Initiation
Overweight

KYTH, KYTH US
Price: $22.11

Price Target: $30.00

Kythera Biopharmaceuticals

Initiating with an Overweight Rating and $30 Price Target

We are initiating coverage of Kythera Biopharmaceuticals with an OW rating and a $30 price target. 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.

- **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. 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.

- **Based on European trials, we see a high likelihood of successful US phase 3 studies.** ATX-101 has shown very consistent efficacy across all of its clinical studies thus far, including a recently-concluded European phase 3 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 3 program, ATX-101 showed a significant improvement in the reduction of submental fat. Phase 3 data for ATX-101 is expected in mid-2013 and we believe Kythera has a high likelihood (75%) of success in these studies.

- **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.

- **December 2013 risk-adjusted price target of $30 is based on DCF analysis.**

Specialty Pharmaceuticals

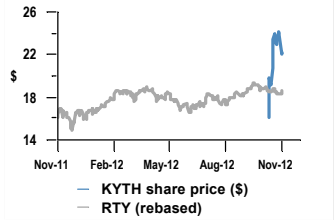
Chris Schott, CFA AC
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

Dewey Steadman, CFA
(1-212) 622-5350
dewey.steadman@jpmorgan.com

Jessica Fye
(1-212) 622-4165
jessica.m.fye@jpmorgan.com

J.P. Morgan Securities LLC

Price Performance



	YTD	1m	3m	12m
Abs	40.6%	40.6%	40.6%	40.6%
Rel	27.8%	43.3%	35.7%	19.3%

Kythera Biopharmaceuticals, Inc. (KYTH;KYTH US)

FYE Dec	2011A	2012E	2013E	2014E	2015E
EPS Adjusted ($)					
Q1 (Mar)	-	(4.91)A	(0.83)	-	-
Q2 (Jun)	-	3.21A	(0.73)	-	-
Q3 (Sep)	-	(8.91)	(0.63)	-	-
Q4 (Dec)	-	(0.72)	(0.58)	-	-
FY	(7.98)	(4.98)	(2.76)	(0.16)	(1.00)

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

Company Data	
Price ($)	22.11
Date Of Price	02-Nov-12
52-week Range ($)	25.30 - 16.00
Mkt Cap ($ mn)	433.36
Fiscal Year End	Dec
Shares O/S (mn)	20
Price Target ($)	30.00
Price Target End Date	31 Dec 13

See page 49 for analyst certification and important disclosures.

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

Table of Contents

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

Investment Thesis

Kythera Biopharmaceuticals (KYTH)

Overweight

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…

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 a meaningful opportunity outside of the US

With Bayer (Neutral rated by J. P. Morgan's European Healthcare equity analyst Richard Vosser) 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.

Based on European trials, we see a high likelihood of successful US phase 3 studies

ATX-101 has shown very 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.

Solid safety, efficacy and satisfaction profile supports eventual approval

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.

Upcoming catalysts include US phase 3 data, regulatory filings

With US phase 3 trials well underway, Kythera expects to report top-line data in mid 2013, potentially setting up an NDA submission in the US in 2014. Additionally, with positive phase 3 data in hand, we expect Bayer may submit an MAA to European regulatory authorities in 2013.

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 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.

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.

Risks to Rating and Price Target

Clinical risk from subjective endpoints in US phase 3 trials

Late-stage clinical trials like those required to secure ATX-101 approval in the US are difficult to predict, especially with a subjective patient/physician scale as a primary endpoint. While phase 2 studies in the US and phase 3 results in Europe showed positive results, a disappointing US phase 3 outcome presents a risk to our Overweight rating.

Regulatory risk from FDA and EMA review

Even with positive phase 3 results in the US, Kythera is still subject to significant risk for both the company's initial indication for submental fat, but also for any

future indications the company may seek in the future to expand the potential market for ATX-101. While safety issues have not been apparent during development, any safety issues that present on wider use of ATX-101 could present a significant regulatory risk to the company.

Commercial risk from an independent launch

Kythera currently plans to launch ATX-101 in the US market independently, which will require a sales and marketing infrastructure to manage a successful national launch. In addition, our growth assumptions for ATX-101 take into account off-label use of the product for the treatment of other fatty areas of the body which Kythera will not be able to promote or train physicians. Without adequate promotion and training from Kythera, the ultimate trajectory of off-label use is uncertain.

Partnership risk with Bayer

Kythera is currently partnered with Bayer in all worldwide territories excluding the US and Canada. As such, Kythera is reliant on Bayer for the successful promotion and sale of ATX-101 in these territories. In addition, the company is reliant on a limited number of suppliers for the ATX-101 active ingredient, formulation of the product and final fill and finish of product syringes.

Financing risk on development delays

We believe the company's recent initial public offering coupled with milestones received from Bayer for European approval and commercialization could sustain the company's operations. However, a delay of US or European approval could drain cash resources and result in the need for the company to seek financing before Kythera secures ATX-101 approval. *J.P. Morgan advised Kythera Biopharmaceuticals on the company's initial public offering.*

Legal risk surrounding intellectual property

While ATX-101 is protected by a number of US and international patents and a number of additional patent applications are pending, branded or generic pharmaceutical companies may seek to gain approval for generic versions of ATX-101 before the expiration of these patents.

Company Description

Kythera Biopharmaceuticals is a clinical-stage pharmaceutical company focused on the development and commercialization of products for the aesthetic market. The company's lead product is ATX-101 which is in phase 3 development for the reduction of submental fat, commonly known as "double chin." Kythera has partnered with Bayer for development and commercialization outside the US and Canada.

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

ATX-101 Addresses a Significant Unmet Need in Aesthetics

ATX-101 represents a natural extension of the facial aesthetics market

With a similar presentation to toxins and fillers, we believe ATX-101 represents a natural extension of the non-invasive facial cosmetic practice and could see rapid uptake both by physicians and patients.

As highlighted in the figure below, toxins like Botox and Dysport are commonly used to treat muscle-induced wrinkles in the forehead, glabella (the space between the eyebrows above the nose) and crow's feet on the outside of the eyes. Fillers like Restylane/Perlane and Juvederm are used to volumize the skin in the lower face to treat fine lines and wrinkles in the nasolabial region and to enhance cheeks and lips. No approved injectable regimen is available, however, to correct submental fat, which cannot be addressed by toxins or fillers.

Figure 1: Map of Injectable Facial Aesthetics Product Use

Source: Kythera. Image used with permission.

What is submental fat?

Submental fat is an accumulation of fat under the chin that may be aesthetically unappealing due to the image of a "double chin" when viewed from the front or a lack of chin/jaw definition when viewed from the side. There are currently no approved pharmacological options for the treatment of submental fat, and patients currently seeking therapy only have choices of invasive chin liposuction, surgical neck lifts or unapproved pharmacological products.

ATX-101 utilizes sodium deoxycholate, an endogenous compound

ATX-101 is a proprietary formulation of sodium deoxycholate, a secondary bile acid used by the body to emulsify fats to facilitate intestinal absorption. Outside of the body, deoxycholate is used in research applications to lyse cells and isolate proteins for additional study.

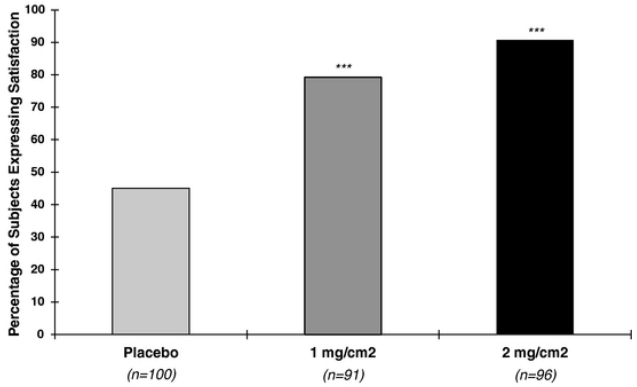
When introduced to an adipocyte (fat cell) sodium deoxycholate will lyse the cell, starting an inflammatory response in the body. This response will attract macrophages to carry away the cell contents (including the fat) and fibroblasts which begin the production of collagen, effectively rejuvenating the affected area.

Procedure is quick and easy to perform

A typical treatment regiment for submental fat consists of a series of small volume injections under the chin and takes about 15 minutes for a well-trained provider to administer. A series of injections – up to 50 – are performed under the chin in a grid-like pattern. This process is repeated every four weeks for up to 4-6 courses of therapy.

In our conversations with physicians familiar with the procedure, doctors and other office professionals should ramp up quickly to the nuances of the procedure and should be able to tailor administrations to specific patients for optimal results. Further, patients appear to be very satisfied with their appearance following treatment with ATX-101, something that bodes well for both physician willingness to adopt the therapy and ultimately the success of the product.

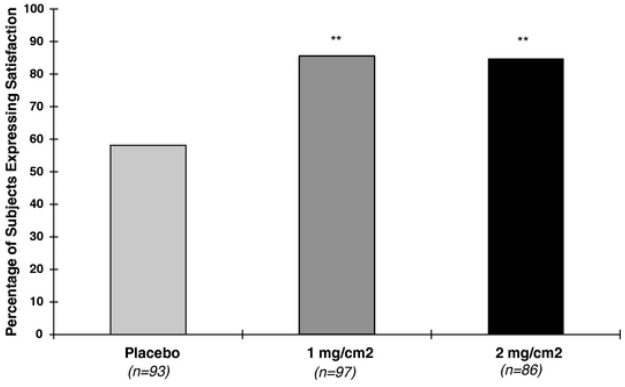
Figure 2: European Phase 3 Study 16 Percent of Patients Expressing Satisfaction at Week 24



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

Source: Kythera. Used with permission.

Figure 3: European Phase 3 Study 17 Percent of Patients Expressing Satisfaction at Week 24



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

Source: Kythera. Used with permission.

Effects are very durable

After 4-6 treatments, the cosmetic results of ATX-101 have been shown to be very durable. Anecdotal evidence has shown that the first patients given ATX-101 have not needed retreatment after several years, and a two-year follow-up of phase 2a patients indicated that more than 90% of patients maintained at least the same level of aesthetic correction achieved during the phase 2a study period.

Adverse events appear manageable

According to one physician we consulted, the procedure feels like a series of bee stings, but is no different than pain experienced from other injectable procedures.

Pain can be minimized either through the application of ice to the treatment area before the procedure or the use of a lidocaine cream to numb the treatment area. Due to the inflammation cascade caused by the sodium deoxycholate, patients generally experience some redness and inflammation following the procedure, but this resolves itself in a few days and results in no patient downtime.

Transient facial nerve or muscle impairment was also observed in rare instances and were reported in less than 0.2% of procedures. This generally manifested as an asymmetric smile and resolved during the study period. We believe nerve impairment may be caused by injection of ATX-101 beyond the layer of submental fat and is generally limited to injection error.

There are no FDA approved non-invasive options for chin fat reduction

The only current FDA sanctioned option for patients wishing to remove submental fat is chin liposuction, which is very similar to liposuction procedures performed on other areas of the body. The procedure can be accomplished with one incision and patient downtime ranges from one week to three weeks post-procedure. The average cost for these procedures is around $3,500, according to industry sources.

Lipodissolve is a non-approved regimen with a similar mechanism to ATX-101 but with less oversight and potentially deforming side effects

Lipodissolve is a regimen of deoxycholate (DC) and phosphatidylcholine (PC) used much in the same way as ATX-101 to treat fatty deposits in various areas in the body. However, lipodissolve procedures are generally formulated by compounding pharmacies under physician orders or imported into the US in violation of the Food Drug and Cosmetics act. Since compounded or imported lipodissolve products are not approved by the FDA, proper training in the administration of lipodissolve regimens is sparse at best, which has led to reports of serious adverse events including permanent scarring and deformation, according to the agency.

We believe ATX-101, on the other hand, will present several advantages over lipodissolve regimens once approved by FDA. In addition to providing a consistent formulation of deoxycholate for administration, FDA approval will allow Kythera to adequately promote the product and train physicians in the proper administration of therapy.

Phosphatidylcholine solutions have been used in the past for lipolysis, but not without controversy

Solutions containing phosphatidylcholine have been used worldwide for fat lipolysis, with varying degrees of success and almost always under a cloud of regulatory controversy. Typical PC/DC preparations contain a much higher concentration than the DC concentration in ATX-101. Beyond the FDA warning for PC/DC solutions above, Brazilian health authorities banned PC injections in 2003 given the widespread unregulated use of the product. Additionally, in 2005 British health authorities refused to provide malpractice insurance to cover physicians' use of the product in cosmetic procedures and the MHRA mandated specific warnings on PC products against cosmetic use.

Aqualyx. Aqualyx is a PC-containing solution used in several European countries for fat lipolysis. Beyond typical small areas of fat, Aqualyx has been used in larger areas such as abdominal or flank fat and is contraindicated for use in submental fat. In contrast to the ATX-101 treatment regimen, which uses a very small needle and several injections in a grid pattern, typical Aqualyx administration consists of a large needle, a single injection site and a very large volume of product. Despite being an injectable drug, Aqualyx was approved through the European device pathway.

Focused ultrasound can be used for localized fat reduction in larger areas but may present issues when used for submental fat

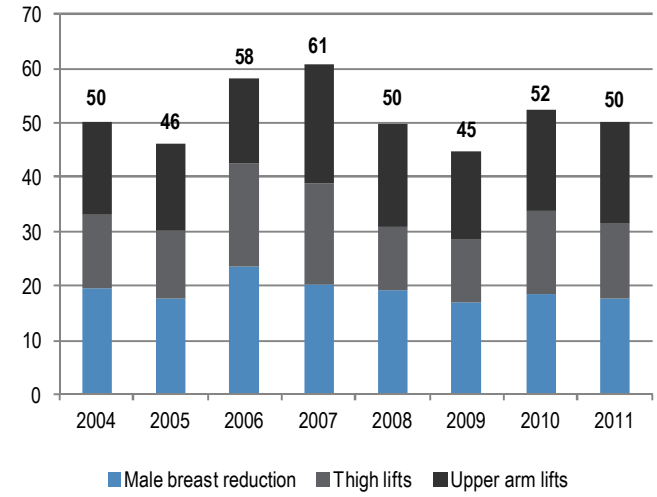
Physicians have several non-surgical options for fat ablation, including technologies like Solta's Liposonix and Zeltiq's CoolSculpting but these technologies are not cleared for the reduction of submental fat. The use of Liposonix, which uses high intensity ultrasound to ablate fat cells, is discouraged in areas close to bony structures like the chin. While the CoolSculpting technology, which cools and kills fat cells, could be used close to bony structures, the current transducer technology Zeltiq uses is more suited for flank and abdominal use and would require reengineering to be used for submental fat reduction. Additionally, given the cost of the Liposonix and CoolSculpting equipment and the office time commitment for the procedure, we expect both technologies to be reserved for larger fat areas and ATX-101 to be used for smaller areas of fat reduction.

Significant potential for other localized areas of fat around the body

Given the ease of administration, we expect ATX-101 could see substantial use in other areas of localized areas of fat such as pre-axillary fat (under-arm fat), areas of fat in the arm, back, knees, in male breast reduction, and in conjunction with liposuction to create a more natural looking outcome. We do not believe ATX-101 will be a viable alternative in larger fat areas such as love handles and abdominal fat because of the size of the areas and the amount of fat localized in those areas.

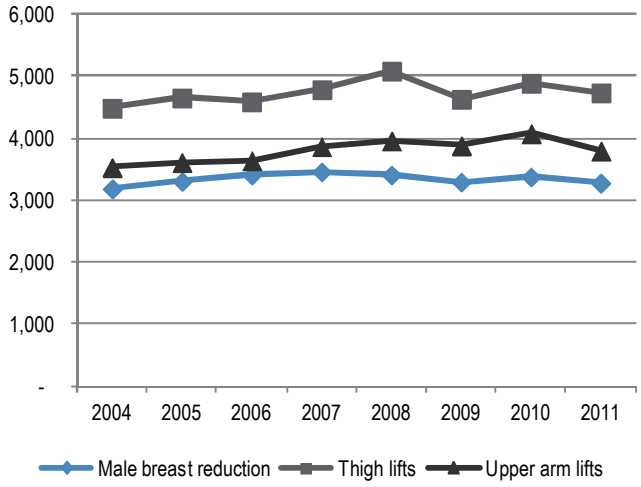
While ATX-101 focuses on fat reduction, there are several types of surgical procedures that could be considered analogous to the off-label potential of ATX-101. According to ASAPS, close to 18,000 male breast reduction procedures, 14,000 thigh lifts and 19,000 upper arm lifts were performed in 2011, with average costs of close to $3,300, $4,700 and $3,800 respectively. Many of these surgical procedures focus on both skin and fat reduction, but we believe that with proper patient selection, many could opt for ATX-101 treatment instead of invasive surgery and more patients turned off by surgery could be potential candidates for ATX-101 therapy.

Figure 4: Selected Surgical Procedure Volumes
thousands



Source: ASAPS.

Figure 5: Average Cost of Selected Surgical Procedures



Source: ASAPS.

Clinical Data Demonstrates Effectiveness and Safety

Kythera and Bayer have shown success with ATX-101 in 12 clinical trials covering over 1,100 patients in submental fat reduction including phase 2b studies in the US and phase 3 studies in the EU. Kythera is currently conducting phase 3 trials in the US, which we expect to conclude in 2013.

Figure 6: 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
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

Subjective scales are commonly used to evaluate aesthetic performance

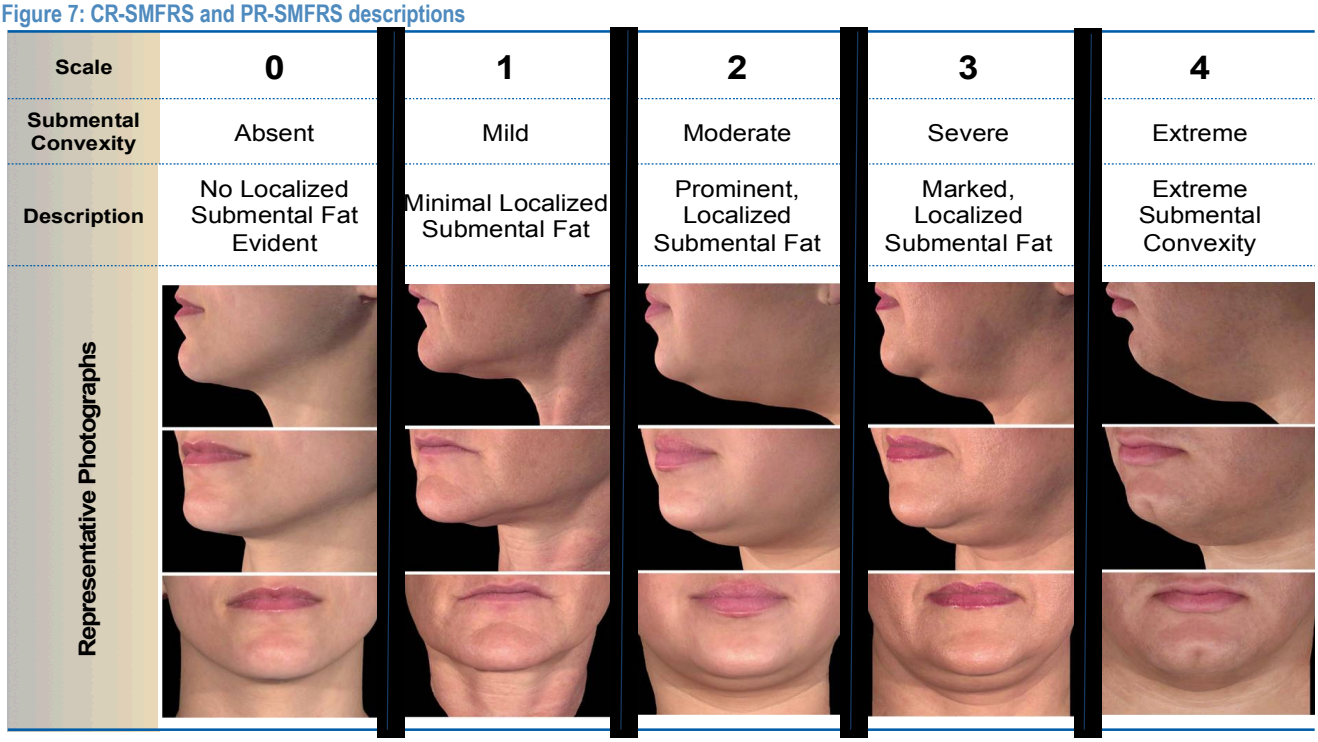
To aid the development of ATX-101, Kythera developed several assessment scales to evaluate the performance of the product. These measures take into account both patient and physician assessments. Given the subjective nature of aesthetic treatments, scales like those Kythera developed are often used to evaluate the performance of aesthetic therapies when reviewed by FDA's Center for Drug

Evaluation and Research (CDER, for drug-based products) and Center for Devices and Radiological Health (CDRH, for devices and fillers).

