Neothetics, Inc. (NEOT) — Overweight

A New Way To Trim The Fat; Initiating At Overweight

CONCLUSION

We are initiating coverage of Neothetics with an Overweight rating and $20 price target. NEOT, in our view, is well positioned to expand and transform the emerging body contouring space with LIPO-202, an injectable form of the beta-agonist salmeterol for the localized reduction of abdominal fat in non-obese individuals. We believe that the probability of success for LIPO-202 in Phase III (data are expected before the end of 2015) is strong given the body of data to date, and with U.S. sales potential of at least $500-$600M, in our view (we are modeling a U.S. launch in 2H17 with NEOT reaching profitability in 2020, and with LIPO-202 sales reaching near $225M by 2021), NEOT shares in our view are trading at a highly attractive risk/reward in the context of a market cap of around $100M.

- **A vast, still largely untapped market.** We believe the availability of a quick and relatively painless injectable procedure is likely to significantly expand the pool of potential patients open to medical treatment of their abdominal fat (not unlike how the availability of neuromodulators has dramatically expanded the pool of individuals willing to undergo a medical procedure to treat their wrinkles, and now the U.S. cosmetic neuromodulator market is around $1B and a perennial double-digit grower). In our survey of 25 cosmetic surgeons, who are also users of Zeltiq's Coolsculpting procedure, and who also perform limited-volume liposuctions, 84% of respondents noted that the availability of a product like LIPO-202 would attract new patients to their practices. As such, we would not view the competitive landscape between LIPO-202 and other non-invasive modalities as a zero-sum game, bearing in mind that non-invasive body contouring modalities are few and far between (Coolsculpting is the most prominent treatment modality with sales annualizing at $180M), and also bearing in mind that liposuction (invasive, painful, and takes months to see full results) is still one of the most commonly performed cosmetic procedures in the U.S.

- **Promising body of Phase II data for LIPO-202.** In the Phase II RESET trial in which 513 patients were randomized to one of three doses of LIPO-202 or a placebo, a statistically higher portion of LIPO-202 patients on the 0.4 mcg dose showed both 1- and 2-point improvements on both patient and clinician assessments of abdominal bulging (see below for more details). This is noteworthy since these are essentially the primary endpoints for the Phase III studies. Further, a statistically higher portion of LIPO-202 patients on this dose (42% versus 27% of placebo patients) achieved at least a 1.83 cm reduction in umbilical circumference. This will be one of the secondary assessments in the Phase III studies, and in our view a highly commercially relevant endpoint (i.e., NEOT could bill LIPO-202 treatment as having a significant chance of shaving near three-quarters of an inch off of a patient's waistline).

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$7.49
TARGET: US$20.00
20x 2021E diluted EPS of $4.17, disc. 30%

David Amsellem
Sr. Research Analyst, Piper Jaffray & Co.
212 284-9455, david.a.amsellem@pjc.com

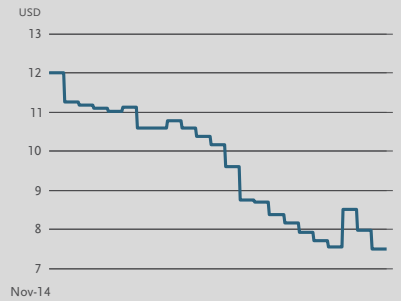
Traver A. Davis
Research Analyst, Piper Jaffray & Co.
212 284-5031, traver.a.davis@pjc.com

Michael C. Chang
Research Analyst, Piper Jaffray & Co.
michael.c.chang@pjc.com

Changes	Previous	Current
Rating		Overweight
Price Tgt		US$20.00
FY15E Rev (mil)	—	US$0.0
FY16E Rev (mil)	—	US$0.0
FY15E EPS	—	US$(3.23)
FY16E EPS	—	US$(1.65)

52-Week High / Low	US$14.10 / US$7.40
Shares Out (mil)	13.7
Market Cap. (mil)	US$102.6
Book Value/Share	US$4.96
Net Cash Per Share	US$5.37
Debt to Total Capital	0%
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	FY	Mar	Jun	Sep	Dec	FY	FY P/E
2014E	0.0A	0.0A	0.0A	0.0	0.0	NA	(0.19)A	(0.27)A	(0.40)A	(0.35)	(1.20)	NM
2015E	0.0	0.0	0.0	0.0	0.0	NA	(1.18)	(0.68)	(0.69)	(0.69)	(3.23)	NM
2016E	—	—	—	—	0.0	NA	—	—	—	—	(1.65)	NM

INVESTMENT HIGHLIGHTS

We are initiating coverage of Neothetics with an Overweight rating and $20 price target. Neothetics, in our view, is well positioned to expand and transform the emerging body contouring space with LIPO-202, an injectable form of the beta-agonist salmeterol for the localized reduction of abdominal fat in non-obese individuals. One obvious question is how can an asthma drug shrink fat cells? With that in mind, the body of literature surrounding the impact of beta-agonists on adipose tissue (i.e., fat cells) is sound, in our view (more on this below). Given the strong body of clinical data on LIPO-202 (see below for more details), we are confident in a favorable Phase III outcome, with U.S. commercialization likely by 2H17. We believe that peak U.S. sales potential of at least $500-$600 million is readily achievable, pointing to a highly attractive risk/reward profile in the context of a market cap of only around $100 million. Though the body contouring space is competitive (alternatives for non-obese individuals include Zeltiq's CoolSculpting device, sales of which are annualizing to around $180 million; and limited-volume liposuction), we believe the availability of a quick and relatively painless injectable procedure is likely to significantly expand the pool of potential patients open to medical treatment of their abdominal fat (not unlike how the availability of neuromodulators has dramatically expanded the pool of individuals willing to undergo a medical procedure to treat their wrinkles). Our survey of 25 cosmetic surgeons essentially supports this view. Given this backdrop, we would not view competition between LIPO-202 and other modalities like CoolSculpting as a zero-sum game. We estimate that NEOT will reach sustainable profitability in 2020, with LIPO-202 sales of $175 million for the year, growing to $350 million by 2022 (our estimates do not reflect contribution from ex-U.S. markets nor do they reflect usage of the product in other areas of the body). We base our price target on our 2021 diluted EPS estimate of $4.17, times a P/E of 20x, discounted by 30% over six years. Our valuation conclusion is supported by our 10-year discounted cash flow analysis.

A new treatment paradigm in a vast addressable market. The LIPO-202 procedure consists of a quick series of local injections (this takes about five minutes) across the abdominal area using a small 30-gauge, half-inch needle, with the injections repeated weekly for 8 weeks. The product is poised to become the first injectable option available for the reduction of abdominal fat. We believe that the emergence of non-invasive alternatives to liposuction, which we would add is one of the most commonly performed medical aesthetics procedures in the U.S. with over 350,000 procedures annually, is analogous to the emergence of injectibles (i.e., neuromdoluators, namely Botox Cosmetic) as an alternative to face lifts for the treatment of facial wrinkles. According to available third-party data, the U.S. neuromodulator market for cosmetic use is now near $1 billion, and showing annual growth that is typically in the double-digits. Put another way, we believe the emergence of a product/procedure such as LIPO-202 will expand the pool of consumers who would be open to treating their unwanted fat via a medical procedure. Our survey of 25 cosmetic surgeons, who we would add are current users of Zeltiq's CoolSculpting device and who perform limited-volume liposuctions, essentially supports this view, with 84% of respondents noting that the availability of a product like LIPO-202 is likely to attract new patients to their practices. According to NEOT market research, there are near 750,000 individuals in the U.S. who are current consumers of medical aesthetic injectable products who would be highly interested in a body contouring procedure, and there are an additional 1 million+ individuals who are not existing consumers of injectibles who would be highly interested. Our model assumes that there are 165,000 LIPO-202 procedures performed by 2021. Assuming pricing that is at parity with that of Zeltiq's CoolSculpting procedure (around $1,500 to the physician), LIPO-202 sales would be near $225 million, and that reflects only modest penetration into what we believe will be a broad patient pool.

Confident in a positive Phase III outcome for LIPO-202 given the current body of data. LIPO-202 has been evaluated in six clinical trials in over 800 patients. In the Phase II RESET trial in which 513 patients were randomized to LIPO-202 at three different doses or a 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 Photonumeric 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). We note that P-GAPS is a 5-category scale that assesses abdominal bulging, with categories ranging from "Flat" to "Big Bulge." CPnS is a 6-point scale (scores of 0-5) that assesses clinician observations of abdominal bulging. These endpoints are particularly noteworthy since these will be the primary outcome measures in the upcoming Phase III program, per the outcome of NEOT's dialogue with the FDA on Phase III endpoints (more on this below). Further, 42% of LIPO-202 patients showed at least a 1.83 cm reduction in umbilical circumference, compared to 27% of placebo patients (p=0.026). We believe this is a more commercially relevant endpoint; in other words, NEOT could essentially bill the treatment as having a significant chance of shaving near three-quarters of an inch off of a patient's waistline. We note that umbilical circumference assessment via laser-guided tape measure will be a secondary endpoint in the Phase III program. Given the body of data to date, we believe that the chances of Phase III success are reasonably high. We would also add that the fact that LIPO-202 will be filed via the 505(b)(2) pathway (bearing in mind that salmeterol is a well-established molecule) in our view is something of a mitigating factor regarding FDA risk. That said, we would not reflexively conclude that duration of exclusivity for a product that is essentially a new formulation is a question mark, bearing in mind that there are three issued patents surrounding the product with expiries as late as 2030, and with broad method claims surrounding the use of beta-agonists (not just salmeterol) for the treatment of adiposity and contour bulging.

Not a zero-sum game vis-à-vis other body contouring modalities (e.g., Zeltiq's CoolSculpting non-surgical fat freezing treatment); this is a market that is still largely untapped in our view. The availability of non-invasive body contouring modalities are few and far between. The most prominent non-invasive modality is Zeltiq's CoolSculpting treatment, a device-based procedure that essentially destroys fat cells by freezing them. Though one advantage for CoolSculpting is that results are likely to be more durable compared to those of LIPO-202 (killing fat cells versus shrinking them), limitations of CoolSculpting include significant pain, burning and numbness (in one small study, numbness lasting an average of 3.6 weeks was observed in over 60% of patients). Further, measurable results take anywhere from several weeks to several months to be observed. In contrast, LIPO-202 is a procedure that is associated with minimal discomfort, with results often seen around 4 weeks following the start of injections (and as a pharmacologic treatment, no dedicated office space is needed). Further, of the 25 doctors we polled in our survey, a sizable majority noted that that weekly injections for 8 weeks would not make them less likely to use LIPO-202. In short, there is no magic bullet in the body contouring space, and consumer preferences (in terms of pain/discomfort threshold, comfort or lack of comfort with needles, the idea of having tissue "frozen," among other preferences) are highly variable. Given that backdrop, and the feedback from our poll that we cite above (that 84% of respondents believe that the availability of a product like LIPO-202 would attract more patients to their practice), we believe that LIPO-202 can easily co-exist with CoolSculpting.

