



## Neothetics, Inc. (NEOT, BUY, \$7.49)

# Initiating Coverage with BUY Rating and \$16 PT: Building a Better Fat Trap

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# Investment Thesis

# Neothetics (NEOT): Initiating with BUY Rating and \$16 PT (+114% Proj. Upside Potential)

## Our Investment Thesis:

- #1. We believe LIPO-202 could be the next Botox (which has sales of \$1B+), with peak sales potential of over \$1B (note, the expected launch is in 2018), but Neothetics' market cap suggests that the Street is underestimating this opportunity.
- #2. We believe investing in Neothetics could provide a good entry point into the body contouring market early in its growth and development. The body contouring market is growing double digits, which is higher than the mid-single-digit growth rate of the overall aesthetics market. Body contouring could be one of the next big growth drivers for the aesthetics market, in our view.
- #3. There is a free call option on LIPO-102, which has orphan designation for the treatment of exophthalmos. Neothetics' valuation ascribes no value for this pipeline product. Furthermore, we believe this could be a sizable and long-tailed opportunity for Neothetics because orphan drugs usually have superior pricing and longer brand exclusivity than other brand drugs.

## Performance Drivers and Potential Stock Catalysts:

- 1) LIPO-202 Phase III results, '15 and '16
- 2) LIPO-202 – we estimate submission in 2H16
- 3) LIPO-202 – we estimate approval and launch in 2H17

## Guggenheim Points of Differentiation:

- 1) While LIPO-202 did not demonstrate a high response rate in Phase II trials, based on our diligence, we still believe that adoption could be robust if the product is approved. Also, Phase III trial results could be better than the Phase II results because NEOT will only allow patients who maintained a stable weight for 30 days to enter the Phase III trials. In Phase II trials, subjects that remained weight neutral or lost, on average, a pound had a 60%+ improvement in efficacy.
- 2) We think LIPO-202 has potential to be as big as Botox, if not larger (we estimate Botox '14 sales of \$1B+). There is potential for LIPO-202 to be used in other body areas to reduce fat, such as the arms, buttocks, chin, and thighs. Also, our diligence suggests that men potentially would be interested in this product as well. Our \$1B+ peak sales estimate does not include these two upside opportunities.
- 3) Although NEOT could price LIPO-202 well above the expected ~\$1,500 to doctors for eight treatments, we think NEOT's more rational pricing strategy will drive wider adoption of the product. That being said, there are still a few years until launch, and pricing could potentially be better than expected, depending on where the body contouring market evolves and the economic conditions at the time of launch.

## Neothetics (NEOT): Bull, Bear, and Base Case Analyses

**Based on the probability of each scenario, we arrive at a 12-month value of \$16 per share.**

Scenario	Valuation	Investment Thesis
<b>BULL CASE</b>	<b>2020E EPS:</b> \$6.75 <b>12-Month Bull-Case Scenario:</b> \$28.00 <b>Probability:</b> 12% <b>Upside/Downside Potential:</b> 274%	<ul style="list-style-type: none"> <li>•LIPO-202 sales of \$515MM in 2020</li> <li>•Additional business development</li> <li>•Additional pipeline advancements</li> </ul>
<b>BASE CASE</b>	<b>2020E EPS:</b> \$5.62 <b>12-Month Base-Case Scenario:</b> \$16.00 <b>Probability:</b> 77% <b>Upside/Downside Potential:</b> 114%	<ul style="list-style-type: none"> <li>•LIPO-202 sales of \$472MM in 2020</li> <li>•No additional business development</li> <li>•No additional pipeline advancements</li> </ul>
<b>BEAR CASE</b>	<b>2020E EPS:</b> \$5.00 <b>12-Month Bear-Case Scenario:</b> \$6.50 <b>Probability:</b> 11% <b>Upside/Downside Potential:</b> -13%	<ul style="list-style-type: none"> <li>•LIPO-202 sales of \$410MM in 2020</li> <li>•No additional business development</li> <li>•No additional pipeline advancements</li> </ul>

Source: Guggenheim Securities, LLC and Company Reports

# Valuation

## Neothetics: Valuation

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### **We use a DCF analysis to get to our 12-month price target of \$16.**

- We use a WACC of 28% and an exit multiple of 2x forward EBIT.
- Compares favorably to Specialty Pharmaceutical peers, which trade, on average, at a forward EV/EBIT of 17x.
- Compares favorably to Specialty Pharmaceutical companies that have been acquired at a EV/EBITDA of 13x, which suggests the EV/EBIT would likely be even higher.
- Compares favorably to other similar development stage public companies (see page 8).

### **Risks to our valuation**

1. Neothetics faces competition in each of its markets from a number of large and small companies, some of which have greater financial, R&D, production, and other resources than Neothetics.
2. Pipeline failures would delay the company's time to achieve profitability.
3. Neothetics' drugs may not be commercially successful. This could be a result of better competing products on the market and/or an economic downturn.
4. The USPTO granted patent reexamination of Neothetics' '625 patent (an update is usually 12-18 months post granting of reexamination), and we believe it is very likely '750 may be reexamined as well (we would expect the company to hear before the end of '14). If any of the patent claims in the '625 or the '750 patents are ultimately invalidated or narrowed during prosecution before the USPTO, the extent of the patent coverage afforded to LIPO-202 could be impaired or eliminated, which could potentially harm Neothetics' ability to prevent others from copying its technology.

## Neothetics: Valuation (cont.)

Metrics	Neothetics	Dermira	Kythera	Revance
<b>Market Capitalization</b>	\$106MM	\$515MM	\$799MM	\$419MM
<b>NDAs Filed</b>	None	None	One	None
<b>First Launch</b>	LIPO-202 in 2017/2018	Cimzia for psoriasis in 2018	ATX-101 in 2015 (May 13, 2015 PDUFA date)	RT001 for crows' feet lines in 2017
<b>Pipeline</b>	2 products (LIPO-202, LIPO-102)	5 products	Multiple early stage research programs in hair and fat biology	2 products (RT001 and RT002) in trials for multiple indications
<b>Product Source</b>	Internally developed	Internally developed and partnered	Internally developed (but in-licensed from LA Biomed)	Internally developed
<b>Royalties Out</b>	None	Low- to mid-single digits on DRM04	Low- to mid-single digit to LA Biomed (acquired ex-U.S. and Canadian rights from Bayer in March and so no longer owes milestone payments)	Single digit

Source: Guggenheim Securities LLC, Company Reports and Neothetics S-1 dated 9/12/14



## Detailed Investment Highlights

## Neothetics: Investment Highlight #1

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**#1: Neothetics' pipeline sources FDA-approved drugs for innovative, niche, and aesthetic applications, which means its products are de-risked because 1) they have shorter approval times; 2) they have established safety profiles; and 3) the mechanism of action has already been determined.**

- LIPO-202 is an injectable form of salmeterol xinafoate, a long-acting beta-2 adrenergic receptor agonist that is prescribed for the treatment of asthma and chronic obstructive pulmonary disease.
- Approved drugs containing salmeterol xinafoate include Serevent and Advair.
- Because Neothetics can leverage safety data from previous trials for salmeterol xinafoate, it can file this as a 505(b)(2), which saves both time and money for the company.

## Neothetics: Investment Highlight #1 (cont.)

**LIPO-202 is a first-in-class, injectable drug treatment for targeted subcutaneous abdominal fat reduction (non-surgical liposuction). This addresses a large, unmet need in aesthetics (\$2B market opportunity today, by our estimation).**

- LIPO-202 appears to offer a better option to existing options for fat reduction (see table below for details).
- Liposuction involves significant risk, has a long recovery time, and takes four to six months to see an effect. Current non-invasive treatments are lower risk than liposuction; however, these still require equipment space and take two to four months to see an effect. Patients see results with LIPO-202 in one to two months.
- There is a lot of opportunity for a faster-acting, non-invasive fat reduction procedure because non-invasive options have only ~1% market share.

Last year, in the United States, lipoplasty was the most common surgical procedure (*ASAPS 2013, Neothetics Market Research 2014*).

- Aggregate lipoplasty revenue was over \$1B
- Over 364K procedures were performed (+16% YOY)
- Females accounted for 86% of these procedures
- Lipoplasty is the most common cosmetic surgery for men
- According to Neothetics, ~50% of patients who consider a body contouring procedure decide against a procedure
- Demonstrates a need for alternative options
- We estimate the cosmetic injectable patient market is currently over \$2B annually

Liposuction (1980s)	Non-Invasive Procedures (2007+, Coolsculpting, Liposonix etc.)	LIPO-202
Significant risk	Lower risk	Even lower risk
Removes fat tissue	Shrink or ablate fat cells	Shrinks fat cells
Long/hard recovery time	Shorter/less recovery time	No recovery time
4-6 months for effect	2-4 months for effect	1-2 months for effect
Time intensive	Less time intensive	Minimal time
Requires surgical facilities	Requires equipment space	SQ, needle injection, safety = placebo

Source: Neothetics September 2014 Investor Presentation page 7, September 12<sup>th</sup> S-1 pages 89 to 92

## Neothetics: Investment Highlight #1 (cont.)

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### **Neothetics' LIPO-202 has potential to be first-in-class abdominal contouring drug**

- Largest Phase II trial, RESET, showed significant reductions in abdominal circumference and volume.
- LIPO-202 is an injectable form of salmeterol xinafoate, a long-acting beta-2 adrenergic receptor agonist.
- Targets patients who maintain a stable weight and lifestyle and are not obese (BMI < 30).
- Once-weekly injections for eight weeks, noticeable results seen by week four.
- 30 gauge ½ inch needle, minimal injection site pain, no numbing required, no recovery time.
- 505(b)(2) pathway for U.S. FDA approval; we expect Phase III trials to start in 1H15.
- Total of six clinical trials: key trials include CL-09, VAL-CL-10, CL-11, and RESET.
- Excellent safety profile, similar to placebo; ~800 patients treated to date, ~400+ patients treated to date with LIPO-202.
- Results have been consistent across trials.
- Began as a combo product, LIPO-102 = fluticasone (FP) + salmeterol (SX), efficacy of SX-only formulation (LIPO-202) comparable to LIPO-102.

## Neothetics: Investment Highlight #1 (cont.)

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### **RESET Phase II Results in 0.4 µg Dose versus Placebo Were Statistically Significant**

Statistically significant reductions in central abdominal bulging due to subcutaneous fat in non-obese patients from baseline at day 1 and from placebo were demonstrated with a 0.4 µg weekly dose on the key clinical endpoint measures. The 0.4 µg dose has been demonstrated to be the most effective dose and will be taken forward.

#### **•Significant Increase in Responders to LIPO-202 Treatment Compared to Placebo**

- Statistically significant 1-point/grade improvement on a patient scale (P-GAPS) that is corroborated by the treating clinician as at least a 2-point/grade improvement on a clinician scale (CPnS) (p=0.043).
- Statistically significant 2-point/grade improvement on P-GAPS that is corroborated by the treating clinician as at least a 2-point/grade improvement on CPnS (p=0.024).

#### **•Significant Reduction of Umbilical Circumference by LIPO-202**

- Statistically significant mean change from baseline (p=0.001).
- Statistically significant percentage of responders to a clinically meaningful threshold of a reduction of at least 1.83 cm (p=0.026).

#### **•Significant Reduction in Treatment Area Volume Produced by LIPO-202**

- Statistically significant average change from baseline. 0.4 µg dose reduced treatment area volume on average by 161.6 cubic centimeters (cc) compared to 89.9 cc for placebo, which is statistically significant (p=0.001).
- Statistically significant percentage of responders to a clinically meaningful threshold for reduction in volume of 292.79 cc (p=0.011).

#### **•Similar Reduction in Treatment Area Volume by LIPO-202 and Limited Volume Liposuction in Separate Studies.**

- Mean reduction in treatment area volume of 200 cc was seen in both eight weeks of treatment with 0.4 µg dose in RESET and limited volume liposuction as assessed 10 weeks after surgery.

