

## COMPANY NOTE

Estimate Change

USA | Healthcare | Pharmaceuticals/Specialty

February 11, 2015

# Jefferies

## Corium (CORI)

### Wider F1Q Loss; Pipeline Remains on Track

#### Key Takeaway

**CORI reported a F1Q net loss of \$6.8M, modestly wider than our -\$5.3M est. Lower than expected revs from partnered products in combination with higher than expected proprietary R&D (\$4.2M vs \$3.1M JEF) were the key reasons for the variance. Mgt noted that key pipeline programs are on track for CY15 initiation, including Ph1 studies for transdermal Aricept, Namenda and Requip and a Ph2a program for MicroCor PTH.**

#### Partnered Product Sales Lower Than Expected; R&D Expense Higher as Well:

CORI reported product revs of \$6.5M (vs \$8.2M JEF) on lower than expected end-market sales of both generic clonidine and fentanyl transdermal patches. While we anticipated declines for both drugs, the impact was higher than we forecasted since TRx volume for both drugs was -17% Y/Y according to IMS. Specific to clonidine, we expected Y/Y volume declines due to the return of MYL, but the additional entry of ACT has impacted pricing, according to mgt. Regarding fentanyl, Par's TRx share eroded 100bp in CY14. We expect these trends to continue and now model FY15 clonidine and fentanyl revs to CORI of \$8.9M/\$9.3M (vs \$9.8M/\$10.4M prev). Higher R&D expense (+\$1.1M vs JEF) also contributed to the wider than expected loss. Mgt indicated that total R&D (proprietary and contract) will avg ~\$8M per quarter in FY15. Hence, thus we increase our FY15 proprietary R&D est to \$16.3M (from \$12.2M). While contract R&D sales did increase in F1Q, these were more than offset by their accordant costs. As such, for FY15 we maintain our total revs at \$43M (lower product sales, higher contract R&D) but markedly reduce our EPS est to -\$1.33 (vs -\$0.85).

#### Key Pipeline Programs Moving Ahead in FY15; BARDA Contract Could Be a

**Catalyst:** While the base business results were softer than expected, mgt noted that several key pipeline programs are moving forward. The company plans to initiate its MicroCor PTH Ph2a trial within the next few weeks and intends to stagger Ph1 trials for promising transdermal patch candidates Aricept, Namenda and Requip starting mid CY15. CORI is also in the running for a potentially significant BARDA contract, which could help to validate its MicroCor platform in vaccines and also serve as a major source of non-dilutive financing.

#### Valuation/Risks

Our PT remains \$10: 25x our new FY20 EPS est of \$1.19 (vs \$1.22), discounted annually at 25%. Risks include competition to current drugs, mfg issues and pipeline setbacks.

USD	Prev.	2014A	Prev.	2015E	Prev.	2016E	Prev.
Rev. (MM)	--	42.4	--	43.0	49.0	48.0	--
<b>EPS</b>							
Dec	--	--	(0.29)	(0.37)A	--	--	--
Mar	--	(0.47)	(0.32)	(0.35)	--	--	--
Jun	--	(0.28)	(0.29)	(0.32)	--	--	--
Sep	--	(0.35)	--	(0.30)	--	--	--
FY Sep	--	(1.11)	(0.85)	(1.33)	(1.01)	(1.12)	--
FY P/E		NM		NM		NM	

**BUY**

Price target \$10.00

Price \$6.72

#### Financial Summary

Net Debt (MM): \$9.5

#### Market Data

52 Week Range: \$8.49 - \$4.30

Total Entprs. Value (MM): \$130.5

Market Cap. (MM): \$121.0

Shares Out. (MM): 18.0

Float (MM): 7.5

Avg. Daily Vol.: 23,672

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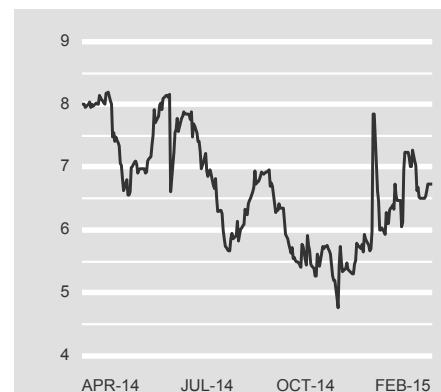
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#### Price Performance



