

Otonomy, Inc. (OTIC)

Overweight

Turning A Corner As Shares Seem To Be Bottoming And Investor Interest Growing

CONCLUSION

OTIC shares have traded off significantly after the P2 OTO-104 Meniere's program missed its primary endpoint but still showed very encouraging signs of efficacy to advance into P3. With a market cap of ~\$550M and a lead asset (AuriPro for patients having ear tubes places) that has successfully completed P3 and is poised to launch next year with peak potential sales over \$300M, OTIC represents a unique opportunity and attractive entry point in our view. We reiterate our Overweight rating and \$46 PT; OTIC is one of our top small cap picks.

- **Investors are starting to get more engaged here.** This investment opportunity should appeal to a broad group of investors as we believe AuriPro alone represents significant upside to the valuation, and if the Meniere's program or other pipeline programs are ultimately able to deliver, the incremental upside would be substantial. We model \$200M peak U.S. revenue for AuriPro alone which may prove conservative as we see it as such an obvious substitute for cumbersome ear drops across a wide range of indications. There should also be ex-U.S. opportunities for AuriPro as well.
- **Solid financial position:** The company finished Q1 with \$200M in cash, so an EV of just ~\$350M does little to capture what we see as the established valuation let alone the emerging value inherent in the pipeline, as we remain confident in OTO-104 for Meniere's and optimistic for OTO-311 for tinnitus.

COMPANY DESCRIPTION

OTIC is developing drugs to treat a variety of ear conditions.

PRICE: US\$22.48

TARGET: US\$46.00

DCF thru 2022, 10.5% discount rate, 3.0% terminal growth rate

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RISKS TO ACHIEVEMENT OF PRICE TARGET

Development candidates may face clinical, regulatory or commercial setbacks.

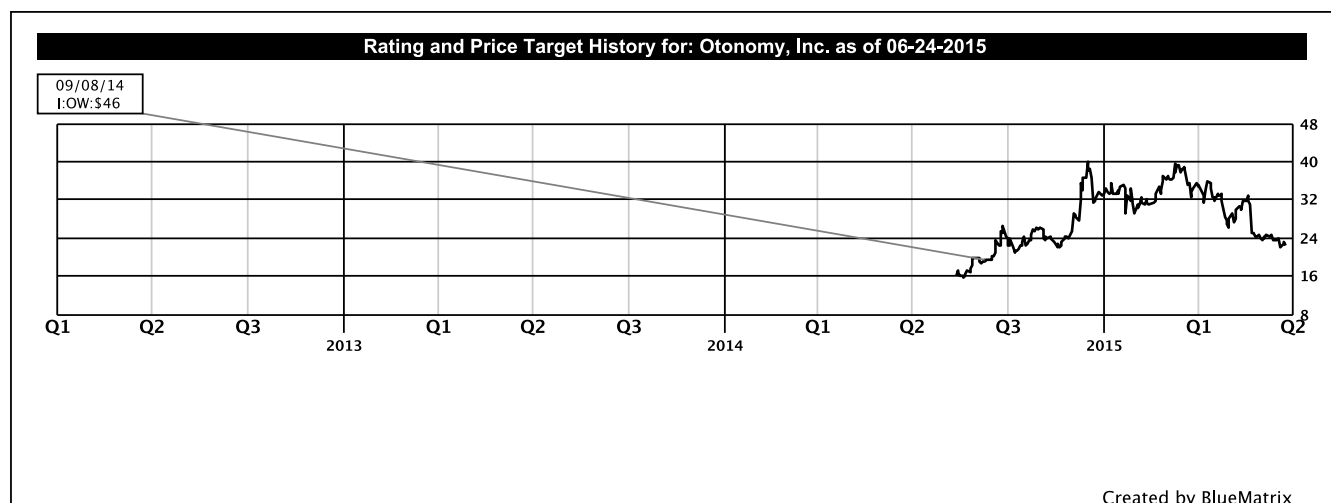
Price Performance - 1 Year



Source: Bloomberg

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D: Discontinuing Coverage
S: Suspending Coverage
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N: Neutral
UW: Underweight
NA: Not Available
UR: Under Review

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Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	413	59.60	100	24.21
HOLD [N]	262	37.81	15	5.73
SELL [UW]	18	2.60	0	0.00

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