



COMPANY UPDATE

Pharmaceuticals/Specialty

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Ken Cacciatore

ken.cacciatore@cowen.com 646.562.1305

Anant Padmanabhan, CFA

anant.padmanabhan@cowen.com 646.562.1374

KYTHERA BIOPHARMACEUTICALS INC

(NASDAQ:KYTH)

Buy Into The Strength - Valuation Still Remains Compelling

Kythera has announced positive ATX101 Phase III pivotal U.S. and Canadian trial results. With the positive data in hand, we expect the story to now pivot to the commercial opportunity, which we believe is significant. Despite the pre-market move higher, we would still add right here.

Pivotal Phase III U.S./Canadian REFINE-1/2 Trials Meet All Endpoints

In REFINE-1 and REFINE-2, 70.3% and 66.9% of ATX101 subjects demonstrated a 1-grade improvement from baseline on the CR-SMFRS/PR-SMFRS composite versus 18.7% and 22.4% in the placebo group ($p < 0.001$), respectively, while 13.4% and 18.7% of ATX101 patients demonstrated a 2-grade improvement in the composite versus 0% and 3.2% in placebo ($p < 0.001$), respectively. Note that while the 2-grade improvement composite endpoint is required for regulatory approval, our physician consultants believe that a 1-grade improvement in the composite is a clinically meaningful result for patients and will drive substantial use.

Valuation - Despite This Morning's Strength - Remains Compelling

With these results, we believe the story will now pivot to the commercial opportunity, which we believe is significant and still underappreciated by the Street (\$500MM+ in the U.S. alone). Additionally, given the lack of viable aesthetic products, it would not be surprising if a strategic buyer made the wealth-creating decision to acquire the asset which would relieve Kythera (and consequently our DCF) of significant SG&A spend given the strategic buyers' already in-place sales infrastructure. This would escalate our standalone base case DCF from \$50, to \$70-75. Nonetheless, if Kythera remains standalone, we are very confident that this experienced management/commercial team will be able to thoughtfully execute and maximize the opportunity. Either way, this asset looks exceedingly undervalued and we would be buying aggressively right here despite this morning's move higher.

Recommendation

Rating:	Outperform
Price Target (in \$):	\$50.00
Expected Return:	49.1%
Dividend:	NA
Enterprise Value (MM):	\$574.1

Earnings Per Share

	2012A	2013E	2014E
Q1	--	\$(0.77)A	\$(0.38)
Q2	--	\$(0.67)A	\$(0.52)
Q3	--	\$(0.71)	\$(0.71)
Q4	--	\$(0.74)	\$(0.48)
FY	\$(2.62)	\$(2.90)	\$(2.10)
P/E	NM	NM	NM

Stock Statistics as of 09/16/2013 (in \$)

Price:	\$33.53
52W Range:	\$35.80-\$14.07
Shares Out (MM):	21.0
Market Cap (MM):	\$625.0
Net Debt (MM):	\$0.0

Fundamentals

Revenue (MM) ('12A)	19.7
Revenue (MM) ('13E)	0.0
Revenue (MM) ('14E)	40.0
EV/S ('12)	29.1x
EV/S ('13)	--
EV/S ('14)	14.4x



Please see addendum of this report for important disclosures.



Now That ATX101's Clinical Data Package Is Complete, ATX101 Is Poised To Become The First Non-Invasive Treatment For The Reduction Of Submental "Chin" Fat

Kythera has announced that ATX101 met all primary and secondary endpoints of the ongoing U.S. and Canadian Phase III pivotal clinical trials. ATX101 is a proprietary synthetic formulation of sodium deoxycholate with 15+ years of patent protection, which works by lysing fat cells that we believe has the potential to become the first FDA-approved, non-surgical treatment for the reduction of submental "chin" fat. As for the results, we provide a brief summary review, before discussing our view of the commercial opportunity and valuation.

REFINE-1 Results. In this study, 70.3% of ATX101 subjects demonstrated a 1-grade improvement from baseline on the CR-SMFRS/PR-SMFRS composite versus 18.7% in the placebo group ($p < 0.001$), while 13.4% of ATX101 patients demonstrated a 2-grade improvement in the composite versus 0% in placebo ($p < 0.001$).

REFINE-2 Results. In this second pivotal study, 66.9% of ATX101 patients demonstrated a 1-grade improvement in the composite versus 22.4% in placebo ($p < 0.001$) and alternatively, 18.7% of ATX101 patients demonstrated a 2-grade improvement in the composite versus 3.2% in the placebo group ($p < 0.001$).

Note that while we believe that the 2-grade improvement composite endpoint in addition to the 1-grade improvement composite endpoint is required for regulatory approval, our physician consultants believe that a 1-grade improvement in the composite is clinically meaningful for patients.

Note that while we believe that the 2-grade improvement composite endpoint in addition to the 1-grade improvement composite endpoint is required for regulatory approval, our physician consultants believe that a 1-grade improvement in the composite is clinically meaningful for patients. Additionally, we would note that the numerical values of the 1 and 2-grade improvements on the composite endpoint in these trials are substantially higher than what was observed in the European studies (49.0% 1-grade; 7.5% 2-grade) and almost identical to the results from the U.S. open-label study (71.3% 1-grade; 14.0% 2-grade), which used up to 6 treatments versus 4 for the European trials. This suggests that patients continue to receive treatment benefit with subsequent treatments.

Secondary Results Confirm Submental Fat Reduction By MRI And Suggest Patients Have Improved Perceptions Of Themselves. As measured through MRI, an objective measurement of submental fat, 46.6% of REFINE-1 and 40.0% of REFINE-2 patients achieved a predefined, statistically significant reduction in the volume of submental fat versus 5.4% and 5.1% for placebo, respectively (both $p < 0.001$). Statistically significant ($p < 0.001$) results were also observed in the PR-SMFIS endpoint, which assessed whether patients perceived themselves to be happier, less bothered, less self-conscious, less embarrassed, younger, or less overweight after treatment.

The Company has stated that they will discuss submission plans with U.S. and Canadian regulatory authorities in the near future and we believe a submission will most likely occur in Q1:2014.

No treatment-related adverse events were reported and as expected, the most common adverse events were mild to moderate swelling, pain, bruising, numbness, and redness. The adverse events were predominately transient and local to the treatment area. Less than 4% of subjects from the study discontinued due to adverse events.

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Kythera's Valuation Now Rests Squarely On ATX101's Commercial Prospects, Which We Believe Are Significant

Now that ATX101 has achieved a positive outcome in the pivotal U.S./Canadian Phase III studies, we believe the discussion will rapidly turn towards ATX101's commercial prospects. Additionally, we believe that investors will need to quickly grasp the potential, as we believe that strategic buyers may now seek to enter discussions with the clinical study risk removed.

Our base case valuation model is predicated on ATX101 reaching \$500MM in U.S. sales or roughly 35-40% of the U.S. cosmetic/aesthetic neurotoxin market – and roughly 40-45% of the U.S. dermal filler market – within 5-6 years. Given our clinician commentary, we believe that is not only achievable, but potentially conservative.

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On the following pages we also publish our standalone best-case DCF scenario, which yields \$70 per share. Additionally, we publish our worst-case commercial scenario which yields \$18-20 per share. Interestingly, even in the worst-case commercial scenario we believe that to a strategic buyer that could eliminate a significant component of the spending would still be willing to pay \$40 per share. The bottom-line is that with the positive Phase III U.S. trial results now in we continue to see no reason why shares should not trade even higher than this morning's open given the base and best-case scenarios – as well as the potential take-out scenario – are now all in play (\$50-75 per share).



Exhibit 1. Base-Case ATX101 U.S. Market Build – Given Consultant's Commentary Should Reach \$500MM By 2020/2021

