- An effective treatment could expand the market; only 38% of hyperhidrosis sufferers have discussed their condition with a healthcare professional

| Treatment | Pros | Cons |
|---|---|---|
| OTC antiperspirants regular or "clinical strength" | Topical, OTC, inexpensive | Limited efficacy |
| Prescription-strength antiperspirants | Familiar, inexpensive, moderately effective | Tolerability, Limited efficacy |
| Injectable Botox | Effective | Expensive, invasive, inconvenient |
| Systemics such as oral anticholinergics | Effective | Side effects may limit efficacy |
| Local sweat gland ablation, energy device, Endoscopic thoracic sympathectomy | Effective | Invasive/painful, Side effects/risk compensatory sweating, expensive |

Source: Dermira S-1 dated 9/12/14, pages 108 to 110

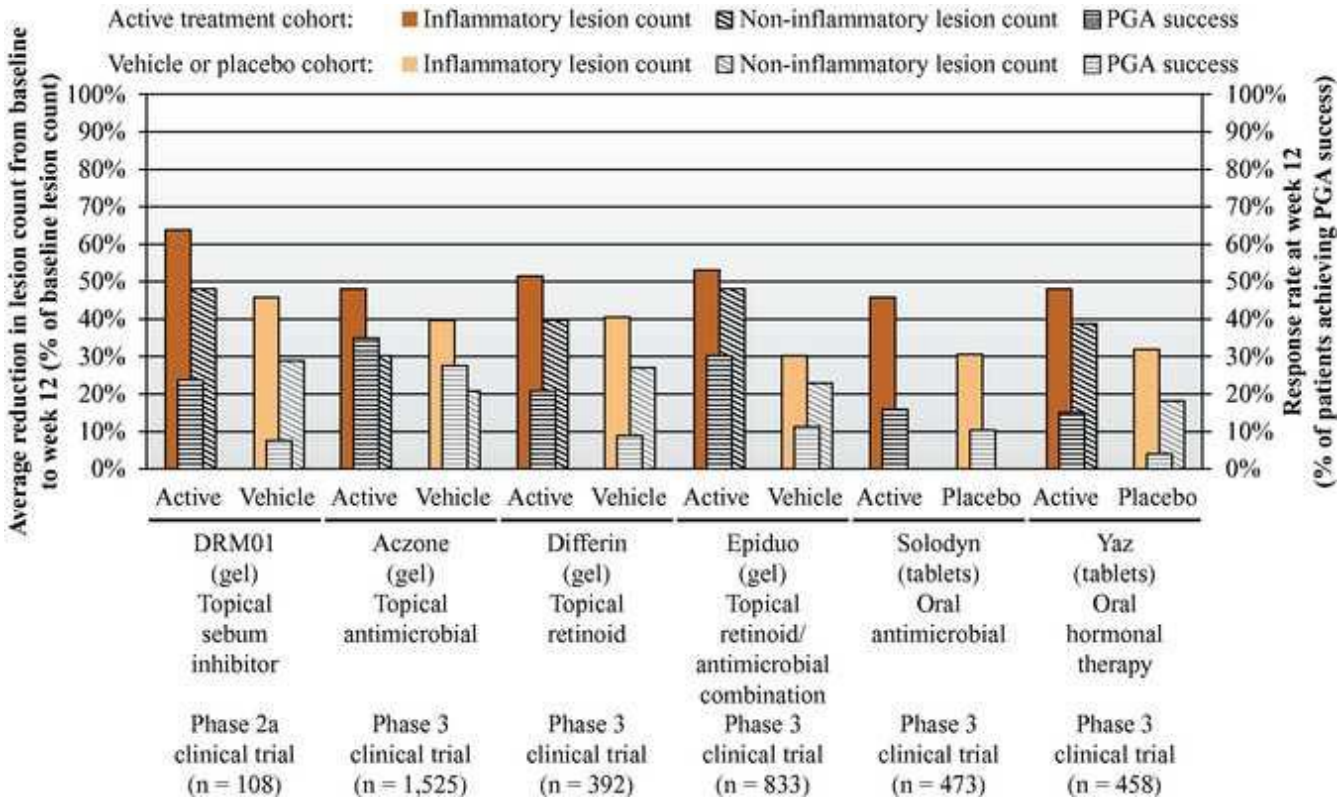
DRM01

# DRM01: Novel Mechanism of Action to Treat Acne That Is Safe and Effective

**Topical sebum inhibitor potentially safer than oral isotretinoin and targets pathogenesis not addressed by other topicals**

- Targets Acetyl coenzyme-A carboxylase (ACC), which drives the first, rate-limiting step in fatty acid synthesis, required to build majority of sebum lipids; ACC inhibition via topical DRM01 reduces sebum production in primary human sebocytes and animal models; DRM01 inhibits synthesis of 95% of human sebum components
- Attractive Phase 2a efficacy, safety, tolerability profile completed 2Q14, plan to initiate Phase 2b dose finding study in 1H15
  - Randomized, multi-center, double-blind, vehicle-controlled study enrolled 108 patients
  - Significant impact on 3 FDA-recommended primary endpoints, inflammatory and non-inflammatory lesion counts and IGA score
  - Well tolerated with minor side effects reported, application site reactions, no SAEs

**Cross-study comparison of DRM01 and leading acne drugs shows that DRM01 could compare favorably to these products**




Source: Dermira S-1 dated 9/12/14, page 126

# DRM01: Novel Mechanism of Action to Treat Acne That is Safe and Effective (cont.)

**Phase 2 data met 3 FDA-recommended primary endpoints, support opportunity for leading product profile**

| Primary endpoint [(a)] | Inflammatory lesion count | | Non-inflammatory lesion count | |
|---|---|---|---|---|
| **Cohort** | **DRM01** | **Vehicle** | **DRM01** | **Vehicle** |
| **Average lesion count at baseline** | | | | |
| Number of patients | 53 | 54 | 53 | 54 |
| Lesion count | 29.7 | 28.6 | 40.9 | 38.8 |
| **Average reduction in lesion count from baseline to end of 12-week treatment period** | | | | |
| Number of patients | 53 | 54 | 53 | 54 |
| Percent reduction [(b)] | 63.9% | 45.9% | 48.1% | 28.8% |
| Absolute reduction | 19.3 | 13.3 | 19.9 | 11.2 |
| P-value[(c)] | 0.0004 | | 0.011 | |

Source: Dermira S-1 dated 9/12/2014, pages 119 - 125

(a) As recommended in published FDA guidance, data are presented from ITT population, defined as all randomized patients dispensed study product, using last-observation carried-forward method to impute missing data points.

(b) The percentage reductions in inflammatory and non-inflammatory lesion counts were two of several secondary analyses conducted in this clinical trial.

(c) P-values are an indication of statistical significance reflecting the probability of an observation occurring due to chance alone. Differences with a p-value of less than 0.05 are generally considered to be statistically significant.

| Primary endpoint [(a)] | IGA response rate (% of patients achieving reduction of at least two points in IGA score from baseline to end of 12-week treatment period) | |
|---|---|---|
| **Cohort** | **DRM01** | **Vehicle** |
| Number of patients | 53 | 55 |
| Response rate | 24.5% | 7.3% |
| P-value[(b)] | 0.007 | |

Source: Dermira S-1 dated 9/12/2014, pages 119 - 125

(a) As recommended in published FDA guidance, data are presented from ITT population, defined as all randomized patients dispensed study product. Patients with missing data points were considered non-responders.

(b) P-values are an indication of statistical significance reflecting the probability of an observation occurring due to chance alone. Differences with a p-value of less than 0.05 are generally considered to be statistically significant.

