



April 7, 2015

## Ocular Therapeutix, Inc.

### If you thought the pipeline interesting here's the chance to buy

**Our view:** The OTX-DP Phase III setback delays NDA filing, near-term commercialization and revenues. However, this was a smaller indication and contributor to valuation, so the sell off seemed like an overreaction, especially given one positive Phase III and likelihood of another trial. We think Phase II/ III readouts in 2H:15 for allergy, dry eye and glaucoma and feasibility of long-acting anti-VEGF remain reasons to buy.

#### Key points:

- **First Phase III trial worked; second Phase III did not.** The first Phase III trial of OTX-DP in post-cataract pain and inflammation met the primary endpoint. The second Phase III trial showed a stat sig benefit in pain at day 8 (77.5% vs. 58.8%;  $p=0.0025$ ) but did not show a significant difference in inflammation at day 14 (39.4% vs. 31.3%;  $p=0.2182$ ). Placebo response rates were higher. Differences vs. first Phase III included higher rescue between days 8 and 14, more patients on NSAIDs and intra-center variability. Safety remained clean.
- **Future plans a function of FDA feedback but we think another Phase III likely.** OCUL stated a Phase III trial could cost ~\$3-4M and take a year to conduct. We support another pivotal as it could still mean near-term product approval, commercial build out, and potential sales starting 2017. Guidance on timing, design and feasibility could be 2Q/ 3Q:15 event (earlier if FDA allows changes to the pre-scheduled April meeting).
- **Changes to our estimates reflect a delay.** We delayed launch and commercial build out assumptions by roughly a year (*see page 3 for changes*), which reduced our forecasts for OTX-DP and ReSure. There is a \$2 impact on our base case price target (now \$48).
- **Read-outs in 2H:15 represent bigger indications and larger upside.** Phase II studies in glaucoma and inflammatory dry eye and Phase III studies in allergic conjunctivitis could read out by YE:15. The former could be blockbuster potential indications. The biggest upside driver would be a partnership for the intravitreal anti-VEGF depot (one month animal data at ARVO in May) with one of the majors (REGN, NVS, RHHBY, etc.) or an announcement to develop its own 4-6 month anti-VEGF (likely Avastin) injection. The timing here is uncertain but it could potentially be a 2015 event.
- **More a speed bump than a detour in OCUL's potential.** Street could increase its risk perception but bigger picture we see this as a non-event. Upcoming indications present larger commercial opportunities and are bigger contributors to valuation. Progress on the anti-VEGF front has both partnering and takeout potential and we like the risk-reward at current levels. We do not believe the failure of one Phase III trial reflects on the viability of the platform technology or even the indication as there is precedence of other drugs requiring multiple trials to secure regulatory approvals in this indication and ophthalmology and notably OTX-DP in post-cataract inflammation and pain was still safe and convenient and is likely coming back.

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Sector: Biotechnology

### Outperform

### Speculative Risk

NASDAQ: OCUL; USD 38.30

Price Target USD 48.00 ↓ 50.00

#### WHAT'S INSIDE

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#### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
10.00 ↓ 74%	38.30	48.00 ↑ 25%	71.00 ↑ 85%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	21.2	Market Cap (MM):	812
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	257,694

#### RBC Estimates

FY Dec	2014A	2015E	2016E	2017E
Revenue	0.8	2.3	4.3	14.6
Prev.			12.3	40.7
EPS, Ops Diluted	(2.69)	(1.73)	(2.57)	(2.96)
Prev.			(2.33)	(2.19)
P/E	NM	NM	NM	NM
Revenue	Q1	Q2	Q3	Q4
2014	0.0A	0.1A	0.1A	0.5A
2015	0.3E	0.5E	0.7E	0.9E
EPS, Ops Diluted				
2014	(2.45)A	(2.10)A	(0.48)A	(0.37)A
2015	(0.39)E	(0.42)E	(0.45)E	(0.48)E

All values in USD unless otherwise noted.

