

Neothetics, Inc. (NEOT)

Overweight

3Q Update: LIPO-202 Phase III Data Expected Next Month; Reiterating Overweight

CONCLUSION

We are updating our model to reflect Neothetics' 3Q15 results. During 3Q15, NEOT completed enrollment for its pivotal Phase III trials (AbCONTOUR1 and AbCONTOUR2) evaluating LIPO-202, the company's injectible form of the beta-agonist salmeterol, for the localized reduction of abdominal fat in non-obese individuals. Data from the Phase III studies are expected in December. We continue to believe that the promising body of Phase II data for LIPO-202 to date points to a strong probability of Phase III success. With U.S. sales potential of at least \$500M in our view (in a rapidly expanding body contouring market), NEOT shares are trading at a highly attractive risk/reward profile in the context of a market cap of under \$150M. We reiterate our Overweight rating and \$20 PT.

- **Cash runway adequate to fund operations into 2016.** NEOT finished 3Q15 with \$51M in cash and equivalents, down from \$63M at the end of 2Q15 and \$71M at the end of 1Q15. Considering the cash needed to build out a U.S. sales infrastructure and to support a U.S. commercial launch of LIPO-202, we expect that Neothetics will likely access the capital markets at least once in order to reach profitability. Our model reflects capital raises in 2016 and 2017.
- **LIPO-202 data expected in December.** NEOT completed enrollment for its LIPO-202 Phase III program in 3Q15. Recall that the two studies began in 1Q15 and enrolled a total of 1,600 patients randomized to either LIPO-202 dosed weekly at 0.4 mcg for eight weeks or a placebo. We expect to see top-line data (i.e., AbCONTOUR1 and AbCONTOUR2) next month. We also note that during 3Q15, NEOT initiated a safety study (LIPO-202-CL-21) that will also be included in the NDA filing (we expect that the company will file with the FDA in 2H16 assuming favorable results of course).
- **Continue to believe that Phase III risk is manageable.** We continue to believe that the strong body of data for LIPO-202 points to a high probability of success for the Phase III program. 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 ($p=0.024$).

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.

PRICE: US\$8.53

Price as of the close Nov. 12, 2015.

TARGET: US\$20.00

20x 2021E diluted EPS of \$4.20, 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\$(2.87)	US\$(3.29)
FY16E EPS	US\$(1.63)	US\$(1.52)

52-Week High / Low	US\$15.05 / US\$5.92
Shares Out (mil)	13.7
Market Cap. (mil)	US\$116.9
Avg Daily Vol (ooo)	71
Book Value/Share	US\$2.38
Net Cash Per Share	US\$3.02
Debt to Total Capital	23.2%
Div (ann)	US\$0.00
Fiscal Year End	Dec

Price Performance - 1 Year



Source: Bloomberg

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	0.0A	0.0	0.0	(0.50)A	(0.69)A	(1.26)A	(0.84)	(3.29)	NM
2016E	0.0	0.0	0.0	0.0	0.0	(0.43)	(0.40)	(0.35)	(0.34)	(1.52)	NM

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Exhibit 1

3Q15: 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	\$15.2	\$9.0	
Selling, general and administrative	\$1.8	\$1.5	
Operating Income	(\$17.0)	(\$10.5)	
Income tax provision	\$0.0	\$0.0	
Adjusted Net Income	(\$17.3)	(\$11.5)	
Share Outstanding, diluted	13.7	13.7	
Non-GAAP EPS, diluted	(\$1.26)	(\$0.84)	(\$1.14)

(1) Consensus prior to 3Q15 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									
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	\$36.4	\$30.2	\$6.7	\$6.7	\$5.0	\$5.0	\$9.0	\$9.0	\$9.2	\$9.2	\$8.7	\$8.7	\$9.0	\$9.0
Selling, general, and administrative	\$6.9	\$6.7	\$12.3	\$12.3	\$30.0	\$30.0	\$74.9	\$74.9	\$86.4	\$86.4	\$96.0	\$96.0	\$100.8	\$100.8
Operating income	(\$43.3)	(\$36.8)	(\$19.0)	(\$19.0)	(\$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	(\$45.1)	(\$39.4)	(\$23.0)	(\$23.0)	(\$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	15.3	14.1	18.6	18.6	18.9	18.8	19.1	19.1	21.4	21.3	21.6	21.6
Non-GAAP EPS, diluted	(\$3.29)	(\$2.87)	(\$1.52)	(\$1.63)	(\$1.70)	(\$1.71)	(\$1.52)	(\$1.52)	(\$0.23)	(\$0.23)	\$1.99	\$2.00	\$4.20	\$4.21
Consensus ⁽¹⁾	(\$3.47)		(\$2.73)		(\$2.60)									

