



August 29, 2014

## Ocular Therapeutix, Inc.

### On track for one Phase III and two Phase II readouts in 2014/2015

**Our view:** 2Q:14 results are largely a non-event as OCUL recently completed an IPO. Pipeline update is as expected.

#### Key points:

- OCUL shares represent a lower-risk investment opportunity in a diversified, ophthalmology-focused sustained delivery pipeline and platform technology. The value proposition is turning often inconvenient and potentially less safe pulse therapies (i.e., eye drops) into sustained release drugs that provide more consistent and reliable dosing. OCUL can dial up or dial down how drugs are dosed and over how long (from weeks to months). ReSure Sealant sales provide the base on which other product launches, such as those for OTX-DP (Phase III in post-surgical ocular inflammation and pain ongoing) and even OTX-TP (Phase IIb in glaucoma expected) can be built. News flow is near term (starting 2014) and sufficient that successful progress from Phase II to Phase III to NDA/ MAA could continue to build value over the next 2-3+ years.
- 2Q:14 results vs. expectations.** ReSure Sealant sales were in-line at \$0.1M and expenses were lower driving a better than forecast EPS. OCUL ended 2Q:14 with ~\$20M in cash and raised ~\$66.5M in its IPO for a total pro forma cash position of \$86.5M.
- 2014 (and beyond) guidance.** OCUL expects limited ReSure Sealant sales in 2014 as it builds awareness. We believe ReSure could get traction even if initial ramp is modest and we currently forecast 2014 sales of \$1.5M.
- Changes to our estimates.** There are no top- or bottom-line changes going forward. EPS estimates are adjusted to reflect the exercise of the over allotment. Current cash should be sufficient into 2016, in our view.

#### Key updates: Three readouts by YE:15 .

- OTX-TP glaucoma Phase IIb on track for 4Q:14 start.** Once the trial begins, we estimate data could be out in 6-9 months. The objective here is for sustained delivery of travoprost over a 3-month period instead of daily eye drops administered chronically.
- OTX-DP Phase II data in allergic conjunctivitis in 2H:14.** Results could allow a 'go/ no-go' decision on a Phase III.
- OTX-DP Phase III enrolling in post-surgical ocular inflammation and pain.** We believe a readout in 1Q:15 is possible as the trials should take 6-8 months to finish. The objective here is 30-day delivery of a tapered steroid dose instead of multiple daily eye drops.

#### Upcoming news flow.

- 4Q:14 – OTX-DP Phase II data in allergic conjunctivitis followed by a pivotal/ Phase III 'go/ no-go' decision.
- 1Q:15 – OTX-DP Phase III results in post-surgical ocular inflammation and pain.
- 2015 – OTX-TP Phase IIb data in glaucoma.

RBC Capital Markets, LLC

**Adnan Butt** (Analyst)

(415) 633-8588

adnan.butt@rbccm.com

**Jeffrey Takimoto** (Associate)

(415) 633-8538

jeffrey.takimoto@rbccm.com

**John Chung** (Associate)

(415) 633-8620

john.chung@rbccm.com

### Outperform

### Speculative Risk

NASDAQ: OCUL; USD 16.48

### Price Target USD 21.00

#### WHAT'S INSIDE

<input type="checkbox"/> Rating/Risk Change	<input type="checkbox"/> Price Target Change
<input type="checkbox"/> In-Depth Report	<input checked="" type="checkbox"/> Est. Change
<input type="checkbox"/> Preview	<input checked="" type="checkbox"/> News Analysis

#### Scenario Analysis\*

Downside Scenario	Current Price	Price Target	Upside Scenario
6.00	16.48	21.00	29.00
↓ 64%		↑ 27%	↑ 76%

\*Implied Total Returns

#### Key Statistics

Shares O/S (MM):	21.2	Market Cap (MM):	349
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	NA