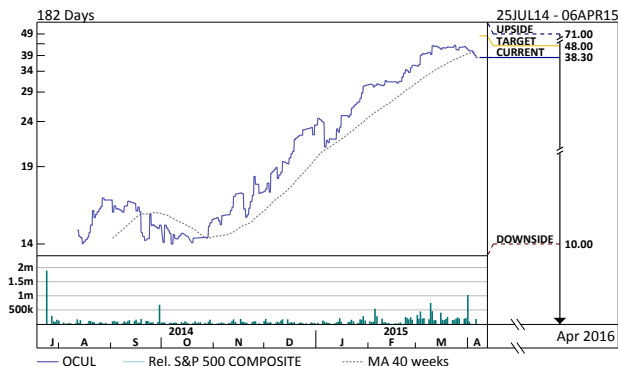
Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, see Page 7. 414



## Target/Upside/Downside Scenarios

Exhibit 1: Ocular Therapeutix, Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

### Target price/base case

We value OCUL at \$48 (prev. \$50), which includes US and EU sales with a probability of success of 85% to ReSure (~\$5/share), 75% to OTX-DP inflammation (~\$2/share), 60% to OTX-DP allergy (~\$3/share), 55% to OTX-DP dry eye (~\$9/share), 60% to OTX-TP glaucoma for (~\$18/share) and 20% (prev. 15%) to Anti-VEGF hydrogel (~\$13/share). We forecast US and ex-US combined peak sales of ReSure, OTX-DP inflammation, OTX-DP allergic conjunctivitis, OTX-DP dry eye, OTX-TP glaucoma, and anti-VEGF hydrogel at ~\$8B and ~\$10B, respectively.

### Upside scenario

Our upside scenario at \$71 per share (prev. \$74) includes US and EU sales with a probability of regulatory and commercial success of 70% to ReSure (~\$5/share), 60% to OTX-DP inflammation (~\$4/share), 55% to OTX-DP allergy (~\$4/share), 30% to OTX-DP dry eye (~\$11/share), 45% to OTX-TP glaucoma for (~\$22/share), and 40% to anti-VEGF hydrogel (~\$25/share). We forecast US and ex-US combined peak sales of ReSure, OTX-DP inflammation, OTX-DP allergic conjunctivitis, OTX-DP dry eye, OTX-TP glaucoma, and anti-VEGF hydrogel at ~\$9B+ and ~\$11B+, respectively.

### Downside scenario

Our downside scenario at \$10 per share (prev. \$11) includes US and EU sales with a probability of success of 75% to ReSure (~\$1/share), 70% to OTX-DP inflammation (~\$1 share), 70% to OTX-DP allergy (~\$1 share), 60% to OTX-DP dry eye (\$2 share) and 65% to OTX-TP glaucoma for (~\$8 share). We forecast US and ex-US combined product peak sales at ~\$950MM and ~\$700MM, respectively. The value of OTX-DP inflammation is negative because the product is launched first and it is assumed that their sales ramps alone are not high enough to support the R&D and SG&A infrastructure profitably.

## Investment summary

We believe OCUL shares offer the potential for upside as the hydrogel sustained technology platform lowers clinical and development risk, allows multiple shots at success and the pipeline to be diversified, and increases the chances of a candidate making it through the clinic and onto the market. OTX-DP is in Phase III studies for inflammation and pain, and in Phase II studies for allergic conjunctivitis and dry eye. OTX-TP is in a Phase IIb study for glaucoma, having posted promising Phase IIa, and earlier stage compounds represent upside optionality. Results from these studies are expected in 2015 and 2016, assuming progress going forward through 2017. Target markets represent millions of patients worldwide, and we forecast peak sales of OCUL's products totaling ~\$18B.

OCUL owns 100% of the rights to its pipeline, and patent protection extends into 2030, meaning the company is free to commercialize itself, partner, or to be acquired. Because ophthalmology remains an attractive therapeutic area and OCUL's product candidates have potential for improved dosing, convenience as well as safety advantages, progress through clinical and regulatory milestones, and any partnerships could be value-enhancing.

### Potential Catalysts for OCUL Shares

- **Phase IIb data for OTX-TP in 3Q:15.** Potential to show efficacy and 3-month plug retention for glaucoma.
- **Potential partnership for OTX-DP and OTX-DP.** OCUL has the rights to both products, and a partnership is possible.
- **Potential OTX-DP approvals and launches in 2016/ 2017 in the US and EU.**
- **ReSure sales** could be higher than expectation.

### Potential Risks for OCUL Shares

- **Pivotal Phase III and earlier stage studies could fail.** Phase II and Phase III data for OTX-DP are expected in 2014-2017 and one or more products could fail.
- **Sales ramp of punctum plug technology could be slow** as clinicians fail to adopt, payers put up hurdles for reimbursing branded drugs, and cheaper generics hamper market penetration.
- **Sales of ReSure Sealant could lag sales expectations** as surgeons maintain current practices.
- **OCUL could fail to find a partner** for product commercialization outside the US.
- **Other sustained release technologies could preempt OCUL's platform**, thereby leading to a move away from hydrogel based products.



