Dermira

Equity Research

Initiating Coverage

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Price: $24.76 (08/18/2015)

Price Target: $40.00

OUTPERFORM (1)

Ken Cacciatore
646.562.1305
ken.cacciatore@cowen.com

Tyler Van Buren, M.Sc.
646.562.1338
tyler.vanburen@cowen.com

Sal Rais, M.D.
646.562.1420
sal.rais@cowen.com

Key Data

Symbol	NASDAQ: DERM
52-Week Range:	$27.74 - 12.68
Market Cap (MM):	$722.3
Net Debt (MM):	$(95.2)
Cash/Share:	$3.94
Dil. Shares Out (MM):	30.0
Enterprise Value (MM):	$603.8
ROIC:	NA
ROE (LTM):	NA
BV/Share:	$5.06
Dividend:	NA

FY (Dec)	2014E	2015E	2016E
Earnings Per Share			
Year	$(4.96)	$(2.95)	$(3.15)
P/E	NM	NM	NM
Consensus EPS	-	$(3.00)	$(2.68)

Consensus source: Thomson Reuters

Revenue (MM)			
Year	$7.3	$0.0	$0.0
EV/S	82.7x	-	-

Initiation: Novel Approaches At An Attractive Valuation

The Cowen Insight

We are initiating coverage of Dermira with a $40 price target and Outperform rating. Our rating is predicated on the company's novel late-stage pipeline addressing various underserved dermatology disorders, which has two significant data disclosures over the next 12 months. Given our consultants' conviction on the product profiles and approaches, we find the current valuation very attractive.

Potential First Topical Sebum Inhibitor Would Be A Valuable Addition To The Acne Treatment Paradigm

The first upcoming major clinical data catalyst will be in H1:2016 for DRM01, which is currently in a Phase IIb dose-ranging study. DRM01 is a novel topical lipid synthesis inhibitor designed to reduce the production of sebum for the treatment of acne. A range of topical agents are currently available to target each of the four primary pathogenic causes of acne, except for excessive sebum production. Hence, our clinician consultants have been consistent in our discussions that a topical sebum inhibitor would be "groundbreaking." If successful, DRM01 could be the first ever topical agent with isotretinoin-like effects without the considerable side effects.

DRM04 Has An Attractive Profile For The Treatment Of Hyperhidrosis

The next major clinical data catalyst will be the disclosure of the ongoing Phase III DRM04 trial with topline data expected during H2:2016. DRM04 is a proprietary topical anticholinergic product designed to reduce sweat production by blocking cholinergic receptors responsible for sweat gland activation, and is the most advanced clinical candidate for hyperhidrosis in development. Given the data demonstrated in Phase II studies, we – and our consultants – believe DRM04 has an attractive product profile relative to currently available treatments.

Cimzia Has The Potential To Be A Preferred Anti-TNF For Psoriasis

Dermira is also developing the anti-TNF Cimzia for the add-on indication of psoriasis in partnership with originator UCB. Dermira is currently enrolling a Phase III 990-patient clinical program with topline data expected in 2017. Based upon existing data, our consultants believe it could prove to be a superior treatment to Enbrel and potentially even better than Humira. And even if not proven differentiated, given the size of the market, we would note that having rates similar to Humira should still be sufficient for Cimzia to be a successful addition to the psoriasis treatment paradigm.

Our Valuation Suggests A Compelling Entry Point Is Available At These Levels

Our base case valuation model assumes a U.S. approval and subsequent launch of DRM01 in 2019, with U.S. peak sales of ~$500MM. For DRM04, we assume U.S. approval and launch in 2018, with estimated U.S. peak sales of $200MM+. Finally, we also assume U.S. approval and launch of Cimzia for the treatment of psoriasis in 2018 with peak profit share revenues of $350MM+. Based on the number of value-creating catalysts for Dermira over the next 6-12 months, we believe the risk/reward is compelling at these levels.

At A Glance

Our Investment Thesis

Our base case valuation model assumes a U.S. approval and subsequent launch of DRM01 in 2019, with pricing roughly in-line with branded topical retinoids. We believe U.S. peak sales could eventually reach approximately ~$500MM. For DRM04, we assume U.S. approval and launch in 2018, with pricing roughly in-line or potentially below Botox for the treatment of hyperhidrosis. We estimate U.S. peak sales of $200MM+. Finally, we also assume U.S. approval and launch of Cimzia for the treatment of psoriasis in 2018. We assume peak profit share revenues of $350MM+. For these three late-stage products, we assume relatively conservative target market penetrations of 5-15%. We would note that Dermira is also evaluating DRM02 (topical PDE4 inhibitor) for the treatment of inflammatory skin conditions, and also DRM05 (topical photodynamic therapy) for the treatment of acne, and we do not model any of these potential early-stage pipeline opportunities.

Forthcoming Catalysts

- 2015: Enrollment completion of the DRM01 Phase IIb study in acne
- H1:16: Topline data from the DRM01 Phase IIb study in acne
- H2:16: Topline data from the DRM04 Phase III study in hyperhidrosis
- 2017: Topline data from the Cimzia Phase III program for psoriasis and subsequent sNDA filing

Base Case Assumptions

$40 on continued progress with the late-stage clinical pipeline including DRM01, DRM04, and Cimzia for psoriasis

Upside Scenario

$60 on better than expected clinical data from the late-stage pipeline and progress of the early-stage pipeline (DRM02 and DRM05) into clinical trials

Downside Scenario

$10 on development delays or failure of late-stage clinical programs

Price Performance

Source: Bloomberg

Company Description

Dermira has three key late-stage products in development: (1) DRM01, a novel topical sebum inhibitor for the treatment of acne; (2) DRM04, a novel topical anticholinergic for hyperhidrosis; and (3) Cimzia, an approved injectable anti-TNF inhibitor that Dermira is developing in collaboration with UCB for the treatment of psoriasis. Dermira's early-stage pipeline includes DRM02, a topical PDE4 inhibitor for inflammatory skin conditions and DRM05, a topical photodynamic therapy (PDT) for the treatment of acne.

Analyst Top Picks

	Ticker	Price (08/18/2015)	Price Target	Rating
Allergan	AGN	$320.30	$400.00	Outperform
Shire Pharmaceutical	SHPG	$244.53	$325.00	Outperform
Teva Pharmaceutical	TEVA	$69.03	$100.00	Outperform

Dermira Is Employing Attractive Approaches To Treat Various Skin Disorders; Robust Late-Stage Product Portfolio Has Significant Value-Creating Potential

Dermira has three key late-stage dermatology development candidates and a portfolio of other interesting early-stage pipeline assets. The product with the first near-term data catalyst is DRM01, a novel topical sebum inhibitor for the treatment of acne. Currently the only sebum inhibitor approved for the treatment of acne is oral isotretinoin (Accutane), which has considerable side effects and is restricted via a REMS program. Dermira has successfully completed a Phase I and IIa study of DRM01, and is currently enrolling a dose-ranging Phase IIb study with data expected in H1:2016. This product has the potential to transform the level of care for more difficult to treat acne patients, which remains a compelling market. The company is also developing DRM04, a novel topical anticholinergic for hyperhidrosis. The hyperhidrosis market is highly fragmented and currently there are very few effective treatment options. While often dismissed as a nuisance issue, our consultants indicate for those patients severely impacted new treatment options would have significant success/utilization. Dermira has successfully completed two Phase IIb studies for DRM04 and is currently conducting a Phase III program with topline data expected in H2:2016. And lastly, the most recognizable of Dermira's development products is Cimzia (certolizum pegol), an injectable anti-TNF inhibitor already approved by UCB for a range of inflammatory conditions. Dermira has the dermatology rights for the product in the U.S. and Canada, and is working in collaboration with UCB to secure the approval for the treatment of plaque psoriasis. A Phase II study of Cimzia for the treatment of psoriasis has already been successfully completed and Dermira is currently conducting a Phase III program with topline data expected in 2017. In addition to these late stage programs, the company also has some interesting early-stage pipeline assets in development. DRM02 is a topical PDE4 inhibitor (similar to Anacor's crisaborole) currently in pre-clinical development for the treatment of inflammatory skin conditions, such as atopic dermatitis and psoriasis. Additionally, DRM05 is a topical photodynamic therapy (PDT) also in pre-clinical development for the treatment of acne. We would note that our $40 price target is predicated only on risk-adjusted success of the late-stage assets, meaning that any additional product approvals would simply provide further upside for DERM shares. We find the risk/reward very compelling for the assets accumulated and the supportive data for each to date.

The first upcoming major clinical data catalyst will be for DRM01, which is a novel topical lipid synthesis inhibitor designed to reduce the production of sebum for the treatment of acne. DRM01 is a prodrug that works by inhibiting acetyl coenzyme-A carboxylase, a critical enzyme for the synthesis of fatty acids, which are an essential component for the majority of sebum lipids. For the last several decades, the same four prescription pharmaceutical product classes have been used to treat acne: topical retinoids, topical and oral antimicrobials, oral isotretinoin, and oral hormonal therapies. These treatments are directed toward the four primary pathogenic factors of acne: (1) excessive sebum (oil) production; (2) blockage of pores by keratin (skin) and sebum; (3) increased sebum allowing for the overgrowth of naturally occurring bacteria on the skin; and (4) the bacterial overgrowth attracting white blood cells that cause an inflammatory response. A range of topical agents are currently available to target each of the four primary pathogenic factors – except for excessive sebum production. And while oral isotretinoin can be used to effectively inhibit sebum production, it has significant systemic side effects that requires oversight via a REMS program and limits broad utilization. Hence, our clinician consultants have been consistent in their feedback that a topical sebum inhibitor would be "groundbreaking" for the treatment

of acne, not only as a monotherapy agent, but also in combination with topical retinoids and topical/oral antimicrobials. Dermira is currently developing DRM01 to address this considerable opportunity. If successful, DRM01 could be the first ever topical agent with isotretinoin-like efficacy without the considerable side effects. Dermira is currently conducting a Phase IIb dose-ranging study of DRM01 and has already successfully completed a Phase IIa and Phase I study.

In the Phase IIa study, DRM01 demonstrated a statistically significant improvement in all three primary efficacy endpoints compared to vehicle gel: (1) Absolute change from baseline in the number of inflammatory acne lesions; (2) Absolute change from baseline in the number of non-inflammatory acne lesions; and (3) Investigator's Global Assessment (IGA) assessed on a five-point scale with a reduction of at least two points from the baseline IGA score. After 12 weeks of treatment, patients treated with DRM01 achieved a 64% reduction in inflammatory lesions (average lesion count reduction of -19.3 from a baseline of 29.7 versus an average reduction of -13.3 lesions from a baseline of 28.6 with vehicle; p=0.0003) and a 48% reduction in non-inflammatory lesions (average lesion count reduction of -19.9 from a baseline of 40.9 versus an average reduction of -11.2 lesions from a baseline of 38.8 with vehicle; p=0.0032). This represents a 45% greater average absolute reduction in inflammatory lesions and a 78% absolute reduction in non-inflammatory lesions with DRM01 versus vehicle gel. For reference, Retin-A Micro (0.1% tretinoin gel) demonstrated -37% and -29% reductions of inflammatory lesions in its two pivotal trials along with non-inflammatory lesion reductions of -49% and -32%. And while we would note that this is a cross-trial comparison, our consultants highlighted that the Phase IIa data suggests that DRM01's novel approach of topically inhibiting sebum production could have potentially superior efficacy to the current leading topical agents. Furthermore, despite the high efficacy seen with the vehicle gel arm in the DRM01 Phase IIa study, our consultants also note that the nearly 20% separation seen for the reduction of inflammatory lesions at 12 weeks provides ample room to demonstrate a clear clinical benefit for DRM01. They specifically commented that a near 20% separation between the active and control arms is not commonly seen in acne trials. Overall, our consultants were very impressed with the safety and efficacy of DRM01 and note that DRM01 could potentially be used as monotherapy agent, or in combination with a broad range of the currently acne treatment options. If the novel agent is prescribed in both scenarios, this could significantly increase product sales and inflect the value of DERM shares.

Dermira is currently enrolling patients in a 400-subject Phase IIb study of DRM01 that dosed its first patient in April 2015. The randomized, double-blind, vehicle-controlled study will assess three dosing options of DRM01 to select an optimal dose for the Phase III programs: 7.5% concentration twice-daily, 7.5% concentration once-daily, and 4% concentration once-daily. Additionally, patients being treated with vehicle gel will also receive once-daily or twice-daily administration. The 12-week study will use the same endpoints as the successful Phase IIa study. Enrollment in the Phase IIb study is steadily progressing and topline data is expected in H1:2016.

The next major clinical data catalyst for Dermira will be the readout of the ongoing Phase III ATMOS-1/2 trials with topline data expected during H2:2016 for **DRM04, for the treatment of hyperhidrosis**, which as we discuss below is a large, underserved patient population. DRM04 is a proprietary topical anticholinergic product designed to reduce sweat production by blocking cholinergic receptors responsible for sweat gland activation. This is a novel topical wipe formulation of an already approved anticholinergic that is being used systemically in other indications, so it has a strong and established safety profile. The product is intended to be used once a day at bedtime. Importantly, our consultants note that this product profile is appealing and

appears to be a better topical antiperspirant when compared to other products like Drysol, which can cause stinging among other side effects and is believed to eventually clog sweat ducts. An International Hyperhidrosis Society survey conducted in June 2008 reports that as many as 1/3 of US adults believe they sweat too much and that 60% are "embarrassed or very embarrassed" by underarm sweat – sometimes even more than having acne or being overweight. Moreover, 70% of those who believe they have excessive sweating seek to hide or prevent it. In the U.S., Strutton et al. (JAAD, August 2004, Volume 51, Number 2) estimates that there are 8MM (3% of the population) hyperhidrosis sufferers in the U.S., and that 1.3MM of these patients rate the sweating as intolerable. While there are mildly-effective treatments like prescription/OTC antiperspirants (which can unfortunately clog sweat ducts) and off-label systemic oral medications, a 2004 International Hyperhidrosis Society survey estimated that only 8% of treated hyperhidrosis patients are treated with Botox. Given the data demonstrated in Phase II and discussed further below, we – and our consultants – believe DRM04 has an attractive product profile relative to currently available treatments. This would include Botox, which typically requires local anesthetic due to a large number of extremely painful injections (9 out of a 1-10 pain scale; 20-30 injections per site), is not economical for physicians as it is a difficult and time-consuming procedure that is only reimbursed $75. And if it's not reimbursed, use is limited due to the high out of pocket patient costs. These drawbacks have limited Botox' use in hyperhidrosis and it is estimated that the product revenues are likely confined to $50-75MM in sales for this indication given these issues. Finally, our consultants note that many patients are still afraid of Botox injections, especially in this more sensitive area. For these reasons, our physician consultants believe that DRM04 is ideally suited for the hyperhidrosis indication, and in particular, believe it could treat the majority of their patients with severe hyperhidrosis.

DRM04 is being developed under the 505(b)(2) pathway and has already completed one Phase IIa and two Phase IIb clinical trials. In the first HH01 Phase IIb study, which used the original reference anticholinergic agent, dose-dependent and statistically significant results were observed. Five cohorts were tested in this study: vehicle placebo, 1% active, 2% active, 3% active, and 4% active randomized 1:1:1:1:1 (40 patients per cohort). Absolute and percentage changes in baseline sweat production at week four were observed in the five different dose cohorts. All enrolled patients must have produced at least 50 mg of sweat in each axilla over a five-minute period. From analyzing the percentage changes in baseline sweat production, a clear dose relationship was observed between the 1-3% dose levels. Dose levels 3% and above appear to have almost a 30% greater reduction than vehicle and were highly statistically significant (3% dose cohort p=0.005 and 4% dose cohort p=0.006). Patient response to the HDSS PRO scale was also measured at week four. The proportion of patients with a $\geq$2-point improvement were measured across the five dose cohorts mentioned above, and this was the same endpoint used in the Botox hyperhidrosis clinical trials. Patients enrolled had a 3 or 4 on the HDSS scale, which indicates severe disease. A similar trend with the numerical values above was observed across the several dose cohorts and doses 2-4% achieved statistical significance. Results from the second Phase IIb study that tested the DRM04 formulation were generally consistent with the results from the reference product formulation in study HH01. For the two DRM04 arms, similar percent reductions in baseline sweat production were observed, and even though the study was not powered for statistical significance, one of the arms did reach statistical significance. A 660-patient Phase III hyperhidrosis program for DRM04 has been initiated and topline data is expect by the second half of 2016.

Dermira is also developing the anti-TNF Cimzia for the add-on indication of psoriasis as it is already approved for Crohn's, RA, PsA, and axSpA. Dermira is working in

partnership with the originator company UCB and is currently enrolling a Phase III 990-patient clinical program with topline data expected in 2017. Treatment for severe psoriasis has been transformed by biologic TNF inhibitors, which have a clean safety record as first-line biologic therapies for over 15 years. Furthermore, Armstrong et al. estimates that ~50% of patients remain unsatisfied with current treatments as only 10.5% of moderate-to-severe patients use biologics. Worth noting, if Cimzia is eventually able to receive an approval in this indication, it should finally be able to achieve higher formulary status, of potentially Tier 1. In the past, not being indicated for psoriasis has held the product to more limited status which has complicated its commercial potential. Moreover, Dermira believes that the molecular characteristics of Cimzia may offer potential efficacy and safety advantages in psoriasis. Specifically, Cimzia does not have the Fc hinge region, which the other anti-TNFs have, and which our consultants indicate may be the cause of immunogenicity. This immunogenicity profile/issue is the reason why our consultants note that "all anti-TNFs eventually stop working" as psoriasis plaques eventually reappear in patients. Our consultants estimate that efficacy can be lost as soon as 2-6 months with marketed anti-TNFs and note that this is a more significant issue than is believed/discussed. Efficacy with Stelara is also eventually lost due to anti-drug antibodies. Interestingly, in a Phase II retreatment psoriasis study, patients who stopped Cimzia therapy after 3 months and then relapsed as they did not receive treatment for up to 6 months (per the protocol design), achieved the same efficacy originally observed after another cycle of 3 months of Cimzia treatment. This could potentially support the hypothesis above and result in a more durable treatment effect. Results from the open-label extension portion of the ongoing Phase III trial – that is discussed later in this report – should prove (or disprove) this hypothesis. Given Cimzia's efficacy in other TNF-related disorders and the fact that anti-TNFs have proven to be very effective for the treatment of psoriasis, we – and our consultants – believe there is a high likelihood of success in this indication. And clearly our consultants believe that the product could in fact prove differentiated.

We estimate the overall psoriasis market is poised to grow from approximately $6B in 2014 to over $9B in 2019 as anti-TNFs continue to gain ground. More specifically, U.S. sales of branded, systemic therapies was $3.9B in 2013 and are projected to reach almost $6B by 2023. Enbrel remains the mainstay of therapy, but will likely continue to lose modest share in a growing market. AbbVie's Humira presents the biggest threat to Enbrel at this time, given its superior efficacy and similar safety profile. As discussed below in the clinical data section, if Cimzia is able to achieve similar efficacy to Humira, we believe it too would take share from Enbrel.

A Phase II study with Cimzia in psoriasis was completed by partner UCB, which suggests that the product may have a competitive profile among the other anti-TNFs. Both PASI 75 (proportion of patients achieving a 75% improvement in the Psoriasis Area and Severity Index scale) and PGA (proportion of patients who achieved clearing or near clearing of psoriasis as rate by the investigator via the physician's global assessment) response rates were taken at week 12. In this 176-patient study, 400mg loading doses of Cimzia were given and then patients were dosed at 200mg or 400mg every two weeks. In the 200mg arm, PASI 75 and PGA rates of 75% and 53% were observed, respectively. For the 400mg arm, even higher PASI 75 and PGA rates of 83% and 73% were observed, respectively. Statistical significance ($p<0.001$) was achieved. These results are compared to 12-week PASI-75 and PGA rates of ~45% and 50-55%, respectively for Enbrel's Phase III studies, and rates of 65-70% and ~60%, respectively for Humira's Phase III studies. Therefore, if the rates for the 400mg arm hold up in Phase III, it could prove to be a far superior treatment option than Enbrel and potentially better than Humira. Although, we would note that having rates similar to Humira should be more than enough for Cimzia to be a successful addition to the

psoriasis treatment paradigm as physicians frequently switch between anti-TNFs in this patient population. Based upon these Phase II results, our consultants believe the data is compelling and indicates that Cimzia could be a best-in-class TNF with similar efficacy to the IL-17s in development.

