

Reason for report:

EARNINGS**DERMIRA, INC.**

Early Execution Bodes Well with Focused Mgmt Team & 3 Compelling Assets

• **Bottom Line:** As DERM reported its first quarter of earnings as a public company, our discussion with mgmt highlighted a laser-like focus on advancing the company's three late-stage dermatology programs in psoriasis, hyperhidrosis, and acne. DERM's 3Q14 net operating loss of (\$7.8M) - pro forma EPS of (\$0.57) - came in lower than our (\$11M) estimate, though we expect spending to pick up significantly in 4Q as DERM works toward initiation of its Ph III program for Cimzia (psoriasis) and Ph IIb for DRM01 (acne) - which both remain on track to begin in 1H15. DERM announced that enrollment in its Ph IIb bridging study of DRM04 (hyperhidrosis) is complete and well on track to read out in 1H15, confirming mgmt's emphasis on superior clinical execution. We reiterate our confidence in mgmt's deep expertise and believe DERM is well positioned to become a leader in medical dermatology. Reiterate OP rating and \$32/share price target.

• **Completed enrollment for Ph IIb DRM04 bridging study demonstrates early execution.** DERM announced completion of enrollment for its Ph IIb bridging study for DRM04, a first-in-class topical treatment for primary axillary hyperhidrosis (HH; excessive underarm sweating). We believe this puts the company on or ahead of schedule for its planned 1H15 readout - the company's next data catalyst. According to mgmt, feedback from recent medical dermatology meetings was highlighted by strong interest among dermatologists for an easy-to-use effective topical treatment for HH given the tangible unmet need.

• **Key value inflection will be completion of DRM01 Ph IIb in 1H16.** Incremental capital from the recent IPO provides substantial flexibility to both maximize the likelihood of success across the three clinical programs and to optimize value-creating events for its shareholders. Mgmt noted that while the development path is well-characterized, incremental capital could be used to enhance the statistical robustness of the planned 300-patient Ph IIb dose-ranging study of DRM01, the company's potentially transformative topical sebum inhibitor. We view any opportunity to increase confidence in ultimate Ph III success as valuable given the critical importance of DRM01 to our valuation. MEDACorp key opinion leaders (KOLs) note statistically significant and clinically meaningful improvements on all three of the FDA's co-primary endpoint evaluations in DRM01's 108-patient Ph IIa data as "unparalleled".

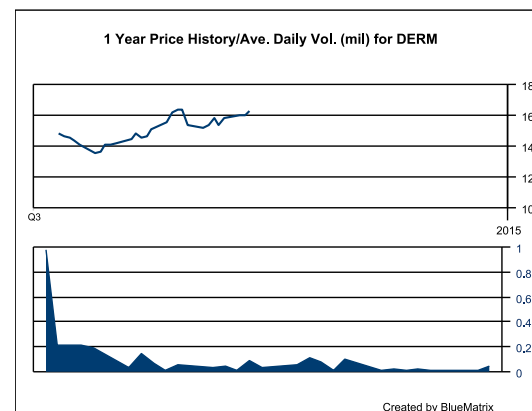
• Our initiation report can be found [HERE](#).

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

S&P 600 Health Care Index:	1,376.79
Price:	\$16.25
Price Target:	\$32.00
Methodology:	DCF with 12% discount rate & 2% terminal growth rate
52 Week High:	\$18.50
52 Week Low:	\$12.68
Shares Outstanding (mil):	24.6
Market Capitalization (mil):	\$399.8
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 - New	0.0A	0.0A	0.0A	0.0	0.0	(\$0.88)A	(\$0.80)A	(\$0.57)A	(\$0.59)	(\$2.69)	NM
2014E - Old	0.0A	0.0A	0.0A	0.0	0.0	(\$0.88)A	(\$0.80)A	(\$0.67)	(\$0.59)	(\$2.78)	NM
2015E	--	--	--	--	\$9.0	--	--	--	--	(\$2.80)	NM

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

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.