#### RBC Estimates

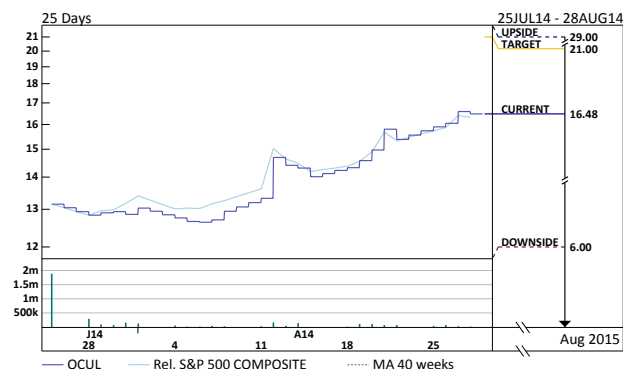
FY Dec	2013A	2014E	2015E	
Revenue	0.0	1.6	8.5	
EPS, Ops Diluted	(5.10)	(2.28)	(1.49)	
Prev.		(2.31)	(1.54)	
P/E	NM	NM	NM	
Revenue	Q1	Q2	Q3	Q4
2014	0.0A	0.1A	0.5E	1.0E
EPS, Ops Diluted				
2014	(2.45)A	(2.10)A	(0.32)E	(0.35)E
Prev.		(2.20)E	(0.33)E	(0.32)E

All values in USD unless otherwise noted.



## Target/Upside/Downside Scenarios

Exhibit 1: Ocular Therapeutix, Inc.



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

## Target price/ base case

We value OCUL at \$21, which includes US and EU sales with a probability of success of 85% to ReSure (~\$5/share), 75% to OTX-DP inflammation (~\$2/share), 60% to OTX-DP allergy (~\$2/share), and 60% to OTX-TP glaucoma for (~\$12/share). We forecast US and ex-US combined peak sales of ReSure, OTX-DP inflammation, OTX-DP allergic conjunctivitis and OTX-TP glaucoma at ~\$1B and ~\$0.8B respectively. We currently assign no additional value to the earlier stage pipeline.

## Upside scenario

Our upside scenario at \$29 per share includes US and EU sales with a probability of regulatory and commercial success of 75% to ReSure (~\$6/share), 65% to OTX-DP inflammation (~\$5/share), 50% to OTX-DP allergy (~\$3/share), and 45% to OTX-TP glaucoma for (~\$15/share). We forecast US and ex-US combined peak sales of ReSure, OTX-DP inflammation, OTX-DP allergic conjunctivitis and OTX-TP glaucoma at ~\$1.4B+ and ~\$1.2B+ respectively. Further upside would come from the advancement of earlier stage pipeline as we currently assign no additional value.

## Downside scenario

Our downside scenario at \$6 per share (previously \$5) includes US and EU sales with a probability of success of 85% to ReSure (~\$2/share), 80% to OTX-DP inflammation (~\$2/share), 70% to OTX-DP allergy (~\$0/share), and 70% to OTX-TP glaucoma for (~\$5/share). We forecast US and ex-US combined product peak sales at ~\$470MM and ~\$420MM, respectively. The value of OTX-DP inflammation is negative and OTX-DP allergic conjunctivitis is zero because these products are launched first and it is assumed that their sales ramps alone are not high enough to support the R&D and SG&A infrastructure profitably.

## Investment summary

We believe OCUL shares offer the potential for upside as the hydrogel, sustained technology platform lowers clinical and development risk, allows multiple shots at success and the pipeline to be diversified, and increases the chances of a candidate making it through the clinic and onto the market. OTX-DP is in Phase III studies for inflammation and pain, and in Phase II studies for allergic conjunctivitis. OTX-TP is in a Phase IIb study for glaucoma, having posted promising Phase IIa, and earlier stage compounds represent upside optionality. Results from these studies are expected in 2014 and 2015, assuming progress going forward through 2017. Target markets represent millions of patients worldwide, and we forecast peak sales of OCUL's products totaling ~\$1.7B.