ESTIMATED U.S. COSMETIC NEUROTOXIN TREATMENT MARKET											
	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CGR	Comments
Total WW Aesthetic & Thera Neurotoxin Sales (MM)	\$2,220	\$2,500	\$2,775	\$3,000	\$3,250	\$3,500	\$3,750	\$4,000	\$4,250	+11%	- Allergan indicates the current WW market is \$2.5B
Growth Rate	+13%	+13%	+11%	+9%	+8%	+7%	+7%	+6%	+6%		- Total WW Neurotoxin growth has been 12-14% over the last 5 years
Total U.S. Aesthetic & Thera Neurotoxin Sales (MM)	\$1,375	\$1,550	\$1,720	\$1,860	\$2,015	\$2,155	\$2,290	\$2,420	\$2,570	+10%	- Est that U.S. contributes 60-65% of WW toxin use
Growth Rate	+11%	+13%	+9%	+8%	+8%	+7%	+6%	+6%	+6%		- Estimated that Therapeutic growth will be higher than cosmetic
<i>Estimated U.S. Cosmetic Use % of Total U.S. Neurotoxin</i>	50%	50%	49%	49%	48%	48%	48%	48%	47%		- Est that roughly 50% of Neurotoxin use is Aesthetic/Cosmetic
Total U.S. Cosmetic Neurotoxin Sales (MM)	\$695	\$780	\$845	\$900	\$965	\$1,035	\$1,100	\$1,155	\$1,210	+8%	- U.S. market has been relatively healthy
Growth Rate	+10%	+12%	+8%	+7%	+7%	+7%	+6%	+5%	+5%		
Upper Face											
Botox U.S. Cosmetic Share (AGN)	77%	75%	75%	74%	74%	74%	74%	74%	74%	-1%	- Leading treatment - market creator
Procedures (000)	4,756	5,200	5,600	5,956	6,356	6,844	7,244	7,600	8,000		- Procedure growth should continue to steadily grow
Average Cost	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450		- Pricing has remained stable
Sales (\$MM)	\$535	\$585	\$630	\$670	\$715	\$770	\$815	\$855	\$900	+7%	
Dysport U.S. Cosmetic Share (VRX)	19%	19%	18%	18%	18%	18%	18%	18%	18%	-1%	- Valeant has taken over marketing; second to market
Procedures (000)	1,200	1,289	1,333	1,422	1,556	1,644	1,778	1,867	1,911		- Essentially undifferentiated product
Average Cost	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450		- Priced in-line with Botox
Sales (\$MM)	\$135.0	\$145.0	\$150.0	\$160.0	\$175.0	\$185.0	\$200.0	\$210.0	\$215.0	+7%	
Others/Xeomin Share	4%	6%	8%	8%	8%	8%	8%	8%	8%	+12%	- Product was relaunched in January 2012
Procedures (000)	250	500	650	700	750	800	850	900	950		- Essentially undifferentiated product; currently has 5% market share
Average Cost	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400		- Pricing has been more aggressive
Sales (\$MM)	\$25.0	\$50.0	\$65.0	\$70.0	\$75.0	\$80.0	\$85.0	\$90.0	\$95.0	+20%	
Total Cosmetic Market Sales (MM)	\$695	\$780	\$845	\$900	\$965	\$1,035	\$1,100	\$1,155	\$1,210	+9%	- Growth continuing to be relatively stable
%Growth	+10%	+12%	+8%	+7%	+7%	+7%	+6%	+5%	+5%		
ESTIMATED U.S. DERMAL FILLER TREATMENT MARKET											
	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CGR	Comments
Total WW Dermal Filler Market (MM)	\$1,010	\$1,100	\$1,200	\$1,295	\$1,385	\$1,480	\$1,585	\$1,680	\$1,780	+8%	- Allergan ests the WW Dermal Filler market is \$1.1B
Growth Rate	+7%	+9%	+9%	+8%	+7%	+7%	+7%	+6%	+6%		- Total WW Dermal Filler growth has been 8-10% over the last 5 years
Total Estimated U.S. Dermal Filler Sales (MM)	\$605	\$660	\$720	\$775	\$830	\$890	\$950	\$1,010	\$1,070	+8%	- Est that U.S. contributes 60-65% of WW Filler use
Growth Rate	+7%	+9%	+9%	+8%	+7%	+7%	+7%	+6%	+6%		- Market appears to be growing at roughly 8-10% currently
Lower Face (ATX-101)											
ESTIMATED U.S. SUBMENTAL FAT TREATMENT MARKET - KYTHERA'S ATX-101 SHOULD REPRESENT THE MARKET FOR YEARS											
	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CGR	Comments
Total Estimated WW Submental Fat Treatment Market (MM)				\$125	\$215	\$345	\$500	\$650	\$780		- Lower face should garner equal to Upper/ Mid-Face
Growth Rate					+70%	+60%	+45%	+30%	+20%		- We would assume rapid growth
Total Estimated U.S. Submental Fat Treatment Sales (MM)				\$80	\$140	\$225	\$325	\$425	\$505		- Est that U.S. will contribute 65% of WW ATX-101
Growth Rate					+75%	+61%	+45%	+31%	+19%		- Market should exhibit rapid growth
<i>% of Estimated U.S. Cosmetic Neurotoxin</i>				10%	15%	20%	30%	35%	40%		- Estimated to reach 40% of U.S. Neurotoxin market by 2017
<i>% of Estimated U.S. Dermal Filler Market</i>				10%	15%	25%	35%	40%	45%		- Estimated to reach 50% of U.S. Dermal Filler market by 2020
ATX-101 U.S. Submental Fat Share (KYTH)				100%	100%	100%	100%	100%	100%		- Should be alone in the market for many years
Procedures/ Patients				43,243	75,676	121,622	175,676	229,730	272,973		- Procedure growth should grow rapidly
Average Cost				\$1,850	\$1,850	\$1,850	\$1,850	\$1,850	\$1,850		- Premium pricing given the durability
Sales (\$MM)				\$80	\$140	\$225	\$325	\$425	\$505		
Total U.S. Submental Fat Market Sales (MM)				\$80	\$140	\$225	\$325	\$425	\$505		- Growth should be rapid given likely clinician/patient acceptance
%Growth					+75%	+61%	+44%	+31%	+19%		

Source: Cowen and Company; Allergan Quarterly Reports

Exhibit 2. Base Case International Sales Build And Contribution Assuming High Teens Royalty

ESTIMATED INTERNATIONAL SUBMENTAL FAT TREATMENT MARKET - ROYALTY ON BAYER SALES											
	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CGR Comments
Total Estimated WW Submental Fat Treatment Market (MM)					\$125	\$215	\$345	\$500	\$650	\$780	- Lower face should garner equivalent share of Upper/ Mid-Face
Growth Rate						+70%	+60%	+45%	+30%	+20%	- We would assume rapid growth
Total Estimated U.S. Submental Fat Treatment Sales (MM)					\$80	\$140	\$225	\$325	\$425	\$505	- Estimated that U.S. will contribute 65% of WW ATX-101
Growth Rate						+75%	+61%	+45%	+31%	+19%	- Market should exhibit rapid growth
ATX-101 Int'l Submental International Sales (Bayer)					\$45	\$75	\$120	\$175	\$225	\$275	- Difference between WW and U.S. expectations
Likely Royalty (Undisclosed, But Estimated At 15-20%)					18%	18%	18%	18%	18%	18%	- Undisclosed but likely between 15-20%
Sales (\$MM)					\$10.0	\$15.0	\$20.0	\$30.0	\$40.0	\$50.0	

