

Neothetics, Inc. (NEOT)

Overweight

2Q Update; LIPO-202 Phase III Data On The Horizon; Reiterate Overweight

CONCLUSION

We are updating our model to reflect Neothetics' 2Q15 results. During 1H15, NEOT initiated its pivotal Phase III program for LIPO-202, the company's injectible form of the beta-agonist salmeterol for the localized reduction of abdominal fat in non-obese patients. We should see top-line data before the end of 2015. In our view, LIPO-202 will prove to be a valued addition to the vast and largely untapped market for non-invasive fat reduction (i.e., a relatively quick and painless procedure is likely to expand the addressable pool of patients seeking abdominal fat reduction). With a relatively strong probability of success in Phase III in our view, and U.S. sales potential for LIPO-202 of at least \$500M, NEOT shares are valued attractively in the context of a market cap of under \$200M. We reiterate our Overweight rating and \$20 PT.

- **LIPO-202 Phase III data on the horizon.** Recall that NEOT initiated its Phase III program for LIPO-202 in 1Q15, and we should see top-line data before the end of the year. The Phase III program will enroll a total of 1,600 patients across two placebo-controlled trials evaluating weekly dosing at 0.4 mcg given for eight weeks. We note that NEOT also initiated an open-label study to evaluate the safety of multiple courses of LIPO-202 treatment (one of four supporting studies to be conducted as part of the Phase III program). Assuming positive results from the Phase III program, NEOT is planning on an NDA filing for LIPO-202 in 2H17.
- **Phase II data points to relatively strong probability of success in Phase III in our view.** We continue to believe that the strong body of data in Phase II points to a strong probability of success in the Phase III program for LIPO-202. In the Phase II RESET trial in which 513 patients were randomized to LIPO-202 at three different doses or placebo, treatment with LIPO-202 at the 0.4 mcg dose resulted in a 1-point improvement in the Patient Global Abdominal Perception Scale (P-GAPS) and a 2-point improvement in the Clinician Photonic Scale (CPnS) in 16% of patients, versus 7% of placebo patients (p=0.043). Further, a significantly higher number of LIPO-202 patients (6%) versus placebo (<1%) showed a 2-point improvement on both P-GAPS and CPnS (p=0.024). Given the body of data, we believe that the risks surrounding the Phase III readout are manageable.
- **Cash runway sufficient to fund operations into 2016.** NEOT finished 2Q15 with \$63M in cash and equivalents, down from \$71M at the end of 1Q15. Given the amount of spend associated with the build-out of a U.S. sales infrastructure and spend associated with the U.S. commercial launch of LIPO-202, we expect at least one additional capital raise will be needed to enable NEOT to reach profitability. Our model reflects equity capital raises in 2016 and 2017.

RISKS TO ACHIEVEMENT OF PRICE TARGET

Risks include clinical and regulatory risks surrounding LIPO-202.

COMPANY DESCRIPTION

Neothetics is focused on next-generation body contouring treatments.

YEAR	REVENUE (US\$ m)					EARNINGS PER SHARE (US\$)					
	Mar	Jun	Sep	Dec	FY	Mar	Jun	Sep	Dec	FY	FY P/E
2014A	0.0	0.0	0.0	0.0	0.0	(0.35)	(0.29)	(0.28)	(0.45)	(1.38)	NM
2015E	0.0A	0.0A	0.0	0.0	0.0	(0.50)A	(0.69)A	(0.84)	(0.83)	(2.87)	NM
2016E	0.0	0.0	0.0	0.0	0.0	(0.43)	(0.40)	(0.40)	(0.40)	(1.63)	NM

PRICE: US\$12.48

TARGET: US\$20.00

20X 2021E diluted EPS of \$4.21, disc. 30%

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Changes	Previous	Current
Rating	—	Overweight
Price Tgt	—	US\$20.00
FY15E Rev (mil)	—	US\$0.0
FY16E Rev (mil)	—	US\$0.0
FY15E EPS	US\$(3.07)	US\$(2.87)
FY16E EPS	US\$(1.65)	US\$(1.63)
52-Week High / Low	US\$15.05 / US\$5.92	
Shares Out (mil)	13.7	
Market Cap. (mil)	US\$171.0	
Avg Daily Vol (000)	138	
Book Value/Share	US\$3.63	
Net Cash Per Share	US\$4.60	
Debt to Total Capital	0.0%	
Div (ann)	US\$0.00	
Fiscal Year End	Dec	

