

Reason for report:

EARNINGS

CORIUM INTERNATIONAL, INC.

F'2Q Update: In-Line Results & Some Minor Pipeline Updates;
Remain OP

• **Bottom Line:** Tuesday evening CORI reported its first financial quarterly results since its IPO. F'2Q results were in line with our forecasted sales and net loss of \$10.75m and \$3m (after backing out a \$6.3m 1x non-cash benefit), respectively. On the CC, mgmt provided a few pipeline updates including status of the Twirla Ph. 3 study and updates on the Corplex/MicroCor platforms. Since our initiation report, the primary update came on g-clonidine patch, with the announcement that ACT (OP) launched a competitive generic (5/7) and we're trimming our clonidine ests as a result. We remain OP with a revised price target of ~\$12/shr (from \$11.25); the price increase factors conversion of subordinate debt to common shares not factored into prior valuation.

• **Competitor headwinds to base biz are still expected over the remainder of the fiscal year.** As noted in our [initiation](#), two of CORI's partnered products, g-clonidine and g-fentanyl, face challenging Y/Y comparables as competition in each respective market intensifies. In the less competitive clonidine patch market, ACT recently launched a generic competitor which we forecast could take 25-35% share of the market over the next 12-months. Since an incremental competitor was not factored into our old numbers, we reduce our sales ests by \$1-2m to account for the introduction of ACT to the market; we note that ACT has significant capacity to mfg transdermal capacity at its Salt Lake facility.

• **No major pipeline updates; Twirla advancing to its next Phase 3 trial.** On the F'2Q update, mgmt did not provide any major pipeline updates. At the margin, mgmt updated that its partner on Twirla, Agile Therapeutics, has brought on Parexel as its CRO (contract research organization) to run its upcoming Phase 3 trial, which is expected to be completed by end of 2015. Recall – Twirla received a CRL based on study conduct concerns which lead to results the FDA deemed were uninterpretable. As stated in our initiation, we believe Agile has taken the necessary steps to avoid future study conduct issues, including more selective patient enrollment and greater vigilance to ensure patients are compliant with therapy.

• **Mgmt focused on building out pipeline with IPO proceeds.** Other early stage pipeline programs mgmt is moving forward include: (1) corplex CNS programs for Alzheimer's and Parkinson's which are now in formulation stage, and mgmt believes these programs could advance into Phase 1 pharmacokinetic studies by late '14 or early '15; & (2) MicroCor mfg scale-up: mgmt expects to have mfg capacity for Phase 1 and 2 studies by end of 2014, after which CORI will focus on getting the facility to pilot plant scale. We believe scale up of the MicroCor facility is critical to CORI's ability to secure partnerships around the MicroCor platform.

Key Stats:

(NASDAQ:CORI)