Upcoming Milestones For Dermira Include:

2015:
- Enrollment completion in the DRM01 Phase IIb study for acne

2016:
- H1 – Topline data from the DRM01 Phase IIb study for acne
- H2 – Topline data from the DRM04 Phase III study for hyperhidrosis
- Potential initiation of Phase III program of DRM01 for acne

2017:
- H1 – NDA filing of DRM04 for hyperhidrosis
- Topline data from the Cimzia Phase III program for psoriasis and subsequent sNDA filing

2018:
- Potential approval and launch of DRM04 for hyperhidrosis
- Potential approval and launch of Cimzia for psoriasis in the U.S. and Canada

Our Valuation Suggests DERM Shares Are Compelling At These Levels

Our base case valuation model assumes a U.S. approval and subsequent launch of DRM01 in 2019, with pricing roughly in-line with branded topical retinoids. We believe U.S. peak sales could eventually reach approximately ~$500MM. We would note that this could be conservative given that size of the total U.S. prescription acne market (including oral and topical antimicrobial) is $3.5B+. Furthermore, we assume primarily monotherapy use of DRM01 for acne, but note that our consultants believe that the topical sebum inhibitor could be used in combination with topical retinoids and topical/oral antimicrobials. If this scenario occurs, our estimated product sales could prove to be quite conservative and could significantly inflect the value of DERM shares. For DRM04, we assume U.S. approval and launch in 2018, with pricing roughly in-line or potentially below Botox for the treatment of hyperhidrosis. We estimate U.S. peak sales of $200MM+. Finally, we also assume U.S. approval and launch of Cimzia for the treatment of psoriasis in 2018. We assume peak profit share revenues of $350MM+. For these three late-stage products, we assume relatively conservative target market penetrations of 5-15%. We would note that Dermira is also evaluating DRM02 (topical PDE4 inhibitor) for the treatment of inflammatory skin conditions, and also DRM05 (topical photodynamic therapy) for the treatment of acne, and we do not model any of these potential early-stage pipeline opportunities. In terms of operating spend, we anticipate ultimate margins of ~85% with SG&A and R&D costs within the range of normal industry standards.

Below we provide our U.S. market builds for DRM01, DRM04, and Cimzia for psoriasis. On the following pages, we provide our Dermira annual P&L and base case DCF.

Figure 1 U.S. Acne Market Build For DRM01

ESTIMATED U.S. ACNE TREATMENT MARKET													
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	CGR	Comments
U.S. Population 12 to 24 years old (MM)	52.0	52.5	53.0	53.6	54.1	54.7	55.2	55.8	56.3	56.9	57.4		
Growth Rate	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%		
Prevalence of Moderate-to-Severe Acne	24.8%	24.8%	24.8%	24.8%	24.8%	24.8%	24.8%	24.8%	24.8%	24.8%	24.8%		
Target Population (MM)	12.9	13.0	13.2	13.3	13.4	13.6	13.7	13.8	14.0	14.1	14.2		
% Treated	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%		
Patients Treated (MM)	3.0	3.1	3.1	3.1	3.2	3.2	3.2	3.2	3.3	3.3	3.3	+1%	
ESTIMATED U.S. ORAL ISOTRETINOIN TREATMENT MARKET													
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	CGR	Comments
Absorica Penetration Of U.S. Acne Market													
Average Price Per Prescription	$1,119	$1,214	$1,250	$1,250	$1,250	$1,300	$1,300	$1,300	$1,350	$1,350	$1,350	+1%	
Annual Prescriptions ('000)	130	217	220	230	240	250	260	270	280	290	300	+4%	
Estimated Sales U.S. ($MM)	$146	$263	$275	$290	$300	$325	$340	$350	$380	$390	$405	+5%	
Penetration of Total U.S. Isotretinoin Market Prescriptions	13%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%		
Amnesteem Penetration Of U.S. Acne Market													
Average Price Per Prescription	$506	$412	$450	$450	$450	$500	$500	$500	$550	$550	$550	+3%	
Annual Prescriptions ('000)	229	257	260	270	280	290	300	310	320	330	340	+3%	
Estimated Sales U.S. ($MM)	$116	$106	$115	$120	$125	$145	$150	$155	$175	$180	$185	+6%	
Penetration of Total U.S. Isotretinoin Market Prescriptions	22%	24%	24%	23%	23%	23%	23%	23%	23%	23%	23%		
Claravis Penetration Of U.S. Acne Market													
Average Price Per Prescription	$486	$504	$550	$550	$550	$600	$600	$660	$650	$650	$650	+3%	
Annual Prescriptions ('000)	528	328	330	340	350	360	370	380	390	400	410	+3%	
Estimated Sales U.S. ($MM)	$257	$165	$180	$185	$195	$215	$220	$250	$255	$260	$265	+5%	
Penetration of Total U.S. Isotretinoin Market Prescriptions	51%	30%	30%	30%	29%	29%	28%	28%	28%	28%	27%		
Myorisan Penetration Of U.S. Acne Market													
Average Price Per Prescription	$353	$324	$350	$350	$350	$400	$400	$400	$450	$450	$450	+4%	
Annual Prescriptions ('000)	119	164	170	180	190	200	210	220	230	240	250	+5%	
Estimated Sales U.S. ($MM)	$42	$53	$60	$65	$65	$80	$85	$90	$105	$110	$115	+9%	
Penetration of Total U.S. Isotretinoin Market Prescriptions	11%	15%	15%	16%	16%	16%	16%	16%	16%	17%	17%		
Zenatane Penetration Of U.S. Acne Market													
Average Price Per Prescription	$558	$370	$400	$400	$400	$450	$450	$450	$500	$500	$500	+3%	
Annual Prescriptions ('000)	32	118	120	130	140	150	160	170	180	190	200	+6%	
Estimated Sales U.S. ($MM)	$18	$44	$50	$50	$55	$70	$70	$75	$90	$95	$100	+10%	
Penetration of Total U.S. Isotretinoin Market Prescriptions	3%	11%	11%	11%	12%	12%	12%	13%	13%	13%	13%		
Total U.S. Isotretinoin Market Sales ($MM)	**$578**	**$631**	**$680**	**$710**	**$740**	**$835**	**$865**	**$920**	**$1,005**	**$1,035**	**$1,070**	**+6%**	- Steady growth
% Growth		**+9%**	**+8%**	**+4%**	**+4%**	**+13%**	**+4%**	**+6%**	**+9%**	**+3%**	**+3%**		
Total U.S. Isotretinoin Annual Prescriptions ('000)	**1,039**	**1,084**	**1,100**	**1,150**	**1,200**	**1,250**	**1,300**	**1,350**	**1,400**	**1,450**	**1,500**	**+4%**	
ESTIMATED U.S. TOPICAL RETINOID TREATMENT MARKET													
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	CGR	Comments
Atralin Penetration Of U.S. Acne Market													
Average Price Per Prescription	$233	$236	$250	$250	$250	$260	$260	$260	$270	$270	$270	+2%	
Annual Prescriptions ('000)	217.0	174	175	175	175	175	175	175	175	175	175	+0%	
Estimated Sales U.S. ($MM)	$50.6	$41.0	$45.0	$45.0	$45.0	$45.0	$45.0	$45.0	$45.0	$45.0	$45.0	+1%	
Penetration of Total U.S. Topical Retinoind Market Prescriptions	6.0%	4.7%	4.7%	4.6%	4.5%	4.4%	4.3%	4.2%	4.1%	4.0%	4.0%		
Retin-A/Retin-A Mico Penetration Of U.S. Acne Market													
Average Price Per Prescription	$355	$479	$480	$480	$480	$490	$490	$490	$500	$500	$500	+0%	
Annual Prescriptions ('000)	243.7	84	80	75	70	65	60	55	50	45	40	-8%	
Estimated Sales U.S. ($MM)	$86.6	$40.3	$40.0	$35.0	$35.0	$30.0	$30.0	$25.0	$25.0	$25.0	$20.0	-7%	
Penetration of Total U.S. Topical Retinoind Market Prescriptions	6.7%	2.3%	2.1%	2.0%	1.8%	1.6%	1.5%	1.3%	1.2%	1.0%	0.9%		
Generic Tretinoin Penetration Of U.S. Acne Market													
Average Price Per Prescription	$83	$108	$110	$110	$110	$120	$120	$120	$130	$130	$130	+2%	
Annual Prescriptions ('000)	2,810.1	3,147	3,200	3,300	3,400	3,500	3,600	3,700	3,800	3,900	4,000	+3%	
Estimated Sales U.S. ($MM)	$233.0	$341.0	$350.0	$365.0	$375.0	$420.0	$430.0	$445.0	$495.0	$505.0	$520.0	+5%	
Penetration of Total U.S. Topical Retinoind Market Prescriptions	77.3%	85.0%	85.4%	86.2%	86.8%	87.5%	88.1%	88.7%	89.3%	89.9%	90.4%		
Ziana Penetration Of U.S. Acne Market													
Average Price Per Prescription	$418	$410	$420	$420	$420	$430	$430	$430	$440	$440	$440	+1%	
Annual Prescriptions ('000)	255.0	199	190	180	170	160	150	140	130	120	110	-6%	
Estimated Sales U.S. ($MM)	$106.6	$81.8	$80.0	$75.0	$70.0	$70.0	$65.0	$60.0	$55.0	$55.0	$50.0	-5%	
Penetration of Total U.S. Topical Retinoind Market Prescriptions	7.0%	5.4%	5.1%	4.7%	4.3%	4.0%	3.7%	3.4%	3.1%	2.8%	2.5%		
Other Penetration Of U.S. Acne Market													
Average Price Per Prescription	$211	$205	$205	$205	$205	$215	$215	$215	$225	$225	$225	+1%	
Annual Prescriptions ('000)	110.6	99	100	100	100	100	100	100	100	100	100	+0%	
Estimated Sales U.S. ($MM)	$23.3	$20.3	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$25.0	$25.0	$25.0	+2%	
Penetration of Total U.S. Topical Retinoind Market Prescriptions	3.0%	2.7%	2.7%	2.6%	2.6%	2.5%	2.4%	2.4%	2.4%	2.3%	2.3%		
Total U.S. Topical Retinoid Market Sales ($MM)	**$500**	**$525**	**$535**	**$540**	**$545**	**$585**	**$590**	**$595**	**$645**	**$655**	**$660**	**+3%**	- Steady growth
% Growth		**+5%**	**+2%**	**+1%**	**+1%**	**+7%**	**+1%**	**+1%**	**+8%**	**+2%**	**+1%**		
Total U.S. Topical Retinoid Annual Prescriptions ('000)	**3,636**	**3,703**	**3,745**	**3,830**	**3,915**	**4,000**	**4,085**	**4,170**	**4,255**	**4,340**	**4,425**	**+2%**	
ESTIMATED U.S. DRM01 SALES													
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	CGR	Comments
DRM01 U.S. Acne Sales													
Average Cost							$250	$260	$270	$280	$290		- WAC price
Sales ($MM)							**$55.0**	**$115.0**	**$170.0**	**$225.0**	**$290.0**		- Acne launch expected in early 2019
% of Estimated U.S. Isotretinoin/Tretinoin Acne Market (Prescriptions)							**4.0%**	**8.0%**	**11.0%**	**14.0%**	**17.0%**		

Source: Dermira; Cowen and Company estimates; PriceRx, IMS

Figure 2 U.S. Hyperhidrosis Market Build For DRM04

ESTIMATED U.S. HYPERHIDROSIS TREATMENT MARKET													
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	CGR	Comments
U.S. Population (MM)	300.0	303.0	306.0	309.1	312.2	315.3	318.5	321.6	324.9	328.1	331.4		
Growth Rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%		
Prevalence of Hyperhidrosis	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%		
Total Population (MM)	7.5	7.6	7.7	7.7	7.8	7.9	8.0	8.0	8.1	8.2	8.3		
Patients With Axillary Hyperhidrosis	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%		
Target Population (MM)	3.8	3.8	3.8	3.9	3.9	3.9	4.0	4.0	4.1	4.1	4.1		
% Treated	20.0%	20.0%	20.0%	20.0%	20.0%	22.0%	24.0%	26.0%	28.0%	30.0%	32.0%		
Patients Treated (MM)	1.5	1.5	1.5	1.5	1.6	1.7	1.9	2.1	2.3	2.5	2.7	+6%	
ESTIMATED U.S. DRM04 SALES													
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	CGR	Comments
DRM04 U.S. Hyperhidrosis Sales													
Average Cost						$250	$260	$270	$280	$290	$300		- WAC price
Sales ($MM)						**$15.0**	**$30.0**	**$45.0**	**$65.0**	**$85.0**	**$110.0**	**+18%**	- Launch expected in 2018
% of Estimated U.S. Hyperhidrosis Market (Patients)						**3.0%**	**6.0%**	**8.0%**	**10.0%**	**12.0%**	**14.0%**		

Source: Dermira; Cowen and Company estimates; PriceRx, IMS

Figure 3 U.S. Psoriasis Market Build For Cimzia

ESTIMATED U.S. PSORIASIS MARKET												
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	CAGR	Comments
Total U.S. Population ('000)	332,000	335,500	338,855	342,240	345,665	349,120	352,610	356,135	359,695	363,295		
Prevalence of Psoriasis	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%		
Total U.S. Patients with Psoriasis ('000)	4,980	5,033	5,083	5,134	5,185	5,237	5,289	5,342	5,395	5,449		
Prevalence of Moderate-to-Severe Psoriasis	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%		
% Requiring Add-On Therapy	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%		
Total Psoriasis Add-On Therapy Population ('000)	**383**	**388**	**391**	**395**	**399**	**403**	**407**	**411**	**415**	**420**		
% Growth		+1%	+1%	+1%	+1%	+1%	+1%	+1%	+1%	+1%		
Remicade Penetration of U.S. Psoriasis Add-On Market (JNJ)	**3%**	**5%**	**4%**	**4%**	**3%**	**3%**	**2%**	**2%**	**2%**	**2%**		
Average Annual Patients ('000)	4.5	12.2	12.1	11.8	10.8	10.5	9.8	9.0	8.2	7.6	-6%	
Annual Cost of Therapy ($'000)	$17.7	$17.7	$17.7	$17.7	$17.7	$17.7	$17.7	$17.7	$17.7	$17.7		- Infliximab; Lower price because of Lower dosing and less frequency
Estimated Remicade U.S. Psoriasis Sales ($MM)	**$80**	**$215**	**$215**	**$210**	**$190**	**$185**	**$175**	**$160**	**$145**	**$135**	**-6%**	
% Growth		+169%	+0%	-2%	-10%	-3%	-5%	-9%	-9%	-7%		
Enbrel Penetration of U.S. Psoriasis Add-On Market (AMGN)	**38%**	**30%**	**28%**	**26%**	**24%**	**22%**	**21%**	**20%**	**19%**	**18%**		- Etanercept; U.S. patent protection until 2028
Average Annual Patients ('000)	46.0	48.5	51.5	53.5	54.8	55.4	55.0	55.0	55.0	55.0	+2%	
Annual Cost of Therapy ($'000)	$25.9	$26.7	$27.0	$27.2	$27.5	$27.8	$28.1	$28.3	$28.6	$28.9		
Estimated Enbrel U.S. Psoriasis Sales ($MM)	**$1,195**	**$1,295**	**$1,390**	**$1,455**	**$1,510**	**$1,540**	**$1,545**	**$1,560**	**$1,575**	**$1,590**	**3%**	
% Growth		+8%	+7%	+5%	+4%	+2%	+0%	+1%	+1%	+1%		
Humira Penetration of U.S. Psoriasis Add-On Market (ABBV)	**34%**	**34%**	**32%**	**30%**	**28%**	**27%**	**27%**	**26%**	**26%**	**25%**		- Adalimumab; potential biosimilar competition starting in 2016
Average Annual Patients ('000)	42.1	55.8	58.7	62.5	65.9	68.6	72.5	74.0	76.0	78.0	+4%	
Annual Cost of Therapy ($'000)	$25.8	$26.5	$26.8	$27.1	$27.3	$27.6	$27.9	$28.2	$28.4	$28.7		
Estimated Humira U.S. Psoriasis Sales ($MM)	**$1,085**	**$1,480**	**$1,570**	**$1,690**	**$1,800**	**$1,895**	**$2,020**	**$2,085**	**$2,160**	**$2,240**	**5%**	
% Growth		+36%	+6%	+8%	+7%	+5%	+7%	+3%	+4%	+4%		
Stelara Penetration of U.S. Psoriasis Add-On Market (JNJ)	**26%**	**31%**	**28%**	**27%**	**26%**	**25%**	**24%**	**24%**	**23%**	**23%**		- Ustekinumab; Il-12 and -23 inhibitor
Average Annual Patients ('000)	35.8	56.2	58.7	61.3	63.9	68.6	73.3	75.0	77.0	79.0	+4%	
Annual Cost of Therapy ($'000)	$23.1	$23.7	$24.0	$24.2	$24.5	$24.7	$25.0	$25.2	$25.5	$25.7		
Estimated Stelara U.S. Psoriasis Sales ($MM)	**$825**	**$1,335**	**$1,410**	**$1,485**	**$1,565**	**$1,695**	**$1,830**	**$1,890**	**$1,960**	**$2,030**	**5%**	
% Growth		+62%	+6%	+5%	+5%	+8%	+8%	+3%	+4%	+4%		
Otezla Penetration of U.S. Psoriasis Add-On Market (CELG)	**0%**		**5%**	**6%**	**7%**	**7%**	**7%**	**7%**	**7%**	**7%**		- Apremilast; oral PDE4 inhibitor
Average Annual Patients ('000)	0.9		10.0	14.5	20.1	21.3	23.0	24.0	25.0	26.0	+52%	
Annual Cost of Therapy ($'000)	$22.5		$22.7	$23.0	$23.2	$23.4	$23.6	$23.9	$24.1	$24.4		
Estimated Stelara U.S. Psoriasis Sales ($MM)	**$20**		**$225**	**$335**	**$465**	**$500**	**$545**	**$575**	**$605**	**$635**	**54%**	
% Growth			+1025%	+49%	+39%	+8%	+9%	+6%	+5%	+5%		
Cosentyx Penetration of U.S. Psoriasis Add-On Market (NVS)			**3%**	**5%**	**9%**	**12%**	**13%**	**15%**	**17%**	**18%**		- Secukinumab; IL-17 inhibitor; approved in the U.S. and EU
Average Annual Patients ('000)			8.5	16.7	33.1	44.0	54.2	64.6	74.6	84.4	+39%	
Annual Cost of Therapy ($'000)			$17.7	$17.9	$18.1	$18.2	$18.4	$18.6	$18.8	$19.0		
Estimated Stelara U.S. Psoriasis Sales ($MM)			**$150**	**$300**	**$800**	**$800**	**$1,000**	**$1,200**	**$1,400**	**$1,600**	**+40%**	
% Growth				+100%	+100%	+33%	+25%	+20%	+17%	+14%		
Ixekizumab Penetration of U.S. Psoriasis Add-On Market (LLY)				**2%**	**3%**	**4%**	**5%**	**6%**	**7%**	**8%**		- IL-17 inhibitor; 3 psoriasis data trials met endpoint; NDA filed Q1:15
Average Annual Patients ('000)				5.7	11.2	16.4	21.8	26.8	32.0	36.8	+36%	
Annual Cost of Therapy ($'000)				$17.9	$18.1	$18.3	$18.4	$18.6	$18.8	$19.0		
Estimated Stelara U.S. Psoriasis Sales ($MM)				**$100**	**$200**	**$300**	**$400**	**$500**	**$600**	**$700**	**+36%**	
% Growth					+100%	+50%	+33%	+25%	+20%	+17%		
Total U.S. Psoriasis Market Sales ($MM)	**$3,185**	**$4,345**	**$4,960**	**$5,575**	**$6,330**	**$6,915**	**$7,515**	**$7,970**	**$8,445**	**$8,930**	**+9%**	
% Growth		+36.4%	+14.2%	+12.4%	+13.5%	+9.2%	+8.7%	+6.1%	+6.0%	+5.7%		
Total U.S. Psoriasis Patients Treated with Biologics ('000)	128	174	200	226	260	285	310	328	348	367		
ESTIMATED U.S. CIMZIA PSORIASIS SALES												
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	CAGR	Comments
Total Cimzia U.S. Psoriasis Market Sales ($MM)												
Annual Cost of Therapy ($'000)						$25.0	$25.3	$25.5	$25.8	$26.0		- Priced in-line with other biologics for psoriasis
Sales						**$70.0**	**$235.0**	**$335.0**	**$450.0**	**$575.0**		
% of Estimated U.S. Biologics Psoriasis Market (Patients)						**+1.0%**	**+3.0%**	**+4.0%**	**+5.0%**	**+6.0%**		
Dermira Profit Share						**$55.0**	**$150.0**	**$195.0**	**$245.0**	**$295.0**	**+52%**	- Share of gross margin; 90% on sales <$150MM, 50% on sales >$150MM

Source: Dermira; Cowen and Company estimates; PriceRx, IMS

For our DCF valuation, we assume that Dermira will develop and commercialize DRM01, DRM04, and Cimzia for psoriasis in the US. Using the sales estimates provided above and assuming a U.S. launch of DRM01 in 2019 along with U.S. launches of DRM04 and Cimzia in 2018, we arrive at a DCF valuation of $40 per share, which is the basis of our price target. We would note that our $40 price target is predicated on these risk-adjusted late-stage assets alone. Any additional product approvals as discussed above could provide further upside. Based on the number of value-creating catalysts for Dermira over the next 6-12 months, we very much like the risk/reward at these levels.