Price Performance - 1 Year



Source: Bloomberg

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Exhibit 1

2Q15: ACTUAL VS. PJC/STREET ESTIMATES

<i>\$ in millions, except per share</i>	Actuals	PJC Estimates	Street Estimates ⁽¹⁾
<u>Revenues</u>			
LIPO-202	\$0	\$0	
Other Revenue	\$0	\$0	
Total Revenues	\$0	\$0	\$0
COGS	\$0.0	\$0.0	
Research & development	\$7.5	\$10.0	
Selling, general and administrative	\$1.7	\$1.3	
Operating Income	(\$9.2)	(\$11.3)	
Income tax provision	\$0.0	\$0.0	
Adjusted Net Income	(\$9.5)	(\$12.3)	
Share Outstanding, diluted	13.7	13.7	
Non-GAAP EPS, diluted	(\$0.69)	(\$0.90)	(\$1.14)

(1) Consensus prior to 2Q15 earnings release

Source: Company reports and PJC estimates

Exhibit 2

CALENDAR OF UPCOMING EVENTS FOR NEOT

Product / Program	Event	Expected Date
LIPO-202	Data from Phase III trials	End of 2015
LIPO-202	Potential NDA filing	2H16
LIPO-202	Potential commercial launch of LIPO-202	2H17

Source: Company reports and PJC estimates

Exhibit 3

SUMMARY OF CURRENT AND PRIOR ESTIMATES FOR NEOT

\$ in millions, except per share	2015E		2016E		2017E		2018E		2019E		2020E		2021E	
	Current	Prior	Current	Prior	Current	Prior	Current	Prior	Current	Prior	Current	Prior	Current	Prior
Revenue														
LIPO-202	\$0.0	\$0.0	\$0.0	\$0.0	\$10.6	\$10.6	\$74.9	\$74.9	\$115.2	\$115.2	\$174.6	\$174.6	\$224.1	\$224.1
Other Revenue	\$0.0	\$0.0	\$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 revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$10.6	\$10.6	\$74.9	\$74.9	\$115.2	\$115.2	\$174.6	\$174.6	\$224.1	\$224.1
Consensus ⁽¹⁾	\$0.0		\$0.0		\$14.3		\$78.6		\$156.1		\$289.3			
Expenses														
COGS	\$0.0	\$0.0	\$0.0	\$0.0	\$5.3	\$5.3	\$18.7	\$18.7	\$23.0	\$23.0	\$26.2	\$26.2	\$22.4	\$22.4
Research & development	\$30.2	\$32.7	\$6.7	\$7.5	\$5.0	\$5.0	\$9.0	\$9.0	\$9.2	\$9.2	\$8.7	\$8.7	\$9.0	\$9.0
Selling, general, and administrative	\$6.7	\$6.2	\$12.3	\$12.0	\$30.0	\$30.0	\$74.9	\$74.9	\$86.4	\$86.4	\$96.0	\$96.0	\$100.8	\$100.8
Operating income	(\$36.8)	(\$38.9)	(\$19.0)	(\$19.5)	(\$29.7)	(\$29.7)	(\$27.7)	(\$27.7)	(\$3.5)	(\$3.5)	\$43.6	\$43.6	\$91.9	\$91.9
Income tax provision	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Adjusted Net Income	(\$39.4)	(\$42.2)	(\$23.0)	(\$23.5)	(\$31.7)	(\$31.7)	(\$28.7)	(\$28.7)	(\$4.5)	(\$4.5)	\$42.6	\$42.6	\$90.9	\$90.9
Share Outstanding, diluted	13.7	13.7	14.1	14.2	18.6	18.7	18.8	19.0	19.1	19.2	21.3	21.5	21.6	21.7
Non-GAAP EPS, diluted	(\$2.87)	(\$3.07)	(\$1.63)	(\$1.65)	(\$1.71)	(\$1.69)	(\$1.52)	(\$1.51)	(\$0.23)	(\$0.23)	\$2.00	\$1.98	\$4.21	\$4.18
Consensus ⁽¹⁾	(\$3.64)		(\$2.78)		(\$2.62)		(\$1.43)		\$0.43		\$4.12			

