Kythera Biopharmaceuticals

Revisiting Our OW Thesis

Overweight

KYTH, KYTH US

Price: $20.14

Price Target: $30.00

Following the recent selloff in KYTH shares around the company's post-IPO lock-up and with phase III US data for the company's primary asset ATX-101 rapidly approaching, we are reiterating our OW rating. We believe ATX-101 represents a potential $500+ million annual sales opportunity for Kythera and we have a high level of confidence in a successful phase III outcome for the company in mid-2013 based on positive and highly consistent results from US phase II and European phase III trials.

- **ATX-101 could successfully address a significant unmet need in facial aesthetics.** There are currently no approved non-surgical options for the reduction of submental (under-chin) fat and Kythera will target this market with a non-invasive injectable therapy. We see a meaningful opportunity for ATX-101 to initially target the estimated 2 million unique patients in the US who currently receive a toxin and/or dermal filler with a longer-term opportunity to address the estimated 10 million individuals who would be physically and financially appropriate for the treatment. A survey we conducted last year confirmed a high level of interest in the product in both opportunities and also highlighted a number of off-label opportunities for ATX-101.

- **US Phase III data represent the next catalyst for KYTH shares and we see a high likelihood of success.** ATX-101 has shown very consistent efficacy across all of its clinical studies thus far, including a recently-concluded European phase III program, which showed significant improvement in both clinician and patient rating scales. Additionally, in a post-hoc analysis that closely replicates the primary endpoints and dose that will be used in the US phase III program, ATX-101 showed a significant improvement in the reduction of submental fat. Phase III data for ATX-101 are expected in mid-2013 and we believe Kythera has a high likelihood (75%+) of success in these studies.

Specialty Pharmaceuticals

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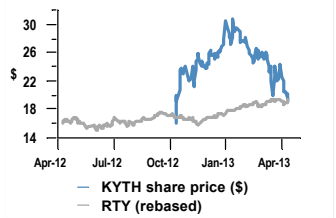
Price Performance



	YTD	1m	3m	12m
Abs	-33.6%	-19.4%	-32.9%	25.9%
Rel	-41.9%	-19.8%	-40.3%	5.2%

Kythera Biopharmaceuticals, Inc. (KYTH;KYTH US)

FYE Dec	2011A	2012E (Prev)	2012A (Curr)	2013E (Prev)	2013E (Curr)	2014E (Prev)	2014E (Curr)	2015E
EPS Adjusted ($)								
Q1 (Mar)	-	(4.91)	(4.91)	(0.83)	(0.94)	-	-	-
Q2 (Jun)	-	3.21	3.21	(0.73)	(0.83)	-	-	-
Q3 (Sep)	-	(11.41)	(11.41)	(0.63)	(0.72)	-	-	-
Q4 (Dec)	-	(0.72)	(1.04)	(0.58)	(0.66)	-	-	-
FY	(7.98)	(5.66)	(2.62)	(2.76)	(3.15)	(0.16)	(0.19)	(1.14)

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data	
Price ($)	20.14
Date Of Price	10 Apr 13
52-week Range ($)	31.93 - 14.07
Mkt Cap ($ mn)	394.74
Fiscal Year End	Dec
Shares O/S (mn)	20
Price Target ($)	30.00
Price Target End Date	31 Dec 13

See page 12 for analyst certification and important disclosures.

- **Strong management team gives us confidence Kythera can develop and launch ATX-101.** The Kythera team has significant experience in the development and commercialization of both new products and aesthetic franchises. In addition, as we have seen in other aesthetic businesses, we expect only a modest-sized commercial organization would be required to launch ATX-101 if approved and we believe ATX-101 could attract significant interest from existing aesthetic players if Kythera were to seek a sale or US partnership of the asset. In addition, we see the recent appointment of Frederick Beddingfield as Chief Medical Officer as a significant vote of confidence for ATX-101 and the Kythera platform.

- **Our DCF analysis implies a $30 valuation for KYTH shares.** We use a risk-adjusted DCF analysis to arrive at a $30 valuation for KYTH shares. Our analysis considers the potential for ATX-101 sold by Kythera in the US and Canada along with potential Bayer economics from the EU.

- **Adjusting estimates.** Following the release of Kythera's 2012 Form 10-K we are modestly adjusting our estimates.

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Kythera Clinical Terminology

Clinician-Reported Submental Fat Rating Scale (CR-SMFRS): physician assessment of the prominence and convexity of submental fat on a five point scale (0-none, 1-mild, 2-moderate, 3-severe, 4-extreme).

