

Cerecor Inc. (CERC - \$ 4.80)

All Eyes on 4Q16 for Key Catalysts

We recently spent time with senior management of Cerecor around their reported 3Q16 earnings (which were in-line with expectations as they are still a development rather than an earnings story). We want to highlight the significant value-creating events in the near term. 4Q16 is a defining period for CERC as the company should be presenting Phase 2 top-line data for CERC-301 (an NR2B specific NMDA antagonist) in adjunctive Major Depressive Disorder (MDD) in November (any day now) and Phase 1b/2a data for CERC-501 (a selective kappa opioid receptor antagonist) for smoking cessation in December. CERC-301's potentially more rapid onset of action and ability to mitigate euphoria should be a key differentiator from the current standard of care and Naurex's recent acquisition by AGN for \$560M suggests larger pharma validates the promise of this new target. In terms of CERC-501, the recent successful Phase 3 trial from ALKS (FORWARD-5) gives us confidence going into this imminent data read-out as CERC-501 and ALKS-5461 are both kappa opioid receptor (KOR) antagonists. With a market cap still under \$50M and two products targeting significant multi-billion market opportunities about to read-out data in the next 45 days, we believe CERC represents an interesting undiscovered opportunity. We reiterate our Buy rating and our \$10 price target.

- **CERC-301 for MDD Phase 2 data due any day.** This more specific NMDA antagonist Phase 2 read-out is on deck and due this month of November. Given CERC-301 is an NR2B specific NMDA receptor antagonist, we believe this should decrease the risk of euphoria and lead to rapid onset of action.
- **CERC-501 Phase 1b/2a data in December, ALKS-5461 helps de-risk outcome.** After ALKS was able to show strong trends of efficacy in their second Phase 3 for MDD and statistical significance in their third Phase 3 trial, we believe CERC-501 is somewhat de-risked for the mechanism of action, as CERC-501 is a selective KOR antagonist while ALKS-5461 represents a functional KOR antagonist, a less "direct" antagonist of KOR, in our opinion.
- **Reiterate Buy rating, \$10 price target.** Our price target is based on a sum-of-the-parts with CERC-301 valued at \$6/share, CERC-501 at \$3/share, and a net cash (end '17) and technology value at \$1/share.

Earnings Estimates: (per share)

| (Dec) | 1Q | 2Q | 3Q | 4Q | FY | P/E |
|---------------|---------|---------|---------|--------|---------|-----|
| FY-17E | (0.67) | (0.66) | (0.50) | (0.42) | (2.15) | NM |
| FY-16E | (0.59)A | (0.42)A | (0.69)A | (0.69) | (2.40) | NM |
| FY-15 | (0.15) | (0.78) | (0.47) | (0.56) | (5.30) | NM |
| FY-14 | (0.20) | (6.88) | (9.57) | (1.16) | (28.54) | NM |

Source: Company data and Laidlaw & Company estimates

Healthcare/Biotechnology

| | |
|---------------|----------------|
| Ticker: | CERC |
| Rating: | Buy |
| Price Target: | \$10.00 |

Trading Data:

| | |
|---------------------------|--------|
| Last Price (11/16/2016) | \$4.80 |
| 52-Week High (09/22/2016) | \$5.32 |
| 52-Week Low (06/06/2016) | \$1.94 |
| Market Cap. (MM) | \$41.4 |
| Shares Out. (MM) | 8.6 |

