ROTH Capital Partners

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Healthcare: Biotechnology

Retrophin, Inc. | RTRX - $5.90 - OTC | *Buy*

Analysis of Sales/Earnings

Estimates Changed

Stock Data	
52-Week Low - High	$2.01 - $9.99
Shares Out. (mil)	18.38
Mkt. Cap.(mil)	$108.5
3-Mo. Avg. Vol.	5,894
12-Mo.Price Target	$15.00
Cash (mil)	$16.4
Tot. Debt (mil)	$0.0

RTRX trading began on December 17, 2012

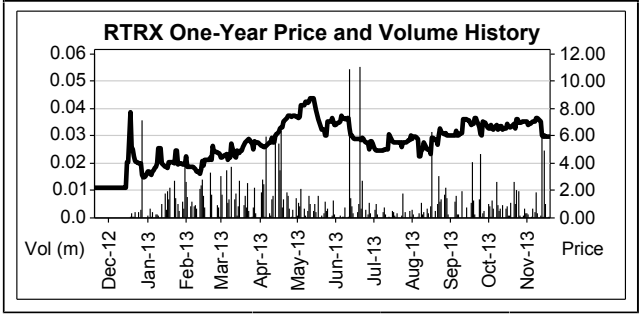
EPS $

Yr Dec	—2013E—	—2014E—		—2015E—	
		Curr	Prev	Curr	Prev
1Q	(0.44)A	(0.29)E	(0.19)E	-	-
2Q	(0.41)A	(0.30)E	(0.20)E	-	-
3Q	(0.71)A	(0.33)E	(0.21)E	-	-
4Q	(0.40)E	(0.35)E	(0.16)E	-	-
YEAR	(1.69)E	(1.27)E	(0.76)E	(1.34)E	(0.85)E
P/E	NM	NM	NM	NM	NM

Quarterly EPS may not add to full year based on increases in share count and rounding

Revenue ($ millions)

Yr Dec	—2013E—	—2014E—	—2015E—
		Curr	Curr
1Q	0.0A	0.0E	-
2Q	0.0A	0.0E	-
3Q	0.0A	0.0E	-
4Q	0.0E	0.0E	-
YEAR	0.0E	0.0E	0.0E



RTRX: 3Q13 Results; "Going Pivotal" Soon; Expect Fast Answers; Reiterate Buy

RTRX posted 3Q13 results with EPS of $(0.71) versus our estimate of $(0.18). The loss differential was attributable to change in fair value of derivative instruments. The lead product RE-021 for FSGS is progressing nicely, with the pivotal Phase II trial starting shortly. The FDA has indicated that the Phase II may serve as a basis for accelerated approval. Reiterate Buy.

Event

Retrophin announced 3Q13 results, posting EPS of ($0.71), compared to our estimate of ($0.18). The primary driver for the discrepancy was a $5.8 million loss attributable to the change in fair value of derivative instruments. The company ended the quarter with $16.4 million in cash.

Impact

Our current valuation is based solely on the opportunity for RE-021 in focal segmental glomerulosclerosis (FSGS) with significant valuation upside potential from the pipeline, in our belief. RTRX expects "first patients in" for their Phase II trial of RE-021 for FSGS in December 2013. Per discussions with the FDA, it is possible that this eight week, 100 patient trial (double-blind, randomized, with 40-week open label extension arm) could be a pivotal trial and the basis for accelerated approval (with a proteinuria endpoint). Management indicated `12 months for enrollment but could be quicker based on the unmet need and initiatives with clinical sites and databases of patients. The company has indicated that they have an abundant supply of RE-021 and are prepared if product moves to market quickly. In 2014, we expect additional visibility for other potential indications for RE-021. The company has taken steps to broaden their pipeline. This past quarter, RTRX reported compelling preclinical survival data for RE-024 for the treatment of ultra-orphan indication Pantothenate Kinase-Associated Neurodegeneration (PKAN). A Phase I emergency and compassionate use trial was initiated and is expected to begin enrolling patients in Dec '13 or Jan '14. The company also had entered into an exclusive licensing agreement with a major pharmaceutical company to negotiate a license for a product to treat autism and schizophrenia. The company believes the asset could be moved into the clinic quickly and expects to make a formal announcement about the in-licensing next month.

