

## Cerecor Inc. (CERC - \$3.95)

### New CEO Dr. Hacksell brings a wealth of experience to Cerecor

Yesterday CERC announced that Chairman Dr. Uli Hacksell will become the new President and CEO of CERC starting January 1, 2016. In his last turn as a CEO Dr. Hacksell led ACADIA Pharmaceuticals from being a private company in 2004 to a multibillion dollar public biotech company before retiring in March 2015. No explanation from CERC on the specific reasons for prior CEO Blake Patterson's resignation as of January but we are told he will be signing off on the upcoming 2015 10K, and he will also continue to work with CERC as a scientific advisor following his resignation. New CEO Dr. Hacksell reiterates the company's commitment to the clinical trials for CERC-301 and CERC-501, which continue to be in line with our prior expectations in our initiation of coverage note from 2 weeks ago. We believe Dr. Hacksell will be able to provide a tremendous amount of real-world experience to CERC given his prior success at ACAD, and we hope that he will achieve another multi-billion dollar valuation with CERC. With multiple catalysts in 2016 targeting some of the biggest pharmaceutical opportunities in the world, we reiterate our Buy rating and our \$10 price target.

- **Dr. Hacksell's track record is hard to overstate.** Prior to joining Cerecor as Chairman in May 2015 Dr. Hacksell served as CEO of ACAD from 2000-2015 where he led the transition of ACAD from a private company to a multibillion dollar public biotech company. Dr. Hacksell has also held many senior executive positions at Astra Arcus including President of CNS Preclinical R&D efforts.
- **CERC-301: Huge unmet need for refractory MDD patients.** Potentially up to 8 million people in the US alone are refractory to standard of care antidepressants. CERC-301 doesn't need much of that group to generate significant value.
- **CERC-501: Co-occurring addiction disorders a significant opportunity.** Smoking cessation, drug or alcohol addiction all represent almost 100 million people in the US overall. PFE's Chantix for smoking cessation alone has sold ~6.5B since its launch in 2006.
- **Reiterating Buy rating \$10 price target.** Our price target is based on a sum-of-the-parts analysis with CERC-301 valued at \$6/share, CERC-501 at \$2.75/share, and a net cash (end 2016) and technology at \$1.25/share.

### Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY-17E</b>	(0.28)	(0.30)	(0.30)	(0.33)	(1.20)	NM
<b>FY-16E</b>	(0.27)	(0.32)	(0.42)	(0.34)	(1.35)	NM
<b>FY-15E</b>	(0.15)	(0.78)	(0.47)	(0.28)	(1.17)	NM
<b>FY-14A</b>	(0.20)	(6.88)	(9.57)	(1.16)	(5.23)	NM

Source: Company data and Laidlaw & Company estimates

### Healthcare/Biotechnology

Ticker:	<b>CERC</b>
Rating:	<b>Buy</b>
Price Target:	<b>\$10.00</b>

### Trading Data:

Last Price (12/21/2015)	\$3.95
52-Week High (10/15/2015)	\$6.65
52-Week Low (12/09/2015)	\$2.67
Market Cap. (MM)	\$34.1
Shares Out. (MM)	8.63