(1) Consensus is prior to 2Q15 earnings release

Source: Company reports and PJC estimates

Neothetics - Quarterly and Annual Income Statement

Fiscal Year Ends December 31
(\$ In millions, except for EPS)

	2015E							2016E									
<i>Fiscal Year Ends December 31</i> <i>(\$ In millions, except for EPS)</i>	2013A	2014A	1QA	2QA	3QE	4QE	2015E	1QE	2QE	3QE	4QE	2016E	2017E	2018E	2019E	2020E	2021E
Revenues																	
LIPO-202 (U.S. only)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$10.6	\$74.9	\$115.2	\$174.6	\$224.1
Other revenue	0.0	0.0	0.0	0.0	0.0	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 Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$10.6	\$74.9	\$115.2	\$174.6	\$224.1
Total cost of sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.3	18.7	23.0	26.2	22.4
Gross Profit	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$5.3	\$56.1	\$92.2	\$148.4	\$201.7
Research & development	11.4	5.2	4.7	7.5	9.0	9.0	30.2	1.8	1.7	1.6	1.6	6.7	5.0	9.0	9.2	8.7	9.0
Selling, general & administrative	3.0	4.4	1.9	1.7	1.5	1.5	6.7	3.2	2.9	3.1	3.1	12.3	30.0	74.9	86.4	96.0	100.8
Other non-GAAP adjustments	0.0	0.0	0.0	0.0	0.0	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 expenses	\$14.4	\$9.6	\$6.6	\$9.2	\$10.5	\$10.5	\$36.8	\$5.0	\$4.6	\$4.7	\$4.7	\$19.0	\$35.0	\$83.9	\$95.6	\$104.7	\$109.8
Operating Income	(\$14.4)	(\$9.6)	(\$6.6)	(\$9.2)	(\$10.5)	(\$10.5)	(\$36.8)	(\$5.0)	(\$4.6)	(\$4.7)	(\$4.7)	(\$19.0)	(\$29.7)	(\$27.7)	(\$3.5)	\$43.6	\$91.9
Other income (expense), net	(0.6)	(1.2)	(0.3)	(0.3)	(1.0)	(1.0)	(2.5)	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)	(2.0)	(1.0)	(1.0)	(1.0)	(1.0)
Income (loss) before taxes	(\$15.0)	(\$10.8)	(\$6.9)	(\$9.5)	(\$11.5)	(\$11.5)	(\$39.4)	(\$6.0)	(\$5.6)	(\$5.7)	(\$5.7)	(\$23.0)	(\$31.7)	(\$28.7)	(\$4.5)	\$42.6	\$90.9
Provision (benefit) for income taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items, net of 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	0.0
Adjusted non-GAAP net income (loss)	(\$15.0)	(\$10.8)	(\$6.9)	(\$9.5)	(\$11.5)	(\$11.5)	(\$39.4)	(\$6.0)	(\$5.6)	(\$5.7)	(\$5.7)	(\$23.0)	(\$31.7)	(\$28.7)	(\$4.5)	\$42.6	\$90.9
Non-GAAP EPS, basic	(\$2.15)	(\$1.38)	(\$0.50)	(\$0.69)	(\$0.84)	(\$0.83)	(\$2.87)	(\$0.43)	(\$0.40)	(\$0.40)	(\$0.40)	(\$1.63)	(\$1.71)	(\$1.52)	(\$0.23)	\$2.20	\$4.64
Non-GAAP EPS, diluted	(\$2.15)	(\$1.38)	(\$0.50)	(\$0.69)	(\$0.84)	(\$0.83)	(\$2.87)	(\$0.43)	(\$0.40)	(\$0.40)	(\$0.40)	(\$1.63)	(\$1.71)	(\$1.52)	(\$0.23)	\$2.00	\$4.21
Shares outstanding, basic ⁽¹⁾	7.0	8.0	13.7	13.7	13.7	13.8	13.7	13.9	14.0	14.2	14.3	14.1	18.6	18.8	19.1	19.3	19.6
Shares outstanding, diluted ⁽¹⁾	7.0	8.0	13.7	13.7	13.7	13.8	13.7	13.9	14.0	14.2	14.3	14.1	18.6	18.8	19.1	21.3	21.6
Expenses (as % of revenue):																	
COGS													50.0%	25.0%	20.0%	15.0%	10.0%
Research & development														12.0%	8.0%	5.0%	4.0%
Selling, general & administrative														100.0%	75.0%	55.0%	45.0%
Income Tax														0.0%	0.0%	0.0%	0.0%
Margins:																	
Gross margin														75.0%	80.0%	85.0%	90.0%
Operating margin																25.0%	41.0%
Net income																24.4%	40.6%
Y-O-Y Growth rates:																	
Total revenue														607.0%	53.9%	51.5%	28.4%
R&D												(77.8%)	(25.4%)	79.7%	2.6%	(5.3%)	2.7%
Selling, distribution and marketing												84.5%	143.9%	149.6%	15.4%	11.1%	5.0%
Operating profit																	110.5%
Net income																	113.1%