### Exhibit 2: Phase IIIb results

Phase IIIb			
n (randomized 2:1)		240	
Results	OTX-DP	Placebo	p-value
Reduction inflammatory cells (day 14)	39.4%	31.3%	0.2182
Reduction in pain (day 8)	77.5%	58.8%	0.0025

Source: Company results

### Exhibit 3: Phase IIIa results

Phase IIIa			
n (randomized 2:1)		247	
Results	OTX-DP	Placebo	p-value
Reduction inflammatory cells (day 14)	33.7%	14.6%	0.0015
Reduction in pain (day 8)	76.1%	36.1%	<0.0001

Source: Company reports

### Exhibit 4: Estimate Changes

	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
<b>ReSure</b>									
Current	2.3	4.3	11.0	21.0	39.8	59.4	70.1	78.0	89.5
Prior	2.3	10.8	20.6	39.0	58.2	68.8	76.5	87.8	96.2
<b>OTX-DP Inflammation</b>									
Current	-	-	1.5	18.2	31.0	47.4	64.4	82.2	97.8
Prior	-	1.5	17.9	30.4	46.5	63.2	80.6	95.9	111.7
<b>OTX-DP allergy</b>									
Current	-	-	2.0	10.2	17.3	28.2	46.8	58.7	74.9
Prior	-	-	2.0	10.2	17.3	28.2	46.8	58.7	74.9
<b>OTX-DP dry eye</b>									
Current	-	-	-	-	-	23.4	83.7	146.3	211.4
Prior	-	-	-	-	-	23.4	83.7	146.3	211.4
<b>OTX-TP glaucoma</b>									
Current	-	-	-	2.7	14.4	91.7	194.3	308.6	435.7
Prior	-	-	-	2.7	14.4	91.7	194.3	308.6	435.7
<b>ROW Royalties</b>									
Current	-	-	0.1	0.8	4.6	10.3	29.2	53.7	78.4
Prior	-	-	0.3	2.8	7.4	14.2	34.7	59.4	82.0
<b>Other</b>									
Current	-	-	-	-	-	-	-	-	-
Prior	-	-	-	-	-	-	-	-	-
<b>Total Revenue</b>									
Current	2.3	4.3	14.6	53.0	107.1	260.5	488.4	727.5	987.7
Prior	2.3	12.3	40.7	85.2	143.8	289.5	516.5	756.6	1011.8
<b>Total operating expenses</b>									
Current	39.5	73.8	95.3	124.9	142.0	176.6	221.4	327.7	424.3
Prior	39.5	75.3	100.2	130.6	148.4	181.4	225.7	337.9	433.1
<b>EPS - Diluted (GAAP)</b>									
Current	(1.7)	(2.6)	(3.0)	(2.2)	(1.0)	1.4	4.5	6.7	9.2
Prior	(1.7)	(2.3)	(2.2)	(1.4)	(0.2)	1.9	4.9	7.0	9.5

Source: RBC Capital Markets estimates



#### Exhibit 5: News flow

Timing	Expected News Flow	Program
2Q:15 (May)	Potential feasibility data at ARVO	IHD-VEGF
2Q/ 3Q:15	Phase III 'go/ no-go' decision in cataract pain/ inflamm.	OTX-DP
Mid-2015	Initiate Phase III study in allergic conjunctivitis	OTX-DP
4Q:15	Phase IIb data in glaucoma	OTX-TP
2H:15	Initiate 3rd Phase III in cataract pain/ inflamm.	OTX-DP
2015	Update on clinical program or partnership(s)	IHD-VEGF
2015	Potential pipeline update on additional programs	Hydrogel
4Q:15/ 1Q:16	Potential Phase II data in dry eye	OTX-DP
2H:15	Initiate 2nd Phase III trial in allergic conjunctivitis	OTX-DP
YE:15/ 1H:16	Phase III results in allergic conjunctivitis	OTX-DP
1H:16	Initiate Phase III study in glaucoma	OTX-TP
1H:16	Phase III 'go/ no-go' decision in dry eye	OTX-DP
Mid-/2H:16	Second Phase III results in allergic conjunctivitis	OTX-DP
2H:16	Phase III data in cataract pain/ inflamm.	OTX-DP
2H:16	File NDA/ MAA in allergic conjunctivitis	OTX-DP
YE:16/ 1H:17	File NDA/ MAA in cataract pain/ inflamm.	OTX-DP
3Q/ 4Q:17	Potential NDA approval for allergic conjunctivitis	OTX-DP
YE:17/ early 2018	Potential NDA approval for cataract pain/ inflammation	OTX-DP
1H:17	Phase III results in glaucoma	OTX-TP
2H:17/ 1H:18	File NDA/ MAA in glaucoma	OTX-TP
2017	Launch in cataract pain/ inflamm. and/ or allergic conjunctivitis	OTX-TP
2H:18/ 1H:19	Potential NDA approval for glaucoma	OTX-TP

