

January 14, 2015

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:
OUTPERFORM

12-18 mo. Price Target \$25.00
OCUL - NASDAQ \$23.00

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$24.99-\$11.90
Shares Outstanding 20.6M
Float 6.5M
Market Capitalization \$490.4M
Avg. Daily Trading Volume 72,044
Dividend/Div Yield NA/NM
Book Value \$0.72
Fiscal Year Ends Dec
2014E ROE NA
LT Debt \$15.0M
Preferred NA
Common Equity \$56M
Convertible Available No
Trading range since July 2014 IPO.

EPS Diluted	Q1	Q2	Q3	Q4	Year	Mult.
2013A	--	--	--	--	(5.11)	NM
2014E	(2.45)A	(2.10)A	(0.48)A	(0.40)	(2.78)	NM
2015E	--	--	--	--	(1.31)	NM
Revenue (\$/mil)	Q1	Q2	Q3	Q4	Year	Mult.
2013A	--	--	--	--	0.0	NM
2014E	0.0A	0.1A	0.1A	0.2	0.5	NM
2015E	--	--	--	--	1.8	NM

Ocular Therapeutix

Quick Updates From Meeting With Management

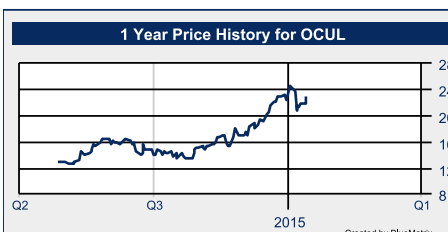
SUMMARY

We met with Ocular mgmt in San Francisco. The next catalyst is Phase 3 data (likely late March 2015) from two replicate trials testing OTX-DP (dexamethasone plug) for post cataract surgery pain/inflammation. Based on prior Phase 2 data, we are expecting positive outcomes (primary endpoint is absence of inflammatory cells in anterior chamber and reduction in pain). On OTX-DP for allergic conjunctivitis (AC), Ocular met with the FDA Dec. 12. Based on FDA discussions, mgmt plans to initiate in 1H15 two replicate Phase 3's of 4-6 weeks in duration and N~75 (in total). Both AC and dry eye (Phase 2 study planned) represent potential sources of upside for OTX-DP that we currently do not model.

KEY POINTS

- **Allergic conjunctivitis Phase 3's.** The endpoints (as per Phase 2) are a 1/2-unit improvement (all timepoints) and a 1-unit improvement (majority of timepoints) on redness/itching. Given Alrex (allergy steroid) was approved with an effect size of ~0.22-0.55 (itching) and ~0.43-0.81 (redness) (see Exhibit 1), the FDA could exercise flexibility with regard to strict criteria above.
- **Sustained anti-VEGF for back-of-the-eye applications.** We understand that the pharma partners (undisclosed) evaluating Ocular's technology in animal models (up to 2 months so far) indicated the results are "better than seen before" vs. other sustained release technologies they have explored. Ocular expects to hear more in 2Q15 from partners on next steps.
- **Glaucoma Ph.2b (OTX-TP).** The study is now ~1/5 enrolled with data 3Q15 (no change). Recall the plug design is ~10% larger than in Phase 2a to improve retention. That said, plug insertions have gone smoothly and Ocular is developing an applicator to fit the larger plug that will be phased into the Phase 2b.
- **2015 catalysts:** 1) OTX-DP Phase 3a/3b readout in post-surgical inflammation/pain (1Q15); 2) initiation of OTX-DP Phase 3 in allergic conjunctivitis (1H15); 3) NDA submission for OTX-DP (2Q15); 4) feedback from Pharma partners on next steps for anti-VEGF (2Q15); and 5) OTX-TP Phase 2b readout in glaucoma (3Q15).