(1) Reflects dilution from assumed additional capital raises in late 2016 and in 2017

Proprietary to Piper Jaffray & Co. August 13, 2015

NEOT: David Amsellem; 212.284.9455

Current disclosure information for this company can be found at <http://www.piperjaffray.com/researchdisclosures>

Neothetics - Annual Cash Flow Statement

(\$ in millions)

	2012A	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Beginning Cash & Equivalents	\$5.8	\$11.1	\$4.4	\$75.9	\$38.1	\$73.6	\$65.3	\$38.1	\$35.0	\$79.0
Operating Activities										
Net Income (Loss), GAAP	(\$7.8)	(\$15.0)	(\$10.8)	(\$39.4)	(\$23.0)	(\$31.7)	(\$28.7)	(\$4.5)	\$42.6	\$90.9
Depreciation & Amortization	\$0.1	\$0.1	\$0.0	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2
Other	\$2.0	\$3.4	\$0.9	(\$2.0)	(\$2.0)	(\$2.0)	(\$2.0)	(\$2.0)	(\$2.0)	(\$2.0)
Stock-based Compensation	\$0.1	\$0.1	\$0.6	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5
Net Change in Assets and Liabilities	(\$1.8)	(\$1.4)	(\$0.3)	\$0.0	(\$0.0)	(\$0.0)	(\$0.1)	(\$0.1)	(\$0.2)	(\$0.2)
Cash From Operations	(\$7.4)	(\$12.9)	(\$9.6)	(\$40.7)	(\$24.3)	(\$33.0)	(\$30.1)	(\$5.9)	\$41.2	\$89.3
Investing Activities										
Capital Expenditures	\$0.0	(\$0.0)	(\$0.0)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)
Other Investment	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash From Investing Activities	\$0.0	\$0.1	(\$0.0)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)	(\$0.2)
Financing Activities										
Debt Issuance	\$3.3	\$0.0	\$10.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Debt Repayments	(\$0.8)	(\$0.4)	(\$0.2)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Dividends	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Share Repurchases	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Stock and Option Issuances	\$10.2	\$6.5	\$71.4	\$3.0	\$60.0	\$25.0	\$3.0	\$3.0	\$3.0	\$3.0
Other, Net	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Cash From Financing Activities	\$12.7	\$6.1	\$81.2	\$3.0	\$60.0	\$25.0	\$3.0	\$3.0	\$3.0	\$3.0
Currency Translation Differences	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Change In Cash	\$5.3	(\$6.7)	\$71.6	(\$37.9)	\$35.5	(\$8.2)	(\$27.3)	(\$3.1)	\$44.0	\$92.1
Year End Cash & Equivalents	\$11.1	\$4.4	\$75.9	\$38.1	\$73.6	\$65.3	\$38.1	\$35.0	\$79.0	\$171.1