Usage in areas beyond the abdomen a source of upside. Given that cosmetic surgeons and dermatologists who treat patients with neuromodulators generally take liberties regarding

the use of these products in a number of areas of the face and neck (beyond simply glabellar lines (wrinkles on the forehead) and lateral canthal lines (wrinkles around the eyes), both of which are in the Botox Cosmetic label), we would expect that over time, users of LIPO-202 are likely to experiment with treatment of other areas of fat, including under the arms, and in the buttocks and thighs, to name a few. To be clear, our model does not reflect usage of LIPO-202 in areas beyond the abdomen. That said, our R&D estimates do reflect continued spend on LIPO-202, and we would not be surprised to see NEOT pursue potential label expansion opportunities down the road (our model reflects R&D spend of around $9 million in 2018 and beyond; i.e., following FDA approval in the abdominal fat setting). We would also not be surprised to see NEOT pursue even more convenient ways to inject the product (a logical avenue of pursuit with respect to a potential line extension in our view). We would also point out that we do not expect to see much usage of Kythera's ATX-101, which is an injectable form of deoxycholic acid (a secondary bile acid) that is under FDA review for the treatment of sub-mental fat (i.e., fat under the chin), in the abdominal area, given that the product requires over 20 injections in the sub-mental region (i.e., a lot of injections required over a small surface area, with the abdominal region obviously encompassing far more real estate). In that context, we believe that LIPO-202 has greater potential for usage over different areas of the body compared to ATX-101.

VALUATION

We are basing our $20 price target on our 2021 EPS estimate of $4.17, times a P/E of 20x, discounted at 30% for six years. We use 2021 EPS since it is a snapshot of NEOT well beyond the initial launch of LIPO-202 and reflects what we believe are steady-state gross margins for the product (around 90%). The P/E of 20x is based on our analysis of comparable specialty pharmaceutical companies, with a particular focus on names with a presence in the medical aesthetics and broader dermatology space. We believe that a P/E of 20x is appropriate given the significant market potential for LIPO-202 and the likelihood that the body contouring space will continue to see robust growth. Our model includes contribution from Neothetics' LIPO-202 product candidate beginning in late 2017. To be clear, our model does not reflect usage of LIPO-202 in areas beyond the abdomen. The discount rate of 30% in our view is appropriate given the mix of development, regulatory and competitor risks associated with Neothetics' LIPO-202 program, as well as the reality that the product is NEOT's only opportunity to drive long-term cash flow generation.

We note that our valuation conclusion is supported by our 10-year discounted cash flow (DCF) analysis. We note that our DCF analysis does not reflect contribution from any additional product opportunities or life-cycle management activities. Our DCF analysis utilizes a 30% discount rate, and a 3% terminal growth rate, reflecting our view that the body contouring market should experience long-term expansion, not unlike the perennially strong growth we see in the neuromodulator and dermal filler spaces.

Exhibit 1

PEER GROUP VALUATION ANALYSIS

($M except per share and multiples)			Market	Ent.	EPS			P/E			Revenue			EV/Revenue		
Ticker	Company	Price [1]	Cap	Value	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
AGN	**Allergan**	**$208.47**	**$62,103**	**$64,885**	**$6.29**	**$8.58**	**$10.28**	**33.1x**	**24.3x**	**20.3x**	**$7,218**	**$7,924**	**$8,599**	**9.0x**	**8.2x**	**7.5x**
VRX	**Valeant**	**$138.71**	**$46,561**	**$54,942**	**$8.22**	**$10.03**	**$11.43**	**16.9x**	**13.8x**	**12.1x**	**$8,160**	**$9,190**	**$9,876**	**6.7x**	**6.0x**	**5.6x**
ANAC	Anacor	$33.86	$1,452	$1,406	($2.39)	($2.01)	($1.24)	NM	NM	NM	$15	$29	$65	NM	NM	NM
ZLTQ	Zeltiq	$29.06	$1,100	$1,053	($0.18)	$0.07	$0.30	NM	NM	NM	$164	$199	$239	6.4x	5.3x	4.4x
KYTH	Kythera	$35.12	$796	$749	($3.34)	($2.66)	($0.34)	NM	NM	NM	$0	$42	$138	NM	18.0x	5.4x
RVNC	**Revance**	**$17.45**	**$414**	**$367**	**($3.02)**	**($3.27)**	**($3.10)**	**NM**	**NM**	**NM**	**$0**	**$1**	**$1**	**NM**	**NM**	**NM**
Average - Neothetics Peer Group								**25.0x**	**19.1x**	**16.2x**				**7.4x**	**9.4x**	**5.7x**

Source: PJC estimates, FirstCall, Bloomberg, and company reports
Note: Bold denotes coverage companies for David Amsellem
(1) Prices are as of December 12, 2014

Exhibit 2

DISCOUNTED CASH FLOW (DCF) ANALYSIS

Free Cash Flow Calculation	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Revenues										
LIPO-202	$0.0	$0.0	$10.6	$74.9	$115.2	$174.6	$224.1	$352.4	$475.8	$594.7
Other revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenues	**$0.0**	**$0.0**	**$10.6**	**$74.9**	**$115.2**	**$174.6**	**$224.1**	**$352.4**	**$475.8**	**$594.7**
Cost of goods sold	0.0	0.0	5.3	18.7	23.0	26.2	22.4	35.2	38.1	41.6
Research & development	35.0	7.5	5.0	9.0	9.2	8.7	9.0	9.2	8.1	8.3
Selling, general, and administrative	5.5	12.0	30.0	74.9	86.4	96.0	100.8	102.2	100.9	95.2
Operating income	**($40.5)**	**($19.5)**	**($29.7)**	**($27.7)**	**($3.5)**	**$43.6**	**$91.9**	**$205.8**	**$328.8**	**$449.6**
Free Cash Flow										
Operating income	($40.5)	($19.5)	($29.7)	($27.7)	($3.5)	$43.6	$91.9	$205.8	$328.8	$449.6
Less: Provision for income taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(65.8)	(89.9)
Tax-affected operating income	**($40.5)**	**($19.5)**	**($29.7)**	**($27.7)**	**($3.5)**	**$43.6**	**$91.9**	**$205.8**	**$263.0**	**$359.7**
Add: Depreciation and amortization	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Less: Capital expenditures	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Less: Increase in net working capital	0.1	0.1	0.2	0.2	0.2	0.2	0.2	(1.4)	(1.0)	(1.0)
Free cash flow	**($40.4)**	**($19.4)**	**($29.6)**	**($27.5)**	**($3.3)**	**$43.8**	**$92.1**	**$204.5**	**$262.0**	**$358.7**

		2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Sum of free cash flows	$841.0										
Discount rate	30.0%										
Terminal growth rate	3.0%										
Terminal value	$1,368.4										
Discount period		0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5
Present value of cash flows	$37.7	(35.4)	(13.1)	(15.3)	(11.0)	(1.0)	10.4	16.7	28.6	28.2	29.7
Present value of terminal value	147.1										
Implied enterprise value	$184.8										
Add: Cash	73.6										
Less: Debt	0.0										
Equity value	258.4										
Shares outstanding	13.7										
Equity value per share	**$19**										

Source: PJC Research and company reports

RISKS TO OUR THESIS

Clinical risk. Though LIPO-202 showed strong Phase II results (i.e., reduction in abdominal fat that was significantly better than what was seen in the placebo arm), and though LIPO-202 has already been studied in over 800 subjects with consistently strong results, there is always the risk that the results seen to date are not replicated in the Phase III program. Though salmeterol is a well-known quantity, this is the first time the molecule has been developed in an aesthetic application (i.e., historically the product has only been used for therapeutic purposes). As such, we cannot simply conclude that Phase III risk is minimal even despite the promising results with the product to date.

Regulatory risk. The FDA's Division of Dermatology and Dental Products historically has set a high bar for the approval of medical aesthetics products. Though there is broad agreement between Neothetics and the Division on the design of the Phase III program, there is nonetheless some disagreement on one endpoint in particular. This is related to the degree of change required (i.e., 1-point or 2-point) by the FDA regarding one of the study's primary endpoints, Patient Global Abdominal Perception Scale (P-GAPS); in short, the FDA prefers to see a 2-point improvement. NEOT is asserting that a 1-point change would be clinically meaningful from a cosmetic perspective, but since the product is being tested in non-obese patients, a 1-point change on the scale may deliver the desired cosmetic effect without meeting a 2-point change endpoint. Neothetics is working through this difference of opinion by running the trial with two primary responder endpoints, one which requires a 2-point change in both P-GAPS and the Clinician Photonumeric Scale (CPnS), and one which requires a 1-point change in P-GAPS and a 2-point change in CPNS (bearing in mind that in the RESET trial, LIPO-202 was statistically superior to placebo on both responder definitions).

Competitive risk. The body contouring space, as is the case with any medical aesthetic market, is highly promotion-sensitive. This is essentially a consumer-driven market. Neothetics is planning to build its own sales organization to promote LIPO-202 to physicians (mainly dermatologists and cosmetic surgeons). The company will be competing against other body contouring modalities (e.g., Zeltiq). Though this is a vast addressable market and though there is ample room for multiple players (particularly considering that there is a paucity of non-invasive options that address body fat), there is always the risk that Neothetics will not be able to compete effectively against companies that have an already-established position and larger salesforces to utilize.