(1) Consensus is prior to 3Q15 earnings release

Source: Company reports and PJC estimates

Neothetics - Quarterly and Annual Income Statement

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

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	15.2	9.0	36.4	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	1.8	1.5	6.9	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	\$17.0	\$10.5	\$43.3	\$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)	(\$17.0)	(\$10.5)	(\$43.3)	(\$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)	(0.3)	(1.0)	(1.8)	(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)	(\$17.3)	(\$11.5)	(\$45.1)	(\$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)	(\$17.3)	(\$11.5)	(\$45.1)	(\$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)	(\$1.26)	(\$0.84)	(\$3.29)	(\$0.43)	(\$0.40)	(\$0.35)	(\$0.34)	(\$1.52)	(\$1.70)	(\$1.52)	(\$0.23)	\$2.20	\$4.63
Non-GAAP EPS, diluted	(\$2.15)	(\$1.38)	(\$0.50)	(\$0.69)	(\$1.26)	(\$0.84)	(\$3.29)	(\$0.43)	(\$0.40)	(\$0.35)	(\$0.34)	(\$1.52)	(\$1.70)	(\$1.52)	(\$0.23)	\$1.99	\$4.20
Shares outstanding, basic ⁽¹⁾	7.0	8.0	13.7	13.7	13.7	13.8	13.7	13.9	14.0	16.5	16.6	15.3	18.6	18.9	19.1	19.4	19.6
Shares outstanding, diluted ⁽¹⁾	7.0	8.0	13.7	13.7	13.7	13.8	13.7	13.9	14.0	16.5	16.6	15.3	18.6	18.9	19.1	21.4	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												(81.6%)	(25.4%)	79.7%	2.6%	(5.3%)	2.7%
Selling, distribution and marketing												77.3%	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. November 12, 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	\$32.3	\$57.8	\$64.6	\$37.3	\$34.2	\$78.2
Operating Activities										
Net Income (Loss), GAAP	(\$7.8)	(\$15.0)	(\$10.8)	(\$45.1)	(\$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)	(\$46.4)	(\$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	\$50.0	\$40.0	\$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	\$50.0	\$40.0	\$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	(\$43.6)	\$25.5	\$6.8	(\$27.3)	(\$3.1)	\$44.0	\$92.1
Year End Cash & Equivalents	\$11.1	\$4.4	\$75.9	\$32.3	\$57.8	\$64.6	\$37.3	\$34.2	\$78.2	\$170.4

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Neothetics - Annual Balance Sheet

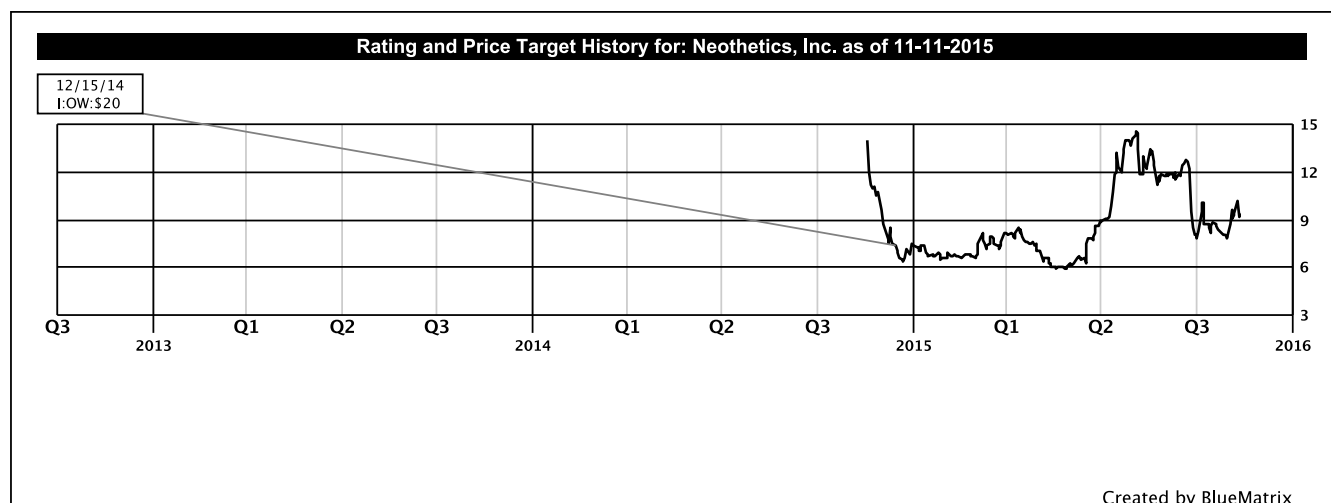
(\$ in millions)

	2012A	2013A	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Current Assets										
Cash & Equivalents	\$11.1	\$4.4	\$75.9	\$32.3	\$57.8	\$64.6	\$37.3	\$34.2	\$78.2	\$170.4
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	\$33.4	\$59.1	\$66.2	\$39.2	\$36.5	\$81.0	\$173.7
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	\$33.4	\$59.2	\$66.2	\$39.3	\$36.6	\$81.0	\$173.7
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	\$21.6	\$47.1	\$53.9	\$26.7	\$23.8	\$67.9	\$160.3
Total Liabilities & Equity	\$12.8	\$4.5	\$76.9	\$33.4	\$59.2	\$66.2	\$39.3	\$36.6	\$81.0	\$173.7

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IMPORTANT RESEARCH DISCLOSURES



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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]	418	60.14	95	22.73
HOLD [N]	260	37.41	9	3.46
SELL [UW]	17	2.45	1	5.88

Note: Distribution of Ratings/IB Services shows the number of companies currently covered by fundamental equity research 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

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