Figure 4 Dermira Annual P&L

DERMIRA - 2014-2025 ESTIMATED ANNUAL EPS BUILDUP ($MM)

	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	CGR	Comments
U.S. DRM01 Sales							$55.0	$115.0	$170.0	$225.0	$290.0	$335.0	$375.0	+8%	- Topical sebum inhibitor for acne; Phase IIb study ongoing with data in H1:2016
Growth Rate								+109%	+48%	+32%	+29%	+15%	+12%		- Patent protection expected until 2030
U.S. DRM04 Sales						$15.0	$30.0	$45.0	$65.0	$85.0	$110.0	$145.0	$165.0	+23%	- Topical anticholinergic for hyperhidrosis; Phase III initiated with data in H2:2016
Growth Rate							+100%	+50%	+44%	+31%	+40%	+30%	+15%		- Patent protection expected until 2034
U.S Cimzia Psoriasis Profit Share						$55.0	$150.0	$195.0	$245.0	$295.0	$340.0	$380.0	$230.0	+6%	- Dermatology rights in U.S. and Canada; Phase III enrolling with data in 2017
Growth Rate							+173%	+30%	+26%	+20%	+15%	+12%	-40%		- Patent protection expected until 2024
Collaboration Revenue		$7.3													
Growth Rate															
Total Dermira Revenues		**$7.3**				**$70.0**	**$235.0**	**$355.0**	**$480.0**	**$605.0**	**$740.0**	**$860.0**	**$770.0**	**15%**	
% Change							+236%	+51%	+35%	+26%	+22%	+16%	-10%		
Cost of Goods	$0.0	$0.0	$0.0	$0.0	$0.0	$15.0	$45.0	$70.0	$95.0	$90.0	$110.0	$130.0	$115.0		
Gross Profit	$0.0	$7.3	$0.0	$0.0	$0.0	$55.0	$190.0	$285.0	$385.0	$515.0	$630.0	$730.0	$655.0		
Gross Margin	NM	100.0%	NM	NM	NM	80.0%	80.0%	80.0%	80.0%	85.0%	85.0%	85.0%	85.0%		- Solid margins
SG&A	$4.4	$8.3	$20.0	$35.0	$50.0	$85.0	$120.0	$145.0	$160.0	$185.0	$210.0	$235.0	$200.0	+10%	- Salesforce expansion beginning in 2017, in preparation for Cimzia and DRM04
% of Revs	NM	NM	NM	NM	NM	121%	51%	41%	33%	31%	28%	27%	26%		- Salesforce expansion required for DRM01
R&D	$17.9	$30.7	$60.0	$60.0	$55.0	$50.0	$45.0	$40.0	$40.0	$40.0	$40.0	$40.0	$35.0	-10%	- Clinical trial costs for DRM01 and DRM04; shared expenses for Cimzia
% of Revs	NM	NM	NM	NM	NM	71.4%	19.1%	11.3%	8.3%	6.6%	5.4%	4.7%	4.5%		
Operating Expenses	$22.3	$39.0	$80.0	$95.0	$105.0	$135.0	$165.0	$185.0	$200.0	$225.0	$250.0	$275.0	$235.0	+2%	
% of Revenues	NM	NM	NM	NM	NM	NM	70.2%	52.1%	41.7%	37.2%	33.8%	32.0%	30.5%		
Operating Income	($22.3)	($31.7)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$290.0	$380.0	$455.0	$420.0		- Operating profit expected in late 2019
% Operating Margin	NM	NM	NM	NM	NM	NM	10.6%	28.2%	38.5%	47.9%	51.4%	52.9%	54.5%		
Non-Operating Income															
Interest Income	$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		
Interest Expense	(0.0)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other Income	(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		
Non-Operating Income	($0.0)	($0.1)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		
Pretax Income	($22.4)	($31.8)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$290.0	$380.0	$455.0	$420.0	NM	
% of Revs	NM	NM	NM	NM	NM	NM	10.6%	28.2%	38.5%	47.9%	51.4%	52.9%	54.5%		
Income Taxes		$0.0								$101.5	$133.0	$159.3	$147.0	NM	
Income Tax Rate										35.0%	35.0%	35.0%	35.0%		
Net Income - Operations	($22.4)	($31.9)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$188.5	$247.0	$295.8	$273.0	NM	
% Net Margin	NM	NM	NM	NM	NM	NM	10.6%	28.2%	38.5%	31.2%	33.4%	34.4%	35.5%		
Extraordinary Items	$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		
Reported Net Income	($22.4)	($31.9)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$188.5	$247.0	$295.8	$273.0	NM	
Interest Add-Back	$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		
EPS (Non-GAAP) - Before Ex. Ite	($27.03)	($4.96)	($2.95)	($3.15)	($3.45)	($2.60)	$0.70	$2.85	$5.20	$5.20	$6.75	$7.95	$7.25	NM	- Profitable in late 2019 following Cimzia, DRM01 and DRM04 launches
Growth	NM	NM	NM	NM	NM	NM	NM	NM	+82%	+0%	+30%	+18%	-9%		
EPS - Extraordinary Items	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00		
EPS - Reported	($27.03)	($4.96)	($2.95)	($3.15)	($3.45)	($2.60)	$0.70	$2.85	$5.20	$5.20	$6.75	$7.95	$7.25	NM	
Shares - Fully Diluted (MM)	0.8	6.4	27.1	30.0	30.5	31.0	34.7	35.2	35.7	36.2	36.7	37.2	37.7		- Diluted shares; assuming some onward dilution from options

Source: Cowen and Company

Figure 5 Dermira DCF Suggests $40 Per Share

Assumptions:		*Output:*	
Increase in WC	5.0%	Equity Value	$1,126.0
Discount Rate	9.2%	**Estimated Share Price**	**$40.00**
Shares Outstanding	30.0	Net Cash	$194.0
		Enterprise Value	$1,320.0

DERMIRA DCF

	2013P	2014P	2015P	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	2031P	
Total Revenues	$0.0	$7.3	$0.0	$0.0	$0.0	$70.0	$235.0	$355.0	$480.0	$605.0	$740.0	$860.0	$770.0	$780.0	$800.0	$825.0	$865.0	$890.0	$480.0	
% Change			-100%				+236%	+51%	+35%	+26%	+22%	+16%	-10%	+1%	+3%	+3%	+5%	+3%	-46%	
Cost of Goods	$0.0	$0.0	$0.0	$0.0	$0.0	$15.0	$45.0	$70.0	$95.0	$90.0	$110.0	$130.0	$115.0	$115.0	$120.0	$125.0	$130.0	$135.0	$70.0	
Gross Profit	$0.0	$7.3	$0.0	$0.0	$0.0	$55.0	$190.0	$285.0	$385.0	$515.0	$630.0	$730.0	$655.0	$665.0	$680.0	$700.0	$735.0	$755.0	$410.0	
Gross Margin - Total	NM	100.0%	NM	NM	NM	80.0%	80.0%	80.0%	80.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	
SG&A	$4.4	$8.3	$20.0	$35.0	$50.0	$85.0	$120.0	$145.0	$160.0	$185.0	$210.0	$235.0	$200.0	$175.0	$150.0	$125.0	$100.0	$75.0	$50.0	
% of Revs	NM	113.5%	NM	NM	NM	121.4%	51.1%	40.8%	33.3%	30.6%	28.4%	27.3%	26.0%	22.4%	18.8%	15.2%	11.6%	8.4%	10.4%	
R&D	$17.9	$30.7	$60.0	$60.0	$55.0	$50.0	$45.0	$40.0	$40.0	$40.0	$40.0	$40.0	$35.0	$30.0	$25.0	$20.0	$15.0	$10.0	$5.0	
% of Revs	NM	420.7%	NM	NM	NM	71.4%	19.1%	11.3%	8.3%	6.6%	5.4%	4.7%	4.5%	3.8%	3.1%	2.4%	1.7%	1.1%	1.0%	
Operating Expenses	$22.3	$39.0	$80.0	$95.0	$105.0	$135.0	$165.0	$185.0	$200.0	$225.0	$250.0	$275.0	$235.0	$205.0	$175.0	$145.0	$115.0	$85.0	$55.0	
% of Revenues	NM	NM	NM	NM	NM	NM	70.2%	52.1%	41.7%	37.2%	33.8%	32.0%	30.5%	26.3%	21.9%	17.6%	13.3%	9.6%	11.5%	
Operating Income	($22.3)	($31.7)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$290.0	$380.0	$455.0	$420.0	$460.0	$505.0	$555.0	$620.0	$670.0	$355.0	
% Operating Margin	NM	NM	NM	NM	NM	NM	10.6%	28.2%	38.5%	47.9%	51.4%	52.9%	54.5%	59.0%	63.1%	67.3%	71.7%	75.3%	74.0%	
Other Income	(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	0.0	0.0	
Adjusted EBIT	($22.3)	($31.7)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$290.0	$380.0	$455.0	$420.0	$460.0	$505.0	$555.0	$620.0	$670.0	$355.0	
% of Revs	NM	NM	NM	NM	NM	NM	10.6%	28.2%	38.5%	47.9%	51.4%	52.9%	54.5%	59.0%	63.1%	67.3%	71.7%	75.3%	74.0%	
Taxes							$0.0	$0.0	$0.0	$101.5	$133.0	$159.3	$147.0	$161.0	$176.8	$194.3	$217.0	$234.5	$124.3	
Income Tax Rate							0.0%	0.0%	0.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	
NOPAT	($22.3)	($31.7)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$188.5	$247.0	$295.8	$273.0	$299.0	$328.3	$360.8	$403.0	$435.5	$230.8	
Adjustments:																				Terminal
Capex	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($5.0)	($5.0)	
Depreciation & Amortization	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$6.0	
Change In Working Capital	($3.0)	($3.2)	($3.3)	($3.5)	($3.6)	($3.8)	($4.0)	($4.2)	($4.4)	($4.7)	($4.9)	($5.1)	($5.4)	($5.7)	($5.9)	($6.2)	($6.5)	($6.9)	($7.2)	
Free Cash Flow	($30.3)	($39.8)	($88.3)	($103.5)	($113.6)	($88.8)	$16.0	$90.8	$175.6	$178.8	$237.1	$285.6	$262.6	$288.3	$317.3	$349.5	$391.5	$428.6	$224.5	$2,440.5

Source: Cowen and Company

DRM01: The First Potential Topical Sebum Inhibitor & A Potential Groundbreaking Treatment For Acne

DRM01 is a novel, topical lipid synthesis inhibitor designed to reduce the production of sebum for the treatment of acne. The sequence of events leading to the development of an acne lesion is not fully understood, but the following four factors are involved: (1) excessive sebum (oil) production, which increases as a result of hormonal changes, generally during adolescence; (2) hair follicles, often called pores, become blocked by keratin (skin) and sebum resulting in the formation of a microcomedo; (3) the increased sebum allows for the overgrowth of naturally occurring bacteria on the skin, primarily *Propionibacterium acnes* ("P. acnes"); and (4) the bacteria overgrowth attracts white blood cells and causes an inflammatory response and can lead to rupture of the hair follicle. Acne typically affects areas of the body that have the largest, hormonally-responsive sebaceous glands, including the face, neck, chest, upper back, and upper arms.

Figure 6 Acne Lesions

Source: Dermira

The microcomedo is considered the precursor for acne lesions which can include non-inflammatory lesions: closed comedos (whiteheads), and open comedos (blackheads); and inflammatory lesions: papules, pustules, and nodules. The process by which microcomedones evolve into other acne lesions is not completely clear, but may involve the following:

- Accumulation of sebum and keratin converts a microcomedo into a closed comedo.
- With continued distension, the follicle's orifice is opened, forming an open comedo.
- Follicular rupture leads to the release of pro-inflammatory lipids and keratin into the surrounding dermis, leading to the formation of inflammatory papules or nodules

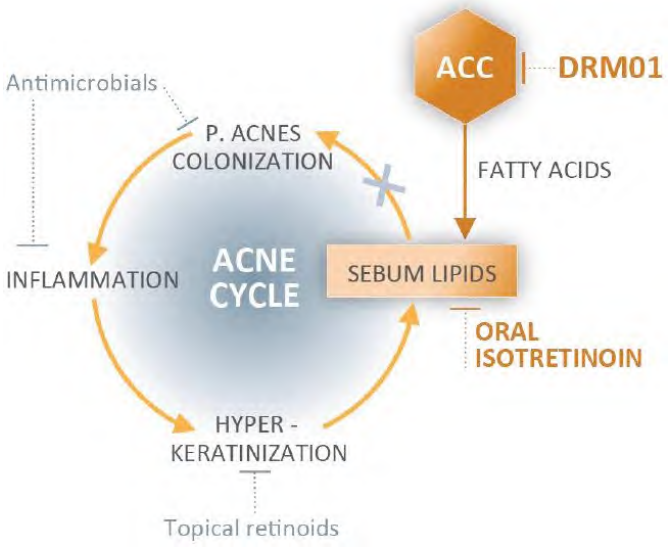
Harmful side effects from acne primarily comes from the lesions themselves, which may be painful and tender, as well as scarring and post-inflammatory hyperpigmentation (most common in patients with darker complexions).

For the last several decades, the same four prescription pharmaceutical product classes have been used to treat acne: (1) topical retinoids; (2) topical and oral antimicrobials; (3) oral isotretinoin; and (4) oral hormonal therapies. These treatments are directed toward the four primary pathogenic factors of acne as described above.

Many patients are often treated with a combination of complementary products that target multiple pathogenic factors. Patients are typically treated with one or two (and sometimes three) topical agents before oral systemic agents are prescribed (given the higher associated side effects). A range of topical agents are currently available to target each of the four primary pathogenic factors except for excessive sebum production. And while oral isotretinoin can be used to effectively inhibit sebum production, it has significant systemic side effects that requires oversight via a REMS program and limits broad utilization. Hence, our clinician consultants have been consistent in their feedback that a topical sebum inhibitor would be "groundbreaking" for the treatment of acne, not only as a monotherapy agent, but also in combination with topical retinoids and antimicrobials.

Dermira is currently developing DRM01 to address this considerable opportunity in the acne treatment landscape. DRM01 is a novel prodrug that works by inhibiting acetyl coenzyme-A carboxylase, a critical enzyme for the synthesis of fatty acids, which are an essential component for the majority of sebum lipids. If successful, DRM01 could be the first ever topical agent with isotretinoin-like effects without the considerable side effects.

Figure 7 DRM01 Is A Novel Topical Inhibitor Of Sebum



Source: Dermira

Dermira is currently conducting a Phase IIb dose-ranging study of DRM01 and has already successfully completed a Phase IIa and Phase I study (both conducted in Canada). Prior to conducting the Phase IIa study, the objective of the Phase I study of DRM01 was to evaluate the safety of the product. The study enrolled six healthy volunteers to receive treatment with DRM01 for seven days. All enrolled subjects completed dosing and importantly, no adverse events were reported.

Figure 8 Overview Of DRM01 Phase II/III Clinical Program

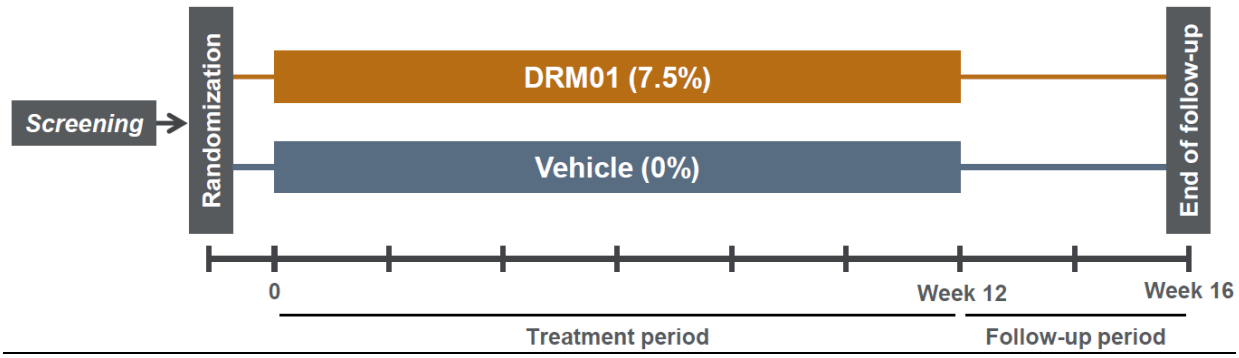
	P2a clinical trial	P2b clinical trial (ongoing)	P3 clinical trials (planned)
Objective(s)	Clinical POC	Dose-finding	Confirm safety and efficacy
Population	Adult acne patients (n=108)	Adult acne patients (n=400)	Adult and adolescent acne patients (n=TBD)
Administration	7.5% gel BID	▪ 7.5% gel BID ▪ 7.5% gel QD ▪ 4% gel QD ▪ Vehicle gel BID ▪ Vehicle gel QD	Regimen(s) selected based on P2b data
Duration	12 weeks	12 weeks	12 weeks
Primary efficacy measures	▪ Lesion count ▪ IGA	▪ Lesion count ▪ IGA	▪ Lesion count ▪ IGA
Status	**Complete**	**Topline data expected 1H16[1]**	**TBD**

Source: Dermira

Phase IIa Study Of DRM01 Demonstrated Compelling Efficacy For Acne

The Phase IIa clinical trial for DRM01 was a randomized, double-blind, vehicle-controlled study that enrolled 108 patients with moderate to severe acne. Patients applied either a 7.5% concentration of DRM01 gel or vehicle gel to the face twice daily for 12 weeks. A total of 53 patients were randomized to receive DRM01 and another 55 were randomized to receive vehicle only. The three measured efficacy endpoints were in-line with FDA draft guidance and included: (1) Absolute change from baseline in the number of inflammatory acne lesions; (2) Absolute change from baseline in the number of non-inflammatory acne lesions; and (3) Investigator's Global Assessment (IGA) assessed on a five-point scale that ranges from a score of zero (clear skin) to four (severe disease), with a reduction of at least two points from the baseline IGA score. Additional non-primary efficacy measures included the percent change from baseline in the number of inflammatory lesions and non-inflammatory lesions.