UPCOMING EVENTS AND MILESTONES

Exhibit 3

CALENDAR OF UPCOMING EVENTS

Product / Program	Event	Expected Date
LIPO-202	Initiation of Phase III trials	1H15
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 Research

FINANCIAL OVERVIEW

Expectations for LIPO-202. Our model reflects a 2017 launch of LIPO-202 in the U.S. for abdominal fat reduction, with estimated sales of $75 million in 2018, the product's first full year on the market. We are modeling continued rapid sales growth for the product over the next several years following the U.S. launch, reflecting increased physician penetration and consumer awareness of LIPO-202. Our LIPO-202 U.S. sales estimate reaches $225 million by 2021. Recall that there are over 350,000 liposuction procedures performed annually in the U.S., and we believe that the availability of a non-invasive alternative such as LIPO-202 has the potential to markedly expand the market for fat-reduction procedures. Regarding pricing, our model reflects pricing of LIPO-202 that is essentially at parity with Zeltiq's CoolSculpting procedure, at about $1,500 per procedure to the physician, and conservatively assumes patients will only undergo one procedure per year (though to be fair, we will learn a lot more about duration of efficacy once the Phase III program is complete and therefore will have a better read on the extent to which patients could undergo more than one set of injections in a given year).

Margins and expenses. We are modeling relatively modest gross margins of 50% in 2017, reflecting the partial year impact of LIPO-202 in its launch year (i.e., modest sales) and the reality of fixed costs. As LIPO-202 sales begin to ramp, we believe that steady-state gross margins just north of 90% are realistic given that the product generally has a low fixed cost component. Our model reflects the build out of a U.S. sales infrastructure consisting of around 100 representatives that will call on aesthetic physicians to support the launch of LIPO-202. Regarding research and development expenses, we are modeling significant R&D spend in 2015 and 2016 to reflect the cost of the Phase III clinical studies (the all-in cost of the program will be around $37 million), and then continued spend (albeit moderated) in the years following the launch of LIPO-202 to reflect the expected initiation of life-cycle management programs as well as the pursuit of label expansion opportunities. We estimate that NEOT will reach its first year of profitability in 2020, with more meaningful profitability in 2021 as sales of the product continue to ramp. Our diluted EPS estimate is $1.98 in 2020, growing to $4.17 in 2021.

Balance sheet. With net proceeds of approximately $60 million from its recent initial public offering, NEOT now has around $70 million in cash on the balance sheet. 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 equity capital raise will be needed to enable NEOT to reach profitability. Our model reflects a meaningful capital raise in 2016, as well as a smaller raise in 2017. That said, potential ex-U.S. partners for LIPO-202 could prove to be a source of non-dilutive capital (i.e., milestone payments), and we would expect to see considerable interest in LIPO-202 from a non-U.S. commercial partner down the road.

Exhibit 4

SUMMARY OF PJC ESTIMATES

$ in millions, except per share	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Revenue								
LIPO-202	$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
Total revenue	**$0.0**	**$0.0**	**$0.0**	**$10.6**	**$74.9**	**$115.2**	**$174.6**	**$224.1**
Expenses								
COGS	$0.0	$0.0	$0.0	$5.3	$18.7	$23.0	$26.2	$22.4
Research & development	$4.2	$35.0	$7.5	$5.0	$9.0	$9.2	$8.7	$9.0
Selling, general, and administrative	$4.0	$5.5	$12.0	$30.0	$74.9	$86.4	$96.0	$100.8
Operating income	($8.1)	($40.5)	($19.5)	($29.7)	($27.7)	($3.5)	$43.6	$91.9
Income tax provision	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Adjusted Net Income	($11.3)	($44.5)	($23.5)	($31.7)	($28.7)	($4.5)	$42.6	$90.9
Share Outstanding, diluted	9.3	13.8	14.3	18.8	19.0	19.3	21.5	21.8
Non-GAAP EPS, diluted	**($1.20)**	**($3.23)**	**($1.65)**	**($1.69)**	**($1.51)**	**($0.23)**	**$1.98**	**$4.17**

Source: Company reports, Factset and PJC Research

COMPANY BACKGROUND

Neothetics, founded in 2007 and headquartered in San Diego, California, is a clinical stage specialty pharmaceutical company developing products that primarily address medical aesthetic indications. The company's lead product candidate, LIPO-202, is an injectable form of salmeterol xinafoate, which is a molecule that was approved many years ago as a bronchodilator (it is a mainstay treatment for asthma). Research surrounding salmeterol and beta-agonists more broadly has shown that these molecules can exert an impact on adipose (i.e., fat) tissue, and as such, Neothetics is seeking approval of the product for the reduction of central abdominal bulging due to subcutaneous fat in non-obese patients. The company has tested LIPO-202 in approximately 800 patients across multiple clinical trials and has demonstrated that the formulation is well-tolerated with a safety profile that is not much different from a placebo. Regarding intellectual property, the company currently has three issued patents covering methods of treatment and/or formulations with protection as late as 2030, and seven pending U.S. patent applications, which if granted would potentially extend protection through 2031.

With the successful completion of its Phase IIb study (known as RESET), the company expects to move LIPO-202 into two pivotal Phase III trials in the first half of 2015, with data expected by the fourth quarter of 2015. If successful, the company intends to file an NDA with the FDA in the second half of 2016 utilizing the 505(b)(2) regulatory pathway, which will permit the company to rely on previous data (namely safety data) related to salmeterol.

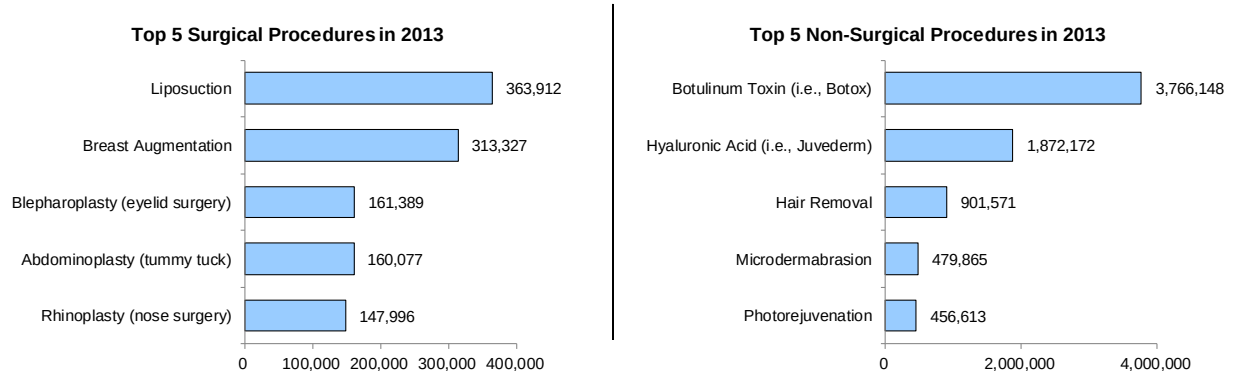
NON-INVASIVE FAT REDUCTION: A NEW FRONTIER IN THE MEDICAL AESTHETICS SPACE

The Botox Cosmetic Example is Illustrative

According to the American Society for Aesthetic Plastic Surgery (ASAPS), the market for cosmetic procedures was over $12 billion in 2013, including $7 billion in surgical procedures and $5 billion in non-surgical cosmetic procedures. The most popular surgical procedures include liposuction and breast augmentation, with over 650,000 combined procedures performed in 2013. Not surprisingly, the most popular non-surgical aesthetic treatment modality is the neuromodulator (i.e., Botox Cosmetic, Dysport and Xeomin), with over 3.5 million procedures performed in 2013. Importantly, these markets are not only very large, but also growing rapidly. The ASAPS estimates that the markets for surgical and non-surgical procedures grew 7% and 13% in 2013, respectively. Importantly, the outsized growth of the market for non-invasive procedures underscores the increased popularity these kinds of modalities.

Exhibit 5

SURGICAL AND NON-SURGICAL COSMETIC PROCEDURES IN THE U.S. (2013)



Source: American Society for Aesthetic Plastic Surgery

The ubiquity of Botox provides a compelling example of how a non-invasive option can change consumer behavior. As mentioned above, there are over 3.5 million procedures using botulinum toxin performed annually, and this figure has grown at rapid rate since the approval of Botox for cosmetic use in 2002. Prior to the introduction of Botox Cosmetic, the only available option for patients seeking treatment for facial lines was a "face-lift," a surgical procedure that takes weeks for a full recovery. Not surprisingly, the introduction of Botox proved to be massively disruptive, with a wide swath of individuals who had never before considered an aesthetic procedure due to the invasive nature of the options available electing to undergo the procedure. Put another way, the success of Botox points to the ability of a non-invasive option to expand the market for a particular outcome.

Cost and convenience are paramount in the medical aesthetics market. Digging a bit further into the markets for surgical and non-surgical procedures, it becomes apparent that the outsized growth of the non-invasive market is driven in in no small part by the cost and

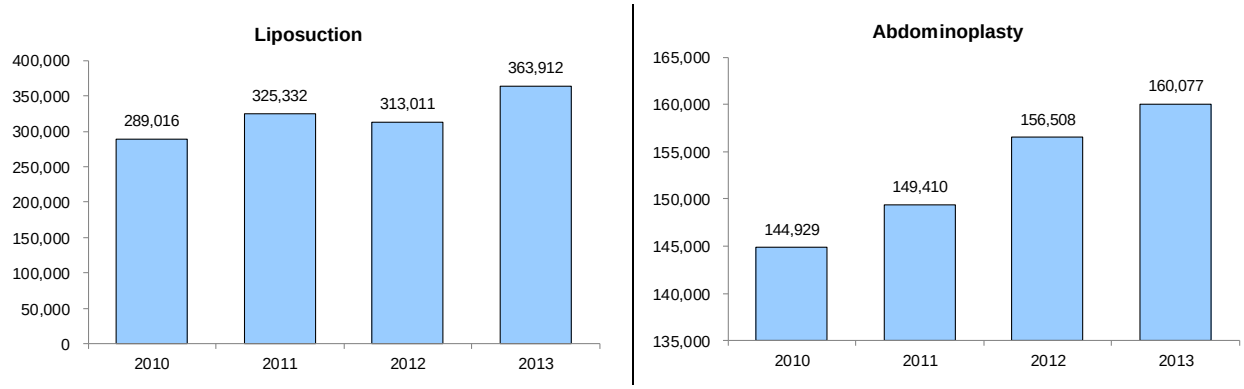
convenience of the procedure. Using the Botox Cosmetic example, a facelift procedure costs an average of $6,675 to the patient, takes 2-3 hours to perform, and recovery takes approximately two weeks, per ASAPS. In contrast, treatment with Botox costs far less (it is highly variable depending on the number of sites treated and the physician's markup to the patient but often does not cost more than $1,000-$2,000, broadly speaking), takes less than 30 minutes to perform and there is no downtime following the procedure. The difference in both cost and convenience here is staggering, and highlights the obvious advantages of non-invasive alternatives to their surgical predecessors. To be clear, it is not lost on us that Botox typically requires repeat treatments every 4-6 months, but in our opinion this is not necessarily a hassle to the patient (given the relative ease of the procedure) and has proven to be a selling point for physicians since it drives repeat visits, overall patient traffic (i.e., a steady stream of income to the practice), and enables the physician to market other types of treatments to their customers.