Source: Cowen and Company



Exhibit 3. DCF Under Base Case Scenario Yields \$50 Per Share

Assumptions:		Output:																			
Increase in WC	5.0%	Equity Value	\$1,042.8																		
Discount Rate	10.0%	Estimated Share Price	\$50.00																		
Shares Outstanding	21.0	Debt	\$0.0																		
		Cash	\$50.0																		
		Enterprise Value	\$992.8																		
Wacc:		10.0%																			
Kythera DCF																					
	2011P	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	
Total Revenues	\$13.0	\$19.7	\$20.0	\$40.0	\$130.0	\$195.0	\$285.0	\$395.0	\$505.0	\$595.0	\$635.0	\$700.0	\$765.0	\$825.0	\$885.0	\$945.0	\$1,000.0	\$1,060.0	\$700.0	\$395.0	
%Change	+189%	+52%	+2%	+100%	+225%	+50%	+46%	+39%	+28%	+18%	+7%	+10%	+9%	+8%	+7%	+7%	+6%	+6%	-34%	-44%	
Cost of Goods	(\$4.8)	\$1.7	\$2.0	\$4.0	\$19.5	\$29.3	\$42.8	\$59.3	\$75.8	\$89.3	\$95.3	\$105.0	\$114.8	\$123.8	\$132.8	\$141.8	\$150.0	\$159.0	\$105.0	\$59.3	
Gross Profit	\$17.8	\$18.0	\$18.0	\$36.0	\$110.5	\$165.8	\$242.3	\$335.8	\$429.3	\$505.8	\$539.8	\$595.0	\$650.3	\$701.3	\$752.3	\$803.3	\$850.0	\$901.0	\$595.0	\$335.8	
Gross Margin - Total	136.7%	91.4%	90.0%	90.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	
SG&A	\$10.5	\$14.0	\$14.0	\$45.0	\$80.0	\$100.0	\$120.0	\$140.0	\$160.0	\$180.0	\$200.0	\$220.0	\$235.0	\$250.0	\$265.0	\$280.0	\$290.0	\$300.0	\$155.0	\$125.0	
%of Revs	80.9%	71.1%	70.0%	112.5%	61.5%	51.3%	42.1%	35.4%	31.7%	30.3%	31.5%	31.4%	30.7%	30.3%	29.9%	29.6%	29.0%	28.3%	22.1%	31.6%	
R&D	\$43.2	\$50.0	\$50.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$30.0	\$30.0	\$20.0	\$10.0	
%of Revs	332.6%	254.0%	250.0%	112.5%	34.6%	23.1%	15.8%	11.4%	8.9%	7.6%	7.1%	6.4%	5.9%	5.5%	5.1%	4.8%	3.0%	2.8%	2.9%	2.5%	
Operating Expenses	\$53.7	\$64.0	\$64.0	\$90.0	\$125.0	\$145.0	\$165.0	\$185.0	\$205.0	\$225.0	\$245.0	\$265.0	\$280.0	\$295.0	\$310.0	\$325.0	\$320.0	\$330.0	\$175.0	\$135.0	
%of Revenues	413.5%	325.1%	320.0%	225.0%	96.2%	74.4%	57.9%	46.8%	40.6%	37.8%	38.6%	37.9%	36.6%	35.8%	35.0%	34.4%	32.0%	31.1%	25.0%	34.2%	
Operating Income	(\$35.9)	(\$46.0)	(\$46.0)	(\$54.0)	(\$14.5)	\$20.8	\$77.3	\$150.8	\$224.3	\$280.8	\$294.8	\$330.0	\$370.3	\$406.3	\$442.3	\$478.3	\$530.0	\$571.0	\$420.0	\$200.8	
%Operating Margin	NM	NM	NM	NM	-11.2%	10.6%	27.1%	38.2%	44.4%	47.2%	46.4%	47.1%	48.4%	49.2%	50.0%	50.6%	53.0%	53.9%	60.0%	50.8%	
Other Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Adjusted EBIT	(\$35.9)	(\$46.0)	(\$46.0)	(\$54.0)	(\$14.5)	\$20.8	\$77.3	\$150.8	\$224.3	\$280.8	\$294.8	\$330.0	\$370.3	\$406.3	\$442.3	\$478.3	\$530.0	\$571.0	\$420.0	\$200.8	
%of Revs	NM	NM	NM	NM	-11.2%	10.6%	27.1%	38.2%	44.4%	47.2%	46.4%	47.1%	48.4%	49.2%	50.0%	50.6%	53.0%	53.9%	60.0%	50.8%	
Taxes						\$7.3	\$27.0	\$52.8	\$78.5	\$98.3	\$103.2	\$115.5	\$129.6	\$142.2	\$154.8	\$167.4	\$185.5	\$199.9	\$147.0	\$70.3	
Income Tax Rate						35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	
NOPAT	(\$35.9)	(\$46.0)	(\$46.0)	(\$54.0)	(\$14.5)	\$13.5	\$50.2	\$98.0	\$145.8	\$182.5	\$191.6	\$214.5	\$240.7	\$264.1	\$287.5	\$310.9	\$344.5	\$371.2	\$273.0	\$130.5	
Adjustments:																					Terminal
Capex	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	
Depreciation & Amortization	\$25.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	
Change In Working Capital	(\$10.0)	(\$10.5)	(\$11.0)	(\$11.6)	(\$12.2)	(\$12.8)	(\$13.4)	(\$14.1)	(\$14.8)	(\$15.5)	(\$16.3)	(\$17.1)	(\$18.0)	(\$18.9)	(\$19.8)	(\$20.8)	(\$21.8)	(\$22.9)	(\$24.1)	(\$25.3)	
Free Cash Flow	(\$30.9)	(\$51.5)	(\$52.0)	(\$60.6)	(\$21.7)	\$5.7	\$41.8	\$88.9	\$136.0	\$172.0	\$180.3	\$202.4	\$227.7	\$250.2	\$272.7	\$295.1	\$327.7	\$353.2	\$253.9	\$110.2	\$1,102.0

Source: Cowen and Company

Exhibit 4. DCF Under Base Case Scenario Value To Strategic Buyer That Could Reduce Sales Spending Yields \$70-75

Assumptions:		Output:																			
Increase in WC	5.0%	Equity Value	\$1,565.1																		
Discount Rate	10.0%	Estimated Share Price	\$75.00																		
Shares Outstanding	21.0	Debt	\$0.0																		
		Cash	\$50.0																		
		Enterprise Value	\$1,515.1																		
Wacc:		10.0%																			
Kythera DCF																					
	2011P	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	
Total Revenues	\$13.0	\$19.7	\$20.0	\$40.0	\$130.0	\$195.0	\$285.0	\$395.0	\$505.0	\$595.0	\$635.0	\$700.0	\$765.0	\$825.0	\$885.0	\$945.0	\$1,000.0	\$1,060.0	\$700.0	\$395.0	
%Change	+189%	+52%	+2%	+100%	+225%	+50%	+46%	+39%	+28%	+18%	+7%	+10%	+9%	+8%	+7%	+7%	+6%	+6%	-34%	-44%	
Cost of Goods	(\$4.8)	\$1.7	\$2.0	\$4.0	\$19.5	\$29.3	\$42.8	\$59.3	\$75.8	\$89.3	\$95.3	\$105.0	\$114.8	\$123.8	\$132.8	\$141.8	\$150.0	\$159.0	\$105.0	\$59.3	
Gross Profit	\$17.8	\$18.0	\$18.0	\$36.0	\$110.5	\$165.8	\$242.3	\$335.8	\$429.3	\$505.8	\$539.8	\$595.0	\$650.3	\$701.3	\$752.3	\$803.3	\$850.0	\$901.0	\$595.0	\$335.8	
Gross Margin - Total	136.7%	91.4%	90.0%	90.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	
SG&A	\$10.5	\$14.0	\$14.0	\$45.0	\$50.0	\$60.0	\$70.0	\$80.0	\$90.0	\$90.0	\$90.0	\$90.0	\$90.0	\$90.0	\$90.0	\$90.0	\$90.0	\$50.0	\$30.0	\$30.0	
%of Revs	80.9%	71.1%	70.0%	112.5%	38.5%	30.8%	24.6%	20.3%	17.8%	15.1%	14.2%	12.9%	11.8%	10.9%	10.2%	9.5%	9.0%	4.7%	4.3%	7.6%	
R&D	\$43.2	\$50.0	\$50.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$30.0	\$30.0	\$20.0	\$10.0	
%of Revs	332.6%	254.0%	250.0%	112.5%	34.6%	23.1%	15.8%	11.4%	8.9%	7.6%	7.1%	6.4%	5.9%	5.5%	5.1%	4.8%	3.0%	2.8%	2.9%	2.5%	
Operating Expenses	\$53.7	\$64.0	\$64.0	\$90.0	\$95.0	\$105.0	\$115.0	\$125.0	\$135.0	\$135.0	\$135.0	\$135.0	\$135.0	\$135.0	\$135.0	\$135.0	\$120.0	\$80.0	\$50.0	\$40.0	
%of Revenues	413.5%	325.1%	320.0%	225.0%	73.1%	53.8%	40.4%	31.6%	26.7%	22.7%	21.3%	19.3%	17.6%	16.4%	15.3%	14.3%	12.0%	7.5%	7.1%	10.1%	
Operating Income	(\$35.9)	(\$46.0)	(\$46.0)	(\$54.0)	\$15.5	\$60.8	\$127.3	\$210.8	\$294.3	\$370.8	\$404.8	\$460.0	\$515.3	\$566.3	\$617.3	\$668.3	\$730.0	\$821.0	\$545.0	\$295.8	
%Operating Margin	NM	NM	NM	NM	11.9%	31.2%	44.6%	53.4%	58.3%	62.3%	63.7%	65.7%	67.4%	68.6%	69.7%	70.7%	73.0%	77.5%	77.9%	74.9%	
Other Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Adjusted EBIT	(\$35.9)	(\$46.0)	(\$46.0)	(\$54.0)	\$15.5	\$60.8	\$127.3	\$210.8	\$294.3	\$370.8	\$404.8	\$460.0	\$515.3	\$566.3	\$617.3	\$668.3	\$730.0	\$821.0	\$545.0	\$295.8	
%of Revs	NM	NM	NM	NM	11.9%	31.2%	44.6%	53.4%	58.3%	62.3%	63.7%	65.7%	67.4%	68.6%	69.7%	70.7%	73.0%	77.5%	77.9%	74.9%	
Taxes						\$21.3	\$44.5	\$73.8	\$103.0	\$129.8	\$141.7	\$161.0	\$180.3	\$198.2	\$216.0	\$233.9	\$255.5	\$287.4	\$190.8	\$103.5	
Income Tax Rate						35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	
NOPAT	(\$35.9)	(\$46.0)	(\$46.0)	(\$54.0)	\$15.5	\$39.5	\$82.7	\$137.0	\$191.3	\$241.0	\$263.1	\$299.0	\$334.9	\$368.1	\$401.2	\$434.4	\$474.5	\$533.7	\$354.3	\$192.2	
Adjustments:																					Terminal
Capex	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	
Depreciation & Amortization	\$25.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	
Change In Working Capital	(\$10.0)	(\$10.5)	(\$11.0)	(\$11.6)	(\$12.2)	(\$12.8)	(\$13.4)	(\$14.1)	(\$14.8)	(\$15.5)	(\$16.3)	(\$17.1)	(\$18.0)	(\$18.9)	(\$19.8)	(\$20.8)	(\$21.8)	(\$22.9)	(\$24.1)	(\$25.3)	
Free Cash Flow	(\$30.9)	(\$51.5)	(\$52.0)	(\$60.6)	\$8.3	\$31.7	\$74.3	\$127.9	\$181.5	\$230.5	\$251.8	\$286.9	\$322.0	\$354.2	\$386.4	\$418.6	\$457.7	\$515.7	\$335.2	\$172.0	
																			\$1,719.7		