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Figure 1: Variance Analysis

| Cerecor | | | | | |
|------------------------------------|-----------------|-----------------|-----------------|---------------|---------------|
| Quarterly variance analysis | | | | | |
| (\$000 except per share) | 3Q15A | 3Q16A | 3Q16E | Variance | % Y/Y |
| Total Sales | | \$321 | \$0 | | |
| COGS | | - | | | |
| Gross margin | | 321 | 0 | 321 | |
| R&D | 1,237 | 4,582 | 2,750 | 1,832 | 270.3% |
| SG&A | 722 | 1,703 | 2,500 | (797) | 136.0% |
| Operating Income | (1,959) | (5,964) | (5,250) | (714) | 204.4% |
| Int.inc. /(expense) | (197) | (104) | (100) | (4) | -47.3% |
| Adj-Net income (loss) | (2,157) | (6,068) | (5,350) | (718) | 181.4% |
| Change in warrant value | 1,465 | (101) | 50 | (151) | -106.9% |
| GAAP net income/(loss) | (691) | (6,169) | (5,300) | (869) | 792.7% |
| Adj-EPS ex-non-cash | (\$0.47) | (\$0.69) | (\$0.51) | (0.18) | 48.8% |
| GAAP EPS as reported | (\$0.15) | (\$0.70) | (\$0.51) | (0.19) | 372.0% |

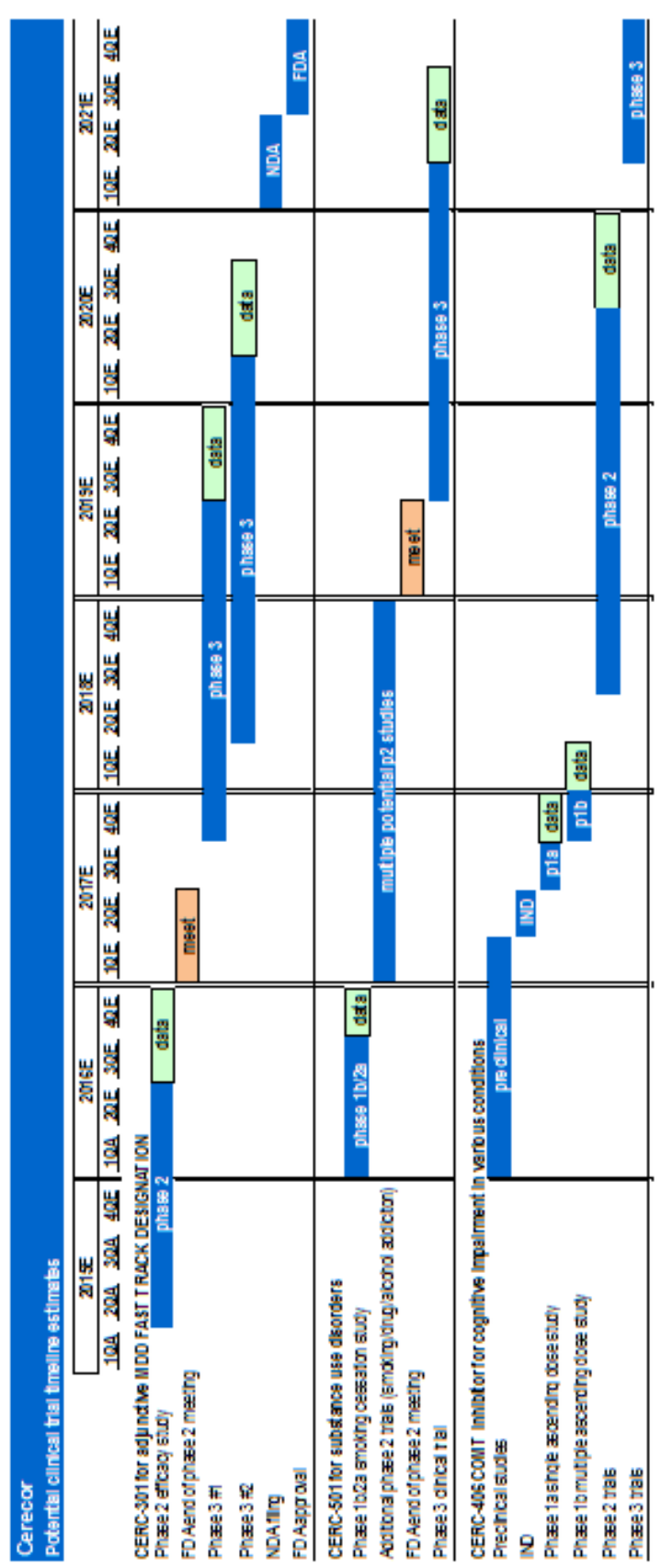
Source: Company reports; Laidlaw & Company estimates