## Neothetics: Investment Highlight #1 (cont.)

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**We expect LIPO-202 to be approved and launched in 2017.**

- January 2014 FDA guidance meeting with the Division of Dermatology and Dental Products (DDDP)
- End Of Phase 2 (EOP2) meeting 7/23/14
- Expect to initiate Phase III studies 1H15
- NDA submission estimated 2H16
- Approval and launch is expected 2H17

## Neothetics: Investment Highlight #2

**#2: The aesthetics market is robust and growing, driven by 1) an aging population and increasing focus on appearance; 2) new product launches and growing pipeline of products; 3) higher disposable income as a result of a good economy; and 4) non-surgical cosmetic procedures.**

- Non-surgical cosmetic procedures (fillers/toxin) are the largest and fastest-growing segment in the aesthetic industry. In the United States, nonsurgical cosmetic procedures comprised ~84% of total cosmetic procedure volume in '13.
- Procedure volumes for non-surgical cosmetic procedures grew 11% and 13% in '12 and '13, respectively, versus 3% and 11% for surgical procedures.
- There is greater consumer preference for nonsurgical options because they are cheaper and require less recovery time.
- The market for non-surgical procedures continues to grow due to increasing availability of more effective alternatives to surgery and they are being adopted by a broader patient population (men, minorities, and younger patients, vs. Caucasian women, historically). Surgeons have noted that patients are more educated and use non-surgical procedures to delay surgery.
- According to IMCAS, the global aesthetic market is expected to grow to \$9B by '18 (a five-year CAGR of 7.5% ). The market was valued at \$6.2B in '13 and is expected to grow ~7.2% to \$6.7B by '14.
- The body contouring/energy devices market is expected by IMCAS to surpass fillers/toxin as the largest segment in the aesthetic industry by '18. As of '13, fillers/toxins were the largest segment, with 35% market share, growing 6.6% YOY.
- Body contouring/energy devices had a 34% market share but are growing at a faster rate of 9.6%.
- We expect innovation to come from smaller companies, such as Kythera and Revance, among others, and the larger established companies (Actavis/Allergan, Valeant, Galderma) to be net acquirors of new technology.
- We estimate three new potential opportunities could expand the nonsurgical aesthetic market by almost \$9B: 1) add-ons to existing fillers/toxins could contribute \$762MM; 2) products that target a new patient population within the fillers/toxins market, such as a topical botulinum toxin for needle-phobics (Revance); and 3) products that can be bundled with fillers/toxins but address a completely new area, such as submental fat reduction (Kythera, Neothetics). We estimate the latter two opportunities could drive up to \$8.1B of sales.
- Please see our note entitled, “**AGN, VRX - BUY - Deep Dive into Aesthetics Suggests Non-Surgical Procedures Next Growth Driver**” published 7/16/14 for more details.

## Neothetics: Investment Highlight #3

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**#3: There is a free call option on LIPO-102, which has orphan designation for the treatment of symptomatic exophthalmos.** Symptomatic exophthalmos is fat deposits behind the eye leading to protrusion of the eye from the orbit.

**•LIPO-102 is a salmeterol xinafoate and glucocorticoid fluticasone combination**

–Neothetics initially began LIPO-102 development for the reduction in subcutaneous fat because literature and preclinical studies suggested glucocorticoids like fluticasone had the potential to enhance activity of beta 2 adrenergic receptor agonist (salmeterol xinafoate). In later trials, the company saw that efficacy was directly related to a contained dose of salmeterol, not fluticasone, so it decided to go forward with LIPO-202, which is a monotherapy of salmeterol xinafoate.

**•Neothetics may advance the LIPO-102 candidate to Phase II**

–The company has conducted five clinical trials with LIPO-102. This consists of four clinical trials with LIPO-102 alone and one trial with LIPO-102 and LIPO-202.

–Safety profiles are similar for both LIPO-102 and LIPO-202.

**•LIPO-102 has orphan drug designation**

–The company received orphan product designation in the United States for LIPO-102, which would give the product seven years of market exclusivity.



## Company Overview

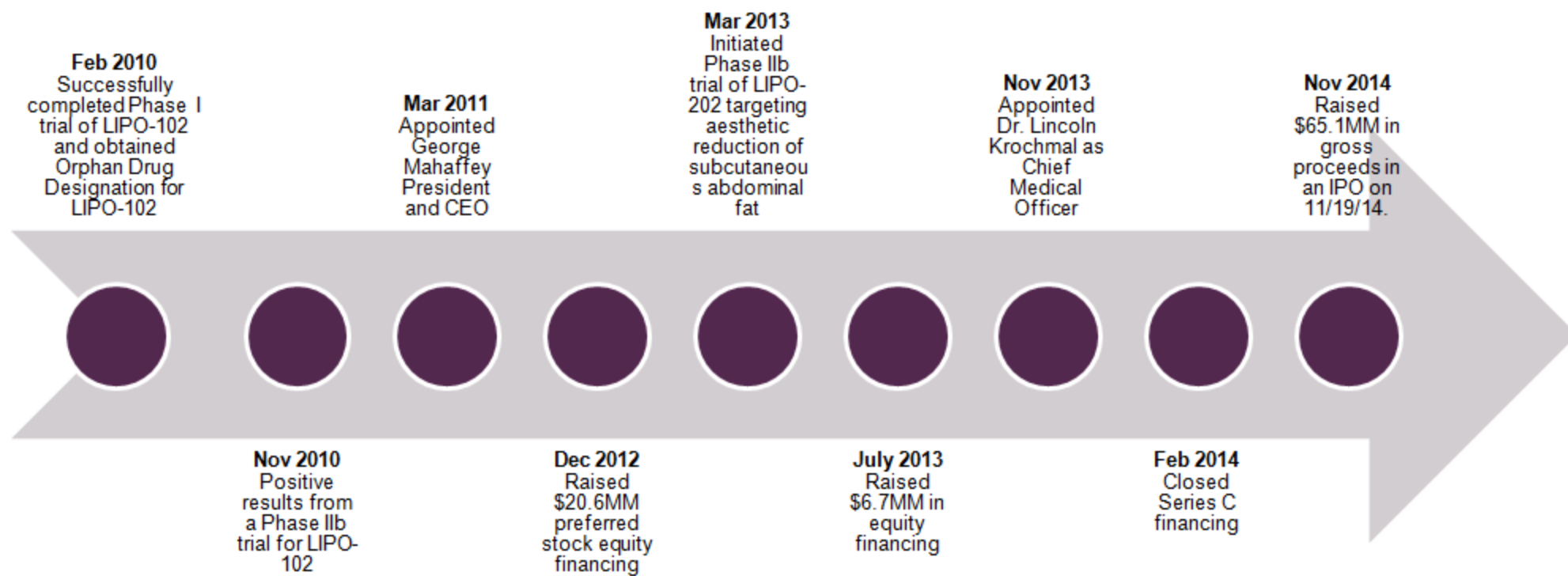
## What Is Neothetics? A Company Overview

**Neothetics is a clinical-stage company developing pharmaceutical and biomedical products that address both lifestyle and medical indications in aesthetic medicine and ophthalmology.**

- Headquartered in San Diego, California.
- Eight full-time employees and one part-time employee (as of 9/10/14).
- Neothetics has no manufacturing facilities, and all of its manufacturing activities are contracted out to third parties.
- Neothetics utilizes third-party CROs (Contract Research Organizations) to carry out its clinical development.
- Neothetics does not yet have a sales organization. The company expects to commercialize LIPO-202 in the United States, with the first anticipated commercial launch expected as soon as 2H17. Neothetics plans to build a focused, specialized sales force of less than 100 reps to target the key aesthetic physicians who perform the majority of aesthetic procedures.
- Outside of the United States, Neothetics plans to evaluate whether to develop or commercialize LIPO-202 on its own or in collaboration with potential partners. The company will evaluate whether to selectively build its own commercial capabilities in one or more foreign countries or to seek partners to maximize the worldwide commercial market potential of LIPO-202.

**The company has two products in development.**

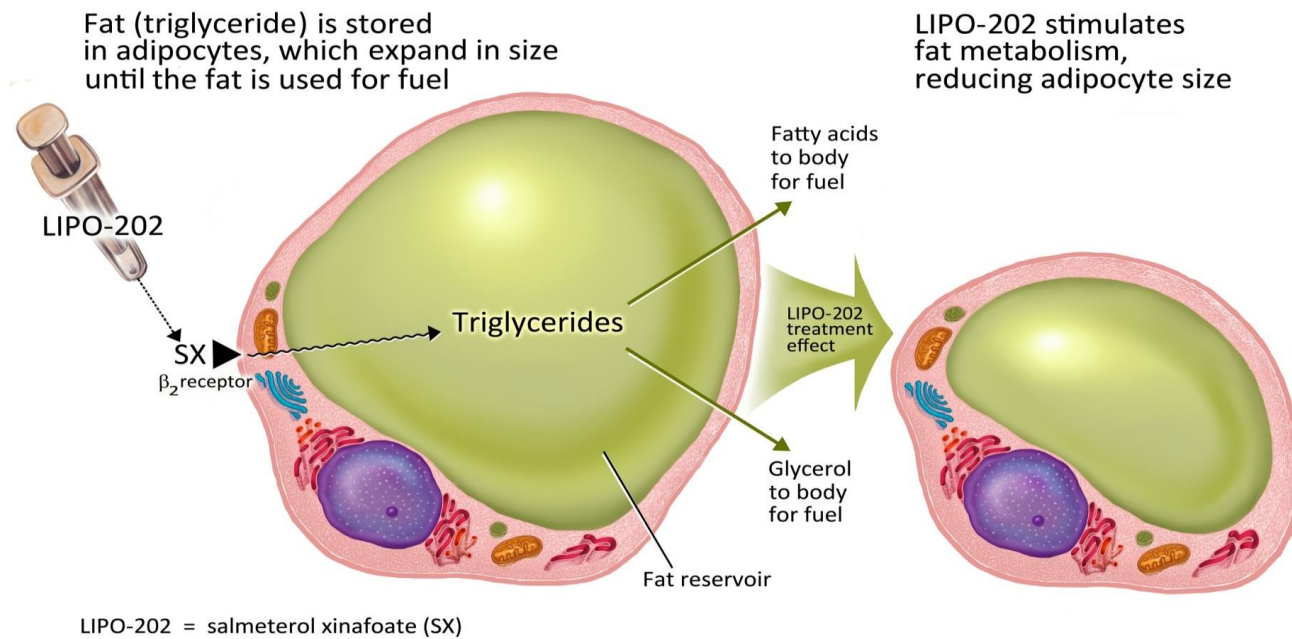
- LIPO-202** (Salmeterol Xinafoate for Injection): Injectable designed to produce local, selective fat tissue reduction (pharmaceutical lipoplasty).
- LIPO-102** (Salmeterol Xinafoate and Fluticasone Propionate): Orphan designation for treatment of symptomatic exophthalmos (fat deposits behind the eye leading to protrusion of the eye from the orbit).



## How LIPO-202 Works

### **LIPO-202 has a well understood targeted mechanism of action to shrink fat cells.**

- It enhances the body's natural lipolysis pathway, resulting in a reduction in size and volume of fat cells in the treatment area.
  - 20 anterior abdomen injections
  - Spaced 4 cm apart
  - Drug diffuses ~ 2 cm in diameter
- Salmeterol xinafoate is a highly selective, long-acting  $\beta_2$ -adrenergic receptor agonist. Adrenergic receptors play a major role in the regulation of several processes in the body, including fat cell metabolism.
- As shown in the Figure below, salmeterol xinafoate activates  $\beta_2$ -adrenergic receptors located on human fat cells and triggers the metabolism of triglycerides in these cells to free fatty acids and glycerol by means of the natural process of lipolysis.
- Administering LIPO-202 evenly across the abdomen shrinks fat cells and reduces central abdominal bulging due to subcutaneous fat.
- LIPO-202 reduces local fat stores and the bulges they create with no inflammatory reaction.