Background on Liposuction

Lipoplasty, also called liposuction, removes deposits of excess fat from specific areas of the body. The procedure can slim hips and thighs, flatten the abdomen (i.e., abdominoplasty), shape the calves and ankles, or eliminate a double chin. The procedure is performed by inserting a small, hollow tube, called a cannula, through one or more tiny incisions near the area to be suctioned. The cannula is then connected to a vacuum unit, and then, guided by a surgeon, the suction device literally vacuums away unwanted fat. Needless to say, a liposuction procedure is invasive and inconvenient for the patient as the procedure often takes several hours to perform and requires an average of two weeks for a full recovery. However, the procedure has seen steady growth since it was first introduced in 1982, pointing to robust consumer demand for the cosmetic effect (i.e., body contouring, fat reduction).

Exhibit 6

LIPOSUCTION AND ABDOMINOPLASTY PROCEDURES IN THE U.S. (2010-2013)



Source: American Society for Aesthetic Plastic Surgery

There is a vast and untapped market for non-invasive fat reduction. According to ASAPS, there were over 350,000 liposuction procedures performed in 2013, a 16% increase over 2012 and more than a two-fold increase over the last 15 years. In our view, the willingness of so many patients to go under the knife speaks volumes about the nature of demand for cosmetic fat reduction modalities. Taking this line of thinking a step further, we would argue that there is a vast, largely untapped pool of potential patients who are more gun shy

regarding a surgical procedure, but are nonetheless willing and eager for the market to offer non-invasive and more convenient modalities.

Low-volume liposuction can be performed under local/monitored anesthesia, but still has its limitations. In addition to higher-volume liposuction procedures that require intravenous (IV) or general anesthesia, there are low-volume liposuction procedures that can be performed under local anesthesia, most notably tumescent liposuction. Tumescent liposuction is the most common type and involves injecting a large amount of medicated solution locally before the fat is removed. The injected solution is often a mixture of a local anesthetic such as lidocaine to numb the treatment area, a drug to contract the blood vessels to reduce bleeding and bruising (epinephrine is commonly used) and saline solution to help with fat removal. The amount of medicated solution injected into the surgical area is often so large that the tissue becomes swollen and firm. By eliminating the risks of general anesthesia and the risks of excessive surgical bleeding, the tumescent technique for liposuction has eliminated the greatest dangers associated with older forms of liposuction. Although this procedure is safer and takes less time, this procedure still leaves bruising and swelling that can takes weeks to fully recover from.

Non-Invasive Options Are Growing, but Still Have Their Limitations

In our view, the earliest potential consumers of LIPO-202 will most likely be patients who are existing aesthetics customers undergoing injectable procedures (i.e., neuromodulators and/or dermal fillers). Importantly, these are patients who have already demonstrated a willingness to pay out-of-pocket for cosmetic procedures, are comfortable with injections, and have already adopted a regular regimen of aesthetic therapy. We would also surmise that these are patients who are not overly enthusiastic about a device-based modality that while invasive, entails meaningful recovery time. In recent years, we have seen the emergence of some non-invasive alternatives to liposuction, namely Zeltiq's CoolSculpting device and Solta/Valeant's Liposonix, which are currently the only approved products with an indication for fat reduction. Though these options offer attractive alternatives to surgery, there are still significant limitations to current treatments, including pain and extended recovery times. These limitations are underscored by the reality that as many as 50% of patients who consult a physician about the undergoing a fat reduction procedure (either invasive or non-invasive), decide against treatment due to the factors listed above, per NEOT market research.

CoolSculpting is a step in the right direction, but is not without its shortcomings. Zeltiq began selling its CoolSculpting device in 2009. This device-based modality breaks down fat cells by freezing and killing them, a process known as cryolipolysis. The CoolSculpting device has four different types of specially designed "cooling applicators" that are applied to the desired zone; the "cooling applicators" are essentially cups that that use vacuum pressure to draw the fat tissue between the cooling panels. The procedure takes about one hour per zone to perform and multiple zones are often treated in one visit.

Though the CoolSculpting device has enjoyed meaningful commercial success, it is not without its shortcomings, in our view. The cooling process is often very uncomfortable for patients as more than 50% of patients experience burning or numbness lasting more than one week after the procedure. In one small human study published in the Journal of American Plastic Surgery in 2009, over 60% of patients experienced a reduction in sensation at the cooling site lasting an average of 3.6 weeks, with a range of one to eight weeks. Additionally, full benefits are typically not realized until two to four months after the procedure (although noticeable results are often seen within three weeks). Lastly, the

CoolSculpting device itself is large and requires dedicated office space for use. Though the success of CoolSculpting has undoubtedly been driven by clear demand for more desirable alternatives, the painful and inconvenient nature of the procedure leaves opportunity for improvement, in our view.

Ultrasound technology is often painful and inconvenient for the patient. Regarding other non-invasive treatment options, Solta Medical (which was acquired by Valeant in January 2014) offers the Liposonix therapy, which uses ultrasound technology to deliver body contouring and fat reduction in stubborn pockets of fat with a focus around the waist. Liposonix treatment was approved in October 2011 and delivers an average of a 1-inch reduction in abdominal circumference. Although treatment with Liposonix is typically quicker than with CoolSculpting, the device's ultrasound technology has been known to cause pain and discomfort through the formation of scar tissue and damage to the tissue surrounding the treatment area. This is due to the fact that the Liposonix device utilizes high intensity focused ultrasound (HIFU) energy at a depth of 1.3 cm below the skin, which essentially destroys the fat tissue through heat. While this may be quicker and offers more customizable contouring than the Zeltiq device, the use of heat to kill the fat tissue requires the body to eliminate the dead fat cells through necrosis, which often causes the formation of scar tissue (preventing repeat procedures). Due to these inherent shortcomings in the Liposonix system, we would expect to see CoolSculpting continue as the market leader in the body contouring space in the absence of new modalities.

Exhibit 7

COMPARISON OF SELECTED FAT-REDUCTION PROCEDURES

	LIPO-202	Coolsculpting	Liposonix	Liposuction
Equipment	30-gauge, 1/2 inch needle	Dedicated office space	Dedicated office space	Dedicated office space
Approach	Stimulates fat metabolism, shrinking fat cells	Cryolipolysis, kills fat cells through controlled cooling	High intensity focused ultrasound (HIFU), kills fat cells	Surgical removal of fat tissue, local orgeneral anesthesia
Procedure Duration	~5 minutes	~1 hour/zone	~1 hour	Variable by volume
Side Effects	mild injection site reactions due to needle sticks	skin redness and bruising lasting up one w eek; numbness	Pain and discomfort, formation of scar tissue	Sw elling, bruising and scarring
Recovery Time	None	~4 w eeks	None	Variable by volume
Measurable Results	1 month	2-4 months	2-3 months	Instant (surgical removal)

Source: American Society for Aesthetic Plastic Surgery

What about Kythera's injectable product ATX-101? Kythera Biopharmaceuticals is currently the only other company pursuing an injectable fat-reduction procedure with its ATX-101 candidate (albeit for a different indication). ATX-101 is currently in late-stage development for the reduction of submental fat, which commonly presents as a "double

chin." It is a proprietary formulation of a purified synthetic version of deoxycholic acid, a naturally occurring molecule in the body that aids in the breakdown of dietary fat (it is a secondary bile acid). Kythera submitted an NDA to the FDA in May 2014, and has an FDA action date in May 2015 for the submental fat indication. Regarding the potential for off-label use of ATX-101 in the abdominal region, we would point out that although these are both injectable treatments, the treatment of submental fat is a much lower volume procedure, and yet still requires 20-30 injections at the desired site. In that context, we would not expect to see off-label usage of ATX-101 in the abdominal area.

LIPO-202: A POTENTIAL GAME CHANGER IN THE BODY CONTOURING SPACE

Brief Overview

LIPO-202 is an injectable form of salmeterol that is in late-stage development for the reduction of central abdominal bulging in non-obese patients. The injections are relatively pain-free and can be administered in five minutes or less, offering an attractive option for patients seeking non-invasive reduction of body fat. Unlike liposuction, LIPO-202 is designed for non-obese patients essentially seeking "touch ups," and as such could potentially expand the overall market for fat reduction as the product may attract patients who would otherwise not undergo invasive and cumbersome treatments. We believe that the large body of safety and efficacy data from Phase II trials for the product, combined with the fact that salmeterol is a well-known molecular entity, points to relatively manageable clinical risk as Neothetics moves forward into Phase III.

Over 800 patients treated in six different clinical studies to date. We note that Neothetics initially ran its trials assessing the combination of salmeterol and the corticosteroid fluticasone. In other words, the injection consisted of the active components of Advair, the largest selling inhalable asthma product in the U.S. In May 2010, the company completed a Phase IIa trial, and treatment was found to be well-tolerated and effective (the idea behind testing both components was to bolster the overall safety database for the product, bearing in mind that LIPO-202 would be referencing existing safety data via its 505(b)(2) filing). In November 2010, the company announced positive results from another Phase II clinical trial in which injections were found to result in reductions in abdominal fat that are comparable to those seen with limited volume liposuction. Following a new round of funding in late 2012, the company then initiated the Phase IIb RESET trial testing LIPO-202, which consisted solely of injectable salmeterol. The trial was a 513-patient, multi-center, randomized, placebo-controlled clinical trial and was specifically designed to assess the reduction of subcutaneous abdominal fat. The company reported positive results from this Phase IIb trial in September 2013 and recently met with the FDA to work through the design of its Phase III program (more on this below).