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

## Potential Catalysts for OCUL Shares

- **Phase II data for OTX-DP Allergy in 4Q:14.** First clinical data, could lead to pivotal study.
- **Phase III data for OTX-DP Inflammation and pain in 1Q:15.** Positive data could lead to an NDA and MAA
- **Phase IIb data for OTX-TP in 2Q/ 3Q:15.** Potential to show efficacy and 3-month plug retention for glaucoma
- **Potential partnership for OTX-DP and OTX-TP.** OCUL has the rights to both products, and a partnership is possible.
- **Potential OTX-DP approvals and launches in 2016/ 2017 in the US and EU.**
- **ReSure sales** could be higher than expectation

## Potential Risks for OCUL Shares

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



Exhibit 2: 2Q14 Actual vs. Estimate P&L

(\$ in millions, except per share)		2Q:14		
Fiscal Year Ends December		Actual	Est.	Diff.
<b>Revenue</b>				
ReSure		0.1	0.1	0.0
OTX-DP Inflammation		-	-	-
OTX-DP allergy		-	-	-
OTX-TP glaucoma		-	-	-
ROW Royalties		-	-	-
<b>Total Revenue</b>		<b>0.1</b>	<b>0.1</b>	<b>0.0</b>
<b>Operating expenses</b>				
Royalty expense		-	0.0	(0.0)
COGS		0.0	0.0	0.0
R&D		4.3	4.8	(0.5)
SG&A		1.7	2.0	(0.3)
<b>Total operating expenses</b>		<b>6.0</b>	<b>6.8</b>	<b>(0.8)</b>
<b>Operating Income (Loss)</b>		<b>(5.9)</b>	<b>(6.7)</b>	<b>0.8</b>
Interest income		0.0	0.0	-
Interest expense		(0.3)	(0.1)	(0.2)
Other income (expense)		(0.2)	(0.1)	(0.1)
<b>Total other income</b>		<b>(0.5)</b>	<b>(0.1)</b>	<b>(0.3)</b>
<b>Pretax Income</b>		<b>(6.4)</b>	<b>(6.9)</b>	<b>0.5</b>
Income tax expense		-	-	-
<b>Net income (loss)</b>		<b>(6.4)</b>	<b>(6.9)</b>	<b>0.5</b>
<b>EPS - Basic (GAAP)</b>		<b>(\$2.10)</b>	<b>(\$2.20)</b>	<b>\$0.10</b>
<b>EPS - Diluted (GAAP)</b>		<b>(\$2.10)</b>	<b>(\$2.20)</b>	<b>\$0.10</b>
Shares (basic)		3.0	3.1	-0.1
Shares (diluted)		15.5	15.6	-0.1

Source: Company reports and RBC Capital Markets estimates

Exhibit 3: News Flow

Timing	Expected News Flow	Program
4Q:14	Initiate Phase IIb study in glaucoma	OTX-TP
4Q:14	Phase II results in allergic conjunctivitis	OTX-DP
YE:14/ 1H:15	Go/ no-go Phase III decision in allergic conjunctivitis	OTX-DP
1Q:15	Phase III results in post cataract inflammation and pain	OTX-DP
2Q:15	Submit NDA/ MAA for post cataract inflammation and pain	OTX-DP
1H:15	Initiate pivotal, Phase II/ III in allergic conjunctivitis	OTX-DP
Mid-/ 3Q:15	Phase IIb data in glaucoma	OTX-TP
4Q:15	Initiate Phase III study in glaucoma	OTX-TP
2015	Update on clinical program	IHD-VEGF
2015	Potential pipeline update on additional programs	
2015	Potential partnership(s) or business development	
1H:16	Phase III results in allergic conjunctivitis	OTX-DP
2Q/ 3Q:16	File NDA/ MAA in allergic conjunctivitis	OTX-DP
2Q/ 3Q:16	Potential NDA approval for post cataract inflammation and pain	OTX-DP
3Q/ 4Q:17	Potential NDA approval for allergic conjunctivitis	OTX-DP
4Q:16/ 1H:17	Phase III results in glaucoma	OTX-TP
2H:17	File NDA/ MAA in glaucoma	OTX-TP
2H:18	Potential NDA approval for glaucoma	OTX-TP