Figure 9 DRM01 Phase IIa Study Design

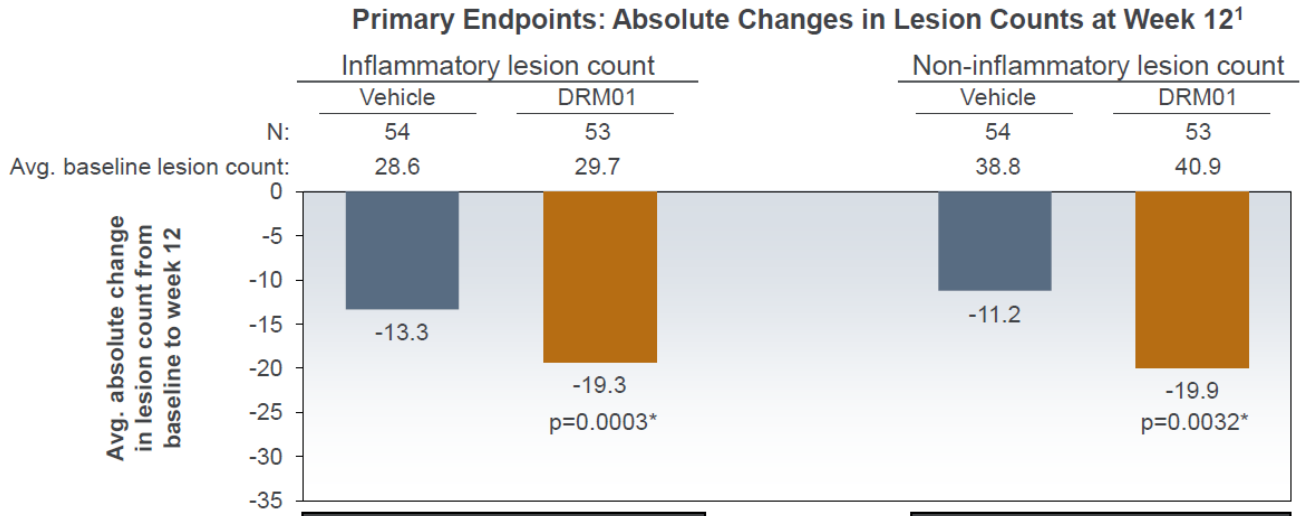


Source: Dermira

In this Phase IIa study, DRM01 demonstrated a statistically significant improvement in all three primary efficacy endpoints compared to vehicle. Specifically, after 12 weeks of treatment, patients treated with DRM01 achieved a -64% reduction in inflammatory lesions (average lesion count reduction of -19.3 from a baseline of 29.7 versus an average reduction of -13.3 lesions from a baseline of 28.6 with vehicle; p=0.0003) and a -48% reduction in non-inflammatory lesions (average lesion count reduction of -19.9 from a baseline of 40.9 versus an average reduction of -11.2 lesions from a baseline of 38.8 with vehicle; p=0.0032). This represents a 45% greater average absolute reduction in inflammatory lesions and a 78% absolute reduction in non-inflammatory lesions with DRM01 versus vehicle gel.

And just to provide a sense of the relative performance of DRM01, Retin-A Micro (0.1% tretinoin gel, which is the highest approved concentration of the product) demonstrated -37% and -29% reductions of inflammatory lesions in its two pivotal trials along with non-inflammatory lesion reductions of -49% and -32%. And while we would note that this is a cross-trial comparison, our consultants highlighted that the Phase IIa data suggests that DRM01's novel approach of topically inhibiting sebum production could have potentially better efficacy than the current leading topical agents. Furthermore, despite the high efficacy of the vehicle gel arm in the DRM01 Phase IIa study, our consultants also note that the nearly 20% separation seen for the reduction of inflammatory lesions at 12 weeks provides ample separation to demonstrate a clear clinical benefit for DRM01. They specifically commented that a near 20% separation between the active and control arms is not commonly seen in acne trials. In accordance with the FDA draft guidance, measurements for the Phase IIa study were based on the intention to treat (ITT) population, which includes all patients randomized to receive treatment with DRM01 or vehicle, and the last available on-treatment observation for those patients. One patient was excluded from the vehicle arm as no on-treatment efficacy measurements were available.

Figure 10 Lesion Count Efficacy Findings From DRM01 Phase IIa Study

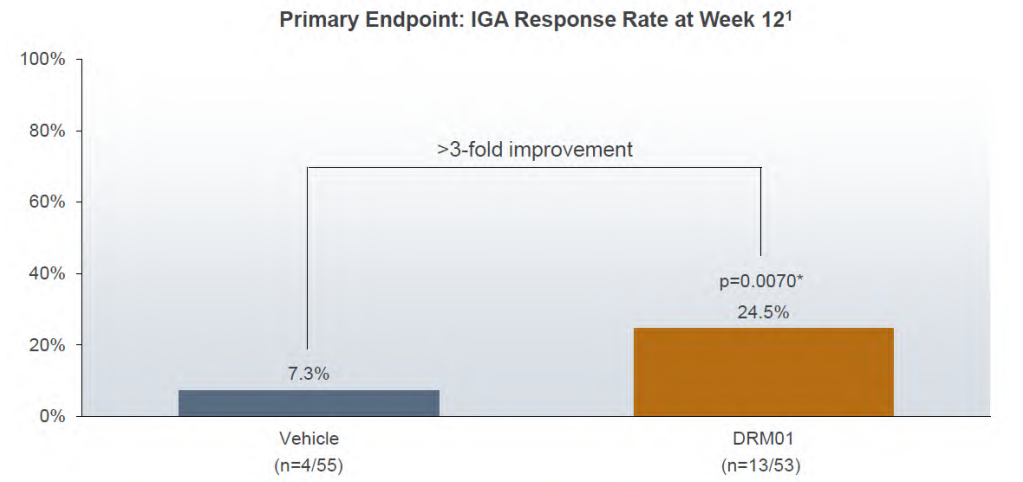


	Inflammatory lesion count		Non-inflammatory lesion count	
	Vehicle	DRM01	Vehicle	DRM01
Avg. % reduction in lesion counts[1]:	45.9%	63.9%	28.8%	48.1%
p-value[1]		0.0006*		0.0025*

Source: Dermira

Furthermore, based on the Investigator Global Assessment (IGA) endpoint measurement, patients were greater than 3x more likely to achieve a 2-point or greater improvement with DMR01 versus vehicle gel (13 of 53 patients (24.5%) versus 4 of 55 patients (7.3%) with placebo; p=0.0070). Along with the compelling efficacy demonstrated by DRM01 in the Phase IIa study, the product was also found to be safe and well-tolerated. No treatment related serious adverse event were reported and the most common adverse events were application-site conditions, which are common in nearly all topical acne treatment trials.

Figure 11 Investigator Global Assessment (IGA) Efficacy Findings From DRM01 Phase IIa Study

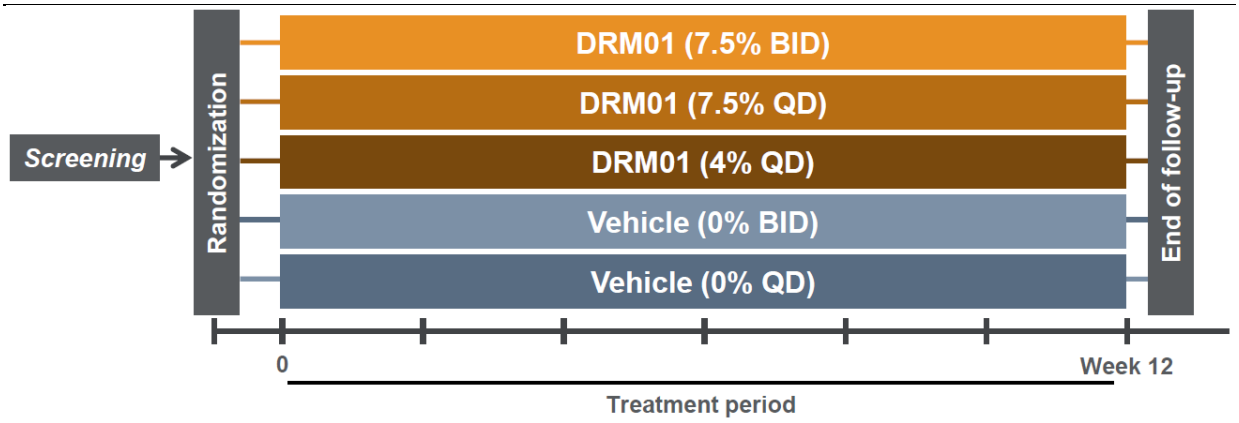


Source: Dermira

Enrollment In The Phase IIb Study Is Ongoing With Topline Data Expected in H1:2016

Based on the compelling efficacy and safety demonstrated by DRM01 in the Phase IIa study, Dermira filed an IND with the FDA in January 2015 to conduct a dose-ranging Phase IIb study (an IND was not previously filed for the Phase IIa study since it was conducted in Canada). In April 2015, the company announced that the first patient in the Phase IIb trial was dosed and enrollment in the ~400 patient study is currently ongoing. The randomized, double-blind, vehicle-controlled study will assess three dosing options of DRM01 to select an optimal dose for the Phase III programs: 7.5% concentration twice-daily, 7.5% concentration once-daily, and 4% concentration once-daily. Additionally, patients being treated with vehicle gel will also receive once-daily or twice-daily administration. The 12-week study will use the same endpoints as the successful Phase IIa study, which as mentioned above, are consistent with FDA draft guidance. These endpoints include: (1) Absolute change from baseline in the number of inflammatory acne lesions; (2) Absolute change from baseline in the number of non-inflammatory acne lesions; and (3) Proportion of patients achieving at least a two-point reduction in IGA score on a five-point scale.

Figure 12 DRM01 Phase IIb Study Design



Source: Dermira

Enrollment in the DRM01 Phase IIb study is steadily progressing and topline data is expected in H1:2016. Overall, our consultants believe that DRM01 has so far demonstrated compelling safety and efficacy data, and if approved, would be a significant addition to the acne treatment paradigm. Based on the current profile, they believe that the product would not only get used as a monotherapy treatment, but would also be highly complementary to topical retinoids and oral/topical antimicrobials. We believe peak sales for DRM01 could ultimately reach $300-500MM+.

Acne Is An Attractive Market Opportunity

Acne is the most commonly treated skin disorder in the United States. The Department of Health & Human Services estimates that 40-50MM people in the United States have acne including approximately 10MM with moderate-to-severe acne. Acne most commonly occurs in adolescents and in patients between 15-24 years of age, the prevalence is approximately 85%. Acne can significantly impact quality of life for patients, and can result in social and psychological impairments. Effective treatments can dramatically improve a patient's well-being. 2013 U.S. spend on prescription drugs for acne was estimated to be approximately ~$3.5B, consisting of ~$0.8B in topical retinoinds, ~$2.1B in topical and oral antimicrobials, and ~$0.6B for oral isotretinoin. The non-prescription market acne is estimated to be nearly double the size of the prescription market.

Figure 13 Key Product Classes For The U.S. Acne Market

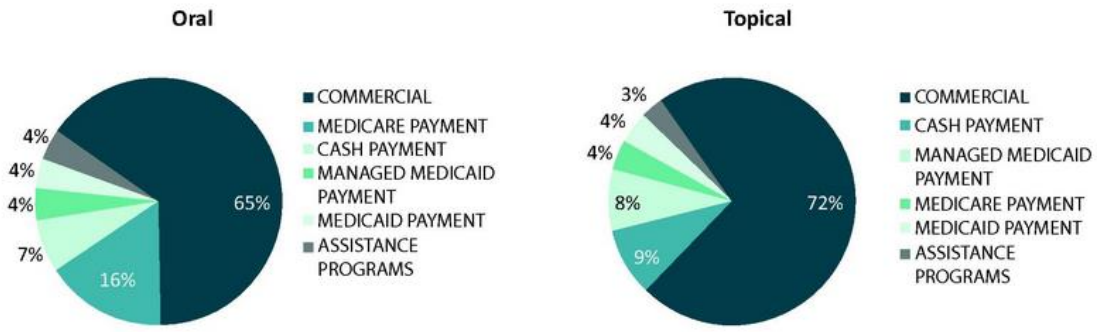
Product class	Sales[1]	Target	Limitations
Topical retinoids	$0.8B	Follicular hyperkeratinization	Skin irritation, moderate efficacy
Topical, oral antimicrobials	$2.1B	P. acnes, inflammation	Bacterial resistance, waning efficacy
Oral isotretinoin	$0.6B	Excess sebum production	Significant systemic toxicity

Source: Dermira, IMS National Prescription Audit

Additionally, due to the cosmetic nature of the treatment, approximately 72% of oral branded and 81% topical branded acne drugs were reimbursed by commercial payors

or were simply cash pay. Lastly, it is estimated that among the approximate 14K dermatologists in the U.S., about one-third (4.5K) generate 80% of all acne prescriptions. This means that Dermira could target its commercial efforts with a relatively small salesforce. Based on the size of the acne market and the characteristics described above, our consultants have consistently reiterated that if a product is able to capture even a small share, it can generate significant recurring value.

Figure 14 Reimbursement Of Oral And Branded Topical Prescription Acne Drugs By Payor Type



Source: Symphony Health Analytics DCL

Despite the size of the market, there is currently no single best treatment for acne and combination therapy is often used. Treatment options can vary in efficacy based on the type of acne present. Non-inflammatory acne typically consists of comedones without redness or swelling. Topical retinoids including tretinoin (Retin-A, Avita, Atralin), adapalene (Differin), and tazarotene (Tazorac) are often used to treat non-inflammatory lesions. Those that cannot tolerate topical retinoids can use salicylic acid, glycolic acid, or azelaic acid in place. Mild to moderate inflammatory acne is also generally treated with topical retinoids, or benzoyl peroxide/topical antibiotics (clindamycin, dapsone, erythromycin, and sulfacetamide). Patients with moderate to severe inflammatory acne may combine one of the topical treatments with an oral antibiotic (Solodyn and doxycycline) or oral isotretinoin (Absorica, Amnesteen, Clavaris, Myorisan and Zenatane).

Topical therapies dominate acne treatment and account for nearly two-thirds of the market. These include: (1) antibiotics, which help stop or slow the growth of bacteria and reduce inflammation; (2) retinoids, which unplug existing comedones, allowing other topical medicines, such as antibiotics, to enter the follicles; and (3) other therapies, which may either destroy *P. acnes* or help stop or slow the growth of bacteria and reduce inflammation. Examples include benzoyl peroxide, sodium sulfacetamide/sulfur-containing products, or Azelaic acid (Azelex). The lack of a preferred product and the prominence of topical treatments suggest that a significant market opportunity exists for a safe and effective topical sebum inhibitor.

Mild To Moderate Acne Is Treated With Retinoids. Retinoid therapy is considered to be the cornerstone of most mild to moderate acne regimens. Retinoids affect cellular differentiation and proliferation as well as normalize abnormal follicular desquamation. Furthermore, retinoids have been shown to reduce inflammation through a number of

pathways. However, our consultants also note that topical retinoids are irritating to the skin often causing dryness, erythema, stinging, and pruritis. Therein lies an opportunity for DRM01.

Moderate To Severe Acne Widely Treated With Orals. As acne becomes more severe, oral medications are most often utilized. For patients with moderate-to-severe and persistent acne, oral antibiotics have been a mainstay of therapy. Like topical antimicrobials, oral antibiotics work to reduce the *P. acnes* population, which, in turn, decreases inflammation. Treatment with oral antibiotics usually begins with a higher dosage, which is reduced as acne resolves. Our consultants indicate that antibiotics generally are prescribed for six months. Over time, the *P. acnes* bacteria can become resistant to the antibiotic being used to treat it. Under such a circumstance, another antibiotic or alternative treatment would need to be prescribed.

The two most widely prescribed oral antibiotics for acne are doxycycline and minocycline. According to our consultants, doxycycline is especially effective in treating inflammatory acne, but can cause sun sensitivity in some patients. Oral minocyline (Solodyn) has a well-established history of use in treating acne as it possesses anti-inflammatory, anti-apoptotic and neuro-protective properties. It is often effective in treating acne that has not responded to other oral antibiotics and also seems to produce fewer incidents of antibiotic resistance. However, despite its efficacy, our industry consultants expressed significant concern over the pricing of Solodyn (WAC price of $1,040.41 for a 30-day supply as of 01/02/15).

While the oral treatments are effective in treating acne, they pose a higher risk in terms of safety and tolerability. Most notably, oral isotretinoin can cause miscarriage or significant birth defects among pregnant patients. Among non-pregnant patients, the oral treatment can cause liver toxicity, pancreatitis, increased triglycerides, dry or peeling skin, muscle pain, sun sensitivity, and others. Additionally, oral antibiotic therapy can cause a wide range of side effects including headache, upset stomach, diarrhea, dizziness, unsteadiness, drowsiness, mouth sores, and vomiting. As a result, our consultants note that some patients simply don't feel comfortable or want to take an oral treatment for a condition such as acne. If DRM01's efficacy is replicated in Phase IIb/Phase III, we – and our consultants – believe it could possibly replace some use of oral medications and be used in combination with other topicals for severe patients.

DRM04, An Attractive Product Profile For Hyperhidrosis, A Large, Underserved Patient Population

Dermira is developing DRM04 for hyperhidrosis, which as we discuss below is a large, underserved patient population. DRM04 is a proprietary topical anticholinergic product designed to reduce sweat production by blocking cholinergic receptors responsible for sweat gland activation. This is an elegant, topical wipe formulation of a novel form of anticholinergic, which has been approved for systemic administration in other indications, so it has a strong and established safety profile. The product is intended to be used once-daily at bedtime. Importantly, our consultants note that this product profile is definitely appealing and it appears to be a better topical antiperspirant when compared to products like Drysol, which can cause stinging among other side effects and may eventually clog sweat ducts. DRM04 is the most advanced clinical development candidate for hyperhidrosis and is currently in Phase III with the ATMOS-1/2 trials ongoing and topline data expected in H2:2016.

Hyperhidrosis Disease Background

Hyperhidrosis is a medical condition defined by excessive sweating, which can cause decreased quality of life from psychological, emotional, and social perspectives. While there is limited data on global prevalence, Ro et al. (J Vascular Surgery, 2002; 35:382-386) estimates that 5% of the population caries a gene that suggests predisposition for hyperhidrosis. An International Hyperhidrosis Society survey conducted in June 2008 reports that as many as 1/3 of US adults think they sweat too much and that 60% are "embarrassed or very embarrassed" by underarm sweat – sometimes even more than having acne or being overweight. Moreover, 70% of those who think they have too much sweat seek to hide or prevent it. In the U.S., Strutton et al. (JAAD, August 2004, Volume 51, Number 2) estimates that there are 8MM (3% of the population) hyperhidrosis sufferers in the U.S. and that 1.3MM of these patients rate the sweating as intolerable. Competitor Revance estimates that as much as 1/3 of the adult US population is bothered by underarm sweat, suggesting that the market could be even larger. Furthermore, more than 50% of hyperhidrosis sufferers are not diagnosed or treated, suggesting there is room for market expansion in this space. While prevalence in the U.S. is relatively equal among men and women, women are twice as likely to seek treatment.

An estimated 50% of sufferers have axillary hyperhidrosis (underarms), which is slightly more prevalent among men. Other hyperhidrosis indications include plantar (feet), palmar (hands), the forehead, and the lower back. Moreover, only an estimated 38% of suffers have spoken to a physician. While there are mildly-effective treatments like prescription/OTC antiperspirants (unfortunately they can clog sweat ducts) and off-label systemic oral medications, a 2004 International Hyperhidrosis Society survey estimated that only 8% of treated hyperhidrosis patients are treated with Botox. Some of the reasons why the Botox hyperhidrosis market penetration is so low are that often these indications require many injections (up to 20-30 per site; and armpit or a hand/foot is considered a site) and that injections in areas like the hand and feet can be extremely painful, as confirmed by our physician consultants. Our consultants note that many patients are just not willing to get a repeated 20-30 injections in each hand when the pain is severe, or on a scale of 1-10 (1 being nothing and 10 being the most extreme pain), a 9 out of 10. Also, it can be difficult to inject the hands and feet. We – and our physician consultants – believe that DRM04 is ideally suited for the hyperhidrosis indication and in particular, it could treat the majority of the patients with severe hyperhidrosis.

DERM04 Clinical Data Suggests Efficacy Similar To Botox

DRM04 is being developed under the 505(b)(2) pathway and has already completed one Phase IIa and two Phase IIb clinical trials. The objective of the first HH01 trial was to establish the proper dose in 198 primary axillary hyperhidrosis patients with a topical formulation of the anticholinergic reference agent. Patients were dosed once-daily for four weeks and the final efficacy measures were sweat production by gravimetry and the patient-reported outcome (PRO) hyperhidrosis disease severity scale (HDSS) scale. The objective of the second HH02 trial was to transition from the reference agent used in HH01 to the DRM04 product and establish a new patient-reported outcome instrument, the ASDD scale. In this trial, both the original topical formulation of the reference agent and the new DRM04 product were tested in 105 primary axillary hyperhidrosis patients dosed every day for four weeks. Sweat production and the PRO HDSS scale were measured just like the HH01 study, with the inclusion of the additional PRO scale ASDD. The goal of the ongoing Phase III ATMOS-1/2 trials, which we discuss further below, is to confirm the safety and efficacy of DRM04 in 660 primary axillary hyperhidrosis patients dosed once-daily over

four weeks. Similar to the HH02 Phase IIb study, sweat production and the PRO ASDD and HDSS scales will be measured.