Patient-Reported Submental Fat Rating Scale (PR-SMFRS): A patient self-assessment of the amount of chin fat on a five point scale (0-none, 1-slight, 2-moderate, 3-large, 4-very large). This scale was developed prior to phase 2b studies after discussions with FDA.

Clinician evaluated skin laxity: The amount of skin tension or looseness (laxity) as determined by the clinician on a four point scale (1-no laxity; 2-minimal laxity; 3-moderate laxity; 4-very lax).

Subject Self-Rating Scale (SSRS): The response to "how satisfied do you feel with your appearance at the present time whether or not in your judgment it is due to treatment with ATX-101?" with a seven-point scale (0-extremely dissatisfied, 2-somewhat dissatisfied, 3-neither satisfied nor dissatisfied, 4-somewhat satisfied, 5-satisfied, 6-extremely satisfied).

Patient-Reported Submental Fat Impact Scale (PR-SMFIS): Like the PR-SMFRS, the PF-SMFIS was developed prior to phase 2b studies after discussions with FDA. It is a ten point scale measuring patient perception of the following five questions on a ten point scale.

Patient Satisfaction with Treatment: a seven point assessment of patient satisfaction with the treatment (0-extremely dissatisfied, 1-moderately dissatisfied, 2-a little dissatisfied, 3-neither satisfied nor dissatisfied, 4-a little satisfied, 5-moderately satisfied, 6-extremely satisfied).

MRI measurements: an objective measure of submental volume within a 1cm sagittal slice through MRI.

Caliper measurements: an alternate objective measure of submental thickness.

Revisiting Our OW Thesis

Following the recent selloff in KYTH shares ahead of the company's post-IPO lock-up and with phase III US data for the company's primary asset ATX-101 approaching, we are reiterating our OW rating. We believe ATX-101 represents a potential $500+ million annual sales opportunity for Kythera and we have a high level of confidence in a positive phase III outcome for the company in mid-2013 based on positive and highly consistent results from US phase II and European phase III trials.

ATX-101 could successfully address a significant unmet need in facial aesthetics

There are currently no approved non-surgical options for the reduction of submental (under-chin) fat and Kythera will target this market with a non-invasive injectable therapy. We see a meaningful opportunity for ATX-101 to initially target the estimated 2 million unique patients who currently receive a toxin and/or dermal filler with a longer-term opportunity to address the estimated 10 million individuals who would be physically and financially appropriate for the treatment. Our recent survey of 50 dermatologists and plastic surgeons confirmed a high level of interest in the product in both opportunities and also highlighted a number of off-label opportunities for ATX-101.

Significant commercial opportunity in the US market with a meaningful opportunity outside of the US

We see three key populations of potential patients for ATX-101 therapy: experienced injectable aesthetics users, patients new to aesthetic therapies and patients seeking fat reduction in other localized areas outside of submental fat. Together we estimate close to $500 million in annual peak sales in the US market.

With Bayer as a worldwide marketing partner outside of the US and Canada, we expect a nearly as significant revenue opportunity outside of the US given Bayer's reach to almost 50,000 dermatologists and plastic surgeons and presence in Europe as well as other key emerging markets. Kythera is eligible for milestone payments and tiered double-digit royalties on Bayer ATX-101 sales.

Highly durable therapy represents a solid value proposition but could create more volatile revenue model

With data showing results lasting longer than two years post-treatment, ATX-101 has been shown to be much more durable than injectable fillers and toxins. While this is clearly a positive from a marketing perspective, we believe ATX-101 could be much more sensitive to economic variations than what has been observed with fillers and toxins due to the lack of a recurring patient pool for the drug.

Our survey of dermatologists and plastic surgeons shows a high level of interest in ATX-101

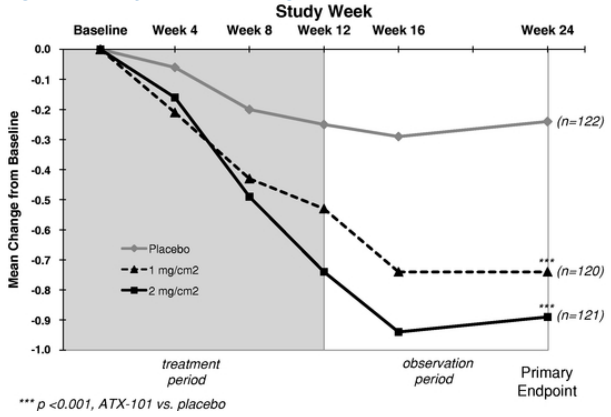
In our recent survey of 50 dermatologists and plastic surgeons, respondents showed a strong level of interest in ATX-101 and see patient interest from both experienced injectable aesthetics users and patients new to aesthetic therapy. Our survey results

indicate that over 90% of physicians expect to use ATX-101 in their practice. With an injectable administration and physician economics (profit per procedure) that will likely be very comparable to commonly used therapies such as toxins and fillers, we see a sizable market opportunity for ATX-101.