# DRM01: Novel Mechanism of Action to Treat Acne That is Safe and Effective (cont.)

**Phase 2b trial expected to start 1H15, followed by Phase 3 trials**

| | P2a: Clinical POC | P2b: Dose-finding | P3: Registration |
|---|---|---|---|
| **Objectives** | Safety and preliminary efficacy | Dose selection | Confirmatory safety and efficacy |
| **Population** | • Adults with acne vulgaris N=108 | • Adults with acne vulgaris N≅250 | • ≥9 years with acne vulgaris N=TBD |
| **Dosing** | 7.5% Topical Gel 12 weeks BID | Multiple Doses of Topical Gel 12 weeks | Dose/Frequency TBD 12 weeks |
| **Efficacy end points** | • Acne lesion count<br>• Acne Investigator Global Assessment<br>• Sebum excretion profile | • Acne lesion count<br>• Acne Investigator Global Assessment | • Acne lesion count<br>• Acne Investigator Global Assessment |

Source: Dermira Management

# DRM02 and DRM05

# DRM02 and DRM05

**DRM02: Topical PDE4 (Phosphodiesterase-4) inhibitor**

- Preclinical development for the treatment of inflammatory skin diseases
- Recent research demonstrates phosphodiesterase (PDE) 4 as key regulator of inflammation
- PDE4 inhibition (DRM02) down-regulates key effector cytokines implicated in 3 major inflammatory skin diseases (psoriasis, AD, Rosacea)
- Limits risk of systemic side effects that have hampered development of PDE4 inhibitors in other indications
- Completed a Phase 1 clinical trial and a Phase 2a proof-of-concept
- ***Initial clinical efficacy data indicate that DRM02 gel was not more effective than vehicle-only gel, determining next steps for this product candidate, evaluating if PK/PD gap is bridgeable through reformulation***

**DRM05: Topical PDT under preclinical development for the treatment of acne**

- PDT is an approach to selectively eliminate target tissue by administering a photosensitizing agent to the target tissue, then exposing the tissue to light to activate the photosensitizing agent
- Substantial need for topical acne therapy that targets sebum production by sebaceous gland
- Off-label use of available topical PDT shows promising efficacy in acne but limited by painful, visible side effects
- Novel, topical PDT designed to selectively ablate sebaceous glands following in-office administration
- Opportunity to improve tolerability of PDT for acne by selectively targeting sebaceous gland with limited distribution to surrounding tissue
- Clear dose response observed for DRM05
- Targeting POC in animal model to support further development
- ***Initial POC did not demonstrate activity justifying moving into Phase 2b, exploring various ideas to improve delivery into sebaceous glands***

Source: Dermira S-1 dated 9/12/14, pages 127

# Management

# Dermira: Management Team

| Name, Position | Bio |
|---|---|
| **Tom Wiggans**<br>**Chairman and CEO** | Mr. Wiggans founded Dermira in August 2010. Prior to that Mr. Wiggans was involved in the specialty pharma industry for 25 years, with 18 of those years in dermatology. Mr. Wiggans has been CEO of Connetics and Peplin, Chairman of Exacliard, as well as serving as a director to Abgenix and Onyx. Mr. Wiggans holds a B.S. in pharmacy from the University of Kansas and an M.B.A. from Southern Methodist University. |
| **Eugene Bauer, MD**<br>**Chief Medical Officer** | Dr. Bauer founded Dermira in August 2010 and has served as Chief Medical Officer since. Dr. Bauer previously served as CEO of Neosil, as well as President and CMO of Peplin, until its acquisition by LEO Pharma. Dr. Bauer co-founded Connetics and served as Dean of the Stanford University School of Medicine. Dr. Bauer has previously been on the board of directors for Protalex, Inc., Vyteris, Peplin, PetDRx, Inc., Arbor Vita Corp., Patient Safety Technologies, Inc., MediSync Bioservices and Modigene Inc. Currently he is a board member of Medgenics, Inc., Dr. Tattoff, Inc., First Wave Technologies, Inc., Cerecor, Inc., and Kadmon Corporation, LLC. |
| **Andrew Guggenhime**<br>**Chief Operating Officer and Chief Financial Officer** | Mr. Guggenhime has served as COO and CFO since April 2014. Previously Mr. Guggenhime served as CFO of CardioDx, Inc., Calistoga Pharmaceuticals, Inc., Facet Biotech Corporation, PDL BioPharma, Inc., and Neoforma, Inc. Mr. Guggenhime began his career in financial services at Merrill Lynch & Co. and Wells Fargo & Company. Mr. Guggenhime holds an M.B.A. from the J.L. Kellogg Graduate School of Management at Northwestern University and a B.A. in international politics and economics from Middlebury College. |
| **Luis Peña**<br>**EVP, Product Development** | Mr. Peña is a co-founder of Dermira. Previously Mr. Peña was Head of Global Prescription Development at Stiefel and VP of Portfolio Planning and Management of Connetics, as well as holding positions at Nuvelo, Inc., Theravance and Genentech. Mr. Peña holds a B.S. in biochemistry from San Francisco State University. |
| **Chris Griffith**<br>**VP, Corporate Development and Strategy** | Mr. Griffith is a co-founder of Dermira. Previously Mr. Griffith worked in corporate development at Gilead Sciences, Inc., most recently as Associate Director of Corporate Development. Prior to that Mr. Griffith held positions at Genentech and Bay City Capital. Mr. Griffith holds a B.S. and M.S. degrees in biological sciences from Stanford University and an M.B.A. degree from Harvard Business School. |

Source: Dermira S-1 dated 9/12/14, pages 146 to 150 and Company Website

# Dermira: Compensation Structure

| Executive | 2013 Annual Base Salary | Option Awards | Non-Equity Incentive Plan Compensation | All Other Compensation | Total |
|---|---|---|---|---|---|
| **Tom Wiggans**<br>**Chairman and CEO** | $360,062 | $263,156 | $103,013 | - | $726,231 |
| **Eugene Bauer, MD**<br>**Chief Medical Officer** | $325,000 | $117,929 | $77,391 | $3,684 | $524,004 |
| **Luis Peña**<br>**EVP, Product Development** | $267,475 | $124,482 | $74,000 | - | $465,957 |