The following subjective measures were developed by Kythera for use in the ATX-101 clinical development program. We would note that the percent of patients seeing a 1-point change in CR-SMFRS/PR-SMFRS as well as a 2-point change in CR-SMFRS/PR-SMFRS will be the co-primary endpoints of the ATX-101 US phase III program.

- **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.

Figure 7: CR-SMFRS and PR-SMFRS descriptions



Source: Kythera. Used with permission.

- **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.

  How happy are you with the appearance with your chin fat?

  How bothered are you by the appearance of your chin fat?

  How self-conscious are you about the appearance of your chin fat?

  How embarrassed are you about the appearance of your chin fat?

  How much older do you look because of your chin fat?

- **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).

Objective measures were also used to confirm submental fat volume reduction

Kythera also employed two objective measures to attempt to quantify the amount of submental volume lost post-treatment:

- **MRI measurements:** an objective measure of submental volume within a 1cm sagittal slice through MRI.
- **Caliper measurements:** an alternate objective measure of submental thickness.

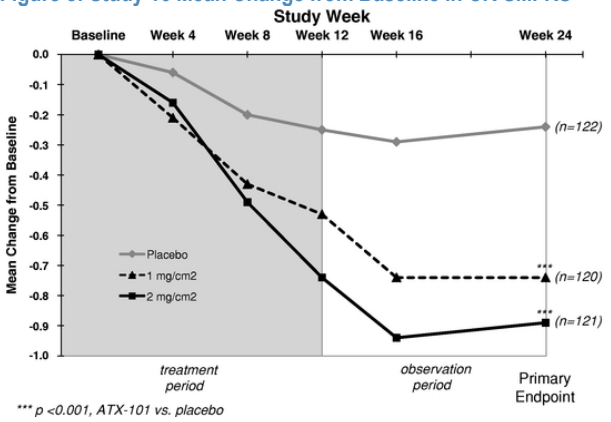
European phase 3 trials showed significant reduction in submental fat

From 2010 to 2012, Bayer conducted two identical phase 3 trials (named ATX-101-10-16 and ATX-101-10-17) in 723 patients over 57 centers in the UK, France, Germany, Belgium, Spain and Italy. The studies assessed the efficacy, safety and tolerability of ATX-101 at doses of 1mg/cm^2 and 2mg/cm^2 compared to placebo. Patients received up to four treatments at 28-day intervals.

The primary endpoints of the studies were the percentage of patients reporting a one point change in the CR-SMFRS compared to placebo and the proportion of patients with a level of satisfaction on the SSRS scale equal to or greater than four on a seven point scale.

Both studies met the pre-specified primary and secondary endpoints for both evaluated doses. The objective caliper measurement showed a significant change from placebo for both doses in Study 16. However, in Study 17, caliper measures resulted in a p-value of 0.046 in the high dose and a non-significant difference from placebo in the low dose.

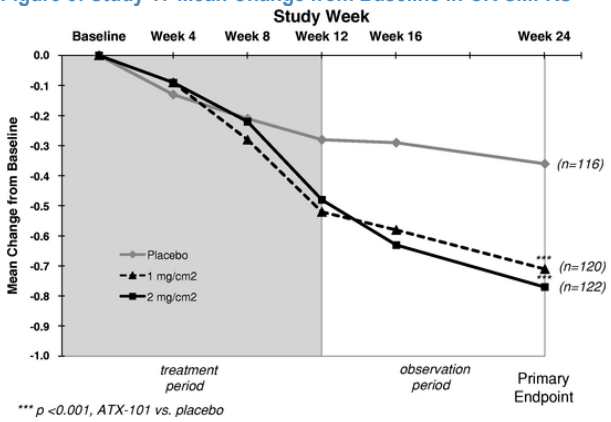
Figure 8: Study 16 Mean Change from Baseline in CR-SMFRS



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

Source: Kythera. Used with permission.

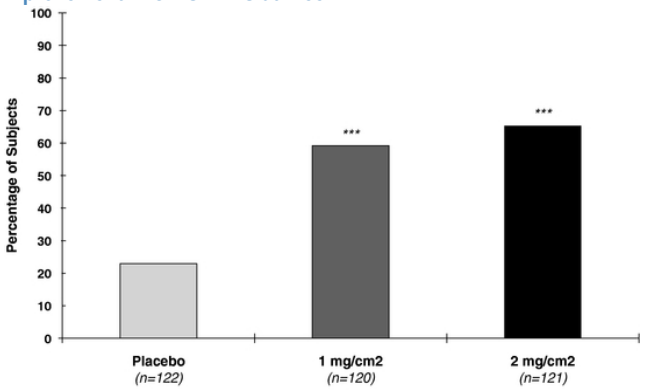
Figure 9: Study 17 Mean Change from Baseline in CR-SMFRS



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

Source: Kythera. Used with permission.

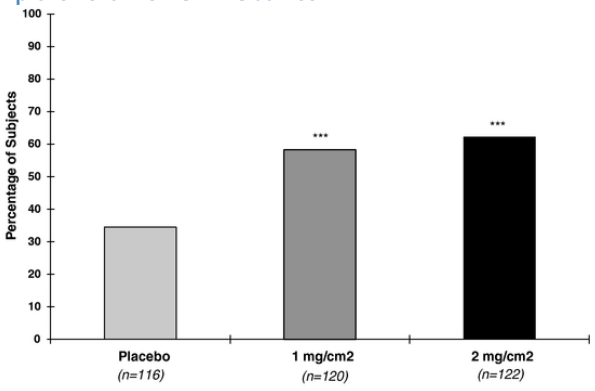
Figure 10: Study 16 Percent of Patients with At Least 1 Grade Improvement in CR-SMFRS at Week 24



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

Source: Kythera. Used with permission.

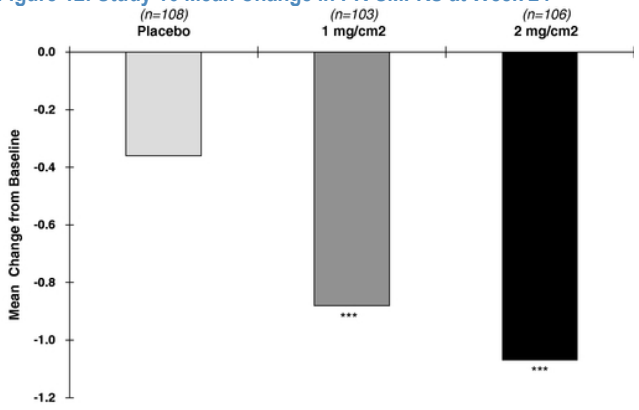
Figure 11: Study 17 Percent of Patients with At Least 1 Grade Improvement in CR-SMFRS at Week 24



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

Source: Kythera. Used with permission.

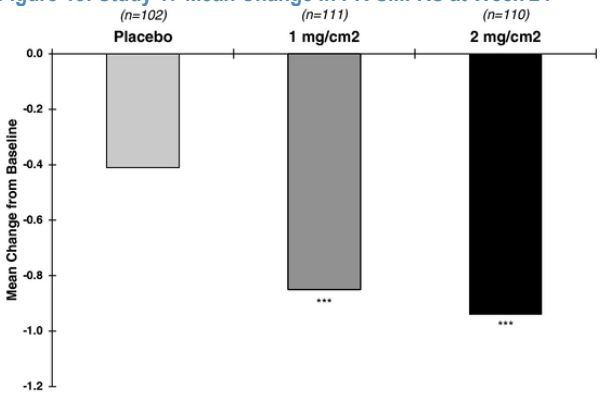
Figure 12: Study 16 Mean Change in PR-SMFRS at Week 24



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

Source: Kythera. Used with permission.

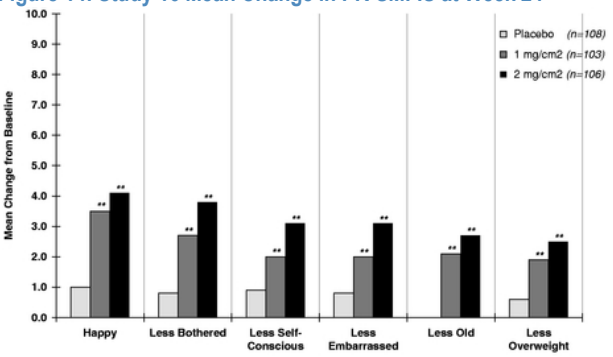
Figure 13: Study 17 Mean Change in PR-SMFRS at Week 24



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

Source: Kythera. Used with permission.

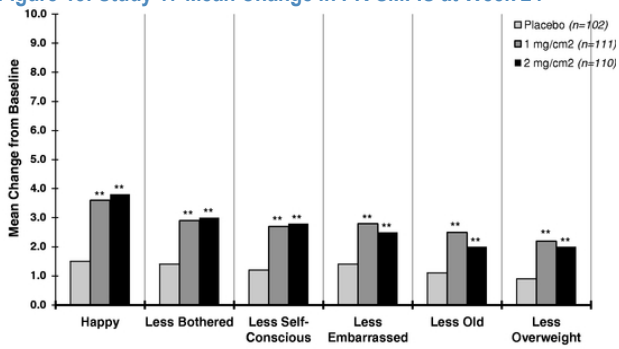
Figure 14: Study 16 Mean Change in PR-SMFIS at Week 24



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

Source: Kythera. Used with permission.

Figure 15: Study 17 Mean Change in PR-SMFIS at Week 24



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

Source: Kythera. Used with permission.

Figure 16: 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

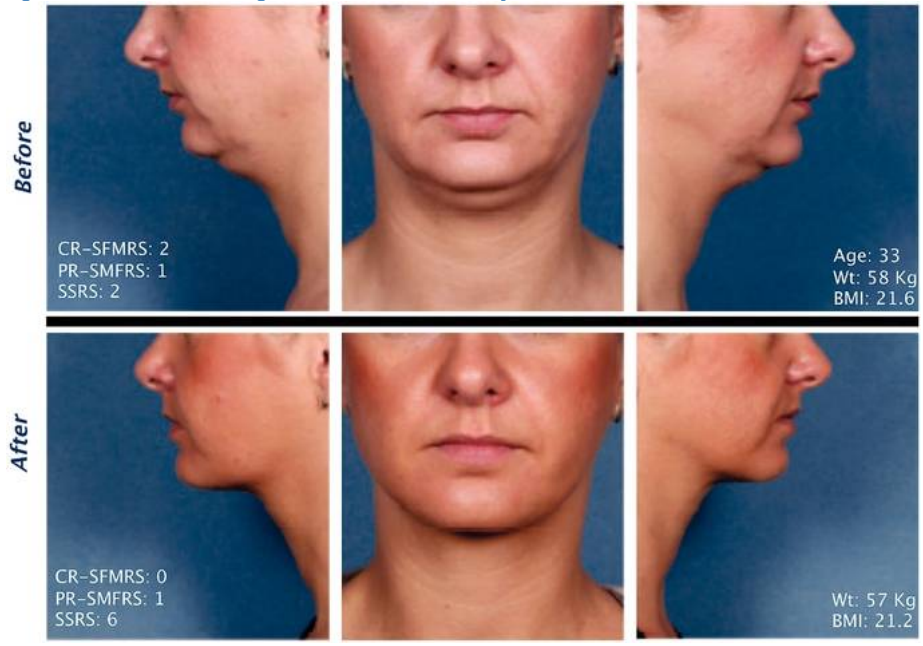
Source: Company reports.

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

The observed safety profile of ATX-101 was similar between both European studies and similar to previous observations. Adverse events were generally mild to moderate and limited to transient, local injection site reactions. Transient facial nerve

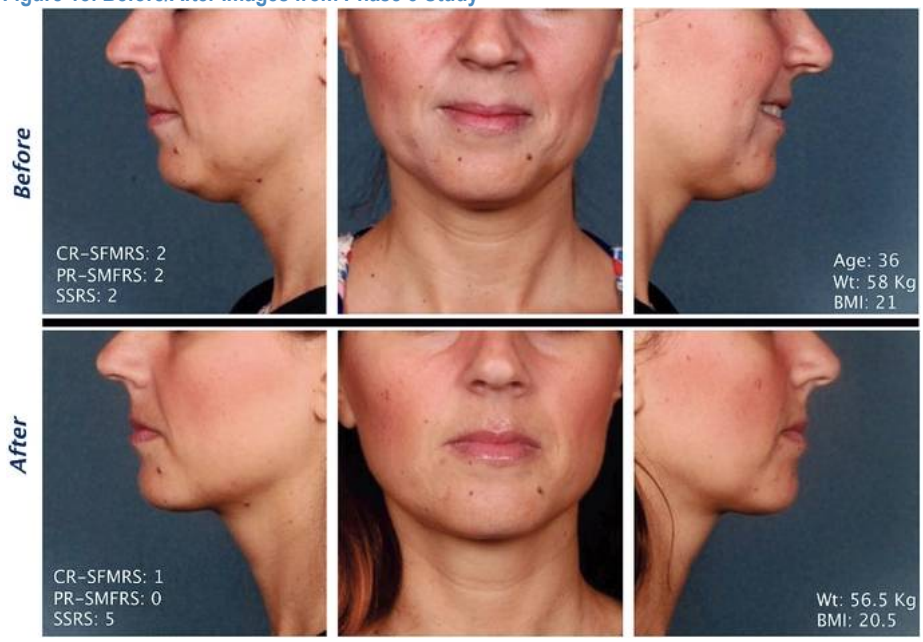
or muscle impairment was observed in rare instances and were reported in less than 0.2% of procedures. This generally manifested as an asymmetric smile and resolved during the study period. We believe nerve impairment may be caused by injection of ATX-101 beyond the layer of submental fat and is generally limited to injection error.

Figure 17: Before/After Images from EU Phase 3 Study



Source: Kythera. Used with permission.

Figure 18: Before/After Images from Phase 3 Study



Source: Kythera. Used with permission.

US phase 3 program now underway with data expected in mid-2013

In March 2012, Kythera initiated a final phase 3 program in the US and Canada to support applications in the two countries. The program consists of two identical trials covering over 1,000 patients in approximately 70 centers. The trials completed enrollment in August 2012. The co-primary endpoints will be measured as a percent of patients reporting a one-grade change in the CR-SMFRS/PR-SMFRS composite score compared to placebo and the percent of patients reporting a two-grade change in the CR-SMFRS/PR-SMFRS composite score compared to placebo. A secondary endpoint will be the improvement in the PR-SMFIS compared to placebo. A final objective endpoint will measure the reduction in volume of submental fat using MRI in approximately 400 of the 1,000 patients in the study. Kythera expects to report top line results from this study in mid 2013.

Subtle differences in US and EU pivotal phase 3 studies

While the administration of ATX-101 is similar between the US and EU phase 3 studies, the European studies limited patients to four treatments while the US studies allow for up to six treatments. Additionally, while both trials utilize the same CR-SMFRS scale as a co-primary endpoint, the European studies evaluate the proportion of patents assessed to have a greater than one point change in the scale while the US studies seek a composite score of clinician-reported and patient-reported (PR-SMFRS) results both for a one-point and two-point change from baseline. The patient-subjective endpoint in the European study is the proportion of patients with a greater than four score on the SSRS while the SSRS scale is not used in the US phase 3 program. Finally, the objective measurement is different between the two studies as European studies utilized caliper measurements to assess fat volume reduction while US studies will evaluate fat volume reduction through MRI measurements.

Figure 19: 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
	Patient	Submental Fat	PR-SMFRS	5	and Composite CR-SMFRS ≥ 2 pt. change PR-SMFRS ≥ 2 pt. change

Source: Company reports.

European studies show significance when recast to US endpoints, despite a lower number of potential treatments

While the design of the two phase 3 programs are different, Kythera recast the EU phase 3 data to correspond to US endpoints in a *post hoc* analysis of the high dose and placebo groups of the European program. The *post hoc* results showed

significance compared to placebo both for a one-grade and two-grade improvement in the CR-SMFRS and PR-SMFRS scales, with 49% of treated patients showing a one-grade improvement and 7.5% of patients showing a two-grade improvement from baseline. We note that the European phase 3 trials were only four treatments in duration while the US studies allow for up to six treatments, which could suggest even further separation of ATX-101 from placebo in the US studies.

Figure 20: *Post-Hoc* Analysis of EU Phase 3 Data Using US Phase 3 Endpoints

US Endpoint	ATX-101 2mg/cm^2 (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.

Other planned studies include heavier patients and older patients

Kythera is currently planning two additional studies to evaluate ATX-101 in patients with a BMI over 40 and patients over age 65. While study design is ongoing, Kythera expects both studies to be substantially smaller than the company's phase 3 studies and will be focused on patients in the US and Canada. While older and heavier patients typically are not the target market for a product like ATX-101, Kythera is seeking to build its safety database and the company anticipates FDA will seek data for these patient populations due to the potential for off-label use in these groups. We expect Kythera will include data from the extreme SMF and over-65 studies in its NDA filing.

Phase 2b studies seek to test phase 3 design

Following the ATX-101 phase 2a program, Kythera met with FDA and subsequently developed the PR-SMFRS and PR-SMFIS measures and incorporated MRI assessments in the phase 2b program. The single 10-center phase 2b trial consisted of 129 patients and compared ATX-101 at 1mg/cm^2 and 2mg/cm^2 to placebo and patients were allowed to receive up to six treatments at 28-day intervals.

The primary outcome measures of the study were CR-SMFRS, PR-SMFRS and PR-SMFIS as well as thickness and volume of submental fat as evaluated by MRI. Other subjective outcome measures included patient perception of the attractiveness of their chin/neck, any perceived change in their submental fat, a perceived change in definition between their chin and neck, satisfaction with study treatment and satisfaction with appearance.

Out of the 129 patients initially enrolled in the study, 103 (80%) completed treatment, while 11 discontinued due to insufficient submental fat, four discontinued to adverse events (two of which were considered treatment related) and eleven discontinued for other reasons.

- **CR-SMFRS:** ATX-101 showed a statistically significant improvement from placebo at 2mg/cm^2 at 4 weeks, 12 weeks, 16 weeks, 20 weeks, 4 weeks post-treatment and 12 weeks post treatment. P-values were less than 0.05 at week 4 and week 12 onward.
- **PR-SMFRS:** ATX-101 showed a statistically significant improvement from placebo at 2mg/cm^2 at week 16 and 12 weeks following the last treatment.

