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OUTPERFORM

Reason for report:

FLASH NOTE

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OPHTHOTECH CORPORATION

NVS Agreement Provides a Cash Boost and a Great Partner in Wet AMD

• **Bottom Line:** Today after the close OPHT announced it has struck a deal with NVS (OP) to commercialize Fovista in ex-US markets for the treatment of wet age-related macular degeneration (AMD). OPHT has consistently guided that it planned retain Fovista US rights and find an ex-US partner, so the agreement does not come as a big surprise to those of us who had already assumed an ex-US commercialization agreement in our model. However, we believe the very attractive terms ($200MM upfront w/ another $130MM to be received in the next ~18 months) and the strong partner in NVS (which commercializes Lucentis ex-US) will be received very favorably by OPHT investors, while R&D plans to develop a Fovista/anti-VEGF (vascular endothelial growth factor) co-formulation may over time provide a new counterargument to the bear thesis that two separate injections of Fovista plus an anti-VEGF might not be perceived as best-in-class by physicians in a scenario in which REGN's (OP) Eylea/anti-PDGF (platelet derived growth factor) single injection co-formulation is able to make it to market. **Reiterate OP on OPHT.**

• **The agreement is in line with OPHT's guidance at IPO that it plans to retain US Fovista rights and seek a partner for ex-US commercialization.** OPHT continues to believe that it can commercialize Fovista in the US with a targeted specialty sales force. In the agreement, OPHT stands to earn >$1B in milestones and royalties in the mid-30 percent range on ex-US Fovista sales, which are above our base case assumption in which we model a royalty rate of 25% and do not credit OPHT with any milestones. With a potential third $41.7MM tranche coming from Novo Ventures, we believe OPHT is well resourced to support its R&D efforts which have been expanding with additional Fovista trials and the advancement of Zimura to Phase II/III.

• **OPHT reiterated its view that it believes separate anti-PDGF and anti-VEGF injections provide physicians with the upmost flexibility to treat their wet AMD patients,** but the plan to develop a Fovista/anti-VEGF co-formulation product presents a nice hedge for OPHT investors against REGN's Eylea/anti-PDGF co-form which is currently in Phase I. Under the agreement, NVS will pay the research and development costs for a fixed combination delivery of Fovista + a proprietary NVS anti-VEGF product, the identity of which OPHT would not disclose on its conference call. The development timelines for the co-formulation are also unclear at this stage, but we believe it is likely that OPHT will press to move this program into the clinic quickly given that REGN just recently commenced a Phase I with its proprietary Eylea/anti-PDGF single injection. The economics of the co-formulation agreement are also favorable to OPHT we believe, as OPHT can earn royalties in the mid-30 percent range on supplying Fovista product for the single injection and also has an ability to opt-in under certain conditions and commercialize the co-formulation product itself in the US. Given that it's early days for the Fovista/anti-VEGF single injection however, we believe the lateral impact to REGN shares from the OPHT agreement is likely to be minimal.

Key Stats:	**(NASDAQ:OPHT)**
S&P 600 Health Care Index:	**1,247.49**
Price:	**$31.46**
52 Week High:	$42.54
52 Week Low:	$22.61
Shares Outstanding (mil):	35.7
Market Capitalization (mil):	$1,123.1

Please refer to pages 3 - 6 for Important Disclosures, Price Charts and Analyst Certification.

• **Programs for other Fovista indications and Zimura are advancing nicely.** Plans are underway for multiple expansion trials of Fovista in various wet AMD sub-groups. Additional studies are expected to commence in 2014, including a reduction of treatment burden study in wet AMD, a trial in anti-VEGF resistant cases, and a study examining Fovista's ability to ameliorate subretinal fibrosis to prevent poor long-term visual outcomes. In addition, Zimura (geographic atrophy, severe dry AMD) will enter Phase II/III in late 2014 or early 2015.