S&P 600 Health Care Index: 1,225.55

Price: \$6.56

Price Target: \$12.00 from \$11.25

Methodology: Sum-of-Parts DCF Analysis

52 Week High: \$8.48

52 Week Low: \$6.10

Shares Outstanding (mil): 18.2

Market Capitalization (mil): \$119.4

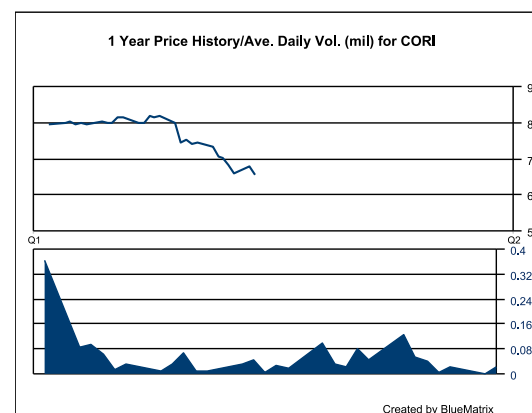
Book Value/Share: \$0.00

Cash Per Share: \$0.90

Dividend (ann): \$0.00

Dividend Yield: 0.0%

Cash Per Share: Net cash per share



Sep Yr	1Q	2Q	3Q	4Q	FY Rev	1Q	2Q	3Q	4Q	FY EPS	P/E
2013A	--	--	--	--	50.3	--	--	--	--	(2.40)	NM
2014E - New	10.5A	10.7A	11.1	10.4	42.7	(0.21)A	0.33A	(0.26)	(0.35)	(0.67)	NM
2014E - Old	10.5A	10.8	11.3	11.1	43.6	(0.21)A	(0.17)	(0.26)	(0.47)	(1.15)	NM
2015E - New	--	--	--	--	48.8	--	--	--	--	(0.97)	NM
2015E - Old	--	--	--	--	50.8	--	--	--	--	(0.95)	NM

Source: Company Information and Leerink Partners LLC Research

Revenues in millions.

GAAP EPS.

INVESTMENT THESIS

We rate CORI shares Outperform. CORI's current valuation largely reflects its base business -- a stable, transdermal patch mfg business. While CORI's pipeline gets little credit in the current valuation, we view the risk/reward as favorable keyed by Phase 3 Twirla, a contraceptive patch partnered with Agile Therapeutics. We view Twirla as a low development risk (75% POS) product with potential to reach \$400m in peak US sales. Beyond Twirla – CORI has several self-funded Phase 2 assets which have the potential to generate non-dilutive partnership dollars sometime in 2015. With its recent IPO proceeds, we believe CORI will be able to leverage its transdermal formulation expertise & secure better partnership terms which should dramatically alter the margin profile of the company. Lastly, we are confident in CORI mgmt's ability to build a diversified transdermal-delivery spec pharma company based on their experience at Alza, a pioneer in transdermal and modified delivery drugs.

CHANGES TO MODEL

EPS & Total Sales Forecasts (F2013-F18E) (\$MM, except per share data)

Total EPS Forecasts 2013-18E						
	2013	2014E	2015E	2016E	2017E	2018E
New	(2.40)	(0.67)	(0.97)	(0.68)	(0.25)	0.15
Old	(2.40)	(1.15)	(0.95)	(0.67)	(0.23)	0.19
Difference	-	0.47	(0.02)	(0.02)	(0.03)	(0.04)
Total Revenue Forecasts 2013-18E						
	2013	2014E	2015E	2016E	2017E	2018E
New	50	43	49	65	84	106
Old	50	44	51	67	86	108
Difference	-	(1)	(2)	(2)	(2)	(3)

Source: Company information and Leerink estimates

VALUATION

Our ~\$12 price target is based on a sum-of-the-parts DCF valuation analysis: (1) base business = ~\$6.70, based on 2.5x multiple on ~\$50m F'15 revenue from base business products; (2) Twirla = ~\$1.75; (3) Ph. II products = ~\$2.00; (4) MicroCor = ~55c; and (5) net cash ~90c.

RISKS TO VALUATION

Potential risks to CORI valuation include: (1) clinical failure of Twirla Ph. III; (2) incremental competitive headwinds in fentanyl and/or clonidine transdermal delivery system (TDS) markets; & (3) product recalls and/or current good manufacturing practice (cGMP) issues relating to existing commercial products could negatively impact valuation.