Next catalyst expected to be the US Phase III data read midyear

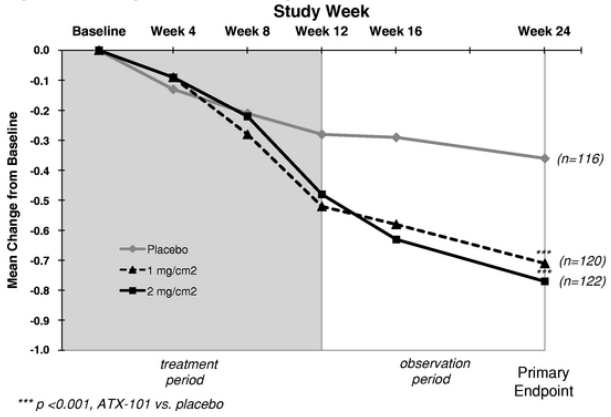
ATX-101 has shown consistent efficacy across all of its clinical studies thus far. In recently-concluded European phase 3 trials, the 2 mg/cm^2 ATX-101 concentration showed significant improvement in both subjective clinician and patient rating scales and objective caliper measurements of submental fat reduction. Additionally, in a post-hoc analysis that closely replicates the primary endpoints that will be used in the US phase 3 program, ATX-101 showed a significant improvement in the reduction of submental fat. Coupled with patient satisfaction scores in the 90% range for the therapy and we believe ATX-101 represents a significant product opportunity.

Figure 1: Study 16 Mean Change from Baseline in CR-SMFRS



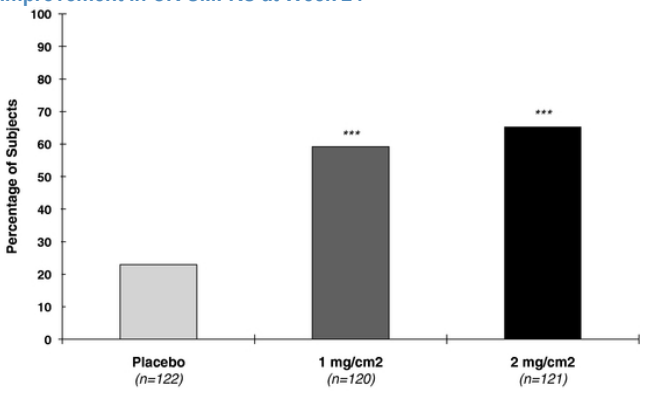
Source: Kythera. Used with permission.

Figure 2: Study 17 Mean Change from Baseline in CR-SMFRS



Source: Kythera. Used with permission.

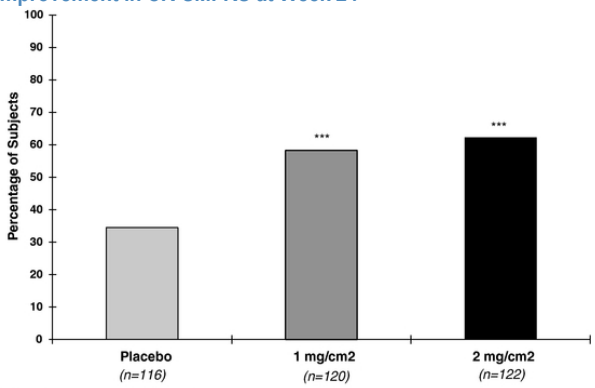
Figure 3: Study 16 Percent of Patients with At Least 1 Grade Improvement in CR-SMFRS at Week 24



*** p <0.001, ATX-101 vs. placebo

Source: Kythera. Used with permission.