Source: Dermira S-1 dated 9/12/14, page 156

# Financial Model

# Income Statement 2013 to 2021E

**Dermira - Quarterly Income Statement Analysis 2013-2021E**

| *($ in Millions)* (Year Ended December 31) | 2013 | 1Q14A | 2Q14A | 3Q14E | 4Q14E | 2014E | 1Q15E | 2Q15E | 3Q15E | 4Q15E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total Revenue** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 12.0 | 12.0 | 12.0 | 12.0 | 23.1 | 138.7 | 281.8 | 496.2 |
| COGS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.9 | 14.7 | 31.3 | 56.1 |
| Gross Profit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 12.0 | 12.0 | 12.0 | 12.0 | 20.3 | 124.0 | 250.5 | 440.2 |
| SG&A | 4.4 | 1.8 | 1.7 | 3.0 | 4.1 | 10.6 | 3.1 | 3.3 | 3.3 | 3.9 | 13.6 | 17.0 | 34.8 | 87.5 | 96.3 | 101.1 | 104.1 |
| R&D | 17.9 | 6.7 | 7.0 | 8.5 | 9.7 | 31.9 | 15.3 | 15.9 | 16.3 | 18.9 | 66.4 | 68.0 | 52.2 | 38.0 | 45.0 | 47.0 | 49.0 |
| Other (Income)/Expense | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Operating Expense** | 22.3 | 8.5 | 8.7 | 11.5 | 13.8 | 42.5 | 18.4 | 19.2 | 19.7 | 22.7 | 80.0 | 85.0 | 87.0 | 125.5 | 141.3 | 148.1 | 153.1 |
| **Operating Income** | (22.3) | (8.5) | (8.7) | (11.5) | (13.8) | (42.5) | (18.4) | (19.2) | (19.7) | (10.7) | (68.0) | (73.0) | (75.0) | (105.2) | (17.2) | 102.4 | 287.1 |
| Interest and Other Income (Expense) | (0.0) | (0.0) | (0.0) | 0.1 | 0.2 | 0.2 | 0.4 | 0.4 | 0.4 | 0.4 | 1.5 | 0.8 | 2.8 | 2.1 | 1.0 | 0.7 | 1.2 |
| Interest Expense | (0.0) | (0.0) | (0.0) | (0.0) | (0.0) | (0.1) | (0.0) | (0.0) | (0.0) | (0.0) | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) |
| **Non-Operating Items** | (0.0) | (0.0) | (0.1) | 0.0 | 0.2 | 0.1 | 0.4 | 0.4 | 0.4 | 0.4 | 1.4 | 0.7 | 2.7 | 2.0 | 0.9 | 0.6 | 1.0 |
| Pre-tax Income | (22.4) | (8.5) | (8.8) | (11.5) | (13.6) | (42.4) | (18.0) | (18.8) | (19.3) | (10.4) | (66.6) | (72.3) | (72.3) | (103.3) | (16.3) | 103.0 | 288.1 |
| 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% | 0.0% | 0.0% | 0.0% | 40.0% | 40.0% |
| Taxes | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 41.2 | 115.2 |
| **Net Income** | **(22.4)** | **($8.5)** | **($8.8)** | **($11.5)** | **($13.6)** | **($42.4)** | **($18.0)** | **($18.8)** | **($19.3)** | **($10.4)** | **($66.6)** | **($72.3)** | **($72.3)** | **($103.3)** | **($16.3)** | **$61.8** | **$172.9** |
| Average Shares Diluted | 9.7 | 10.4 | 11.0 | 13.7 | 24.6 | 14.1 | 24.7 | 24.8 | 24.9 | 25.0 | 24.9 | 34.3 | 34.6 | 34.9 | 35.2 | 35.5 | 35.8 |
| **Adjusted Diluted EPS** | **($2.31)** | **($0.82)** | **($0.80)** | **($0.83)** | **($0.55)** | **($3.01)** | **($0.73)** | **($0.76)** | **($0.78)** | **($0.41)** | **($2.68)** | **($2.11)** | **($2.09)** | **($2.96)** | **($0.46)** | **$1.74** | **$4.83** |
| ***%Change YOY*** | | | | | | | | | | | | | | | | | |
| **Total Revenue** | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *0.0%* | *0.0%* | *92.9%* | *499.2%* | *103.2%* | *76.1%* |
| COGS | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *410.9%* | *113.3%* | *79.2%* |
| Gross Profit | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *0.0%* | *0.0%* | *69.0%* | *511.6%* | *102.0%* | *75.7%* |
| SG&A | | | | | | *143.4%* | *72.6%* | *87.6%* | *11.5%* | *-5.2%* | *28.0%* | *25.0%* | *104.7%* | *151.4%* | *10.0%* | *5.0%* | *3.0%* |
| R&D | | | | | | *77.7%* | *128.5%* | *128.9%* | *92.2%* | *93.9%* | *108.3%* | *2.4%* | *-23.2%* | *-27.2%* | *18.4%* | *4.4%* | *4.3%* |
| **Operating Income** | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *7.4%* | *2.7%* | *40.3%* | *-83.6%* | *-694.2%* | *180.3%* |
| **Non-Operating Items** | | | | | | *NM* | *NM* | *NM* | *1140.2%* | *105.9%* | *1310.3%* | *-48.9%* | *269.7%* | *-27.2%* | *-54.2%* | *-38.1%* | *87.6%* |
| Pre-tax Income | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *179.8%* |
| Tax Rate | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *0.0%* |
| Taxes | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *179.8%* |
| **Net Income** | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *179.8%* |
| **Adjusted Diluted EPS** | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *177.5%* |

Source: Guggenheim Securities, LLC and Company Reports

(1) To be conservative, we assume a 40% tax rate upon profitability.

(2) Assume share dilution in 2016 from additional equity raise.

# Margin Analysis 2013 to 2021E

**Dermira - Quarterly Margin Analysis 2013-2021E**

| | 2013 | 1Q14A | 2Q14A | 3Q14E | 4Q14E | 2014E | 1Q15E | 2Q15E | 3Q15E | 4Q15E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Revenue | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *100.0%* |
| COGS | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *12.4%* | *10.6%* | *11.1%* | *11.3%* |
| Gross Margin | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *87.6%* | *89.4%* | *88.9%* | *88.7%* |
| SG&A | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *32.2%* | *113.3%* | *141.7%* | *290.0%* | *378.0%* | *69.4%* | *35.9%* | *21.0%* |
| R&D | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *157.1%* | *553.3%* | *566.7%* | *435.0%* | *164.2%* | *32.4%* | *16.7%* | *9.9%* |
| Operating Income | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *-89.3%* | *-566.7%* | *-608.3%* | *-625.0%* | *-454.6%* | *-12.4%* | *36.3%* | *57.8%* |
| Pretax Income | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *-86.4%* | *-554.8%* | *-602.3%* | *-602.5%* | *-446.1%* | *-11.8%* | *36.5%* | *58.1%* |
| Net Income | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *-86.4%* | *-554.8%* | *-602.3%* | *-602.5%* | *-446.1%* | *-11.8%* | *21.9%* | *34.8%* |

Source: Guggenheim Securities, LLC and Company Reports

# Quarter Sales 2013 to 2021E

**Dermira - Quarterly Revenue Model 2013-2021E**

| *($ in Millions)* (Year Ended December 31) | 2013 | 1Q14A | 2Q14A | 3Q14E | 4Q14E | 2014E | 1Q15E | 2Q15E | 3Q15E | 4Q15E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Cimzia | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 11.7 | 34.1 | 74.5 | 113.5 |
| DRM04 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 11.5 | 37.0 | 79.4 | 127.7 |
| DRM01 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 54.3 | 114.5 | 241.7 |
| DRM02 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| DRM05 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Milestones | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 12.0 | 12.0 | 12.0 | 12.0 | 0.0 | 13.4 | 13.4 | 13.4 |
| **TOTAL REVENUES** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **12.0** | **12.0** | **12.0** | **12.0** | **23.1** | **138.7** | **281.8** | **496.2** |
| ***%Change YOY*** | | | | | | | | | | | | | | | | | |
| Cimzia | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *192.2%* | *118.7%* | *52.4%* |
| DRM04 | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *222.0%* | *114.6%* | *60.9%* |
| DRM01 | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *111.1%* | *111.1%* |
| DRM02 | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* |
| DRM05 | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* |
| Other | | | | | | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* |
| ***TOTAL REVENUES*** | | | | | | ***NM*** | *NM* | *NM* | *NM* | *NM* | *NM* | *0.0%* | *0.0%* | *92.9%* | *499.2%* | *103.2%* | *76.1%* |