Action

We reiterate our Buy rating and $15 target. Based on our clinical NPV valuation method, we believe that shares of Retrophin are significantly undervalued solely on the RE-021 opportunity for FSGS. As the pipeline matures and becomes more visible, we believe potential exists for significant upside to our valuation.

SUMMARY

New additions to the management team and Board of Directors:
Steven Eby, R.Ph. as Vice President, Global Strategy and Program Management
Maria Beconi, Ph.D. as Vice President of Preclinical Development
Ronald Guido as Vice President of Regulatory Affairs
Jennifer Hunt as Vice President of Clinical Operations
Nils Olsson, Ph.D. as Vice President of Chemistry, Manufacturing and Control (CMC)
Ruan Bucco, Pharm, D. as Director of Medical Strategy
Kristyn Bogli as Director of Clinical Logistics
Cornelius Golding as Director
Jeffrey Paley, M.D. as Director

VALUATION

We reiterate our Buy rating and $15 price target on Retrophin. Our valuation of Retrophin is based on our probability-weighted clinical net present value (NPV) valuation model. We believe this method is appropriate in capturing the value of the clinical stage pipeline. It allows for the flexing of assumptions based on key factors such as chance of success, peak sales estimates, and year of commercial launch. Factors which could impede shares of RTRX from reaching our price target include negative results from ongoing clinical trials as well as an inability to continually fund operations as a nonprofitable biotechnology company.

RISKS

· **Clinical and regulatory risk.** Drug development company's valuations are highly dependent on the outcomes of clinical trials. When considering Retrophin, the company targets indications with clear unmet medical needs. We believe that one of the continuing perceived risks is the regulatory path for RE-021 in FSGS and the planned primary endpoint of proteinuria. This appears to be a recurring concern for investors, in our belief, though Retrophin has received a letter from the FDA confirming its comfort level with having proteinuria as a primary endpoint. Additionally, while the PKAN program has a potential rapid development pathway, it is only about to enter the clinic, so therefore has increased risk from both a clinical and valuation standpoint.

· **Financing risk**. As with a majority of development-stage biotechnology companies, the ability to maintain sufficient funding is critical to the progress of pipeline candidates. Should Retrophin experience problems raising sufficient capital, its development programs' progress could be significantly impeded, leading to both delays in development timelines as well as potential negative effects on investor confidence. Each of these could have a negative impact on the share price. Retrophin has multiple clinical, in-licensing and potential acquisition plans in play right now. We believe that an important concern of investors is how the company is going to fund all of these initiatives.

· **Perceptions of "accelerated regulatory pathways".** Accelerated paths to potential FDA approval represent an attractive approach for companies that choose the right diseases. While clinical development plans may be clear, Retrophin must be vigilant in its discussions with the FDA to ensure agreement on all points associated with a potential approval path. Should the FDA require additional information or clinical trials, the perception of delays could negatively impact the stock.

· **Manufacturing and operational risks.** We expect Retrophin to continue to outsourcing its manufacturing. Dependence on a third party adds an additional layer of risk and any delays or disruptions in drug supply for trials or commercialization could significantly impact the stock. The stock is currently listed OTC, and we believe this limits the potential investor base and trading liquidity. We believe an uplisting to NASDAQ would help alleviate these issues.