- **PR-SMFIS:** The 2mg/cm^2 dose of ATX-101 showed a statistically significant improvement from placebo in all individual elements of the PR-SMFIS assessment along with an overall PR-SMFIS score.
- **Other objective measures:** The 2mg/cm^2 dose of ATX-101 showed statistically significant improvement in several subject ratings including: improvement of definition between chin and neck (83%); satisfaction with treatment (86%); and satisfaction with appearance (81%);
- **MRI evaluation:** At twelve weeks following the last treatment, the 2mg/cm^2 dose of ATX-101 showed significant reductions in both submental fat thickness and volume compared to placebo.
- **Adverse events:** the vast majority of treatment-related adverse events were mild and none were considered serious. All events occurring in more than two subjects were confined to the treatment area and only two treatment related adverse events resulted in discontinuation: a moderate movement impairment in the injection site (possibly due to clinician error) and a patient with mild injection site pain, swelling, burning and induration (hardening).

Phase 2a studies designed to determine optimal concentration

Two phase 2a studies were conduced in 2007-2008 covering 155 patients. The first study evaluated various concentrations of ATX-101 while holding injection spacing and volume constant. The second study evaluated different volumes of ATX-101 and spacing between injection sites while keeping concentration constant. Patients underwent four courses of therapy separated approximately four weeks apart.

The primary outcome measures of the studies were CR-SMFRS, skin laxity as determined by the clinician and subject satisfaction. The framework of the phase 2a trial program served as the basis of the European phase 3 program.

- **CR-SMFRS:** ATX-101 showed a statistically significant improvement from placebo at 1mg/cm^2, 2mg/cm^2 and 4mg/cm^2 as soon as four weeks following the last treatment.
- **Patient satisfaction:** Patient satisfaction scores were significantly greater in all ATX-101 groups compared to placebo at four weeks post treatment.
- **Skin laxity:** No significant differences in mean skin laxity scores were observed across all evaluation time points.
- **Adverse events:** Most adverse events occurred at the injection site and generally were limited to pain, swelling, numbness, bruising and induration. The majority of adverse events were mild or moderate, treatment-associated and resolved before the next treatment session was due. No systemic adverse events were recorded in the trials.
- **Long-term follow up:** A preliminary analysis of phase 2a patients followed for up to two years indicated that more than 90% of patients maintained at least the same level of aesthetic correction achieved during the phase 2a study period. The study will continue to collect patient data for up to five years post-treatment.

Phase 1 program assessed PK, histology, lipids and formulation tolerability

Kythera's phase 1 program, conducted through six studies covering 101 patients characterized the pharmacokinetics of the drug, a histological evaluation of excised fat tissue post-treatment, an assessment of serum lipids post administration and the tolerability of formulations with and without benzyl alcohol.

In a ten patient open label lipid study conducted in 2010-2011, patient blood serum lipid levels were evaluated following administration of ATX-101. The administration of ATX-101 did not result in adverse levels of serum lipids or metabolic and inflammatory markers.

Kythera also evaluated the use of benzyl alcohol as a preservative for the ATX-101 formulation. The comfort and tolerability of the two formulations were compared in a 24-patient single dose study. Kythera plans to use benzyl alcohol in the formulation sold in the US market while Bayer has shown preference for a formulation without benzyl alcohol.

Kythera is currently conducting a phase 1 QT study in 220 patients to fulfill FDA requirements before filing.

ATX-101 Represents a Significant Commercial Opportunity

Three key categories of potential patients

When modeling the potential for ATX-101 in the US market, we consider three key categories of patients: experienced patients, naïve patients and off-label usage. Experienced users of injectable aesthetic therapies such as botox and fillers are likely to be early adopters of ATX-101 therapy. Alternatively, women naïve to injectables will require broader marketing and men naïve to therapy will require specialized marketing programs. Finally, off-label therapy represents a broad potential for treatment of localized fat in other areas of the body.

Existing injectables users are likely to quickly adopt ATX-101

We estimate that in 2012, 4.4 million toxin procedures and 1.8 million filler procedures will be performed. With an estimated 85% of patients who receive a toxin also receiving a filler, we believe these procedure figures translate to roughly 2 million patients currently receiving aesthetic treatments in the US. Of these patients, we estimate around 50% of these patients would make viable candidates for ATX-101 therapy, resulting in an experienced patient pool of around 1 million patients in the US. We expect rapid uptake in this population with use peaking among these patients roughly 5- 7 years post launch and model an eventual gradual decline among these users as a result of the lack of retreat required for patients.

ATX-101 has the potential to bring women naïve to aesthetics as well as men into the practice

We believe ATX-101 represents a potentially significant opportunity for physicians to expand their aesthetic practices. Currently, the vast majority of patients receiving

toxin or filler treatments are women. However, Kythera estimates that approximately 10 million patients naïve to injectable aesthetic therapy may be potential candidates for ATX-101 therapy. These patients are mainly women in high-income households who may consider injectable aesthetic therapies and have treatable submental fat as well as male consumers with similar demographics who would normally not consider injectable aesthetic therapies like botox and fillers but are interested in the ability of ATX-101 to restore a masculine jaw line through the reduction of submental fat.

Of these 10 million potential patients, we anticipate a slow but consistent uptake into the ATX-101 patient pool as we expect broader marketing will be required to bring naïve women in for treatment and specialized marketing (highlighting the masculine results of a more defined jaw line) will be required to bring men into the office for ATX-101 therapy.

Large off-label potential considering off-label use of other aesthetic injectables

Based on our conversations with physicians involved in the ATX-101 clinical program, we believe that the industry could quickly adopt ATX-101 for use in other areas of localized fat across the body. Additionally, our survey of dermatologists and plastic surgeons found that 88% of respondents see at least some potential for use in other areas of the body. Body areas frequently cited by the respondents included axillary areas, the suprapubic region, arms, inner thighs, knees, back and periorbital fat and for touch-up following larger liposuction procedures.

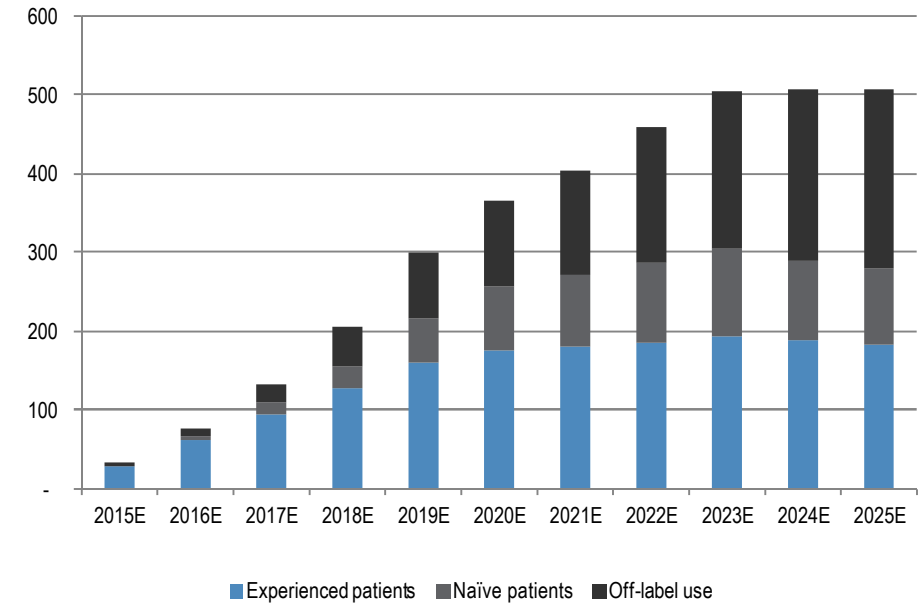
Other aesthetic franchises have significant off-label use

Based on toxin use outside of the approved glabellar lines and the use of fillers outside of traditionally used applications, we believe ATX-101 will see similar off-label use. Even the inability for Kythera to market to and train physicians in ATX-101 use in other areas of the body, we believe off label use will steadily increase over time as physicians become more familiar with ATX-101 and proper use. Our current estimates assume that over time, up to 35% of ATX-101 treatments could be in off-label areas of the body.

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

Figure 21: ATX-101 Estimated US Revenue by Potential Use

$ in millions



Source: J.P. Morgan estimates.

Physician economics similar to other injectable aesthetic procedures

US pricing should be between fillers/toxins and chin liposuction

For the reduction of submental fat, we assume pricing somewhere between the current cost of fillers/toxins on an annual basis and the cost of invasive chin liposuction surgery. We also expect margins to the physician to be around 50%, similar to current margins for toxin and filler treatments.

Conservatively assuming four treatments using 5 mL per treatment and pricing at $50 per mL for ATX-101, we estimate Kythera could see $1,000 in revenue per patient while the patient pays around $2,000 - $3000 on average for the full course of therapy. We note that physician margins may vary widely from region to region but Kythera most likely will maintain consistent product pricing nationwide. We envision modest annual price increases slightly ahead of inflation and accelerating modestly as ATX-101 gains traction in the marketplace.

Figure 22: Average Pricing for Injectable Aesthetic Procedures

	Toxin Procedures	Filler Procedures	ATX-101 JPM estimate
Price per procedure	$400	$600	$2,000
Durability of procedure	3-6 months	4-6 months	>2 years
Annualized cost	**$1,200**	**$1,500**	**<$1,000**

Source: Kythera, J.P. Morgan Estimates.

ATX-101 provides another source of practice traffic and potential profit

With a positioning complementary to existing injectable toxins and fillers, we believe adopting physicians will be able to easily market ATX-101 within their practice to existing patients and could attract new patients to their practice who may elect to utilize other procedures while visiting for ATX-101 therapy.

Commercial challenges for ATX-101 appear manageable

Multiple visits will require some physician education…

When asked if the need for multiple visits/treatments with ATX-101 would affect their desire to perform ATX-101 procedures, 64% of respondents indicated that it would diminish their desire to use the product. Of those 64%, close to 40% cited time and cost to the practice as a key motivating factor while another 28% cited patients' desire for quick results that cannot be achieved through ATX-101 therapy.

…but they appear willing to incorporate ATX-101 into their practices with an appropriate profit margin

Despite the resistance to multiple procedures, when asked if they would be willing to incorporate a product like ATX-101 into their practice, 92% of respondents indicated they would use the product occasionally, frequently or every day. Additionally, physicians who would incorporate ATX-101 into their practice indicated that an average 65% profit margin would make the product financially attractive to their practice.

Duration of treatment could limit available population; upside for touch-ups and re-treatments

While durability studies are still ongoing, we expect ATX-101 to be considered a very durable procedure, with at least two years between treatments, and potentially much longer for the majority of ATX-101 patients. As such, our estimates assume patients exit the available patient pool on completion of the first course of therapy. Over time, patients may return for touch-up treatments or additional full courses of therapy and would present modest upside to our current estimates.

Survey Supports Significant Commercial Opportunity

We recently conducted a survey of 50 dermatologists and plastic surgeons who cumulatively treat over 30,000 cosmetic patients about current trends in the aesthetics marketplace and the potential for ATX-101 if approved. Our survey was split 2/3 in favor of dermatologists because we see the most potential for ATX-101 to gain traction in dermatology practices that currently have no options for reducing submental fat. Based on the survey results coupled with the success of other injectable cosmetic therapies like fillers and toxins, we believe that if approved in the US and Europe, ATX-101 has the potential to be a multi-hundred million dollar product in both markets.

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

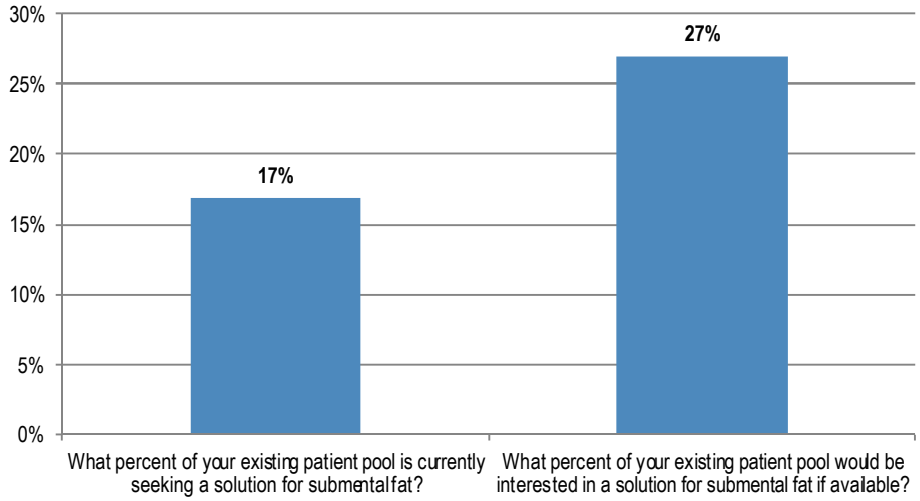
ATX-101 is not well known (yet) but physicians are actively seeking solutions for the neck and submental area and patients appear willing to try new products

While only 20% of our survey respondents were familiar with ATX-101 and its development program, but 32% of respondents are specifically looking new products to address the neck/submental area.

98% of physicians surveyed indicated existing patients are willing to add a new aesthetic therapy to their existing procedures.

In our survey of dermatologists and plastic surgeons, 98% of respondents indicated that there is a willingness on the part of their existing patients to add a new aesthetic procedure to therapies patients are already using. Most respondents also indicated that patients seem always willing to try new things and continually look for less invasive therapies to achieve similar results to surgical methods. Additionally, respondents indicated they believe around 17% of their patients are currently seeking a treatment for submental fat and 26% of their patients would be interested in a solution like ATX-101 if approved.

Figure 23: Patients Seeking/Interested In a Solution to Submental Fat

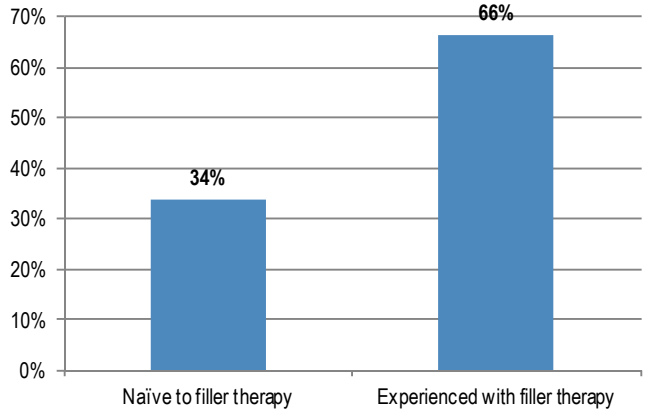


Source: J.P. Morgan Survey.

Most aesthetic patients are experienced with injectable therapies

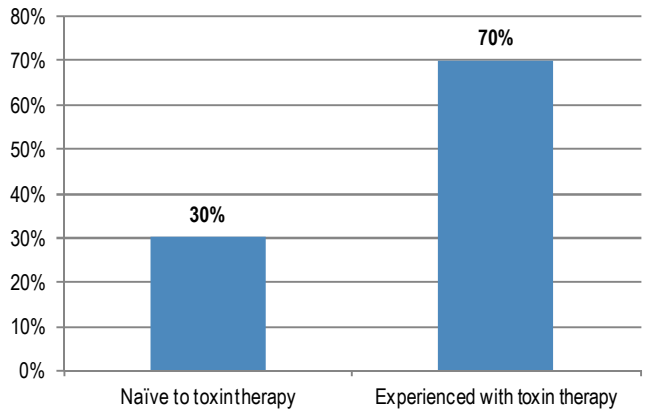
For both toxins and fillers, about 2/3 of the survey respondents' practices are experienced patients while new patients account for about 1/3 of current practices.

Figure 24: What percent of your filler patients are experienced?



Source: J.P. Morgan survey.

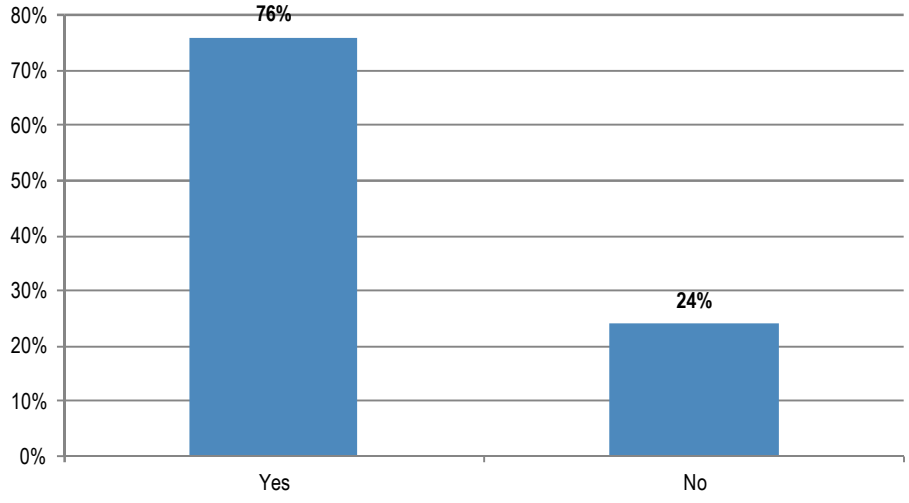
Figure 25: What percent of your toxin patients are experienced?



Source: J.P. Morgan survey.

While we expect initial uptake of ATX-101 to be by patients experienced with injectable aesthetic therapies, physicians in our survey also tend to believe that new patients can be drawn into the practice by ATX-101 as 76% of the respondents indicated they believed ATX-101 would expand their overall aesthetics practice to include new patients not currently seeking aesthetic therapies. We observed the most interest from dermatologists in our survey who, as non-surgeons, do not have options for the reduction of submental fat.

Figure 26: Do you believe ATX-101 would expand your overall aesthetics practice to include new patients not currently seeking aesthetic therapies?



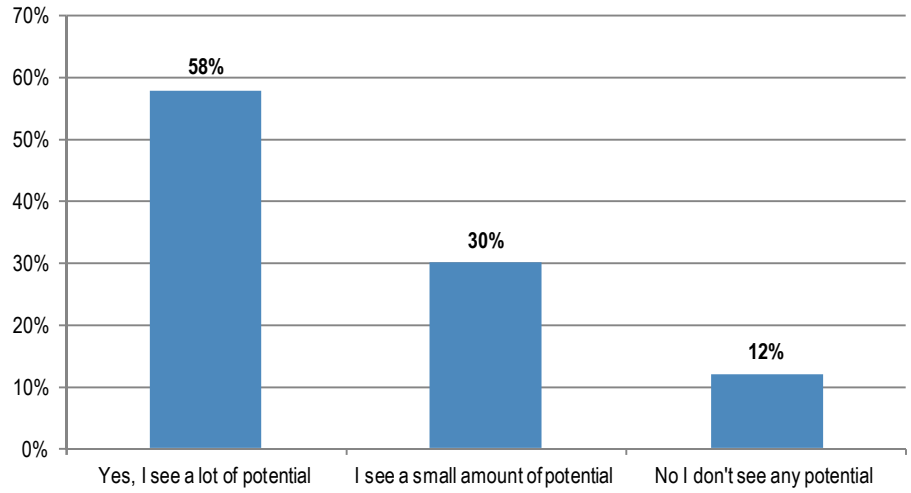
Source: J.P. Morgan survey.