Source: Neothetics September 12<sup>th</sup> S-1 page 93

## LIPO-202 Phase II Data

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There are no FDA subjective or objective tools for measuring subcutaneous fat in torso; subjective and objective tools assessed by Neothetics include:

**Composite Ratings of Patient Assessment and Clinician Rating Scales:** Patient and Clinician Photonumeric rating scale (PnS), Abdominal Contour Scale (P-ACS), and Patient-Reported Patient-Global Abdominal Perception Scale (P-GAPS).

•**CPnS** is a clinician rating of the amount of bulging in the central abdomen on a six-point photonumeric scale pursuant to which the clinician performs a match-to-sample from two gender-specific scales of lateral profile torso pictures with progressively larger abdominal bulges.

•**P-GAPS** is a patient self assessment of the amount of bulging in the central abdomen on a five-point ordinal scale, as follows:

0 = Flat

1 = Almost Flat

2 = Slight Bulge, Not Flat

3 = Bulge

4 = Big Bulge

**Measurements of Patient Satisfaction:** Abdominal Contour Questionnaire (ACQ)

•**ACQ** is a 10-item patient questionnaire on the impact of bulging in the central abdomen, each on an ordinal scale.

**Objective Measure:** Tape Measure, Canfield 3-D, MRI, Calipers, Laser-Guided Tape Measure and Ultrasound

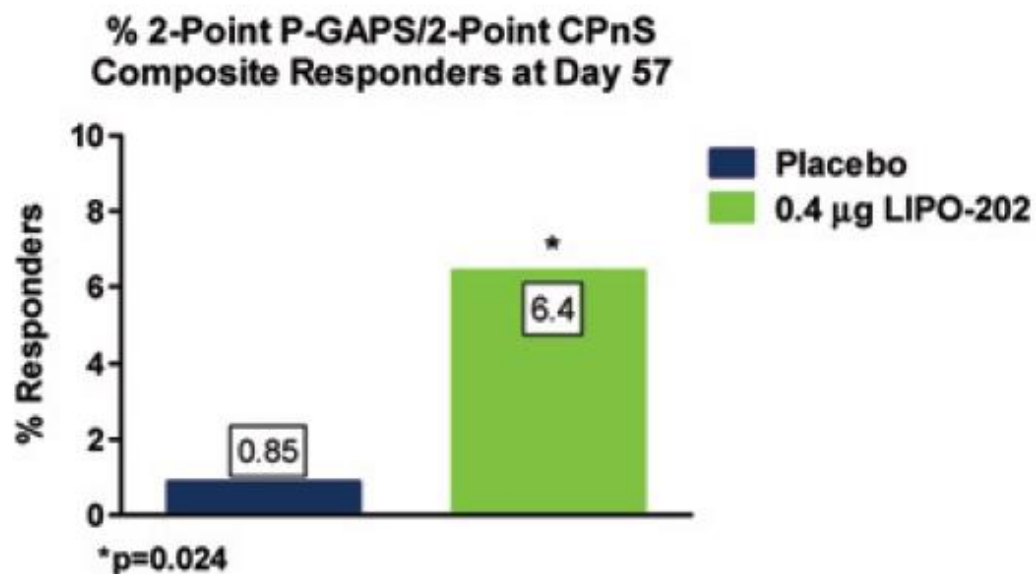
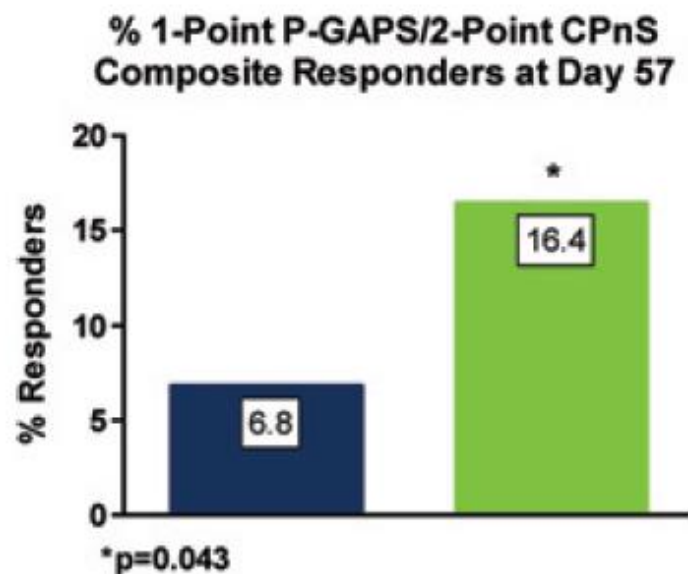
•**Laser-Guided Manual Tape Measure Procedure.** Neothetics' procedure involves a precise and reproducible measure of circumference at three levels on the abdomen using patient standardization instructions, such as positioning, posture, breathing, a self-tensioning tape measure, the company's treatment area grid, consisting of a temporary tattoo applied to the central abdomen, and a tripod-mounted laser level to assure horizontal placement of the tape measure.

## LIPO-202 Phase II Data

Completed largest (N=513) Phase II trial, RESET, in July 2013. Statistically significant reductions in central abdominal bulging due to subcutaneous fat in non-obese patients from baseline at day one and from placebo were demonstrated with a 0.4 µg weekly dose on the key clinical endpoint measures. The 0.4 µg dose is the most effective dose and will be taken forward.

### #1. Significant Increase in Responders to LIPO-202 Treatment Compared to Placebo

	Neothetics' Clinical Endpoint Definition	FDA Division of Dermatologic and Dental Product
Responder Endpoint Definition	1-point/grade improvement on P-GAPS that is corroborated by treating clinician as at least a 2-point/grade improvement on the CPnS	2-point/grade improvement on a patient scale that is corroborated by the treating clinician as at least a 2-point/grade improvement on a clinician scale
RESET Results in Patients Treated with 4µg dose weekly for 8 weeks	LIPO-202 treated patients showed 16.4%, versus 6.8% of placebo patients, which translates to statistically significant improvement of $p=0.043$	LIPO-202 treated patients showed 6.4%, versus less than 1% of placebo patients, which translates to statistically significant improvement of $p=0.024$



Source: Neothetics September 12<sup>th</sup> S-1 pages 96 to 97

## LIPO-202 Phase II Data (cont.)

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- According to Neothetics, the inverse dose response was a result of **Tachyphylaxis**. This is a decrease in the response to a drug after its administration. This can sometimes be caused by depletion or marked reduction of the amount of neurotransmitter responsible for creating the drug's effect, or by the depletion of receptors available to which the drug or neurotransmitter can bind. This depletion is caused by the cells reducing the number of receptors in response to their saturation.
- Safety is same percent injection site reaction as placebo; most adverse events were from the needle sticks themselves.

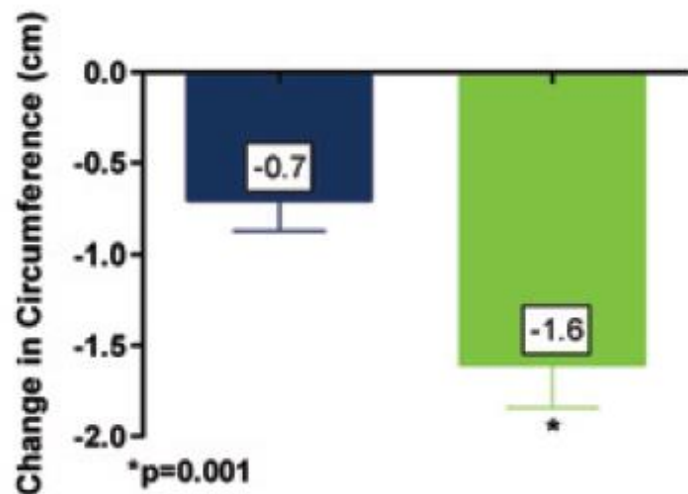
## LIPO-202 Phase II Data (cont.)

### #2. Significant Reduction of Umbilical Circumference by LIPO-202

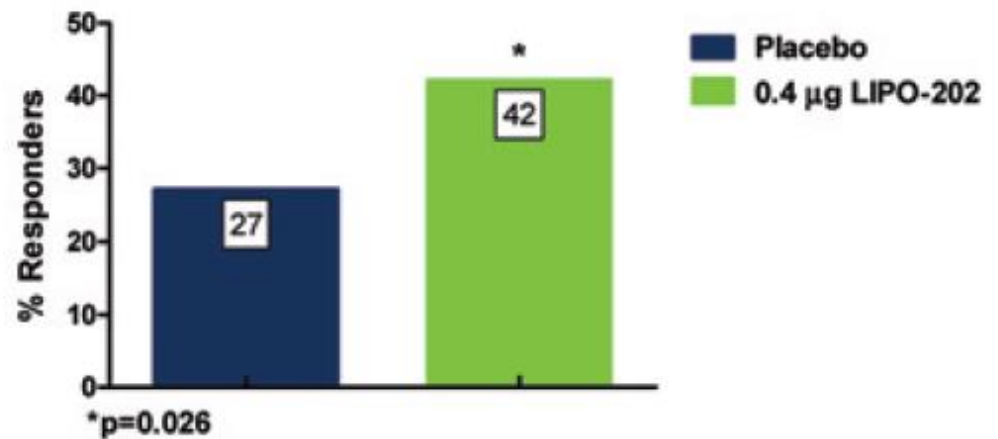
Laser-guided manual tape measure showed that the 0.4 µg weekly dose produced significant reduction in abdominal circumference at the umbilical circumference compared to placebo, whether expressed as:

- (a) **Mean change from baseline.** LIPO-202 0.4 µg dose reduced on average by 1.6 cm, versus 0.7 cm for placebo, which is statistically significant ( $p=0.001$ ).
- (b) **Percentage of responders to a clinically meaningful threshold of a reduction of at least 1.83 cm as defined by 1-point P-GAPS and 2-point CPnS responder definition.** Approximately 42% of patients treated with 0.4 µg dose had a reduction of at least 1.83 cm, versus 27% of placebo treated patients, which is statistically significant ( $p=0.026$ ).