Stock Price Performance



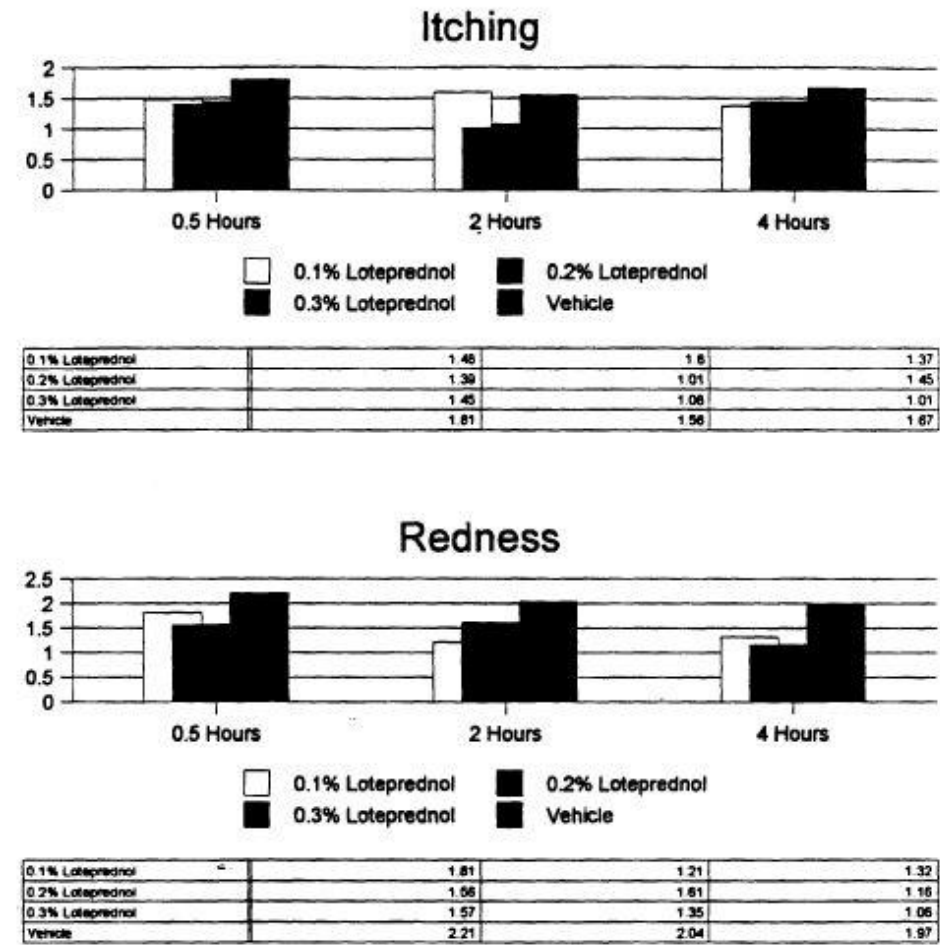
Company Description

Ocular Therapeutix, Inc. is a biopharmaceutical company focused on the development and commercialization of therapies for diseases and conditions of the eye using its hydrogel platform technology.

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Exhibit 1

Alrex Efficacy in Treating Allergic Conjunctivitis (Itching/Redness).



Sources: NDA 20-803: Loteprednol Etabonate Ophthalmic Suspension, 0.2%,
http://www.accessdata.fda.gov/drugsatfda_docs/nda/98/20-803_ALREX_MEDR.PDF, p.51.

Investment Thesis

Ocular is an appealing platform play in the ophthalmology space, driven by several technological advances that permit steady delivery of drugs to the eye using punctal plugs. The company's pipeline is substantially de-risked as Ocular's plugs deliver medications already approved for glaucoma (travoprost) and post-surgical inflammation (dexamethasone). Both the inflammation (OTX-DP) and glaucoma (OTX-TP) plugs have achieved clinical proof-of-concept, and we expect FDA approvals in 2016/2018, respectively. Longer term, we see the interplay between compliance advantages of plugs vs. generic/soon-to-be generic eye-drop markets as a key debate for the stock. However, at current levels even a conservative view of peak share suggests significant upside.