CORI P&L Summary (Adj. Basis)
CORI Annual Product Summary

(Fiscal Year End Last Friday of September)	2012	2013	1Q 12/13	2Q 3/14	3Q 6/14E	4Q 9/14E	2014E	2015E	2016E	2017E	2018E	2019E	CAGR 14-16E	CAGR 14-19E
clonidine TDS, partner TEVA (brand: Catapres TTS)	10.7	12.5	2.6	2.3	2.2	2.0	9.1	7.0	7.0	6.1	6.1	6.1	-12%	-8%
fentanyl TDS, partner Par (brand: Duragesic)	15.0	16.4	3.1	2.5	2.7	2.7	11.0	11.2	10.1	9.9	9.8	9.8	-4%	-2%
Crest White Strips, partner P&G	10.0	9.8	2.4	2.4	2.6	2.6	10.0	12.0	13.2	14.5	16.0	17.6	15%	12%
Total in-line patch sales	35.7	38.7	8.1	7.2	7.5	7.3	30.1	30.2	30.3	30.5	31.8	33.4	0%	2%
scopolamine TDS, partner TEVA (brand: Transderm Scop)	-	-	-	-	-	-	-	3.5	3.0	3.0	3.0	3.0	na	na
oxybutynin TDS, partner TEVA (brand: Oxytrol)	-	-	-	-	-	-	-	-	-	-	-	-	na	na
AG200-15 contraceptive patch, partner Agile	-	-	-	-	-	-	-	-	4.0	10.0	16.0	20.0	na	na
P&G OTC cosmetic product	-	-	-	-	-	-	-	-	4.0	6.0	9.0	14.0	na	na
Corplex Tamsulosin	-	-	-	-	-	-	-	-	-	-	-	-	na	na
Alzheimer's TDS (505b2 path)	-	-	-	-	-	-	-	-	-	-	-	-	na	na
Parkinson's TDS (505b2 path)	-	-	-	-	-	-	-	-	-	-	-	-	na	na
Total pipeline patch product sales	-	-	-	-	-	-	-	3.5	11.0	19.0	28.0	37.0	na	na
hPTH (1-34) TDS	-	-	-	-	-	-	-	-	-	-	-	-	na	na
Product royalties	-	-	-	-	-	-	-	-	-	-	-	-	na	na
Contract Research & Development	6.8	10.8	2.1	3.3	3.3	2.9	11.5	13.0	16.0	20.0	24.0	26.0	18%	18%
License & Collaboration Revenue	0.3	0.8	0.3	0.2	0.3	0.3	1.1	2.0	7.7	14.3	21.7	23.0	164%	84%
Total Revenues	42.9	50.27	10.5	10.7	11.1	10.4	42.7	48.8	64.9	83.9	105.5	119.4	23%	23%
% Y/Y growth	na	17.3%	-17.1%	-20.3%	-15.2%	-6.2%	-15.1%	14.2%	33.1%	29.2%	25.8%	13.2%		
Cost of product sales	24.4	24.8	5.2	5.0	5.4	5.4	21.0	26.5	31.4	36.7	43.9	51.4	22%	20%
Cost of contract R&D	10.2	11.9	3.5	3.9	3.8	3.2	14.4	13.8	20.8	27.5	34.3	36.8	20%	21%
COGS	34.6	36.7	8.8	8.9	9.2	8.5	35.4	40.3	52.1	64.1	78.1	88.2	21%	20%
% of net sales	80.7%	73.0%	83.7%	83.1%	82.9%	81.9%	82.9%	82.7%	80.3%	76.5%	74.0%	73.8%		
Gross Income	8.3	13.6	1.7	1.8	1.9	1.9	7.3	8.5	12.8	19.7	27.4	31.3	32%	34%
% of product sales	19.3%	27.0%	16.3%	16.9%	17.1%	18.1%	17.1%	17.3%	19.7%	23.5%	26.0%	26.2%		
G&A	4.6	6.5	1.8	1.2	3.0	3.0	9.0	10.2	10.4	10.5	10.6	10.6	7%	3%
% of net sales	11%	13%	17.3%	11.5%	27.0%	28.4%	21.1%	20.9%	16.0%	12.5%	10.0%	8.9%		
R&D	4.0	5.5	0.9	1.3	3.0	4.9	10.0	12.0	11.0	10.0	10.0	10.0	5%	0%
% of net sales	9.3%	10.9%	8.2%	11.8%	27.0%	46.8%	23.4%	24.6%	16.9%	11.9%	9.5%	8.4%		
Amortization	0.5	1	0.1	0.1	0.1	0.1	0.5	-	-	-	-	-	-100%	-100%
% of net sales	1.2%	1.1%	1.2%	1.2%	0.9%	0.9%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%		
Gain on equipment sale	-0.1	-0.2	(0)	(0)	(0)	(0)	(0)	-	-	-	-	-	-100%	-100%
% of net sales	-0.1%	-0.4%	-0.4%	-0.3%	-0.3%	0.0%	-0.2%	0.0%	0.0%	0.0%	0.0%	0.0%		
Operating Income	(0.8)	1.2	(1)	(1)	(4)	(6)	(12)	(14)	(9)	(1)	7	11	-15%	NA
% of net sales	-1.9%	2.4%					-28.2%	-28.2%	-13.3%	-0.9%	6.5%	8.9%		
Interest income	0	0	0	0	-	0	0.03	0.03	-	-	-	-		
Interest expense	(5)	(8)	(2.0)	(1.8)	(0.5)	0.3	(4.00)	(4.00)	(4.00)	(4.00)	(4.00)	(4.00)		
Change in fair value of warrants & liabilities	0	(7)	1.0	(0.2)	-	(0.7)	0.03	-	-	-	-	-		
Other Income	1	-	-	6.3	-	-	6.34	-	-	-	-	-		
Net financial expense	(4.6)	(15.1)	(1.0)	4.3	(0.5)	(0.4)	2.4	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	#NUM!	#NUM!
Pretax Income	(5.5)	(13.9)	(2)	4	(5)	(6)	(9.7)	(17.7)	(12.6)	(4.8)	2.8	6.7	14%	na
% Pre-tax margin	-12.7%	-27.6%	-20.0%	33.0%	-42.1%	-61.7%	-22.6%	-36.3%	-19.5%	-5.7%	2.7%	5.6%		
Income Taxes (benefit)	(0)	0	-	-	-	-	-	-	-	-	-	-	na	na
% Tax rate	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
GAAP Net Income	(5.4)	(13.9)	-2	4	-5	-6	(9.7)	(17.7)	(12.6)	(4.8)	2.8	6.7	NA	na
% of net sales			-20.0%	33.0%	-42.1%	-61.7%								
Diluted GAAP EPS	(2.47)	(2.40)	(0.21)	0.33	(0.26)	(0.35)	(0.67)	(0.97)	(0.68)	(0.25)	0.15	0.34	NA	NA
% growth	nm	nm					nm	nm	nm	nm	nm	132%		
Weighted Average Diluted Shares	2.2	5.8	10.1	10.7	18.2	18.2	14.3	18.2	18.5	18.8	19.2	19.6	14%	6%
% growth		163%	238%	155%	213%	80%	147%	27%	2%	2%	2%	2%		