Source: Company reports and RBC Capital Markets estimates



## Exhibit 4: Pipeline

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

Source: Company reports and RBC Capital Markets estimates



## Valuation

We arrive at our \$21 per share price target using a sum-of-the parts analysis for OCUL shares. The primary components of our valuation include OCUL's ReSure sealant, OTX-DP for inflammation, OTX-DP for allergy, and OTX-TP for glaucoma product sales in the US and royalty revenues from sales in ROW. Our base, upside and downside scenarios use a discount rate of 15% to reflect potential clinical and commercial risk and assign a probability of success of the clinical and commercial roll out of ReSure, OTX-DP for inflammation, OTX-DP for allergic conjunctivitis, and OTX-TP for glaucoma.

## Price target impediments

Our price target is dependent on the clinical, regulatory and commercial success of the ReSure sealant, OTX-DP inflammation, OTX-DP allergy, and OTX-TP glaucoma. A Phase IIIb study for OTX-DP inflammation has been initiated and data is expected in 1Q:15. The phase II clinical trial for OTX-DP allergic conjunctivitis has been initiated and data is expected to report in 4Q:14. The phase IIa clinical trial for OTX-TP has been completed and a Phase IIb clinical trial in OTX-TP is expected in 2Q:15. Failure to demonstrate efficacy or safety in any of these studies would be a significant setback. Furthermore, any setbacks in regulatory approvals in the US or EU, delay in launch, failure to secure a partnership outside the US, increased competition or other limitations to the market potential of these products either due to better efficacy and/or safety outcomes or pricing pressure due to the availability of generic drugs for glaucoma, could negatively affect our valuation.