Dermira - Income Statement Analysis 2013-2022E

(\$ in Millions, Except EPS)																CAGR
(Year Ended December 31)	2013A	1Q14A	2Q14A	3Q14A	4Q14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E		'18-22
Product Revenue (POS adj.)	-	-	-	-	-	-	-	-	-	9	61	147	232	319		
DRM04	-	-	-	-	-	-	-	-	-	9	23	61	102	148	100%	
DRM01	-	-	-	-	-	-	-	-	-	-	38	86	131	171	NM	
Other DRM Pipeline	-	-	-	-	-	-	-	-	-	-	-	-	-	-	NM	
Royalty Revenue (POS adj.)	-	-	-	-	-	-	-	-	-	25	52	79	102	112		
Cimzia Royalty (from UCB)	-	-	-	-	-	-	-	-	-	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		
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	4	2	2	2	3	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	18	7	7	6	12	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	(22)	(9)	(9)	(7.7)	(15)	(39)	(69)	(74)	(68)	(82)	(1)	71	105	140	NM	
Operating Margin (% of sales)										(2)	(0)	0	0	0		
Interest and Other Income/ (Expense)	(0)	-	-	(0)	-	(0)	-	-	-	-	-	-	-	-		
Interest Expense	(0)	-	(0)	(0)	-	(0)	-	-	-	-	-	-	-	-		
Total Interest and Other Income/ (Expense)	(0)	-	(0)	(0)	-	(0)	-	-	-	-	-	-	-	-		
Pre-tax Income	(22)	(9)	(9)	(8)	(15)	(40)	(69)	(74)	(68)	(82)	(1)	71	105	140		
Change in Unrealized Gain / loss																
Taxes											-	-	-	-		NM
Rate (% of pre-tax income)											-	-	-	-		
Net Income	(22)	(9)	(9)	(7.8)	(15)	(40)	(69)	(74)	(68)	(82)	(1)	71	105	140		
EPS (pro forma)	(\$2.31)	(\$0.88)	(\$0.80)	(\$0.57)	(\$0.59)	(\$2.69)	(\$2.80)	(\$3.01)	(\$2.28)	(\$2.76)	(\$0.03)	\$2.40	\$3.56	\$4.72		
Average Shares Outstanding	10	9.7	11.0	13.7	24.6	14.8	24.6	24.6	29.6	29.6	29.6	29.6	29.6	29.6		