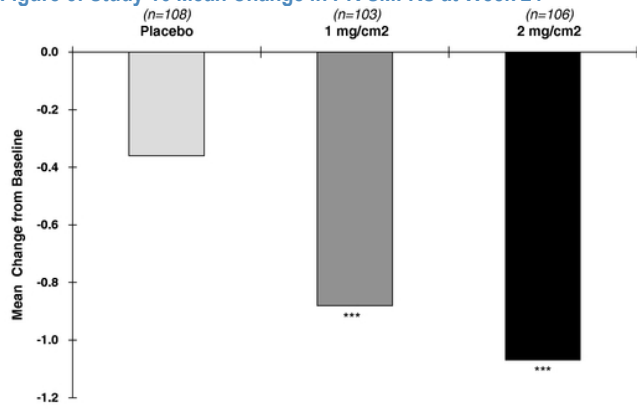
Figure 4: Study 17 Percent of Patients with At Least 1 Grade Improvement in CR-SMFRS at Week 24



*** p <0.001, ATX-101 vs. placebo

Source: Kythera. Used with permission.

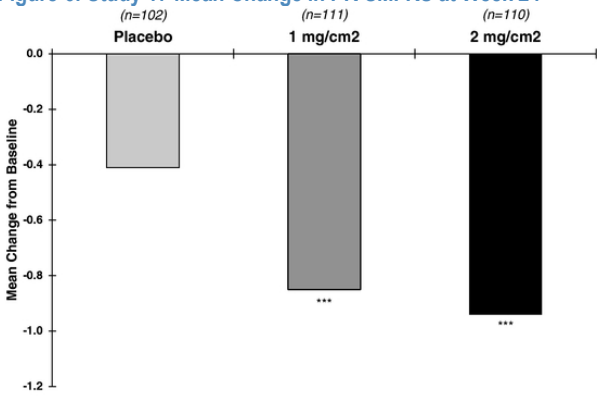
Figure 5: Study 16 Mean Change in PR-SMFRS at Week 24



*** p <0.001, ATX-101 vs. placebo

Source: Kythera. Used with permission.

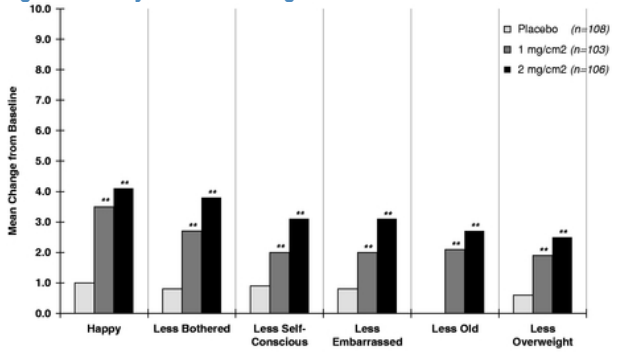
Figure 6: Study 17 Mean Change in PR-SMFRS at Week 24



*** p <0.001, ATX-101 vs. placebo

Source: Kythera. Used with permission.

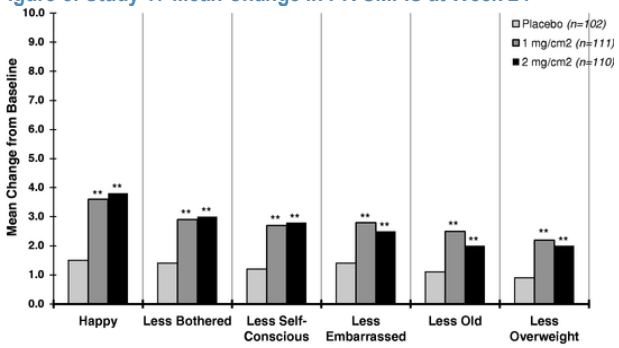
Figure 7: Study 16 Mean Change in PR-SMFIS at Week 24



** p <0.01, ATX-101 vs. placebo

Source: Kythera. Used with permission.

Figure 8: Study 17 Mean Change in PR-SMFIS at Week 24



** p <0.01, ATX-101 vs. placebo

Source: Kythera. Used with permission.

Figure 9: Significance of Results from European Phase 3 Trials

Endpoint	Scale	Measure	Study 16 1 mg/cm²	Study 16 2 mg/cm²	Study 17 1 mg/cm²	Study 17 2 mg/cm²
Primary	CR-SMFRS	Proportion of patients with ≥ 1 pt. change	p<0.001	p<0.001	p<0.001	p<0.001
	SSRS	Proportion of patients ≥ category 4	p<0.001	p<0.001	p<0.001	p<0.001
Secondary	CR-SMFRS	Mean change	p<0.0001	p<0.0001	p<0.0001	p<0.0001
	PR-SMFRS	Mean change	p<0.0001	p<0.0001	p<0.0001	p<0.0001
	PR-SMFIS	Mean change	p≤0.01	p<0.0001	p≤0.0001	p<0.001
	Global Satisfaction Score	Proportion satisfied	p<0.0001	p<0.0001	p=0.0001	p=0.0001
Objective	Caliper measurement	Mean change	p<0.001	p<0.001	NS	p=0.046

Source: Company reports.