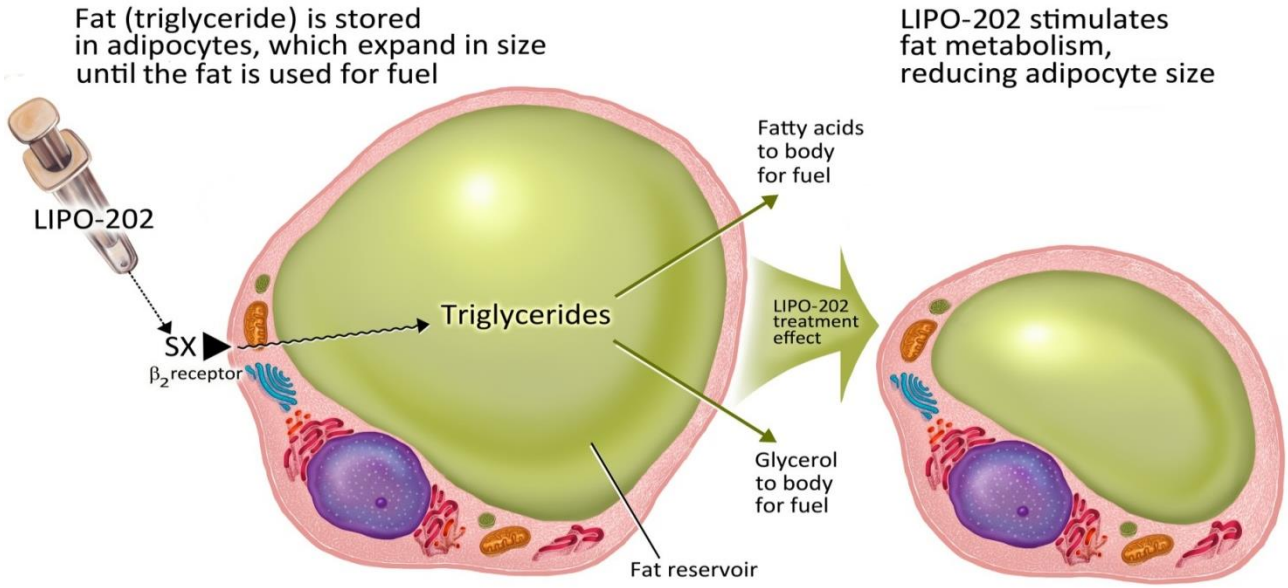
So What Does A Beta-Agonist Do to Fat Tissue?

LIPO-202 is an injectable form of the beta-agonist salmeterol, a molecule most commonly known for its use in Advair, a product that has sales of over $5 billion. The pharmacologic effects of beta2-adrenoceptor agonist drugs, such as salmeterol, are at least in part attributable to stimulation of intracellular adenyl cyclase, the enzyme that catalyzes the conversion of adenosine triphosphate (ATP) to cyclic-3′,5′-adenosine monophosphate (cyclic AMP). We note that beta2-receptors are expressed on human adipose (fat) tissue, and play a role in metabolic events in fat cells. Once injected into the desired area,

salmeterol, by stimulating the beta2-receptor, triggers the metabolism of stored triglycerides via the natural process of lipolysis, resulting in the reduction of the actual size of the fat cells in the treatment area. Although LIPO-202 will be the first injectable form of salmeterol, the safety profile of inhalation forms of the molecule (as used in Serevent, which consists solely of salmeterol, and Advair) for the treatment of asthma and chronic obstructive pulmonary disease (COPD) is well-established. This is also bearing in mind that plasma concentrations of LIPO-202 are essentially minimal. The peak plasma level of salmeterol xinafoate produced by LIPO-102 (combination of salmetrol and fluticasone tested in early clinical trials) was found to be approximately one fifth of that produced by Advair. Moreover, the peak plasma level of salmeterol xinafoate produced by the Phase 3 dose of LIPO-202, or 0.4 µg, is approximately 100-fold less than that produced by Advair (plasma concentrations of salmeterol from Advair are very low, with mean peak concentrations of 167 pg/mL at 20 minutes and no accumulation with repeated doses).

Exhibit 8

SALMETEROL MECHANISM OF ACTION IN REDUCTION OF ADIPOCYTE SIZE



Source: Neothetics

A quick word on the 505(b)(2) regulatory pathway being utilized by Neothetics. In a general sense, a product filed via 505(b)(2) can reach commercialization faster and in some cases, represent improvements over the innovator product. Recall that there are three types of new drug applications (NDA) that can be submitted to the FDA by a sponsor seeking to market a non-biologic pharmaceutical product. The first is what we can call a traditional NDA, or full NDA, which is generally used for novel new drugs to be marketed as brand pharmaceutical products. The second is an abbreviated NDA (aNDA), or an application used for approval of a "generic" version of a drug that has already been approved. The third type is a 505(b)(2) filing, which allows the applicant to rely, at least in part, on the FDA's findings of safety and/or effectiveness for a previously approved drug (i.e., the "reference drug"). As mentioned above, Neothetics is utilizing the 505(b)(2) pathway for the approval of LIPO-202, which, in our view, is somewhat of a mitigating factor in terms of FDA risk as there is a large body of referenceable safety data on salmeterol from Serevent, and Advair.

Overview of the LIPO-202 Phase IIb RESET trial and A Word on Endpoints

Following early-stage clinical trials assessing the safety and efficacy of a combination of salmeterol and fluticasone (LIPO-102), Neothetics initiated its Phase IIb RESET trial in March 2013 testing the current formulation consisting solely of salmeterol. RESET was a 513-patient, multi-center, randomized, placebo-controlled clinical trial designed to measure the impact of three different doses of LIPO-202 (0.4, 1.0 and 4.0 mcg), compared to placebo, on abdominal bulging due to excess subcutaneous fat in healthy, non-obese patients (with obesity defined as those patients with a body mass index (BMI) greater than or equal to 30 kg/mg^2). Trial endpoints included qualitative and quantitative measures of abdominal bulging (contour), as well as a collection of standard safety information. Positive data from the RESET trial was reported in September 2013, with LIPO-202 showing strong safety and tolerability at all doses, and demonstrated superiority versus placebo per composite responder analyses consisting of patient and clinician assessments.

A 1-point improvement per subjective assessments clinically meaningful in our view, but the FDA is more comfortable with a 2-point improvements. Responder analyses for the Phase IIb RESET trial incorporated a dual composite endpoint consisting of a patient self-assessment (the 5-point verbal Patient Global Abdominal Profile Scale, or P-GAPS) and a clinician rating of abdominal contour (the 6-point visual Clinician Photo-numeric Scale, or CPnS). Treatment with LIPO-202 at the 0.4 mcg dose was statistically superior to placebo on both ways in which a responder will be defined in the Phase III studies. The first primary endpoint in the Phase III defines a responder as showing a ≥1-point improvement in P-GAPS along with a ≥2-point change in CPnS. The second primary endpoint in Phase III defines a responder as showing a ≥2-point change on both P-GAPS and CPnS. The inclusion of dual primary endpoints for the trial is largely a reflection of a difference in opinion between the Neothetics/key opinion leaders (KOL) and the FDA. Through our discussions with KOLs, it became clear that patients and physicians would consider a 1-point change as "clinically meaningful" (one way to think about a 1-point improvement is that it reduces a patient's pants or dress size by a notch; i.e., taking a waist size from a 30 to a 28, for instance). That said, it became clear that the FDA wanted to see 2-point improvements, which, in our view, generally reflects a high degree of caution on the part of the agency related to medical aesthetics products (i.e., the agency in our view tends to set a high bar for success for pharmacologics used for aesthetic purposes).

Exhibit 9

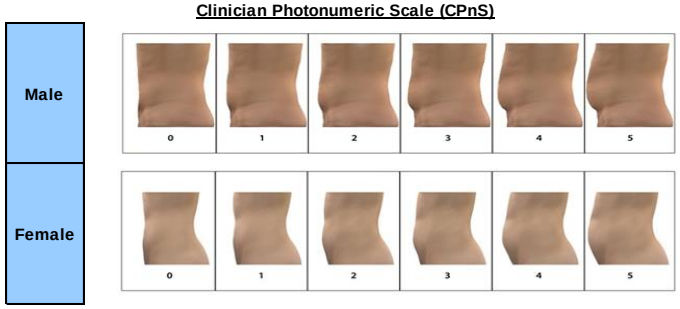
PRIMARY ENDPOINT COMPOSITE

Composite of Patient Assessment and Clinician Rating

Patient - Global Abdominal Perception Scale (P-GAPS)

P-GAPS
Flat
Almost Flat
Slight bulge, Not flat
Bulge
Big Bulge

Clinician Photonumeric Scale (CPnS)



Source: Neothetics

Laser-guided tape measure offers a precise and highly standardized secondary confirmation endpoint. In the RESET trial, one secondary endpoint was a reduction in umbilical circumference as measured by a laser-guided tape measure. Laser-guided tape measures offer a highly standardized, precise and reproducible technique (as opposed to skin-fold caliper measurements, which can often produce results of variable accuracy). The laser-guided tape measure utilizes a self-tensioning tape which is wrapped around the patient's abdomen in-line with a tripod-mounted laser level to ensure correct placement. Additionally, the laser is aligned with a temporary tattoo that is placed on the patient in order to designate the treatment area, thus ensuring consistent measurements. In our opinion, the laser-guided tape measure is the most appropriate tool to assess abdominal circumference for not only its reproducible and accurate nature, but also as it enables the clinician to assess the abdomen as a whole, rather than just a specific layer or pocket of fat (as is the case with ultrasound or calipers). We believe that this method most accurately captures the desired effects of "body contouring."