Source: Guggenheim Securities, LLC and Company Reports

# Annual Sales 2013 to 2021E

**Dermira - Annual Revenue Model 2013-2021E**

| *($ in Millions)* | Year Ended December 31st, | | | | | | | | | 2014E/ | 2015E/ | 2016E/ | 2017E/ | 2018E/ | 2019E/ | 2020E/ | 2021E/ | *CAGR* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2013 | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | *16E-21E* |
| **Late Stage Pipeline Drug Sales** | | | | | | | | | | | | | | | | | | |
| Cimzia | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 11.7 | 34.1 | 74.5 | 113.5 | *NM* | *NM* | *NM* | *NM* | *NM* | *192.2%* | *118.7%* | *52.4%* | *NM* |
| DRM04 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 11.5 | 37.0 | 79.4 | 127.7 | *NM* | *NM* | *NM* | *NM* | *NM* | *222.0%* | *114.6%* | *60.9%* | *NM* |
| DRM01 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 54.3 | 114.5 | 241.7 | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *111.1%* | *111.1%* | *NM* |
| **Total Late Stage Pipeline Drug Sales** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **23.1** | **125.3** | **268.4** | **482.9** | ***NM*** | ***NM*** | ***NM*** | ***NM*** | ***NM*** | ***441.4%*** | ***114.2%*** | ***79.9%*** | ***NM*** |
| **Early Stage Pipeline Drug Sales** | | | | | | | | | | | | | | | | | | |
| DRM02 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* |
| DRM05 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* |
| **Total Early Stage Pipeline Drug Sales** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | ***NM*** | ***NM*** | ***NM*** | ***NM*** | ***NM*** | ***NM*** | ***NM*** | ***NM*** | ***NM*** |
| Other Drug Sales | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* | *NM* |
| Milestones | 0.0 | 0.0 | 12.0 | 12.0 | 12.0 | 0.0 | 13.4 | 13.4 | 13.4 | *NM* | *NM* | *0.0%* | *0.0%* | *-100.0%* | *NM* | *0.0%* | *0.0%* | *2.2%* |
| **TOTAL REVENUES** | **0.0** | **0.0** | **12.0** | **12.0** | **12.0** | **23.1** | **138.7** | **281.8** | **496.2** | ***NM*** | ***NM*** | ***0.0%*** | ***0.0%*** | ***92.9%*** | ***499.2%*** | ***103.2%*** | ***76.1%*** | ***110.5%*** |

Source: Guggenheim Securities, LLC and Company Reports

# Market Models 2013 to 2021E

| *($ in MMs)* | Year Ended December 31st, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | **2019E** | **2020E** | **2021E** |
| **Cimzia - Moderate to Severe Plaque Psoriasis** | | | | | | | | | |
| # People with Plaque Psoriasis | 7.0 | 7.0 | 7.1 | 7.1 | 7.1 | 7.2 | 7.2 | 7.2 | 7.3 |
| % of People with Moderate to Severe Plaque Psoriasis Using Biologics | 2.2% | 2.7% | 3.2% | 3.7% | 4.2% | 4.7% | 5.2% | 5.7% | 6.2% |
| # People with Moderate to Severe Psoriasis Using Biologics | 0.151 | 0.186 | 0.223 | 0.259 | 0.296 | 0.334 | 0.371 | 0.410 | 0.448 |
| Cimzia Cost per Rx per Month | $3,000.0 | $3,150.0 | $3,307.5 | $3,472.9 | $3,646.5 | $3,828.8 | $4,020.3 | $4,221.3 | $4,432.4 |
| Average Patient Rx's per Year | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Cost Per Treatment per Year | $19,500.0 | $20,475.0 | $21,498.8 | $22,573.7 | $23,702.4 | $24,887.5 | $26,131.9 | $27,438.5 | $28,810.4 |
| U.S. Moderate to Severe Plaque Psoriasis Market Opportunity | $2,934.8 | $3,817.1 | $4,788.0 | $5,854.5 | $7,024.3 | $8,305.4 | $9,706.7 | $11,237.5 | $12,907.8 |
| UCB and Dermira Market Share | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.2% | 0.5% | 1.0% | 1.5% |
| **End Market Cimzia Sales Moderate to Severe Plaque Psoriasis Sales** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$16.6** | **$48.5** | **$112.4** | **$193.6** |
| Cimzia Gross Margin (excludes other additional costs per deal agreement) | 78.0% | 78.0% | 78.0% | 78.0% | 78.0% | 78.0% | 78.0% | 78.0% | 78.0% |
| **Cimzia Gross Profit** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$13.0** | **$37.9** | **$87.7** | **$151.0** |
| **Tier 1:** 90% Royalty on Gross Profit for Net Sales Between $0 to $75MM | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $11.7 | $34.1 | $52.7 | $52.7 |
| **Tier 2:** 75% Royalty on Gross Profit for Net Sales Between $75MM to $150MM | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $21.9 | $43.9 |
| **Tier 3:** 50% Royalty on Gross Profit for Net Sales Greater than $150MM | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $17.0 |
| **Dermira Royalty from UCB** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$11.7** | **$34.1** | **$74.5** | **$113.5** |
| **DRM04 - Hyperhidrosis** | | | | | | | | | |
| # of People with Axillary Hyperhidrosis in the U.S. | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| % Who Discuss Hyperhidrosis with a Healthcare Professional | 20.0% | 20.5% | 21.0% | 21.5% | 22.0% | 22.5% | 23.0% | 23.5% | 24.0% |
| # of People With Axillary Hyperhidrosis Seeking Treatment | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 |
| Annual Cost of Treatment for DRM04 | $800.0 | $840.0 | $882.0 | $926.1 | $972.4 | $1,021.0 | $1,072.1 | $1,125.7 | $1,182.0 |
| **U.S. Hyperhidrosis Market Opportunity** | **$800.0** | **$861.0** | **$926.1** | **$995.6** | **$1,069.6** | **$1,148.7** | **$1,232.9** | **$1,322.7** | **$1,418.4** |
| Dermira Market Share | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 1.0% | 3.0% | 6.0% | 9.0% |
| **DRM04 Revenue** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$11.5** | **$37.0** | **$79.4** | **$127.7** |
| **DRM01 - Acne** | | | | | | | | | |
| Mild Acne Population | 18.0 | 18.1 | 18.2 | 18.3 | 18.4 | 18.5 | 18.5 | 18.6 | 18.7 |
| Moderate Acne Population | 18.0 | 18.1 | 18.2 | 18.3 | 18.4 | 18.5 | 18.5 | 18.6 | 18.7 |
| Severe Acne Population | 9.0 | 9.0 | 9.1 | 9.1 | 9.2 | 9.2 | 9.3 | 9.3 | 9.4 |
| **Total Number of People with Acne in the U.S.** | **45.0** | **45.2** | **45.5** | **45.7** | **45.9** | **46.1** | **46.4** | **46.6** | **46.8** |
| % of Patients Seeking Treatment for Acne | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% | 20.0% |
| % of Patients Seeking Treatment for Acne at Dermatologist | 60.0% | 60.0% | 60.0% | 60.0% | 60.0% | 60.0% | 60.0% | 60.0% | 60.0% |
| **Target Population for Dermira** | **5.4** | **5.4** | **5.5** | **5.5** | **5.5** | **5.5** | **5.6** | **5.6** | **5.6** |
| Dermira Market Share for DRM01 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.7% | 1.4% | 2.8% |
| Annual Cost of Treatment for DRM01 | $1,039.5 | $1,091.5 | $1,146.0 | $1,203.4 | $1,263.5 | $1,326.7 | $1,393.0 | $1,462.7 | $1,535.8 |
| **DRM04 Revenue** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$0.0** | **$54.3** | **$114.5** | **$241.7** |