Note: NS = not statistically significant (p>0.05)

Figure 10: Phase 3 Regulatory Endpoints in European and US/Canada Studies

Co-Primary Endpoints	Assessor	Measure	Scale	Points	Use
Europe	Clinician	Submental Fat	CR-SMFRS	5	Proportion of patients with > 1 pt. change
	Patient	Satisfaction with appearance of face and chin	SSRS	7	Proportion of patients ≥ category 4
US/Canada	Clinician	Submental Fat	CR-SMFRS	5	Composite CR-SMFRS ≥ 1 pt. change PR-SMFRS ≥ 1 pt. change and
	Patient	Submental Fat	PR-SMFRS	5	Composite CR-SMFRS ≥ 2 pt. change PR-SMFRS ≥ 2 pt. change

Source: Company reports

Figure 11: *Post-Hoc* Analysis of EU Phase 3 Data Using US Phase 3 Endpoints

US Endpoint	ATX-101 2mg/cm² (n=240)	Placebo (n=240)	Significance
1-grade composite improvement in CR-SMFRS and PR-SMFRS	49.0%	15.5%	p<0.001
2-grade composite improvement in CR-SMFRS and PR-SMFRS	7.5%	0.4%	p<0.001

Source: Company reports.

US filing could come in 2014

The US and European phase 3 programs were designed with input from US and European regulatory authorities and many of the subjective rating scales developed for ATX-101 trials have been validated through processes recommended by FDA. In addition, ATX-101 has shown a significant objective reduction in submental fat volume using both MRI and caliper measurements. Adverse events were generally manageable and limited to the treatment site. As such, we believe there is a high likelihood (75%) that ATX-101 will eventually secure approval both in the US and Europe.

Figure 12: ATX-101 Clinical Development Program

Phase	Studies	Subjects	Description	Status
1	1	16	ATX-101 in lipomas	completed
1	6	101	PK, histology, serum analysis, tolerability	completed
1	1	220	QT study	enrolling
2a	2	155	safety, efficacy, basis of EU phase 3	completed
2b	1	129	safety, efficacy, dose selection basis of US phase 3	completed
3 (EU)	2	723	Pivotal EU trials; calipers as objective measure; up to four treatments	completed; analysis ongoing
3 (US)	2	>1,000	Pivotal US trials; MRI as objective measure; up to six treatments	enrolled; ongoing
3b	1	162	open label 12-month safety study	enrolled; ongoing, positive interim results
3	1	unknown	patients with extreme submental fat	not yet enrolling
3	1	unknown	patients over age 65	not yet enrolling

Source: Company reports, clinicaltrials.gov.

Recent CMO transition is a vote of confidence in ATX-101's potential

The Kythera team has significant experience in the development and commercialization of both new products and aesthetic franchises and we believe is capable of building a commercial organization to support the potential launch of ATX-101. Given the concentration of the dermatology market in the US, we believe only a modest-sized commercial organization would be required to launch ATX-101 if approved and we believe ATX-101 could attract significant interest from existing aesthetic players if Kythera were to seek a sale or US partnership of the asset.

To us, the recent appointment of Frederick Beddingfield as CMO is a vote of confidence in the potential for positive US Phase III data and the approvability of ATX-101. Beddingfield brings substantial experience from Allergan, working on the development of several important aesthetic products like Botox, Juvederm and Latisse.

Changes to Our Estimates

Figure 13: Changes to Kythera Revenue and EPS Estimates

Kythera	EPS			Revenue ($ thousands)		
Period	Revised	Prior	Difference	Revised	Prior	Difference
1Q/13E	($0.94)	($0.83)	($0.11)	$0	$0	$0
2Q/13E	($0.83)	($0.73)	($0.10)	$0	$0	$0
3Q/13E	($0.72)	($0.63)	($0.09)	$0	$0	$0
4Q/13E	($0.66)	($0.58)	($0.08)	$0	$0	$0
2013E	($3.15)	($2.76)	($0.39)	$0	$0	$0
2014E	($0.19)	($0.16)	($0.03)	$38,000	$38,000	$0
2015E	($1.14)	-	-	$34,253	-	-

Source: J.P. Morgan estimates.

Investment Thesis

Maintain Overweight rating. Kythera's primary pipeline asset, ATX-101, is in phase 3 development for the aesthetic reduction of submental fat and to us represents a $500+ million annual sales opportunity. ATX-101 has shown positive and highly consistent results in US phase 2 and European phase 3 trials and we have a high level of confidence in the product's ongoing US phase 3 program.