**Chart 1: CORI Quarterly Variance Table (\$ in '000s, except per share data)**

	1Q15A	1Q15E	Change	% Change	1Q14A	Change	% Change
Product Revenue	\$6,539	\$8,150	(\$1,611)	-19.8%	\$8,100	(\$1,561)	-19.3%
Contract R&D Revenue	\$2,930	\$2,250	\$680	30.2%	\$2,064	\$866	42.0%
<b>Total Revenues</b>	<b>\$9,766</b>	<b>\$10,650</b>	<b>(\$884)</b>	<b>-8.3%</b>	<b>\$10,468</b>	<b>(\$702)</b>	<b>-6.7%</b>
COGS	7,804	8,427	(623)	-7.4%	8,766	(\$962)	-11.0%
Gross Profit	1,962	2,223	(261)	-11.7%	1,702	\$260	15.3%
R&D	4,197	3,050	1,147	37.6%	861	\$3,336	387.5%
SG&A	2,687	2,525	162	6.4%	1,810	\$877	48.5%
Total C&E	14,856	14,119	737	5.2%	11,530	\$3,326	28.8%
Operating Income	(5,090)	(3,469)	(1,621)	46.7%	(1,062)	(\$4,028)	379.3%
Net interest/other income	(1,667)	(1,800)	133	-7.4%	(1,036)	(\$631)	60.9%
Pretax Income	(6,757)	(5,269)	(1,488)	28.2%	(2,098)	(\$4,659)	222.1%
Taxes	2	0	2	NM	0	\$2	NM
Net Income	(6,759)	(5,269)	(1,490)	28.3%	(2,098)	(\$4,661)	222.2%
<b>Reported EPS - diluted</b>	<b>(\$0.37)</b>	<b>(\$0.29)</b>	<b>(\$0.08)</b>	<b>29.1%</b>	<b>(\$0.94)</b>	<b>\$0.57</b>	<b>-60.2%</b>
Shares outstanding (diluted)	18,035	18,154	(119)	-0.7%	2,230	15,805	708.8%
<b>MARGINS:</b>							
Gross	20.1%	20.9%	-0.8%	-3.8%	16.3%	3.8%	23.6%
R&D	43.0%	28.6%	14.3%	50.1%	8.2%	34.8%	422.5%
SG&A	27.5%	23.7%	3.8%	16.0%	17.3%	10.2%	59.1%
Operating	NM	NM			NM		
Pre-tax	NM	NM			NM		
Tax Rate (as reported)	0.0%	0.0%			0.0%		
Net Income	NM	NM			NM		

Source: Jefferies estimates, company data

Chart 2: CORI Income Statement (\$ in '000s, except per share data)

FY: SEP	2012A	2013A	2014A	1Q15A	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E
<b>Revenues:</b>													
Product Revenues	\$35,952	\$38,704	\$32,202	\$6,539	\$7,050	\$7,950	\$9,463	\$31,002	\$33,854	\$42,079	\$48,044	\$82,978	\$128,465
Contract R&D Revenues	6,838	10,750	9,026	2,930	2,800	2,900	2,201	10,831	11,156	11,435	11,664	11,897	12,135
License/Collaboration Revenues	70	816	1,212	297	300	300	300	1,197	3,000	4,000	4,000	4,000	4,000
<b>TOTAL REVENUES</b>	<b>\$42,860</b>	<b>\$50,270</b>	<b>\$42,440</b>	<b>\$9,766</b>	<b>\$10,150</b>	<b>\$11,150</b>	<b>\$11,964</b>	<b>\$43,030</b>	<b>\$48,010</b>	<b>\$57,514</b>	<b>\$63,708</b>	<b>\$98,875</b>	<b>\$144,600</b>
<b>Cost of Goods Sold:</b>													
COGS	34,604	36,684	35,595	7,804	7,730	8,395	8,916	32,682	31,266	35,846	39,144	57,092	80,306
<b>GROSS PROFIT</b>	<b>\$8,256</b>	<b>\$13,586</b>	<b>\$6,845</b>	<b>\$1,962</b>	<b>\$2,420</b>	<b>\$2,755</b>	<b>\$3,048</b>	<b>\$10,348</b>	<b>\$16,745</b>	<b>\$21,668</b>	<b>\$24,564</b>	<b>\$41,783</b>	<b>\$64,294</b>
<b>Operating Expenses:</b>													
R&D	3,966	5,496	7,365	4,197	4,150	4,050	3,853	16,250	18,338	18,888	19,265	19,651	20,044
G&A	4,645	6,525	9,095	2,687	2,685	2,685	2,693	10,750	11,341	11,908	12,504	13,066	13,654
Total Operating Expenses	43,670	49,069	52,490	14,856	14,687	15,262	15,595	60,237	61,492	67,221	71,526	90,458	114,690
<b>OPERATING INCOME</b>	<b>(810)</b>	<b>1,201</b>	<b>(10,050)</b>	<b>(5,090)</b>	<b>(4,537)</b>	<b>(4,112)</b>	<b>(3,631)</b>	<b>(17,207)</b>	<b>(13,481)</b>	<b>(9,707)</b>	<b>(7,818)</b>	<b>8,418</b>	<b>29,911</b>
Net interest income (expense)	(5,243)	(7,696)	(6,954)	(1,667)	(1,800)	(1,800)	(1,798)	(7,065)	(7,200)	(6,450)	(5,700)	(4,950)	(4,200)
Other Income	603	(7,381)	755	-	-	-	-	-	-	-	-	-	-
<b>PRETAX INCOME</b>	<b>(5,450)</b>	<b>(13,876)</b>	<b>(16,249)</b>	<b>(6,757)</b>	<b>(6,337)</b>	<b>(5,912)</b>	<b>(5,429)</b>	<b>(24,272)</b>	<b>(20,681)</b>	<b>(16,157)</b>	<b>(13,518)</b>	<b>3,468</b>	<b>25,711</b>
Reported taxes	(7)	1	1	2	0	0	0	0	0	0	0	0	0
<b>NET INCOME</b>	<b>(5,443)</b>	<b>(13,877)</b>	<b>(16,250)</b>	<b>(6,759)</b>	<b>(6,337)</b>	<b>(5,912)</b>	<b>(5,429)</b>	<b>(24,272)</b>	<b>(20,681)</b>	<b>(16,157)</b>	<b>(13,518)</b>	<b>3,468</b>	<b>25,711</b>
Shares outstanding (basic)		2,223	10,044	18,035	18,125	18,215	18,398	18,193	18,493	18,793	19,093	19,393	19,693
Shares outstanding (diluted)		2,223	10,044	18,035	18,125	18,215	18,398	18,193	18,493	18,793	19,093	21,293	21,593
<b>Reported EPS (diluted)</b>		<b>(\$6.24)</b>	<b>(\$1.11)</b>	<b>(\$0.37)</b>	<b>(\$0.35)</b>	<b>(\$0.32)</b>	<b>(\$0.30)</b>	<b>(\$1.33)</b>	<b>(\$1.12)</b>	<b>(\$0.86)</b>	<b>(\$0.71)</b>	<b>\$0.16</b>	<b>\$1.19</b>
<b>MARGINS:</b>													
Gross	19.3%	27.0%	16.1%	20.1%	23.8%	24.7%	25.5%	24.0%	34.9%	37.7%	38.6%	42.3%	44.5%
Gross (on product and royalties)	32.2%	35.9%	37.3%	37.5%	40.0%	40.0%	40.0%	40.0%	40.6%	42.0%	42.8%	45.5%	46.9%
R&D	9.3%	10.9%	17.4%	43.0%	40.9%	36.3%	32.2%	37.8%	38.2%	32.8%	30.2%	19.9%	13.9%
G&A	10.8%	13.0%	21.4%	27.5%	26.5%	24.1%	22.5%	25.0%	23.6%	20.7%	19.6%	13.2%	9.4%
Operating	NM	2.4%	NM	NM	NM	NM	NM	NM	NM	NM	NM	8.5%	20.7%
Pre-tax	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	3.5%	17.8%
Tax Rate (as reported)	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	3.5%	17.8%