Source: Company information, Leerink Research estimates.; Note: F2Q14 share ct may require adjustment after 10Q publishes

Disclosures Appendix

Analyst Certification

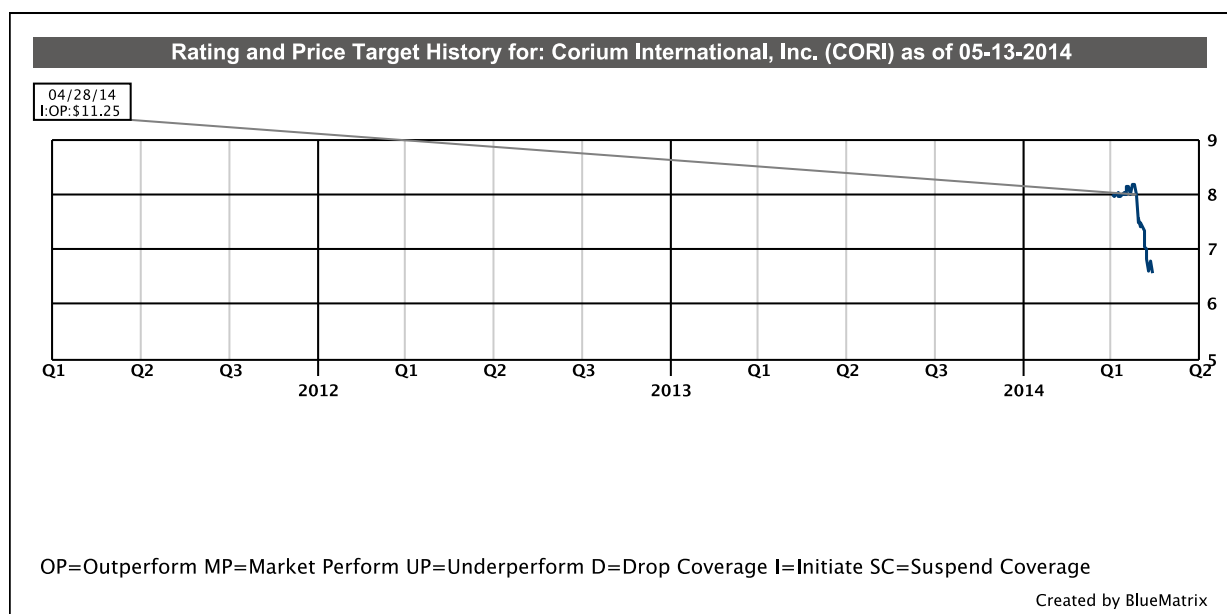
I, Jason M. Gerberry, JD, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