Source: Company reports and RBC Capital Markets estimates

#### Exhibit 6: Pipeline

Product	Mechanism	Stage	Indication
ReSure	Ocular sealant	FDA approved	Sealant post cataract surgery
OTX-DP	Dexamethasone plug	Phase III	Post-cataract surgery for inflammation and pain
OTX-DP	Dexamethasone plug	Phase III planned	Allergic conjunctivitis
OTX-DP	Dexamethasone plug	Phase II	Dry eye
OTX-TP	Travoprost plug	Phase II	Glaucoma
OTX-MP	Moxifloxacin plug	Phase I	Bacterial conjunctivitis
Intravitreal Hydrogel Depot	Sustained release anti-VEGF depot	Pre-clinical	Wet AMD/ RVO/ DME

Source: Company reports



## Valuation

We arrive at our \$48 price target (prev. \$50) using a sum-of-the parts analysis for OCUL shares. The primary components of our valuation include OCUL's ReSure sealant, OTX-DP for inflammation, OTX-DP for allergy, OTX-DP for dry eye, anti-VEGF hydrogel, and OTX-TP for glaucoma product sales in the US and royalty revenues from sales in ROW. Our base, upside and downside scenarios use a discount rate of 15% to reflect potential clinical and commercial risk and assign a probability of success of the clinical and commercial roll out of ReSure, OTX-DP for inflammation, OTX-DP for allergic conjunctivitis, and OTX-TP for glaucoma.

## Price target impediments

Our price target is dependent on the clinical, regulatory and commercial success of the ReSure sealant, OTX-DP inflammation, OTX-DP allergy, OTX-DP dry eye, anti-VEGF hydrogel, and OTX-TP glaucoma. The phase IIa clinical trial for OTX-TP has been completed and a Phase IIb clinical trial in OTX-TP is expected in 2Q:15. Failure to demonstrate efficacy or safety in any of these studies would be a significant setback. Furthermore, any setbacks in regulatory approvals in the US or EU, delay in launch, failure to secure a partnership outside the US, increased competition or other limitations to the market potential of these products either due to better efficacy and/or safety outcomes or pricing pressure due to the availability of generic drugs for glaucoma, could negatively affect our valuation.

## Company description

Ocular Therapeutix (OCUL) is developing sustained-release drugs that target ophthalmic disorders by using its proprietary hydrogel technology as a platform. The approach has low clinical and regulatory risks as the drugs OCUL is encapsulating within its proprietary microspheres are either off-patent or about to go off-patent. Since OCUL is able to turn a number of already approved drugs typically administered as eye drops into sustained-release, long-acting products, the hydrogel technology also represents a leverageable platform and a lower risk approach for creating multiple product candidates. OCUL also markets ReSure Sealant, which was recently approved for sealing corneal incisions after cataract surgery. OTX-DP for the treatment of post-surgical ocular inflammation and pain is in Phase III trials. Product candidates undergoing Phase II testing include OTX-DP for allergic conjunctivitis and OTX-TP for glaucoma.