Source: Guggenheim Securities, LLC and Company Reports

# Balance Sheet 2013 to 2021E

**Dermira - Balance Sheet Analysis 2013-2021E**

| *($ in Millions)* (Year ended December 31) | 2013 | Pro Forma 6/30/14 | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Cash and Cash Equivalent | 22.1 | 58.6 | 153.5 | 83.6 | 280.3 | 207.0 | 100.6 | 66.3 | 115.0 | 277.1 |
| Accounts Receivable, less allow ance for doubtful accounts | - | - | - | 2.4 | 2.4 | 2.4 | 4.6 | 24.3 | 44.0 | 69.9 |
| Inventories | - | - | - | - | - | - | 1.4 | 5.4 | 9.2 | 13.7 |
| Other current assets | 0.3 | 0.7 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| **Total Current Assets** | **22.5** | **59.3** | **153.9** | **86.3** | **283.1** | **209.8** | **107.0** | **96.4** | **168.6** | **361.0** |
| Plant, Property & Equipment | 0.1 | 0.1 | 1.0 | 2.0 | 3.0 | 4.0 | 5.0 | 5.9 | 6.9 | 7.9 |
| Identifiable intangibles | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Goodw ill | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Other assets | 0.0 | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Other Assets** | **4.4** | **6.1** | **5.4** | **6.3** | **7.3** | **8.3** | **9.3** | **10.3** | **11.2** | **12.2** |
| **TOTAL ASSETS** | **26.9** | **65.3** | **159.2** | **92.7** | **290.4** | **218.1** | **116.3** | **106.6** | **179.8** | **373.2** |
| | | | | | | | | | | |
| **Liabilities & Shareholder's Equity** | | | | | | | | | | |
| Accounts Payable and Accrued Expenses | 4.3 | 6.0 | - | - | - | - | 1.4 | 8.2 | 19.6 | 40.1 |
| Other | 0.2 | 0.5 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| **Total Current Liabilities** | **4.5** | **6.5** | **0.2** | **0.2** | **0.2** | **0.2** | **1.6** | **8.3** | **19.8** | **40.3** |
| Long term debt | 1.8 | 1.4 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Other liabilities | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 | 10.8 |
| **Total Liabilities** | **17.1** | **18.7** | **12.9** | **12.9** | **12.9** | **12.9** | **14.3** | **21.1** | **32.5** | **53.0** |
| Shareholders Equity | 9.8 | 46.7 | 146.3 | 79.7 | 277.5 | 205.2 | 101.9 | 85.6 | 147.3 | 320.2 |
| **Total Stockholder's Equity** | **9.8** | **46.7** | **146.3** | **79.7** | **277.5** | **205.2** | **101.9** | **85.6** | **147.3** | **320.2** |
| Noncontrolling Interest | - | - | - | - | - | - | - | - | - | - |
| **TOTAL LIABILITIES & STOCKHOLDERS' EQUITY** | **26.9** | **65.3** | **159.2** | **92.7** | **290.4** | **218.1** | **116.3** | **106.6** | **179.8** | **373.2** |

Source: Guggenheim Securities, LLC and Company Reports

# Cash Flow Statement 2013 to 2021E

**Dermira - Cash Flow Analysis 2013-2021E**

| *($ in Millions)* | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **(Year ended December 31)** | **2013** | **2014E** | **2015E** | **2016E** | **2017E** | **2018E** | **2019E** | **2020E** | **2021E** |
| **Cash flows provided by Operating Activities:** | | | | | | | | | |
| Net Income | (22.4) | (42.4) | (66.6) | (72.3) | (72.3) | (103.3) | (16.3) | 61.8 | 172.9 |
| Depreciation and Amortization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.3 | - | - | - | - | - | - | - | - |
| Net Changes in Working Capital | 9.9 | (4.3) | (2.4) | - | - | (2.2) | (17.0) | (12.1) | (9.8) |
| ***Net cash provided by Operating Activities*** | **(12.2)** | **(46.7)** | **(68.9)** | **(72.2)** | **(72.3)** | **(105.5)** | **(33.3)** | **49.7** | **163.0** |
| **Cash flows from Investing Activities** | | | | | | | | | |
| Purchases of PP&E | (0.1) | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) |
| Net proceeds from sale of assets | - | - | - | - | - | - | - | - | - |
| Acquisitions, net of cash acquired | - | - | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - |
| ***Net cash used in Investing Activities*** | **(0.1)** | **(1.0)** | **(1.0)** | **(1.0)** | **(1.0)** | **(1.0)** | **(1.0)** | **(1.0)** | **(1.0)** |
| **Cash flows from Financing Activities** | | | | | | | | | |
| (Repayment) or Issuance of long term debt | 2.0 | 0.1 | - | - | - | - | - | - | - |
| Cash dividends paid | - | - | - | - | - | - | - | - | - |
| Other | 24.5 | 178.9 | - | 270.0 | - | - | - | - | - |
| ***Net cash (used in) provided by Financing Activities*** | **26.5** | **179.1** | **-** | **270.0** | **-** | **-** | **-** | **-** | **-** |
| **Net (decrease) increase in cash and equivalents** | **14.3** | **131.4** | **(69.9)** | **196.8** | **(73.3)** | **(106.5)** | **(34.3)** | **48.7** | **162.0** |
| Cash and equivalents at beginning of year | 7.9 | 22.1 | 153.5 | 83.6 | 280.3 | 207.0 | 100.6 | 66.3 | 115.0 |
| **Cash and equivalents at end of year** | **22.1** | **153.5** | **83.6** | **280.3** | **207.0** | **100.6** | **66.3** | **115.0** | **277.1** |

Source: Guggenheim Securities, LLC and Company Reports

# Discounted Cash Flow Analysis 2016E to 2021E

| ASSUMPTIONS | |
|---|---|
| Be | 1.75 |
| Rf | 3.0% |
| Re | 20.0% |
| Rd | 10.0% |
| Debt 2015 | $2 |
| Equity | $382 |
| Value (D+E) | $384 |
| Return on Market | 20.0% |
| Grow th Rate | 5.0% |
| Exit Multiple | 5.5x |
| WACC | 19.9% |
| Tax Rate 2015 | 0.0% |
| Cash 2015 | $84 |

| | Year Ended December 31st, | | | | |
|---|---|---|---|---|---|
| | 2016E | 2017E | 2018E | 2019E | 2020E |
| EBIT | ($73.0) | ($75.0) | ($105.2) | ($17.2) | $102.4 |
| Less Cash Taxes | - | - | - | - | 41.2 |
| EBIAT | ($73.0) | ($75.0) | ($105.2) | ($17.2) | $61.2 |
| Plus Depreciation & Amortization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Less Capital Expenditures | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) |
| Changes in Working Capital | - | - | (2.2) | (17.0) | (12.1) |
| Free Cash Flow | ($74.0) | ($76.0) | ($108.4) | ($35.2) | $48.2 |
| Discounted Free Cash Flow | ($61.7) | ($52.8) | ($62.8) | ($17.0) | $19.4 |
| Terminal Value | | | | | $1,578.8 |
| Discounted Terminal Value | | | | | $635.8 |
| Enterprise Value | $460.9 | | | | |
| Less Debt | ($1.9) | | | | |
| Plus Cash | $83.6 | | | | |
| Equity Value | **$542.5** | | | | |
| Fully Diluted Shares Outstanding | 24.9 | | | | |
| Price/Share | **$21.83** | | | | |

Source: Guggenheim Securities, LLC and Company Reports

# Event Calendar

# Dermira: Event Calendar

| Date | Driver | Upcoming Event |
|---|---|---|
| **2014** | | |
| 2014 | DRM04 | Completed bridging study |
| **2015** | | |
| 1H15 | Cimzia | Initiate P3 trials |
| 1H15 | DRM04 | Report P2b HH02data |
| 1H15 | DRM01 | Initiate P2b program |
| 2H15 | DRM04 | Initiate P3 trials |
| 2015 | DRM02 | Assess preclinical data and determine next steps |
| 2015 | DRM05 | Assess preclinical data and determine next steps |
| **2016+** | | |
| Mid-16 | Cimzia | Complete enrollment of P3 trials |
| 2017 | DRM04 | Complete carcinogenicity study |
| 2017 | Cimzia | P3 data (our assmption) |
| 2018 | Cimzia | FDA Approval (our assumption) |
| 2018 | DRM04 | FDA Approval (our assumption) |
| 2019 | DRM01 | FDA Approval (our assumption) |