**Change in Umbilical Circumference at Day 57**



**% Responders to a -1.83 cm Threshold<sup>\*</sup> in Umbilical Circumference**



<sup>\*</sup>Threshold to a P-GAPS 1/CPnS 2 definition

Source: Neothetics September 12<sup>th</sup> S-1 pages 97 to 98

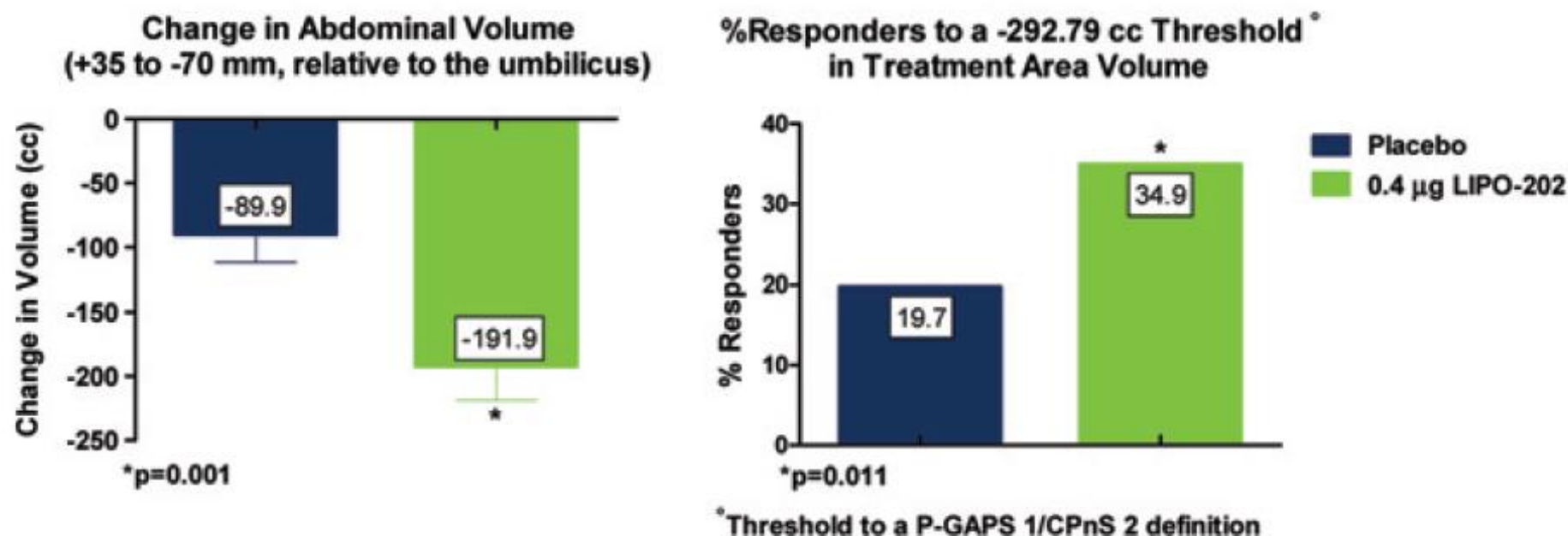


## LIPO-202 Phase II Data (cont.)

### #3. Significant Reduction in Treatment Area Volume Produced by LIPO-202.

- (a) **Average change from baseline.** 0.4  $\mu\text{g}$  dose reduced treatment area volume on average by 161.6 cubic centimeters (cc) compared to 89.9 cc for placebo, which is statistically significant ( $p=0.001$ )
- (b) **Percentage of responders to a clinically meaningful threshold for reduction in volume of 292.79 cc as defined by the 1-point/grade P-GAPS and 2-point/grade CPnS responder definition.** Approximately 34.9% of patients treated with 0.4  $\mu\text{g}$  dose had a reduction of at least 292.79 cc, compared to 19.7% for placebo, which is statistically significant ( $p=0.011$ )

Change from baseline and change from placebo treatment effects with 0.4  $\mu\text{g}$  dose of LIPO-202 were enhanced on all outcome measures in subjects who remained weight neutral or lost weight.

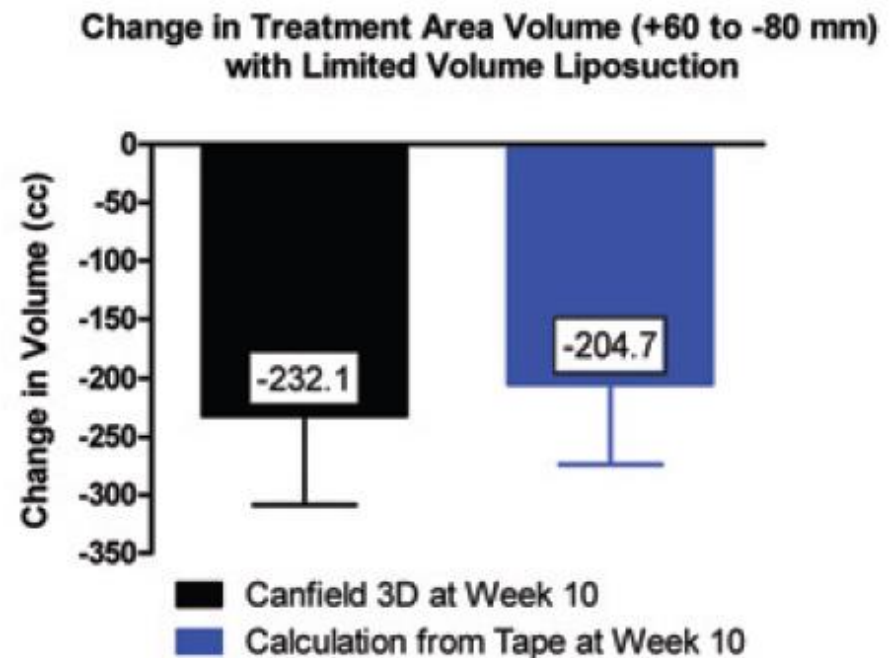
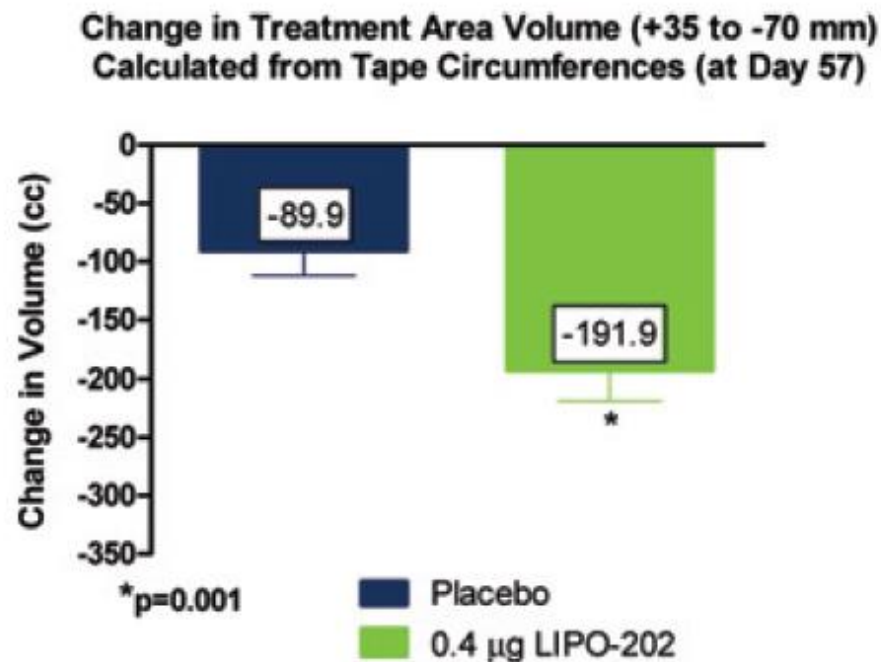


Source: Neothetics September 12<sup>th</sup> S-1 pages 98

## LIPO-202 Phase II Data (cont.)

### #4. Similar Reduction in Treatment Area Volume Produced by LIPO-202 and Limited Volume Liposuction in Separate Studies.

In a non-drug, limited volume (VAL-CL-10) liposuction study conducted in a similar population over a similar area, mean reduction in treatment area volume of 200 cc was seen in both eight weeks of treatment with 0.4 µg dose in RESET and limited volume liposuction as assessed 10 weeks after surgery.



Source: Neothetics September 12<sup>th</sup> S-1 pages 98

## LIPO-202 Phase III Program

### Phase III endpoints will be similar to the RESET Phase II trial.

- The Phase III study will be a randomized, double-blind, placebo-controlled study using P-GAPS (Patient-Global Abdominal Perception Scale), CPnS (Clinician Photonumeric Scale), laser guided tape endpoints, and ultrasound.
- Primary Endpoints:** % responders with  $\geq$  1-point improvement P-GAPS and  $\geq$  2-point CPnS, then  $\geq$  2-point P-GAPS and  $\geq$  2-point CPnS.
- Second Endpoint:** % responders with  $\geq$  1.83cm decrease in umbilical circumference by laser-guided tape measure.
- Other Studies:** Bridging PK (to Advair), retreatment study, durability of effect and long-term safety study, special population (obese), and supportive studies.

**Based on meeting with FDA, Neothetics will initiate and complete an additional exploratory evaluation of two-dimensional ultrasound as a secondary measure in the Phase III trials.** During Neothetics' end of Phase II meeting with the FDA, the Agency expressed concerns regarding Neothetics' proposed endpoint tools used to assess the efficacy of LIPO-202. The FDA wanted to know if a more accurate tool than laser-guided tape measure could be used to assess the reduction of subcutaneous fat. Therefore, Neothetics is using both two-dimensional ultrasound and laser-guided tape measure in the Phase III trials.

	Clinical Trial	# of Patients	Trial Purpose	Expected Trial Initiation	Data Expected
Pivotal	LIPO-202-CL-18	800	Pivotal Phase III clinical trial of safety & efficacy	1H15	End of 2015
	LIPO-202-CL-19	800	Pivotal Phase III clinical trial of safety and efficacy (identical design to LIPO-202-CL18)	1H15	End of 2015
Supporting	LIPO-202-CL-12	24	Comparative bioavailability of LIPO-202 and Advair Diskus 500/50 Clinical bridge for 505(b)(2) NDA	1H15	1H15
	LIPO-202-CL-21	120	Safety in a special population of obese patients	1H15	2H15
	LIPO-202-CL-22	120	Long-term safety of repeated cycles of treatment	1H15	1H16
	LIPO-202-CL-23	200	Long-term safety and durability of efficacy in responders to treatment	2H15	2H16
Supplement	LIPO-202-CL-25	10 to 12	Exploratory study in submental fat	1H15	2H15
	LIPO-202-CL-26	10 to 12	Exploratory study in lipomas	1H15	2H15

Source: Guggenheim Securities LLC and Neothetics S-1 dated 9/12/14 pages 99 to 100.

## Neothetics: Intellectual Property

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**There are several families of issued and pending patent applications for monotherapy.**

- Methods and use patents are Orange Book listable upon U.S. issuance.

### **Issued:**

- 801/802:** Methods of treatment U.S. Patent No. 7,829,554 issued for combination and U.S. Patent No. 8,420,625 issued with single agent claims, protection to 2026.

- 803:** Methods of treatment U.S. Patent No. 8,404,750 and UK Patent No. B2470818 issued (low dosing, high lipophilicity/partition ratios, low systemic exposure), protection to 2030.

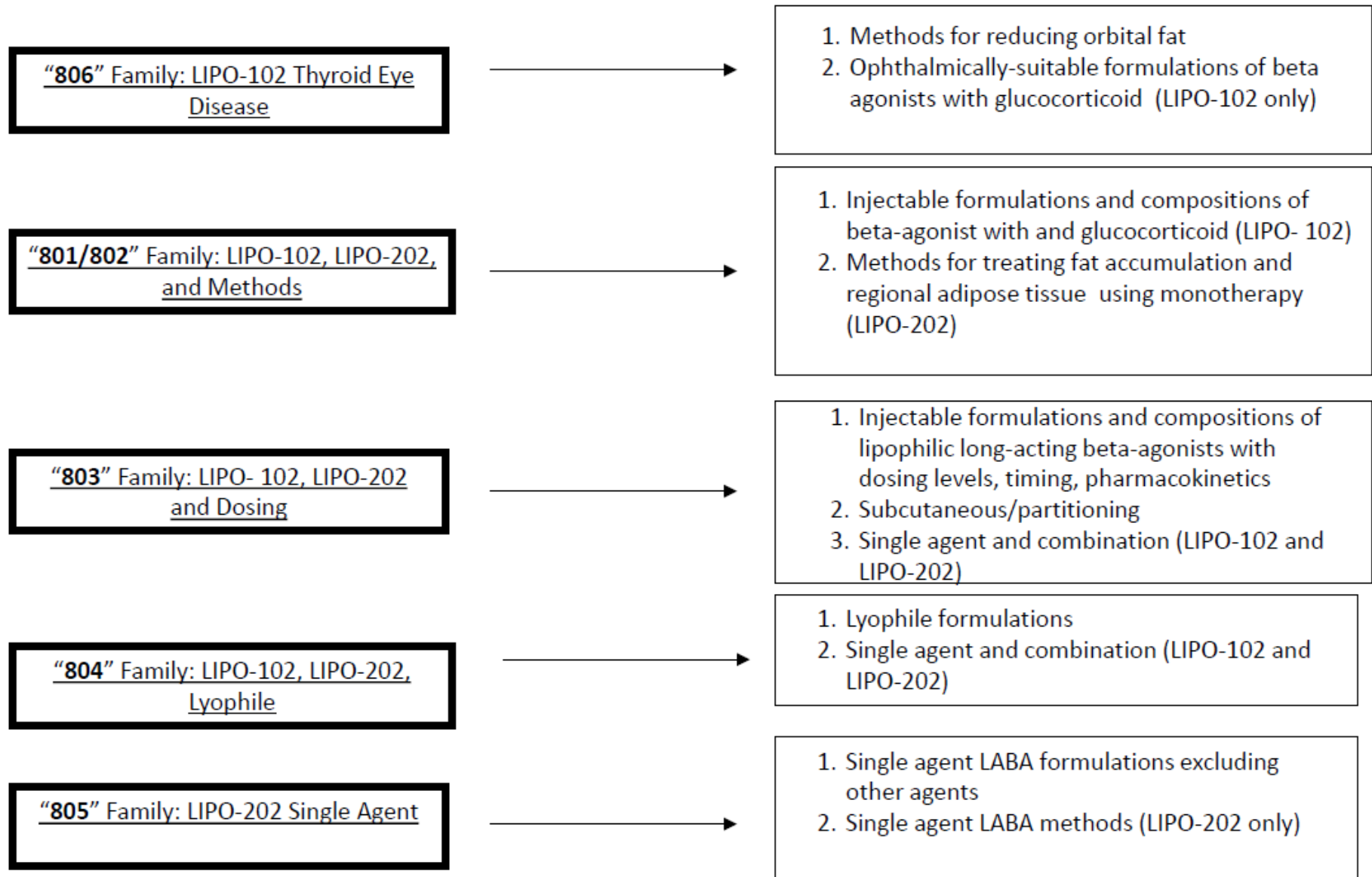
- The USPTO granted patent reexamination of Neothetics' '625 patent (updates are usually 12-18 months post granting of reexamination), and we believe it is very likely '750 may be reexamined as well (we would expect to hear before the end of '14). If any of the patent claims in the '625 or the '750 patents are ultimately invalidated or narrowed during prosecution before the USPTO, the extent of the patent coverage afforded to LIPO-202 could be impaired or eliminated, which could potentially harm Neothetics' ability to prevent others from copying its technology.