Significant potential for off-label use

Additionally, our survey of dermatologists and plastic surgeons found that 88% of respondents see at least some potential for use in other areas of the body. Body areas frequently cited by the respondents included axillary areas, the suprapubic region, arms, inner thighs, knees, back and periorbital fat and for touch-up following larger

liposuction procedures. Respondents also indicated larger regions like the abdomen, buttocks, hips and flanks but we believe ATX-101 may be suited to more localized areas for common use. Of the 12% who did not see off label use of the product, the majority saw the liability of off-label use as the gating factor preventing use in other areas of the body.

Figure 27: Do you see an opportunity for off-label use (of ATX-101) in other areas of the body?

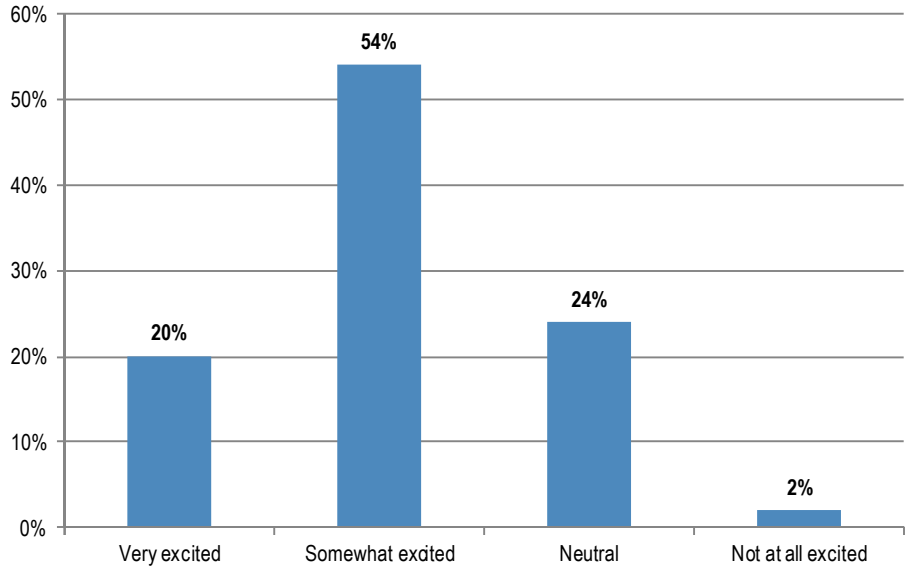


Source: J.P. Morgan survey.

Physicians generally excited about ATX-101

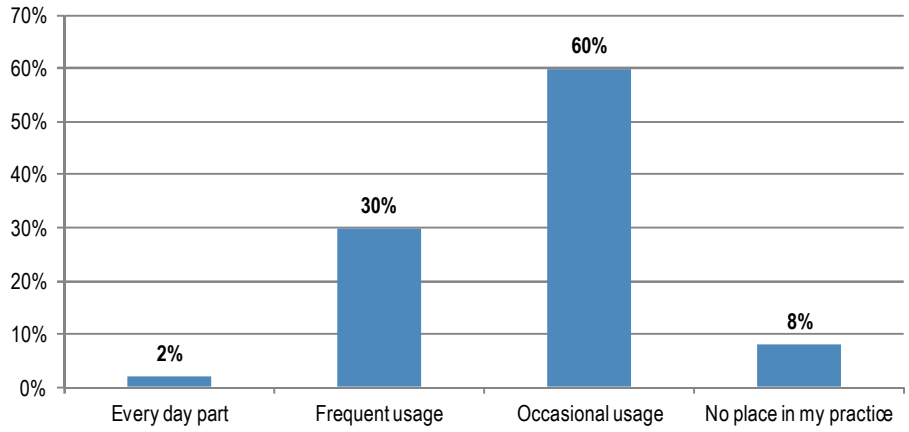
When asked about their excitement level regarding ATX-101, 74% of respondents were very excited or somewhat excited to bring ATX-101 into their practices and 92% of respondents see at least occasional usage of ATX-101 in their practices. As a reminder, a majority of these physicians have had no experience with ATX-101 and were not aware for the product's clinical program. We see these results (coupled with the very positive feedback from those experienced with the product) as encouraging.

Figure 28: How excited are you to potentially bring ATX-101 into your practice?



Source: J.P. Morgan survey.

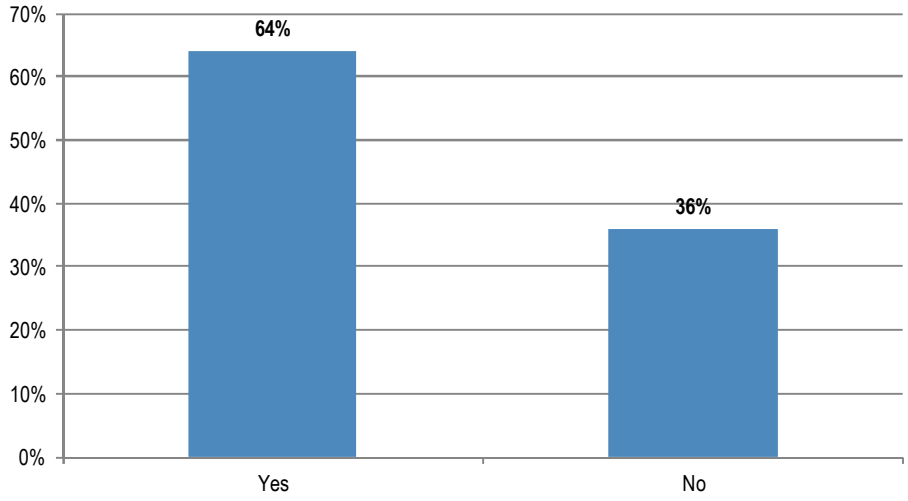
Figure 29: What place would a product like ATX-101 have a place in your practice?



Source: J.P. Morgan survey.

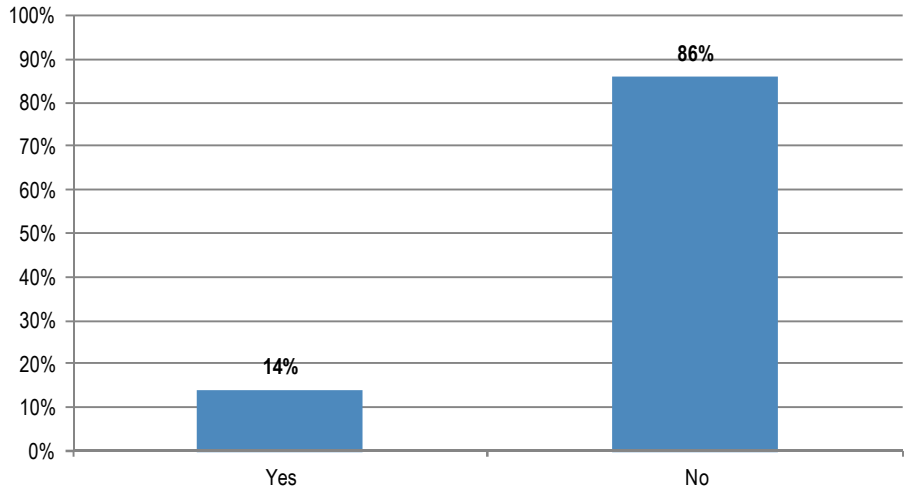
That said, the need for multiple visits to complete a course of ATX-101 therapy somewhat lowers physicians' desire to perform the procedure. Additionally, physicians do not see patient resistance to the need to multiple small injections for each course of ATX-101 therapy.

Figure 30: Does the need for multiple visits/treatments with ATX-101 lower your desire to perform the procedure?



Source: J.P. Morgan survey.

Figure 31: Do you see significant patient resistance to the amount of injections (for ATX-101 therapy)?



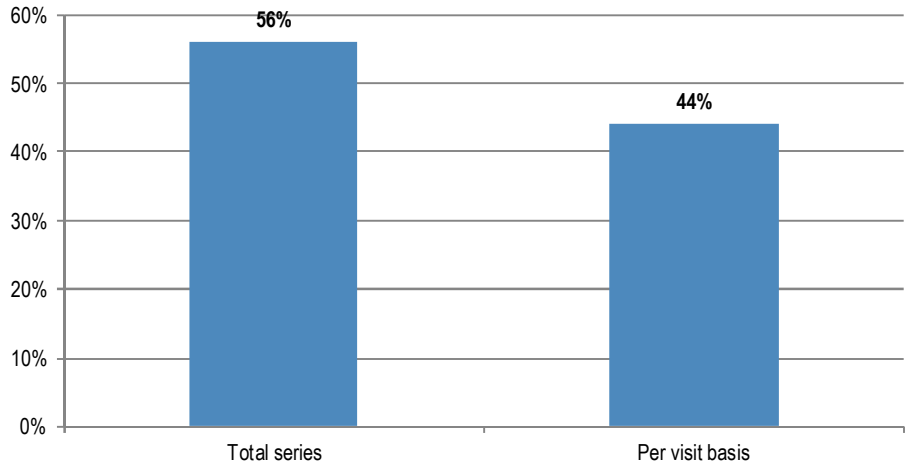
Source: J.P. Morgan survey.

Pricing appears to be a challenge at launch that can be overcome with proper promotion

When asked about potential pricing to the patient, the respondents indicated an average price of around $1,200 would be most acceptable to patients for the full course of ATX-101 therapy. Respondents also indicated an average profit of around $775 would be necessary to make ATX-101 financially attractive to their practices. We believe this disconnect between physician/patient and our pricing expectations stems from a lack of understand on the durability of treatment with ATX-101 and we are confident physician education on the product by Kythera's saleforce will address

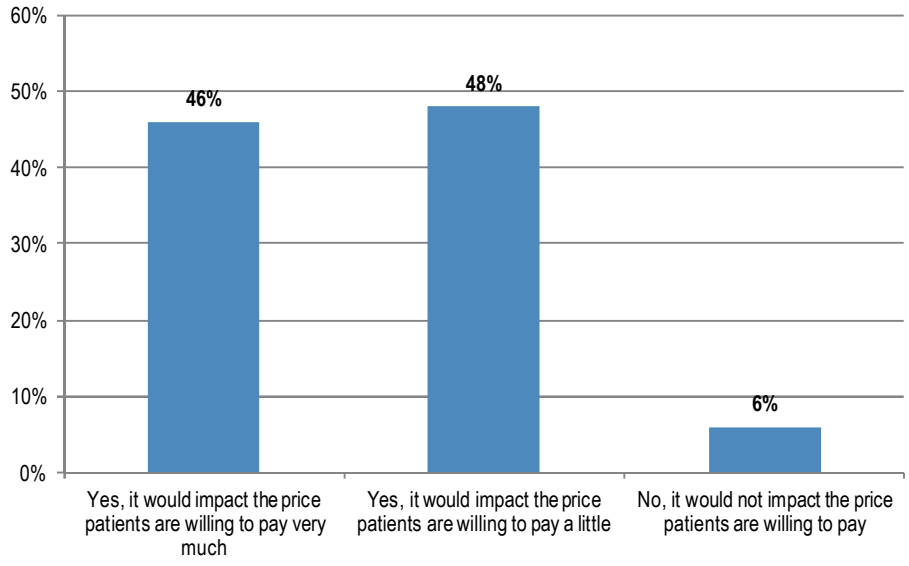
this dynamic. Additionally, respondents envisioned pricing ATX-101 as a total series as opposed to a per visit basis and generally believe the durability of the procedure will add to ATX-101's perceived value to patients.

Figure 32: Would you envision pricing ATX-101 based on the total series of visits or on a per visit basis?



Source: J.P. Morgan survey.

Figure 33: Would the multi-year durability of the procedure increase the price patients are willing to pay for submental fat reduction in your view?



Source: J.P. Morgan survey.

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

Bayer Partnership Significantly Expands Kythera's Reach

Kythera and Bayer entered into a license agreement in August 2010 in which Kythera granted Bayer all development and commercial rights to ATX-101 outside the US and Canada. Kythera received an upfront payment of $43 million as and was eligible for up to an additional $330 million in development, manufacturing and commercialization milestones. Kythera will also receive tiered royalties in the mid to high teens based on the net sales in Bayer territories.

Kythera received a $33 million milestone payment from Bayer following the receipt of positive European phase 3 results in May 2012. Kythera remains eligible for another $297 million in additional milestone payments from Bayer. Bayer has retained the right to sublicense ATX-101 as commercially necessary and will pay Kythera a portion of certain fees, milestones and royalties pursuant to those sublicenses.

Under the terms of the agreement, Kythera will provide deoxycholate drug substance to Bayer but both companies will manufacture their own finished product. Kythera will receive cost plus a management fee for supplying Bayer with deoxycholate substance.

The ex-US market could be comparable in size to the US market over time

While Bayer's first focus is gaining product approval in the EU, we expect the company will seek approvals in other major territories in which it operates and sublicense rights to local companies in territories in which is does not have a presence.

We model OUS revenue of over $300 million by 2025. However, as with many other aesthetic products, we see a strong potential for the product to gain significant traction in emerging markets like Brazil, Russia and China over time which could add significantly to our market estimates.

We anticipate a European launch in late 2014/early 2015

Following the receipt of positive data from two European phase 3 trials earlier this year, we expect a European MAA filing in 2013, setting up a potential European launch in late 2014 or early 2015. In its territories, Bayer will utilize its current sales force to promote to dermatologists and plastic surgeons. With its current sales force, Bayer estimates it can reach close to 50,000 physicians to promote ATX-101. Our estimates currently assume Bayer launches ATX-101 in Europe in 2015 (following a potential 2014 approval).

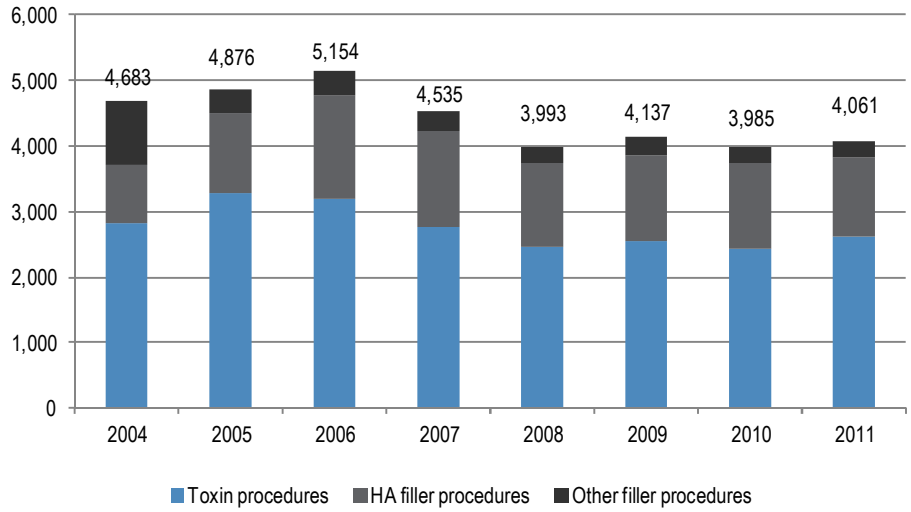
Fillers and toxins make up the majority of the current facial aesthetics market

According to the American Society for Aesthetic Plastic Surgery (ASAPS) there were over 7.5 million nonsurgical cosmetic procedures performance in the US in 2011, relatively flat compared to 2010 levels. Approximately 2.6 million of these procedures were for botulinum toxin type A (Botox, Dysport; a little over four

million when accounting for ancillary office staff as well, a new metric captured by ASAPS in 2011), and 1.2 million of these procedures were for hyaluronic acid fillers like Restylane/Perlane and Juvederm (1.7 million when accounting for ancillary office staff). The total value of all injectable non-surgical procedures is estimated to have been $1.7 billion in 2011.

Figure 34: US Injectable Procedure Volumes

thousands



Source: ASAPS.

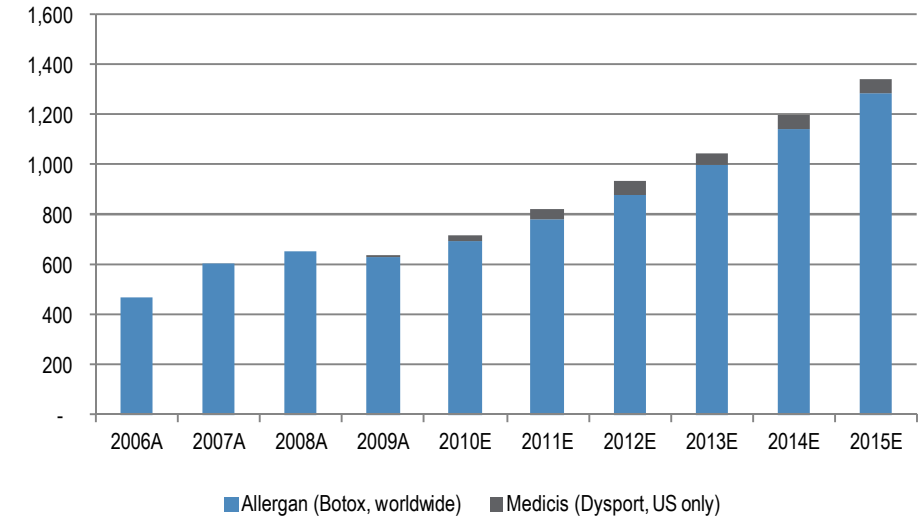
Major toxin brands include Botox and Dysport

The two major toxin brands marketed in the US are Allergan's Botox and Medicis' Dysport. Originally approved for therapeutic indications, Botox was launched in the cosmetic market in 2002 for the temporary improvement in the appearance of moderate to severe glabellar (frown lines) lines in adults. Botox revenue for both therapeutic and cosmetic indications was close to $1.5 billion, up 8% from 2010 levels. While Botox is approved for glabellar lines, aesthetic practitioners often use Botox for treatment of other wrinkles on the face which have a muscular origin.

Dysport, developed by Ipsen and Medicis, was launched into the cosmetic market in 2009 and we estimate Dysport revenue to Medicis in 2011 was approximately $40 million. Like Botox, Dysport is approved to treat glabellar lines, but aesthetic practitioners often use Dysport in much of the same unapproved areas as Botox.

Figure 35: Revenue for Allergan and Medicis CosmeticToxin Franchises

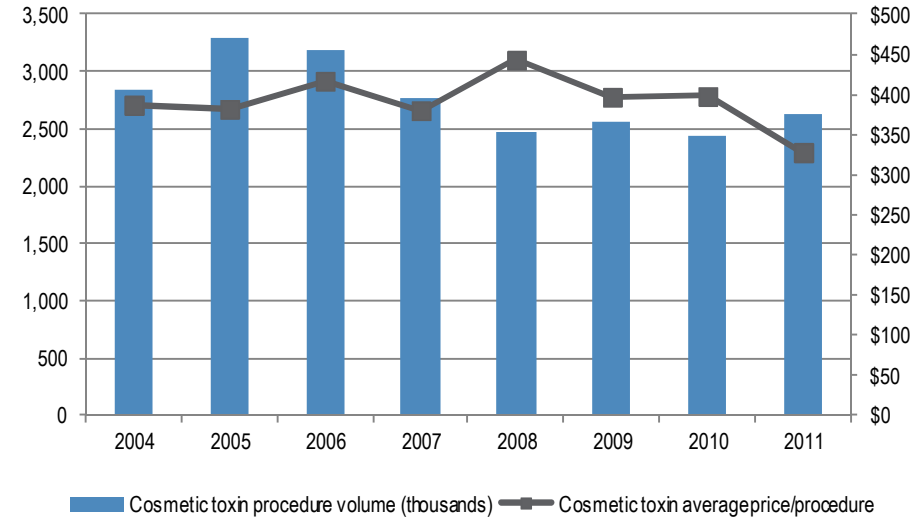
$ in millions



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

Toxin treatments last about 3-6 months on average, and dedicated patents return as often as three times per year for treatments. ASAPS estimated that a little over 2.6 million toxin procedures were performed in the US in 2011 by practitioners (a little over four million when accounting for ancillary office staff as well, a new metric captured by ASAPS in 2011), up 7.5% from 2010 levels. The average patient cost for a toxin procedure was approximately $400 in 2011, according to Kythera.