Source: Guggenheim Securities, LLC, Company reports and Dermira S-1

# Equity and M&A Comparables

# Specialty Pharma Company Comparables 2014E and 2015E

| Ticker | Company | Price as of 10/27/2014 | Debt/ EBITDA[2] | 2015E EV/ EBITDA[3] | 2015E EV/ EBIT[4] | 2015E Price/ Sales[5] | Div. Yield | FCF Yield | P/E[1] 14E | P/E[1] 15E | 2010-15E EPS Gr. Rate | PEG Ratio on 2015E | % Change Stock Price 2012 | 2013 | 2014YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| .DJIA-DI | Dow Jones Industrial Avg. | $16,817.94 | 3.1x | 9.4x | 12.0x | 1.7x | 2.3% | 3.9% | 15.0x | 14.3x | 7.7% | 1.9x | 7.3% | 17.3% | 2.3% |
| .SPX-UT | S&P 500 | $1,961.63 | 3.0x | 9.8x | 12.3x | 1.7x | 1.4% | 21.6% | 16.7x | 15.4x | 8.4% | 1.8x | 13.4% | 21.4% | 7.1% |
| COMP-O | Nasdaq | $4,485.93 | 1.9x | 1.7x | 9.6x | 2.1x | 0.8% | 1.7% | 32.3x | 23.6x | NM | NM | 15.9% | 28.5% | 8.3% |
| BTK-P | Amex Biotech | $3,278.65 | 1.6x | 14.5x | 15.2x | 6.8x | 0.1% | 1.7% | 55.3x | 36.2x | 32.4% | 1.1x | 41.7% | 38.5% | 40.0% |
| DRG-P | Amex Pharma | $521.13 | 1.5x | 11.1x | 13.6x | 3.9x | 0.0% | 0.0% | 19.7x | 17.3x | 5.9% | 2.9x | 11.0% | 20.2% | 12.7% |
| **U.S. Large-Cap Pharma** | | | | | | | | | | | | | | | |
| ABT | Abbott Labs | $42.24 | 1.3x | 9.9x | 13.2x | 2.9x | 2.1% | 3.6% | 21.5x | 18.6x | (11.5%) | (1.6x) | 16.5% | 13.2% | 10.5% |
| BMY | Bristol Myers Squibb | $53.53 | 0.1x | 21.5x | 26.1x | 5.7x | 2.7% | 0.0% | 29.8x | 29.6x | (3.5%) | (8.5x) | (7.5%) | 54.5% | 2.4% |
| LLY | Eli Lilly | $66.20 | 1.1x | 13.3x | 17.6x | 3.5x | 3.0% | 2.6% | 23.8x | 20.7x | (7.6%) | (2.7x) | 18.7% | (0.6%) | 30.5% |
| JNJ | Johnson & Johnson | $104.07 | 0.7x | 10.7x | 12.7x | 3.9x | 2.7% | 2.9% | 17.5x | 16.8x | 5.4% | 3.1x | 6.9% | 28.7% | 14.3% |
| MRK | Merck | $56.45 | 1.1x | 8.5x | 12.4x | 4.0x | 3.1% | 2.9% | 16.3x | 15.9x | 0.8% | 20.7x | 8.6% | 16.9% | 14.1% |
| PFE | Pfizer | $29.03 | 1.7x | 8.9x | 10.0x | 3.8x | 3.6% | 12.0% | 13.0x | 13.1x | (0.1%) | (242.3x) | 15.9% | 16.8% | (4.7%) |
| **Average[6]** | | | **1.0x** | **12.2x** | **15.3x** | **4.0x** | **2.9%** | **4.0%** | **20.3x** | **19.1x** | **(2.7%)** | **(38.6x)** | **9.8%** | **21.6%** | **11.2%** |
| **U.S. Specialty Pharma** | | | | | | | | | | | | | | | |
| ACRX | AcelRx* | $6.97 | NM | NM | NM | 24.6x | 0.0% | NM | NM | NM | NM | NM | 121.9% | 71.7% | (40.3%) |
| ACT | Actavis* | $238.43 | 3.0x | 11.7x | 13.4x | 4.1x | 0.0% | 3.1% | 17.9x | 14.6x | 36.8% | 0.4x | 42.5% | 89.3% | 41.9% |
| AGN | Allergan* | $182.33 | 0.8x | 14.6x | 14.9x | 6.9x | 0.1% | 2.7% | 29.8x | 21.6x | 21.7% | 1.0x | 4.5% | 3.0% | 65.3% |
| AKRX | Akorn* | $44.27 | 3.1x | 14.6x | 15.7x | 5.5x | 0.0% | 1.1% | 43.1x | 27.8x | 54.7% | 0.5x | 20.1% | 77.9% | 80.2% |
| ANIP | ANI Pharmaceuticals | $29.85 | NM | 9.1x | 9.9x | 4.9x | 0.0% | 1.9% | 29.3x | 16.0x | NM | NM | (57.3%) | 155.5% | 54.9% |
| ATRS | Antares* | $2.00 | NM | NM | NM | 3.7x | 0.0% | NM | NM | 46.5x | NM | NM | 73.2% | 2.1% | (55.9%) |
| CBST | Cubist | $71.94 | 3.5x | 18.1x | 22.6x | 3.9x | 0.0% | 0.9% | 64.6x | 38.8x | 3.6% | 10.7x | NM | 45.7% | 5.7% |
| CEMP | Cempra | $12.45 | NM | NM | NM | 19.9x | 0.0% | NM | NM | NM | NM | NM | NM | 103.3% | (2.7%) |
| COO | Cooper | $158.50 | 0.7x | 13.3x | 16.4x | 3.8x | 0.1% | 2.8% | 21.4x | 19.0x | 22.0% | 0.9x | 31.1% | 25.6% | 28.8% |
| DERM | Dermira* | $15.50 | NM | NM | NM | NM | 0.0% | 0.0% | NM | NM | NM | NM | NM | NM | (3.1%) |
| DRTX | Durata | $23.96 | NM | NM | NM | 8.2x | 0.0% | NM | NM | NM | NM | NM | NM | 49.9% | 86.3% |
| ENDP | Endo | $65.33 | 3.6x | 10.7x | 11.5x | 3.5x | 0.0% | NM | 16.0x | 14.6x | 5.1% | 2.9x | (24.0%) | 142.9% | (0.3%) |
| HSP | Hospira* | $51.73 | 2.2x | 12.1x | 16.5x | 2.0x | 0.0% | 1.5% | 21.8x | 21.9x | (6.6%) | (3.3x) | 2.9% | 26.7% | 26.1% |
| HZNP | Horizon Pharma | $12.69 | 4.8x | 10.5x | 11.9x | 3.5x | 0.0% | 0.0% | 18.4x | 14.1x | NM | NM | (44.5%) | 216.2% | 66.8% |