## Company description

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



(\$ in millions, except per share) Fiscal Year Ends December	2012A	2013A	1Q:14A	2Q:14A	3Q:14E	4Q:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
<b>Revenue</b>																
ReSure	-	-	-	0.1	0.5	1.0	1.5	8.5	15.9	26.5	42.1	61.3	70.3	79.7	89.4	99.5
OTX-DP Inflammation	-	-	-	-	-	-	-	-	1.5	17.9	30.4	46.5	63.2	80.6	95.9	111.7
OTX-DP allergy	-	-	-	-	-	-	-	-	-	1.9	9.8	16.5	26.6	43.7	54.3	68.5
OTX-TP glaucoma	-	-	-	-	-	-	-	-	-	-	2.3	11.9	72.5	147.6	225.5	306.1
ROW Royalties	-	-	-	-	-	-	-	-	-	0.5	4.1	8.4	15.3	35.1	59.7	81.8
<b>Total Revenue</b>	<b>0.0</b>	<b>-</b>	<b>0.0</b>	<b>0.1</b>	<b>0.5</b>	<b>1.0</b>	<b>1.6</b>	<b>8.5</b>	<b>17.3</b>	<b>46.8</b>	<b>88.6</b>	<b>144.4</b>	<b>247.8</b>	<b>386.7</b>	<b>524.7</b>	<b>667.7</b>
<b>Operating expenses</b>																
Royalty expense	-	-	-	-	0.0	0.0	0.1	0.3	0.7	1.9	3.4	5.4	9.3	14.1	18.6	23.4
COGS	0.0	-	0.0	0.0	0.1	0.1	0.2	1.3	2.6	6.9	12.7	20.4	34.9	52.7	69.8	87.9
R&D	11.5	10.5	5.0	4.3	5.0	5.8	20.0	24.8	31.0	35.0	37.5	40.0	42.5	45.0	47.5	50.0
SG&A	2.1	2.4	1.9	1.7	2.0	2.4	8.0	14.4	38.0	52.5	65.0	70.0	75.0	80.0	104.9	133.5
<b>Total operating expenses</b>	<b>13.7</b>	<b>12.9</b>	<b>6.9</b>	<b>6.0</b>	<b>7.1</b>	<b>8.3</b>	<b>28.3</b>	<b>40.8</b>	<b>72.3</b>	<b>96.3</b>	<b>118.6</b>	<b>135.9</b>	<b>161.7</b>	<b>191.8</b>	<b>240.8</b>	<b>294.8</b>
<b>Operating Income (Loss)</b>	<b>(13.7)</b>	<b>(12.9)</b>	<b>(6.8)</b>	<b>(5.9)</b>	<b>(6.6)</b>	<b>(7.3)</b>	<b>(26.7)</b>	<b>(32.3)</b>	<b>(55.0)</b>	<b>(49.5)</b>	<b>(29.9)</b>	<b>8.6</b>	<b>86.1</b>	<b>194.9</b>	<b>283.9</b>	<b>372.8</b>
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Interest expense	(0.4)	(0.4)	(0.0)	(0.3)	(0.1)	(0.1)	(0.4)	(0.2)	(0.2)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
Other income (expense)	(0.0)	0.0	(0.1)	(0.2)	(0.1)	(0.1)	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
<b>Total other income</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>(0.2)</b>	<b>(0.5)</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>(0.9)</b>	<b>(0.6)</b>	<b>(0.5)</b>	<b>(0.8)</b>	<b>(0.8)</b>	<b>(0.8)</b>	<b>(0.8)</b>	<b>(0.7)</b>	<b>(0.7)</b>	<b>(0.7)</b>
<b>Pretax Income</b>	<b>(14.1)</b>	<b>(13.3)</b>	<b>(7.0)</b>	<b>(6.4)</b>	<b>(6.8)</b>	<b>(7.5)</b>	<b>(27.7)</b>	<b>(32.8)</b>	<b>(55.5)</b>	<b>(50.3)</b>	<b>(30.7)</b>	<b>7.8</b>	<b>85.4</b>	<b>194.1</b>	<b>283.2</b>	<b>372.1</b>
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	2.7	29.9	67.9	99.1	130.2
<b>Net income (loss)</b>	<b>(14.1)</b>	<b>(13.3)</b>	<b>(7.0)</b>	<b>(6.4)</b>	<b>(6.8)</b>	<b>(7.5)</b>	<b>(27.7)</b>	<b>(32.8)</b>	<b>(55.5)</b>	<b>(50.3)</b>	<b>(30.7)</b>	<b>5.1</b>	<b>55.5</b>	<b>126.2</b>	<b>184.1</b>	<b>241.9</b>
<b>EPS - Basic (GAAP)</b>	<b>(\$5.59)</b>	<b>(\$5.10)</b>	<b>(\$2.45)</b>	<b>(\$2.10)</b>	<b>(\$0.32)</b>	<b>(\$0.35)</b>	<b>(\$2.28)</b>	<b>(\$1.49)</b>	<b>(\$2.02)</b>	<b>(\$1.49)</b>	<b>(\$0.90)</b>	<b>\$0.15</b>	<b>\$1.60</b>	<b>\$3.60</b>	<b>\$5.20</b>	<b>\$6.76</b>
<b>EPS - Diluted (GAAP)</b>	<b>(\$5.59)</b>	<b>(\$5.10)</b>	<b>(\$2.45)</b>	<b>(\$2.10)</b>	<b>(\$0.32)</b>	<b>(\$0.35)</b>	<b>(\$2.28)</b>	<b>(\$1.49)</b>	<b>(\$2.02)</b>	<b>(\$1.49)</b>	<b>(\$0.90)</b>	<b>\$0.14</b>	<b>\$1.48</b>	<b>\$3.31</b>	<b>\$4.74</b>	<b>\$6.13</b>
Shares (basic)	2.5	2.6	2.9	3.0	21.2	21.4	12.1	22.0	27.4	33.7	34.0	34.4	34.7	35.1	35.4	35.8
Shares (diluted)	13.5	14.6	15.3	15.5	22.8	23.1	13.8	23.8	29.4	35.8	36.4	36.9	37.5	38.1	38.8	39.5
<b>Operations Ratios</b>	<b>2012A</b>	<b>2013A</b>	<b>1Q:14A</b>	<b>2Q:14A</b>	<b>3Q:14E</b>	<b>4Q:14E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>Margin Analysis</b>																
COGS	-	-	-	21%	15%	15%	16%	15%	15%	15%	15%	15%	15%	15%	15%	15%
R&D	-	-	-	4425%	1087%	593%	1288%	291%	179%	75%	42%	28%	17%	12%	9%	7%
SG&A	-	-	6981%	1785%	435%	246%	515%	170%	219%	112%	73%	48%	30%	21%	20%	20%
Operating Margin	-	-	NM	NM	NM	NM	NM	NM	NM	NM	NM	6%	35%	50%	54%	56%
Income Tax rate	-	-	NM	NM	NM	NM	NM	NM	NM	NM	NM	35%	35%	35%	35%	35%
Net Margin	-	-	NM	NM	NM	NM	NM	NM	NM	NM	NM	4%	22%	33%	35%	36%