### **Pending:**

- 804:** Lyophilized Compositions and Reconstituted Formulations, possible protection to 2031.

- 805:** Methods of use and treatment (excluding other agents), possible protection to 2031.

## Neothetics: Intellectual Property (cont.)



Source: Neothetics September 2014 Investor Presentation page 25, September 12<sup>th</sup> S-1 Page 35

# Management

## Neothetics: Management Team

Name, Position	Bio
<b>George Mahaffey, MBA</b> President and CEO	Mr. Mahaffey has 24 years of pharmaceutical and biotechnology industry experience. He was previously CEO of Peplin, Inc. Prior to Peplin he was also at Cotherix, Scios, Inc, Neurex, Inc., and Dupont Pharmaceuticals. Mr. Mahaffey earned a Bachelor of Science degree in Chemical Engineering from the University of Delaware and an MBA from the University of South Florida.
<b>Susan Knudson</b> Chief Financial Officer	Ms. Knudson has been with Neothetics since February 2009. Prior to joining Neothetics, Ms. Knudson held various positions at Avera Pharmaceuticals, MD Edge, Isis Pharmaceuticals, and CombiChem. While at CombiChem, Ms. Knudson was involved in the IPO and subsequent sale of the company.
<b>Kenneth W. Locke, Ph.D.</b> Chief Scientific Officer	Dr. Locke has over 24 years of experience in the pharmaceutical industry. He previously held the position, among others, of Chief Scientific Officer at MediciNova. Prior to MediciNova, Dr. Locke held positions at Tanabe Research Laboratories, Interneuron Pharmaceuticals, Inc., and Hoechst-Roussel Pharmaceuticals, Inc. Dr. Locke holds an M.S. and a Ph.D. in Pharmacology from the Emory University School of Medicine.
<b>Chris Kemmerer, Ph.D.</b> Vice President, Pharmaceutical Development and Manufacturing	Mr. Kemmerer has 20 years of experience in the pharmaceutical industry. Prior to joining Neothetics, Mr. Kemmerer held positions at Avera Pharmaceuticals, Pfizer, and Merck.
<b>Lincoln Krochmal, MD, FAAD</b> Chief Medical Officer	Dr. Krochmal is a Board-certified Dermatologist with 30-plus years experience in the pharmaceutical and consumer goods industries. His most recent role was as CEO & President of Excaliard Pharmaceuticals. Prior to Excaliard, Dr. Krochmal held positions at Connetics Corporation, Westwood Pharmaceuticals, Unilever PLC, as well as having eight years in private practice. During his career, Dr Krochmal has been involved in the approval of 15 NDAs/ANDAs for new prescription topical dermatologicals including LacHydrin, Ultravate, Dovonex, Evoclin, Verdeso, Olux-E, and Extina.

Source: Neothetics September 12<sup>th</sup> S-1 page 121 to 122 and Guggenheim Securities, LLC

## Neothetics: Compensation Structure

Executive	Fiscal 2013 Salary	Fiscal 2013 Bonus Program	Fiscal 2013 Other Comp.	Fiscal 2013 Total
George Mahaffey	\$345,908	\$121,068	\$40,059	\$507,035
Kenneth Locke	\$308,621	\$61,724	NA	\$370,345
Susan Knudson	\$244,659	\$48,932	NA	\$293,591

Source: Neothetics September S-1 Page 131 and Guggenheim Securities, LLC



# Financial Model

# Income Statement 2012 to F2025E

## Neothetics - Quarterly Income Statement Analysis 2012-2025E

(\$ In Millions, except per share amounts)																							
(Year Ended December 31)	2012	2013	1Q14A	2Q14A	3Q14A	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	CAGR 20E-25E
Total Revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8	20.1
COGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.3	25.5	42.4	52.6	68.0	76.0	84.7	94.3	
Gross Profit	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	81.8	206.0	429.0	605.1	782.1	873.8	974.3	1084.5	
R&D	3.2	11.4	1.4	0.9	0.9	0.9	4.2	14.0	11.0	10.0	9.0	44.0	35.2	37.0	37.7	38.5	30.0	30.6	31.2	31.8	32.5	33.1	
SG&A	2.6	3.0	1.1	1.1	0.9	0.9	4.0	5.0	5.1	5.2	5.3	20.6	55.0	95.0	110.0	168.0	171.4	174.8	178.3	181.8	185.5	189.2	
Total Operating Expense	5.8	14.4	2.5	2.0	1.9	1.9	8.2	19.0	16.1	15.2	14.3	64.6	90.2	132.0	147.7	206.5	201.4	205.4	209.5	213.7	218.0	222.3	
Operating Income	(5.7)	(14.4)	(2.5)	(2.0)	(1.9)	(1.9)	(8.2)	(19.0)	(16.1)	(15.2)	(14.3)	(64.6)	(90.2)	(132.0)	(65.9)	(0.5)	227.7	399.7	572.6	660.1	756.4	862.1	30.5
Interest Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.8	0.1	0.7	1.2	0.3	0.1	1.0	3.1	6.2	10.1	14.5	
Interest Expense	(0.9)	(0.1)	(0.0)	(0.0)	(0.1)	(0.2)	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)	(0.9)	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other Income/(Expense)	(1.2)	(0.5)	0.9	(0.3)	(2.0)	(1.9)	(3.3)	(0.9)	(0.9)	(0.9)	(0.9)	(3.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Non-Operating Items	(2.1)	(0.6)	0.9	(0.3)	(2.2)	(2.1)	(3.7)	(0.9)	(0.9)	(0.9)	(0.9)	(3.7)	(0.8)	0.7	1.2	0.3	0.1	1.0	3.1	6.2	10.1	14.5	
Pre-tax Income	(7.8)	(15.0)	(1.6)	(2.3)	(4.0)	(4.0)	(11.9)	(19.9)	(17.0)	(16.1)	(15.2)	(68.3)	(91.0)	(131.3)	(64.7)	(0.3)	227.8	400.7	575.7	666.3	766.4	876.6	
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	91.1	160.3	230.3	266.5	306.6	350.6	
Net Income	(7.8)	(15.0)	(1.6)	(2.3)	(4.0)	(4.0)	(11.9)	(19.9)	(17.0)	(16.1)	(15.2)	(68.3)	(91.0)	(131.3)	(64.7)	(0.3)	136.7	240.4	345.4	399.8	459.9	526.0	30.9
Diluted Shares Outstanding	3.1	3.1	3.3	3.4	3.3	11.5	4.4	13.7	13.8	13.9	14.0	13.8	19.0	24.0	24.1	24.2	24.3	24.4	24.5	24.6	24.7	24.8	
Adjusted Diluted EPS	(\$2.57)	(\$4.81)	(\$0.49)	(\$0.68)	(\$1.22)	(\$0.35)	(\$2.73)	(\$1.46)	(\$1.23)	(\$1.16)	(\$1.09)	(\$4.94)	(\$4.79)	(\$5.47)	(\$2.69)	(\$0.01)	\$5.62	\$9.85	\$14.10	\$16.25	\$18.62	\$21.21	30.4
% Change																							
Total Revenue	-100.0%		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%	
COGS		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-6.6%	66.7%	24.0%	29.3%	11.7%	11.5%	11.3%	
Gross Profit	-100.0%		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	151.8%	108.3%	41.0%	29.3%	11.7%	11.5%	11.3%	
R&D	252.3%		NM	NM	NM	NM	-63.3%	NM	NM	NM	NM	948.1%	-20.0%	5.1%	2.0%	2.0%	-22.1%	2.0%	2.0%	2.0%	2.0%	2.0%	
SG&A	14.8%		NM	NM	NM	NM	34.6%	NM	NM	NM	NM	414.4%	167.0%	72.7%	15.8%	52.7%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
Operating Income		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	39.6%	46.3%	-50.0%	-99.2%	-42984.7%	75.6%	43.3%	15.3%	14.6%	14.0%	
Non-Operating Items		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-77.7%	-178.3%	89.5%	-77.5%	-67.1%	998.3%	207.0%	100.8%	61.9%	44.1%	
Pre-tax Income		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	75.9%	43.7%	15.8%	15.0%	14.4%	
Tax Rate		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	0.0%	0.0%	0.0%	0.0%	0.0%	
Taxes		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	75.9%	43.7%	15.8%	15.0%	14.4%	
Net Income		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	75.9%	43.7%	15.8%	15.0%	14.4%	
Adjusted Diluted EPS	87.4%		NM	NM	NM	NM	-43.2%	195.3%	82.7%	-4.5%	213.3%	80.8%	-3.0%	14.2%	-50.9%	-99.6%	-54128.6%	75.2%	43.1%	15.3%	14.6%	13.9%	

Source: Guggenheim Securities, LLC and Company Reports

(1) Assumes 4.65MM shares from IPO on 11/19/14 in 4Q14.

(2) Assume 40% tax rate when profitable, to be conservative.