Source: Cowen and Company



Exhibit 5. DCF Under Best Case Scenario Standalone Yields \$70

Assumptions:	Output:																			
Increase in WC	5.0%	Equity Value \$1,480.4																		
Discount Rate	10.0%	Estimated Share Price \$70.00																		
Shares Outstanding	21.0	Debt \$0.0																		
	Cash	\$0.0																		
	Enterprise Value	\$1,480.4																		
Wacc:		10.0%																		
Kythera DCF																				
	2011P	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P
Total Revenues	\$13.0	\$19.7	\$0.0	\$40.0	\$165.0	\$250.0	\$360.0	\$490.0	\$625.0	\$740.0	\$800.0	\$880.0	\$960.0	\$1,035.0	\$1,105.0	\$1,180.0	\$1,250.0	\$1,325.0	\$865.0	\$485.0
%Change	+189%	+52%			+131%	+52%	+44%	+36%	+28%	+18%	+8%	+10%	+9%	+8%	+7%	+7%	+6%	+6%	-35%	-44%
Cost of Goods	(\$4.8)	\$19.7	\$0.0	\$4.0	\$24.8	\$37.5	\$54.0	\$73.5	\$93.8	\$111.0	\$120.0	\$132.0	\$144.0	\$155.3	\$165.8	\$177.0	\$187.5	\$198.8	\$129.8	\$72.8
Gross Profit	\$17.8	\$0.0	\$0.0	\$36.0	\$140.3	\$212.5	\$306.0	\$416.5	\$531.3	\$629.0	\$680.0	\$748.0	\$816.0	\$879.8	\$939.3	\$1,003.0	\$1,062.5	\$1,126.3	\$735.3	\$412.3
Gross Margin - Total	136.7%	0.0%		90.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%
SG&A	\$10.5	\$16.0	\$16.0	\$45.0	\$80.0	\$100.0	\$120.0	\$140.0	\$160.0	\$180.0	\$200.0	\$220.0	\$235.0	\$250.0	\$265.0	\$280.0	\$290.0	\$300.0	\$220.0	\$165.0
%of Revs	80.9%	81.3%		112.5%	48.5%	40.0%	33.3%	28.6%	25.6%	24.3%	25.0%	25.0%	24.5%	24.2%	24.0%	23.7%	23.2%	22.6%	25.4%	34.0%
R&D	\$43.2	\$35.0	\$35.0	\$35.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$30.0	\$30.0	\$30.0	\$30.0
%of Revs	332.6%	177.8%		87.5%	27.3%	18.0%	12.5%	9.2%	7.2%	6.1%	5.6%	5.1%	4.7%	4.3%	4.1%	3.8%	2.4%	2.3%	3.5%	6.2%
Operating Expenses	\$53.7	\$51.0	\$51.0	\$80.0	\$125.0	\$145.0	\$165.0	\$185.0	\$205.0	\$225.0	\$245.0	\$265.0	\$280.0	\$295.0	\$310.0	\$325.0	\$320.0	\$330.0	\$250.0	\$195.0
%of Revenues	413.5%	259.1%		200.0%	75.8%	58.0%	45.8%	37.8%	32.8%	30.4%	30.6%	30.1%	29.2%	28.5%	28.1%	27.5%	25.6%	24.9%	28.9%	40.2%
Operating Income	(\$35.9)	(\$51.0)	(\$51.0)	(\$44.0)	\$15.3	\$67.5	\$141.0	\$231.5	\$326.3	\$404.0	\$435.0	\$483.0	\$536.0	\$584.8	\$629.3	\$678.0	\$742.5	\$796.3	\$485.3	\$217.3
%Operating Margin	NM	NM	NM	NM	9.2%	27.0%	39.2%	47.2%	52.2%	54.6%	54.4%	54.9%	55.8%	56.5%	56.9%	57.5%	59.4%	60.1%	56.1%	44.8%
Other Income	0.0	(0.1)	(0.1)	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted EBIT	(\$35.9)	(\$51.1)	(\$51.1)	(\$44.0)	\$15.6	\$67.5	\$141.0	\$231.5	\$326.3	\$404.0	\$435.0	\$483.0	\$536.0	\$584.8	\$629.3	\$678.0	\$742.5	\$796.3	\$485.3	\$217.3
%of Revs	NM	NM	NM	NM	9.4%	27.0%	39.2%	47.2%	52.2%	54.6%	54.4%	54.9%	55.8%	56.5%	56.9%	57.5%	59.4%	60.1%	56.1%	44.8%
Taxes					\$0.0	\$23.6	\$49.4	\$81.0	\$114.2	\$141.4	\$152.3	\$169.1	\$187.6	\$204.7	\$220.2	\$237.3	\$259.9	\$278.7	\$169.8	\$76.0
Income Tax Rate					0.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
NOPAT	(\$35.9)	(\$51.1)	(\$51.1)	(\$44.0)	\$15.6	\$43.9	\$91.7	\$150.5	\$212.1	\$262.6	\$282.8	\$314.0	\$348.4	\$380.1	\$409.0	\$440.7	\$482.6	\$517.6	\$315.4	\$141.2
Adjustments:																				Terminal
Capex	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)
Depreciation & Amortization	\$25.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0
Change In Working Capital	(\$10.0)	(\$10.5)	(\$11.0)	(\$11.6)	(\$12.2)	(\$12.8)	(\$13.4)	(\$14.1)	(\$14.8)	(\$15.5)	(\$16.3)	(\$17.1)	(\$18.0)	(\$18.9)	(\$19.8)	(\$20.8)	(\$21.8)	(\$22.9)	(\$24.1)	(\$25.3)
Free Cash Flow	(\$30.9)	(\$56.6)	(\$57.1)	(\$50.6)	\$8.4	\$36.1	\$83.2	\$141.4	\$202.3	\$252.1	\$271.5	\$301.8	\$335.4	\$366.2	\$394.2	\$424.9	\$465.8	\$499.6	\$296.3	\$120.9