Ocular Therapeutix  
Income Statement

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(\$ in millions, except per share) Fiscal Year Ends December	2012A	2013A	2014A	1Q:15E	2Q:15E	3Q:15E	4Q:15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
<b>Revenue</b>																
ReSure	-	-	0.4	0.3	0.5	0.7	0.9	2.3	4.3	11.0	21.0	39.8	59.4	70.1	78.0	89.5
OTX-DP Inflammation	-	-	-	-	-	-	-	-	-	1.5	18.2	31.0	47.4	64.4	82.2	97.8
OTX-DP allergy	-	-	-	-	-	-	-	-	-	2.0	10.2	17.3	28.2	46.8	58.7	74.9
OTX-DP dry eye	-	-	-	-	-	-	-	-	-	-	-	-	23.4	83.7	146.3	211.4
OTX-TP glaucoma	-	-	-	-	-	-	-	-	-	-	2.7	14.4	91.7	194.3	308.6	435.7
ROW Royalties	-	-	-	-	-	-	-	-	-	0.1	0.8	4.6	10.3	29.2	53.7	78.4
Other	0.0	-	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Revenue</b>	<b>0.0</b>	<b>-</b>	<b>0.8</b>	<b>0.3</b>	<b>0.5</b>	<b>0.7</b>	<b>0.9</b>	<b>2.3</b>	<b>4.3</b>	<b>14.6</b>	<b>53.0</b>	<b>107.1</b>	<b>260.5</b>	<b>488.4</b>	<b>727.5</b>	<b>987.7</b>
<b>Operating expenses</b>																
Royalty expense	-	-	-	0.0	0.0	0.0	0.0	0.1	0.2	0.6	2.1	4.1	9.1	15.0	21.1	27.9
COGS	0.0	-	0.1	0.0	0.1	0.1	0.1	0.3	0.6	2.2	7.8	15.4	37.5	68.9	101.1	136.4
R&D	11.5	10.5	18.9	5.3	5.8	6.3	6.8	24.2	35.0	40.0	50.0	52.5	55.0	57.5	60.0	62.5
SG&A	2.1	2.4	8.9	3.2	3.5	3.9	4.3	14.9	38.0	52.5	65.0	70.0	75.0	80.0	145.5	197.5
<b>Total operating expenses</b>	<b>13.7</b>	<b>12.9</b>	<b>27.9</b>	<b>8.6</b>	<b>9.4</b>	<b>10.3</b>	<b>11.3</b>	<b>39.5</b>	<b>73.8</b>	<b>95.3</b>	<b>124.9</b>	<b>142.0</b>	<b>176.6</b>	<b>221.4</b>	<b>327.7</b>	<b>424.3</b>
<b>Operating Income (Loss)</b>	<b>(13.7)</b>	<b>(12.9)</b>	<b>(27.1)</b>	<b>(8.3)</b>	<b>(8.9)</b>	<b>(9.7)</b>	<b>(10.4)</b>	<b>(37.3)</b>	<b>(69.5)</b>	<b>(80.6)</b>	<b>(71.9)</b>	<b>(34.9)</b>	<b>83.9</b>	<b>267.0</b>	<b>399.8</b>	<b>563.3</b>
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Interest expense	(0.4)	(0.4)	(1.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Other income (expense)	(0.0)	0.0	(0.4)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
<b>Total other income</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>(1.6)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.6)</b>	<b>(0.5)</b>	<b>(0.8)</b>	<b>(0.8)</b>	<b>(0.8)</b>	<b>(0.8)</b>	<b>(0.7)</b>	<b>(0.7)</b>	<b>(0.7)</b>
<b>Pretax Income</b>	<b>(14.1)</b>	<b>(13.3)</b>	<b>(28.7)</b>	<b>(8.4)</b>	<b>(9.1)</b>	<b>(9.8)</b>	<b>(10.5)</b>	<b>(37.8)</b>	<b>(70.0)</b>	<b>(81.5)</b>	<b>(72.7)</b>	<b>(35.6)</b>	<b>83.1</b>	<b>266.3</b>	<b>399.1</b>	<b>562.7</b>
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	29.1	93.2	139.7	196.9
<b>Net income (loss)</b>	<b>(14.1)</b>	<b>(13.3)</b>	<b>(28.7)</b>	<b>(8.4)</b>	<b>(9.1)</b>	<b>(9.8)</b>	<b>(10.5)</b>	<b>(37.8)</b>	<b>(70.0)</b>	<b>(81.5)</b>	<b>(72.7)</b>	<b>(35.6)</b>	<b>54.0</b>	<b>173.1</b>	<b>259.4</b>	<b>365.7</b>
<b>EPS - Basic (GAAP)</b>	<b>(\$5.59)</b>	<b>(\$5.10)</b>	<b>(\$2.69)</b>	<b>(\$0.39)</b>	<b>(\$0.42)</b>	<b>(\$0.45)</b>	<b>(\$0.48)</b>	<b>(\$1.73)</b>	<b>(\$2.57)</b>	<b>(\$2.96)</b>	<b>(\$2.15)</b>	<b>(\$1.04)</b>	<b>\$1.57</b>	<b>\$4.97</b>	<b>\$7.37</b>	<b>\$10.29</b>
<b>EPS - Diluted (GAAP)</b>	<b>(\$5.59)</b>	<b>(\$5.10)</b>	<b>(\$2.69)</b>	<b>(\$0.39)</b>	<b>(\$0.42)</b>	<b>(\$0.45)</b>	<b>(\$0.48)</b>	<b>(\$1.73)</b>	<b>(\$2.57)</b>	<b>(\$2.96)</b>	<b>(\$2.15)</b>	<b>(\$1.04)</b>	<b>\$1.44</b>	<b>\$4.53</b>	<b>\$6.67</b>	<b>\$9.23</b>
Shares (basic)	2.5	2.6	10.7	21.5	21.7	21.9	22.2	21.8	27.3	27.5	33.8	34.1	34.5	34.8	35.2	35.5
Shares (diluted)	13.5	14.6	12.5	23.3	23.6	23.9	24.1	23.8	29.4	29.9	36.4	37.0	37.6	38.2	38.9	39.6
<b>Operations Ratios</b>	<b>2012A</b>	<b>2013A</b>	<b>2014A</b>	<b>1Q:15E</b>	<b>2Q:15E</b>	<b>3Q:15E</b>	<b>4Q:15E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>Margin Analysis</b>																
COGS	-	-	21%	15%	15%	15%	15%	15%	15%	15%	15%	15%	17%	18%	19%	20%
R&D	-	-	2446%	1767%	1289%	969%	787%	1069%	808%	274%	94%	49%	21%	12%	8%	6%
SG&A	-	-	1152%	1067%	778%	600%	497%	658%	877%	359%	123%	65%	29%	16%	20%	20%
Operating Margin	-	-	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	32%	55%	55%	57%
Income Tax rate	-	-	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	35%	35%	35%	35%
Net Margin	-	-	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	21%	35%	36%	37%