# Margin Analysis 2012 to F2025E

## Neothetics - Quarterly Margin Analysis 2012-2025E

	2012	2013	1Q14A	2Q14A	3Q14A	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	25.0%	11.0%	9.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Gross Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	75.0%	89.0%	91.0%	92.0%	92.0%	92.0%	92.0%	92.0%
R&D	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	34.6%	16.6%	6.4%	4.7%	3.7%	3.4%	3.1%	2.8%
SG&A	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	100.9%	72.6%	36.3%	26.6%	21.0%	19.1%	17.5%	16.1%
Oper. Inc.	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-60.5%	-0.2%	48.3%	60.8%	67.4%	69.5%	71.4%	73.1%
Operating Expenses	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	135.5%	89.2%	42.7%	31.2%	24.6%	22.5%	20.6%	18.9%
Non-Oper. Items	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	1.1%	0.1%	0.0%	0.2%	0.4%	0.7%	0.9%	1.2%
Pretax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-59.3%	-0.1%	48.3%	60.9%	67.7%	70.2%	72.4%	74.4%
Net Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-59.3%	-0.1%	29.0%	36.6%	40.6%	42.1%	43.4%	44.6%

Source: Guggenheim Securities, LLC and Company Reports

# Quarter Sales 2012 to F2025E

## Neothetics - Quarterly Revenue Model 2012-2025E

(\$ in Millions)																						
(Year Ended December 31)	2012	2013	1Q14A	2Q14A	3Q14A	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Base Business																						
LIPO-102	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LIPO-202	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8
Total Base Business Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8
New Products																						
Product 1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Product 2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Product 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total New Product Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenues	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8
%Change																						
Base Business																						
LIPO-102		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
LIPO-202		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%
Total Base Business Revenues		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%
New Products																						
Product 1		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Product 2		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Product 3		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Total New Product Revenues		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Other		-100.0%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Total Revenues		-100.0%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%

Source: Guggenheim Securities, LLC and Company Reports

# Annual Sales 2012 to F2025E

## Neothetics - Annual Revenue Model 2012-2025E

(\$ in Millions)	Year Ended December 31st,														2013E/	2014E/	2015E/	2016E/	2017E/	2018E/	2019E/	2020E/	2021E/	2022E/	2023E/	2024E/	2025E/	CAGR 18E-25E	
	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E		
Base Business																													
LIPO-102	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
LIPO-202	0.0	0.0	0.0	0.0	0.0	0.0	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8	NM	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%	40.5%
Total Base Business Revenues	0.0	0.0	0.0	0.0	0.0	0.0	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8	NM	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%	40.5%
New Products																													
Product 1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Product 2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Product 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Total New Product Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Other	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-100.0%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Total Revenues	0.1	0.0	0.0	0.0	0.0	0.0	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8	-100.0%	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%	40.5%

Source: Guggenheim Securities, LLC and Company Reports

# Market Model 2013 to F2025E

	Year Ending December 31st,												
	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
<b>Experienced Aesthetic Injectable Patient Population (in 000s)</b>	<b>1,818</b>	<b>1,909</b>	<b>2,004</b>	<b>2,105</b>	<b>2,210</b>	<b>2,320</b>	<b>2,436</b>	<b>2,558</b>	<b>2,686</b>	<b>2,820</b>	<b>2,961</b>	<b>3,109</b>	<b>3,265</b>
<i>Growth Rate</i>	<i>NM</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>
Injectable Patient Population With Stomach Fat (assume 80%)	1,454	1,527	1,603	1,684	1,768	1,856	1,949	2,046	2,149	2,256	2,369	2,488	2,612
Injectable Patient Population Willing To Undergo LIPO-202 (assume 50%)	727	764	802	842	884	928	975	1,023	1,074	1,128	1,185	1,244	1,306
<i>Annual Penetration Rate for LIPO-202</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>0%</i>	<i>7%</i>	<i>14%</i>	<i>25%</i>	<i>32%</i>	<i>38%</i>	<i>39%</i>	<i>40%</i>	<i>41%</i>
<b>Experienced Aesthetic Injectable LIPO-202 Treatments Annually (in 000s)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>520</b>	<b>1,052</b>	<b>2,046</b>	<b>2,750</b>	<b>3,430</b>	<b>3,696</b>	<b>3,980</b>	<b>4,284</b>
<i>Annual Growth Rate</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>103%</i>	<i>94%</i>	<i>34%</i>	<i>25%</i>	<i>8%</i>	<i>8%</i>	<i>8%</i>

Source: Guggenheim Securities, LLC and Company Reports

(1) We assume each patient gets 8 treatments.

	Year Ending December 31st,												
	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
<b>Inexperienced Aesthetic Injectable Patient Population (in 000s)</b>													
<b>Household Income \$50K+ Market (Ages 18 to 55)</b>	<b>80,000</b>	<b>80,800</b>	<b>81,608</b>	<b>82,424</b>	<b>83,248</b>	<b>84,081</b>	<b>84,922</b>	<b>85,771</b>	<b>86,629</b>	<b>87,495</b>	<b>88,370</b>	<b>89,253</b>	<b>90,146</b>
<i>Growth Rate</i>	<i>NM</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>	<i>1.0%</i>
BMI 18.5 to 30.0 (assume 60%)	48,000	48,480	48,965	49,454	49,949	50,448	50,953	51,462	51,977	52,497	53,022	53,552	54,088
Potential Consumers for Aesthetic Injectables (assume 24%)	11,520	11,635	11,752	11,869	11,988	12,108	12,229	12,351	12,475	12,599	12,725	12,852	12,981
Consumers with Stomach Fat (assume 80%)	9,216	9,308	9,401	9,495	9,590	9,686	9,783	9,881	9,980	10,079	10,180	10,282	10,385
Injectable Naïve Patients Willing to Undergo LIP-202 (in 000s, assume 9%)	829	838	846	855	863	872	880	889	898	907	916	925	935
<i>Annual Penetration Rate for LIPO-202</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>1.0%</i>	<i>2.3%</i>	<i>5.0%</i>	<i>7.0%</i>	<i>9.0%</i>	<i>10.0%</i>	<i>11.0%</i>	<i>12.0%</i>
<b>Aesthetics Injectable Inexperienced LIPO-202 Treatments (in 000s)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>70</b>	<b>162</b>	<b>356</b>	<b>503</b>	<b>653</b>	<b>733</b>	<b>814</b>	<b>897</b>
<i>Growth Rate</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>132%</i>	<i>120%</i>	<i>41%</i>	<i>30%</i>	<i>12%</i>	<i>11%</i>	<i>10%</i>

Source: Guggenheim Securities, LLC and Company Reports

(1) We assume each patient gets 8 treatments.

	Year Ending December 31st,												
	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Experienced Aesthetic Injectable Lipo-202 Treatments in 000s	0	0	0	0	0	520	1,052	2,046	2,750	3,430	3,696	3,980	4,284
Inexperienced Aesthetics Injectable Lipo-202 Treatments (in 000s)	0	0	0	0	0	70	162	356	503	653	733	814	897
<b>Total Annual LIPO-202 Treatments (in 000s)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>589</b>	<b>1,214</b>	<b>2,402</b>	<b>3,253</b>	<b>4,083</b>	<b>4,429</b>	<b>4,794</b>	<b>5,181</b>
<i>Growth Rate</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>106%</i>	<i>98%</i>	<i>35%</i>	<i>25%</i>	<i>8%</i>	<i>8%</i>	<i>8%</i>
Cost Per Treatment	\$185.00	\$185.00	\$185.00	\$185.00	\$185.00	\$185.00	\$190.55	\$196.27	\$202.15	\$208.22	\$214.47	\$220.90	\$227.53
<i>Annual Price Increases</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>	<i>3%</i>
Experienced Aesthetic Injectable Lipo-202 Sales (MMs)	\$0	\$0	\$0	\$0	\$0	\$96	\$201	\$402	\$556	\$714	\$793	\$879	\$975
Inexperienced Aesthetics Injectable Lipo-202 Sales (MMs)	0	0	0	0	0	13	31	70	102	136	157	180	204
<b>Total LIPO-202 Revenue (in MMs)</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$109.1</b>	<b>\$231.4</b>	<b>\$471.5</b>	<b>\$657.7</b>	<b>\$850.1</b>	<b>\$949.8</b>	<b>\$1,059.1</b>	<b>\$1,178.8</b>
<i>Growth Rate</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>112%</i>	<i>104%</i>	<i>39%</i>	<i>29%</i>	<i>12%</i>	<i>12%</i>	<i>11%</i>
<i>Experienced Aesthetic Injectable Lipo-202 % of Total Sales</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>88%</i>	<i>87%</i>	<i>85%</i>	<i>85%</i>	<i>84%</i>	<i>83%</i>	<i>83%</i>	<i>83%</i>
<i>Inexperienced Aesthetics Injectable Lipo-202 % of Total Sales</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>12%</i>	<i>13%</i>	<i>15%</i>	<i>15%</i>	<i>16%</i>	<i>17%</i>	<i>17%</i>	<i>17%</i>
<i>Total LIPO-202 Revenue (in MMs)</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>NM</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>

Source: Guggenheim Securities, LLC and Company Reports

# Balance Sheet 2012 to F2025E

## Neothetics - Balance Sheet Analysis 2012-2025E

(\$ in Millions)			Pro Forma												
(Year ended December 31)	2012	2013	9/30/2014	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
<b>Assets</b>															
Cash and Cash Equivalents	11.1	4.4	14.7	75.0	6.5	65.4	123.9	27.9	9.2	100.7	309.2	620.8	1005.1	1448.4	1956.4
Accounts receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.0	18.2	37.9	76.0	104.4	132.8	146.1	160.5	175.9
Inventory	0.0	0.0	0.0	0.0	0.0	0.0	0.0	13.0	11.6	18.4	21.9	27.2	29.2	31.4	33.7
Prepaid expenses and other current assets	1.5	0.1	1.5	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total Current Assets</b>	<b>12.6</b>	<b>4.5</b>	<b>16.2</b>	<b>75.2</b>	<b>6.7</b>	<b>65.5</b>	<b>124.0</b>	<b>59.2</b>	<b>58.8</b>	<b>195.4</b>	<b>435.6</b>	<b>780.9</b>	<b>1180.6</b>	<b>1640.3</b>	<b>2166.2</b>
Property and equipment, net	0.2	0.0	0.0	0.2	0.3	0.4	0.5	0.7	0.8	0.9	1.0	1.2	1.3	1.4	1.6
Restricted cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Other Assets</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>	<b>0.7</b>	<b>0.8</b>	<b>0.9</b>	<b>1.0</b>	<b>1.2</b>	<b>1.3</b>	<b>1.4</b>	<b>1.6</b>
<b>TOTAL ASSETS</b>	<b>12.8</b>	<b>4.5</b>	<b>16.2</b>	<b>75.3</b>	<b>7.0</b>	<b>65.9</b>	<b>124.6</b>	<b>59.9</b>	<b>59.6</b>	<b>196.3</b>	<b>436.7</b>	<b>782.1</b>	<b>1181.9</b>	<b>1641.8</b>	<b>2167.7</b>
<b>Liabilities &amp; Shareholder's Equity</b>															
Accounts Payable	0.7	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Accrued Expenses	0.6	0.7	1.2	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Current Portion of Term Loan Payable	0.6	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities	0.0	0.0	3.7	10.0	10.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>1.9</b>	<b>1.5</b>	<b>5.7</b>	<b>11.3</b>	<b>11.3</b>	<b>11.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>
<b>Total Stockholder's Equity</b>	<b>10.9</b>	<b>3.0</b>	<b>10.5</b>	<b>64.0</b>	<b>(4.4)</b>	<b>54.6</b>	<b>123.3</b>	<b>58.5</b>	<b>58.3</b>	<b>195.0</b>	<b>435.4</b>	<b>780.8</b>	<b>1180.6</b>	<b>1640.5</b>	<b>2166.4</b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>12.8</b>	<b>4.5</b>	<b>16.2</b>	<b>75.3</b>	<b>7.0</b>	<b>65.9</b>	<b>124.6</b>	<b>59.9</b>	<b>59.6</b>	<b>196.3</b>	<b>436.7</b>	<b>782.1</b>	<b>1181.9</b>	<b>1641.8</b>	<b>2167.7</b>