Source: Company reports, RBC Capital Markets estimates



## Required disclosures

### Conflicts disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

Please note that current conflicts disclosures may differ from those as of the publication date on, and as set forth in, this report. To access current conflicts disclosures, clients should refer to <https://www.rbccm.com/GLDisclosure/PublicWeb/DisclosureLookup.aspx?entityId=1> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Ocular Therapeutix, Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Ocular Therapeutix, Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates expects to receive or intends to seek compensation for investment banking services from Ocular Therapeutix, Inc. in the next three months.

RBC Capital Markets, LLC makes a market in the securities of Ocular Therapeutix, Inc..

RBC Capital Markets is currently providing Ocular Therapeutix, Inc. with investment banking services.

RBC Capital Markets has provided Ocular Therapeutix, Inc. with investment banking services in the past 12 months.

### Explanation of RBC Capital Markets Equity rating system

An analyst's 'sector' is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector average. Although RBC Capital Markets' ratings of Top Pick (TP)/Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis.

#### Ratings

**Top Pick (TP):** Represents analyst's best idea in the sector; expected to provide significant absolute total return over 12 months with a favorable risk-reward ratio.

**Outperform (O):** Expected to materially outperform sector average over 12 months.

**Sector Perform (SP):** Returns expected to be in line with sector average over 12 months.

**Underperform (U):** Returns expected to be materially below sector average over 12 months.

#### Risk Rating

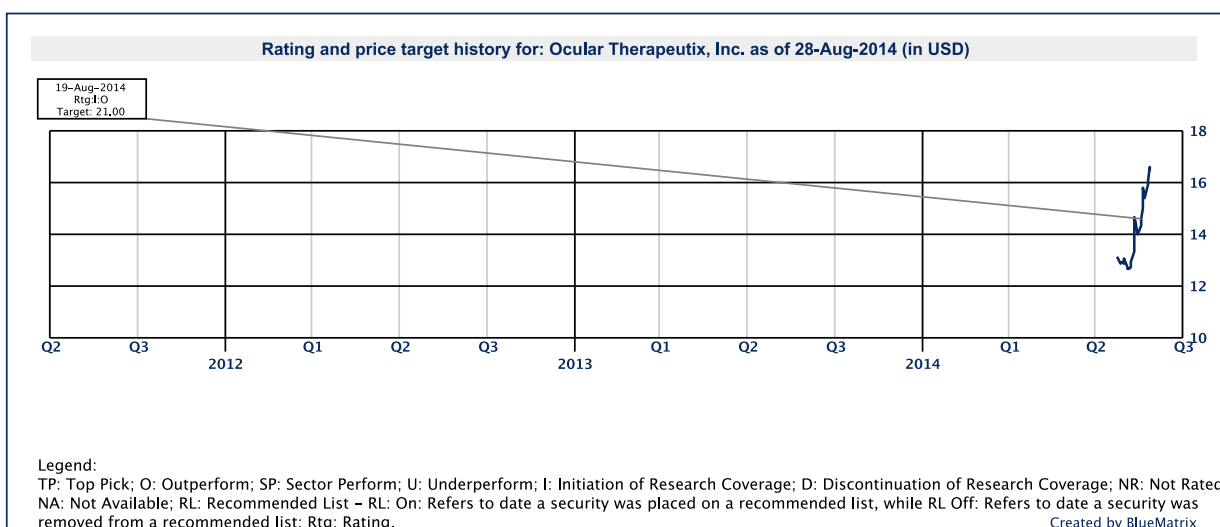
As of March 31, 2013, RBC Capital Markets suspends its Average and Above Average risk ratings. The **Speculative** risk rating reflects a security's lower level of financial or operating predictability, illiquid share trading volumes, high balance sheet leverage, or limited operating history that result in a higher expectation of financial and/or stock price volatility.