Figure 15 A Review Of Phase II/III Study Objectives

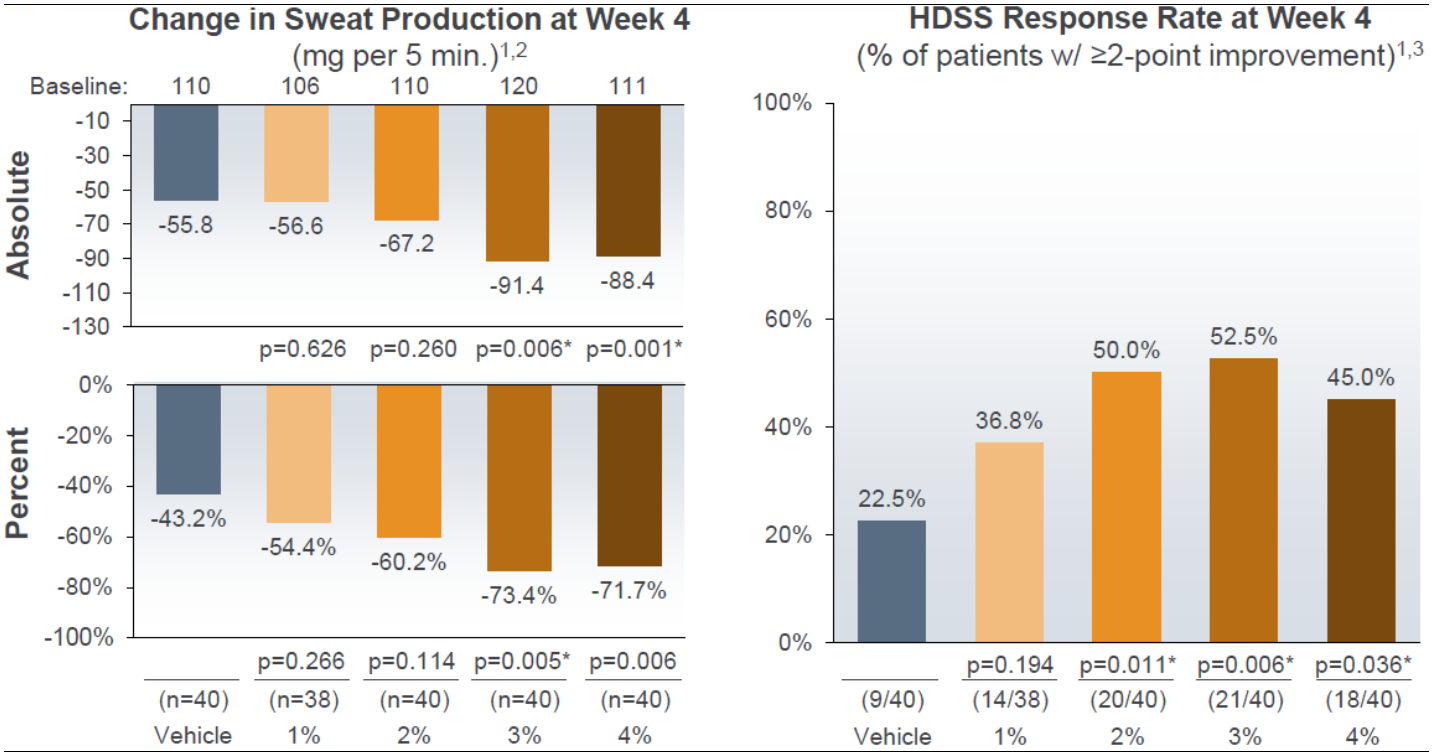
Study	HH01 (P2b)	HH02 (P2b)	ATMOS-1/2 (P3)
Objectives	Establish dose	▪ Transition from reference agent to DRM04 API ▪ Establish new PRO instrument (ASDD)	Confirm safety and efficacy
Study product	Topical formulation of reference agent	▪ Topical formulation of reference agent ▪ DRM04	DRM04
Population	Primary, axillary hyperhidrosis (n=198)	Primary, axillary hyperhidrosis (n=105)	Primary, axillary hyperhidrosis (n=660)
Dosing	QD x 4 weeks	QD x 4 weeks	QD x 4 weeks
Efficacy measures	▪ Sweat production (gravimetry) ▪ PRO (HDSS)	▪ Sweat production (gravimetry) ▪ PRO (HDSS, ASDD)	▪ Sweat production (gravimetry) ▪ PRO (ASDD, HDSS)
Status	Complete	Complete	Topline data expected 2H16[2]

Source: Dermira

In the first HH01 Phase IIb study, which used the original reference anticholinergic agent, dose-dependent and statistically significant results were observed. Five cohorts were tested in this study: vehicle placebo, 1% active, 2% active, 3% active, and 4% active randomized 1:1:1:1:1 (40 patients per cohort). Absolute and percentage changes in baseline sweat production at week four were observed in the five different dose cohorts. All enrolled patients must have produced at least 50 mg of sweat in each axilla over a five-minute period. From analyzing the percentage changes in baseline sweat production, a clear dose relationship was observed between the 1-3% dose levels. The 4% dose cohort change of 72% was just a tiny bit below the 3% dose cohort that achieved a 73% reduction. However, given how close the results were, we are not concerned as dose levels 3% and above appear to have almost a 30% greater reduction than vehicle and were highly statistically significant (3% dose cohort p=0.005 and 4% dose cohort p=0.006). It's also certainly possible that efficacy plateaus above the 3% active concentration, which is the equivalent to the DRM04 formulation being used in Phase III.

Patient response to the HDSS PRO scale was also measured at week four. The proportion of patients with a $\geq$2-point improvement were measured across the five dose cohorts mentioned above. Patients enrolled had a 3 or 4 on the HDSS scale, which indicates severe disease. A similar trend with the numerical values above was observed across the several dose cohorts and doses 2-4% achieved statistical significance.

Figure 16 DRM04 HH01 Phase IIb Study Results

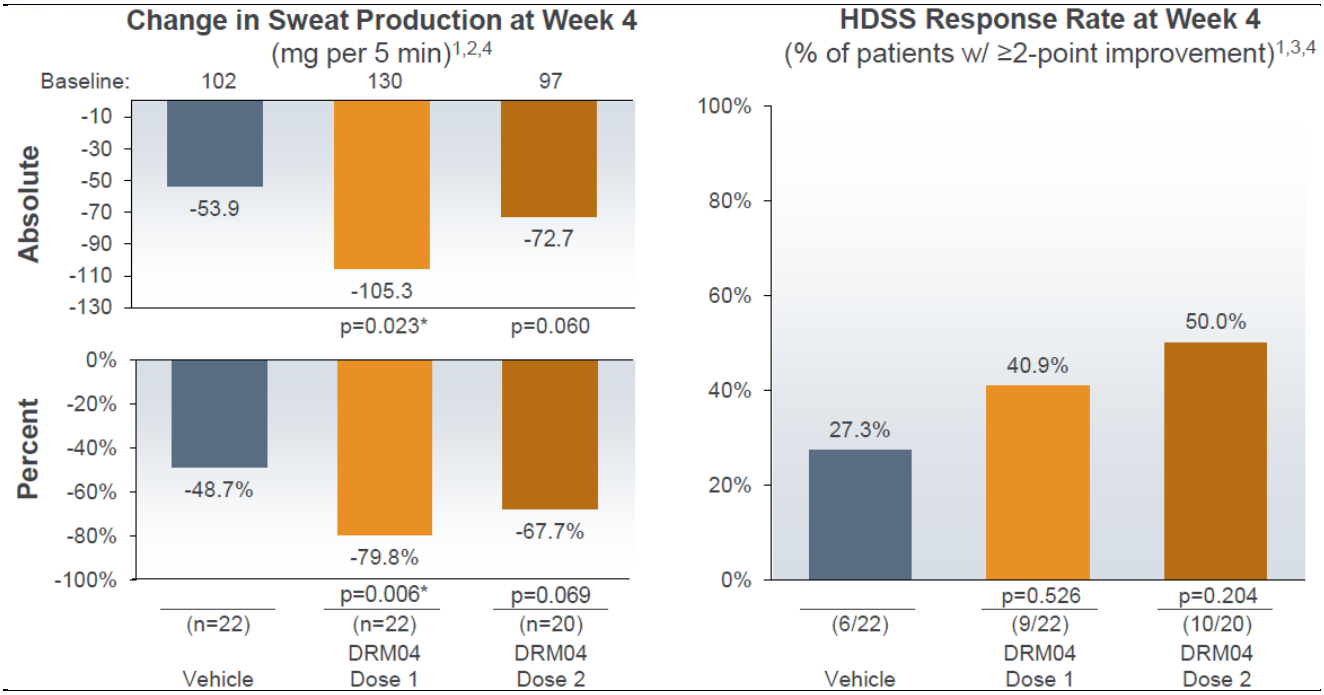


Source: Dermira

Results from the second Phase IIb study that tested the DRM04 formulation were generally consistent with the results from the reference product formulation in study HH01. This study tested two doses of DRM04, along with a vehicle control arm, and two arms that include the reference product formulation from study HH01 (each arm had ~20 patients). The results from the two arms with the reference branded product were consistent with the results from HH01. For the two DRM04 arms, similar percent reductions in baseline sweat production were observed, and even though the study was not powered for statistical significance, one of the arms did reach statistical significance. This is impressive considering that these arms were approximately half the size of the arms in the previous HH01 study, so the statistical powering simply was no there. And we would argue – given the closeness of the p-0.069 value in the second DRM04 arm – that had there been 40 patients (similar to study HH01) there most likely would have been a great chance at reaching statistical significance.

With respect to the HDSS response rate results, neither DRM04 reached statistical significance. However, the response rates were similar to the HH01 study, which gives us some comfort that the miss on statistical significance was most likely due to the lack of statistical powering.

Figure 17 DRM04 HH02 Phase IIb Study Results



Source: Dermira

Across both Phase IIb studies, the most common adverse events were dry mouth, upper respiratory tract infection, dry skin, blurred vision, application site pain, and headache. Specifically, the dry mouth/skin and blurred vision adverse events are well-known, reversible anticholinergic effects. And End of Phase II meeting with the FDA occurred in April 2015 and informed the Phase III trial design, which we discuss below.

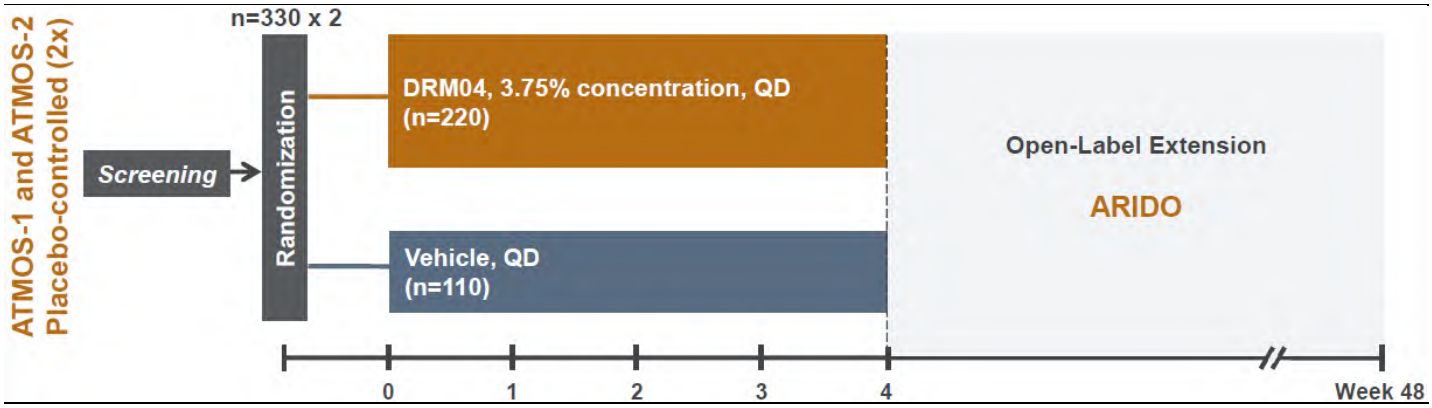
Given the profile demonstrated in Phase II, we – and our consultants – believe DRM04 has an attractive product profile relative to currently available treatments, including Botox which typically requires numbing of the feet and hands due to a large amount of painful injections (40-60), is not economical for physicians as it is a time consuming procedure that is only reimbursed $75, and if it's not reimbursed, use is limited due to the high out-of-pocket patient costs. These drawbacks have limited Botox' use in hyperhidrosis and it is estimated that the product only does $50-75MM in sales in this indication. Finally, our consultants note that many patients are still afraid of Botox injections.

A 660-patient Phase III hyperhidrosis program for DRM04 has been initiated and topline data is expect by the second half of 2016. The first patients in this study were dosed in July 2015 and the studies will involve 60 sites in the U.S. and Germany. This program involves two identical randomized, double-blind, vehicle-controlled trials enrolling adult and adolescent (9+ yeas) patients with primary axillary hyperhidrosis. The two co-primary endpoints at week four are the absolute change from baseline in gravimetrically-measured sweat product and the proportion of patients to achieve a ≥4-point improvement on the company's proprietary 11-point Axillary Sweating Daily Diary (ASDD). The ASDD was developed and validated based upon discussions with the FDA and in accordance with the 2009 FDA guidance document for PRO measures. Furthermore, a 4-point change on the 11-point scale was selected based on analyses

of data generated in the second Phase IIb HH02 study discussed previously and feedback from the Agency.

Secondary endpoints at week four are the proportion of patients achieving a ≥2-grade improvement in the 4-point HDSS and the proportion of patients achieving a ≥50% reduction in gravimetrically-measured sweat production. Each trial (n=330) randomized patients 2:1 to DRM04 3.75% concentration once-daily versus vehicle control once-daily. Importantly, this DRM04 dose being evaluated was tested in the HH02 study discussed above and corresponds to the 3% dosage formulation of the reference agent evaluated in both Phase IIb studies. An open-label extension study out to 48 weeks, ARIDO, is also ongoing for those patients that complete the study.

Figure 18 Design Of Phase III ATMOS-1/2 Trials



Source: Dermira

Other Companies Developing Products For Hyperhidrosis Are At Earlier Stages In Clinical Development

Revance's topical botulinum toxin RT001 is currently in Phase II, with results to be reported by year-end 2015. Revance is essentially aiming to create a topical version of Allergan's Botox, which is currently the only product approved for hyperhidrosis and is accompanied by significant pain resulting from multiple injections. Revance has already completed a Phase I/II study for the treatment of moderate to severe hyperhidrosis in 36 subjects. The validated primary endpoint was the subject evaluation on the hyperhidrosis disease severity (HDSS). Not surprisingly, a dose response was observed with RT001 in hyperhidrosis patients. No dose-related increase in adverse events was observed and all adverse events were mild or moderate in nature and transient. Clearly Revance's RT001 employs a completely different mechanism of action than Dermira's DRM04 – with differentiated product profiles – and we believe that if both products are successfully developed and approved, that they will both be able to enjoy a substantial share of the market. Given the significant unmet need, there is ample room for both products and we believe that they will often appeal to different sets of patients.

Anterios is private and is also aiming to develop and topical botulinum toxin candidate for hyperhidrosis. Their candidate is in Phase II and the existing data set appears to be relatively weak as there is no demonstration of their trials achieving primary or secondary endpoints. Until we see further proof-of-concept data, we remain skeptical of this program's prospects.

In terms of other companies developing topical products for hyperhidrosis, Brickell Biotech is developing BBI-4000, which is an anticholinergic, and GSK/Stiefel is developing umeclidinium, a muscarinic acetylcholine antagonist. BBI-4000 is currently being tested in a Phase IIb clinical trial in 180 patients with primary axillary hyphidrosis and umeclidinium is in Phase I.

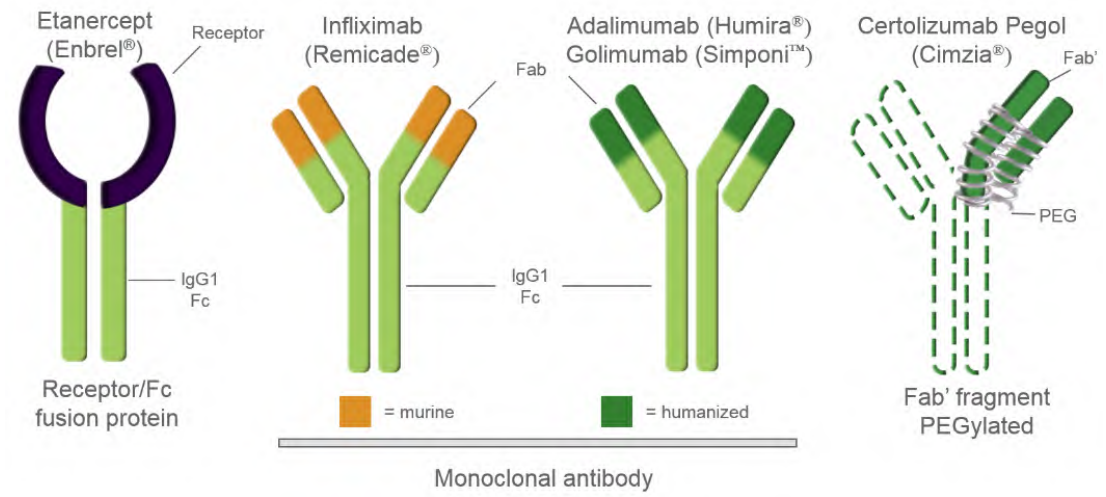
Cimzia Has The Potential To Be A Preferred Anti-TNF For Psoriasis

Dermira is also developing Cimzia – in partnership with the originator company UCB – for the add-on indication of psoriasis. Treatment for severe psoriasis has been transformed by biologic TNF inhibitors (like Cimzia), which have a clean safety record as first-line biologic therapy for over 15 years. Furthermore, Armstrong et al. estimates that ~50% of patients remain unsatisfied with current treatments as only 10.5% of moderate-to-severe patients use biologics. Dermira aims to fill this void with Cimzia. Worth noting, if Cimzia is eventually able to get approved in this indication, it should finally be able to achieve higher formulary status, potentially Tier 1. In the past, not being indicated for psoriasis has held it back. Given Cimzia's efficacy in other TNF-related disorders and the fact that anti-TNFs have proven to be very effective for the treatment of psoriasis, we – and our consultants – believe there is a high likelihood of success in this indication. Dermira is currently enrolling a Phase III 990-patient clinical program with topline data expected in 2017.

Cimzia (certolizumab pegol) is an anti-TNF (pegylated anti-TNFα antibody fragment) and is marketed for several indications by Demira's partner UCB Pharma. It was initially FDA-approved for the treatment of moderate to severe Crohn's disease patients who have not responded to conventional medications in 2008. Cimzia is also FDA and EMA approved for patients with moderate to severe rheumatoid arthritis (every two weeks or every four weeks in the U.S.; every two weeks only in the EU). Open-label extension data from two Phase III trials presented at EULAR 2010 showed sustained of benefits in RA over 2 and 3 years as a monotherapy and in combination with methotrexate, respectively. Positive Phase III data for Cimzia in PsA and axSpA (including AS) were reported in 2012. The data enabled FDA and EMA approval for these indications in 2013. Cimzia achieved 2014 net sales over $1B (+34% Y/Y).

Per the figure below, Dermira believes that the molecular characteristics of Cimzia, may offer potential efficacy and safety advantages in psoriasis. Specifically, Cimzia does not have the Fc hinge region, which the other anti-TNFs have. Our consultants note that this is thought to cause immunogenicity. Further, this is the reason why our consultants note that "all anti-TNFs eventually stop working" as psoriasis plaques eventually reappear in patients. Our consultants estimate that efficacy can be lost as soon as 2-6 months with marketed anti-TNFs and note that this is a bigger issue than anyone talks about. Efficacy with Stelara (IL-12 and -23 inhibitor) is also eventually lost due to anti-drug antibodies.