COMPANY DESCRIPTION

Retrophin, Inc., a biopharmaceutical company, engages in the discovery, development, and commercialization of orphan drugs for the treatment of rare and life-threatening diseases. The company develops treatments for Focal Segmental Glomerulosclerosis (FSGS), Pantothenate Kinase-Associated Neurodegeneration (PKAN), Duchenne Muscular Dystrophy and other catastrophic diseases. Its products include RE-021, a small molecule angiotensin receptor blocker and selective endothelin receptor antagonist for the treatment of FSGS; and RE-024, a drug that restores the disruption in the biochemical Coenzyme A pathway caused by the non-functioning PANK2 encoded enzyme. The company also develops RE-001, a recombinant fusion protein that substitutes the dystrophin that is lacking in DMD patients; and RE-003, an investigational agent for spinal muscular atrophy. The company was founded in 2011 and is based in New York, New York.

Retrophin

Mar. 11, 2011 inception through Dec. 31, 2011
($ in millions except per share data) DGTE trading prior to Dec. 17, 2012 - merger

Profit & Loss	**2011A**	**2012A**	**2013E**	**2014E**	**2015E**	**2016E**
Licensing	0.0	0.0	0.0	0.0	0.0	0.0
R&D collaborations	0.0	0.0	0.0	0.0	0.0	0.0
Product and Royalties	0.0	0.0	0.0	0.0	0.0	4.5
Other revenues	0.0	0.0	0.0	0.0	0.0	0.0
Revenues	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**4.5**
CoGS	0.0	0.0	0.0	0.0	0.0	0.7
Gross Profit	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**3.8**
Gross margin	*0%*	*0%*	*0%*	*0%*	*0%*	*85%*
G&A	3.3	30.3	15.1	17.4	18.3	19.2
R&D	0.0	0.0	1.9	6.0	8.7	12.1
Other op ex	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	**(3.3)**	**(30.3)**	**(17.0)**	**(23.4)**	**(26.9)**	**(27.5)**
EBIT margin	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*
Non operating expenses	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest Income/Other	(0.0)	0.0	(10.0)	(0.8)	0.1	0.1
Interest expense	0.0	0.1	0.1	0.0	0.0	0.0
EBT	**(3.3)**	**(30.3)**	**(27.1)**	**(24.2)**	**(26.8)**	**(27.4)**
EBT margin	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*
Provision for taxes	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	**(3.3)**	**(30.3)**	**(27.1)**	**(24.2)**	**(26.8)**	**(27.4)**
Participation of preferred stock	(0.0)	(0.0)	0.0	0.0	0.0	0.0
Net Income to common	**(3.3)**	**(30.3)**	**(27.1)**	**(24.2)**	**(26.8)**	**(27.4)**
net margin	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*
NoSH	2.1	3.7	16.0	19.0	20.0	25.0
EPS - basic	**(1.59)**	**(8.29)**	**(1.69)**	**(1.27)**	**(1.34)**	**(1.10)**
EPS - diluted		**(8.29)**	**(1.69)**	**(1.27)**	**(1.34)**	**(1.10)**