Source: Jefferies estimates, company data

## Company Description

Corium International, Inc. is a leader in applying advanced transdermal delivery systems and related technologies to address areas of unmet medical need. The company has developed two highly differentiated state of the art transdermal technologies, Microcor and Corplex, for the delivery of large and small molecules, respectively.

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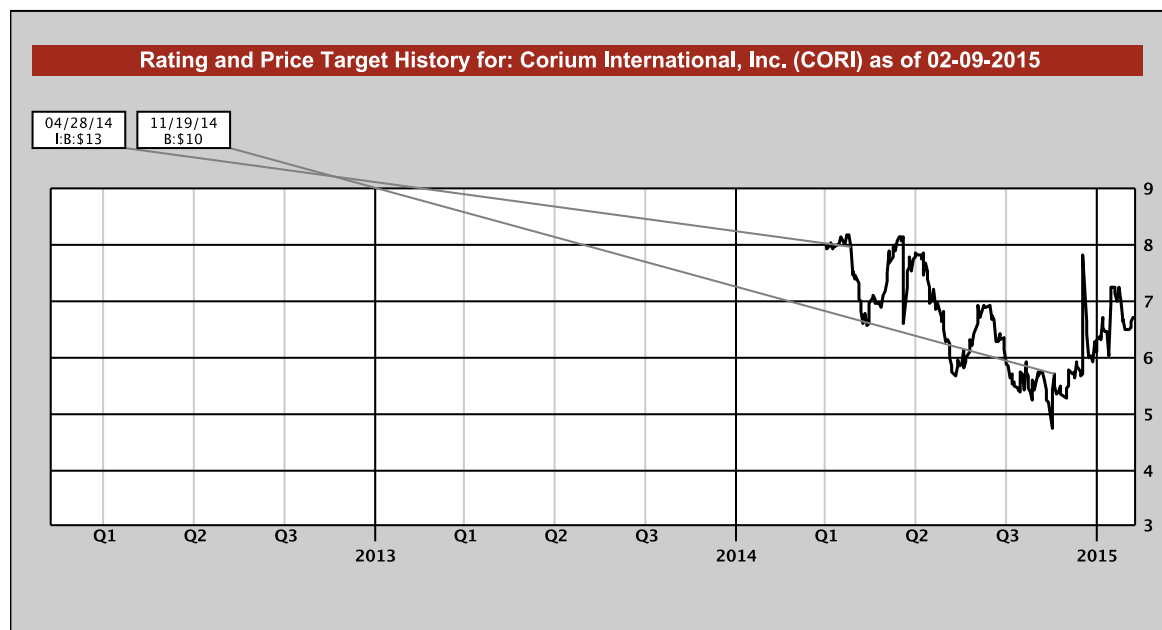
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## Other Companies Mentioned in This Report

- Corium International, Inc. (CORI: \$6.72, BUY)



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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1061	51.26%	287	27.05%
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