Figure 2: Valuation

| Sum-of-the-parts valuation | | |
|-------------------------------------|----------------------|--------------------|
| Segment | Valuation (000's) | Per share value |
| CERC-301 | \$119,977 | \$6.00 |
| CERC-501 | \$62,398 | \$3.00 |
| Technology value | \$5,000 | \$0.25 |
| Cash (end of '17E) | \$15,618 | \$0.75 |
| Total | \$202,993 | \$10.00 |
| 2017 fully diluted shares out (000) | | 20,619 |

Source: Laidlaw & Company estimates.

Figure 3: Clinical trials timeline



Source: Company reports; Laidlaw & Company estimates.

Figure 4: Quarterly Income Statement

| Cerecor | | | | | | | | | | |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Quarterly income statement | | | | | | | | | | |
| (\$000's except per share) | 2015A | | | | 2015A Year | 2016E | | | | 2016E Year |
| | 1QA | 2QA | 3QA | 4QA | | 1QA | 2QA | 3QA | 4QE | |
| R&D | 1,723 | 1,875 | 1,237 | 1,751 | 6,587 | 2,293 | 2,502 | 4,582 | 4,300 | 13,677 |
| SG&A | 761 | 1,016 | 722 | 1,924 | 4,423 | 2,649 | 1,636 | 1,703 | 1,700 | 7,688 |
| Operating income/(loss) | (2,484) | (2,891) | (1,959) | (3,675) | (11,010) | (4,942) | (3,488) | (5,964) | (6,000) | (20,394) |
| Interest income/(expense) | (218) | (219) | (197) | (158) | (793) | (151) | (163) | (104) | (100) | (414) |
| Adj-Net income/(loss) | (2,702) | (3,110) | (2,157) | (3,833) | (11,802) | (5,093) | (3,651) | (6,068) | (6,100) | (20,912) |
| Change in warrant value | (535) | 198 | 1,465 | 185 | 1,313 | (47) | 91 | (101) | | (57) |
| GAAP net income/(loss) | (3,238) | (2,913) | (691) | (3,648) | (10,490) | (5,140) | (3,560) | (6,169) | | (20,969) |
| Adj-EPS ex-non-cash | (\$0.15) | (\$0.78) | (\$0.47) | (\$0.56) | (\$5.30) | (\$0.59) | (\$0.42) | (\$0.69) | (\$0.69) | (\$2.40) |
| GAAP EPS as reported | (\$0.18) | (\$0.73) | (\$0.15) | (\$0.53) | (\$4.71) | (\$0.59) | (\$0.41) | (\$0.70) | | (\$2.40) |
| Shares out (000) | 18,194 | 4,000 | 4,630 | 6,904 | 2,226 | 8,650 | 8,650 | 8,756 | 8,856 | 8,728 |
| Fully diluted shares (000) | 204,849 | 189,000 | 158,914 | 15,304 | 10,626 | 17,542 | 17,542 | 18,026 | 18,126 | 17,809 |

Source: Bloomberg LP; Company reports; Laidlaw & Company estimates.

Figure 5: Annual Income Statement

| Cerecor | | | | | | |
|--------------------------------|------------------|-----------------|-----------------|-----------------|-----------------|-------------------------------|
| Annual income statement | | | | | | |
| (\$000's except per share) | 2014A | 2015A | 2016E | 2017E | 2018E | Comments |
| R&D | 12,241 | 6,587 | 13,677 | 17,300 | 16,250 | p2 CERC-301 data Nov. '16 |
| SG&A | 4,875 | 4,423 | 7,688 | 7,050 | 7,750 | p1b/2a CERC-501 data Dec. '16 |
| Operating income/(loss) | (17,116) | (11,010) | (20,394) | (24,350) | (24,000) | |
| Interest income/(expense) | (1,206) | (793) | (414) | (75) | 0 | |
| Adj-Net income/(loss) | (18,322) | (11,802) | (20,912) | (24,425) | (24,000) | |
| Change in warrant value | 2,266 | 1,313 | (57) | 0 | 0 | |
| GAAP net income/(loss) | (16,056) | (10,490) | (20,969) | 0 | 0 | |
| Adj-EPS ex-non-cash | (\$28.54) | (\$5.30) | (\$2.40) | (\$2.15) | (\$1.45) | |
| GAAP EPS as reported | (\$25.01) | (\$4.71) | | | | |
| Shares out (000) | 642 | 2,226 | 8,728 | 11,369 | 16,556 | |
| Fully diluted shares (000) | 154,993 | 10,626 | 17,809 | 20,619 | 26,556 | |