Figure 36: US Cosmetic Toxin Procedures and Average Price Per Procedure



Source: ASAPS.

Major hyaluronic acid filler brands include Restylane/Perlane and Juvederm

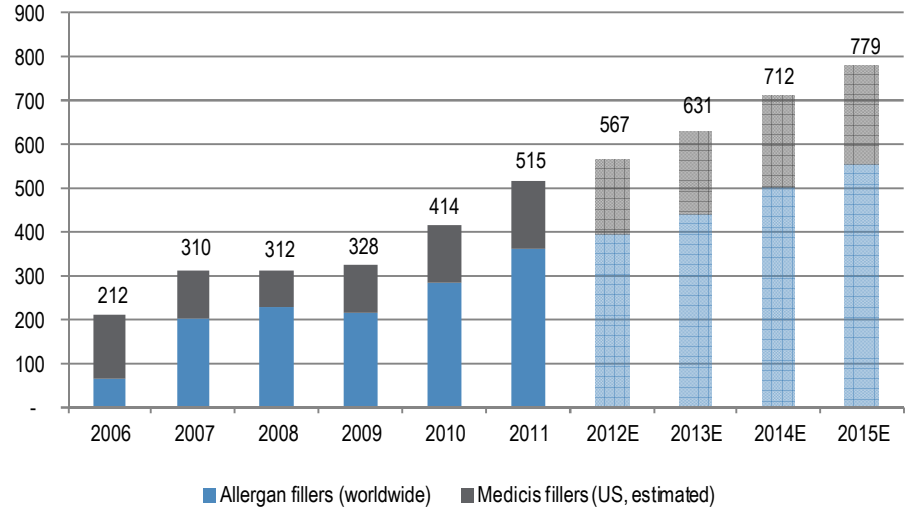
The best known hyaluronic acid (HA) filler brands in the US include Medicis' Restylane/Perlane and Allergan's Juvederm with several other products capturing niche areas of the market. Q-Med (now Galderma) and Medicis developed Restylane and Perlane for the US market and launched Restylane in 2004 and Perlane in 2007. While both products are approved for correction of moderate to severe facial wrinkles and folds, such as nasolabial folds, the average size of Perlane particles is larger than Restylane, which makes Perlane more suitable for deeper injections. Restylane is also approved for lip augmentation. Restylane and Perlane are often used off label in other skin folds around the face outside of the nasolabial area.

Allergan's Juvederm was first approved for the US market in 2006 and is approved for correction of moderate to severe facial wrinkles and folds. The current iteration of Juvederm, Juvederm Ultra XC, was launched in 2010. Like Perlane, Allergan markets Juvederm Ultra Plus, which is a more highly cross-linked formulation, for deeper injections than Juvederm Ultra. Both Restylane/Perlane and Juvederm are now available with lidocaine in their formulations to ease pain and discomfort associated with treatment.

We estimate Restylane/Perlane revenue of $130 million in 2011, up roughly 20% from 2010 levels. In addition, Allergan reported worldwide sales of around $360 million for its filler franchise in 2011, up close to 28% from 2010 levels.

Figure 37: Revenue for Allergan and Medicis Filler Franchises

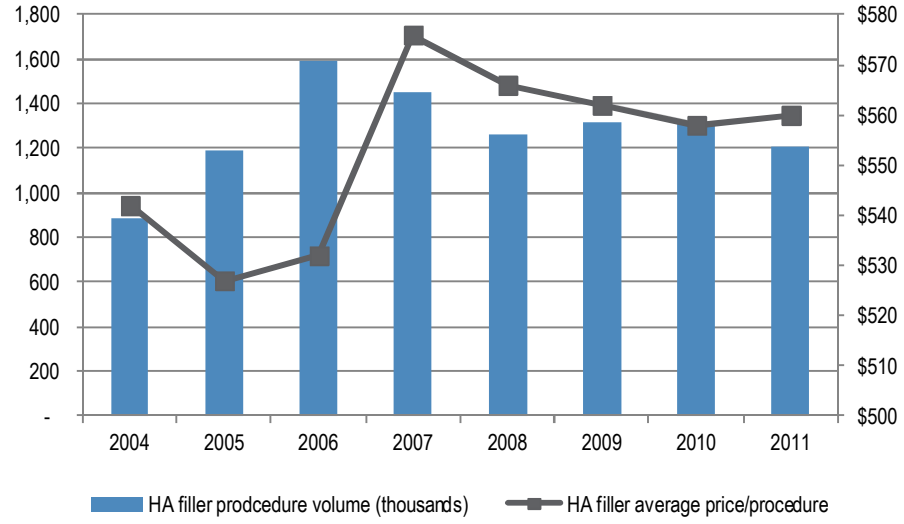
$ in millions



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

According to ASAPS, HA filler treatments last from four months to one year and dedicated patients may return up to two times per year for treatments. ASAPS estimated that close to 1.2 million HA filler procedures were performed in the US in 2011 by practitioners (close to 1.7 million when accounting for ancillary office staff), down 8% from 2010 levels. The average patient cost for a HA filler procedure was approximately $600 in 2011, according to Kythera.

Figure 38: US HA Filler Procedures and Average Price Per Procedure



Source: ASAPS.

Other injectable facial aesthetic products include Radiesse and Sculptra, among others

Other injectable facial aesthetics include poly-L-lactic acid compounds and collagen-forming products. Natural collagen fillers are also used to treat fine lines and wrinkles, but use of natural fillers has declined over the past decade with the advent of HA and other synthetic products.

Sculptra. Valeant's Sculptra is a poly-L-lactic acid compound used to correct shallow to deep facial wrinkles, nasolabial folds, thin mouth lines and wrinkles on the front of the chin. ASAPS estimates that there were close to 61,000 Sculptra procedures in 2011, up about 3% from 2010 levels. The average Sculptra procedure costs close to $850 and is administered in up to four sessions three weeks apart and is considered much more durable than HA filler injections, with results lasting up to two years.

Radiesse. Radiesse from Merz consists of calcium hydroxylapatite microspheres which immediately provide volume on injection and then stimulate collagen production in the injection areas. ASAPS estimates the average procedure cost to be around $650 and close to 175,000 procedures were performed in 2011, up 46% from 2010 levels. Radiesse lasts from one year to two years.

Financial Outlook

Our revenue assumptions include three potential drivers for US sales and OUS sales numbers based on US market uptake. The three main drivers for US sales are from experienced injectable aesthetics users, who we believe will make up the bulk of the initial launch for ATX-101; patients naïve to aesthetic therapy who are seeking a solution for submental fat and ATX-101 is the driver to bring them into the

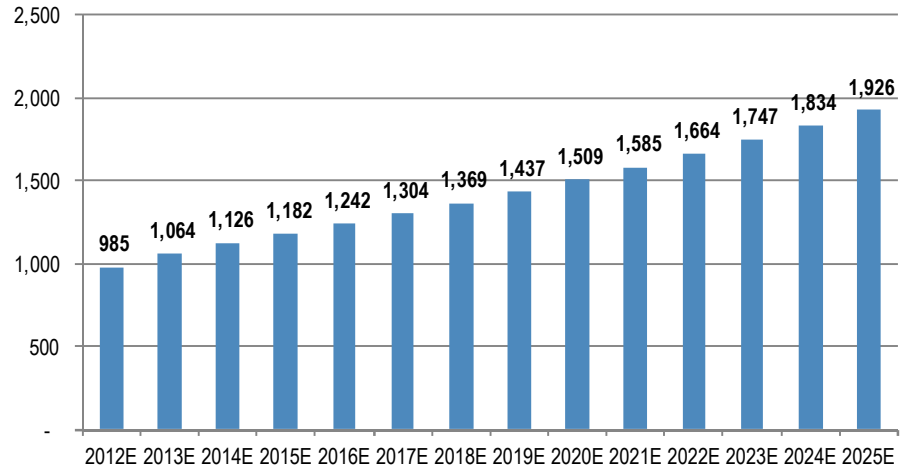
physician's office and finally off-label usage of ATX-101 in other parts of the body beyond submental fat.

Experienced patients should be the first to adopt ATX-101

We believe initial adoption of ATX-101 will come from experienced users of injectable aesthetic injectable products. This was confirmed by our recent survey in which 98% of physicians indicated that patients are willing to add a new aesthetic therapy if available.

We estimate that there are approximately 1.9 million patients using injectable aesthetic products in the US market, based on ASAPS procedure data on fillers and toxins and our assumptions about overlap between the two procedures. We see around 5-8% growth in this patient population annually and believe 50% of these patients may be candidates for ATX-101 therapy.

Figure 39: Estimated Experienced Injectable Aesthetic Patients with Treatable Submental Fat



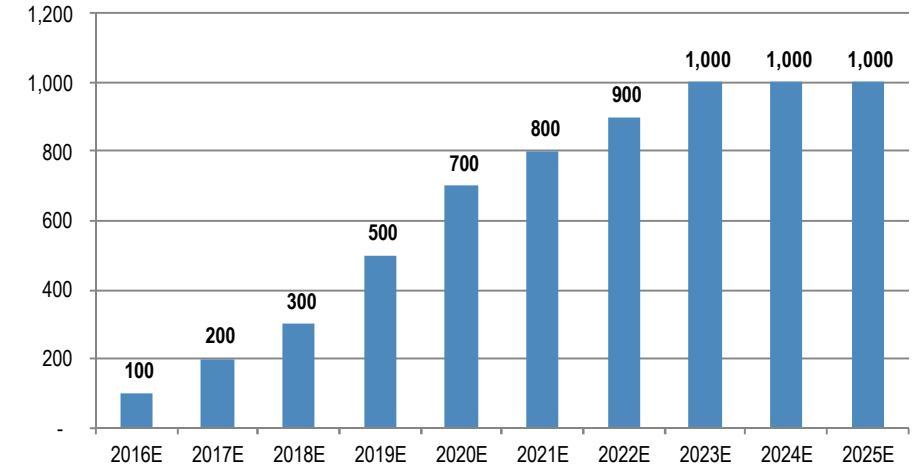
Source: J.P. Morgan estimates.

Naïve patients represent a unique opportunity for physicians and Kythera

We also see an opportunity for Kythera to reach patients who would not normally seek out aesthetic therapy but would be interested in a non-invasive solution to submental fat. We believe this is of particular interest to physicians as ATX-101 may be able to bring new patients into the office who eventually may be willing to try other types of aesthetic therapies following a successful ATX-101 treatment. Kythera estimates that there are 10 million high-income consumers who have treatable submental fat and would be willing to try ATX-101 therapy. We forecast a modest penetration of this patient pool over time.

Figure 40: Estimated Addressable New Injectable Aesthetic Patients with Treatable Submental Fat

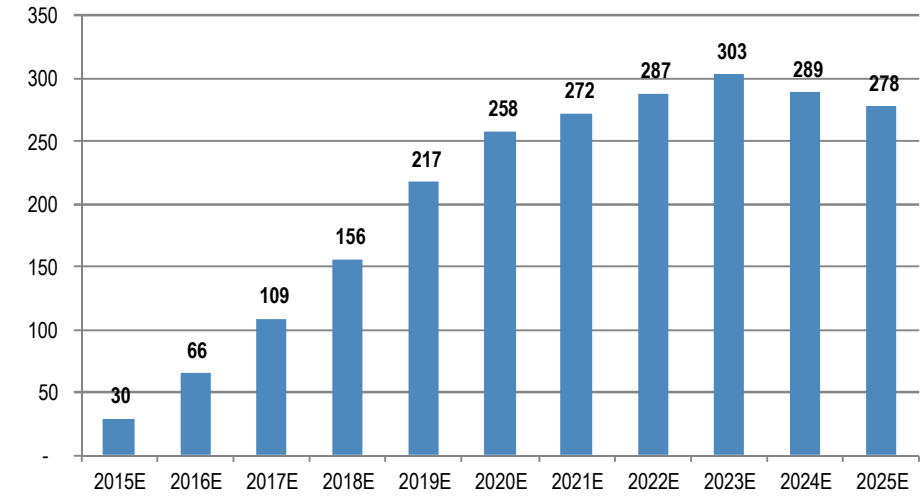
thousands



Source: J.P. Morgan estimates.

Figure 41: ATX-101 US On-Label Revenue Estimates

$ in millions



Source: J.P. Morgan estimates.

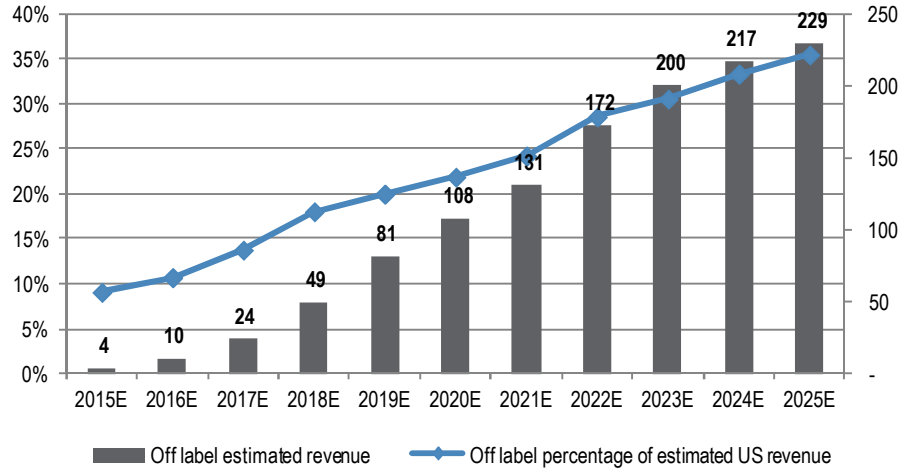
Off label use could be a significant growth driver as ATX-101 matures

Based on feedback from our physician survey and use of PC-containing products both in the US and Europe, we see a significant off-label potential for ATX-101. We believe that these off-label procedures may use slightly more ATX-101 product than for submental fat applications (6 mL/procedure on average v. 5 mL/procedure) and patients may need more procedures than necessary for submental fat (5 visits v. 4 visits). In terms of off-label penetration we model a steady use off label with over 30% of ATX-101 use in off-label applications by 2030.

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

Figure 42: ATX-101 Off Label Revenue Estimates

$ in millions



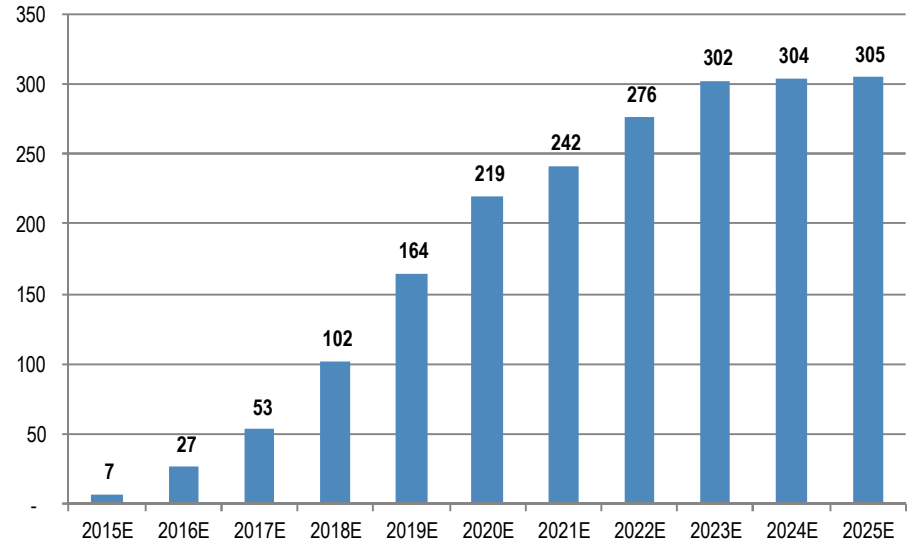
Source: J.P. Morgan estimates.

Rest-of-world use should mirror US adoption

Based on other aesthetic therapies, we expect a robust ex-US market for ATX-101 and forecast peak sales of over $300 million in Bayer territories.

Figure 43: ATX-101 ROW Revenue Estimates

$ in millions



Source: J.P. Morgan estimates.

Strong gross margins anticipated

US gross margins expected to be around dermatology averages

Even though Kythera must use outside suppliers for deoxycholate raw material, formulation and finished product, we expect gross margin on US product sales to be around 95%. Coupled with a royalty payment due to LA Biomed in the low to mid single-digits, we expect gross margins on US sales to be around 90%.

Gross margins on sales to Bayer royalty revenue expected to be lower

Kythera will sell deoxycholate product to Bayer at cost plus and Bayer will finish the product for distribution outside the US. Bayer will then pay Kythera a tiered double digit royalty on Bayer sales in its territories and Kythera will be responsible for compensating LA Biomed at a low to mid single digit royalty rate for worldwide sales. This works out to around a 70% margin to Kythera on Bayer royalty payments.

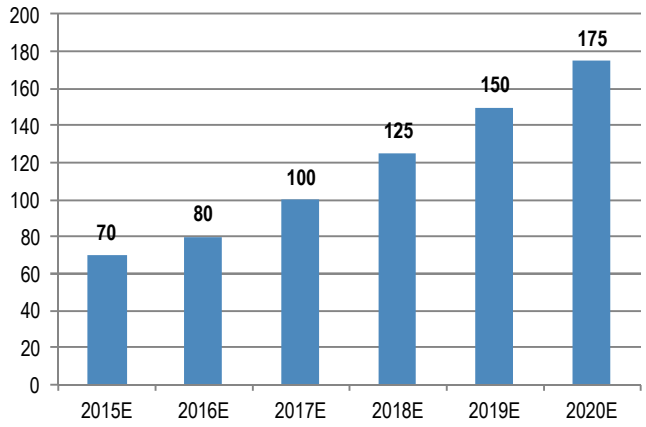
Modest sales force required to launch in the US market

Given the relatively concentrated nature of the dermatology specialty, we believe Kythera will be capable of launching ATX-101 without a partner for the US and Canadian market. According to Kythera's research, dermatologists and plastic surgeons performed 60% to 80% of facial injectable procedures in the US in 2010 so marketing efforts focused on dermatology and plastic surgery would be considered most effective.

With around 8,500 dermatologists and around 5,500 plastic surgeons in the US, we expect Kythera can target a good portion of the market at launch with a field force of around 70 representatives and building over time as the product gains traction. We estimate a fully-sized sales force in the US would consist of around 175 sales representatives who would call only on the top tiers of both specialties.

For comparison, before the announced acquisition by Valeant, Medicis maintained an aesthetics sales force of approximately 100 representatives to promote Restylane/Perlane and Dysport and a medical dermatology sales force of approximately 150 representatives. Valeant fielded a combined medical/aesthetic sales force of around 200 representatives to promote its medical dermatology products with a separate smaller aesthetic sales force for products like Sculptra and Renova.