Exhibit 10

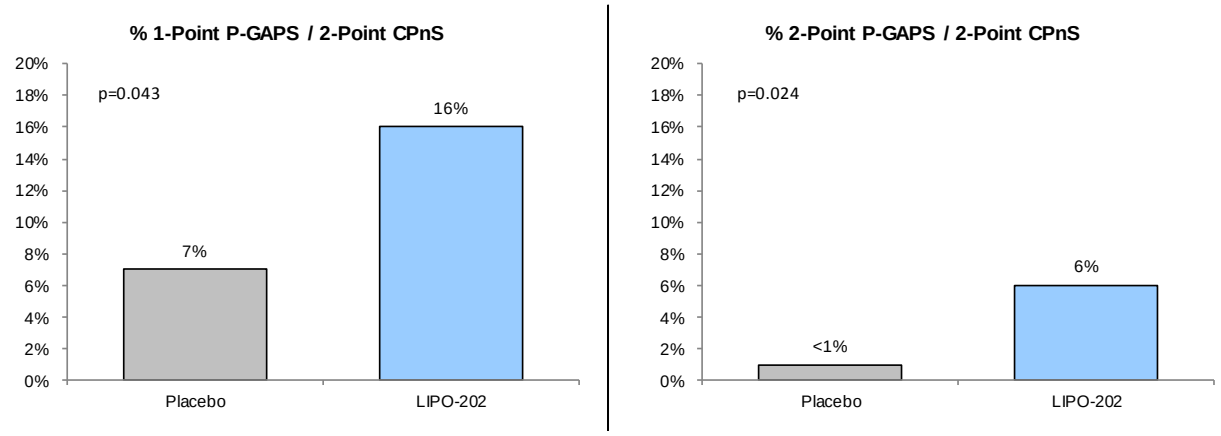
LASER-GUIDED TAPE MEASURE AND MOUNTED LASER LEVEL

Source: Neothetics

RESET a success on the different definitions of a responder; bodes well for a favorable Phase III outcome, in our view. The study met its primary and secondary endpoints, with minimal tolerability issues at any of the doses tested (the 0.4 mcg dose was identified as optimal). Statistical superiority versus placebo was demonstrated on two definitions of a responder: a 1-point improvement on the P-GAPS along with a 2-point improvement on the CPnS, and a 2-point improvement on both scales. Further, patients on LIPO-202 showed a mean reduction in umbilical circumference of 1.6 cm (versus 0.65 cm for placebo; p=0.001). The average reduction in abdominal volume in the treatment zone was 192 cc for the 0.4 mcg LIPO-202 dose versus 90 cc for placebo (p=0.001). Importantly, this reduction in treatment area volume is consistent with what has been seen with limited volume liposuction, as a 23-patient study performed in 2012 found limited volume liposuction to achieve a treatment area volume reduction of 205 cc and 232 cc as measured by a 3D photographic system and a constant tensioning tape, respectively. Refer to Exhibit 11 below for more details on the Phase IIb outcomes.

Exhibit 11

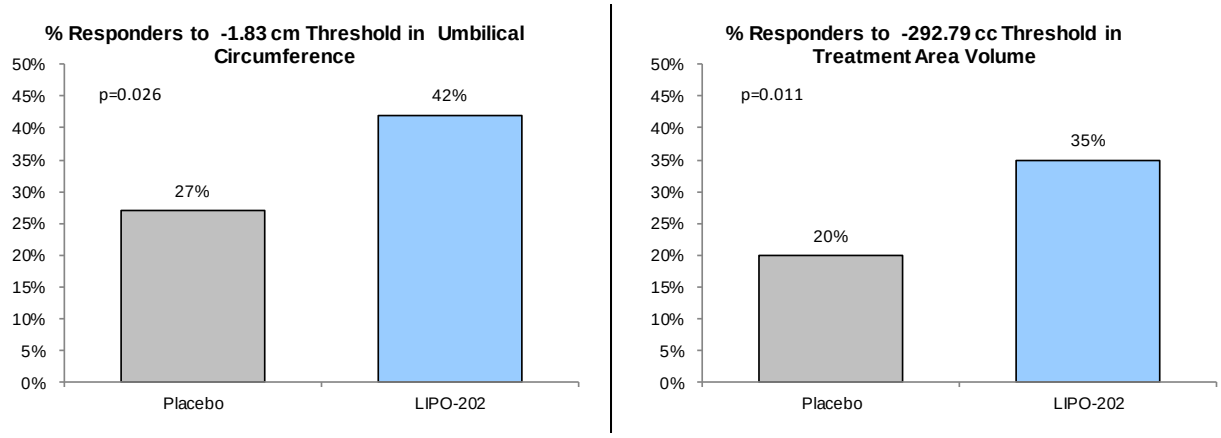
RESET PHASE II PRIMARY ENDPOINT OUTCOMES



Source: Neothetics

Exhibit 12

RESET PHASE II SECONDARY ENDPOINT OUTCOMES



Source: Neothetics

LIPO-202 demonstrated enhanced results in patients who maintained a stable weight during the treatment period. Importantly, treatment effects were enhanced in the subgroup of patients who maintained their body weight or lost weight during the trial, which is encouraging in our view given that the target patient population for LIPO-202 is non-obese patients seeking a flatter abdomen. For example, 22% of patients who remained weight-neutral or lost weight throughout the trial realized a 1-point P-GAPS/2-point CPnS improvement, versus 16% for the entire LIPO-202 population. Further, 10% of patients in this subgroup realized a 2-point P-GAPS/2-point CPnS improvement, versus 6% for the LIPO-202 group as a whole. Additionally, the mean reduction in abdominal circumference and volume in the treatment area was 2.7 cm ($p<0.001$) and 329 cc ($p<0.001$), respectively, for patients on the 0.4 mcg dose who maintained their body weight or lost weight during the treatment period, as opposed to 1.6 cm and 192 cc, respectively, for the broader LIPO-202 population. Notably, the 329 cc average for this patient subgroup is actually around 40% higher than the average reduction seen for limited volume liposuction.

Clean safety and tolerability profile for LIPO-202. Adverse effects over the course of the trial were generally mild and did not differ much in incidence or severity across all doses tested compared to placebo. The most common adverse effects were injection site reactions that can be attributed to the injection itself rather than the formulation, and no patient withdrew due to adverse effects. In our opinion, the mild nature of side effects from LIPO-202 presents a major advantage over existing therapies. As shown previously in Exhibit 7, other treatment modalities such as CoolSculpting, Liposonix and low-volume liposuction are often painful for the patient as they can result in numbness, swelling and bruising lasting several weeks after treatment. We believe one of the more attractive selling points of LIPO-202 will be the absence of any recovery period associated with the treatments. In our view, that should more than make up for any perceived disadvantages associated with the reality that the injections will have to be given weekly over an 8-week period.

Exhibit 13

RESET PHASE II TREATMENT-RELATED ADVERSE EVENTS

	Placebo (n=130)	0.4 mcg SX (n=132)	1.0 mcg SX (n=124)	4.0 mcg SX (n=127)
Any adverse event definitely or possibly related to the drug	10%	11%	12%	12%
Administration site conditions	5%	8%	10%	9%
Injection site hematoma	2%	5%	6%	6%
Injection site pain	2%	3%	2%	2%
Injection site erythema	2%	2%	2%	0%
Injection site hemorrhage	2%	0%	0%	0%

Source: Neothetics

Overview of the Phase III Program

After recently completing an end-of-Phase II meeting with the FDA's Division of Dermatologic and Dental Products, Neothetics expects to initiate its Phase III clinical program for LIPO-202 in the first half of 2015. The Phase III program consists of two pivotal studies that will enroll approximately 1,600 patients (800 in each), four supporting studies, and two supplemental studies in submental fat and lipomas, which are benign tumors consisting of fat tissue (and are the most common types of benign soft tissue neoplasms); the entire Phase III program will enroll approximately 2,000 patients.

The company's main Phase III efficacy studies will consist of two 800-patient trials, each consisting of two dose arms (0.4 mcg LIPO-202 and placebo; randomization will be 1:1), and patients will receive 20 injections each week over an 8-week treatment period. Similar to the Phase II program, the inclusion criteria for Phase III are intended to capture non-obese patients that are dissatisfied with their level abdominal bulging. As such, only patients with a BMI below 30 kg/m^2 and who are able to maintain a stable weight (≤2% variation (+/-) during one-month trial run-in are eligible for enrollment. Regarding

endpoints, the studies will be similar to RESET. The first primary endpoint will define a responder as having a ≥1-point change in P-GAPS and a ≥2-point change in CPnS. The second primary endpoint will define a responder as having a ≥2-point change on both P-GAPS and CPnS. A secondary endpoint will be the portion of patients with a ≥1.83 cm decrease in umbilical circumference per laser-guided measure. As mentioned previously, we regard this is a more commercially relevant endpoint; in other words, NEOT could essentially bill the treatment as having a significant chance of shaving near three-quarters of an inch off of a patient's waistline (per the data in the RESET trial). Given the body of data to date, we believe that the chances of Phase III success are reasonably high.

Exhibit 14

SUMMARY OF PHASE III PLAN FOR LIPO-202

	Clinical Trial	Patients	Purpose	Expected Initiation	Expected Data
Pivotal	LIPO-202-CL-18	~800	Pivotal Phase III clinical trial of safety and efficacy	1H15	End of 2015
	LIPO-202-CL-19	~800	Pivotal Phase III clinical trial of safety and efficacy	1H15	End of 2015
Supporting	LIPO-202-CL-12	24	Comparative bioavailability of LIPO-202 and Advair Diskus	1H15	2H15
	LIPO-202-CL-21	120	Clinical bridge for 505(b)(2) NDA; safety in 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
Supplemental	LIPO-202-CL-25	10-12	Exploratory study in submental fat	1H15	2H15
	LIPO-202-CL-26	10-12	Exploratory study in lipomas	1H15	2H15

Source: Neothetics

NEOT will also conduct supporting and supplemental studies as part of its Phase III clinical program. In addition to the 1,600-patient pivotal trials, the company will also enroll approximately 400 patients in a series of supporting and supplemental studies, primarily to assess safety and durability of efficacy. Additionally, NEOT will be conducting two exploratory studies for LIPO-202 in submental fat (the indication Kythera is pursuing for its ATX-101 product candidate) and lipomas. While our estimates do not include contribution for any additional indications outside of abdominal bulging, we would expect NEOT to assess life cycle management opportunities and these indications could present a logical starting point (our estimates reflect continued R&D spend associated with advancing these opportunities).