Source: Leerink Partners and Company Reports

Dermira - Income Statement Analysis 2013-2022E

(\$ in Millions, Except EPS)																CAGR
(Year Ended December 31)	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E		'18-22
Product Revenue (POS adj.)	-	-	-	-	-	9	61	147	232	319	372	427	458	503		
DRM04	-	-	-	-	-	9	23	61	102	148	180	200	209	231		100%
DRM01	-	-	-	-	-	-	38	86	131	171	192	227	249	272		NM
Other DRM Pipeline	-	-	-													NM
Royalty Revenue (POS adj.)	-	-	-	-	-	25	52	79	102	112	117	120	112	109		
Cimzia Royalty (from UCB)	-	-	-	-	-	25	52	79	102	112	117	120	112	109		
Other Revenue (POS adj.)	-	-	9	9	18	-	22	10	10	-	-	-	-	-		
Total Revenue Incl 1x Milestones	-	-	9	9	18	34	135	236	345	431	488	547	570	612		
Total Revenue	-	-	-	-	-	34	113	226	335	431	488	547	570	612		89%
Growth (% y/y)								1	0	0	0	0	0	0		
COGS	-	-	-	-	-	2	9	24	38	54	64	73	77	85		120%
COGS (% of sales)				nm	nm	0	0	0	0	0	0	0	0	0		
Gross Profit	-	-	9	9	18	32	125	212	306	377	424	475	493	527		86%
Gross Profit (% of sales)		nm	nm	nm	nm	1	1	1	1	1	1	1	1	1		
SG&A	4	8	12	14	32	73	91	91	134	151	161	170	171	171		20%
SG&A (% of sales)		nm	nm	nm	nm	2	1	0	0	0	0	0	0	0		
R&D	18	32	66	69	54	40	35	50	67	86	98	109	114	122		21%
R&D (% of sales)		nm	nm	nm	nm	1	0	0	0	0	0	0	0	0		
Operating Income	(22)	(39)	(69)	(74)	(68)	(82)	(1)	71	105	140	165	196	208	233		NM
Operating Margin (% of sales)						(2)	(0)	0	0	0	0	0	0	0		
Interest and Other Income/ (Expense)	(0)	(0)	-	-	-	-	-	-	-	-	-	-	-	-		
Interest Expense	(0)	(0)	-	-	-	-	-	-	-	-	-	-	-	-		
Total Interest and Other Income/ (Expense)	(0)	(0)	-	-	-	-	-	-	-	-	-	-	-	-		
Pre-tax Income	(22)	(40)	(69)	(74)	(68)	(82)	(1)	71	105	140	165	196	208	233		
Change in Unrealized Gain / loss																
Taxes							-	-	-	-	1	12	16	25		NM
Rate (% of pre-tax income)							-	-	-	-	0	0	0	0		
Net Income	(22)	(40)	(69)	(74)	(68)	(82)	(1)	71	105	140	164	184	192	208		
EPS (pro forma)	(\$2.31)	(\$2.69)	(\$2.80)	(\$3.01)	(\$2.28)	(\$2.76)	(\$0.03)	\$2.40	\$3.56	\$4.72	\$5.54	\$6.20	\$6.47	\$7.03		
Average Shares Outstanding	10	14.8	24.6	24.6	29.6	29.6	29.6	29.6	29.6	29.6	29.6	29.6	29.6	29.6		

Source: Leerink Partners and Company Reports

Disclosures Appendix

Analyst Certification

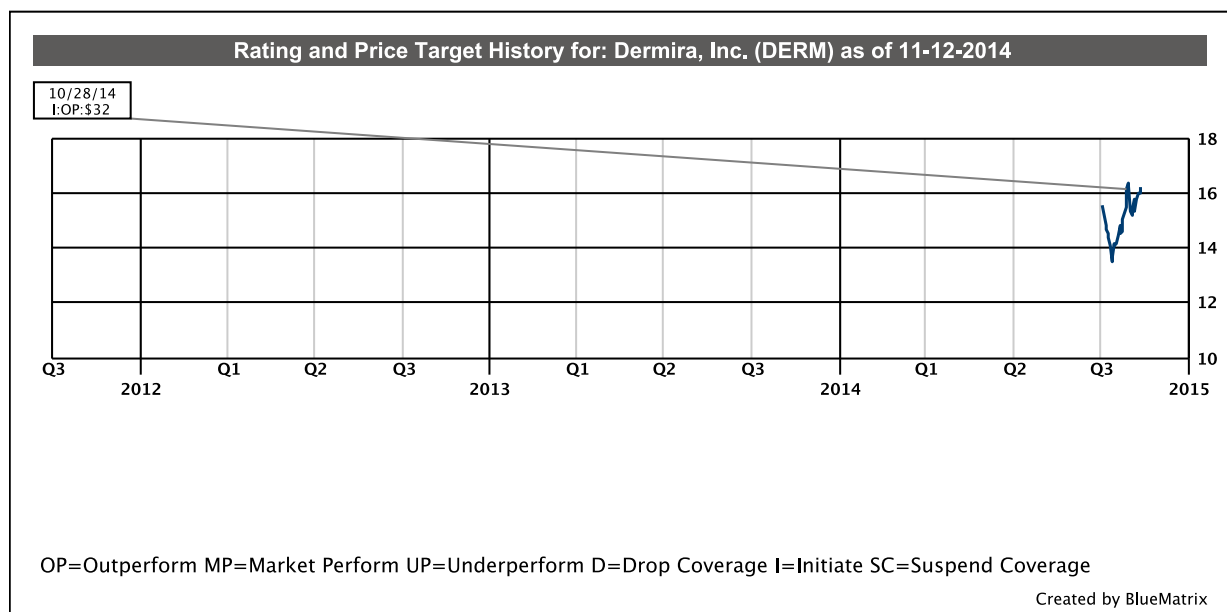
I, Seamus Fernandez, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

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Distribution of Ratings/Investment Banking Services (IB) as of 09/30/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	138	69.30	51	37.00
HOLD [MP]	61	30.70	2	3.30
SELL [UP]	0	0.00	0	0.00

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform in line with its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months. The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than \$2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over \$2 billion.