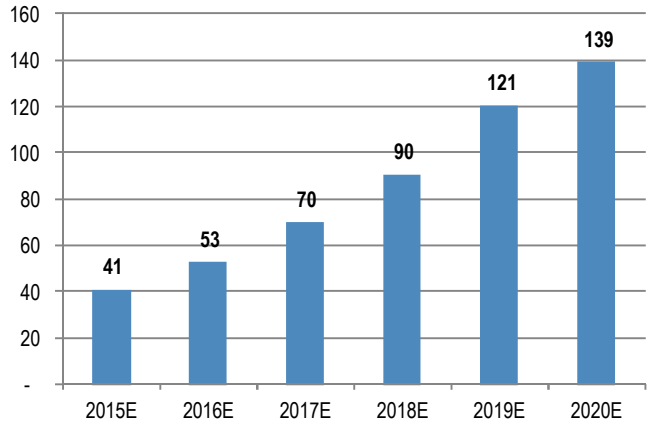
Figure 44: Estimated Kythera Sales Force Size, 2015-2020



Source: J.P. Morgan estimates.

Figure 45: Kythera SG&A Spend Following ATX-101 Launch

$ in millions



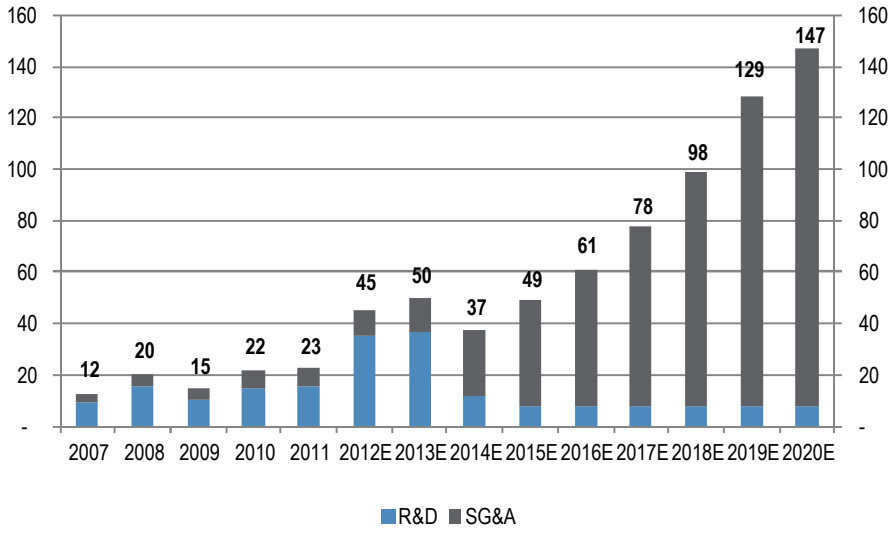
Source: J.P. Morgan estimates.

R&D expense expected to ramp down over time

With the US phase 3 trials underway now, we expect full-year 2012 R&D expense to be substantially higher than 2011 and full-year 2013 R&D expense to be modestly higher than 2012. However, following the conclusion of the phase 3 trial in mid-2013 we expect R&D expenses to be substantially lower going forward. Subsequent to approval and launch in the US we model only a maintenance R&D spend.

Figure 46: Kythera Actual/Estimated Operating Expenses, 2007-2020E

$ in millions



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

Net operating losses to help NT tax rate

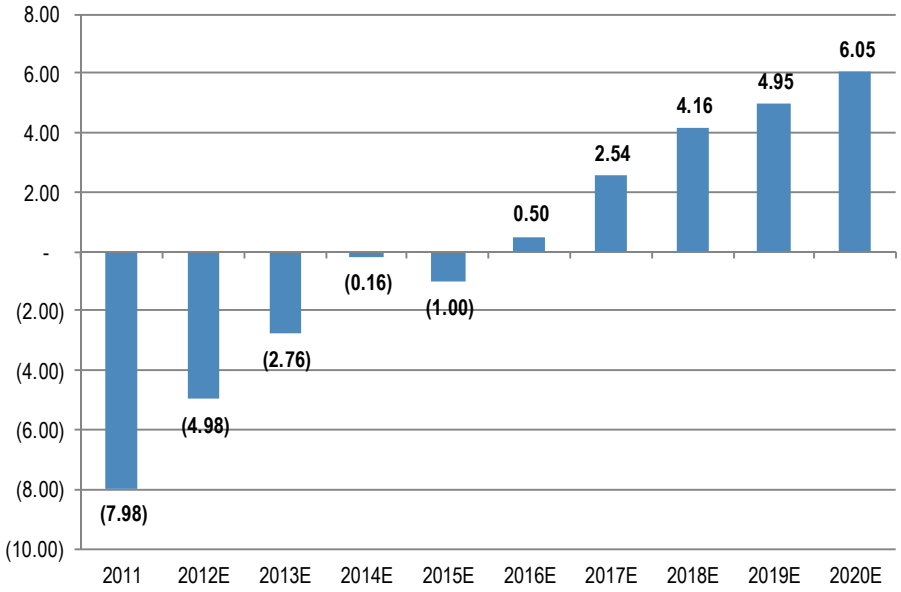
Kythera currently has $57 million in net operating loss carryforwards in the US and we expect the company to continue to accrue net operating loss carryforwards

through 2016. Following profitability, we model Kythera's tax rate increasing from 5% to 38% between 2016 and 2020 as the company exhausts these carryforwards.

Expecting profitability in 2016

With continued uptake in the US market coupled with increasing royalty payments from Bayer on sales outside the US and Canada, we expect Kythera to reach full-year profitability in 2016 and then significant earnings growth beyond 2016.

Figure 47: Kythera Earnings Per Share, 2011-2020E



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

Intellectual Property Should Protect Franchise Well Into the Next Decade

Kythera has over 70 issued or allowed patents and over 70 additional pending patent applications worldwide covering various aspects of ATX-101 formulation and use. We believe that issued and pending patents covering method of use, formulation and other aspects of ATX-101 should adequately protect the franchise well into the next decade.

Seven issued US patents and two issued EU patents

Seven patents have been issued by the US Patent and Trademark Office (PTO), three of which are method of use, two of which are manufacturing related, one of which is related to synthetic deoxycholate salts and one formulation patent. In the EU, Kythera has two issued patents, both covering method of use.

Sodium deoxycholate is a naturally occurring substance and as such is not eligible for composition of matter patent protection in the US. However, Kythera has filed a

number of composition of matter patent applications in the US on its synthetically produced sodium deoxycholate. However, we believe the company's existing patent portfolio is more than adequate to protect the franchise well into the next decade.

Figure 48: Issued US and European Patents Covering ATX-101

Number	Issued	Type	Title	Expiry
7,622,130	11/24/2009	Method of Use	Methods and compositions for the non-surgical removal of fat	12/10/2027
7,754,230	7/13/2010	Method of Use	Methods and related compositions for reduction of fat	12/10/2027
8,298,556	10/30/2012	Method of Use	Methods and compositions for the non-surgical removal of fat	12/10/2027
7,902,387	3/8/2011	Manufacturing	Preparation of bile acids and intermediates thereof	12/21/2028
7,994,351	8/9/2011	Manufacturing	Preparation of bile acids and intermediates thereof	5/16/2028
8,242,294	8/14/2012	DC salts	Synthetic bile acid compositions and methods	8/26/2028
8,101,593	1/24/2012	Formulation	Formulations of deoxycholic acid and salts thereof	3/2/2030
EP1758590	8/24/2011	Method of Use	Use of a detergent for the non-surgical removal of fat	2/8/2025
EP1748780	8/3/2011	Method of Use	Methods and related compositions for reduction of fat	5/19/2025

Source: Company reports, J.P, Morgan estimates, USPTO, European Patent Register.

LA Biomed entitled to royalties on ATX-101 sales

Kythera holds an exclusive license to ATX-101 technology from the Los Angeles Biomedical Research at Harbor/UCLA Medical Center (LA Biomed). Kythera is obligated to pay LA Biomed $500,000 on marketing approval of ATX-101 and 10% of any sublicense income up to $5 million. On commercialization of ATX-101, Kythera will be obligated to pay LA Biomed low- to mid-single digit royalties on net sales of ATX-101 worldwide. We have incorporated sublicense and royalty expense into our cost of goods sold assumptions.

Highly Experienced Management Team

Kythera's management team, led by CEO Keith Leonard, brings substantial experience in biotech and aesthetics product development and commercialization which we believe greatly enhances the potential for ATX-101 approval and successful commercialization in the US and Canadian markets.

We note that Kythera currently does not have the position of chairman. Kythera's president and CEO Keith Leonard facilitates communication between fellow board members and works to set the agenda for each board meeting. Dennis Fenton serves as the lead independent director of the board.

Keith Leonard, President and CEO

Leonard co-founded Kythera and has served as president and CEO since August 2005. Before Kythera, Leonard was a Senior Vice President and general manager of Amgen Europe and held various other positions at Amgen including establishing the company's rheumatology business unit, head of information management and leadership roles in sales and marketing, engineering, operations and finance.

John Smither, CFO

Smither joined Kythera in 2007 as CFO from Amgen, where he held various positions including vice president of finance and administration of Amgen's European division, head of internal audit and executive direction of corporate accounting. Prior to Amgen, Smither served as an audit partner at Ernst & Young and as a CFO of several early-stage companies.

Patricia Walker, MD, PhD, Chief Medical Officer

Walker joined Kythera in 2007 from Inamed/Allergan where she served as executive vice president and chief science officer. Prior to Inamed, Dr. Walker served as vice president, clinical research and development for Allergan's skin care pharmaceuticals. Dr. Walker has been involved in key dermatology and aesthetics product approvals including Tazorac, Botox Cosmetic, Hylaform, Juvederm and Lap-Band, among many others.

Elisabeth Sandoval, Chief Commercial Officer

Sandoval joined Kythera in 2012 from Bausch + Lomb Surgical, where she served as vice president of global marketing and strategy. Prior to B+:L, Sandoval served as vice president of global strategy marketing for Allergan, where she was involved in the commercial launch of Juvederm, as well as marketing Botox, Latisse, Natrelle implants and Lap-Band.

Dennis Fenton, PhD, lead independent director

Fenton, now retired, served as executive vice president of operations at Amgen from 2000 to 2008, joining Amgen in 1982. Dr. Fenton also serves on the boards of Dendreon and XenoPort.

Valuation

Using a risk-adjusted DCF analysis on our assumptions that Kythera launches ATX-101 in the US and Canada in 2015 and Bayer launches in the EU around the same time, we see significant upside from the current valuation for KYTH shares. We see potential upside from our current valuation should physicians use ATX-101 off label more than expected, if Bayer gains approval outside the EU and should pricing in the US/Canada be higher than expected.

DCF analysis supports a risk adjusted $30 valuation assuming a 2015 launch

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.

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

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.

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

Figure 49: Kythera DCF Valuation Model

$ in thousands

thousands USD, fiscal year ends 12/31	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Terminal
Pipeline products																				
ATX-101 US labeled revenue			-	29,560	65,598	108,802	155,739	217,129	257,556	272,181	287,431	303,437	289,090	278,158	278,158	278,158	278,158	278,158	278,158	
growth					*122%*	*66%*	*43%*	*39%*	*19%*	*6%*	*6%*	*6%*	*-5%*	*-4%*	*0%*	*0%*	*0%*	*0%*	*0%*	
ATX-101 US off-label revenue			-	3,695	10,332	23,936	49,252	81,423	108,173	130,647	172,459	200,268	216,817	229,480	245,544	262,732	281,123	300,802	321,858	
growth					*180%*	*132%*	*106%*	*65%*	*33%*	*21%*	*32%*	*16%*	*8%*	*6%*	*7%*	*7%*	*7%*	*7%*	*7%*	
ATX-101 OUS royalties			38,000	998	3,986	17,964	20,374	26,273	35,110	41,089	46,909	54,400	54,638	54,825	57,018	59,299	61,671	64,137	66,703	
growth				*-97%*	*300%*	*351%*	*13%*	*29%*	*34%*	*17%*	*14%*	*16%*	*0%*	*0%*	*4%*	*4%*	*4%*	*4%*	*4%*	
Total Pipeline Revenue	**-**	**-**	**38,000**	**34,253**	**79,916**	**150,703**	**225,366**	**324,825**	**400,839**	**443,917**	**506,799**	**558,105**	**560,545**	**562,464**	**580,720**	**600,189**	**620,952**	**643,098**	**666,719**	
growth					*133%*	*89%*	*50%*	*44%*	*23%*	*11%*	*14%*	*10%*	*0%*	*0%*	*3%*	*3%*	*3%*	*4%*	*4%*	
Margins																				
Gross product margin				90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%	
Gross sublicense margin			90%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	
R&D			32%	23%	10%	5%	4%	2%	2%	2%	2%	1%	1%	1%	1%	1%	1%	1%	1%	
SG&A			66%	120%	66%	46%	40%	37%	35%	33%	31%	29%	29%	29%	21%	21%	21%	21%	21%	
Operating expenses			97%	143%	76%	52%	44%	40%	37%	35%	32%	31%	31%	30%	22%	22%	22%	22%	22%	
EBIT margin			-7%	-53%	13%	36%	45%	49%	52%	53%	56%	57%	58%	58%	66%	66%	66%	66%	66%	
P&L/Cash Flow																				
COGS	-	-	-	3,326	7,593	13,274	20,499	29,855	36,573	40,283	45,989	50,370	50,591	50,764	52,370	54,089	55,928	57,896	60,002	
Cost of sublicenses	-	-	3,800	299	1,196	5,389	6,112	7,882	10,533	12,327	14,073	16,320	16,391	16,447	17,105	17,790	18,501	19,241	20,011	
Gross profit	**-**	**-**	**34,200**	**30,628**	**71,127**	**132,040**	**198,754**	**287,088**	**353,733**	**391,308**	**446,738**	**491,414**	**493,563**	**495,252**	**511,245**	**528,310**	**546,523**	**565,960**	**586,707**	
R&D	34,884	36,500	12,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	5,807	6,002	6,210	6,431	6,667	
SG&A	10,161	13,700	25,000	40,936	52,541	69,841	90,442	120,510	139,052	147,629	156,169	162,914	162,991	163,256	121,951	126,040	130,400	135,051	140,011	
Operating expenses	**45,045**	**50,200**	**37,000**	**48,936**	**60,541**	**77,841**	**98,442**	**128,510**	**147,052**	**155,629**	**164,169**	**170,914**	**170,991**	**171,256**	**127,758**	**132,042**	**136,609**	**141,481**	**146,678**	
EBIT	**(45,045)**	**(50,200)**	**(2,800)**	**(18,308)**	**10,586**	**54,199**	**100,312**	**158,578**	**206,682**	**235,678**	**282,568**	**320,500**	**322,572**	**323,996**	**383,486**	**396,269**	**409,913**	**424,479**	**440,029**	
Tax rate	0%	0%	0%	0%	5%	5%	15%	35%	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%	
Tax	-	-	-	-	(529)	(2,710)	(15,047)	(55,502)	(78,539)	(89,558)	(107,376)	(121,790)	(122,577)	(123,118)	(145,725)	(150,582)	(155,767)	(161,302)	(167,211)	
D&A																				
Acquisitions/capex	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Change in NWC	(6,295)	-	(6,913)	347	(7,966)	(12,271)	(13,046)	(12,845)	(6,606)	(6,292)	(9,209)	(7,491)	(357)	(281)	-	-	-	-	-	
Free Cash Flow	**(51,340)**	**(50,200)**	**(9,713)**	**(17,961)**	**2,091**	**39,217**	**72,219**	**90,231**	**121,537**	**139,828**	**165,983**	**191,219**	**199,638**	**200,597**	**237,761**	**245,687**	**254,146**	**263,177**	**272,818**	
PV Analysis																				
Year	-	-	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
PV factor		1.00	1.12	1.25	1.40	1.57	1.76	1.97	2.21	2.48	2.77	3.11	3.48	3.90	4.36	4.89	5.47	6.13	6.87	7.69
PV of FCF		**(50,200)**	**(8,673)**	**(14,318)**	**1,488**	**24,923**	**40,979**	**45,714**	**54,977**	**56,474**	**59,855**	**61,567**	**57,391**	**51,488**	**54,489**	**50,272**	**46,432**	**42,930**	**39,734**	**66,224**

DCF	
WACC	12%
Terminal growth rate	-30%
PV of estimate periods (now-2030)	615,523
Terminal PV	66,224
PV of FCF	681,747
Probability of Success	75%
Less: net debt	(77,493)
Equity value	**588,803**
Shares outstanding	19,600
DCF/share	**30.04**

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

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

Figure 50: Kythera Quarterly Financial Model

$ in thousands

thousands USD Fiscal year ends December 31	FY 2010A	FY 2011A	Mar 2012 1QA	Jun 2012 2QA	Sep 2012 3QE	Dec 2012 4QE	FY 2012E	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	1,924	17,763	-	-	19,687	-	-	-	-	-	38,000	998	3,986	17,964	20,374	26,273	35,110
Total revenue	**4,488**	**12,985**	**1,924**	**17,763**	**-**	**-**	**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	176	1,760	-	-	1,936	-	-	-	-	-	3,800	299	1,196	5,389	6,112	7,882	10,533
Total cost of revenue	**411**	**1,188**	**176**	**1,760**	**-**	**-**	**1,936**	**-**	**-**	**-**	**-**	**-**	**3,800**	**3,625**	**8,789**	**18,663**	**26,611**	**37,737**	**47,106**
Gross profit	**4,077**	**11,797**	**1,748**	**16,003**	**-**	**-**	**17,751**	**-**	**-**	**-**	**-**	**-**	**34,200**	**30,628**	**71,127**	**132,040**	**198,754**	**287,088**	**353,733**
R&D	14,842	15,766	6,488	8,396	10,000	10,000	34,884	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	6,785	6,879	2,192	2,469	2,500	3,000	10,161	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	**21,627**	**22,645**	**8,680**	**10,865**	**12,500**	**13,000**	**45,045**	**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)	**(17,550)**	**(10,848)**	**(6,932)**	**5,138**	**(12,500)**	**(13,000)**	**(27,294)**	**(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)	589	(304)	49	(629)	-	(144)	(724)	(144)	(106)	(97)	(87)	(434)	(246)	(372)	-	-	-	-	-
Other income	930	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total other income (expense)	**1,519**	**(304)**	**49**	**(629)**	**-**	**(144)**	**(724)**	**(144)**	**(106)**	**(97)**	**(87)**	**(434)**	**(246)**	**(372)**	**-**	**-**	**-**	**-**	**-**
Earnings (loss) before tax (EBT)	**(16,031)**	**(11,152)**	**(6,883)**	**4,509**	**(12,500)**	**(13,144)**	**(28,018)**	**(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	**(16,031)**	**(11,152)**	**(6,883)**	**4,509**	**(12,500)**	**(13,144)**	**(28,018)**	**(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	**(11.64)**	**(7.98)**	**(4.91)**	**3.21**	**(8.91)**	**(0.72)**	**(4.98)**	**(0.83)**	**(0.73)**	**(0.63)**	**(0.58)**	**(2.76)**	**(0.16)**	**(1.00)**	**0.50**	**2.54**	**4.16**	**4.95**	**6.05**
Basic shares outstanding	1,377	1,398	1,401	1,403	1,403	18,300	5,627	18,323	18,342	18,360	18,375	18,350	18,468	18,590	18,741	18,936	19,182	19,503	19,871
FD shares outstanding	1,377	1,398	1,401	1,403	1,403	19,600	5,952	19,623	19,642	19,660	19,675	19,650	19,768	19,890	20,041	20,236	20,482	20,803	21,171
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**	**189%**	**-43%**	**428%**	**n/a**	**n/a**	**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	n/a	n/a	128%	75%	54%	46%	23%
Sublicense expense	n/a	189%	-43%	471%	n/a	n/a	63%	n/a	n/a	n/a	n/a	n/a	n/a	-92%	300%	351%	13%	29%	34%
Gross profit	n/a	189%	-43%	423%	n/a	n/a	50%	n/a	n/a	n/a	n/a	n/a	n/a	-10%	132%	86%	51%	44%	23%
R&D	51%	6%	103%	166%	n/a	n/a	121%	85%	19%	-20%	-35%	5%	-67%	-33%	0%	0%	0%	0%	0%
SG&A	38%	1%	32%	61%	n/a	n/a	48%	37%	30%	40%	33%	35%	82%	64%	28%	33%	29%	33%	15%
Operating income	47%	5%	79%	131%	n/a	n/a	99%	73%	21%	-8%	-19%	11%	-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	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**	**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**	**n/a**	**n/a**	**407%**	**64%**	**19%**	**22%**
FD shares outstanding (sequential)	1%	2%	n/a	0%	0%	1297%	326%	0%	0%	0%	0%	230%	1%	1%	1%	1%	1%	2%	2%
EBIT	(17,550)	(10,848)	(6,932)	5,138	(12,500)	(13,000)	(27,294)	(15,000)	(13,200)	(11,500)	(10,500)	(50,200)	(2,800)	(18,308)	10,586	54,199	100,312	158,578	206,682
D&A	158	125	118	238	15	15	386	16	17	17	18	68	76	88	100	110	119	127	134
EBITDA	**(17,392)**	**(10,723)**	**(6,814)**	**5,376**	**(12,485)**	**(12,985)**	**(26,908)**	**(14,984)**	**(13,183)**	**(11,483)**	**(10,482)**	**(50,132)**	**(2,724)**	**(18,220)**	**10,686**	**54,308**	**100,431**	**158,704**	**206,816**