Source: Company reports and RBC Capital Markets estimates



## Required disclosures

### Conflicts disclosures

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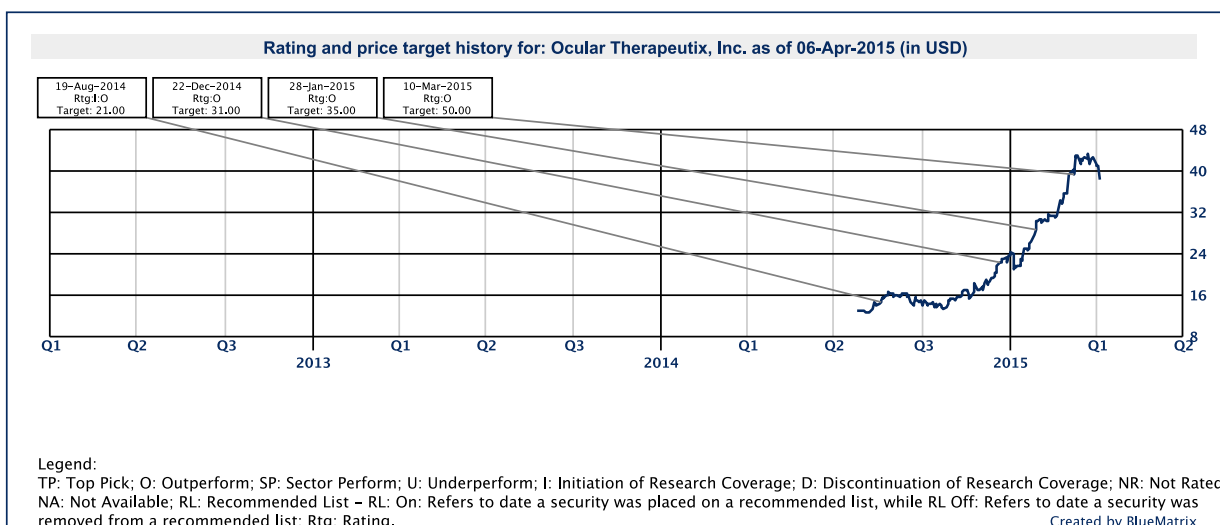
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Distribution of ratings				
RBC Capital Markets, Equity Research				
As of 31-Mar-2015				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	909	52.33	280	30.80
HOLD [Sector Perform]	713	41.05	125	17.53
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