Source: Guggenheim Securities, LLC and Company Reports

# Cash Flow Statement 2012 to F2025E

## Neothetics - Cash Flow Analysis 2012-2025E

(\$ in Millions)														
(Year ended December 31)	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
<b>Cash flows provided by Operating Activities:</b>														
Net Income/(loss)	(7.8)	(15.0)	(11.9)	(68.3)	(91.0)	(131.3)	(64.7)	(0.3)	136.7	240.4	345.4	399.8	459.9	526.0
Depreciation and Amortization	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	2.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Changes in Working Capital	(1.8)	1.4	0.0	0.0	0.0	0.0	(31.2)	(18.4)	(45.0)	(31.8)	(33.7)	(15.3)	(16.5)	(17.8)
<b>Net cash provided by Operating Activities</b>	<b>(7.4)</b>	<b>(12.9)</b>	<b>(11.8)</b>	<b>(68.3)</b>	<b>(91.0)</b>	<b>(131.3)</b>	<b>(95.8)</b>	<b>(18.5)</b>	<b>91.8</b>	<b>208.7</b>	<b>311.8</b>	<b>384.6</b>	<b>443.4</b>	<b>508.3</b>
<b>Cash flows from Investing Activities</b>														
Purchase/Proceeds of property and equipment	0.0	0.0	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash used in Investing Activities</b>	<b>0.0</b>	<b>0.1</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.2)</b>
<b>Cash flows from Financing Activities</b>														
Proceeds/Payment on Notes Payable and Bank Loan	2.4	(0.4)	9.8	0.0	0.0	(10.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Issuance of Common Stocks and Other	0.0	0.0	72.9	0.0	150.0	200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Issuance of Preferred Stock for Cash, net of offering	10.2	6.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash (used in) provided by Financing Activities</b>	<b>12.7</b>	<b>6.1</b>	<b>82.7</b>	<b>0.0</b>	<b>150.0</b>	<b>190.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net (decrease) increase in cash and equivalents</b>	<b>5.3</b>	<b>(6.7)</b>	<b>70.6</b>	<b>(68.5)</b>	<b>58.8</b>	<b>58.5</b>	<b>(96.0)</b>	<b>(18.7)</b>	<b>91.6</b>	<b>208.5</b>	<b>311.6</b>	<b>384.4</b>	<b>443.2</b>	<b>508.1</b>
Cash and equivalents at beginning of year	5.8	11.1	4.4	75.0	6.5	65.4	123.9	27.9	9.2	100.7	309.2	620.8	1005.1	1448.4
<b>Cash and equivalents at end of year</b>	<b>11.1</b>	<b>4.4</b>	<b>75.0</b>	<b>6.5</b>	<b>65.4</b>	<b>123.9</b>	<b>27.9</b>	<b>9.2</b>	<b>100.7</b>	<b>309.2</b>	<b>620.8</b>	<b>1005.1</b>	<b>1448.4</b>	<b>1956.4</b>

Source: Guggenheim Securities, LLC and Company Reports



# Discounted Cash Flow Analysis 2016E to 2021E

ASSUMPTIONS (\$ in MM's, except per share amounts)	
Be	1.90
Rf	10.0%
Re	30.0%
Rd	10.0%
Debt 2015	\$10.0
Equity	\$106
Value (D+E)	\$116
Return on Market	20.0%
Growth Rate	2.0%
Exit Multiple	2.0x
WACC	27.9%
Tax Rate	40.0%
Cash 2015	\$7

(\$ in MM's, except per share amounts)	Year Ended December 31st,									
	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
EBIT	(\$90.2)	(\$132.0)	(\$65.9)	(\$0.5)	\$227.7	\$399.7	\$572.6	\$660.1	\$756.4	\$862.1
Less Cash Taxes	-	-	-	-	91.1	160.3	230.3	266.5	306.6	350.6
EBIAT	(\$90.2)	(\$132.0)	(\$65.9)	(\$0.5)	\$136.6	\$239.4	\$342.3	\$393.6	\$449.8	\$511.5
Plus Depreciation & Amortization	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Less Capital Expenditures	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Changes in Working Capital	-	-	(31.2)	(18.4)	(45.0)	(31.8)	(33.7)	(15.3)	(16.5)	(17.8)
Free Cash Flow	(\$90.3)	(\$132.1)	(\$97.2)	(\$19.0)	\$91.5	\$207.5	\$308.5	\$378.2	\$433.2	\$493.6
Discounted Free Cash Flow	(\$70.6)	(\$80.7)	(\$46.4)	(\$7.1)	\$26.7	\$47.3	\$55.0	\$52.7	\$47.2	\$42.1
Terminal Value										\$1,896.7
Discounted Terminal Value										\$161.6
Enterprise Value	\$227.7									
Less Debt	(\$10.0)									
Plus Cash	\$6.5									
Equity Value	\$224.3									
Fully Diluted Shares Outstanding	13.8									
Price/Share	\$16.21									

Source: Guggenheim Securities, LLC

## Event Calendar

## Neothetics: Event Calendar

Date	Driver	Upcoming Event
<b>2015</b>		
1H15	LIPO-202	Start Phase 3 trials after EOP2 meeting
End of '15	LIPO-202	Topline Phase 3 results
<b>2016+</b>		
2H16	LIPO-202	NDA filing
3Q16	LIPO-202	Safety Update
1H17	LIPO-202	FDA AdCom
2H17	LIPO-202	FDA approval
2H17	LIPO-202	Launch
2026 to 2031+	LIPO-202	Patents expire

Source: Guggenheim Securities, LLC and Company reports

## Equity and M&A Comparables

# Equity Company Comparables 2014 to 2015E

									2010-15E		PEG				
Ticker	Company	Price as of 12/12/2014	Debt/ EBITDA <sup>2</sup>	2015E EV/ EBITDA <sup>3</sup>	2015E EV/ EBIT <sup>4</sup>	2015E Price/ Sales <sup>5</sup>	Div. Yield	FCF Yield	P/E <sup>1</sup>	EPS Gr. Rate	Ratio on 2015E	% Change	Stock Price		
									14E	15E		2012	2013	2014YTD	
.DJIA-DI	Dow Jones Industrial Avg.	\$17,280.83	3.3x	10.2x	13.2x	1.7x	2.2%	3.6%	15.8x	15.3x	7.3%	2.1x	7.3%	17.3%	5.1%
.SPX-UT	S&P 500	\$2,002.33	3.2x	10.3x	13.0x	1.7x	1.4%	20.6%	17.1x	15.8x	8.3%	1.9x	13.4%	21.4%	9.3%
COMP-O	Nasdaq	\$4,653.60	2.0x	1.8x	9.9x	2.2x	0.8%	1.7%	35.5x	25.4x	NM	NM	15.9%	28.5%	12.3%
BTK-P	Amex Biotech	\$3,420.65	1.6x	13.9x	15.4x	7.1x	0.1%	1.6%	59.0x	39.1x	31.1%	1.3x	41.7%	38.5%	46.0%
DRG-P	Amex Pharma	\$532.36	1.3x	11.6x	14.2x	4.1x	0.0%	0.0%	20.6x	18.3x	5.9%	3.1x	11.0%	20.2%	15.1%
U.S. Large-Cap Pharma															
ABT	Abbott Labs	\$43.69	1.5x	10.6x	14.0x	3.0x	2.0%	4.8%	19.3x	19.3x	(11.5%)	(1.7x)	16.5%	13.2%	14.3%
BMJ	Bristol Myers Squibb	\$58.75	1.9x	25.6x	30.3x	6.2x	2.5%	0.0%	32.6x	32.7x	(3.6%)	(9.0x)	(7.5%)	54.5%	12.4%
LLY	Eli Lilly	\$69.55	1.2x	14.2x	18.5x	3.7x	2.8%	1.1%	25.0x	21.6x	(7.5%)	(2.9x)	18.7%	(0.6%)	37.1%
JNJ	Johnson & Johnson	\$104.43	0.6x	10.5x	12.5x	3.9x	2.7%	3.1%	17.5x	16.9x	5.4%	3.2x	6.9%	28.7%	14.7%
MRK	Merck	\$57.72	1.3x	8.9x	12.9x	4.0x	3.0%	3.9%	16.5x	16.2x	0.8%	19.8x	8.6%	16.9%	16.6%
PFE	Pfizer	\$30.95	1.7x	9.4x	10.7x	4.0x	3.4%	5.3%	13.8x	13.9x	(0.0%)	(309.9x)	15.9%	16.8%	1.6%
Average <sup>6</sup>			1.4x	13.2x	16.5x	4.1x	2.7%	3.0%	20.8x	20.1x	(2.7%)	(50.1x)	9.8%	21.6%	16.1%
U.S. Specialty Pharma															
ACRX	AcelRx*	\$6.40	NM	NM	NM	22.6x	0.0%	NM	NM	NM	NM	121.9%	71.7%	(45.2%)	
ACT	Actavis*	\$259.00	3.6x	13.7x	15.5x	4.3x	0.0%	3.2%	19.1x	15.6x	37.2%	0.4x	42.5%	89.3%	54.1%
AGN	Allergan*	\$208.47	0.8x	16.3x	17.1x	7.9x	0.1%	2.5%	33.1x	24.4x	22.0%	1.1x	4.5%	3.0%	89.0%
AKRX	Akorn*	\$41.24	4.4x	13.5x	14.8x	4.9x	0.0%	0.7%	36.5x	23.0x	58.3%	0.4x	20.1%	77.9%	67.8%
ANIP	ANI Pharmaceuticals*	\$54.28	NM	11.9x	NM	6.8x	0.0%	2.2%	38.5x	19.6x	NM	NM	(57.3%)	155.5%	181.7%
ATRS	Antares*	\$2.40	NM	NM	NM	4.8x	0.0%	NM	NM	NM	NM	73.2%	2.1%	(47.1%)	
CBST	Cubist	\$96.31	3.4x	26.0x	29.9x	5.2x	0.0%	2.3%	85.6x	53.9x	2.9%	18.6x	NM	45.7%	41.5%
CEMP	Cempra	\$19.00	NM	NM	NM	33.3x	0.0%	NM	NM	NM	NM	NM	103.3%	48.6%	
COO	Cooper	\$158.25	0.7x	14.4x	18.0x	4.0x	0.0%	2.8%	21.4x	21.0x	19.4%	1.1x	31.1%	25.6%	28.6%
DERM	Dermira*	\$20.00	NM	NM	NM	NM	0.0%	0.0%	NM	NM	NM	NM	NM	NM	25.0%
ENDP	Endo	\$68.77	3.7x	12.0x	12.7x	3.5x	0.0%	NM	16.3x	15.0x	5.7%	2.6x	(24.0%)	142.9%	5.0%
HSP	Hospira*	\$60.33	2.1x	13.9x	18.7x	2.3x	0.0%	2.0%	24.4x	25.2x	(6.3%)	(4.0x)	2.9%	26.7%	47.0%
HZNP	Horizon Pharma	\$12.71	4.6x	10.4x	12.5x	3.4x	0.0%	0.0%	15.7x	12.3x	NM	NM	(44.5%)	216.2%	67.0%
IPXL	Impax Labs*	\$31.16	NM	8.2x	9.4x	2.9x	0.0%	2.0%	24.2x	18.9x	(11.2%)	(1.7x)	1.6%	11.8%	25.5%
JAZZ	Jazz*	\$165.12	2.0x	12.9x	13.1x	7.1x	0.0%	0.0%	19.9x	16.3x	45.6%	0.4x	37.8%	111.4%	30.2%
KIN	Kindred Bio*	\$6.67	NM	NM	NM	NM	0.0%	NM	NM	NM	NM	NM	NM	70.7%	(39.1%)
MDCO	Medicines Company*	\$25.39	59.8x	10.4x	20.8x	2.1x	0.0%	6.3%	NM	33.5x	(7.8%)	(4.3x)	28.6%	49.8%	(33.6%)
MNKL	Mallinckrodt plc*	\$94.72	6.6x	10.7x	13.0x	2.9x	0.0%	1.6%	20.9x	14.5x	NM	NM	NM	21.0%	84.5%
MYL	Mylan Labs*	\$53.32	2.9x	8.5x	9.6x	2.0x	0.0%	9.1%	15.0x	12.9x	20.8%	0.6x	27.9%	51.1%	25.2%
NEOT	Neothetics*	\$7.49	NM	NM	NM	NM	0.0%	0.0%	NM	NM	NM	NM	NM	NM	(46.5%)
ORX-SK	Orexo AB*	\$132.00	NM	23.2x	20.3x	4.9x	0.0%	NM	NM	24.4x	NM	NM	NM	225.2%	(22.4%)
PAHC	Phibro Animal Health	\$31.00	3.2x	14.3x	17.2x	1.6x	1.2%	2.0%	23.1x	20.4x	35.8%	0.6x	NM	NM	106.7%
PRGO	Perrigo*	\$153.41	3.0x	13.2x	18.5x	4.8x	0.3%	0.0%	24.8x	20.9x	21.1%	1.0x	6.9%	44.0%	0.2%
PTX	Pernix*	\$9.61	30.1x	8.6x	13.0x	1.7x	0.0%	NM	NM	10.6x	17.7%	NM	(16.3%)	(70.9%)	292.2%
SGNT	Sagent*	\$27.85	NM	16.1x	19.6x	2.5x	0.0%	2.4%	91.6x	34.1x	NM	NM	(23.4%)	36.7%	12.1%
SHPG	Shire	\$213.70	0.4x	42.4x	46.5x	20.0x	0.0%	1.7%	20.1x	18.5x	22.3%	0.8x	(11.3%)	41.9%	53.5%
SLXP	Salix	\$103.36	4.7x	13.9x	15.3x	4.4x	0.0%	2.8%	19.3x	23.0x	52.7%	0.4x	(15.4%)	97.4%	16.0%
TEVA	Teva*	\$55.92	2.0x	9.4x	10.8x	2.4x	2.4%	7.1%	11.0x	11.0x	2.3%	4.7x	(7.5%)	6.2%	38.9%
TTPH	Tetraphase*	\$31.57	NM	NM	NM	89.9x	0.0%	NM	NM	NM	NM	NM	NM	72.0%	132.8%
VRX-US	Valeant*	\$138.71	4.2x	13.3x	13.8x	4.9x	0.0%	4.9%	16.8x	13.9x	NM	NM	24.5%	88.2%	11.0%
ZTS	Zoetis*	\$41.77	2.7x	16.5x	18.6x	4.2x	0.7%	2.4%	27.2x	24.8x	NM	NM	NM	19.9%	29.1%
Average <sup>6</sup>			7.2x	14.7x	17.3x	9.3x	0.2%	2.5%	28.8x	21.1x	19.9%	1.4x	10.7%	65.6%	41.3%
US Large-Cap Biotech															
AMGN	Amgen	\$164.53	3.3x	12.3x	14.4x	6.0x	1.5%	3.7%	19.1x	17.6x	12.4%	1.4x	34.2%	26.3%	42.1%
BIBB	Biogen IDEC	\$344.49	0.1x	14.5x	15.5x	7.3x	0.0%	3.3%	25.5x	21.2x	25.9%	0.8x	33.0%	85.2%	22.9%
CELG	Celgene	\$114.49	1.6x	17.4x	19.0x	9.9x	0.0%	2.5%	31.1x	23.6x	28.3%	0.8x	16.1%	104.1%	(33.4%)
GILD	Gilead	\$104.13	0.5x	7.6x	8.1x	5.4x	0.0%	6.4%	13.1x	10.3x	40.5%	0.3x	79.5%	87.2%	38.5%
Average <sup>6</sup>			1.4x	12.9x	14.2x	7.1x	0.4%	4.0%	22.2x	18.2x	26.7%	0.8x	40.7%	75.7%	17.5%
Medical Device/Hospital Supply															
BAX	Baxter	\$71.77	2.1x	10.7x	13.9x	2.3x	2.9%	1.7%	14.7x	15.2x	3.5%	4.3x	34.7%	(1.6%)	3.7%
BDX	Becton Dickinson	\$136.99	1.8x	11.8x	15.4x	3.0x	1.6%	3.3%	22.0x	20.1x	6.8%	3.0x	4.6%	32.2%	25.5%
BCR	CR Bard	\$167.49	1.4x	12.5x	14.3x	3.6x	0.5%	8.2%	20.0x	18.1x	10.5%	1.7x	14.3%	31.3%	27.1%
CFN	CareFusion	\$58.86	2.2x	12.0x	14.3x	2.9x	0.0%	4.3%	25.5x	20.7x	14.9%	1.4x	12.5%	32.1%	50.1%
COV	Covidien	\$100.49	1.7x	15.7x	19.3x	4.1x	1.4%	2.9%	25.0x	23.1x	5.1%	4.5x	16.7%	23.7%	49.1%
Average <sup>6</sup>			1.8x	12.5x	15.4x	3.2x	1.3%	4.1%	21.4x	19.5x	8.2%	3.0x	16.6%	23.5%	31.1%