| IPXL | Impax Labs* | $28.14 | NM | 12.7x | 19.8x | 3.7x | 0.0% | 1.8% | 23.6x | 37.6x | (24.2%) | (1.6x) | 1.6% | 11.8% | 13.4% |
| JAZZ | Jazz* | $164.67 | 1.8x | 13.4x | 13.4x | 7.1x | 0.0% | 0.0% | 20.1x | 16.3x | 45.5% | 0.4x | 37.8% | 111.4% | 29.9% |
| KIN | Kindred Bio* | $9.08 | NM | NM | NM | 77.2x | 0.0% | NM | NM | NM | NM | NM | NM | 70.7% | (17.1%) |
| MDCO | Medicines Company* | $22.19 | 57.1x | 10.2x | 20.3x | 1.9x | 0.0% | 7.3% | NM | 44.4x | (15.2%) | (2.9x) | 28.6% | 49.8% | (41.9%) |
| MNK | Mallinckrodt plc* | $90.93 | 3.7x | 9.2x | 11.2x | 2.7x | 0.0% | 1.6% | 20.1x | 13.3x | NM | NM | NM | 21.0% | 77.1% |
| MYL | Mylan Labs* | $50.95 | 2.9x | 9.1x | 10.3x | 2.2x | 0.0% | 8.5% | 14.6x | 13.0x | 19.6% | 0.7x | 27.9% | 51.1% | 19.7% |
| ORX-SK | Orexo AB* | $126.25 | NM | 17.8x | 15.6x | 4.4x | 0.0% | NM | NM | 28.0x | NM | NM | 131.1% | 225.2% | (25.7%) |
| PAHC | Phibro Animal Health | $23.84 | 3.2x | 11.6x | 13.9x | 1.3x | 1.6% | 2.6% | 17.8x | 15.7x | 35.8% | 0.4x | NM | NM | 58.9% |
| PRGO | Perrigo* | $154.81 | 3.0x | 16.9x | 18.6x | 4.6x | 0.3% | 0.0% | 25.0x | 20.9x | 21.2% | 1.0x | 6.9% | 44.0% | 1.1% |
| PTX | Pernix* | $9.81 | 27.9x | 30.4x | 7.5x | 1.7x | 0.0% | NM | NM | 10.2x | 19.1% | NM | (16.3%) | (70.9%) | 300.4% |
| SGNT | Sagent* | $32.39 | NM | 16.1x | 22.9x | 2.7x | 0.0% | 2.3% | 111.7x | 37.7x | NM | NM | (23.4%) | 36.7% | 30.3% |
| SHPG | Shire | $195.87 | 0.4x | 39.8x | 44.6x | 18.9x | 1.0% | 1.6% | 18.9x | 17.3x | 21.7% | 0.8x | (11.3%) | 41.9% | 40.7% |
| SLXP | Salix | $137.84 | 4.2x | 11.8x | 12.7x | 4.4x | 0.0% | 2.2% | 22.4x | 19.5x | 67.2% | 0.3x | (15.4%) | 97.4% | 54.7% |
| TEVA | Teva* | $54.00 | 2.0x | 9.4x | 10.6x | 2.3x | 2.6% | 4.1% | 10.9x | 11.0x | 1.7% | 6.6x | (7.5%) | 6.2% | 34.1% |
| TTPH | Tetraphase* | $24.09 | NM | NM | NM | 64.9x | 0.0% | NM | NM | NM | NM | NM | NM | 72.0% | 77.7% |
| VRX-T | Valeant* | $146.84 | 4.4x | 14.1x | 15.1x | 5.2x | 0.0% | 3.5% | 17.6x | 14.5x | 37.6% | 0.4x | 24.5% | 88.2% | 17.5% |
| ZTS | Zoetis* | $36.57 | 2.7x | 14.6x | 16.3x | 3.7x | 0.8% | 2.6% | 24.0x | 21.2x | NM | NM | NM | 19.9% | 13.0% |
| **Average[6]** | | | **6.8x** | **14.7x** | **16.1x** | **10.1x** | **0.2%** | **2.4%** | **28.1x** | **22.2x** | **20.4%** | **1.1x** | **16.1%** | **65.0%** | **33.5%** |
| **US Large-Cap Biotech** | | | | | | | | | | | | | | | |
| AMGN | Amgen | $148.20 | 3.5x | 12.1x | 14.1x | 5.6x | 1.6% | 4.1% | 17.6x | 16.5x | 11.5% | 1.4x | 34.2% | 26.3% | 28.0% |
| BIIB | Biogen IDEC | $319.98 | 0.1x | 13.5x | 14.4x | 6.8x | 0.0% | 3.6% | 23.8x | 19.6x | 25.9% | 0.8x | 33.0% | 85.2% | 14.1% |
| CELG | Celgene | $103.10 | 1.7x | 15.7x | 17.3x | 8.9x | 0.0% | 2.5% | 27.9x | 21.1x | 28.4% | 0.7x | 16.1% | 104.1% | (40.0%) |
| GILD | Gilead | $112.59 | 0.6x | 9.5x | 9.1x | 6.1x | 0.0% | 4.7% | 14.0x | 11.7x | 39.2% | 0.3x | 79.5% | 87.2% | 49.7% |
| **Average[6]** | | | **1.5x** | **12.7x** | **13.7x** | **6.8x** | **0.4%** | **3.7%** | **20.8x** | **17.2x** | **26.3%** | **0.8x** | **40.7%** | **75.7%** | **12.9%** |
| **Medical Device/Hospital Supply** | | | | | | | | | | | | | | | |
| BAX | Baxter | $69.85 | 2.0x | 10.3x | 13.3x | 2.3x | 3.0% | 1.7% | 14.3x | 14.8x | 3.5% | 4.2x | 34.7% | (1.6%) | 1.0% |
| BDX | Becton Dickinson | $125.80 | 1.8x | 10.7x | 14.2x | 2.8x | 1.7% | 2.9% | 20.2x | 18.8x | 6.4% | 2.9x | 4.6% | 32.2% | 15.3% |
| BCR | CR Bard | $158.67 | 1.4x | 11.7x | 13.7x | 3.4x | 0.6% | 8.6% | 19.0x | 17.2x | 10.5% | 1.6x | 14.3% | 31.3% | 20.4% |
| CFN | CareFusion | $57.01 | 2.7x | 11.4x | 13.7x | 2.8x | 0.0% | 4.5% | 24.7x | 21.3x | 13.5% | 1.6x | 12.5% | 32.1% | 45.4% |
| COV | Covidien | $89.32 | 1.7x | 14.1x | 17.3x | 3.6x | 1.4% | 2.5% | 22.2x | 20.4x | 5.4% | 3.8x | 16.7% | 23.7% | 32.5% |
| **Average[6]** | | | **1.9x** | **11.6x** | **14.4x** | **3.0x** | **1.3%** | **4.0%** | **20.1x** | **18.5x** | **7.9%** | **2.8x** | **16.6%** | **23.5%** | **22.9%** |