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

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

J.P.Morgan

Figure 51: Kythera ATX-101 Revenue Model

$ in thousands

thousands USD Fiscal year ends December 31	FY 2011A	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E
Market Assumptions - Submental Fat										
Unique filler/tox patients	**1,820**	**1,969**	**2,127**	**2,252**	**2,365**	**2,483**	**2,607**	**2,738**	**2,874**	**3,018**
growth		*8%*	*8%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*
Addressable fraction of filler/tox	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
Addressable filler/tox patients	**910**	**985**	**1,064**	**1,126**	**1,182**	**1,242**	**1,304**	**1,369**	**1,437**	**1,509**
New Aesthetic Users										
Target Population	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Penetration	*0%*	*0%*	*0%*	*0%*	*0%*	*1%*	*2%*	*3%*	*5%*	*7%*
Addressable new aesthetic patients	**-**	**-**	**-**	**-**	**-**	**100**	**200**	**300**	**500**	**700**
Addressable population	**910**	**985**	**1,064**	**1,126**	**1,182**	**1,342**	**1,504**	**1,669**	**1,937**	**2,209**
Available population										
Addressable population	910	985	1,064	1,126	1,182	1,342	1,504	1,669	1,937	2,209
Less: treated patients	-	-	-	-	-	30	95	201	348	546
Available population	**910**	**985**	**1,064**	**1,126**	**1,182**	**1,312**	**1,408**	**1,468**	**1,590**	**1,663**
Penetration										
Available population	910	985	1,064	1,126	1,182	1,312	1,408	1,468	1,590	1,663
Penetration	0.0%	0.0%	0.0%	0.0%	2.5%	5.0%	7.5%	10.0%	12.5%	13.5%
Patients receiving therapy	-	-	-	-	30	66	106	147	199	224
Penetration of total market, including treated pts				0%	3%	7%	13%	21%	28%	35%
Pricing										
ATX-101 price/mL					50.00	50.00	51.50	53.05	54.64	57.37
growth						*0%*	*3%*	*3%*	*3%*	*5%*
Average mL/procedure					5.0	5.0	5.0	5.0	5.0	5.0
Average procedures/patient					4.0	4.0	4.0	4.0	4.0	4.0
Average revenue/patient					**1,000**	**1,000**	**1,030**	**1,061**	**1,093**	**1,147**
US Submental Fat Revenue										
Average revenue/patient				-	1,000	1,000	1,030	1,061	1,093	1,147
Patient courses of therapy (thousands)				-	30	66	106	147	199	224
ATX-101 US Labeled Revenue				**-**	**29,560**	**65,598**	**108,802**	**155,739**	**217,129**	**257,556**
growth						*122%*	*66%*	*43%*	*39%*	*19%*
Off-Label Use										
ATX-101 labeled courses of tx					30	66	106	147	199	224
ATX-101 penetration off label					10%	12%	16%	22%	25%	28%
Off-label patient procedures					**3**	**8**	**17**	**32**	**50**	**63**
Total off label use					9%	11%	14%	18%	20%	22%
ATX-101 price/mL					50.00	50.00	51.50	53.05	54.64	57.37
Average mL/procedure					5.0	5.3	5.5	5.8	6.0	6.0
Average procedures/patient					5.0	5.0	5.0	5.0	5.0	5.0
Average revenue/patient					**1,250**	**1,313**	**1,416**	**1,525**	**1,639**	**1,721**
ATX-101 US Non-Labeled Revenue					**3,695**	**10,332**	**23,936**	**49,252**	**81,423**	**108,173**
growth						*180%*	*132%*	*106%*	*11%*	*33%*
Total US Revenue					**33,255**	**75,930**	**132,739**	**204,991**	**298,552**	**365,729**
Bayer ROW Revenue										
US labeled & non-labeled revenue					**33,255**	**75,930**	**132,739**	**204,991**	**298,552**	**365,729**
Percent of ROW relative to US					20%	35%	40%	50%	55%	60%
ROW Revenue					6,651	26,575	53,095	102,496	164,204	219,437
Milestone payments				38,000	-	-	10,000	5,000		
Royalty to Kythera					15%	15%	15%	15%	16%	16%
Kythera Royalty Revenue				**38,000**	**998**	**3,986**	**17,964**	**20,374**	**26,273**	**35,110**
growth					*-97%*	*300%*	*351%*	*13%*	*29%*	*34%*

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

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

Figure 52: Kythera Balance Sheet

$ in thousands

thousands USD Fiscal year ends December 31	FY 2010A	FY 2011A	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E
BALANCE SHEET											
ASSETS											
Cash and equivalents	21,676	34,577	82,493	33,252	24,838	9,203	16,220	61,239	140,299	238,882	369,706
Restricted cash, current portion	16,167	7,403	9,385	9,385	9,385	9,385	9,385	9,385	9,385	9,385	9,385
Accounts receivable	-	-	-	-	6,333	5,709	13,319	25,117	37,561	49,626	55,672
Inventories	-	-	-	-	-	831	1,898	3,318	5,125	7,464	9,143
Deferred licensor payment, current	1,232	352	-	-	-	-	-	-	-	-	-
Prepaid clinical trial expenses	-	938	3,009	3,009	3,009	3,009	3,009	3,009	3,009	3,009	3,009
Prepaid expenses and OCA	373	1,058	2,478	2,478	2,478	2,478	2,478	2,478	2,478	2,478	2,478
Total current assets	**39,448**	**44,328**	**97,365**	**48,124**	**46,043**	**30,615**	**46,310**	**104,547**	**197,857**	**310,844**	**449,393**
PP&E, net	82	720	629	761	885	996	1,097	1,187	1,268	1,341	1,407
Restricted cash, net of current	5,652	-	9,431	9,431	9,431	9,431	9,431	9,431	9,431	9,431	9,431
Deferred licensor payment, net of current	308	-	-	-	-	-	-	-	-	-	-
Other assets	19	31	37	37	37	37	37	37	37	37	37
Total long-term assets	**6,061**	**751**	**10,097**	**10,229**	**10,353**	**10,464**	**10,565**	**10,655**	**10,736**	**10,809**	**10,875**
TOTAL ASSETS	**45,509**	**45,079**	**107,461**	**58,353**	**56,396**	**41,079**	**56,874**	**115,202**	**208,593**	**321,653**	**460,268**
LIABILITIES											
Accounts payable	628	962	580	580	-	554	1,265	2,212	3,417	4,976	6,095
Accrued personnel costs	1,551	1,500	1,154	1,154	1,154	1,154	1,154	1,154	1,154	1,154	1,154
Accrued costs for services	3,747	3,544	2,888	2,888	2,888	2,888	2,888	2,888	2,888	2,888	2,888
Deferred development funds, current	16,167	4,951	7,849	7,849	7,849	7,849	7,849	7,849	7,849	7,849	7,849
Deferred revenue, current	13,465	3,847	-	-	-	-	-	-	-	-	-
Total current liabilities	**35,558**	**14,804**	**12,471**	**12,471**	**11,891**	**12,445**	**13,156**	**14,103**	**15,308**	**16,867**	**17,986**
Debt	-	-	5,000	3,620	1,638	-	-	-	-	-	-
Deferred rent	5	7	8	8	8	8	8	8	8	8	8
Deferred revenue, net of current	3,366	-	-	-	-	-	-	-	-	-	-
Deferred development funds, net of current	3,436	-	9,431	9,431	9,431	9,431	9,431	9,431	9,431	9,431	9,431
Long term payable to licensor	1,560	1,560	2,828	2,828	2,828	2,828	2,828	2,828	2,828	2,828	2,828
Redeemable convertible preferred stock warrants	1,031	2,145	-	-	-	-	-	-	-	-	-
Total long-term liabilities	**9,398**	**3,712**	**17,267**	**15,887**	**13,905**	**12,267**	**12,267**	**12,267**	**12,267**	**12,267**	**12,267**
TOTAL LIABILITIES	**44,956**	**18,516**	**29,738**	**28,358**	**25,796**	**24,712**	**25,423**	**26,370**	**27,575**	**29,134**	**30,253**
SHAREHOLDERS' EQUITY											
Series A redeemable convertible stock	902	902	-	-	-	-	-	-	-	-	-
Series B redeemable convertible stock	30,193	30,193	-	-	-	-	-	-	-	-	-
Series C redeemable convertible stock	40,205	40,205	-	-	-	-	-	-	-	-	-
Series D redeemable convertible stock	-	36,287	-	-	-	-	-	-	-	-	-
Common stock & APIC	1,608	2,483	189,248	192,154	195,804	200,251	205,278	211,170	218,092	226,518	235,870
Accumulated OCI	-	-	-	-	-	-	-	-	-	-	-
Retained earnings (accumulated deficit)	(72,355)	(83,507)	(111,525)	(162,158)	(165,204)	(183,884)	(173,827)	(122,339)	(37,073)	66,002	194,145
Total shareholders' equity	**553**	**26,563**	**77,723**	**29,996**	**30,600**	**16,367**	**31,451**	**88,831**	**181,019**	**292,520**	**430,015**
TOTAL LIABILIITES & S/H EQUITY	**45,509**	**45,079**	**107,461**	**58,353**	**56,396**	**41,079**	**56,874**	**115,202**	**208,593**	**321,653**	**460,268**

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

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

Figure 53: Kythera Statement of Cash Flows

$ in thousands

thousands USD Fiscal year ends December 31	FY 2010A	FY 2011A	FY 2012E	FY 2013E	FY 2014E	FY 2015E	FY 2016E	FY 2017E	FY 2018E	FY 2019E	FY 2020E
CASH FLOW STATEMENT (periodic)											
Operating											
Net loss	(16,031)	(11,152)	(28,018)	(50,634)	(3,046)	(18,680)	10,057	51,489	85,265	103,075	128,143
Amortization/(discount)	(16)	71	104	-							
Depreciation	174	54	282	68	76	88	100	110	119	127	134
Stock-based compensation	1,037	858	1,509	1,400	1,800	2,000	2,000	2,000	2,000	2,000	2,000
Adjustments to reconcile net income to net cash	(570)	233	476	-	-	-	-	-	-	-	-
Change in working capital	17,351	(12,771)	(6,295)	-	(6,913)	347	(7,966)	(12,271)	(13,046)	(12,845)	(6,606)
CASH FLOW FROM OPERATING ACTIVITIES	**1,945**	**(22,707)**	**(31,941)**	**(49,166)**	**(8,083)**	**(16,244)**	**4,190**	**41,327**	**74,338**	**92,358**	**123,671**
Investing											
Capex	(100)	(696)	(191)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)
Marketable securities	12,697	-	-	-	-	-	-	-	-	-	-
CASH FLOW FROM INVESTING ACTIVITIES	**12,597**	**(696)**	**(191)**	**(200)**	(200)	(200)	(200)	(200)	(200)	(200)	(200)
Financing											
Common stock (incl option exercises)	58	17	75,048	1,506	1,850	2,447	3,027	3,892	4,922	6,426	7,353
Debt			5,000	(1,380)	(1,981)	(1,638)	-	-	-	-	-
Convertible p/s	-	36,287	-	-	-	-	-	-	-	-	-
CASH FLOW FROM FINANCING ACTIVITES	**58**	**36,304**	**80,048**	**126**	(131)	809	3,027	3,892	4,922	6,426	7,353
FX effect	-	-	-	-	-	-	-	-	-	-	-
NET CASH FLOW	**14,600**	**12,901**	**47,916**	**(49,240)**	**(8,414)**	**(15,636)**	**7,017**	**45,019**	**79,060**	**98,583**	**130,823**
Cash and equivalents, beginning of period	7,076	21,676	34,577	82,493	33,252	24,838	9,203	16,220	61,239	140,299	238,882
Cash and equivalents, end of period	21,676	34,577	82,493	33,252	24,838	9,203	16,220	61,239	140,299	238,882	369,706

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

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

Kythera Biopharmaceuticals: Summary of Financials

Income Statement - Annual	FY11A	FY12E	FY13E	FY14E
Revenues	13	20	0	38
Cost of products sold	1	2	0	4
Gross profit	12	18	0	34
SG&A	7	10	14	25
R&D	16	35	37	12
Operating Income	(11)	(27)	(50)	(3)
Note: EBITDA	(11)	(27)	(50)	(3)
Net interest income / (expense)	0	1	0	0
Other income / (expense)	0	0	0	0
Pretax income	(11)	(28)	(51)	(3)
Income taxes	0	0	0	0
Net income - GAAP	-	-	-	-
Net income - recurring	(11)	(28)	(51)	(3)
Diluted shares outstanding	1	6	20	20
EPS - excluding non-recurring	(7.98)	(4.98)	(2.76)	(0.16)
EPS - recurring	-	-	-	-

Income Statement - Quarterly	1Q12A	2Q12A	3Q12E	4Q12E
Revenues	2A	18A	0	0
Cost of products sold	0A	2A	0	0
Gross profit	2A	16A	0	0
SG&A	2A	2A	3	3
R&D	6A	8A	10	10
Operating income	(7)A	5A	(13)	(13)
Note: EBITDA	(7)A	5A	(12)	(13)
Net interest income / (expense)	(0)A	1A	0	0
Other income / (expense)	0A	0A	0	0
Pretax income	(7)A	5A	(13)	(13)
Income taxes	0A	0A	0	0
Net income - GAAP	-	-	-	-
Net income - recurring	(7)A	5A	(13)	(13)
Diluted shares outstanding	1A	1A	1	20
EPS - excluding non-recurring	(4.91)A	3.21A	(8.91)	(0.72)
EPS - recurring	-	-	-	-

Balance Sheet and Cash Flow Data	FY11A	FY12E	FY13E	FY14E
Cash and cash equivalents	35	82	33	25
Accounts receivable	0	0	0	6
Inventories	0	0	0	0
Other current assets	10	15	15	15
Current assets	44	97	48	46
PP&E	1	1	1	1
Total assets	45	107	58	56
Total debt	0	5	4	2
Total liabilities	19	30	28	26
Shareholders' equity	27	78	30	31
Net income (including charges)	(11)	(28)	(51)	(3)
D&A	0	0	0	0
Change in working capital	(13)	(6)	0	(7)
Other				
Cash flow from operations	(23)	(32)	(49)	(8)
Capex	(1)	(0)	(0)	(0)
Free cash flow	(23)	(32)	(49)	(8)
Cash flow from investing activities	(1)	(0)	(0)	(0)
Cash flow from financing activities	36	80	0	(0)
Dividends	-	-	-	-
Dividend yield	-	-	-	-

Ratio Analysis	FY11A	FY12E	FY13E	FY14E
Sales growth	189.3%	51.6%	-	-
EBIT growth	-	-	-	-
EPS growth	-	-	-	-
Gross margin	90.9%	90.2%	-	90.0%
EBIT margin	(83.5%)	(138.6%)	-	(7.4%)
EBITDA margin	(82.6%)	(136.7%)	-	(7.2%)
Tax rate	-	-	-	-
Net margin	(85.9%)	(142.3%)	-	(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

Other Companies Recommended in This Report (all prices in this report as of market close on 01 November 2012)
Bayer (BAYGn.DE/€67.66/Neutral), Valeant Pharmaceuticals (VRX/$56.76/Not Rated), Valeant Pharmaceuticals International (VRX.TO/C$56.53/Not Covered)

Analyst Certification: The research analyst(s) denoted by an "AC" on the cover of this report certifies (or, where multiple research analysts are primarily responsible for this report, the research analyst denoted by an "AC" on the cover or within the document individually certifies, with respect to each security or issuer that the research analyst covers in this research) that: (1) all of the views expressed in this report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (2) no part of any of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

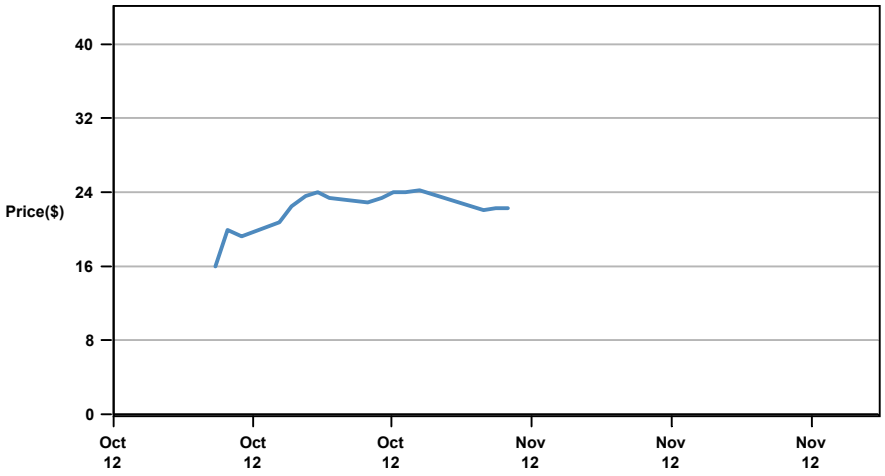
Important Disclosures

- **Market Maker:** JPMS makes a market in the stock of Kythera Biopharmaceuticals.
- **Lead or Co-manager:** J.P. Morgan acted as lead or co-manager in a public offering of equity and/or debt securities for Kythera Biopharmaceuticals, Valeant Pharmaceuticals, Valeant Pharmaceuticals International within the past 12 months.
- **Client:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as clients: Kythera Biopharmaceuticals, Bayer, Valeant Pharmaceuticals, Valeant Pharmaceuticals International.
- **Client/Investment Banking:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as investment banking clients: Kythera Biopharmaceuticals, Valeant Pharmaceuticals, Valeant Pharmaceuticals International.
- **Client/Non-Investment Banking, Securities-Related:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-investment-banking, securities-related: Kythera Biopharmaceuticals, Bayer, Valeant Pharmaceuticals, Valeant Pharmaceuticals International.
- **Client/Non-Securities-Related:** J.P. Morgan currently has, or had within the past 12 months, the following company(ies) as clients, and the services provided were non-securities-related: Bayer, Valeant Pharmaceuticals, Valeant Pharmaceuticals International.
- **Investment Banking (past 12 months):** J.P. Morgan received in the past 12 months compensation for investment banking Kythera Biopharmaceuticals, Valeant Pharmaceuticals, Valeant Pharmaceuticals International.
- **Investment Banking (next 3 months):** J.P. Morgan expects to receive, or intends to seek, compensation for investment banking services in the next three months from Kythera Biopharmaceuticals, Bayer, Valeant Pharmaceuticals, Valeant Pharmaceuticals International.
- **Non-Investment Banking Compensation:** J.P. Morgan has received compensation in the past 12 months for products or services other than investment banking from Kythera Biopharmaceuticals, Bayer, Valeant Pharmaceuticals, Valeant Pharmaceuticals International.
- J.P. Morgan Securities LLC and/or its affiliates is acting as financial advisor to VALEANT PHARMACEUTICALS INTERNATIONAL INC (VRX.CN) in connection with the proposed acquisition of MEDICIS PHARMACEUTICALS CORPORATION (MRX) as announced on Sep 3, 2012. The transaction is subject to customary closing conditions, including approval by Medicis stockholders and expiration of any applicable regulatory waiting period. This research report and the information contained herein is not intended to provide voting advice, serve as an endorsement of the proposed transaction or result in procurement, withholding or revocation of a proxy or any other action by a security holder.
- J.P. Morgan Securities LLC and/or its affiliates is acting as financial advisor to VALEANT PHARMACEUTICALS INTERNATIONAL INC (VRX.CN) in connection with the proposed acquisition of MEDICIS PHARMACEUTICALS CORPORATION (MRX) as announced on Sep 3, 2012. The transaction is subject to customary closing conditions, including approval by Medicis stockholders and expiration of any applicable regulatory waiting period. This research report and the information contained herein is not intended to provide voting advice, serve as an endorsement of the proposed transaction or result in procurement, withholding or revocation of a proxy or any other action by a security holder.