Proprietary to Piper Jaffray & Co. August 13, 2015

NEOT: David Amsellem 212.284.9455

Neothetics - Annual Balance Sheet

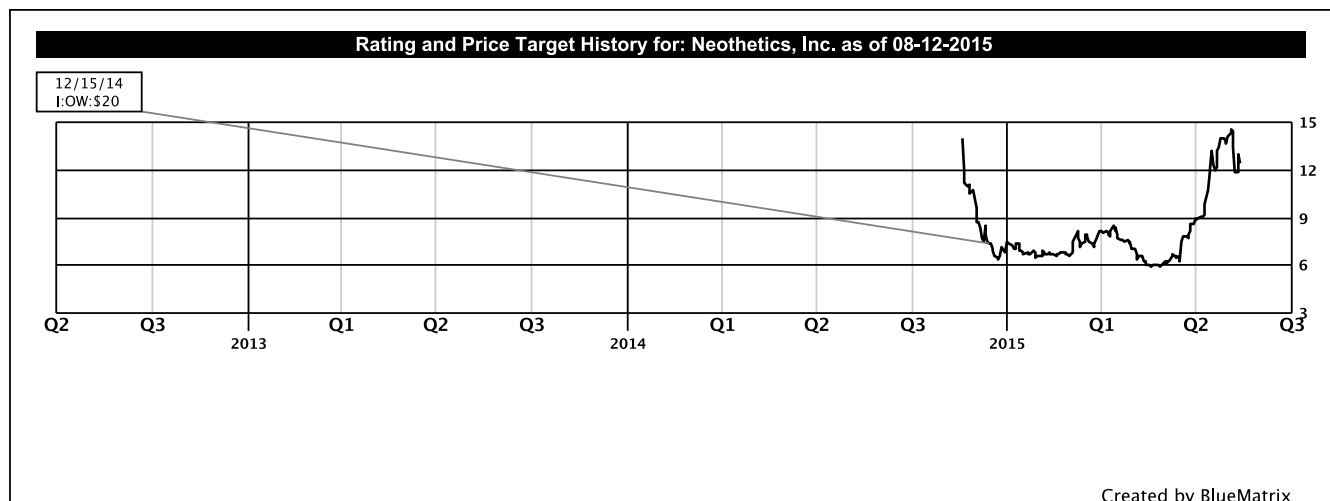
(\$ in millions)

	2012A	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Current Assets										
Cash & Equivalents	\$11.1	\$4.4	\$75.9	\$38.1	\$73.6	\$65.3	\$38.1	\$35.0	\$79.0	\$171.1
Prepaid expenses and other	\$1.5	\$0.1	\$0.9	\$1.1	\$1.3	\$1.6	\$1.9	\$2.3	\$2.8	\$3.3
Total Current Assets	\$12.6	\$4.5	\$76.9	\$39.2	\$74.9	\$66.9	\$40.0	\$37.3	\$81.8	\$174.5
Property, Plant & Equipment, Net	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Restricted cash	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Assets	\$12.8	\$4.5	\$76.9	\$39.2	\$74.9	\$67.0	\$40.0	\$37.3	\$81.8	\$174.5
Liabilities & Equity										
Current Liabilities	\$1.9	\$1.5	\$1.9	\$2.1	\$2.3	\$2.5	\$2.8	\$3.1	\$3.4	\$3.7
Total Debt	\$0.0	\$0.0	\$9.7	\$9.7	\$9.7	\$9.7	\$9.7	\$9.7	\$9.7	\$9.7
Preferred stock	\$52.7	\$59.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Equity	(\$41.8)	(\$56.7)	\$65.2	\$27.4	\$62.9	\$54.7	\$27.5	\$24.5	\$68.7	\$161.0
Total Liabilities & Equity	\$12.8	\$4.5	\$76.9	\$39.2	\$74.9	\$67.0	\$40.0	\$37.3	\$81.8	\$174.5

Proprietary to Piper Jaffray & Co. August 13, 2015

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IMPORTANT RESEARCH DISCLOSURES



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box 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.

Legend:

I: Initiating Coverage
R: Resuming Coverage
T: Transferring Coverage
D: Discontinuing Coverage
S: Suspending Coverage
OW: Overweight
N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	421	59.55	105	24.94
HOLD [N]	268	37.91	14	5.22
SELL [UW]	18	2.55	0	0.00

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

Analyst Certification — David Amsellem, Sr. Research Analyst
— Michael C. Chang, Research Analyst
— Christeen M. Hatchett, Research Analyst

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