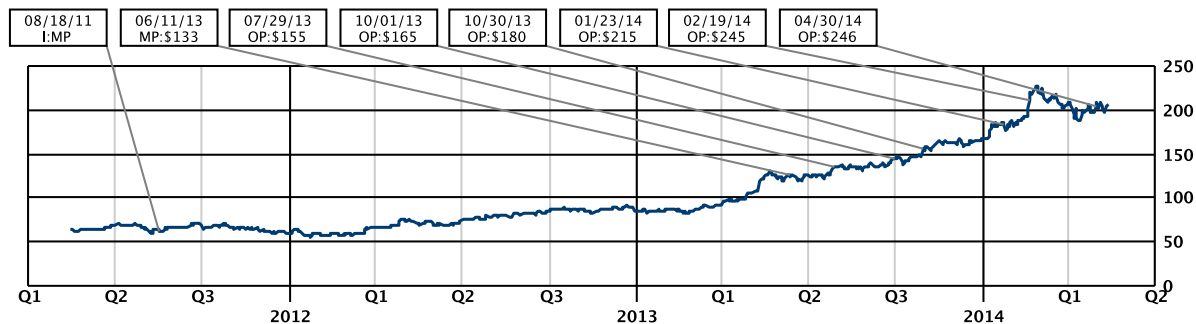
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Rating and Price Target History for: Actavis, Inc. (ACT) as of 05-13-2014

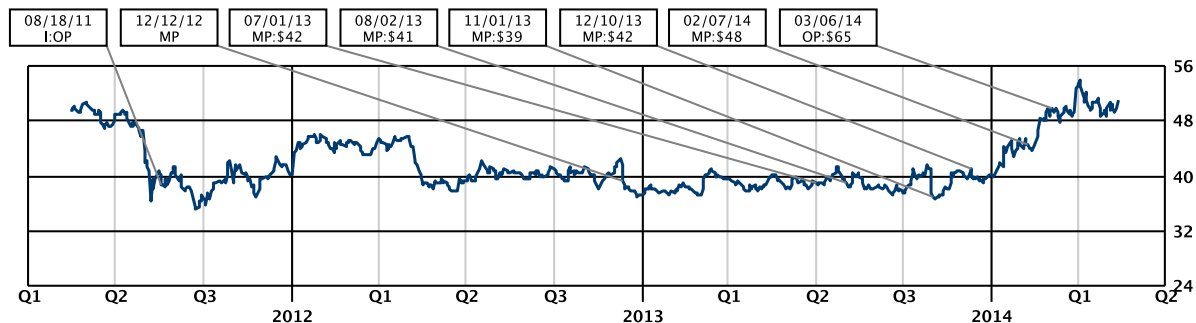


On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

Rating and Price Target History for: Teva Pharmaceutical Industries Ltd. (TEVA) as of 05-13-2014



On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

Distribution of Ratings/Investment Banking Services (IB) as of 03/31/14				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OP]	131	68.23	46	35.11
HOLD [MP]	61	31.77	3	4.92
SELL [UP]	0	0.00	0	0.00

Explanation of Ratings

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

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

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

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

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

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