Price Target Calculation

We value Ocular Therapeutix using a discounted cash flow (DCF) analysis with a weighted average cost of capital (WACC) of 10% and a 0% terminal growth rate post-2030, generating a terminal value of \$255M. Our DCF valuation indicates an equity value of ~\$585M, or \$25 per diluted share.

Key Risks to Price Target

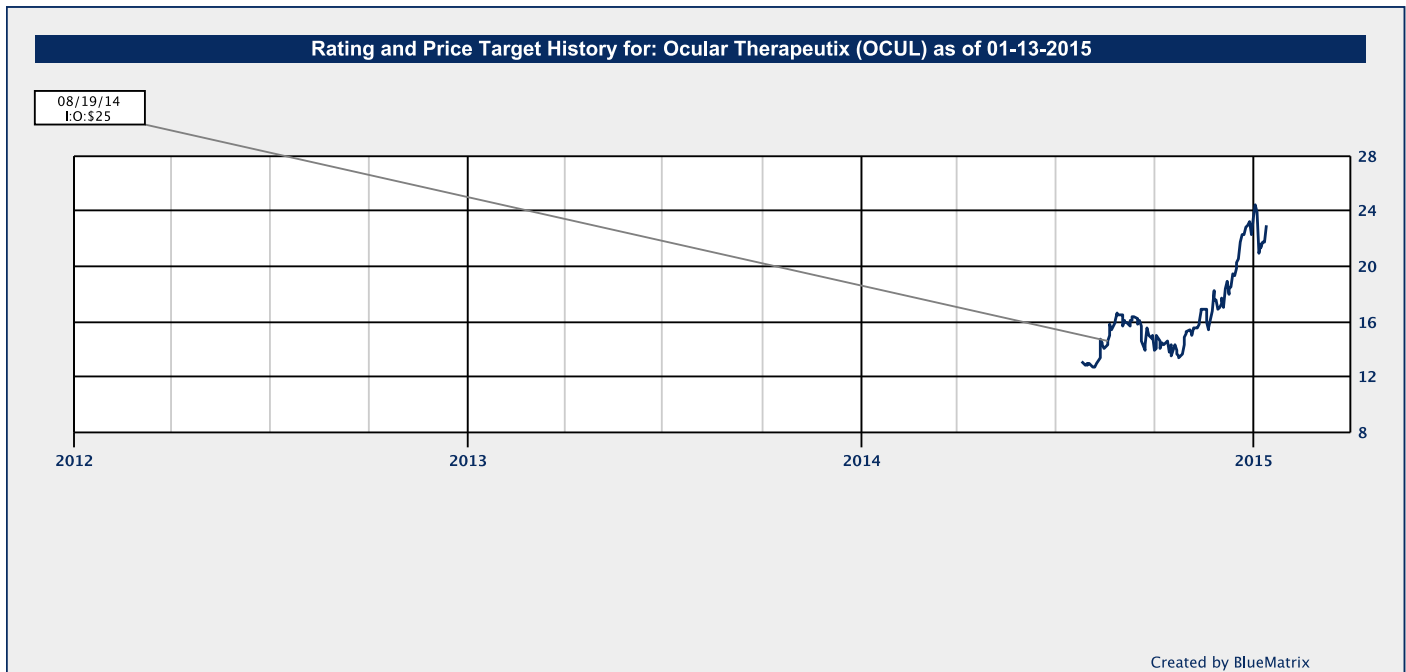
Key risks include the following: **1)** Future retention rates and/or the degree of IOP reductions in Phase 2b and/or Phase 3 for OTX-TP in glaucoma may prove insufficient for widespread treatment adoption. **2)** The Phase 3 post-surgical inflammation and pain trial may fail to meet clinical endpoints. **3)** Ocular may not be successful in commercializing OTX-TP and OTX-DP and/or share capture may be weaker than our current projections. **4)** Ocular will likely need additional dilutive capital to develop its products, and we assume additional financings of \$150M over 2016-18.

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Rating	IB Serv/Past 12 Mos.			
	Count	Percent	Count	Percent
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PERFORM [P]	265	44.17	97	36.60
UNDERPERFORM [U]	7	1.17	0	0.00

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