Disclosures Appendix

Analyst Certification

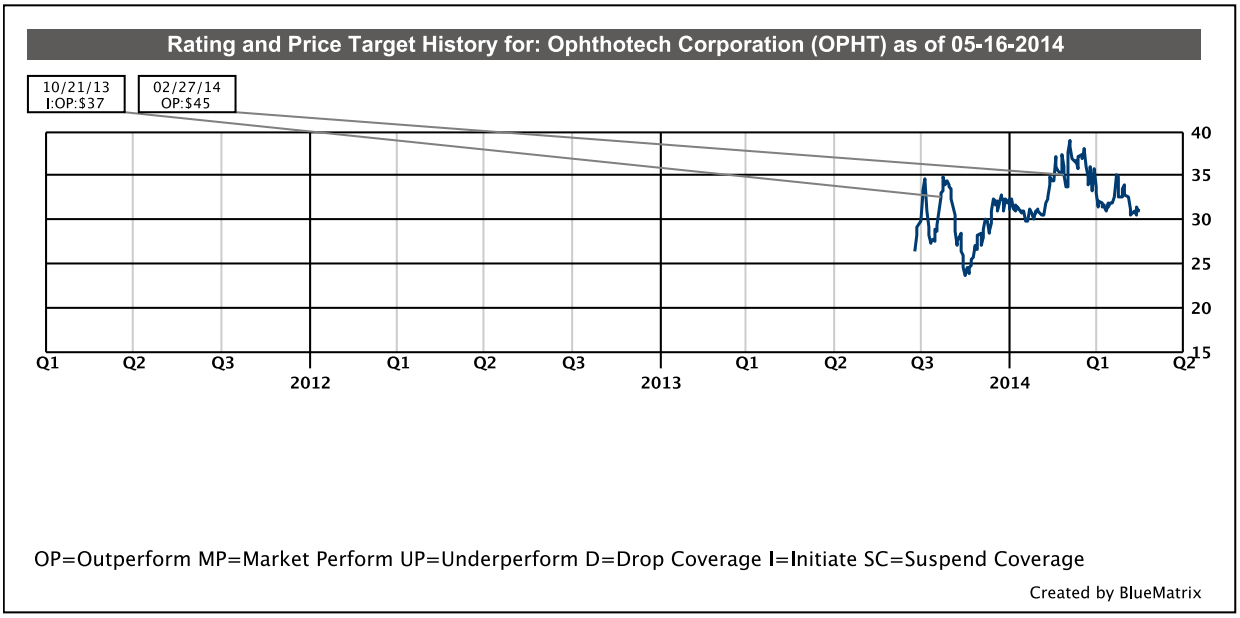
I, Joseph P. Schwartz, certify that the views expressed in this report accurately reflect my views and that no part of my compensation was, is, or will be directly related to the specific recommendation or views contained in this report.

Valuation

We estimate a ~$45 per share value for OPHT based on a discounted cash flow analysis that assumes a 12% discount rate and a 2% terminal growth rate. We project Fovista revenue growth from 2018 through 2027 in the US and EU and cut it significantly thereafter at the expiration of OPHT's method-of-treatment patent. We see upside to our valuation from either: (1) less robust competition than we anticipate, or (2) the potential for Fovista to be best-in-class even in the face of anti-PDGF competition from co-formulated or augmented anti-VEGF agents.

Risks to Valuation

Risks to our OPHT valuation include the possibility of disappointing clinical data, commercial shortfalls, or higher-than-anticipated regulatory hurdles. Since OPHT solely has one product in late-stage development, any of these could impact the stock significantly.