Company-Specific Disclosures: Important disclosures, including price charts, are available for compendium reports and all J.P. Morgan–covered companies by visiting https://mm.jpmorgan.com/disclosures/company, calling 1-800-477-0406, or emailing research.disclosure.inquiries@jpmorgan.com with your request.

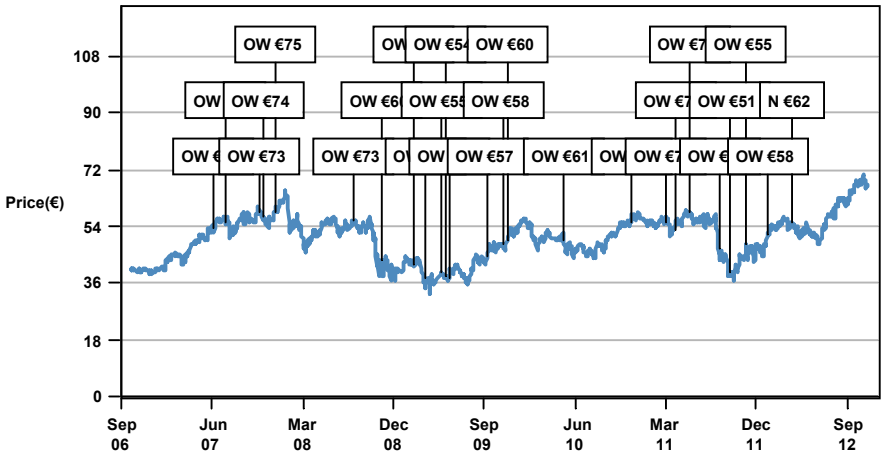
Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

Kythera Biopharmaceuticals (KYTH, KYTH US) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.

Bayer (BAYGn.DE, BAYN GR) Price Chart

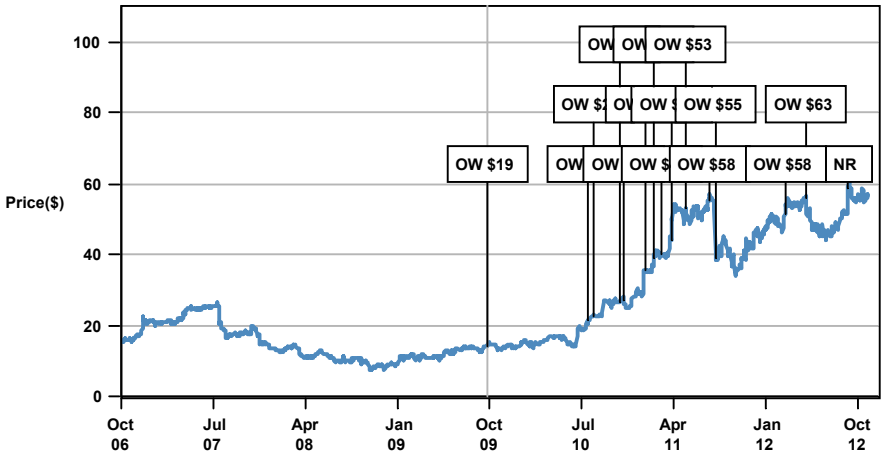


Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jun 06, 2007.

Date	Rating	Share Price (€)	Price Target (€)
06-Jun-07	OW	53.10	63.00
11-Jul-07	OW	55.35	70.00
25-Oct-07	OW	58.56	73.00
06-Nov-07	OW	57.01	74.00
11-Dec-07	OW	58.75	75.00
30-Jul-08	OW	55.70	73.00
23-Oct-08	OW	43.17	60.00
27-Jan-09	OW	41.86	50.00
04-Mar-09	OW	37.67	47.00
22-Apr-09	OW	39.19	55.00
05-May-09	OW	37.91	54.00
19-May-09	OW	37.50	55.00
08-Sep-09	OW	44.56	57.00
26-Oct-09	OW	48.25	58.00
09-Nov-09	OW	49.65	60.00
30-Apr-10	OW	49.32	61.00
16-Nov-10	OW	55.17	69.00
03-Mar-11	OW	55.63	72.00
29-Mar-11	OW	52.98	75.00
11-May-11	OW	58.21	76.00
10-Aug-11	OW	47.27	74.00
09-Sep-11	OW	39.12	51.00
28-Oct-11	OW	48.08	55.00
03-Jan-12	OW	51.62	58.00
15-Mar-12	N	55.22	62.00

Chris Schott, CFA
(1-212) 622-5676
christopher.t.schott@jpmorgan.com

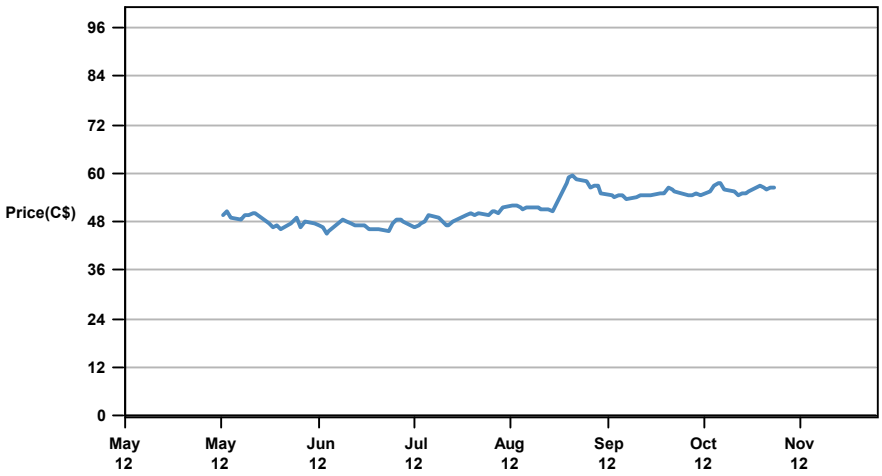
Valeant Pharmaceuticals (VRX, VRX US) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
25-Sep-09	OW	13.88	19.00
19-Jul-10	OW	21.16	22.00
05-Aug-10	OW	22.37	25.00
25-Oct-10	OW	26.30	29.00
04-Nov-10	OW	27.18	32.00
06-Jan-11	OW	35.55	38.00
01-Feb-11	OW	38.99	43.00
24-Feb-11	OW	40.11	44.00
28-Mar-11	OW	44.26	46.00
09-May-11	OW	53.22	53.00
18-Jul-11	OW	55.00	58.00
04-Aug-11	OW	38.91	55.00
28-Feb-12	OW	51.08	58.00
30-Apr-12	OW	55.63	63.00
03-Sep-12	NR	58.78	--

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Sep 25, 2009.

Valeant Pharmaceuticals International (VRX.TO, VRX CN) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
J.P. Morgan ratings or designations: OW = Overweight, N= Neutral, UW = Underweight, NR = Not Rated

Explanation of Equity Research Ratings, Designations and Analyst(s) Coverage Universe:
J.P. Morgan uses the following rating system: Overweight [Over the next six to twelve months, we expect this stock will outperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Neutral [Over the next six to twelve months, we expect this stock will perform in line with the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Underweight [Over the next six to twelve months, we expect this stock will underperform the average total return of the stocks in the analyst's (or the analyst's team's) coverage universe.] Not Rated (NR): J.P. Morgan has removed the rating and, if applicable, the price target, for this stock because of either a lack of a sufficient fundamental basis or for legal, regulatory or policy reasons. The previous rating and, if applicable, the price target, no longer should be relied upon. An NR designation is not a recommendation or a rating. In our Asia (ex-Australia) and U.K. small- and mid-cap equity research, each stock's expected total return is compared to the expected total return of a benchmark country market index, not to those analysts' coverage universe. If it does not appear in the Important Disclosures section of this report, the certifying analyst's coverage universe can be found on J.P. Morgan's research website, www.morganmarkets.com.

Coverage Universe: Schott, Christopher: Allergan (AGN), Amarin Corporation (AMRN), Bristol-Myers Squibb Company (BMY), Eli Lilly & Company (LLY), Endo Health Solutions (ENDP), Forest Laboratories, Inc (FRX), Hospira, Inc. (HSP), Impax Laboratories (IPXL), Medicis Pharmaceutical Corp. (MRX), Merck & Co., Inc. (MRK), Mylan Inc. (MYL), Perrigo Company (PRGO), Pfizer Inc. (PFE), Sagent Pharmaceuticals (SGNT), Teva Pharmaceuticals (TEVA), Valeant Pharmaceuticals (VRX), Warner Chilcott (WCRX), Watson Pharmaceuticals (WPI)

J.P. Morgan Equity Research Ratings Distribution, as of September 28, 2012

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage	44%	44%	12%
IB clients*	52%	46%	34%
JPMS Equity Research Coverage	42%	48%	10%
IB clients*	69%	61%	53%

*Percentage of investment banking clients in each rating category.
For purposes only of FINRA/NYSE ratings distribution rules, our Overweight rating falls into a buy rating category; our Neutral rating falls into a hold rating category; and our Underweight rating falls into a sell rating category. Please note that stocks with an NR designation are not included in the table above.

Equity Valuation and Risks: For valuation methodology and risks associated with covered companies or price targets for covered companies, please see the most recent company-specific research report at http://www.morganmarkets.com , contact the primary analyst or your J.P. Morgan representative, or email research.disclosure.inquiries@jpmorgan.com.

Equity Analysts' Compensation: The equity research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors, and overall firm revenues.

Other Disclosures

J.P. Morgan ("JPM") is the global brand name for J.P. Morgan Securities LLC ("JPMS") and its affiliates worldwide. J.P. Morgan Cazenove is a marketing name for the U.K. investment banking businesses and EMEA cash equities and equity research businesses of JPMorgan Chase & Co. and its subsidiaries.

Options related research: If the information contained herein regards options related research, such information is available only to persons who have received the proper option risk disclosure documents. For a copy of the Option Clearing Corporation's Characteristics and Risks of Standardized Options, please contact your J.P. Morgan Representative or visit the OCC's website at http://www.optionsclearing.com/publications/risks/riskstoc.pdf

Legal Entities Disclosures
U.S.: JPMS is a member of NYSE, FINRA, SIPC and the NFA. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. **U.K.:** J.P. Morgan Securities plc (JPMS plc) is a member of the London Stock Exchange and is authorized and regulated by the Financial Services Authority. Registered in England & Wales No. 2711006. Registered Office 25 Bank Street, London, E14 5JP. **South Africa:** J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. **Hong Kong:** J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission in Hong Kong. **Korea:** J.P. Morgan Securities (Far East) Ltd, Seoul Branch, is regulated by the Korea Financial Supervisory Service. **Australia:** J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) is regulated by ASIC and J.P. Morgan Securities Australia Limited (ABN 61 003 245 234/AFS Licence No: 238066) is a Market Participant with the ASX and regulated by ASIC. **Taiwan:** J.P.Morgan Securities (Taiwan) Limited is a participant of the Taiwan Stock Exchange (company-type) and regulated by the Taiwan Securities and Futures Bureau. **India:** J.P. Morgan India Private Limited, having its registered office at J.P. Morgan Tower, Off. C.S.T. Road, Kalina, Santacruz East, Mumbai - 400098, is a member of the National Stock Exchange of India Limited (SEBI Registration Number - INB 230675231/INF 230675231/INE 230675231) and Bombay Stock Exchange Limited (SEBI Registration Number - INB 010675237/INF 010675237) and is regulated by Securities and Exchange Board of India. **Thailand:** JPMorgan Securities (Thailand) Limited is a member of the Stock Exchange of Thailand and is regulated by the Ministry of Finance and the Securities and Exchange Commission. **Indonesia:** PT J.P. Morgan Securities Indonesia is a member of the Indonesia Stock Exchange and is regulated by the BAPEPAM LK. **Philippines:** J.P. Morgan Securities Philippines Inc. is a member of the Philippine Stock Exchange and is regulated by the Securities and Exchange Commission. **Brazil:** Banco J.P. Morgan S.A. is regulated by the Comissao de Valores Mobiliarios (CVM) and by the Central Bank of Brazil. **Mexico:** J.P. Morgan Casa de Bolsa, S.A. de C.V., J.P. Morgan Grupo Financiero is a member of the Mexican Stock Exchange and authorized to act as a broker dealer by the National Banking and Securities Exchange Commission. **Singapore:** This material is issued and distributed in Singapore by J.P. Morgan Securities Singapore Private Limited (JPMSS) [MICA (P) 088/04/2012 and Co. Reg. No.: 199405335R] which is a member of the Singapore Exchange Securities Trading Limited and is regulated by the Monetary Authority of Singapore (MAS) and/or JPMorgan Chase Bank, N.A., Singapore branch (JPMCB Singapore) which is regulated by the MAS. **Malaysia:** This material is issued and distributed in Malaysia by JPMorgan Securities (Malaysia) Sdn Bhd (18146-X) which is a Participating Organization of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission in Malaysia. **Pakistan:** J. P. Morgan Pakistan Broking (Pvt.) Ltd is a member of the Karachi Stock Exchange and regulated by the Securities and Exchange Commission of Pakistan. **Saudi Arabia:** J.P. Morgan Saudi Arabia Ltd. is authorized by the Capital Market Authority of the Kingdom of Saudi Arabia (CMA) to carry out dealing as an agent, arranging, advising and custody, with respect to securities business under licence number 35-07079 and its registered address is at 8th Floor, Al-Faisaliyah Tower, King Fahad Road, P.O. Box 51907, Riyadh 11553, Kingdom of Saudi Arabia. **Dubai:** JPMorgan Chase Bank, N.A., Dubai Branch is regulated by the Dubai Financial Services Authority (DFSA) and its registered address is Dubai International Financial Centre - Building 3, Level 7, PO Box 506551, Dubai, UAE.

Country and Region Specific Disclosures
U.K. and European Economic Area (EEA): Unless specified to the contrary, issued and approved for distribution in the U.K. and the EEA by JPMS plc.

Investment research issued by JPMS plc has been prepared in accordance with JPMS plc's policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Many European regulators require a firm to establish, implement and maintain such a policy. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Australia:** This material is issued and distributed by JPMSAL in Australia to "wholesale clients" only. JPMSAL does not issue or distribute this material to "retail clients". The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMSAL. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. **Germany:** This material is distributed in Germany by J.P. Morgan Securities plc, Frankfurt Branch and J.P.Morgan Chase Bank, N.A., Frankfurt Branch which are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Hong Kong:** The 1% ownership disclosure as of the previous month end satisfies the requirements under Paragraph 16.5(a) of the Hong Kong Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission. (For research published within the first ten days of the month, the disclosure may be based on the month end data from two months prior.) J.P. Morgan Broking (Hong Kong) Limited is the liquidity provider/market maker for derivative warrants, callable bull bear contracts and stock options listed on the Stock Exchange of Hong Kong Limited. An updated list can be found on HKEx website: http://www.hkex.com.hk. **Japan:** There is a risk that a loss may occur due to a change in the price of the shares in the case of share trading, and that a loss may occur due to the exchange rate in the case of foreign share trading. In the case of share trading, JPMorgan Securities Japan Co., Ltd., will be receiving a brokerage fee and consumption tax (shouhizei) calculated by multiplying the executed price by the commission rate which was individually agreed between JPMorgan Securities Japan Co., Ltd., and the customer in advance. Financial Instruments Firms: JPMorgan Securities Japan Co., Ltd., Kanto Local Finance Bureau (kinsho) No. 82 Participating Association / Japan Securities Dealers Association, The Financial Futures Association of Japan, Type II Financial Instruments Firms Association and Japan Investment Advisers Association. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul Branch. **Singapore:** JPMSS and/or its affiliates may have a holding in any of the securities discussed in this report; for securities where the holding is 1% or greater, the specific holding is disclosed in the Important Disclosures section above. **India:** For private circulation only, not for sale. **Pakistan:** For private circulation only, not for sale. **New Zealand:** This material is issued and distributed by JPMSAL in New Zealand only to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money. JPMSAL does not issue or distribute this material to members of "the public" as determined in accordance with section 3 of the Securities Act 1978. The recipient of this material must not distribute it to any third party or outside New Zealand without the prior written consent of JPMSAL. **Canada:** The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Any offer or sale of the securities described herein in Canada will be made only under an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. To the extent that the information contained herein references securities of an issuer incorporated, formed or created under the laws of Canada or a province or territory of Canada, any trades in such securities must be conducted through a dealer registered in Canada. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offence. **Dubai:** This report has been issued to persons regarded as professional clients as defined under the DFSA rules.

General: Additional information is available upon request. Information has been obtained from sources believed to be reliable but JPMorgan Chase & Co. or its affiliates and/or subsidiaries (collectively J.P. Morgan) do not warrant its completeness or accuracy except with respect to any disclosures relative to JPMS and/or its affiliates and the analyst's involvement with the issuer that is the subject of the research. All pricing is as of the close of market for the securities discussed, unless otherwise stated. Opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Past performance is not indicative of future results. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. The opinions and recommendations herein do not take into account individual client circumstances, objectives, or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. The recipient of this report must make its own independent decisions regarding any securities or financial instruments mentioned herein. JPMS distributes in the U.S. research published by non-U.S. affiliates and accepts responsibility for its contents. Periodic updates may be provided on companies/industries based on company specific developments or announcements, market conditions or any other publicly available information. Clients should contact analysts and execute transactions through a J.P. Morgan subsidiary or affiliate in their home jurisdiction unless governing law permits otherwise.

"Other Disclosures" last revised September 29, 2012.