### James Molloy

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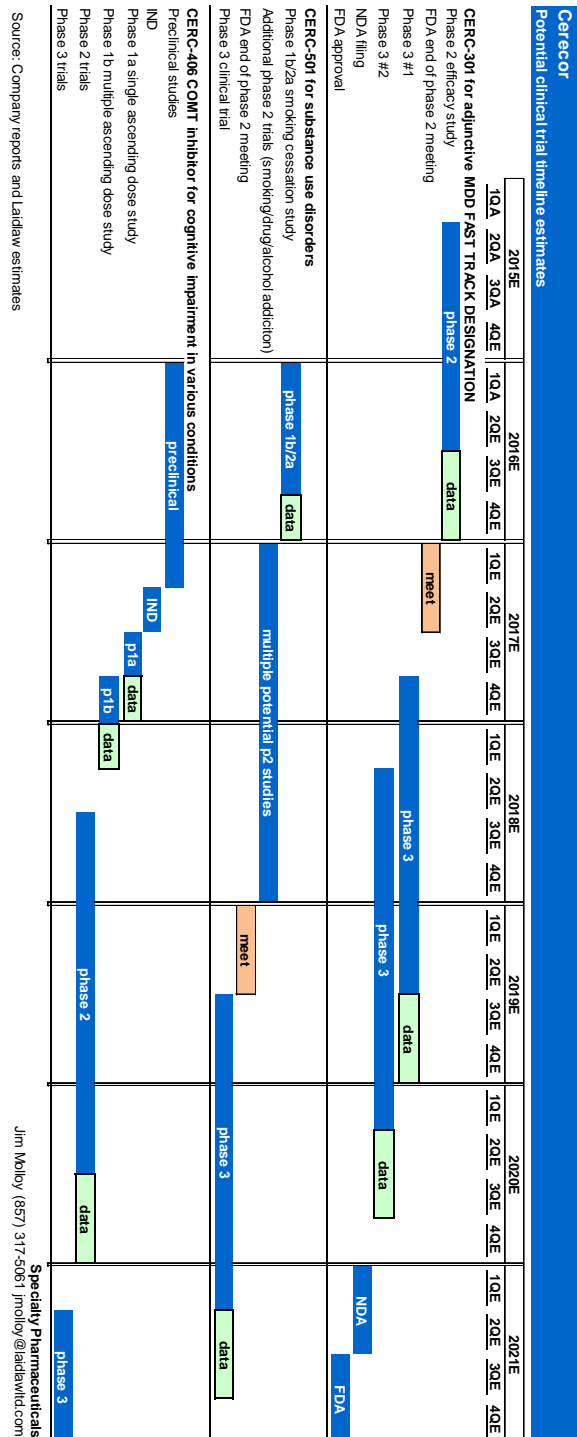
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Figure 1: Valuation

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
CERC-301	\$1,038,176	\$6.00
CERC-501	\$452,216	\$2.75
Technology value	\$200,000	\$1.00
Cash (end of '16E)	\$40,484	\$0.25
Total	\$1,730,875	<b>\$10.00</b>
2016 fully diluted shares out (000)		172,393

Source: Bloomberg LP.

Figure 2: Clinical trials timeline



Source: Company reports; Laidlaw & Company estimates.

Figure 4: Quarterly Income Statement

<b>Cerecor</b>										
<b>Quarterly income statement</b>										
(\$000's except per share)	2014A				2014A Year	2015E				2015E Year
	1QA	2QA	3QA	4QA		1QA	2QA	3QA	4QE	
R&D	2,750	2,861	4,371	2,259	12,241	1,723	1,875	1,237	1,250	6,086
SG&A	879	795	1,627	1,574	4,875	761	1,016	722	1,000	3,498
<b>Operating income/(loss)</b>	<b>(3,629)</b>	<b>(3,656)</b>	<b>(5,998)</b>	<b>(3,833)</b>	<b>(17,116)</b>	<b>(2,484)</b>	<b>(2,891)</b>	<b>(1,959)</b>	<b>(2,250)</b>	<b>(9,584)</b>
Interest income/(expense)	0	(795)	(190)	(222)	(1,206)	(218)	(219)	(197)	(175)	(810)
<b>Adj-Net income/(loss)</b>	<b>(3,628)</b>	<b>(4,450)</b>	<b>(6,188)</b>	<b>(4,055)</b>	<b>(18,322)</b>	<b>(2,702)</b>	<b>(3,110)</b>	<b>(2,157)</b>	<b>(2,425)</b>	<b>(10,394)</b>
Change in warrant value		386	348	1,532	2,266	(535)	198	1,465	1,250	2,378
<b>GAAP net income/(loss)</b>	<b>(3,628)</b>	<b>(4,064)</b>	<b>(5,840)</b>	<b>(2,523)</b>	<b>(16,056)</b>	<b>(3,238)</b>	<b>(2,913)</b>	<b>(691)</b>	<b>(1,175)</b>	<b>(8,017)</b>
<b>Adj-EPS ex-non-cash</b>	<b>(\$0.20)</b>	<b>(\$6.88)</b>	<b>(\$9.57)</b>	<b>(\$1.16)</b>	<b>(\$5.23)</b>	<b>(\$0.15)</b>	<b>(\$0.78)</b>	<b>(\$0.47)</b>	<b>(\$0.28)</b>	<b>(\$1.17)</b>
<b>GAAP EPS as reported</b>	<b>(\$0.20)</b>	<b>(\$6.28)</b>	<b>(\$9.03)</b>	<b>(\$0.72)</b>	<b>(\$4.58)</b>	<b>(\$0.18)</b>	<b>(\$0.73)</b>	<b>(\$0.15)</b>	<b>(\$0.14)</b>	<b>(\$0.90)</b>
Shares out (000)	17,800	647	647	3,502	3,502	18,194	4,000	4,630	8,630	8,864
Fully diluted shares (000)	85,287	60,647	42,673	46,002	157,852	204,849	189,000	158,914	169,614	180,594