Source: Thomson Reuters and Guggenheim Securities, LLC

(1) All estimates are from Thomson Reuters and companies under coverage are marked by an *.

(2) EPS estimates are adjusted for non-operating items and 2014 and 2015 EPS estimates are consensus

(3) Debt/EBITDA is off of estimated 2014 EBITDA

(3), (4), and (5) multiples are off of 2015 estimates

(6) Arithmetic Average

# Dermatology M&A Comps 2006 to 2014

| Year | Buyer Name | Seller Name | EV (MM) | EV /Sales | EV / EBITDA |
|---|---|---|---|---|---|
| 2006 | Stiefel Laboratories | Connetics Corporation | $640.0 | 3.6x | 16.3x |
| 2008 | Stiefel Laboratories | Barrier Therapeutics | 148.0 | 6.3x | NA |
| 2009 | Glaxo | Stiefel Laboratories | 3,600.0 | 4.0x | NA |
| 2009 | Leo Pharma | Warner Chilcott (U.S. rights to psoriasis portfolio and dermatology pipeline) | 1,000.0 | NA | NA |
| 2009 | Leo Pharma | Peplin | 287.5 | NA | NA |
| 2010 | Merz | BioForm Medical | 253.0 | 3.3x | NA |
| 2011 | Valeant | Dermik | 425.0 | 1.8x | NA |
| 2011 | Valeant | Ortho Dermatologics | 345.0 | 2.3x | NA |
| 2011 | Valeant | Medicis | 1,939.1 | 2.7x | 6.8x |
| 2011 | Medicis | Graceway Pharmaceuticals | 455.0 | 3.6x | 17.7x |
| 2011 | Allergan | Vicept | 275.0 | NA | NA |
| 2012 | Allergan | SkinMedica | 371.0 | 3.9x | NA |
| 2012 | Sun Pharmaceuticals | DUSA | 197.0 | 3.9x | NA |
| 2012 | Sandoz | Fougera Pharmaceuticals | 1,525.0 | 3.6x | 8.8x |
| 2013 | Almirall | Aqua | 380.0 | 3.0x | NA |
| 2013 | Valeant | Obagi | 437.0 | 3.5x | 15.0x |
| 2013 | Actavis | Warner Chilcott | 8,500.0 | 3.3x | 5.9x |
| 2014 | Valeant | PreCision Dermatology | 475.0 | 3.7x | NA |
| 2014 | Nestle/Galderma | Valeant Facial Filler & Toxin Business | 1,400.0 | 5.2x | 7.3x |
| 2014 | Valeant | Allergan | 58,026.9 | 8.3x | 20.9x |
| 2014 | Actavis | Allergan | $60,780.0 | 8.7x | 21.9x |
| | | Average | $6,736 | 4.2x | 13.4x |
| | | Median | $455 | 3.6x | 15.0x |
| | | High | $60,780 | 8.7x | 21.9x |
| | | Low | $148 | 1.8x | 5.9x |

**Source: Guggenheim Securities, LLC & Company Reports, EV = Enterprise Value. Multiples are calculated on historical sales**

(1) Valeant has made an offer for AGN; Actavis was reportedly (e.g., Reuters) planning to make an offer for AGN, which has not materialized. Our table above includes both. Excluding these, the average EV/Sales is 3.6x and 11.1x EV/EBITDA

# Additional Companies Mentioned

| Company Name | Ticker | Rating | Price | Company Name | Ticker | Rating | Price |
|---|---|---|---|---|---|---|---|
| Actavis | ACT | BUY | 238.43 | Leo Pharma | Private | NC | N/A |
| Allergan | AGN | BUY | 182.33 | Merz GmbH & Co. KGaA | Private | NC | N/A |
| Almirall SA | ALM-MC | NC | 12.08 | Medgenics, Inc. | MDGN | NC | 4.94 |
| Apple Tree Partners | Private | NC | N/A | Neosil | Private | NC | N/A |
| Arbor Vita Corp | Private | NC | N/A | New Enterprise Associates | Private | NC | N/A |
| Bank of America | BAC | NC | 16.59 | Novartis | NVS-US | NC | 90.21 |
| Bay City Capital | Private | NC | N/A | Nestle SA | NESN-VX | NC | 68.35 |
| Bayer AG | BAYN-XE | NC | 105.00 | Protalex Inc. | PRTX | NC | 6.10 |
| Canaan Partners | Private | NC | N/A | PDL BioPharma, Inc | PDLI | NC | 8.32 |
| CardioDx | CD7-BE | NC | Null | Revance | RVNC | NC | 19.09 |
| Cerecor, Inc. | Private | NC | N/A | Roche | ROG-VX | NC | 276.50 |
| Decision Resources | Private | NC | N/A | Rock Springs Capital | Private | NC | N/A |
| Dr. Tattoff, Inc. | Private | NC | N/A | Sabby Capital | Private | NC | N/A |
| First Wave Technologies, Inc. | Private | NC | N/A | Sun Pharma | NPHARMA | NC | 805.20 |
| Gilead | GILD | BUY | 112.59 | Theravance | THRX | NC | 16.67 |
| GlaxoSmithKline | GSK | NC | 45.37 | UCB Pharma | UCB-BT | NC | 65.52 |
| Johnson & Johnson | JNJ | NEUTRAL | 104.07 | Valeant | VRX-US | BUY | 130.56 |
| Kythera | KYTH | NC | 36.76 | VisionGain | Private | NC | N/A |
| Kadmon Corporation | Private | NC | N/A | Wells Fargo & Co. | WFC | NC | 51.31 |

Priced as of 10/27/14
Source: Thomson Reuters

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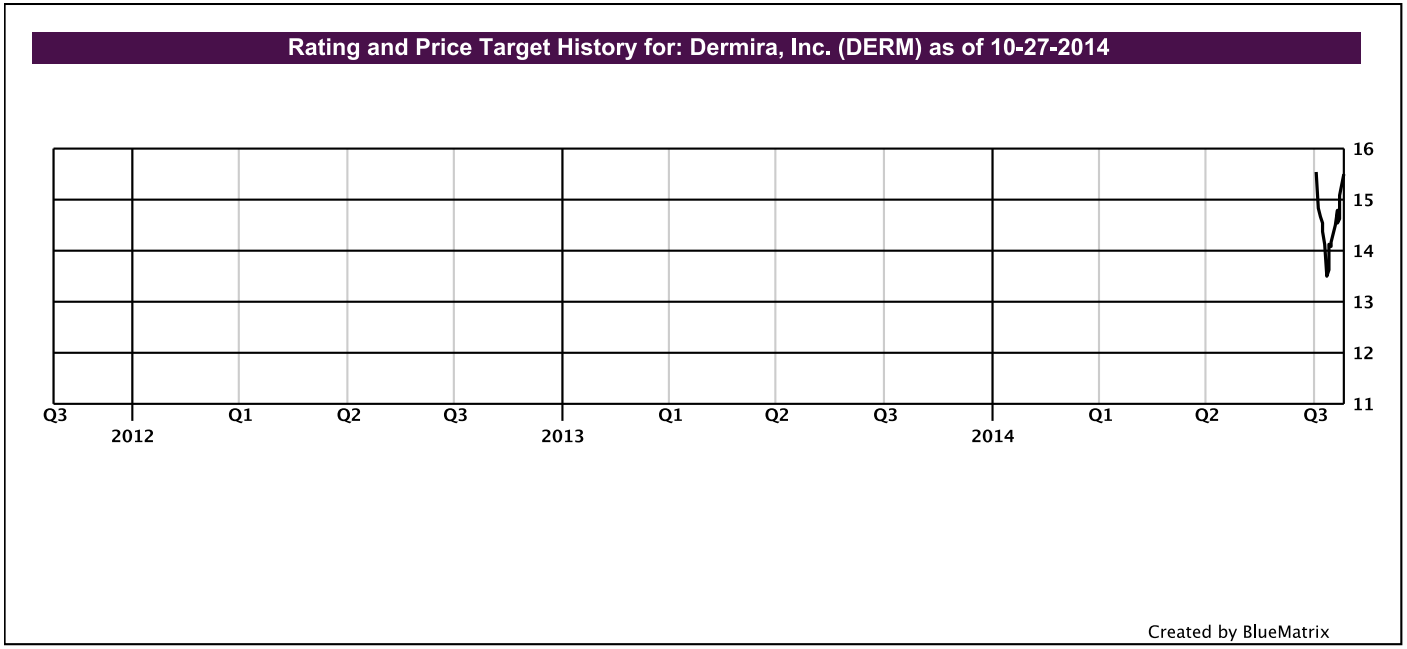


## RATING DEFINITIONS

**BUY (B)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

**NEUTRAL (N)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

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## RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

| | | | IB Serv./ Past 12Mos. | |
|---|---|---|---|---|
| Rating Category | Count | Percent | Count | Percent |
| Buy | 109 | 61.24% | 17 | 15.60% |
| Neutral | 69 | 38.76% | 5 | 7.25% |
| Sell | 0 | 0.00% | 0 | 0.00% |

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