Source: Cowen and Company

Exhibit 6. DCF Under Worst Case Scenario Standalone Yields \$18-20

Assumptions:	Output:																				
Increase in WC	5.0%	Equity Value \$386.9																			
Discount Rate	10.0%	Estimated Share Price \$18.00																			
Shares Outstanding	21.0	Debt \$0.0																			
		Cash \$0.0																			
		Enterprise Value \$386.9																			
Wacc:	10.0%																				
Kythera DCF																					
	2011P	2012P	2013P	2014P	2015P	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	
Total Revenues	\$13.0	\$19.7	\$0.0	\$40.0	\$95.0	\$130.0	\$175.0	\$235.0	\$295.0	\$345.0	\$350.0	\$385.0	\$420.0	\$455.0	\$490.0	\$525.0	\$560.0	\$595.0	\$415.0	\$240.0	
%Change	+189%	+52%			+138%	+37%	+35%	+34%	+26%	+17%	+1%	+10%	+9%	+8%	+8%	+7%	+7%	+6%	-30%	-42%	
Cost of Goods	(\$4.8)	\$19.7	\$0.0	\$4.0	\$14.3	\$19.5	\$26.3	\$35.3	\$44.3	\$51.8	\$52.5	\$57.8	\$63.0	\$68.3	\$73.5	\$78.8	\$84.0	\$89.3	\$62.3	\$36.0	
Gross Profit	\$17.8	\$0.0	\$0.0	\$36.0	\$80.8	\$110.5	\$148.8	\$199.8	\$250.8	\$293.3	\$297.5	\$327.3	\$357.0	\$386.8	\$416.5	\$446.3	\$476.0	\$505.8	\$352.8	\$204.0	
Gross Margin - Total	136.7%	0.0%		90.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	
SG&A	\$10.5	\$16.0	\$16.0	\$45.0	\$70.0	\$85.0	\$95.0	\$105.0	\$110.0	\$120.0	\$130.0	\$140.0	\$150.0	\$160.0	\$170.0	\$180.0	\$190.0	\$200.0	\$100.0	\$85.0	
%of Revs	80.9%	81.3%		112.5%	73.7%	65.4%	54.3%	44.7%	37.3%	34.8%	37.1%	36.4%	35.7%	35.2%	34.7%	34.3%	33.9%	33.6%	24.1%	35.4%	
R&D	\$43.2	\$35.0	\$35.0	\$35.0	\$45.0	\$45.0	\$40.0	\$40.0	\$30.0	\$30.0	\$30.0	\$25.0	\$25.0	\$25.0	\$25.0	\$20.0	\$20.0	\$20.0	\$20.0	\$10.0	
%of Revs	332.6%	177.8%		87.5%	47.4%	34.6%	22.9%	17.0%	10.2%	8.7%	8.6%	6.5%	6.0%	5.5%	5.1%	3.8%	3.6%	3.4%	4.8%	4.2%	
Operating Expenses	\$53.7	\$51.0	\$51.0	\$80.0	\$115.0	\$130.0	\$135.0	\$145.0	\$140.0	\$150.0	\$160.0	\$165.0	\$175.0	\$185.0	\$195.0	\$200.0	\$210.0	\$220.0	\$120.0	\$95.0	
%of Revenues	413.5%	259.1%		200.0%	121.1%	100.0%	77.1%	61.7%	47.5%	43.5%	45.7%	42.9%	41.7%	40.7%	39.8%	38.1%	37.5%	37.0%	28.9%	39.6%	
Operating Income	(\$35.9)	(\$51.0)	(\$51.0)	(\$44.0)	(\$34.3)	(\$19.5)	\$13.8	\$54.8	\$110.8	\$143.3	\$137.5	\$162.3	\$182.0	\$201.8	\$221.5	\$246.3	\$266.0	\$285.8	\$232.8	\$109.0	
%Operating Margin	NM	NM	NM	NM	-36.1%	-15.0%	7.9%	23.3%	37.5%	41.5%	39.3%	42.1%	43.3%	44.3%	45.2%	46.9%	47.5%	48.0%	56.1%	45.4%	
Other Income	0.0	(0.1)	(0.1)	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Adjusted EBIT	(\$35.9)	(\$51.1)	(\$51.1)	(\$44.0)	(\$34.0)	(\$19.5)	\$13.8	\$54.8	\$110.8	\$143.3	\$137.5	\$162.3	\$182.0	\$201.8	\$221.5	\$246.3	\$266.0	\$285.8	\$232.8	\$109.0	
%of Revs	NM	NM	NM	NM	-35.7%	-15.0%	7.9%	23.3%	37.5%	41.5%	39.3%	42.1%	43.3%	44.3%	45.2%	46.9%	47.5%	48.0%	56.1%	45.4%	
Taxes										\$50.1	\$48.1	\$56.8	\$63.7	\$70.6	\$77.5	\$86.2	\$93.1	\$100.0	\$81.5	\$38.2	
Income Tax Rate										35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	
NOPAT	(\$35.9)	(\$51.1)	(\$51.1)	(\$44.0)	(\$34.0)	(\$19.5)	\$13.8	\$54.8	\$110.8	\$93.1	\$89.4	\$105.5	\$118.3	\$131.1	\$144.0	\$160.1	\$172.9	\$185.7	\$151.3	\$70.9	
Adjustments:																				Terminal	
Capex	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	(\$10.0)	
Depreciation & Amortization	\$25.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	\$15.0	
Change In Working Capital	(\$10.0)	(\$10.5)	(\$11.0)	(\$11.6)	(\$12.2)	(\$12.8)	(\$13.4)	(\$14.1)	(\$14.8)	(\$15.5)	(\$16.3)	(\$17.1)	(\$18.0)	(\$18.9)	(\$19.8)	(\$20.8)	(\$21.8)	(\$22.9)	(\$24.1)	(\$25.3)	
Free Cash Flow	(\$30.9)	(\$56.6)	(\$57.1)	(\$50.6)	(\$41.1)	(\$27.3)	\$5.3	\$45.7	\$101.0	\$82.6	\$78.1	\$93.4	\$105.3	\$117.3	\$129.2	\$144.3	\$156.1	\$167.8	\$132.2	\$50.6	\$505.8

Source: Cowen and Company



We Believe the Lower Face Market Is Underserved And The Opportunity Is Significant

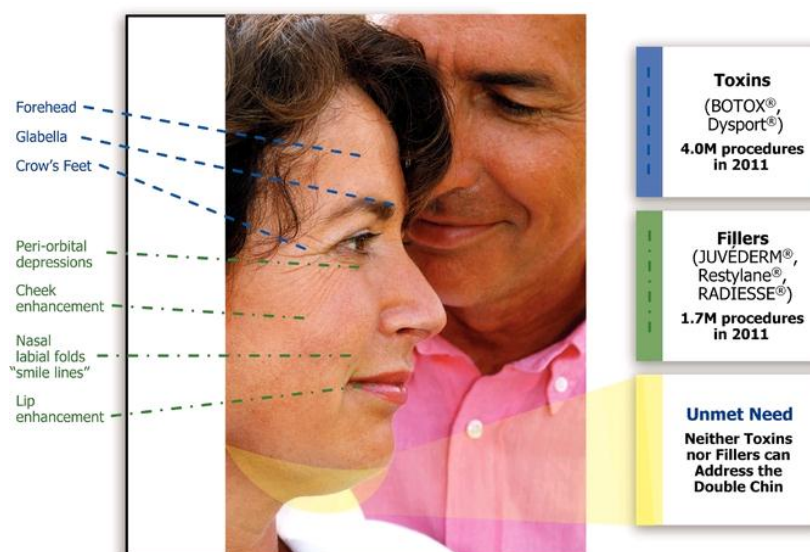
The upper and mid face regions are addressed by injectable toxin and filler treatments, but injectables have yet to reach the lower face region, which we feel could be addressed by ATX101. Currently, the only effective option for the reduction of submental fat is liposuction, which involves significant pain, down/recovery time, expense, and risk associated with surgery. Moreover, a significant amount of patients are not even candidates for surgery. We believe that ATX101 may be able to overcome many of these hurdles associated with treatment for submental fat and will likely expand the existing patient population.

We – and our consultants – believe that the product, if successfully developed and approved, has exceedingly attractive potential, with our estimates of sales exceeding \$500MM+ in the US and a similar market – albeit slightly smaller – in Europe

Interestingly, up to 25% of patients in the ATX101 European studies were male and our physician consultants indicated that this is one of the more popular procedures for men, which suggest that uptake in men could be greater than the <10% observed with toxins and fillers.

We – and our consultants – believe that the product, if successfully developed and approved, has exceedingly attractive potential, with our estimates of sales exceeding \$500MM+ in the US and a similar market – albeit slightly smaller – in Europe. Over the past decade, facial injectables have become increasingly more common and the market is still expected to more than double by 2018. In 2012, there were almost 6MM procedures performed (4MM for toxins and 1.7MM for fillers) for frown lines, wrinkles, smile lines, and volume loss, yet the neck area remains underserved. The American Society of Aesthetic Plastic Surgery (ASAPS) has reported that younger patients are increasingly opting for facial injectable treatments to delay the appearance of lines and wrinkles and we believe this will carry over into similar treatments like to ATX101. Additionally, older men are increasingly looking to delay the signs of aging and are seeking facial injectable treatments. Traditionally, the market has been dominated by females and in this particular segment of facial injectables (in the chin), we believe there might even be a larger opportunity in men than there is with other injectable treatments. Interestingly, up to 25% of patients in the ATX101 European studies were male and our physician consultants indicated that this is one of the more popular procedures for men, which suggest that uptake in men could be greater than the <10% observed with toxins and fillers.

Exhibit 7. The Lower Face Area Is Underserved And Should Enjoy Synergies From The Upper and Mid Face



Source: Kythera



900,000 Existing Injectable Patients Are The Low-Hanging Fruit

The largest market opportunity will be in existing patients – primarily women that make up 90% of injectable users – that are currently receiving facial injectable treatments such as Botox, Restylane, and Juvederm, with the potential for market expansion into patients naïve to facial injectable treatments. For existing toxin and filler users, which were estimated at 2MM+ in 2012, approximately 75% (1.5MM) have treatable submental fat. Of those patients, the Company believes that 900,000 (~60%) are likely to try ATX101. Currently, the new toxin/filler user population in the US has a 12% CAGR suggesting that the adoption of these procedures is still at a high rate. Europe is exhibiting a similar growth rate for this class of products. For naïve users ages 20-65 with a household income of \$50,000+ (est. 116MM), an estimated 28MM are considered aesthetic injectable “considerers” and 23MM of those people are considered to have treatable submental fat. To put our \$500MM target into perspective, it would require roughly 300,000 annual users (at roughly \$2,500-3,000 per treatment), or roughly 20-25% of the current existing injectable patients, which we believe is more than reasonable.

The ATX101 Procedure Is Similar To Botox And Will Be Easy To Learn

In general, the ATX101 procedure will be most similar to the procedure currently performed with Botox, which requires an even distribution of the drug product, as opposed to fillers, which require more finesse by the physician. ATX101 is injected subcutaneously into the target fat via several microinjections and is supposed to provide for local fat reduction while leaving the surrounding tissue unaffected. The in-office procedure would be primarily performed by dermatologists and plastic surgeons and last approximately 15-20 minutes with minimal to no patient down time. The Company believes that 3-6 treatment visits would be required to achieve optimal results and that this effect would be sustained as greater than 90% of ATX101 patients in a long-term Phase II follow up study maintained the aesthetic correction after 2 years.