Valuation

Maintain Dec-13 price target of $30. Our discounted cash flow (DCF) analysis leads us to a valuation of $30/share for KYTH by the end of 2013, assuming the receipt of positive phase 3 data from the ongoing US trials and continued progress toward regulatory filings in the US and EU. We assume Kythera will launch ATX-101 in the US in 2015 and Bayer will launch in the EU around the same time. In addition, we expect Kythera's expense structure to continue to increase through 2030 on an absolute basis but consistently decline as a percentage of revenue through our estimate period.

We estimate a weighted average cost of capital (WACC) of 12%, which is consistent with our normal WACC estimates for companies of Kythera's size and development stage due to the risk of the company's business model relative to more established branded pharma companies with commercialized products. We also use a terminal decline of 30% past 2030 as the last patents covering ATX-101 expire in 2030. We use a long-term estimated tax rate of 38% in our analysis given Kythera's US/California domicile.

We have applied a 75% probability of success to ATX-101 gaining approval in the US and EU, which is consistent with probabilities of success for other products with initial positive phase 3 data and potential for filing in multiple jurisdictions.

Risks to Rating and Price Target

Risks to the downside include: 1) clinical risk from ongoing US phase 3 trials; 2) regulatory risk from FDA and EMA review of ATX-101 following submission; 3) commercial and partnership risk with ATX-101 potentially launching into the US and EU markets and 4) financing risk on any development delays for ATX-101.

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Figure 14: Kythera Financial Model