Source: Company reports and Laidlaw estimates

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

Figure 5: Annual Income Statement

<b>Cerecor</b>						
<b>Annual income statement</b>						
(\$000's except per share)	<b>2014A</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>Comments</b>
R&D	12,241	6,086	9,750	12,700	13,000	Trials ramp 2016-2017
SG&A	4,875	3,498	3,500	4,250	7,150	
<b>Operating income/(loss)</b>	<b>(17,116)</b>	<b>(9,584)</b>	<b>(13,250)</b>	<b>(16,950)</b>	<b>(20,150)</b>	
Interest income/(expense)	(1,206)	(810)	(375)	(75)	0	
<b>Adj-Net income/(loss)</b>	<b>(18,322)</b>	<b>(10,394)</b>	<b>(13,725)</b>	<b>(17,025)</b>	<b>(20,150)</b>	
Change in warrant value	2,266	2,378	0	0	0	
<b>GAAP net income/(loss)</b>	<b>(16,056)</b>	<b>(8,017)</b>	<b>0</b>	<b>0</b>	<b>0</b>	
<b>Adj-EPS ex-non-cash</b>	<b>(\$5.23)</b>	<b>(\$1.17)</b>	<b>(\$1.35)</b>	<b>(\$1.20)</b>	<b>(\$1.25)</b>	
<b>GAAP EPS as reported</b>	<b>(\$4.58)</b>	<b>(\$0.90)</b>				
Shares out (000)	3,502	8,864	10,143	14,168	16,130	
Fully diluted shares (000)	157,852	180,594	172,393	179,168	181,130	

Source: Company reports and Laidlaw estimates

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

## Major risks

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**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.

## DISCLOSURES:

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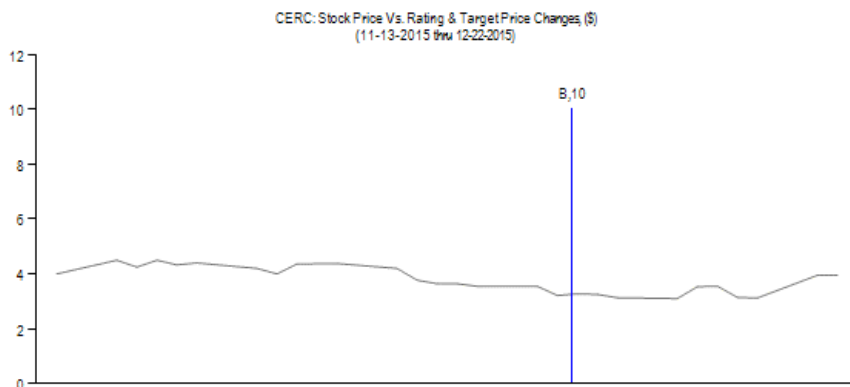
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#### Additional information available upon request.

# Laidlaw & Company has received compensation from the subject company for investment banking services in the past 12 months and expects to receive or intends to seek compensation for investment banking services from the company in the next three months.

### RATINGS INFORMATION

#### Rating and Price Target Change History



#### 3 Year Rating Change History

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

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			Investment Banking	Brokerage
<b>Strong Buy (SB)</b>	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
<b>Buy (B)</b>	Expected to outperform the sector average over 12 months.	64.71%	26.47%	2.94%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	0.00%	0.00%	0.00%
<b>Sell (S)</b>	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

### ADDITIONAL COMPANIES MENTIONED

ACADIA Pharmaceuticals (ACAD – Not Rated)

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