## Distribution of ratings

For the purpose of ratings distributions, regulatory rules require member firms to assign ratings to one of three rating categories - Buy, Hold/Neutral, or Sell - regardless of a firm's own rating categories. Although RBC Capital Markets' ratings of Top Pick(TP)/ Outperform (O), Sector Perform (SP), and Underperform (U) most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described below).

Distribution of ratings				
RBC Capital Markets, Equity Research				
As of 30-Jun-2014				
Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
BUY [Top Pick & Outperform]	845	53.24	299	35.38
HOLD [Sector Perform]	658	41.46	159	24.16
SELL [Underperform]	84	5.29	10	11.90



References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by RBC Wealth Management or one of its affiliates. RBC Wealth Management recommended lists include a former list called the Prime Opportunity List (RL 3), the Guided Portfolio: Prime Income (RL 6), the Guided Portfolio: Large Cap (RL 7), the Guided Portfolio: Dividend Growth (RL 8), the Guided Portfolio: Midcap 111 (RL 9), the Guided Portfolio: ADR (RL 10), and the Guided Portfolio: Global Equity (U.S.) (RL 11). RBC Capital Markets recommended lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. The abbreviation 'RL On' means the date a security was placed on a Recommended List. The abbreviation 'RL Off' means the date a security was removed from a Recommended List.

## Equity valuation and risks

For valuation methods used to determine, and risks that may impede achievement of, price targets for covered companies, please see the most recent company-specific research report at <https://www.rbcinsight.com> or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7.

## Conflicts policy

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request. To access our current policy, clients should refer to





<https://www.rbccm.com/global/file-414164.pdf>

or send a request to RBC Capital Markets Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. We reserve the right to amend or supplement this policy at any time.

## Dissemination of research and short-term trade ideas

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. Subject to any applicable regulatory considerations, "eligible clients" may include RBC Capital Markets institutional clients globally, the retail divisions of RBC Dominion Securities Inc. and RBC Capital Markets LLC, and affiliates. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research. RBC Capital Markets also provides eligible clients with access to SPARC on its proprietary INSIGHT website. SPARC contains market color and commentary, and may also contain Short-Term Trade Ideas regarding the securities of subject companies discussed in this or other research reports. SPARC may be accessed via the following hyperlink: <https://www.rbcinsight.com>. A Short-Term Trade Idea reflects the research analyst's directional view regarding the price of the security of a subject company in the coming days or weeks, based on market and trading events. A Short-Term Trade Idea may differ from the price targets and/or recommendations in our published research reports reflecting the research analyst's views of the longer-term (one year) prospects of the subject company, as a result of the differing time horizons, methodologies and/or other factors. Thus, it is possible that the security of a subject company that is considered a long-term 'Sector Perform' or even an 'Underperform' might be a short-term buying opportunity as a result of temporary selling pressure in the market; conversely, the security of a subject company that is rated a long-term 'Outperform' could be considered susceptible to a short-term downward price correction. Short-Term Trade Ideas are not ratings, nor are they part of any ratings system, and RBC Capital Markets generally does not intend, nor undertakes any obligation, to maintain or update Short-Term Trade Ideas. Short-Term Trade Ideas discussed in SPARC may not be suitable for all investors and have not been tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any Short-Term Trade Ideas discussed therein.