We believe that ATX101 will employ a 30-gauge needle, which is the same size as used with the Botox product. In fact, a smaller 32-gauge needle may even be possible as well. However, we do not see this as a barrier as the vast majority of patients are unaffected by Botox injections and the size of the needle. Approximately 0.2cc of ATX101 per cm² will be injected into the patient over a grid. Several syringes may be required for treatment and while the number of injections will be variable depending upon the size of the patient's neck, we estimate that number of injections will be around 20-30 per patient. Like Botox, ATX101 will not require refrigeration, which will make it even easier for a physician's office to carry it.

ATX101 Treatment Cost Expected To Be Priced Less Than Invasive Surgical Alternatives

The typical annual cost of injectables for patients is estimated to be \$2,000-3,500 and we believe ATX101 will fall somewhere within this price range, whereas surgical procedures such as chin liposuction (est. \$3,500-5,000) are considerably more. We estimate that an initial 3 injections will be recommended per treatment course with the potential to go up to 6, which would lead to an estimated cost per monthly visit of around \$500-750. Most aesthetic procedures, particular facial injectables, are entirely patient funded and paid on a cash basis and we – and our consultants – believe that this a reasonable price point compared to other more expensive surgical procedures.

ATX101 is injected subcutaneously into the target fat via several microinjections and is supposed to provide for local fat reduction while leaving the surrounding tissue unaffected. The in-office procedure would be primarily performed by dermatologists and plastic surgeons and last approximately 15-20 minutes with minimal to no patient down time.



In consultation with several physicians, they believe that this per treatment price will be right in the “sweet spot” and that there will be little resistance from their patients, especially existing injectable users.

Multi-Year Duration Of Treatment Helps Justify ATX101 Cost

Additionally, while the cost of treatment of ATX101 (\$2,000-3,500) will be considerably more than one year of treatment with toxins or fillers (around \$1,000-1,500 or greater), we believe that in reality, the price is comparable because of ATX101’s durability of treatment effect. Botox requires treatment every year – normally every six months – therefore, the cost will be incurred each year, while ATX101 treatment has a duration of action that has been shown to last multiple years in the majority of patients thus far. Data from a long-term, 5-year, Phase II ATX101 follow-up study suggests that over 90% and 80% of subjects maintained at least the same level of correction for approximately two and three years, respectively. So far, at least 80% of patients (n=10) have also maintained the same level of aesthetic correction up to 4 years. While these numbers are impressive, we acknowledge that the patient numbers on these cohorts are still relatively low and that additional confirmatory data will need to be collected. If the ATX101 treatment cost is spread over the 2, 3, and 4 year time intervals, the adjusted annual cost of treatment is \$1,000-\$1,700, \$670-1,100, or \$500-850, which is right around – or even below – the annual cost of treatment with toxins or fillers. In further support, a recent ASAPS study suggested that 92% of patients preferred gradual results lasting over 2 years, versus immediate results lasting only 12 months. We believe that when considering the cost of treatment, patients will view the duration of effect of ATX101 favorably and that in addition to the observed clinical effect, the durability of ATX101 will help justify the cost of treatment absorbed in that first year.

Initial ATX101 Specialty Sales Force Estimated To Be 60-80 Representatives At Launch

A specialty sales force would be required to market the product to dermatologists and plastic surgeons, which often, either operate in the same office or have a significant amount of treatment overlap. In the U.S. in 2010, market research suggests that dermatologists and plastic surgeons performed 60-80% of facial injectable procedures, which supports Kythera’s initial strategy. While the Company plans to commercialize the drug in the US with a specialty sales force, partner Bayer will take the lead on commercialization outside of the U.S. and Canada and will pay Kythera royalties on net sales. In the US, Kythera has stated that a sales force of 60-80 representatives would be reasonable for ATX101 launch and that they would continue to add representatives as the launch progresses. In the initial part of the launch, Kythera believes that physician training is critical. Therefore, once ATX101 is approved and launched, it would first be put into the hands of experienced injectors and then those doctors would be used to increase awareness and expand the market. We believe that given the checkered experience observed with compounded deoxycholate injections, that targeting the most experienced doctors first is the best strategy to ensure proper administration and patient experience early into the launch.

One of our consultants stated that ATX101 “will be an amazing addition to his armamentarium”.

Market research (from Kythera but also confirmed via our consultants) suggests that roughly 80% of existing toxin/filler patients have excess treatable submental fat and that roughly 90% of dermal filler patients are also treated with toxins. Thus, while ATX101 would be creating a new product class, we believe the market is ripe for such an entrant and that positive synergies exist with current injectables that will lead to gaining increased share of the existing toxin/filler patients. Also,



we believe doctors will appreciate the ability to add another product to their treatment arsenal and combine it with another product such as a toxin, thereby effectively increasing his revenue per patient visit. One of our consultants stated that ATX101 “will be an amazing addition to his armamentarium” and that “it’s already happening everywhere” through the use of compounded products, so he does not see significant resistance for ATX101 uptake in a market that actually, already exists. Moreover, no capital equipment will need to be acquired or space cleared for the ATX101 procedure, so it should be relatively easy for the physician to include in their practice.



Exhibit 8. Kythera Annual P&L

KYTHERA - 2013-2020 ESTIMATED ANNUAL EPS BUILDUP (\$MM)											
	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CGR Comments
U.S. ATX-101 sales					\$80.0	\$140.0	\$225.0	\$325.0	\$425.0	\$505.0	- ATX-101 in Phase III; Launch expected in 2015
Growth Rate						+75%	+61%	+44%	+31%	+19%	- Rapid growth expected; composition of matter patents through 2028
International ATX-101 Royalty					\$10.0	\$15.0	\$20.0	\$30.0	\$40.0	\$50.0	- Bayer royalties on international sales anticipated at 15-20%
License Income	\$13.0	\$19.7		\$40.0	\$40.0	\$40.0	\$40.0	\$40.0	\$40.0	\$40.0	- Recognition of Bayer milestone payments; \$16MM in May 2012
Total Kythera Revenues	\$13.0	\$19.7	\$0.0	\$40.0	\$130.0	\$195.0	\$285.0	\$395.0	\$505.0	\$595.0	
%Change	+189%	+52%			+225%	+50%	+46%	+39%	+28%	+18%	
Cost of Goods	\$1.2	\$1.9	\$0.0	\$4.0	\$19.5	\$29.3	\$42.8	\$59.3	\$75.8	\$89.3	- Payments to Los Angeles Biomedical Institute (LA Biomed)
Gross Profit	\$11.8	\$17.8	\$0.0	\$36.0	\$110.5	\$165.8	\$242.3	\$335.8	\$429.3	\$505.8	
Gross Margin	90.9%	90.2%	90.0%	90.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	- Low-to-mid single digit royalties to LA Biomed
SG&A	\$6.9	\$10.5	\$16.0	\$45.0	\$80.0	\$100.0	\$120.0	\$140.0	\$160.0	\$180.0	+43% - Salesforce expansion in 2015, in preparation for ATX-101 launch
% of Revs	53.0%	53.4%		112.5%	61.5%	51.3%	42.1%	35.4%	31.7%	30.3%	- 100 reps@ \$300K adds \$30MM
R&D	\$15.8	\$43.2	\$35.0	\$35.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	\$45.0	+1% - Clinical trial costs in 2012 of approximately \$20MM
% of Revs	121.4%	219.4%		87.5%	34.6%	23.1%	15.8%	11.4%	8.9%	7.6%	- Additional clinical trials for ATX-101 indications
Operating Expenses	\$22.6	\$53.7	\$51.0	\$80.0	\$125.0	\$145.0	\$165.0	\$185.0	\$205.0	\$225.0	+20%
% of Revenues	174.4%	272.7%		200.0%	96.2%	74.4%	57.9%	46.8%	40.6%	37.8%	
Operating Income	(\$10.8)	(\$35.9)	(\$51.0)	(\$44.0)	(\$14.5)	\$20.8	\$77.3	\$150.8	\$224.3	\$280.8	NM - Operating profit expected in 2016
%Operating Margin	NM	NM	NM	NM	-11.2%	10.6%	27.1%	38.2%	44.4%	47.2%	
Non-Operating Income											
Interest Income	\$0.0	(\$0.9)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	- ~\$75MM in cash
Interest Expense	(0.3)	0.0	(2.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	- Credit facility of \$15MM
Other Income	0.0	0.0	(0.1)	0.0	0.3	0.0	0.0	0.0	0.0	0.0	
Non-Operating Income	(\$0.3)	(\$0.9)	(\$2.3)	\$0.0	\$0.3	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Pretax Income	(\$11.2)	(\$36.8)	(\$53.3)	(\$44.0)	(\$14.2)	\$20.8	\$77.3	\$150.8	\$224.3	\$280.8	NM
% of Revs	NM	NM	NM	NM	-10.9%	10.6%	27.1%	38.2%	44.4%	47.2%	
Income Taxes						\$7.3	\$27.0	\$52.8	\$78.5	\$98.3	NM
Income Tax Rate						35.0%	35.0%	35.0%	35.0%	35.0%	
Net Income - Operations	(\$11.2)	(\$36.8)	(\$53.3)	(\$44.0)	(\$14.2)	\$13.5	\$50.2	\$98.0	\$145.8	\$182.5	NM
%Net Margin	NM	NM	NM	NM	NM	6.9%	17.6%	24.8%	28.9%	30.7%	
Extraordinary Items	0.0	0.0	0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Reported Net Income	(\$11.2)	(\$36.8)	(\$53.3)	(\$44.0)	(\$14.2)	\$13.5	\$50.2	\$98.0	\$145.8	\$182.5	NM
Interest Add-Back	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
EPS (GAAP) - Before Ex. Items	(\$1.00)	(\$2.62)	(\$2.90)	(\$2.10)	(\$0.65)	\$0.60	\$2.10	\$3.90	\$5.60	\$6.75	NM - Profitable in 2016 following the launch of ATX-101
Growth	NM	NM	NM	NM	NM	NM	+250%	+86%	+44%	+21%	
EPS - Extraordinary Items	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
EPS - Reported	(\$1.00)	(\$2.62)	(\$2.90)	(\$2.10)	(\$0.65)	\$0.60	\$2.10	\$3.90	\$5.60	\$6.75	NM
Shares - Fully Diluted (MM)	11.1	14.1	18.4	21.0	22.0	23.0	24.0	25.0	26.0	27.0	+11% - Diluted shares; assuming some onward dilution from warrants