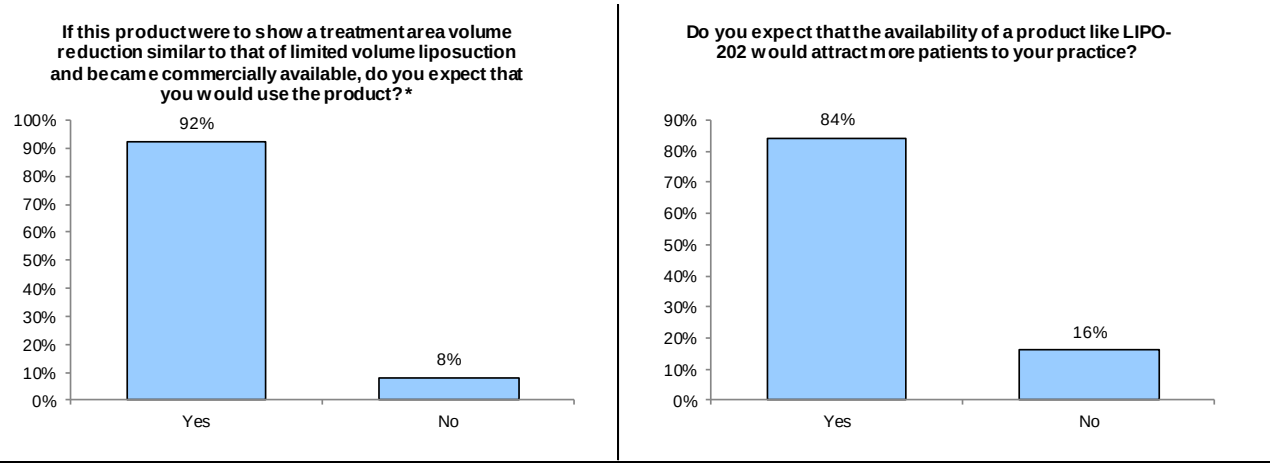
Feedback from Our Physician Survey Points to Significant Enthusiasm for an Injectible Body Contouring Alternative

LIPO-202 could easily attract consumers who are new to body contouring. We polled 25 physicians (aesthetic plastic surgeons and cosmetic dermatologists) who use Zeltiq's CoolSculpting device and perform limited-volume liposuction as part of their clinical practices. Please contact your PJC salesperson for a copy of the full survey. In general, the feedback reinforced our view that there is significant enthusiasm surrounding the prospects

for another, more convenient modality for non-invasive fat reduction. We note that 92% of physicians polled indicated that they would use a locally injectable alternative that could achieve a treatment area volume reduction similar to limited volume liposuction, and importantly, only 40% of those polled indicated that the eight times weekly injections would make them less likely to use the product (reinforcing our confidence that the majority of physicians would actually find the frequent visits beneficial to their practice). Importantly, 84% of respondents indicated that they expect that the availability of a product like LIPO-202 would attract more patients to their clinical practice.

Exhibit 15

PHYSICIAN SURVEY RESULTS



Source: PJC Research

* Full question reads: There is a local injectable form of the beta-agonist salmeterol that is in late-stage development for the reduction of abdominal fat (known as LIPO-202, which is being developed by a company known as Neothetics). If this product were to show a treatment area volume reduction similar to that of limited volume liposuction and became commercially available, do you expect that you would use the product?

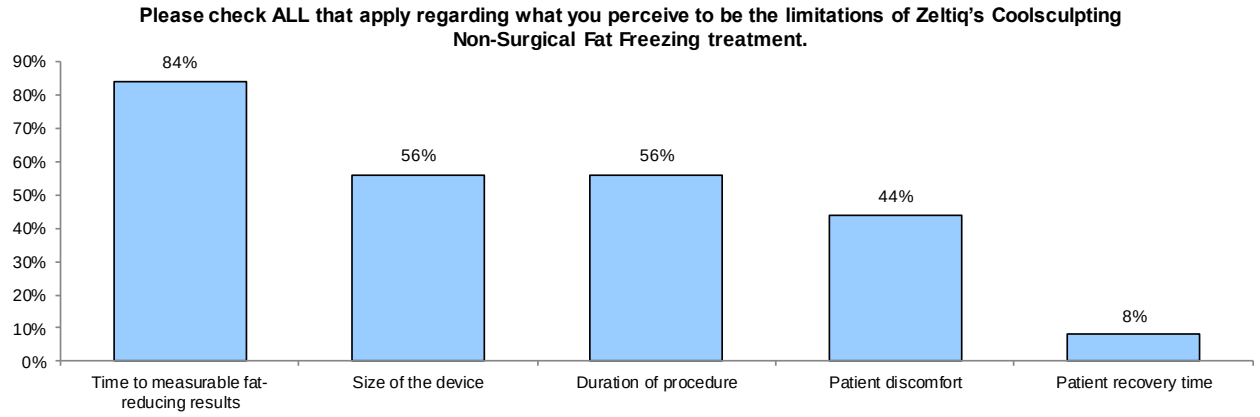
Competition between LIPO-202 and other modalities such as CoolSculpting need not be a zero-sum game, though physician feedback suggests that enthusiasm for a product like LIPO-202 would run higher. Of the physicians that we polled, 68% indicated that they would use a product like LIPO-202 in at least some portion of their CoolSculpting patients, and 64% indicated that they would use the treatment in at least some of their limited-volume liposuction patients. Notably, over 35% of respondents indicated that would use LIPO-202 in at least a significant number of their CoolSculpting patients (and 16% would use it instead of CoolSculpting), and over 25% would use it in at least a significant number of their limited-volume liposuction patients (8% would switch their liposuction patients to LIPO-202).

One of the reasons we believe that current users of CoolSculpting would be interested in using LIPO-202 as an alternative is that the limitations of this modality are myriad. Our survey included an assessment of what current CoolSculpting users find to be the limitations of the device. According to respondents, the top three limitations of the CoolSculpting device are time to measureable results, the size of the device, and the duration of the procedure (with 84%, 56% and 56% of responders citing these as limitations, respectively). Regarding measurable results, we note that measureable results from LIPO-202 are typically seen at one month versus a range of 2-4 months for CoolSculpting, and the procedure does not require dedicated office space. That said, we do concede that we have yet to learn about the duration of benefits associated with LIPO-202, versus evidence that CoolSculpting offers sustained benefits (this is intuitive given that this

modality actually kills fat cells rather than shrink them, though with that occurring, there is the risk that unusual or even undesirable body shapes can be observed).

Exhibit 16

PHYSICIAN SURVEY RESULTS



Source: PJC Research

Our Thoughts on Sales Estimates for LIPO-202

Given the evidence of differentiation versus currently available treatment alternatives, and the feedback from our survey pointing to the ability of a new modality like LIPO-202 to attract new patients to body contouring, we believe that there is strong visibility on brisk market uptake for LIPO-202. We estimate that sales of LIPO-202 could grow to north of $350 million by 2022, and we believe that peak U.S. sales well in excess of $500 million are realistic. We note that our sales estimates do not reflect contribution from any additional indications outside of abdominal fat, although we believe that usage of the product beyond the abdominal region (and we would expect doctors to experiment with other areas of the body) could provide a source of upside. Below we provide additional details on the assumptions underlying our estimates:

- **The addressable market for LIPO-202.** According to NEOT market research, there are near 750,000 individuals in the U.S. who are current consumers of medical aesthetic injectable products who would be highly interested in a body contouring procedure, and there are an additional 1 million+ individuals who are not existing consumers of injectibles who would be highly interested. We believe that the addressable market could easily be larger when considering the broad consumer appeal that a non-invasive, pain-free fat reduction procedure would have. Our model assumes that there are 165,000 LIPO-202 procedures performed by 2021.
- **Pricing.** Our model assumes pricing that is at parity with Zeltiq's CoolSculpting procedure, which on average costs approximately $1,500 to the physician ($3,000 to the patient). We believe that this is reasonable starting point given that Zeltiq's product will have been on the market for several years at by the time of LIPO-202 launch. Our model does not assume any annual price increases over time.

Exhibit 17

SALES ESTIMATES FOR LIPO-202

(Sales $ in millions)	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
U.S. Sales								
# of potential patients aware of non-invasive procedures	750,000	768,938	776,628	784,394	792,238	800,160	808,162	816,244
% growth		2.5%	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
LIPO-202 Penetration				1.0%	5.0%	8.0%	12.0%	15.0%
LIPO-202 Patients				7,844	39,612	64,013	96,979	122,437
Procedures/patient/year				1	1	1	1	1
Price per Procedure				$1,500.0	$1,500.0	$1,500.0	$1,500.0	$1,500.0
Discounts and allowances				(10.0%)	(10.0%)	(10.0%)	(10.0%)	(10.0%)
LIPO-202 Sales - Existing Patient Base				**$10.6**	**$53.5**	**$86.4**	**$130.9**	**$165.3**
# of potential patients naïve to non-invasive procedures	1,000,000	1,025,251	1,035,504	1,045,859	1,056,317	1,066,881	1,077,549	1,088,325
% growth		2.5%	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
LIPO-202 Penetration				0.0%	1.5%	2.0%	3.0%	4.0%
LIPO-202 Patients				0	15,845	21,338	32,326	43,533
Procedures/patient/year				1	1	1	1	1
Price per Procedure				$1,500.0	$1,500.0	$1,500.0	$1,500.0	$1,500.0
Discounts and allowances				(10.0%)	(10.0%)	(10.0%)	(10.0%)	(10.0%)
LIPO-202 Sales - Naive Patient Base				**$0.0**	**$21.4**	**$28.8**	**$43.6**	**$58.8**
LIPO-202 Sales - Total				**$10.6**	**$74.9**	**$115.2**	**$174.6**	**$224.1**

Source: Company reports and PJC Research

COMPANY MANAGEMENT

We believe that NEOT has a seasoned senior management and R&D team in place that is well equipped to shepherd LIPO-202 through Phase III and an eventual NDA filing. We note that CEO George Mahaffey has prior experience in the broader dermatology space, serving as CEO and chief commercial officer of Peplin, which was acquired by LEO Pharma in 2009. We would also note that Dr. Patricia Walker, who was the chief medical officer at Kythera until the spring of 2013 and also spent a number of years at Allergan focused on R&D for a number of key dermatologic and aesthetic products, joined Neothetics Board prior to the IPO.

George W. Mahaffey has served as President, Chief Executive Officer and director since March 2011. Prior to joining Neothetics, Mr. Mahaffey served as Chief Executive Officer of Peplin, Inc., a dermatology company, from September 2009 to February 2010 following its acquisition by LEO Pharma A/S in 2009. Prior to its acquisition, Mr. Mahaffey served as Chief Commercial Officer and VP, Sales and Marketing of Peplin, Inc. from May 2007 to September 2009. Prior to joining Peplin, Mr. Mahaffey served as Sr. VP, Sales and Marketing for CoTherix, Inc., a biopharmaceutical company, from 2004 until its acquisition by Actelion Ltd. in 2006. Prior to CoTherix, Mr. Mahaffey served as Senior Director, Marketing and Business Development at Scios, Inc., a biopharmaceutical company, from 2000 to 2004. Prior to joining Scios, Mr. Mahaffey served in the marketing group at Neurex, Inc., a biotechnology company, until its acquisition by Elan Corp. in 1998. Mr. Mahaffey began his pharmaceutical career at DuPont Pharmaceuticals where he held various sales and marketing positions. Mr. Mahaffey earned a B.S. degree in Chemical Engineering from the University of Delaware and an MBA from the University of South

Florida. We believe Mr. Mahaffey is qualified to serve on our board of directors based on his 27 years of pharmaceutical and biotechnology industry experience.