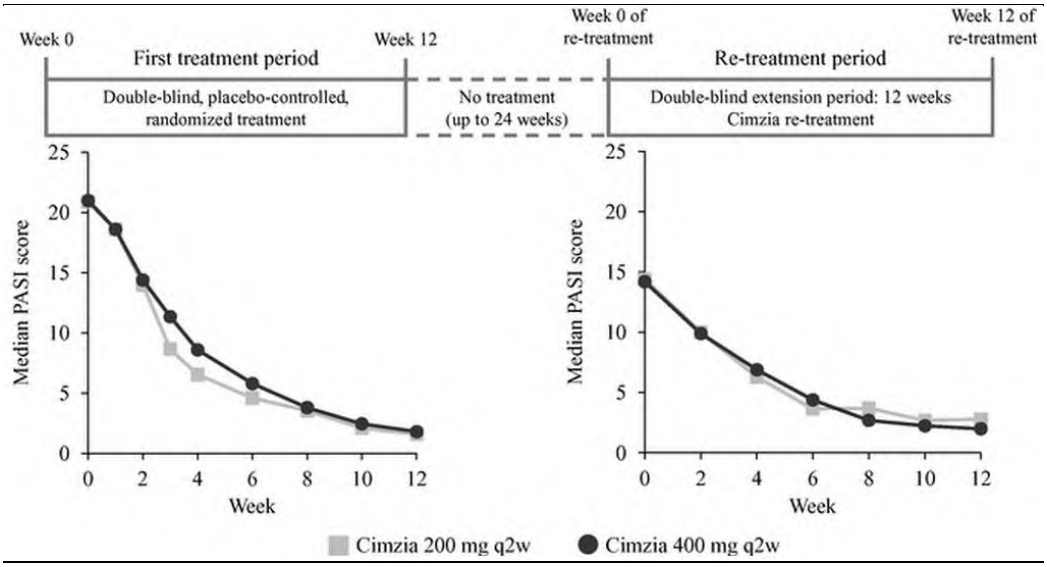
Figure 19 A Comparison Of Cimzia To Other Anti-TNF Biologics



Source: Dermira

Interestingly, in a Phase II retreatment psoriasis study, patients who stopped Cimzia therapy after 3 months and then relapsed as they did not receive treatment for up to 6 months, achieved the same efficacy originally observed after another cycle of 3 months of Cimzia treatment. This could potentially support the hypothesis above and result in a more durable treatment effect. Results from the open-label extension portion of the ongoing Phase III trial – that is discussed further later in this report – should prove out this hypothesis.

Figure 20 Phase II Cimzia Retreatment Psoriasis Study



Source: Dermira

Attractive Partnership With UCB Pharma. Dermira has an international co-development partnership with UCB Pharma that was formed in March 2014 where Dermira will promote Cimzia to dermatologists in the U.S. and Canada, while UCB retains all other rights. Dermira will fund all development plan costs up to a specified amount between $75-95MM and 50% of any additional development plan or pediatric study costs. As a result, Dermira will receive a substantial share of the gross margin (after subtracting the costs of certain commercialization support services provided by UCB) from Cimzia sales attributed to dermatologists for all indications in the U.S. and Canada. Specifically, Demira will receive 90% of the gross margin on sales up to $150MM and for sales over $150MM in any one year, Demira will receive 50% of the gross margin. UCB has made a $109.5MM cash and equity investment: $20MM of that in equity; up to $36MM in development milestones payments ($7.3MM earned so far); and up to $40MM commercial plus $13.5MM in E.U. approval milestones. As part of the change of control provision, UCB may terminate the partnership if Demira is acquired by a biologic TNF inhibitor company or another non-qualified company.

We estimate the overall psoriasis market is poised to grow from approximately $6B in 2014 to over $9B in 2019 as anti-TNFs gain ground. More specifically, U.S. sales of branded, systemic therapies was $3.9B in 2013 and are projected to reach almost $6B by 2023. Enbrel remains the mainstay of therapy, but will likely continue to lose modest share in a growing market. AbbVie's Humira presents the biggest threat to Enbrel at this time, given its superior efficacy and similar safety profile. As discussed below in the clinical data section, if Cimzia is able to achieve similar efficacy to Humira, we believe it too would be able to take share from Enbrel. JNJ's Stelara is an IL-12 and -23 inhibitor and currently a third-line agent in the psoriasis treatment paradigm, but could eventually become a second-line choice based on its efficacy and safety profile. Besides Cimzia, physician consultants indicate that the drugs targeting IL-17 have good potential. Lilly's ixekizumab and Novartis's Consentyx (secukinumab) look promising. Consentyx was approved and the Ixekizumab NDA was submitted earlier this year. However, we would note that one IL-17 in particular, Amgen and AstraZeneca's brodalumab, has shown the potential for suicidal ideation and behavior in clinical trials. For this reason, Amgen announced that it will be terminating development earlier this year. We are unsure if this is an IL-17 class effect or just limited to brodalumab in particular, but this clearly has interesting competitive implications for Dermira/UCB's Cimzia.

Psoriasis Is A Lifelong Skin Disease

Psoriasis is a non-contagious lifelong skin disease that is primarily a result of an overproduction of skin cells. The extra skin cells become red, inflamed and scaly patches. The severity of psoriasis can vary from person to person; however, for about 70% of patients, psoriasis tends to be mild-moderate (less than 10% skin area involved). According to the National Psoriasis Foundation, ~3% of American adults have psoriasis (about 9MM people). At least 20% of those have moderate-to-severe disease. Topicals are the mainstay of drug therapy for mild-to-moderate psoriasis, while biologics are used to treat severe psoriasis.

Corticosteroids Are The Mainstay Of Mild-to-Moderate Psoriasis Therapy. Our physician consultants indicate that about 65-70% of patients diagnosed with psoriasis suffer from mild-to-moderate disease. Both over-the-counter and prescription medications are available to treat psoriasis. Two over-the-counter medications, salicylic acid and coal tar, are commonly used. The most widely used prescription topicals are corticosteroids, Tazorac (tazarotene), Dovonex (calcipotriene, a vitamin D analog, now generic), and Taclonex (a combination corticosteroid and calcipotriene in one ointment). Corticosteroids such as clobetasol (Galderma's Clobex) and

bethamethasone are widely viewed as the first line of therapy for these patients; they are easy to use and tend to work relatively quickly. Often, physicians use Taclonex, or Dovonex in combination with corticosteroids. Steroids, however, are generally not conducive to long-term use (longer than four weeks generally not recommended) and side effects can be significant. For example, excessive use of steroids on the skin can lead to skin thinning and breakage, and also expose the patient to the potential for internal absorption of the steroid, which can have negative consequences. Also, doctors are generally careful not to use steroids in areas with sensitive skin, such as the face. Our consultants indicate that about one-third of patients who try Dovonex see little efficacy, and Dovonex also can cause skin irritation and potentially hypercalcemia. Therefore, there appears to be ample opportunity for efficacious, yet tolerable products in the market for topical agents.

Biologics Targeting The Large, Underpenetrated Moderate-To-Severe Psoriasis Market. Consultants noted that the evolving view of psoriasis is that it is a systemic inflammatory disease, not merely a dermatological one; as such, about one-third of moderate-to-severe psoriasis patients have sufficient joint involvement to be classified as having psoriatic arthritis.

Moderate-to-severe patients are typically treated with phototherapy or systemic agents. Our consultants indicate that phototherapy is used in a small minority of patients, mainly because it is very onerous, with the required multiple office visits each week and the associated co-pays creating a barrier for patients. Approved systemic treatments for psoriasis include older, oral generic drugs (namely methotrexate and cyclosporine), as well as biologics. A majority of moderate-to-severe patients receive methotrexate, mainly because insurers require a trial or contraindication before biologics will be authorized. Consultants view methotrexate as effective (works in a bit less than half of patients, nearly on par with Enbrel) and quite safe (though it does require monitoring liver function and blood cell counts), and some patients have tolerability issues (headaches, fatigue). The consultants remain impressed with the efficacy of anti-TNF agents, including AbbVie's Humira, Amgen's Enbrel, and JNJ/MRK's Remicade, and would use them ahead of methotrexate if it were permitted by insurers. Our consultants have repeatedly bemoaned the burden of having to win prior authorization for biologics as one of the greatest barriers to their uptake. In patients for whom prior authorization is won, one consultant prefers Humira as his first choice biologic, while the other will use either Humira or Enbrel first-line, depending on the patient. A second anti-TNF (Enbrel or Humira) is given if the patient fails his first anti-TNF, followed by JNJ's IL-12 and -23 inhibitor, Stelara, as the third line. Stelara's perceived poorer efficacy in psoriatic arthritis, as well as evolving concerns over potential cardiovascular safety risks, appear likely to restrict the drug to later lines of therapy. Many psoriasis patients have overlapping psoriatic arthritis (our consultants estimate 35-40% of patients), so these patients will often be switched from Humira/Enbrel to Stelara and then have joint issues come back. Our consultants believe the same holds true for the IL-17s in development. Hence, why another potentially effective anti-TNF, Cimzia, would be a welcome addition to the treatment paradigm. In fact, our consultants note that Cimzia is already used off-label in this indication.

Our physician consultants agree that psoriasis is significantly undertreated, and they believe this is partly due to the aforementioned insurer step therapy with methotrexate or cyclosporine for patients who are under a specialist's care, but primarily due to substantial undertreatment of psoriasis patients overall. Reasons for the undertreatment of psoriasis are somewhat lacking, though the physicians suggested that community dermatologists are hesitant to use biologic therapies themselves, and patients may also be receiving misleading information about the profile of available therapies from their non-academic dermatologists. Insurance/cost considerations may

also limit patients' enthusiasm for seeking specialist care. Whatever the reason for undertreatment, the specialists expect biologic penetration into the psoriasis market to grow only gradually in the future.

TNF Inhibitors Are Entrenched As The Go-To Biologic Agents. Tumor necrosis factor alpha (TNF-α), a cytokine produced by T-lymphocytes and macrophages, is a central player in the inflammatory cascade and a primary mediator of immune reactions. TNF-α inhibitors (anti-TNFs) block TNFs' ability to attach to cell receptors. The net result is a dramatic decline in inflammation. Anti-TNF agents are highly effective in treating a multitude of inflammatory diseases including: RA, juvenile idiopathic arthritis, ankylosing spondylitis, psoriatic arthritis, inflammatory bowel diseases, psoriasis, and spondyloarthritis.

Evidence-based clinical trials support the use of anti-TNFs as an early second-line therapy. Anti-TNFs can be used as monotherapy or in combination with traditional disease-modifying antirheumatic drugs (DMARDs) in treatment naïve or treatment failure patients. Issues with anti-TNFs include their high cost and their contraindication in patients with CHF, old/latent tuberculosis, or a history of cancer or demyelinating disease. All anti-TNF labels were updated in 2008 to include a black box for fungal infections and TB reactivation. In 2009, the FDA announced that anti-TNFs in children and adolescents lead to "an increased risk of lymphoma and other cancers" (e.g., leukemia) and is associated with new-onset psoriasis. Black-box warnings and medication guides associated with all biologics from this class were updated to reflect these safety concerns. According to the ACR, the FDA's analysis was based on reports of 48 malignancies (including lymphoma) in children and adolescents, 147 cases of leukemias (primarily in adults, few in children), and 69 cases of new-onset psoriasis. In April 2011, the FDA issued an additional warning indicating that it continues to receive reports of cases of Hepatosplenic T-Cell Lymphoma (HSTCL), primarily in adolescents and young adults being treated with anti-TNFs. In September 2011, the FDA updated the black box on all anti-TNFs to reflect increased risk of infection by *Legionella* and *Listeria*.

Although the FDA has become more aggressive in detailing the risks associated with anti-TNFs, specialists remain eager to use these drugs for the following three reasons: (1) Anti-TNFs have demonstrated robust efficacy in halting or slowing disease progression (clinically and radiographically); (2) The serious adverse events associated with these drugs are very rare; and (3) Evidence-based medicine suggests that anti-TNFs lead to a decrease in associated co-morbidities (i.e. acute coronary syndrome, stroke). Thus, rheumatologists believe the benefits of TNF inhibitors continue to far outweigh the risks and expect these agents to remain the dominant therapy in RA. In fact, TNF inhibitors are so well-entrenched and highly regarded that doctors usually try a second anti-TNF in patients who fail on initial therapy.

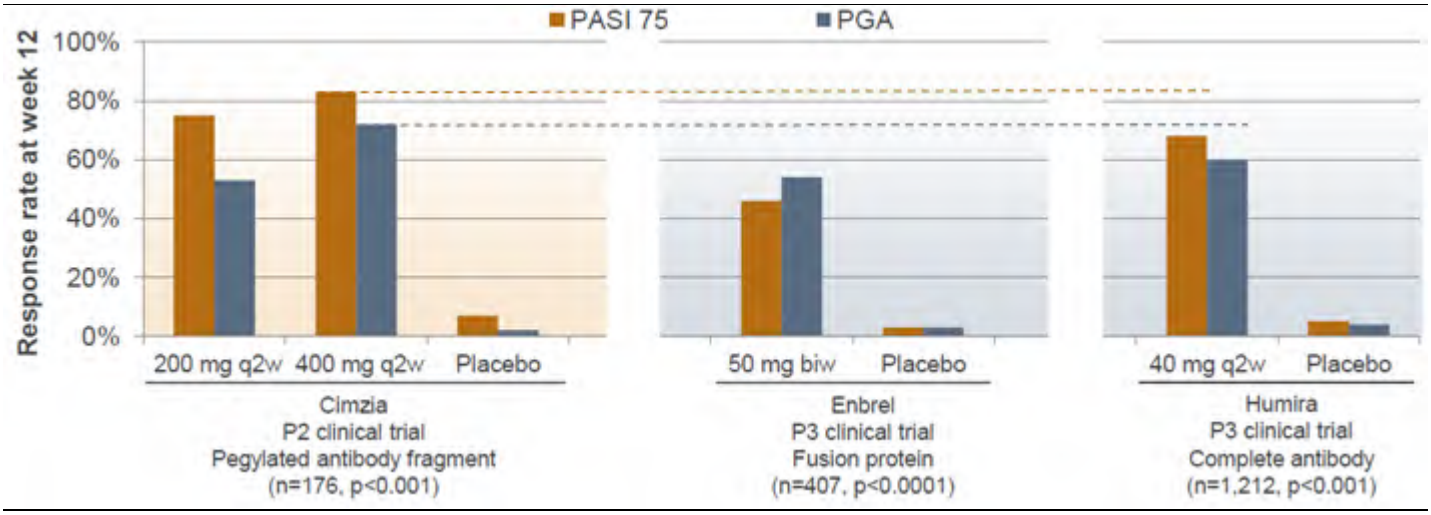
Cimzia Psoriasis Clinical Data Suggests Efficacy At Least Comparable To Humira And Better Than Enbrel

A Phase II study with Cimzia in psoriasis was completed by partner UCB, which suggests that the product may have a competitive profile among the other anti-TNFs if successfully developed. Both PASI 75 (proportion of patients achieving a 75% improvement in the Psoriasis Area and Severity Index scale) and PGA (proportion of patients who achieved clearing or near clearing of psoriasis as rate by the investigator via the physician's global assessment) response rates were taken at week 12. In this 176-patient study, 400mg loading doses of Cimzia were given and then patients were dosed at 200mg or 400mg every two weeks. In the 200mg arm, PASI 75 and PGA rates of 75% and 53% were observed, respectively. For the 400mg arm, even higher PASI 75

and PGA rates of 83% and 73% were observed, respectively. Statistical significance ($p<0.001$) was achieved. As we previously discussed, a second Phase II clinical trial demonstrated that patients who relapsed after withdrawal of Cimzia therapy achieved a similar response after subsequent treatment with Cimzia.

These results are compared to 12-week PASI-75 and PGA rates of ~45% and 50-55%, respectively for Enbrel's Phase III studies, and rates of 65-70% and ~60%, respectively for Humira's Phase III studies. Therefore, if the rates for the 400mg arm hold up in Phase III, it could prove to be a far superior treatment option than Enbrel and potentially even better than Humira as well. Although, we would note that having rates similar to Humira should be more than enough for Cimzia to be a successful addition to the psoriasis treatment paradigm as physicians frequently switch between anti-TNFs in this patient population. JNJ's Stelara has similar efficacy to Humira. Based upon these Phase II results, our consultants believe the data is compelling and indicates that Cimzia could be a best-in-class TNF with similar efficacy to the IL-17s in development. Although they note that the results from the 400mg dose tested in Phase II will need to be replicated in Phase III in order to have the more attractive product profile.

Figure 21 Cross Study Comparison Of Cimzia And Market Leaders



Source: Dermira; Modified By Cowen and Company

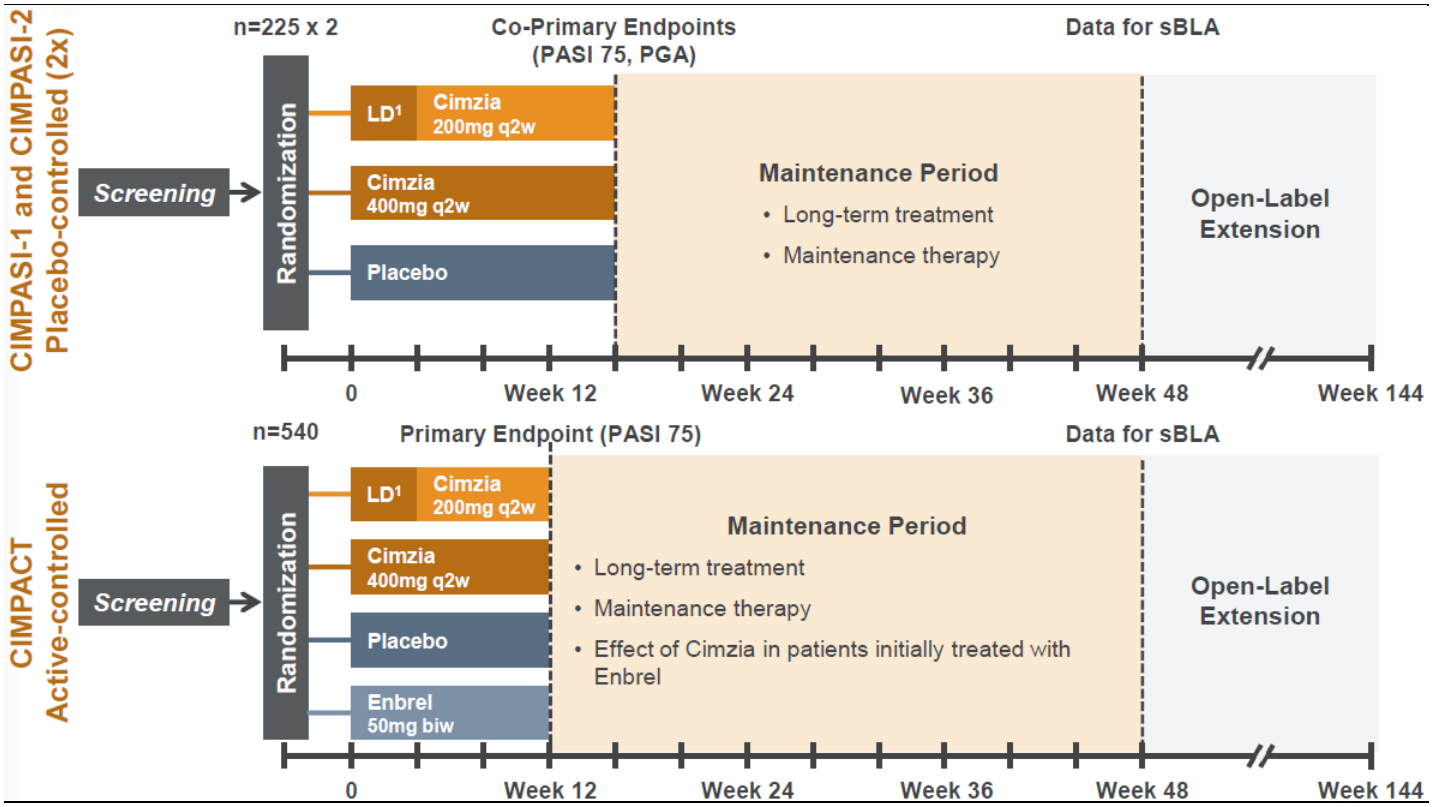
The results of these trials suggested that the safety profile of Cimzia was consistent with that observed in previous Cimzia clinical trials in other indications and other clinical trials of TNF inhibitors. Most adverse events were mild or moderate and no meaningful difference in the incidence of treatment-emergent adverse events (TEAEs) were observed among treatment groups. The most frequently reported TEAEs were nasal congestion, headache, and itching.