Source: Bloomberg LP; Company reports; Laidlaw & Company estimates.

Major risks

Exogenous events could impact our outlook. We believe pharmaceutical companies have the least control over competitive, political, and regulatory risks. Although we have incorporated competitive assumptions into our forecasts, there may be other risks beyond the scope of our analysis. Changes in the drug reimbursement system, as well as any political or regulatory amendments, may significantly influence the earnings power of these companies.

Actual clinical results and the FDA's conclusions may deviate from expectations. Many of our assumptions are based on a review of incomplete clinical trial data available in the public domain. Often, our conclusions are drawn from early stage data, which may not be reflected by pivotal studies. Furthermore, the FDA's conclusions may not coincide with our own, materially changing our revenue and earnings assumptions.

Compliance issues, product recalls, and other mandates by regulatory authorities could materially change our expectations. Regulatory compliance issues, ranging from accounting irregularities to defective manufacturing practices, could materially change our assumptions and earnings outlook. Fireballs could keep coming. Unanticipated product recalls and labeling changes could also have adverse consequences on our earnings assumptions.

Legal risks could lead to additional liabilities and revenue loss. In addition to the expenses incurred by patent challenges, product liability and other legal suits could occur and lead to additional liabilities and revenue loss, which could substantially change our financial assumptions.

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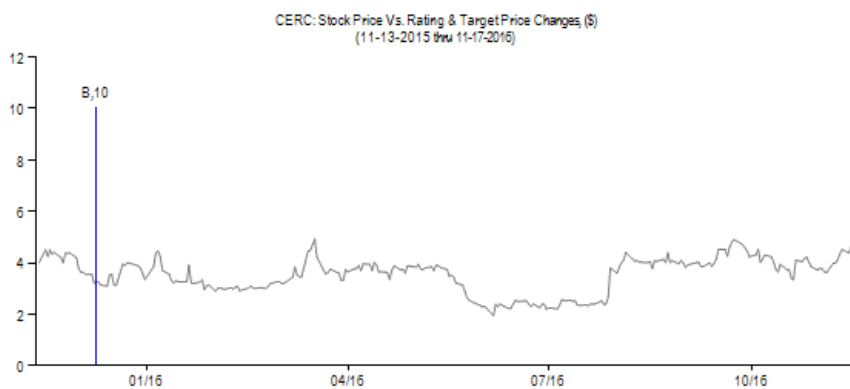
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| Date | Rating | Closing Price (\$) |
|------------|---------|--------------------|
| 12/09/2015 | Buy (B) | 3.27 |

3 Year Price Change History

| Date | Target Price (\$) | Closing Price, (\$) |
|------------|-------------------|---------------------|
| 12/09/2015 | 10.00 | 3.27 |

Source: Laidlaw & Company

Created by: Blue-Compass.net

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|----------------------------------|---|--|---|-----------|
| | | | Investment Banking | Brokerage |
| Strong Buy (SB) | Expected to significantly outperform the sector over 12 months. | 2.56% | 2.56% | 0.00% |
| Buy (B) | Expected to outperform the sector average over 12 months. | 58.97% | 28.21% | 2.56% |
| Hold (H) | Expected returns to be in line with the sector average over 12 months. | 5.13% | 0.00% | 0.00% |
| Sell (S) | Returns expected to significantly underperform the sector average over 12 months. | 2.56% | 0.00% | |

ADDITIONAL COMPANIES MENTIONED

Allergan plc (AGN – Not Rated)

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