Source: Cowen and Company



Exhibit 9. ATX101 Market Build

ESTIMATED U.S. COSMETIC NEUROTOXIN TREATMENT MARKET											
	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CGR	Comments
Total WW Aesthetic & Thera Neurotoxin Sales (MM)	\$2,220	\$2,500	\$2,775	\$3,000	\$3,250	\$3,500	\$3,750	\$4,000	\$4,250	+11%	- Allergan indicates the current WW market is \$2.5B
Growth Rate	+13%	+13%	+11%	+9%	+8%	+7%	+7%	+6%	+6%		- Total WW Neurotoxin growth has been 12-14% over the last 5 years
Total U.S. Aesthetic & Thera Neurotoxin Sales (MM)	\$1,375	\$1,550	\$1,720	\$1,860	\$2,015	\$2,155	\$2,290	\$2,420	\$2,570	+10%	- Est that U.S. contributes 60-65% of WW toxin use
Growth Rate	+11%	+13%	+9%	+8%	+8%	+7%	+6%	+6%	+6%		- Estimated that Therapeutic growth will be higher than cosmetic
Estimated U.S. Cosmetic Use % of Total U.S. Neurotoxin	50%	50%	49%	49%	48%	48%	48%	48%	47%		- Est that roughly 50% of Neurotoxin use is Aesthetic/Cosmetic
Total U.S. Cosmetic Neurotoxin Sales (MM)	\$695	\$780	\$845	\$900	\$965	\$1,035	\$1,100	\$1,155	\$1,210	+8%	- U.S. market has been relatively healthy
Growth Rate	+10%	+12%	+8%	+7%	+7%	+7%	+6%	+5%	+5%		
Boctox U.S. Cosmetic Share (AGN)	77%	75%	75%	74%	74%	74%	74%	74%	74%	-1%	- Leading treatment - market creator
Procedures (000)	4,756	5,200	5,600	5,956	6,356	6,844	7,244	7,600	8,000		- Procedure growth should continue to steadily grow
Average Cost	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450		- Pricing has remained stable
Sales (\$MM)	\$535	\$585	\$630	\$670	\$715	\$770	\$815	\$855	\$900	+7%	
Dysport U.S. Cosmetic Share (VRX)	19%	19%	18%	18%	18%	18%	18%	18%	18%	-1%	- Valeant has taken over marketing; second to market
Procedures (000)	1,200	1,289	1,333	1,422	1,556	1,644	1,778	1,867	1,911		- Essentially undifferentiated product
Average Cost	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450	\$450		- Priced in-line with Botox
Sales (\$MM)	\$135.0	\$145.0	\$150.0	\$160.0	\$175.0	\$185.0	\$200.0	\$210.0	\$215.0	+7%	
Others/Xeomin Share	4%	6%	8%	8%	8%	8%	8%	8%	8%	+12%	- Product was relaunched in January 2012
Procedures (000)	250	500	650	700	750	800	850	900	950		- Essentially undifferentiated product; currently has 5% market share
Average Cost	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400	\$400		- Pricing has been more aggressive
Sales (\$MM)	\$25.0	\$50.0	\$65.0	\$70.0	\$75.0	\$80.0	\$85.0	\$90.0	\$95.0	+20%	
Total Cosmetic Market Sales (MM)	\$695	\$780	\$845	\$900	\$965	\$1,035	\$1,100	\$1,155	\$1,210	+9%	- Growth continuing to be relatively stable
%Growth	+10%	+12%	+8%	+7%	+7%	+7%	+6%	+5%	+5%		
ESTIMATED U.S. DERMAL FILLER TREATMENT MARKET											
	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CGR	Comments
Total WW Dermal Filler Market (MM)	\$1,010	\$1,100	\$1,200	\$1,295	\$1,385	\$1,480	\$1,585	\$1,680	\$1,780	+8%	- Allergan ests the WW Dermal Filler market is \$1.1B
Growth Rate	+7%	+9%	+9%	+8%	+7%	+7%	+7%	+6%	+6%		- Total WW Dermal Filler growth has been 8-10% over the last 5 years
Total Estimated U.S. Dermal Filler Sales (MM)	\$605	\$660	\$720	\$775	\$830	\$890	\$950	\$1,010	\$1,070	+8%	- Est that U.S. contributes 60-65% of WW Filler use
Growth Rate	+7%	+9%	+9%	+8%	+7%	+7%	+7%	+6%	+6%		- Market appears to be growing at roughly 8-10% currently
ESTIMATED U.S. SUBMENTAL FAT TREATMENT MARKET - KYTHERA's ATX-101 SHOULD REPRESENT THE MARKET FOR YEARS											
	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CGR	Comments
Total Estimated WW Submental Fat Treatment Market (MM)				\$125	\$215	\$345	\$500	\$650	\$780		- Lower face should garner equal to Upper/ Mid-Face
Growth Rate					+70%	+60%	+45%	+30%	+20%		- We would assume rapid growth
Total Estimated U.S. Submental Fat Treatment Sales (MM)				\$80	\$140	\$225	\$325	\$425	\$505		- Est that U.S. will contribute 65% of WW ATX-101
Growth Rate					+75%	+61%	+45%	+31%	+19%		- Market should exhibit rapid growth
% of Estimated U.S. Cosmetic Neurotoxin				10%	15%	20%	30%	35%	40%		- Estimated to reach 40% of U.S. Neurotoxin market by 2017
% of Estimated U.S. Dermal Filler Market				10%	15%	25%	35%	40%	45%		- Estimated to reach 50% of U.S. Dermal Filler market by 2017
ATX-101 U.S. Submental Fat Share (KYTH)				100%	100%	100%	100%	100%	100%		- Should be alone in the market for many years
Procedures/ Patients				43,243	75,676	121,622	175,676	229,730	272,973		- Procedure growth should grow rapidly
Average Cost				\$1,850	\$1,850	\$1,850	\$1,850	\$1,850	\$1,850		- Premium pricing given the durability
Sales (\$MM)				\$80	\$140	\$225	\$325	\$425	\$505		
Total U.S. Submental Fat Market Sales (MM)				\$80	\$140	\$225	\$325	\$425	\$505		- Growth should be rapid given likely clinician/patient acceptance
%Growth					+75%	+61%	+44%	+31%	+19%		