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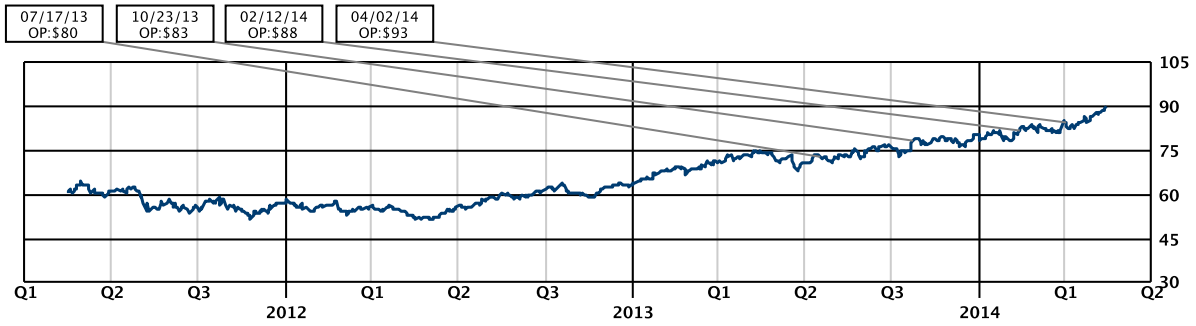
Rating and Price Target History for: Novartis AG (NVS) as of 05-16-2014



Leerink Swann initiated coverage of NVS with an Outperform rating on November 9, 2010. On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

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Rating and Price Target History for: Regeneron Pharmaceuticals, Inc. (REGN) as of 05-16-2014

On June 11, 2013, Leerink Swann began a transition to specific price targets for the stocks under its coverage, replacing valuation ranges.

OP=Outperform MP=Market Perform UP=Underperform D=Drop Coverage I=Initiate SC=Suspend Coverage

Created by BlueMatrix

Distribution of Ratings/Investment Banking Services (IB) as of 03/31/14				
			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OP]	131	68.23	46	35.11
HOLD [MP]	61	31.77	3	4.92
SELL [UP]	0	0.00	0	0.00

Explanation of Ratings

Outperform (Buy): We expect this stock to outperform its benchmark over the next 12 months.

Market Perform (Hold/Neutral): We expect this stock to perform in line with its benchmark over the next 12 months.

Underperform (Sell): We expect this stock to underperform its benchmark over the next 12 months.The degree of outperformance or underperformance required to warrant an Outperform or an Underperform rating should be commensurate with the risk profile of the company.

For the purposes of these definitions the relevant benchmark will be the S&P 600® Health Care Index for issuers with a market capitalization of less than $2 billion and the S&P 500® Health Care Index for issuers with a market capitalization over $2 billion.

Important Disclosures

This information (including, but not limited to, prices, quotes and statistics) has been obtained from sources that we believe reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All information is subject to change without notice. This is provided for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy any product to which this information relates. The Firm, its officers, directors, employees, proprietary accounts and affiliates may have a position, long or short, in the securities referred to in this report, and/or other related securities, and from time to time may increase or decrease the position or express a view that is contrary to that contained in this report. The Firm's salespeople, traders and other professionals may provide oral or written market commentary or trading strategies that are contrary to opinions expressed in this report. The Firm's proprietary accounts may make investment decisions that are inconsistent with the opinions expressed in this report. The past performance of securities does not guarantee or predict future performance. Transaction strategies described herein may not be suitable for all investors. Additional information is available upon request by contacting the Editorial Department at One Federal Street, 37th Floor, Boston, MA 02110.

Like all Firm employees, analysts receive compensation that is impacted by, among other factors, overall firm profitability, which includes revenues from, among other business units, Institutional Equities, and Investment Banking. Analysts, however, are not compensated for a specific investment banking services transaction.

MEDACorp is a network of healthcare professionals, attorneys, physicians, key opinion leaders and other specialists accessed by Leerink and it provides information used by its analysts in preparing research.

In the past 12 months, the Firm has received compensation for providing investment banking services to Ophthotech Corporation .

Leerink Partners LLC makes a market in Ophthotech Corporation and Regeneron Pharmaceuticals, Inc.

Leerink Partners LLC is willing to sell to, or buy from, clients the common stock of Novartis AG on a principal basis.

Leerink Partners LLC has acted as a co-manager for a public offering of Ophthotech Corporation in the past 12 months.

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