Based on these results, Dermira and partner UCB conducted and End of Phase II meeting with the FDA and a scientific advice procedure with the EMA in June 2014. These meetings helped inform the design of the Phase III clinical trial, which we discuss further below.

Dermira is currently enrolling a Phase III 990-patient clinical program with topline data expected in 2017. The first two trials, CIMPASI-1/2, are placebo controlled trials enrolling 225 patients each. Patients will be randomized to 200mg every two weeks

(with three loading doses of 400mg), 400mg every two weeks, or placebo. The co-primary endpoints of PASI-75 and PGA rates will be measured at week 16 with a maintenance period remaining through week 48. The maintenance period will be used to assess long-term treatment and safety. Data through week 48 will be sufficient to submit the supplemental BLA, but patients may continue in the study through and open-label extension to week 144. The third 540-patient study, CIMPACT, is different from the first two in that it will be both active and placebo controlled. In addition to the three arms described above, the study will have an Enbrel arm where patients will be dosed twice-weekly. The primary endpoint will be the PASI 75 rate at week 12 with a similar maintenance period lasting until week 48 and an open-label extension through week 144. However, during the maintenance period in this study, those patients in the Enbrel arm will crossover to Cimzia treatment. If increased efficacy is observed in those Enbrel patients switched to Cimzia, we would note that the data could be exceedingly interesting and would support the switching of patients in clinical practice.

Figure 22 Design Of Phase III Cimzia Psoriasis Studies



Source: Dermira

Dermira's Early-Stage Preclinical Development Programs

In addition to its late-stage assets, Dermira also has an interesting early-stage pipeline including DRM02, a potential topical treatment for inflammatory skin diseases (i.e., psoriasis or atopic dermatitis), and DRM05, a potential topical treatment for acne. DRM02 is a novel, topical inhibitor of PDE4, which is an enzyme critical to the inflammation pathway. Systemic and topical PDE4 inhibitors have demonstrated efficacy in the treatment of psoriasis and atopic dermatitis; however, systemic

treatments have often produced considerable dose-limiting side effects including nausea and vomiting. Of note, Anacor recently announced positive Phase III data for crisaborole for the treatment of atopic dermatitis. Crisaborole is a novel, topical PDE4 inhibitor and its successful clinical studies provide proof-of-concept to Dermira's approach with DRM02. However, the initial POC clinical trials for DRM02 did not demonstrate efficacy separation from vehicle-only gel, and as a result, the program has been returned to preclinical development for further assessment. Dermira is evaluating additional preclinical activities and the potential of reformulating the product. Despite these initial challenges, we believe DRM02 could ultimately have significant commercial potential if successful developed.

DRM05 is a novel, topical photodynamic therapy (PDT) under development for the treatment of acne. Photodynamic therapy selectively eliminates target tissue by administering a photosensitizing agent and then exposing that tissue to light to activate the agent. The procedure is performed in a physician's office and has already been approved for the treatment of other skin conditions, including actinic keratosis. Topical photodynamic therapy has shown potential for the treatment of acne, but to date has been limited by painful, visible side effects. Dermira is currently evaluating DRM05 in animal models, and if successful, will advance the program into clinical development.

Dermira Has Significant WW Rights & A Broad Patent Portfolio

Dermira owns the worldwide commercial rights to DRM01, DRM04, DRM02, and DRM05, and also the dermatology rights to Cimzia in the U.S. and Canada. The company also has a robust patent estate in place for its late-stage assets, including IP out to 2030 for DRM01 (composition of matter, pharmaceutical compositions and methods of use), out to 2034 for DRM04 (pharmaceutical compositions and methods of use), and out to 2024 for Cimzia (composition of matter). Overall, Dermira has compiled 114 issued patents (including 27 in the U.S.) and 46 pending patent applications (including 12 in the U.S.) as of June 30, 2015. The company plans to continue expanding its broad patent position and may be able to further extend the already long duration on its assets.

Figure 23 Dermira Patents For Its Late-Stage Assets

- 114 issued patents (27 U.S.) , 46 pending applications (12 U.S.)

Program	Type	Projected expiration
Cimzia[3]	▪ Composition of matter	2024
DRM04	▪ Pharmaceutical compositions ▪ Methods of use	2034
DRM01	▪ Composition of matter ▪ Pharmaceutical compositions ▪ Methods of use	2030

Source: Dermira

Figure 24 U.S. Acne Market Build For DRM01

ESTIMATED U.S. ACNE TREATMENT MARKET												
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	CGR	Comments
U.S. Population 12 to 24 years old (MM)	52.0	52.5	53.0	53.6	54.1	54.7	55.2	55.8	56.3	56.9	57.4		
Growth Rate	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%		
Prevalence of Moderate-to-Severe Acne	24.8%	24.8%	24.8%	24.8%	24.8%	24.8%	24.8%	24.8%	24.8%	24.8%	24.8%		
Target Population (MM)	12.9	13.0	13.2	13.3	13.4	13.6	13.7	13.8	14.0	14.1	14.2		
% Treated	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%	23.5%		
Patients Treated (MM)	3.0	3.1	3.1	3.1	3.2	3.2	3.2	3.2	3.3	3.3	3.3	+1%	
ESTIMATED U.S. ORAL ISOTRETINOIN TREATMENT MARKET													
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	CGR	Comments
Absorica Penetration Of U.S. Acne Market													
Average Price Per Prescription	$1,119	$1,214	$1,250	$1,250	$1,250	$1,300	$1,300	$1,300	$1,350	$1,350	$1,350	+1%	
Annual Prescriptions ('000)	130	217	220	230	240	250	260	270	280	290	300	+4%	
Estimated Sales U.S. ($MM)	$146	$263	$275	$290	$300	$325	$340	$350	$380	$390	$405	+5%	
Penetration of Total U.S. Isotretinoin Market Prescriptions	13%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%		
Amnesteem Penetration Of U.S. Acne Market													
Average Price Per Prescription	$506	$412	$450	$450	$450	$500	$500	$500	$550	$550	$550	+3%	
Annual Prescriptions ('000)	229	257	260	270	280	290	300	310	320	330	340	+3%	
Estimated Sales U.S. ($MM)	$116	$106	$115	$120	$125	$145	$150	$155	$175	$180	$185	+6%	
Penetration of Total U.S. Isotretinoin Market Prescriptions	22%	24%	24%	23%	23%	23%	23%	23%	23%	23%	23%		
Claravis Penetration Of U.S. Acne Market													
Average Price Per Prescription	$486	$504	$550	$550	$550	$600	$600	$660	$650	$650	$650	+3%	
Annual Prescriptions ('000)	528	328	330	340	350	360	370	380	390	400	410	+3%	
Estimated Sales U.S. ($MM)	$257	$165	$180	$185	$195	$215	$220	$250	$255	$260	$265	+5%	
Penetration of Total U.S. Isotretinoin Market Prescriptions	51%	30%	30%	30%	29%	29%	28%	28%	28%	28%	27%		
Myorisan Penetration Of U.S. Acne Market													
Average Price Per Prescription	$353	$324	$350	$350	$350	$400	$400	$400	$450	$450	$450	+4%	
Annual Prescriptions ('000)	119	164	170	180	190	200	210	220	230	240	250	+5%	
Estimated Sales U.S. ($MM)	$42	$53	$60	$65	$65	$80	$85	$90	$105	$110	$115	+9%	
Penetration of Total U.S. Isotretinoin Market Prescriptions	11%	15%	15%	16%	16%	16%	16%	16%	16%	17%	17%		
Zenatane Penetration Of U.S. Acne Market													
Average Price Per Prescription	$558	$370	$400	$400	$400	$450	$450	$450	$500	$500	$500	+3%	
Annual Prescriptions ('000)	32	118	120	130	140	150	160	170	180	190	200	+6%	
Estimated Sales U.S. ($MM)	$18	$44	$50	$50	$55	$70	$70	$75	$90	$95	$100	+10%	
Penetration of Total U.S. Isotretinoin Market Prescriptions	3%	11%	11%	11%	12%	12%	12%	13%	13%	13%	13%		
Total U.S. Isotretinoin Market Sales ($MM)	**$578**	**$631**	**$680**	**$710**	**$740**	**$835**	**$865**	**$920**	**$1,005**	**$1,035**	**$1,070**	**+6%**	- Steady growth
% Growth		**+9%**	**+8%**	**+4%**	**+4%**	**+13%**	**+4%**	**+6%**	**+9%**	**+3%**	**+3%**		
Total U.S. Isotretinoin Annual Prescriptions ('000)	**1,039**	**1,084**	**1,100**	**1,150**	**1,200**	**1,250**	**1,300**	**1,350**	**1,400**	**1,450**	**1,500**	**+4%**	
ESTIMATED U.S. TOPICAL RETINOID TREATMENT MARKET													
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	CGR	Comments
Atralin Penetration Of U.S. Acne Market													
Average Price Per Prescription	$233	$236	$250	$250	$250	$260	$260	$260	$270	$270	$270	+2%	
Annual Prescriptions ('000)	217.0	174	175	175	175	175	175	175	175	175	175	+0%	
Estimated Sales U.S. ($MM)	$50.6	$41.0	$45.0	$45.0	$45.0	$45.0	$45.0	$45.0	$45.0	$45.0	$45.0	+1%	
Penetration of Total U.S. Topical Retinoind Market Prescriptions	6.0%	4.7%	4.7%	4.6%	4.5%	4.4%	4.3%	4.2%	4.1%	4.0%	4.0%		
Retin-A/Retin-A Mico Penetration Of U.S. Acne Market													
Average Price Per Prescription	$355	$479	$480	$480	$480	$490	$490	$490	$500	$500	$500	+0%	
Annual Prescriptions ('000)	243.7	84	80	75	70	65	60	55	50	45	40	-8%	
Estimated Sales U.S. ($MM)	$86.6	$40.3	$40.0	$35.0	$35.0	$30.0	$30.0	$25.0	$25.0	$25.0	$20.0	-7%	
Penetration of Total U.S. Topical Retinoind Market Prescriptions	6.7%	2.3%	2.1%	2.0%	1.8%	1.6%	1.5%	1.3%	1.2%	1.0%	0.9%		
Generic Tretinoin Penetration Of U.S. Acne Market													
Average Price Per Prescription	$83	$108	$110	$110	$110	$120	$120	$120	$130	$130	$130	+2%	
Annual Prescriptions ('000)	2,810.1	3,147	3,200	3,300	3,400	3,500	3,600	3,700	3,800	3,900	4,000	+3%	
Estimated Sales U.S. ($MM)	$233.0	$341.0	$350.0	$365.0	$375.0	$420.0	$430.0	$445.0	$495.0	$505.0	$520.0	+5%	
Penetration of Total U.S. Topical Retinoind Market Prescriptions	77.3%	85.0%	85.4%	86.2%	86.8%	87.5%	88.1%	88.7%	89.3%	89.9%	90.4%		
Ziana Penetration Of U.S. Acne Market													
Average Price Per Prescription	$418	$410	$420	$420	$420	$430	$430	$430	$440	$440	$440	+1%	
Annual Prescriptions ('000)	255.0	199	190	180	170	160	150	140	130	120	110	-6%	
Estimated Sales U.S. ($MM)	$106.6	$81.8	$80.0	$75.0	$70.0	$70.0	$65.0	$60.0	$55.0	$55.0	$50.0	-5%	
Penetration of Total U.S. Topical Retinoind Market Prescriptions	7.0%	5.4%	5.1%	4.7%	4.3%	4.0%	3.7%	3.4%	3.1%	2.8%	2.5%		
Other Penetration Of U.S. Acne Market													
Average Price Per Prescription	$211	$205	$205	$205	$205	$215	$215	$215	$225	$225	$225	+1%	
Annual Prescriptions ('000)	110.6	99	100	100	100	100	100	100	100	100	100	+0%	
Estimated Sales U.S. ($MM)	$23.3	$20.3	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$25.0	$25.0	$25.0	+2%	
Penetration of Total U.S. Topical Retinoind Market Prescriptions	3.0%	2.7%	2.7%	2.6%	2.6%	2.5%	2.4%	2.4%	2.4%	2.3%	2.3%		
Total U.S. Topical Retinoid Market Sales ($MM)	**$500**	**$525**	**$535**	**$540**	**$545**	**$585**	**$590**	**$595**	**$645**	**$655**	**$660**	**+3%**	- Steady growth
% Growth		**+5%**	**+2%**	**+1%**	**+1%**	**+7%**	**+1%**	**+1%**	**+8%**	**+2%**	**+1%**		
Total U.S. Topical Retinoid Annual Prescriptions ('000)	**3,636**	**3,703**	**3,745**	**3,830**	**3,915**	**4,000**	**4,085**	**4,170**	**4,255**	**4,340**	**4,425**	**+2%**	
ESTIMATED U.S. DRM01 SALES													
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	CGR	Comments
DRM01 U.S. Acne Sales													
Average Cost							$250	$260	$270	$280	$290		- WAC price
Sales ($MM)							**$55.0**	**$115.0**	**$170.0**	**$225.0**	**$290.0**		- Acne launch expected in early 2019
% of Estimated U.S. Isotretinoin/Tretinoin Acne Market (Prescriptions)							**4.0%**	**8.0%**	**11.0%**	**14.0%**	**17.0%**		

Source: Dermira; Cowen and Company estimates; PriceRx, IMS

Figure 25 U.S. Hyperhidrosis Market Build For DRM04

ESTIMATED U.S. HYPERHIDROSIS TREATMENT MARKET													
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	CGR	Comments
U.S. Population (MM)	300.0	303.0	306.0	309.1	312.2	315.3	318.5	321.6	324.9	328.1	331.4		
Growth Rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%		
Prevalence of Hyperhidrosis	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%		
Total Population (MM)	7.5	7.6	7.7	7.7	7.8	7.9	8.0	8.0	8.1	8.2	8.3		
Patients With Axillary Hyperhidrosis	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%		
Target Population (MM)	3.8	3.8	3.8	3.9	3.9	3.9	4.0	4.0	4.1	4.1	4.1		
% Treated	20.0%	20.0%	20.0%	20.0%	20.0%	22.0%	24.0%	26.0%	28.0%	30.0%	32.0%		
Patients Treated (MM)	1.5	1.5	1.5	1.5	1.6	1.7	1.9	2.1	2.3	2.5	2.7	+6%	
ESTIMATED U.S. DRM04 SALES													
	2013	**2014**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**CGR**	**Comments**
DRM04 U.S. Hyperhidrosis Sales													
Average Cost						$250	$260	$270	$280	$290	$300		- WAC price
Sales ($MM)						**$15.0**	**$30.0**	**$45.0**	**$65.0**	**$85.0**	**$110.0**	**+18%**	- Launch expected in 2018
% of Estimated U.S. Hyperhidrosis Market (Patients)						**3.0%**	**6.0%**	**8.0%**	**10.0%**	**12.0%**	**14.0%**		

Source: Dermira; Cowen and Company estimates; PriceRx, IMS

Figure 26 U.S. Psoriasis Market Build For Cimzia

ESTIMATED U.S. PSORIASIS MARKET												
	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	CAGR	Comments
Total U.S. Population ('000)	332,000	335,500	338,855	342,240	345,665	349,120	352,610	356,135	359,695	363,295		
Prevalence of Psoriasis	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%		
Total U.S. Patients with Psoriasis ('000)	4,980	5,033	5,083	5,134	5,185	5,237	5,289	5,342	5,395	5,449		
Prevalence of Moderate-to-Severe Psoriasis	22%	22%	22%	22%	22%	22%	22%	22%	22%	22%		
% Requiring Add-On Therapy	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%		
Total Psoriasis Add-On Therapy Population ('000)	**383**	**388**	**391**	**395**	**399**	**403**	**407**	**411**	**415**	**420**		
% Growth		+1%	+1%	+1%	+1%	+1%	+1%	+1%	+1%	+1%		
Remicade Penetration of U.S. Psoriasis Add-On Market (JNJ)	**3%**	**5%**	**4%**	**4%**	**3%**	**3%**	**2%**	**2%**	**2%**	**2%**		
Average Annual Patients ('000)	4.5	12.2	12.1	11.8	10.8	10.5	9.8	9.0	8.2	7.6	-6%	
Annual Cost of Therapy ($'000)	$17.7	$17.7	$17.7	$17.7	$17.7	$17.7	$17.7	$17.7	$17.7	$17.7		- Infliximab; Lower price because of Lower dosing and less frequency
Estimated Remicade U.S. Psoriasis Sales ($MM)	**$80**	**$215**	**$215**	**$210**	**$190**	**$185**	**$175**	**$160**	**$145**	**$135**	**-6%**	
% Growth		+169%	+0%	-2%	-10%	-3%	-5%	-9%	-9%	-7%		
Enbrel Penetration of U.S. Psoriasis Add-On Market (AMGN)	**38%**	**30%**	**28%**	**26%**	**24%**	**22%**	**21%**	**20%**	**19%**	**18%**		- Etanercept; U.S. patent protection until 2028
Average Annual Patients ('000)	46.0	48.5	51.5	53.5	54.8	55.4	55.0	55.0	55.0	55.0	+2%	
Annual Cost of Therapy ($'000)	$25.9	$26.7	$27.0	$27.2	$27.5	$27.8	$28.1	$28.3	$28.6	$28.9		
Estimated Enbrel U.S. Psoriasis Sales ($MM)	**$1,195**	**$1,295**	**$1,390**	**$1,455**	**$1,510**	**$1,540**	**$1,545**	**$1,560**	**$1,575**	**$1,590**	**3%**	
% Growth		+8%	+7%	+5%	+4%	+2%	+0%	+1%	+1%	+1%		
Humira Penetration of U.S. Psoriasis Add-On Market (ABBV)	**34%**	**34%**	**32%**	**30%**	**28%**	**27%**	**27%**	**26%**	**26%**	**25%**		- Adalimumab; potential biosimilar competition starting in 2016
Average Annual Patients ('000)	42.1	55.8	58.7	62.5	65.9	68.6	72.5	74.0	76.0	78.0	+4%	
Annual Cost of Therapy ($'000)	$25.8	$26.5	$26.8	$27.1	$27.3	$27.6	$27.9	$28.2	$28.4	$28.7		
Estimated Humira U.S. Psoriasis Sales ($MM)	**$1,085**	**$1,480**	**$1,570**	**$1,690**	**$1,800**	**$1,895**	**$2,020**	**$2,085**	**$2,160**	**$2,240**	**5%**	
% Growth		+36%	+6%	+8%	+7%	+5%	+7%	+3%	+4%	+4%		
Stelara Penetration of U.S. Psoriasis Add-On Market (JNJ)	**26%**	**31%**	**28%**	**27%**	**26%**	**25%**	**24%**	**24%**	**23%**	**23%**		- Ustekinumab; Il-12 and -23 inhibitor
Average Annual Patients ('000)	35.8	56.2	58.7	61.3	63.9	68.6	73.3	75.0	77.0	79.0	+4%	
Annual Cost of Therapy ($'000)	$23.1	$23.7	$24.0	$24.2	$24.5	$24.7	$25.0	$25.2	$25.5	$25.7		
Estimated Stelara U.S. Psoriasis Sales ($MM)	**$825**	**$1,335**	**$1,410**	**$1,485**	**$1,585**	**$1,695**	**$1,830**	**$1,890**	**$1,960**	**$2,030**	**5%**	
% Growth		+62%	+6%	+5%	+5%	+8%	+8%	+3%	+4%	+4%		
Otezla Penetration of U.S. Psoriasis Add-On Market (CELG)		**0%**	**5%**	**6%**	**7%**	**7%**	**7%**	**7%**	**7%**	**7%**		- Apremilast; oral PDE4 inhibitor
Average Annual Patients ('000)		0.9	10.0	14.5	20.1	21.3	23.0	24.0	25.0	26.0	+52%	
Annual Cost of Therapy ($'000)		$22.5	$22.7	$23.0	$23.2	$23.4	$23.6	$23.9	$24.1	$24.4		
Estimated Stelara U.S. Psoriasis Sales ($MM)		**$20**	**$225**	**$395**	**$465**	**$500**	**$545**	**$575**	**$605**	**$635**	**54%**	
% Growth			+1025%	+49%	+39%	+8%	+9%	+6%	+5%	+5%		
Cosentyx Penetration of U.S. Psoriasis Add-On Market (NVS)			**3%**	**5%**	**9%**	**12%**	**13%**	**15%**	**17%**	**18%**		- Secukinumab; IL-17 inhibitor; approved in the U.S. and EU
Average Annual Patients ('000)			8.5	16.7	33.1	44.0	54.2	64.6	74.6	84.4	+39%	
Annual Cost of Therapy ($'000)			$17.7	$17.9	$18.1	$18.2	$18.4	$18.6	$18.8	$19.0		
Estimated Stelara U.S. Psoriasis Sales ($MM)			**$150**	**$300**	**$600**	**$800**	**$1,000**	**$1,200**	**$1,400**	**$1,600**	**+40%**	
% Growth				+100%	+100%	+33%	+25%	+20%	+17%	+14%		
Ixekizumab Penetration of U.S. Psoriasis Add-On Market (LLY)				**2%**	**3%**	**4%**	**5%**	**6%**	**7%**	**8%**		- IL-17 inhibitor; 3 psoriasis data trials met endpoint; NDA filed Q1:15
Average Annual Patients ('000)				5.7	11.2	16.4	21.8	26.8	32.0	36.8	+36%	
Annual Cost of Therapy ($'000)				$17.9	$18.1	$18.3	$18.4	$18.6	$18.8	$19.0		
Estimated Stelara U.S. Psoriasis Sales ($MM)				**$100**	**$200**	**$300**	**$400**	**$500**	**$600**	**$700**	**+36%**	
% Growth					+100%	+50%	+33%	+25%	+20%	+17%		
Total U.S. Psoriasis Market Sales ($MM)	**$3,185**	**$4,345**	**$4,960**	**$5,575**	**$6,330**	**$6,915**	**$7,515**	**$7,970**	**$8,445**	**$8,930**	**+9%**	
% Growth		+36.4%	+14.2%	+12.4%	+13.5%	+9.2%	+8.7%	+6.1%	+6.0%	+5.7%		
Total U.S. Psoriasis Patients Treated with Biologics ('000)	128	174	200	226	260	285	310	328	348	367		
ESTIMATED U.S. CIMZIA PSORIASIS SALES												
	2013	**2014**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**CAGR**	**Comments**
Total Cimzia U.S. Psoriasis Market Sales ($MM)												
Annual Cost of Therapy ($'000)						$25.0	$25.3	$25.5	$25.8	$26.0		- Priced in-line with other biologics for psoriasis
Sales						**$70.0**	**$235.0**	**$335.0**	**$450.0**	**$575.0**		
% of Estimated U.S. Biologics Psoriasis Market (Patients)						**+1.0%**	**+3.0%**	**+4.0%**	**+5.0%**	**+6.0%**		
Dermira Profit Share						**$55.0**	**$150.0**	**$195.0**	**$245.0**	**$295.0**	**+52%**	- Share of gross margin; 90% on sales <$150MM, 50% on sales >$150MM