Source: SEC Filings and ROTH Capital Partners estimates

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Quarterly P&L

	Q1'13A	Q2'13A	H1'13A	Q3'13A	9M'13A	Q4'13E	FY'13E	Q1'14E	Q2'14E	H1'14E	Q3'14E	9M'14E	Q4'14E	FY'14E
Licensing	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
R&D collaborations	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Product and Royalties	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Other revenues	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Revenues	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.0**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.0**
CoGS	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Gross Profit	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.0**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.0**
Gross margin	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*	*0%*	*nm*	*nm*	*nm*	*nm*	*nm*	*nm*	*0%*
G&A	2.25	5.10	7.35	3.75	11.10	4.02	15.1	4.12	4.29	8.41	4.48	12.89	4.51	17.4
R&D	0.00	0.00	0.00	1.40	1.40	0.50	1.9	1.21	1.29	2.50	1.62	4.12	1.87	6.0
Other op ex	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
EBITDA	**(2.3)**	**(5.1)**	**(7.4)**	**(5.2)**	**(12.5)**	**(4.5)**	**(17.0)**	**(5.3)**	**(5.6)**	**(10.9)**	**(6.1)**	**(17.0)**	**(6.4)**	**(23.4)**
EBITDA margin							*nm*							*nm*
Non operating expenses	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Net Interest Income/Other	(2.45)	0.06	(2.39)	(5.74)	(8.13)	(1.87)	(10.0)	(0.20)	(0.20)	(0.40)	(0.20)	(0.60)	(0.20)	(0.8)
Interest expense	0.04	0.00	0.05	0.00	0.05	0.00	0.1	0.00	0.00	0.00	0.00	0.00	0.00	0.0
EBT	**(4.7)**	**(5.0)**	**(9.8)**	**(10.9)**	**(20.7)**	**(6.4)**	**(27.1)**	**(5.5)**	**(5.8)**	**(11.3)**	**(6.3)**	**(17.6)**	**(6.6)**	**(24.2)**
EBT margin							*nm*							*nm*
Provision for taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	0.00	0.00	0.00	0.0
Participation of preferred stock														
Net Income to common	**(4.7)**	**(5.0)**	**(9.8)**	**(10.9)**	**(20.7)**	**(6.4)**	**(27.1)**	**(5.5)**	**(5.8)**	**(11.3)**	**(6.3)**	**(17.6)**	**(6.6)**	**(24.2)**
net margin							*nm*							*nm*
NoSH	10.7	12.3	11.48	15.37	12.77	16.00	16.00	19.0	19.0	19.00	19.00	19.00	19.00	19.00
EPS - diluted	**(0.44)**	**(0.41)**	**(0.85)**	**(0.71)**	**(1.62)**	**(0.40)**	**(1.69)**	**(0.29)**	**(0.30)**	**(0.60)**	**(0.33)**	**(0.93)**	**(0.35)**	**(1.27)**

Source: SEC Filings and ROTH Capital Partners estimates

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Disclosures:

ROTH and/or its employees, officers, directors and owners own options, rights or warrants to purchase shares of Retrophin, Inc. stock.

Within the last twelve months, ROTH has received compensation for investment banking services from Retrophin, Inc..

ROTH makes a market in shares of Retrophin, Inc. and as such, buys and sells from customers on a principal basis.

Shares of Retrophin, Inc. may be subject to the Securities and Exchange Commission's Penny Stock Rules, which may set forth sales practice requirements for certain low-priced securities.

Shares of Retrophin, Inc. may not be eligible for sale in one or more states.

On September 28, 2010, ROTH changed its rating system in order to replace the Hold rating with Neutral.

On May 26, 2011, ROTH changed its rating system in order to incorporate coverage that is Under Review.

Each box on the Rating and Price Target History chart above represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first note written during the past three years. **Distribution Ratings/IB Services** shows the number of companies in each rating category from which Roth or an affiliate received compensation for investment banking services in the past 12 month.

Distribution of IB Services Firmwide

			IB Serv./Past 12 Mos. as of 11/19/13	
Rating	**Count**	**Percent**	**Count**	**Percent**
Buy [B]	**157**	**70.40**	**86**	**54.78**
Neutral [N]	**37**	**16.59**	**11**	**29.73**
Sell [S]	**2**	**0.90**	**0**	**0**
Under Review [UR]	**26**	**11.66**	**10**	**38.46**

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price movement may not correspond to the stated 12-month price target.

Ratings System Definitions - ROTH employs a rating system based on the following:

Buy: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return of at least 10% over the next 12 months.

Neutral: A rating, which at the time it is instituted and or reiterated, that indicates an expectation of a total return between negative 10% and 10% over the next 12 months.

Sell: A rating, which at the time it is instituted and or reiterated, that indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

Under Review [UR]: A rating, which at the time it is instituted and or reiterated, indicates the temporary removal of the prior rating, price target and estimates for the security. Prior rating, price target and estimates should no longer be relied upon for UR-rated securities.

Not Covered [NC]: ROTH does not publish research or have an opinion about this security.

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