$ in millions

thousands USD Fiscal year ends December 31	FY 2007A	FY 2008A	FY 2009A	FY 2010A	FY 2011A	FY 2012A	Mar 2013 1QE	Jun 2013 2QE	Sep 2013 3QE	Dec 2013 4QE	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E
Income Statement																		
Revenue	-	-	-	-	-	-	-	-	-	-	-	-	33,255	75,930	132,739	204,991	298,552	365,729
License/royalty income	-	-	-	4,488	12,985	19,687	-	-	-	-	-	38,000	998	3,986	17,964	20,374	26,273	35,110
Total revenue	**-**	**-**	**-**	**4,488**	**12,985**	**19,687**	**-**	**-**	**-**	**-**	**-**	**38,000**	**34,253**	**79,916**	**150,703**	**225,366**	**324,825**	**400,839**
Cost of goods sold	-	-	-	-	-	-	-	-	-	-	-	-	3,326	7,593	13,274	20,499	29,855	36,573
Sublicense expense	-	-	-	411	1,188	1,936	-	-	-	-	-	3,800	299	1,196	5,389	6,112	7,882	10,533
Total cost of revenue	**-**	**-**	**-**	**411**	**1,188**	**1,936**	**-**	**-**	**-**	**-**	**-**	**3,800**	**3,625**	**8,789**	**18,663**	**26,611**	**37,737**	**47,106**
Gross profit	**-**	**-**	**-**	**4,077**	**11,797**	**17,751**	**-**	**-**	**-**	**-**	**-**	**34,200**	**30,628**	**71,127**	**132,040**	**198,754**	**287,088**	**353,733**
R&D	9,012	15,672	9,823	14,842	15,766	43,183	12,000	10,000	8,000	6,500	36,500	12,000	8,000	8,000	8,000	8,000	8,000	8,000
SG&A	3,232	4,522	4,930	6,785	6,879	10,503	3,000	3,200	3,500	4,000	13,700	25,000	40,936	52,541	69,841	90,442	120,510	139,052
Total operating expense	**12,244**	**20,194**	**14,753**	**21,627**	**22,645**	**53,686**	**15,000**	**13,200**	**11,500**	**10,500**	**50,200**	**37,000**	**48,936**	**60,541**	**77,841**	**98,442**	**128,510**	**147,052**
Income (loss) from operations (EBIT)	**(12,244)**	**(20,194)**	**(14,753)**	**(17,550)**	**(10,848)**	**(35,935)**	**(15,000)**	**(13,200)**	**(11,500)**	**(10,500)**	**(50,200)**	**(2,800)**	**(18,308)**	**10,586**	**54,199**	**100,312**	**158,578**	**206,682**
Warrant & other interest income (expense)	810	457	(7)	589	(304)	(861)	(144)	(106)	(97)	(87)	(434)	(246)	(372)	-	-	-	-	-
Other income	-	-	-	930	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other income (expense)	**810**	**457**	**(7)**	**1,519**	**(304)**	**(861)**	**(144)**	**(106)**	**(97)**	**(87)**	**(434)**	**(246)**	**(372)**	**-**	**-**	**-**	**-**	**-**
Earnings (loss) before tax (EBT)	**(11,434)**	**(19,737)**	**(14,760)**	**(16,031)**	**(11,152)**	**(36,796)**	**(15,144)**	**(13,306)**	**(11,597)**	**(10,587)**	**(50,634)**	**(3,046)**	**(18,680)**	**10,586**	**54,199**	**100,312**	**158,578**	**206,682**
Income tax (expense)	-	-	-	-	-	-	-	-	-	-	-	-	-	529	2,710	15,047	55,502	78,539
NET INCOME	**(11,434)**	**(19,737)**	**(14,760)**	**(16,031)**	**(11,152)**	**(36,796)**	**(15,144)**	**(13,306)**	**(11,597)**	**(10,587)**	**(50,634)**	**(3,046)**	**(18,680)**	**10,057**	**51,489**	**85,265**	**103,075**	**128,143**
EPS	**(8.53)**	**(14.62)**	**(10.85)**	**(11.64)**	**(7.98)**	**(2.62)**	**(0.94)**	**(0.83)**	**(0.72)**	**(0.66)**	**(3.15)**	**(0.19)**	**(1.14)**	**0.57**	**2.87**	**4.68**	**5.56**	**6.78**
Basic shares outstanding	1,341	1,350	1,360	1,377	1,398	14,058	16,053	16,072	16,090	16,105	16,080	16,198	16,320	16,471	16,666	16,912	17,233	17,601
FD shares outstanding	1,341	1,350	1,360	1,377	1,398	14,058	17,353	17,372	17,390	17,405	17,380	17,498	17,620	17,771	17,966	18,212	18,533	18,901
Margins																		
Gross product margin													90%	90%	90%	90%	90%	90%
Gross sublicense margin												90%	70%	70%	70%	70%	70%	70%
Gross margin													**89%**	**89%**	**88%**	**88%**	**88%**	**88%**
R&D													24%	11%	6%	4%	3%	2%
SG&A													123%	69%	53%	44%	40%	38%
Opex													147%	80%	59%	48%	43%	40%
Operating margin													-55%	14%	41%	49%	53%	57%
Pretax margin													-56%	14%	41%	49%	53%	57%
Tax rate														5%	5%	15%	35%	38%
NET MARGIN													-56%	13%	39%	42%	35%	35%
Growth Rates																		
Revenue		**n/a**	**n/a**	**n/a**	**189%**	**52%**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**-10%**	**133%**	**89%**	**50%**	**44%**	**23%**
COGS		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	128%	75%	54%	46%	23%
Sublicense expense		n/a	n/a	n/a	189%	63%	n/a	n/a	n/a	n/a	n/a	n/a	-92%	300%	351%	13%	29%	34%
Gross profit		n/a	n/a	n/a	189%	50%	n/a	n/a	n/a	n/a	n/a	n/a	-10%	132%	86%	51%	44%	23%
R&D		74%	-37%	51%	6%	174%	85%	19%	-43%	-55%	-15%	-67%	-33%	0%	0%	0%	0%	0%
SG&A		40%	9%	38%	1%	53%	37%	30%	44%	18%	30%	82%	64%	28%	33%	29%	33%	15%
Operating income		65%	-27%	47%	5%	137%	73%	21%	-30%	-41%	-6%	-26%	32%	24%	29%	26%	31%	14%
Pretax income		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	412%	85%	58%	30%
NET INCOME		**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**412%**	**66%**	**21%**	**24%**
EPS		**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**406%**	**63%**	**19%**	**22%**
FD shares outstanding (sequential)		1%	1%	1%	2%	906%	0%	0%	0%	0%	24%	1%	1%	1%	1%	1%	2%	2%

Source: Company reports and J.P. Morgan estimates.

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J.P.Morgan

Kythera Biopharmaceuticals: Summary of Financials

Income Statement - Annual	FY11A	FY12A	FY13E	FY14E
Revenues	13	20	0	38
Cost of products sold	1	2	0	4
Gross profit	12	18	0	34
SG&A	7	11	14	25
R&D	16	43	37	12
Operating Income	(11)	(36)	(50)	(3)
Note: EBITDA	(11)	(35)	(50)	(3)
Net interest income / (expense)	0	1	0	0
Other income / (expense)	0	0	0	0
Pretax income	(11)	(37)	(51)	(3)
Income taxes	0	0	0	0
Net income - GAAP	-	-	-	-
Net income - recurring	(11)	(37)	(51)	(3)
Diluted shares outstanding	1	14	17	17
EPS - excluding non-recurring	(7.98)	(2.62)	(3.15)	(0.19)
EPS - recurring	-	-	-	-