Kenneth W. Locke, Ph.D. has served as Chief Scientific Officer since May 2008. Prior to joining Neothetics, Dr. Locke worked since September 2000 at MediciNova, Inc., holding in succession the positions of Vice President, Research, Senior Vice President, Development Operations & Drug Discovery, Senior Vice President, Portfolio Management, Chief Business Officer and Chief Scientific Officer. Concurrent with his service at MediciNova, Dr. Locke served as Vice President of Research at Tanabe Research Laboratories U.S.A., Inc. from July 2000 to October 2002. Prior to joining Tanabe Research Laboratories, Dr. Locke served as Manager of Behavioral Neuroscience at Interneuron Pharmaceuticals, Inc. from 1989 to 1999. Dr. Locke earned a B.A. in Chemistry and French from Franklin and Marshall College and a M.S. and a Ph.D. in Pharmacology from the Emory University School of Medicine.

Susan A. Knudson has served as Chief Financial Officer since July 2014. Ms. Knudson previously served as our Vice President of Finance and Administration since February 2009. Prior to joining Neothetics, Ms. Knudson served as Senior Director of Finance and Administration at Avera Pharmaceuticals from May 2002 to January 2009. Prior to May 2002, Ms. Knudson served as Director of Finance and Administration at MD Edge, Inc., a medical communications company, from October 2000 to April 2002. Prior to joining MD Edge, Ms. Knudson served as Assistant Director of Accounting at Isis Pharmaceuticals from April 2000 to October 2000. Ms. Knudson has also held senior positions at CombiChem, General Atomics and Deloitte & Touche. Ms. Knudson holds a B.A. in Accounting from the University of San Diego.

Christopher Kemmerer, Ph.D. has served as Vice President of Pharmaceutical Development and Manufacturing since April 2008. Prior to joining Neothetics, Dr. Kemmerer held the position of Director of Pharmaceutical Development at Avera Pharmaceuticals from March 2006 to March 2008. Prior to Avera, Dr. Kemmerer served as a Senior Research Scientist at Pfizer, Inc. from June 2004 to January 2006. Prior to joining Pfizer, Dr. Kemmerer held positions across numerous functional areas of drug development at Merck & Company. Dr. Kemmerer earned a B.S. in Chemistry from Pennsylvania State University and a Ph.D. in Pharmaceuticals Sciences from Temple University.

Lincoln Krochmal, M.D. has served as Chief Medical Officer since November 2013. Prior to joining Neothetics, from September 2010 to November 2013, Dr. Krochmal volunteered his time in peer to peer counseling with new stroke patients and their families, leading a stroke survivor group at Valley Medical Center and serving as a spokesperson for the American Heart Association and the American Stroke Association and serving as a consultant in dermatology to the pharmaceutical industry. From September 2008 until October 2010, Dr. Krochmal served as Chief Executive Officer and President of Excaliard Pharmaceuticals until its acquisition by Pfizer, Inc. Prior to joining Excaliard, Dr. Krochmal served as Executive Vice President, Research and Product Development for Connetics Corporation, a specialty dermatology company, from 2003 until its acquisition by Stiefel Labs in 2007 and held other senior management positions at Unilever and Bristol-Myers Squibb. He is a fellow of the American Academy of Dermatology, a Diplomat of the American Board of Dermatology, and a member of the International Society of Dermatology and the Dermatology Foundation. Dr. Krochmal received his Bachelor of Medical Sciences degree from the University of Wisconsin, his M.D. from the Medical College of Wisconsin, and his board certification in Dermatology following successful completion of the residency training program at the University of Missouri Medical Center.

Neothetics - Quarterly and Annual Income Statement

Fiscal Year Ends December 31		2014E					2015E										
($ In millions, except for EPS)	**2013A**	**1QA**	**2QA**	**3QA**	**4QE**	**2014E**	**1QE**	**2QE**	**3QE**	**4QE**	**2015E**	**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	1.4	0.9	0.9	0.9	4.2	14.0	7.0	7.0	7.0	35.0	7.5	5.0	9.0	9.2	8.7	9.0
Selling, general & administrative	3.0	1.1	1.1	0.9	0.9	4.0	1.2	1.3	1.5	1.5	5.5	12.0	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**	**$2.5**	**$2.0**	**$1.9**	**$1.8**	**$8.1**	**$15.2**	**$8.3**	**$8.5**	**$8.5**	**$40.5**	**$19.5**	**$35.0**	**$83.9**	**$95.6**	**$104.7**	**$109.8**
Operating Income	**($14.4)**	**($2.5)**	**($2.0)**	**($1.9)**	**($1.8)**	**($8.1)**	**($15.2)**	**($8.3)**	**($8.5)**	**($8.5)**	**($40.5)**	**($19.5)**	**($29.7)**	**($27.7)**	**($3.5)**	**$43.6**	**$91.9**
Other income (expense), net	(0.6)	0.9	(0.3)	(1.6)	(2.2)	(3.2)	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)	(4.0)	(2.0)	(1.0)	(1.0)	(1.0)	(1.0)
Income (loss) before taxes	**($15.0)**	**($1.6)**	**($2.3)**	**($3.5)**	**($4.0)**	**($11.3)**	**($16.2)**	**($9.3)**	**($9.5)**	**($9.5)**	**($44.5)**	**($23.5)**	**($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)**	**($1.6)**	**($2.3)**	**($3.5)**	**($4.0)**	**($11.3)**	**($16.2)**	**($9.3)**	**($9.5)**	**($9.5)**	**($44.5)**	**($23.5)**	**($31.7)**	**($28.7)**	**($4.5)**	**$42.6**	**$90.9**
Non-GAAP EPS, basic	**($2.15)**	**($0.19)**	**($0.27)**	**($0.40)**	**($0.35)**	**($1.20)**	**($1.18)**	**($0.68)**	**($0.69)**	**($0.69)**	**($3.23)**	**($1.65)**	**($1.69)**	**($1.51)**	**($0.23)**	**$2.18**	**$4.59**
Non-GAAP EPS, diluted	**($2.15)**	**($0.19)**	**($0.27)**	**($0.40)**	**($0.35)**	**($1.20)**	**($1.18)**	**($0.68)**	**($0.69)**	**($0.69)**	**($3.23)**	**($1.65)**	**($1.69)**	**($1.51)**	**($0.23)**	**$1.98**	**$4.17**
Shares outstanding, basic [1]	7.0	8.5	8.5	8.5	11.5	9.3	13.7	13.8	13.8	13.9	13.8	14.3	18.8	19.0	19.3	19.5	19.8
Shares outstanding, diluted [1]	7.0	8.5	8.5	8.5	11.5	9.3	13.7	13.8	13.8	13.9	13.8	14.3	18.8	19.0	19.3	21.5	21.8
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												(78.6%)	(33.3%)	79.7%	2.6%	(5.3%)	2.7%
Selling, distribution and marketing												118.2%	150.0%	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. December 14, 2014

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	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Beginning Cash & Equivalents	**$5.8**	**$11.1**	**$4.4**	**$69.7**	**$26.9**	**$62.0**	**$54.0**	**$26.9**	**$24.1**	**$68.5**
Operating Activities										
Net Income (Loss), GAAP	($7.8)	($15.0)	($11.3)	($44.5)	($23.5)	($31.7)	($28.7)	($4.5)	$42.6	$90.9
Depreciation & Amortization	$0.1	$0.1	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2
Other	$2.0	$3.4	($2.0)	($2.0)	($2.0)	($2.0)	($2.0)	($2.0)	($2.0)	($2.0)
Stock-based Compensation	$0.1	$0.1	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5
Net Change in Assets and Liabilities	($1.8)	($1.4)	$0.1	$0.1	$0.1	$0.2	$0.2	$0.2	$0.2	$0.2
Cash From Operations	**($7.4)**	**($12.9)**	**($12.5)**	**($45.7)**	**($24.7)**	**($32.9)**	**($29.8)**	**($5.6)**	**$41.5**	**$89.8**
Investing Activities										
Capital Expenditures	$0.0	($0.0)	($0.2)	($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**	**($0.2)**	**($0.2)**	**($0.2)**	**($0.2)**	**($0.2)**	**($0.2)**	**($0.2)**	**($0.2)**
Financing Activities										
Debt Issuance	$3.3	$0.0	$4.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Debt Repayments	($0.8)	($0.4)	$0.0	$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	$74.1	$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**	**$78.1**	**$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)	$65.4	($42.9)	$35.1	($8.1)	($27.0)	($2.8)	$44.3	$92.6
Year End Cash & Equivalents	**$11.1**	**$4.4**	**$69.7**	**$26.9**	**$62.0**	**$54.0**	**$26.9**	**$24.1**	**$68.5**	**$161.0**

NEOT: David Amsellem 212.284.9455

Neothetics - Annual Balance Sheet

($ in millions)

	2012A	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Current Assets										
Cash & Equivalents	$11.1	$4.4	$69.7	$26.9	$62.0	$54.0	$26.9	$24.1	$68.5	$161.0
Prepaid expenses and other	$1.5	$0.1	$0.2	$0.2	$0.2	$0.3	$0.4	$0.4	$0.5	$0.6
Total Current Assets	**$12.6**	**$4.5**	**$69.9**	**$27.1**	**$62.3**	**$54.3**	**$27.3**	**$24.6**	**$69.0**	**$161.6**
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**	**$69.9**	**$27.1**	**$62.3**	**$54.3**	**$27.3**	**$24.6**	**$69.0**	**$161.7**
Liabilities & Equity										
Current Liabilities	$1.9	$1.5	$1.7	$1.8	$2.0	$2.2	$2.5	$2.7	$3.0	$3.3
Total Debt	$0.0	$0.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0	$4.0
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)	$64.2	$21.2	$56.2	$48.0	$20.8	$17.9	$62.0	$154.4
Total Liabilities & Equity	**$12.8**	**$4.5**	**$69.9**	**$27.1**	**$62.3**	**$54.3**	**$27.3**	**$24.6**	**$69.0**	**$161.7**

NEOT: David Amsellem 212.284.9455

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

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Piper Jaffray

			IB Serv./Past 12 Mos.	
Rating	Count	Percent	Count	Percent
BUY [OW]	380	61.19	99	26.05
HOLD [N]	227	36.55	21	9.25
SELL [UW]	14	2.25	0	0.00

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Analyst Certification — David Amsellem, Sr. Research Analyst
— Traver A. Davis, Research Analyst
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