## Analyst certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's Financial Services LLC ("S&P") and is licensed for use by RBC. Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

## Disclaimer

RBC Capital Markets is the business name used by certain branches and subsidiaries of the Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets, LLC, RBC Europe Limited, RBC Capital Markets (Hong Kong) Limited, Royal Bank of Canada, Hong Kong Branch and Royal Bank of Canada, Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. RBC Capital Markets may be restricted from publishing research reports, from time to time, due to regulatory restrictions and/or internal compliance policies. If this is the case, the latest published research reports available to clients may not reflect recent material changes in the applicable industry and/or applicable subject companies. RBC Capital Markets research reports are current only as of the date set forth on the research reports. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor



any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

**To U.S. Residents:**

This publication has been approved by RBC Capital Markets, LLC (member FINRA, NYSE, SIPC), which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets, LLC.

**To Canadian Residents:**

This publication has been approved by RBC Dominion Securities Inc. (member IIROC). Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada.

**To U.K. Residents:**

This publication has been approved by RBC Europe Limited ('RBCEL') which is authorized by the Prudential Regulation Authority and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority, in connection with its distribution in the United Kingdom. This material is not for general distribution in the United Kingdom to retail clients, as defined under the rules of the FCA. However, targeted distribution may be made to selected retail clients of RBC and its affiliates. RBCEL accepts responsibility for this report and its dissemination in the United Kingdom.

**To Persons Receiving This Advice in Australia:**

This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. This research report is not for retail investors as defined in section 761G of the Corporations Act.

**To Hong Kong Residents:**

RBC Capital Markets (Hong Kong) Limited and Royal Bank of Canada, Hong Kong Branch (both entities regulated by the Hong Kong Monetary Authority and the Securities and Futures Commission ('SFC')). Financial Services provided to Australia: Financial services may be provided in Australia in accordance with applicable law. Financial services provided by the Royal Bank of Canada, Hong Kong Branch are provided pursuant to the Royal Bank of Canada's Australian Financial Services Licence ('AFSL') (No. 246521). RBC Capital Markets (Hong Kong) Limited is exempt from the requirement to hold an AFSL under the Corporations Act 2001 in respect of the provision of such financial services. RBC Capital Markets (Hong Kong) Limited is regulated by the Hong Kong Monetary Authority and the SFC under the laws of Hong Kong, which differ from Australian laws.

**To Singapore Residents:**

This publication is distributed in Singapore by the Royal Bank of Canada, Singapore Branch and Royal Bank of Canada (Asia) Limited, registered entities granted offshore bank and merchant bank status by the Monetary Authority of Singapore, respectively. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. You are advised to seek independent advice from a financial adviser before purchasing any product. If you do not obtain independent advice, you should consider whether the product is suitable for you. Past performance is not indicative of future performance. If you have any questions related to this publication, please contact the Royal Bank of Canada, Singapore Branch or Royal Bank of Canada (Asia) Limited.

**To Japanese Residents:**

Unless otherwise exempted by Japanese law, this publication is distributed in Japan by or through RBC Capital Markets (Japan) Ltd., a registered type one financial instruments firm and/or Royal Bank of Canada, Tokyo Branch, a licensed foreign bank.

® Registered trademark of Royal Bank of Canada. RBC Capital Markets is a trademark of Royal Bank of Canada. Used under license.

Copyright © RBC Capital Markets, LLC 2014 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2014 - Member CIPF

Copyright © RBC Europe Limited 2014

Copyright © Royal Bank of Canada 2014

All rights reserved