Source: Cowen and Company



Exhibit 10. Kythera Quarterly P&L

KYTHERA - ESTIMATED QUARTERLY P&L BUILDUP (\$MM)															
	2012	2013E				2013E	2014E				2014E	2015E			
		Q1	Q2	Q3E	Q4E		Q1E	Q2E	Q3E	Q4E		Q1E	Q2E	Q3E	Q4E
ATX-101	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$10.0	\$15.0	\$20.0	\$35.0
International Royalty	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.0	\$2.0	\$3.0	\$4.0
License Revenue	19.7	\$0.0	\$0.0	\$0.0	0.0	0.0	\$10.0	\$10.0	\$10.0	\$10.0	40.0	\$10.0	\$10.0	\$10.0	\$10.0
Total Revenues	\$19.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$10.0	\$10.0	\$10.0	\$10.0	\$40.0	\$21.0	\$27.0	\$33.0	\$49.0
%Change	+52%	NM	NM	NM	NM	-100%	NM	NM	NM	NM	NM	+110%	+170%	+230%	+390%
Cost of Revenues	\$1.9	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1.0	\$1.0	\$1.0	\$1.0	\$4.0	\$3.2	\$4.1	\$5.0	\$7.4
Total Gross Profit	\$17.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$9.0	\$9.0	\$9.0	\$9.0	\$36.0	\$17.9	\$23.0	\$28.1	\$41.7
Total Gross Margin	90.2%	NM	NM	NM	NM	0.0%	90.0%	90.0%	90.0%	90.0%	90.0%	85.0%	85.0%	85.0%	85.0%
SG&A	\$10.5	\$3.7	\$4.0	\$4.0	\$4.3	\$16.0	\$7.0	\$9.0	\$12.0	\$17.0	\$45.0	\$15.0	\$15.0	\$20.0	\$30.0
%Revenues	53.4%	NM	NM	NM	NM	NM	NM	NM	NM	NM	112.5%	71.4%	55.6%	60.6%	61.2%
R&D	\$43.2	\$10.0	\$7.8	\$8.5	\$8.7	\$35.0	\$10.0	\$11.0	\$12.0	\$2.0	\$35.0	\$11.0	\$11.0	\$11.0	\$12.0
%Revenues	219.4%	NM	NM	NM	NM	NM	NM	NM	NM	NM	87.5%	52.4%	40.7%	33.3%	24.5%
Operating Expenses	\$53.7	\$13.8	\$11.7	\$12.5	\$13.0	\$51.0	\$17.0	\$20.0	\$24.0	\$19.0	\$80.0	\$26.0	\$26.0	\$31.0	\$42.0
Operating Income	(\$35.9)	(\$13.8)	(\$11.7)	(\$12.5)	(\$13.0)	(\$51.0)	(\$8.0)	(\$11.0)	(\$15.0)	(\$10.0)	(\$44.0)	(\$8.2)	(\$3.1)	(\$3.0)	(\$0.3)
%Revenues															
Non-Operating Income															
Interest Income	(\$0.9)	\$0.0	\$0.0	\$0.0	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Interest Expense	0.0	(0.4)	(0.6)	(0.6)	(0.7)	(2.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Income	0.0	(0.1)	(0.0)	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
Total Non-Operating Income	(\$0.9)	(\$0.45)	(\$0.5)	(\$0.6)	(\$0.7)	(\$2.3)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.3
Pre-Tax Income	(\$36.8)	(\$14.2)	(\$12.3)	(\$13.1)	(\$13.7)	(\$53.3)	(\$8.0)	(\$11.0)	(\$15.0)	(\$10.0)	(\$44.0)	(\$8.2)	(\$3.1)	(\$3.0)	(\$0.0)
%Revenues	-186.9%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Income Taxes	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Tax Rate	0.0%	0.0%	0.0%	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 - Operations	(\$36.8)	(\$14.2)	(\$12.3)	(\$13.1)	(\$13.7)	(\$53.3)	(\$8.0)	(\$11.0)	(\$15.0)	(\$10.0)	(\$44.0)	(\$8.2)	(\$3.1)	(\$3.0)	(\$0.0)
Non-Recurring Gains/ Losses	\$0.0	0.0	0.0	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 - Reported	(\$36.8)	(\$14.2)	(\$12.3)	(\$13.1)	(\$13.7)	(\$53.3)	(\$8.0)	(\$11.0)	(\$15.0)	(\$10.0)	(\$44.0)	(\$8.2)	(\$3.1)	(\$3.0)	(\$0.0)
Interest Add-Back	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
EPS (GAAP) - Fully Diluted	(\$2.62)	(\$0.77)	(\$0.67)	(\$0.71)	(\$0.74)	(\$2.90)	(\$0.38)	(\$0.52)	(\$0.71)	(\$0.48)	(\$2.10)	(\$0.37)	(\$0.14)	(\$0.13)	(\$0.00)
%Change	+161%	+46%	-292%	-94%	+175%	+11%	-51%	-21%	+0%	-36%	-28%	-3%	-74%	-81%	-100%
Non-Recurring Gains/ Losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EPS - Reported	(\$2.62)	(\$0.77)	(\$0.67)	(\$0.71)	(\$0.74)	(\$2.90)	(\$0.38)	(\$0.52)	(\$0.71)	(\$0.48)	(\$2.10)	(\$0.37)	(\$0.14)	(\$0.13)	(\$0.00)
Shares Outstanding (Fully Diluted)	14.1	18.3	18.4	18.4	18.4	18.39	21.0	21.0	21.0	21.0	21.00	22.0	22.0	22.0	22.00

Source: Cowen and Company



Valuation Methodology & Investment Risks

Valuation Methodology

Pharmaceuticals/Specialty

For our valuation methodology, we arrive at fair value utilizing a discounted cash flow (DCF) approach to derive our 12-month price target.

Investment Risks

Pharmaceuticals/Specialty

Risks include: (1) growing competitive dynamics in the specialty pharmaceuticals space; (2) the ability of management to execute on external growth by successfully acquiring new strategic, accretive products; (3) the ability to grow organically and keep the product pipeline robust; (4) potential regulatory delays, rejections, or failures of pipeline products; (5) economic sensitivity of any self-pay products or weakening consumer demand; (6) domestic or international pricing pressures for marketed products; and (7) failure to execute on new product launches.

Company Specific Risks

Kythera may fail to achieve regulatory approval or successfully commercialize ATX101, once approved.



Addendum

STOCKS MENTIONED IN IMPORTANT DISCLOSURES

Ticker	Company Name
KYTH	Kythera Biopharmaceuticals Inc

Analyst Certification

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COWEN AND COMPANY RATING DEFINITIONS

**Cowen and Company Rating System effective May 25, 2013**

Outperform (1): The stock is expected to achieve a total positive return of at least 15% over the next 12 months

Market Perform (2): The stock is expected to have a total return that falls between the parameters of an Outperform and Underperform over the next 12 months

Underperform (3): Stock is expected to achieve a total negative return of at least 10% over the next 12 months

Assumption: The expected total return calculation includes anticipated dividend yield

Cowen and Company Rating System until May 25, 2013

Outperform (1): Stock expected to outperform the S&P 500

Neutral (2): Stock expected to perform in line with the S&P 500

Underperform (3): Stock expected to underperform the S&P 500

Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period

Cowen Securities, formerly known as Dahlman Rose & Company, Rating System until May 25, 2013

Buy – The fundamentals/valuations of the subject company are improving and the investment return is expected to be 5 to 15 percentage points higher than the general market return

Sell – The fundamentals/valuations of the subject company are deteriorating and the investment return is expected to be 5 to 15 percentage points lower than the general market return

Hold – The fundamentals/valuations of the subject company are neither improving nor deteriorating and the investment return is expected to be in line with the general market return

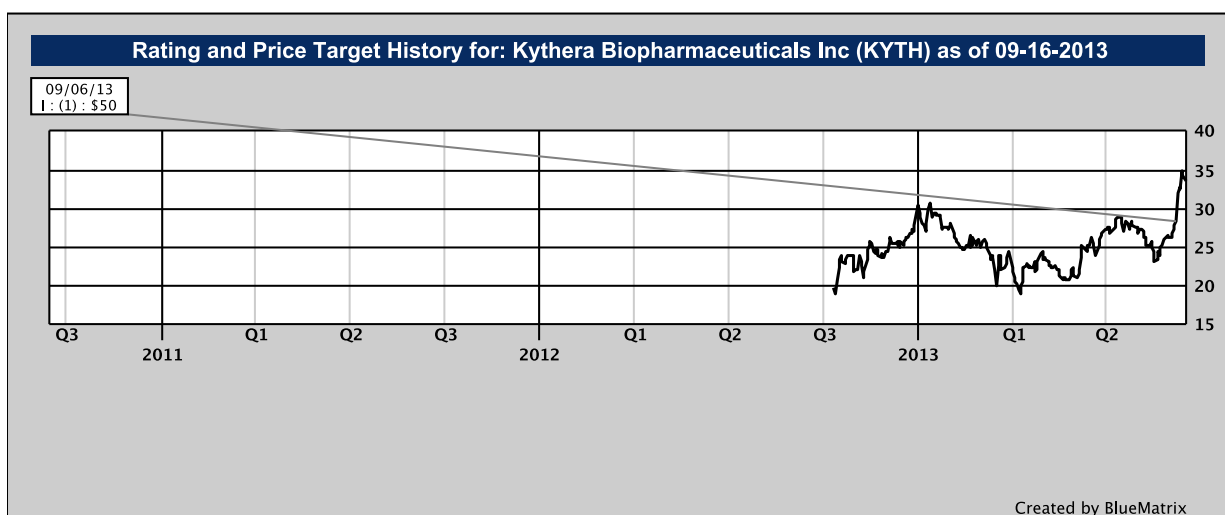
COWEN AND COMPANY RATING ALLOCATION

Distribution of Ratings/Investment Banking Services (IB) as of 06/30/13

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	380	58.37%	48	12.63%
Hold (b)	247	37.94%	2	0.81%
Sell (c)	24	3.68%	1	4.17%

(a) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's rating definitions. (b) Corresponds to "Market Perform" as defined in Cowen and Company, LLC's ratings definitions. (c) Corresponds to "Underperform" as defined in Cowen and Company, LLC's ratings definitions.

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Legend for Price Chart:



I = Initiation | 1 = Outperform | 2 = Market Perform | 3 = Underperform | T = Terminated Coverage | \$xx = Price Target | NA = Not Available