Income Statement - Quarterly	1Q12A	2Q12A	3Q12A	4Q12A
Revenues	2A	18A	0A	0
Cost of products sold	0A	2A	0A	0
Gross profit	2A	16A	0A	0
SG&A	2A	2A	2A	3
R&D	6A	8A	14A	14
Operating income	(7)A	5A	(16)A	(18)
Note: EBITDA	(7)A	5A	(16)A	(17)
Net interest income / (expense)	(0)A	1A	0A	0
Other income / (expense)	0A	0A	0A	0
Pretax income	(7)A	5A	(16)A	(18)
Income taxes	0A	0A	0A	0
Net income - GAAP	-	-	-	-
Net income - recurring	(7)A	5A	(16)A	(18)
Diluted shares outstanding	1A	1A	1A	17
EPS - excluding non-recurring	(4.91)A	3.21A	(11.41)A	(1.04)
EPS - recurring	-	-	-	-

Balance Sheet and Cash Flow Data	FY11A	FY12A	FY13E	FY14E
Cash and cash equivalents	35	79	30	20
Accounts receivable	0	0	0	6
Inventories	0	0	0	0
Other current assets	10	8	8	8
Current assets	44	88	38	35
PP&E	1	0	0	1
Total assets	45	96	47	44
Total debt	0	3	3	1
Total liabilities	19	27	26	22
Shareholders' equity	27	69	21	22
Net income (including charges)	(11)	(37)	(51)	(3)
D&A	0	1	0	0
Change in working capital	(13)	(1)	0	(8)
Other				
Cash flow from operations	(23)	(33)	(49)	(10)
Capex	(1)	(0)	(0)	(0)
Free cash flow	(23)	(33)	(49)	(10)
Cash flow from investing activities	(1)	(0)	(0)	(0)
Cash flow from financing activities	36	78	0	(0)
Dividends	-	-	-	-
Dividend yield	-	-	-	-

Ratio Analysis	FY11A	FY12A	FY13E	FY14E
Sales growth	189.3%	51.6%	-	-
EBIT growth	-	-	-	-
EPS growth	-	-	-	-
Gross margin	90.9%	90.2%	-	90.0%
EBIT margin	(83.5%)	(182.5%)	-	(7.4%)
EBITDA margin	(82.6%)	(177.9%)	-	(7.3%)
Tax rate	-	-	-	-
Net margin	(85.9%)	(186.9%)	-	(8.0%)
Debt / EBITDA	-	-	-	-
Debt / Capital (book)	-	-	-	-
Return on assets (ROA)	-	-	-	-
Return on equity (ROE)	-	-	-	-
Return on invested capital (ROIC)	-	-	-	-
Enterprise value / sales	-	-	-	-
Enterprise value / EBITDA	-	-	-	-
Free cash flow yield	-	-	-	-

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends Dec

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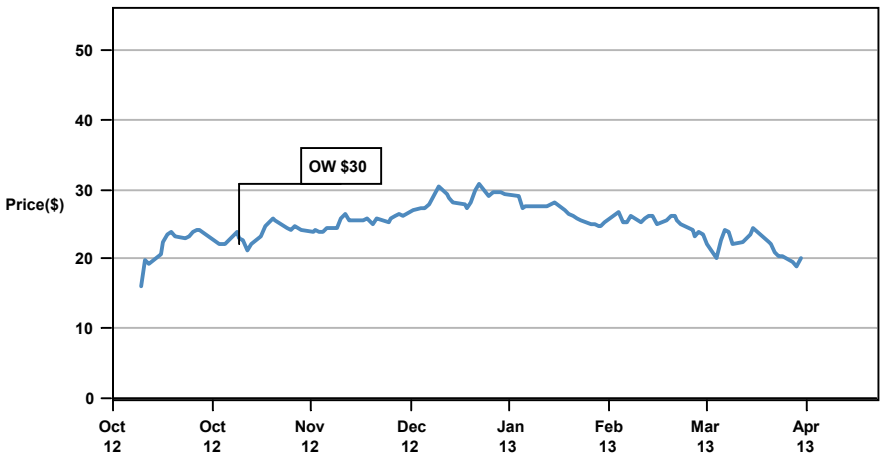
Kythera Biopharmaceuticals (KYTH, KYTH US) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
05-Nov-12	OW	22.11	30.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Nov 05, 2012.

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