Source: Thomson Reuters and Guggenheim Securities, LLC

Louise Chen companies under coverage are marked by an \*.

(1) All estimates are from Thomson Reuters

(2) EPS estimates are adjusted for non-operating items and 2014 and 2015 EPS estimates are consensus

(3) Debt/EBITDA is off of estimated 2014 EBITDA

(3), (4), and (5) multiples are off of 2015 estimates

(6) Arithmetic Average

## M&A Comps Dermatology

Year	Buyer Name	Seller Name	EV (MM)	EV /Sales	EV / EBITDA
2006	Stiefel Laboratories	Connetics Corporation	\$640.0	3.6x	16.3x
2008	Stiefel Laboratories	Barrier Therapeutics	148.0	6.3x	NA
2009	Glaxo	Stiefel Laboratories	3,600.0	4.0x	NA
2009	Leo Pharma	Warner Chilcott (U.S. rights to psoriasis portfolio and dermatology pipeline)	1,000.0	NA	NA
2009	Leo Pharma	Peplin	287.5	NA	NA
2010	Merz	BioForm Medical	253.0	3.3x	NA
2011	Valeant	Dermik	425.0	1.8x	NA
2011	Valeant	Ortho Dermatologics	345.0	2.3x	NA
2011	Valeant	Medicis	1,939.1	2.7x	6.8x
2011	Medicis	Graceway Pharmaceuticals	455.0	3.6x	17.7x
2011	Allergan	Vicept	275.0	NA	NA
2012	Allergan	SkinMedica	371.0	3.9x	NA
2012	Sun Pharmaceuticals	DUSA	197.0	3.9x	NA
2012	Sandoz	Fougera Pharmaceuticals	1,525.0	3.6x	8.8x
2013	Almirall	Aqua	380.0	3.0x	NA
2013	Valeant	Obagi	437.0	3.5x	15.0x
2013	Actavis	Warner Chilcott	8,500.0	3.3x	5.9x
2014	Valeant	PreCision Dermatology	475.0	3.7x	NA
2014	Nestle/Galderma	Valeant Facial Filler & Toxin Business	1,400.0	5.2x	7.3x
2014	Actavis	Allergan	\$66,000.0	9.2x	22.7x
		Average	\$4,433	3.9x	12.6x
		Median	\$446	3.6x	11.9x
		High	\$66,000	9.2x	22.7x
		Low	\$148	1.8x	5.9x

Source: Guggenheim Securities, LLC & Company Reports, EV = Enterprise Value. Multiples are calculated on historical sales

## Additional Companies Mentioned

## Additional Companies Mentioned

Company Name	Ticker	Rating	Price	Currency	Company Name	Ticker	Rating	Price	Currency
Allergan	AGN	NEUTRAL	208.47	USD	Kythera	KYTH	NC	35.12	USD
Avera Pharmaceuticals	Private	NC	N/A	N/A	Leo Pharma	Private	NC	N/A	N/A
Bayer AG	BAYN-XE	NC	112.80	EUR	MD Edge	Private	NC	N/A	N/A
Connectics Corporation	Private	NC	N/A	N/A	Merck & Co.	MRK	Neutral	57.72	USD
CombiChem	Private	NC	N/A	N/A	MediciNova	MNOV	NC	3.60	USD
Cotherix	Private	NC	N/A	N/A	Neurex, Inc	Private	NC	N/A	N/A
Dermira	DERM	BUY	20.00	USD	Nestle SA	NESN-VX	NC	70.55	CHF
Dupont Pharmaceuticals	Private	NC	N/A	N/A	Pfizer	PFE	NC	30.95	USD
Excaliard Pharmaceuticals	Private	NC	N/A	N/A	Revance	RVNC	NC	17.45	USD
Hoechst-Roussel Pharmaceuticals	Private	NC	N/A	N/A	Tanabe Research Laboratories	Private	NC	N/A	N/A
Interneuron Pharmaceuticals, Inc	Private	NC	N/A	N/A	Unilever plc	UL-US	NC	40.29	USD
Isis Pharmaceuticals	ISIS-US	NC	62.32	USD	Valeant	VRX-US	BUY	138.71	USD
Johnson & Johnson	JNJ	NEUTRAL	104.43	USD	Westwood Pharmaceuticals	Private	NC	N/A	N/A

Priced as of 12/12/14  
Source: Thomson Reuters



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Guggenheim Securities, LLC managed or co-managed a public offering of securities for Neothetics Inc. and Dermira, Inc. during the past 12 months.

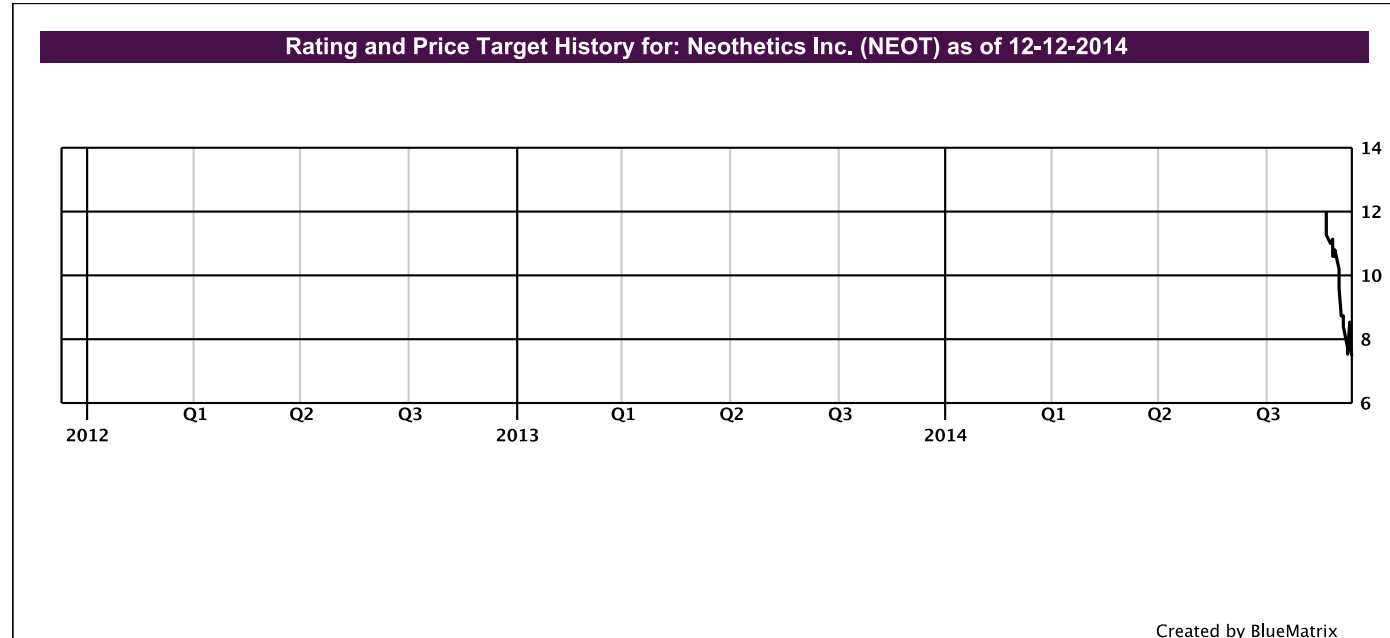
Guggenheim Securities, LLC makes a market in the securities or derivatives Neothetics Inc..

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**BUY (B)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

**NEUTRAL (N)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

**SELL (S)** - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

**NR** - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

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Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
Buy	87	52.10%	19	21.84%
Neutral	80	47.90%	3	3.75%
Sell	0	0.00%	0	0.00%

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