Source: Dermira; Cowen and Company estimates; PriceRx, IMS

Figure 27 Dermira Annual P&L

DERMIRA - 2014-2025 ESTIMATED ANNUAL EPS BUILDUP ($MM)

	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	CGR	Comments
U.S. DRM01 Sales							$55.0	$115.0	$170.0	$225.0	$290.0	$335.0	$375.0	+8%	- Topical sebum inhibitor for acne; Phase IIb study ongoing with data in H1:2016
Growth Rate								+109%	+48%	+32%	+29%	+15%	+12%		- Patent protection expected until 2030
U.S. DRM04 Sales						$15.0	$30.0	$45.0	$65.0	$85.0	$110.0	$145.0	$165.0	+23%	- Topical anticholinergic for hyperhidrosis; Phase III initiated with data in H2:2016
Growth Rate							+100%	+50%	+44%	+31%	+40%	+30%	+15%		- Patent protection expected until 2034
U.S Cimzia Psoriasis Profit Share						$55.0	$150.0	$195.0	$245.0	$295.0	$340.0	$380.0	$230.0	+6%	- Dermatology rights in U.S. and Canada; Phase III enrolling with data in 2017
Growth Rate							+173%	+30%	+26%	+20%	+15%	+12%	-40%		- Patent protection expected until 2024
Collaboration Revenue		$7.3													
Growth Rate															
Total Dermira Revenues		**$7.3**				**$70.0**	**$235.0**	**$355.0**	**$480.0**	**$805.0**	**$740.0**	**$860.0**	**$770.0**	**15%**	
% Change							+236%	+51%	+35%	+26%	+22%	+16%	-10%		
Cost of Goods	$0.0	$0.0	$0.0	$0.0	$0.0	$15.0	$45.0	$70.0	$95.0	$90.0	$110.0	$130.0	$115.0		
Gross Profit	$0.0	$7.3	$0.0	$0.0	$0.0	$55.0	$190.0	$285.0	$385.0	$515.0	$630.0	$730.0	$655.0		
Gross Margin	NM	100.0%	NM	NM	NM	80.0%	80.0%	80.0%	80.0%	85.0%	85.0%	85.0%	85.0%		- Solid margins
SG&A	$4.4	$8.3	$20.0	$35.0	$50.0	$85.0	$120.0	$145.0	$160.0	$185.0	$210.0	$235.0	$200.0	+10%	- Salesforce expansion beginning in 2017, in preparation for Cimzia and DRM04
% of Revs	NM	NM	NM	NM	NM	121%	51%	41%	33%	31%	28%	27%	26%		- Salesforce expansion required for DRM01
R&D	$17.9	$30.7	$60.0	$60.0	$55.0	$50.0	$45.0	$40.0	$40.0	$40.0	$40.0	$40.0	$35.0	-10%	- Clinical trial costs for DRM01 and DRM04; shared expenses for Cimzia
% of Revs	NM	NM	NM	NM	NM	71.4%	19.1%	11.3%	8.3%	6.6%	5.4%	4.7%	4.5%		
Operating Expenses	$22.3	$39.0	$80.0	$95.0	$105.0	$135.0	$165.0	$185.0	$200.0	$225.0	$250.0	$275.0	$235.0	+2%	
% of Revenues	NM	NM	NM	NM	NM	NM	70.2%	52.1%	41.7%	37.2%	33.8%	32.0%	30.5%		
Operating Income	($22.3)	($31.7)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$290.0	$380.0	$455.0	$420.0		- Operating profit expected in late 2019
% Operating Margin	NM	NM	NM	NM	NM	NM	10.6%	28.2%	38.5%	47.9%	51.4%	52.9%	54.5%		
Non-Operating Income															
Interest Income	$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		
Interest Expense	(0.0)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other Income	(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		
Non-Operating Income	($0.0)	($0.1)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		
Pretax Income	($22.4)	($31.8)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$290.0	$380.0	$455.0	$420.0	NM	
% of Revs	NM	NM	NM	NM	NM	NM	10.6%	28.2%	38.5%	47.9%	51.4%	52.9%	54.5%		
Income Taxes		$0.0								$101.5	$133.0	$159.3	$147.0	NM	
Income Tax Rate										35.0%	35.0%	35.0%	35.0%		
Net Income - Operations	($22.4)	($31.9)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$188.5	$247.0	$295.8	$273.0	NM	
% Net Margin	NM	NM	NM	NM	NM	NM	10.6%	28.2%	38.5%	31.2%	33.4%	34.4%	35.5%		
Extraordinary Items	$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		
Reported Net Income	($22.4)	($31.9)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$188.5	$247.0	$295.8	$273.0	NM	
Interest Add-Back	$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		
EPS (Non-GAAP) - Before Ex. Ite	($27.03)	($4.96)	($2.95)	($3.15)	($3.45)	($2.60)	$0.70	$2.85	$5.20	$5.20	$6.75	$7.95	$7.25	NM	- Profitable in late 2019 following Cimzia, DRM01 and DRM04 launches
Growth	NM	NM	NM	NM	NM	NM	NM	NM	+82%	+0%	+30%	+18%	-9%		
EPS - Extraordinary Items	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00		
EPS - Reported	($27.03)	($4.96)	($2.95)	($3.15)	($3.45)	($2.60)	$0.70	$2.85	$5.20	$5.20	$6.75	$7.95	$7.25	NM	
Shares - Fully Diluted (MM)	0.8	6.4	27.1	30.0	30.5	31.0	34.7	35.2	35.7	36.2	36.7	37.2	37.7		- Diluted shares; assuming some onward dilution from options

Source: Cowen and Company

Figure 28 Dermira DCF Suggests $40 Per Share

Assumptions:		*Output:*	
Increase in WC	5.0%	Equity Value	$1,126.0
Discount Rate	9.2%	**Estimated Share Price**	**$40.00**
Shares Outstanding	30.0	Net Cash	$194.0
		Enterprise Value	$1,320.0

DERMIRA DCF

	2013P	2014P	2015P	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	2031P	
Total Revenues	$0.0	$7.3	$0.0	$0.0	$0.0	$70.0	$235.0	$355.0	$480.0	$605.0	$740.0	$860.0	$770.0	$780.0	$800.0	$825.0	$865.0	$890.0	$480.0	
% Change			-100%				+236%	+51%	+35%	+26%	+22%	+16%	-10%	+1%	+3%	+3%	+5%	+3%	-46%	
Cost of Goods	$0.0	$0.0	$0.0	$0.0	$0.0	$15.0	$45.0	$70.0	$95.0	$90.0	$110.0	$130.0	$115.0	$115.0	$120.0	$125.0	$130.0	$135.0	$70.0	
Gross Profit	$0.0	$7.3	$0.0	$0.0	$0.0	$55.0	$190.0	$285.0	$385.0	$515.0	$630.0	$730.0	$655.0	$665.0	$680.0	$700.0	$735.0	$755.0	$410.0	
Gross Margin - Total	NM	100.0%	NM	NM	NM	80.0%	80.0%	80.0%	80.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	
SG&A	$4.4	$8.3	$20.0	$35.0	$50.0	$85.0	$120.0	$145.0	$160.0	$185.0	$210.0	$235.0	$200.0	$175.0	$150.0	$125.0	$100.0	$75.0	$50.0	
% of Revs	NM	113.5%	NM	NM	NM	121.4%	51.1%	40.8%	33.3%	30.6%	28.4%	27.3%	26.0%	22.4%	18.8%	15.2%	11.6%	8.4%	10.4%	
R&D	$17.9	$30.7	$60.0	$60.0	$55.0	$50.0	$45.0	$40.0	$40.0	$40.0	$40.0	$40.0	$35.0	$30.0	$25.0	$20.0	$15.0	$10.0	$5.0	
% of Revs	NM	420.7%	NM	NM	NM	71.4%	19.1%	11.3%	8.3%	6.6%	5.4%	4.7%	4.5%	3.8%	3.1%	2.4%	1.7%	1.1%	1.0%	
Operating Expenses	$22.3	$39.0	$80.0	$95.0	$105.0	$135.0	$165.0	$185.0	$200.0	$225.0	$250.0	$275.0	$235.0	$205.0	$175.0	$145.0	$115.0	$85.0	$55.0	
% of Revenues	NM	NM	NM	NM	NM	NM	70.2%	52.1%	41.7%	37.2%	33.8%	32.0%	30.5%	26.3%	21.9%	17.6%	13.3%	9.6%	11.5%	
Operating Income	($22.3)	($31.7)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$290.0	$380.0	$455.0	$420.0	$460.0	$505.0	$555.0	$620.0	$670.0	$355.0	
% Operating Margin	NM	NM	NM	NM	NM	NM	10.6%	28.2%	38.5%	47.9%	51.4%	52.9%	54.5%	59.0%	63.1%	67.3%	71.7%	75.3%	74.0%	
Other Income	(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	0.0	0.0	
Adjusted EBIT	($22.3)	($31.7)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$290.0	$380.0	$455.0	$420.0	$460.0	$505.0	$555.0	$620.0	$670.0	$355.0	
% of Revs	NM	NM	NM	NM	NM	NM	10.6%	28.2%	38.5%	47.9%	51.4%	52.9%	54.5%	59.0%	63.1%	67.3%	71.7%	75.3%	74.0%	
Taxes							$0.0	$0.0	$0.0	$101.5	$133.0	$159.3	$147.0	$161.0	$176.8	$194.3	$217.0	$234.5	$124.3	
Income Tax Rate							0.0%	0.0%	0.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	
NOPAT	($22.3)	($31.7)	($80.0)	($95.0)	($105.0)	($80.0)	$25.0	$100.0	$185.0	$188.5	$247.0	$295.8	$273.0	$299.0	$328.3	$360.8	$403.0	$435.5	$230.8	
Adjustments:																				Terminal
Capex	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($5.0)	($5.0)	
Depreciation & Amortization	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$6.0	
Change In Working Capital	($3.0)	($3.2)	($3.3)	($3.5)	($3.6)	($3.8)	($4.0)	($4.2)	($4.4)	($4.7)	($4.9)	($5.1)	($5.4)	($5.7)	($5.9)	($6.2)	($6.5)	($6.9)	($7.2)	
Free Cash Flow	($30.3)	($39.8)	($88.3)	($103.5)	($113.6)	($88.8)	$16.0	$90.8	$175.6	$178.8	$237.1	$285.6	$262.6	$288.3	$317.3	$349.5	$391.5	$428.6	$224.5	$2,440.5

Source: Cowen and Company

Valuation Methodology And Risks

Valuation Methodology

Pharmaceuticals/Specialty

For our valuation methodology, we arrive at fair value utilizing a discounted cash flow (DCF) approach to derive our 12-month price target.

Investment Risks

Pharmaceuticals/Specialty

Risks include: (1) growing competitive dynamics in the specialty pharmaceuticals space; (2) the ability of management to execute on external growth by successfully acquiring new strategic, accretive products; (3) the ability to grow organically and keep the product pipeline robust; (4) potential regulatory delays, rejections, or failures of pipeline products; (5) economic sensitivity of any self-pay products or weakening consumer demand; (6) domestic or international pricing pressures for marketed products; and (7) failure to execute on new product launches.

Risks To The Price Target

Risks include development delays for the late-stage clinical programs or potential clinical failure of the programs, both of which could negatively impact Dermira shares.

Addendum

Stocks Mentioned In Important Disclosures

Ticker	Company Name
AGN	Allergan
DERM	Dermira
SHPG	Shire Pharmaceutical
TEVA	Teva Pharmaceutical

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Cowen and Company, LLC. New York (646) 562-1000 **Boston** (617) 946-3700 **San Francisco** (415) 646-7200 **Chicago** (312) 577-2240 **Cleveland** (440) 331-3531 **Atlanta** (866) 544-7009 **London** (affiliate) 44-207-071-7500

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Outperform (1): The stock is expected to achieve a total positive return of at least 15% over the next 12 months

Market Perform (2): The stock is expected to have a total return that falls between the parameters of an Outperform and Underperform over the next 12 months

Underperform (3): Stock is expected to achieve a total negative return of at least 10% over the next 12 months

Assumption: The expected total return calculation includes anticipated dividend yield

Cowen and Company Rating System until May 25, 2013

Outperform (1): Stock expected to outperform the S&P 500

Neutral (2): Stock expected to perform in line with the S&P 500

Underperform (3): Stock expected to underperform the S&P 500

Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period

Cowen Securities, formerly known as Dahlman Rose & Company, Rating System until May 25, 2013

Buy – The fundamentals/valuations of the subject company are improving and the investment return is expected to be 5 to 15 percentage points higher than the general market return

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Hold – The fundamentals/valuations of the subject company are neither improving nor deteriorating and the investment return is expected to be in line with the general market return

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Hold (b)	314	39.05%	7	2.23%
Sell (c)	14	1.74%	0	0.00%

(a) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's rating definitions. (b) Corresponds to "Market Perform" as defined in Cowen and Company, LLC's ratings definitions. (c) Corresponds to "Underperform" as defined in Cowen and Company, LLC's ratings definitions.

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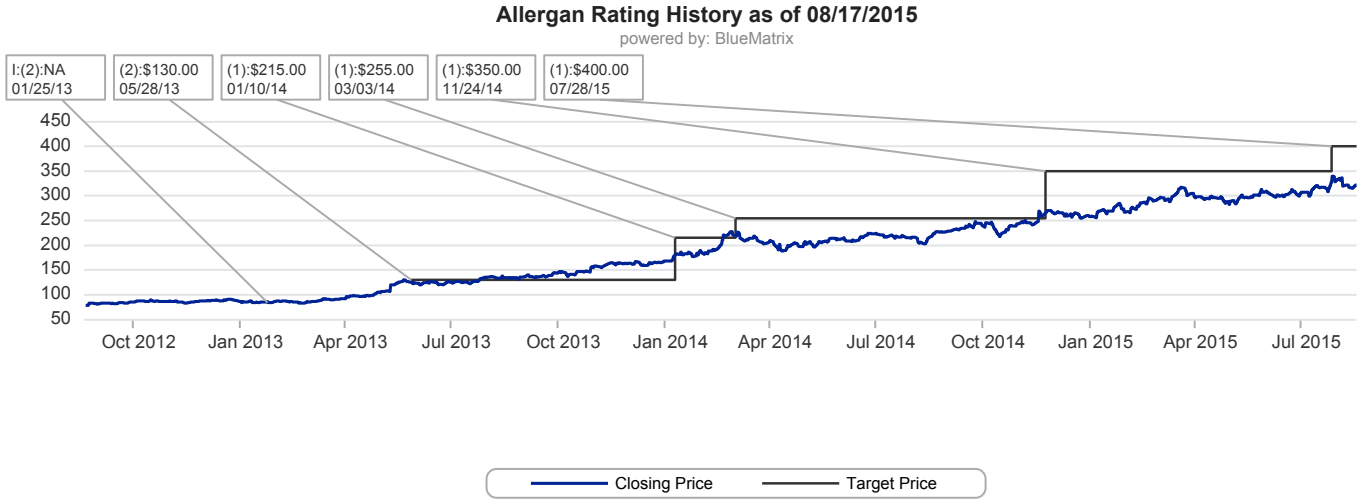

Dermira Rating History as of 08/17/2015
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Shire Pharmaceutical Rating History as of 08/17/2015
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Legend for Price Chart:

I = Initiation | 1 = Outperform | 2 = Market Perform | 3 = Underperform | UR = Price Target Under Review | T = Terminated Coverage | $xx = Price Target | NA = Not Available | S=Suspended

Points Of Contact

Analyst Profiles

Ken Cacciatore
New York
646.562.1305
ken.cacciatore@cowen.com

Ken is a senior analyst covering specialty pharmaceuticals. He has been with Cowen for 17 years in health care banking & equity research.

Tyler Van Buren, M.Sc.
New York
646.562.1338
tyler.vanburen@cowen.com

Tyler Van Buren is a vice president covering specialty pharma. He joined Cowen in 2013, after working at LifeSci Advisors and Amylin.

Sal Rais, M.D.
New York
646.562.1420
sal.rais@cowen.com

Sal Rais is an associate covering specialty pharmaceuticals. He previously worked at Campbell Alliance and has an M.D. and MBA from UVA.

Reaching Cowen

Main U.S. Locations

New York
599 Lexington Avenue
New York, NY 10022
646.562.1000
800.221.5616

Boston
Two International Place
Boston, MA 02110
617.946.3700
800.343.7068

Cleveland
20006 Detroit Road
Suite 100
Rocky River, OH 44116
440.331.3531

San Francisco
555 California Street, 5th Floor
San Francisco, CA 94104
415.646.7200
800.858.9316

Atlanta
3399 Peachtree Road NE
Suite 417
Atlanta, GA 30326
866.544.7009

Chicago
181 West Madison Street
Suite 3135
Chicago, IL 60602
312.577.2240

International Locations

Cowen International Limited

London
1 Snowden Street - 11th Floor
London EC2A 2DQ
United Kingdom
44.20.7071.7500

Cowen and Company (Asia) Limited

Hong Kong
Suite 1401 Henley Building
No. 5 Queens Road Central
Central, Hong Kong
852 3752 2333

@CowenResearch

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