Important Disclosures

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

Leerink Partners LLC makes a market in Dermira, Inc.

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

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Leerink Partners LLC Equity Research

Director of Equity Research	John L. Sullivan, CFA	(617) 918-4875	john.sullivan@leerink.com
Associate Director of Research	Alice C. Avanian, CFA	(617) 918-4544	alice.avanian@leerink.com
Healthcare Strategy	John L. Sullivan, CFA	(617) 918-4875	john.sullivan@leerink.com
	Alice C. Avanian, CFA	(617) 918-4544	alice.avanian@leerink.com
Biotechnology	Howard Liang, Ph.D.	(617) 918-4857	howard.liang@leerink.com
	Joseph P. Schwartz	(617) 918-4575	joseph.schwartz@leerink.com
	Michael Schmidt, Ph.D.	(617) 918-4588	michael.schmidt@leerink.com
	Gena Wang, Ph.D., CFA	(212) 277-6073	gena.wang@leerink.com
	Paul Matteis	(617) 918-4585	paul.matteis@leerink.com
	Jonathan Chang, Ph.D.	(617) 918-4015	jonathan.chang@leerink.com
	Richard Goss	(617) 918-4059	richard.goss@leerink.com
Life Science Tools and Diagnostics	Dan Leonard	(212) 277-6116	dan.leonard@leerink.com
	Justin Bowers, CFA	(212) 277-6066	justin.bowers@leerink.com
Pharmaceuticals/Major	Seamus Fernandez	(617) 918-4011	seamus.fernandez@leerink.com
	Ario Arabi	(617) 918-4568	ario.arabi@leerink.com
	Aneesh Kapur	(617) 918-4576	aneesh.kapur@leerink.com
Specialty Pharmaceuticals	Jason M. Gerberry, JD	(617) 918-4549	jason.gerberry@leerink.com
	Derek C. Archila	(617) 918-4851	derek.archila@leerink.com
Medical Devices, Cardiology & Orthopedics	Danielle Antalffy	(212) 277-6044	danielle.antalffy@leerink.com
	Puneet Souda	(212) 277-6091	puneet.souda@leerink.com
	Richard Newitter	(212) 277-6088	richard.newitter@leerink.com
	Ravi Misra	(212) 277-6049	ravi.misra@leerink.com
Healthcare Services	Ana Gupte, Ph.D.	(212) 277-6040	ana.gupte@leerink.com
Healthcare Technology & Distribution	David Larsen, CFA	(617) 918-4502	david.larsen@leerink.com
	Christopher Abbott	(617) 918-4010	chris.abbott@leerink.com
Digital Health	Steven Wardell	(617) 918-4097	steven.wardell@leerink.com
Sr. Editor/Supervisory Analyst	Mary Ellen Eagan, CFA	(617) 918-4837	maryellen.eagan@leerink.com
Supervisory Analysts	Robert Egan		bob.egan@leerink.com
	Amy N. Sonne		amy.sonne@leerink.com
Editorial	Cristina Diaz-Dickson	(617) 918-4548	cristina.diaz-dickson@leerink.com
Research Associate	Carmen Augustine	(212) 277-6012	carmen.augustine@leerink.com

New York
299 Park Avenue, 21st floor
New York, NY 10171
(888) 778-1653

Boston
One Federal Street, 37th Floor
Boston, MA 02110
(800) 808-7525

San Francisco
201 Spear Street, 16th Floor
San Francisco, CA 94105
(800) 778-1164