EQUITY RESEARCH

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Ocular Therapeutix, Inc.

First Phase III readouts for OTX-DP in 1Q:15

Our view: Results from this Phase III trial, which are expected in 1Q:15, are meaningful because timelines are rapid, with the first clinical, regulatory, and commercial validation for OCUL's approach coming by mid-2016. Additional news flow includes Phase II data for OTX-DP in allergic conjunctivitis by YE:14 and Phase II data for glaucoma with OTX—TP potentially in 2015.

Key points:

Enrollment in Phase III OTX-DP inflammation and pain studies completed. OCUL completed enrollment of 486 patients across two Phase III trials evaluating OTX-DP, which is a sustained release, punctum plug, delivering the steroid dexamethasone over ~30 days, in patients undergoing cataract surgery. The goal is reduced inflammation and pain vs. placebo.

Expect data in 1Q:15; prior expectation was 1H:15. The primary endpoint is absence of cells in anterior chamber at day 14 and reduction of pain at day 8.

Secondary endpoints include cells in the anterior chamber (days 2, 4, 8 and 30) and absence of pain (days 2, 4, 14 and 30). This is the first Phase III study with OCUL's technology coupled with a drug so data will be meaningful both for technology as well as clinical validation.

Previously reported Phase II data was promising; advantage is convenience. As reported before, the Phase II trial with OTX-DP showed a statistically significant reduction in pain at day 8 and an absence in cells in the anterior chamber at day 14. Unlike many currently available treatments, both branded and generic, that must be dosed from one to several times per day, OCUL's OTX-DP is administered as a punctum plug, which is placed once and then is absorbed over one month. The steroid dose can be tapered allowing the patient to be exposed to lower levels of dexamethasone, which could at least be a theoretical safety advantage.

News flow remains active and meaningful through 2016. The next upcoming data is for OTX-DP in allergic conjunctivitis by YE:14 in a Phase II study. If positive OCUL could decide on a path forward for this indication by YE:14/ early 2015. Phase III data for OTX-TP in post-cataract surgery inflammation and pain is expected in 1Q:15. Phase II data for OTX-TP in glaucoma could also be out by YE:15. The objective here is both efficacy as well as the retention rate of the 3-month travoprost punctum plug. We expect approval for OTX-DP in 1H:16 or sooner, and a launch shortly thereafter.

Outperform
Speculative Risk
NASDAQ: OCUL; USD 14.01
Price Target USD 21.00

WHAT'S INSIDE	
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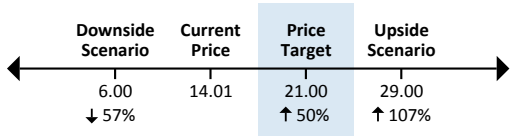
Scenario Analysis*



*Implied Total Returns

Key Statistics

Shares O/S (MM):	21.2	Market Cap (MM):	297
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	101,378

RBC Estimates

FY Dec	2013A	2014E	2015E	
Revenue	0.0	1.6	8.5	
EPS, Ops Diluted	(5.10)	(2.28)	(1.49)	
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

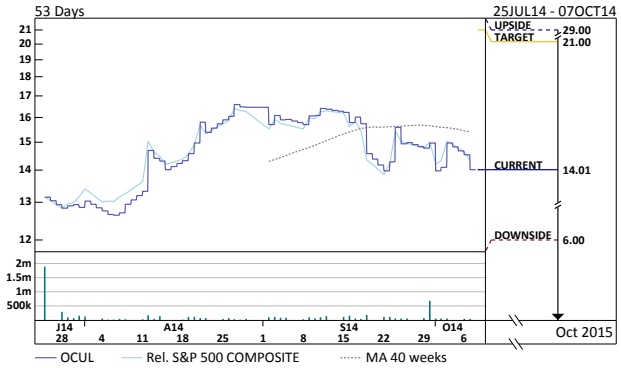
All values in USD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, see Page 6

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 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 YE:15.** Potential to show efficacy and 3-month plug retention for glaucoma
- **Potential partnership for OTX-DP and OTX-DP.** 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: 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 conjunctiviits	OTX-DP
YE15	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
1H: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 Market estimates

Exhibit 3: 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 Hydrogel Deport	Sustained release anti-VEGF depot	Pre-clinical	Wet AMD/ RVO/ DME	

Source: Company reports

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
Revenue																
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
Total Revenue	**0.0**	-	**0.0**	**0.1**	**0.5**	**1.0**	**1.6**	**8.5**	**17.3**	**46.8**	**88.6**	**144.4**	**247.8**	**386.7**	**524.7**	**667.7**
Operating expenses																
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
Total operating expenses	**13.7**	**12.9**	**6.9**	**6.0**	**7.1**	**8.3**	**28.3**	**40.8**	**72.3**	**96.3**	**118.6**	**135.9**	**161.7**	**191.8**	**240.8**	**294.8**
Operating Income (Loss)	**(13.7)**	**(12.9)**	**(6.8)**	**(5.9)**	**(6.6)**	**(7.3)**	**(26.7)**	**(32.3)**	**(55.0)**	**(49.5)**	**(29.9)**	**8.6**	**86.1**	**194.9**	**283.9**	**372.8**
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)
Total other income	**(0.4)**	**(0.4)**	**(0.2)**	**(0.5)**	**(0.1)**	**(0.1)**	**(0.9)**	**(0.6)**	**(0.5)**	**(0.8)**	**(0.8)**	**(0.8)**	**(0.8)**	**(0.7)**	**(0.7)**	**(0.7)**
Pretax Income	**(14.1)**	**(13.3)**	**(7.0)**	**(6.4)**	**(6.8)**	**(7.5)**	**(27.7)**	**(32.8)**	**(55.5)**	**(50.3)**	**(30.7)**	**7.8**	**85.4**	**194.1**	**283.2**	**372.1**
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	2.7	29.9	67.9	99.1	130.2
Net income (loss)	**(14.1)**	**(13.3)**	**(7.0)**	**(6.4)**	**(6.8)**	**(7.5)**	**(27.7)**	**(32.8)**	**(55.5)**	**(50.3)**	**(30.7)**	**5.1**	**55.5**	**126.2**	**184.1**	**241.9**
EPS - Basic (GAAP)	**($5.59)**	**($5.10)**	**($2.45)**	**($2.10)**	**($0.32)**	**($0.35)**	**($2.28)**	**($1.49)**	**($2.02)**	**($1.49)**	**($0.90)**	**$0.15**	**$1.60**	**$3.60**	**$5.20**	**$6.76**
EPS - Diluted (GAAP)	**($5.59)**	**($5.10)**	**($2.45)**	**($2.10)**	**($0.32)**	**($0.35)**	**($2.28)**	**($1.49)**	**($2.02)**	**($1.49)**	**($0.90)**	**$0.14**	**$1.48**	**$3.31**	**$4.74**	**$6.13**
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
Operations Ratios	2012A	2013A	1Q:14A	2Q:14A	3Q:14E	4Q:14E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Margin Analysis																
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%

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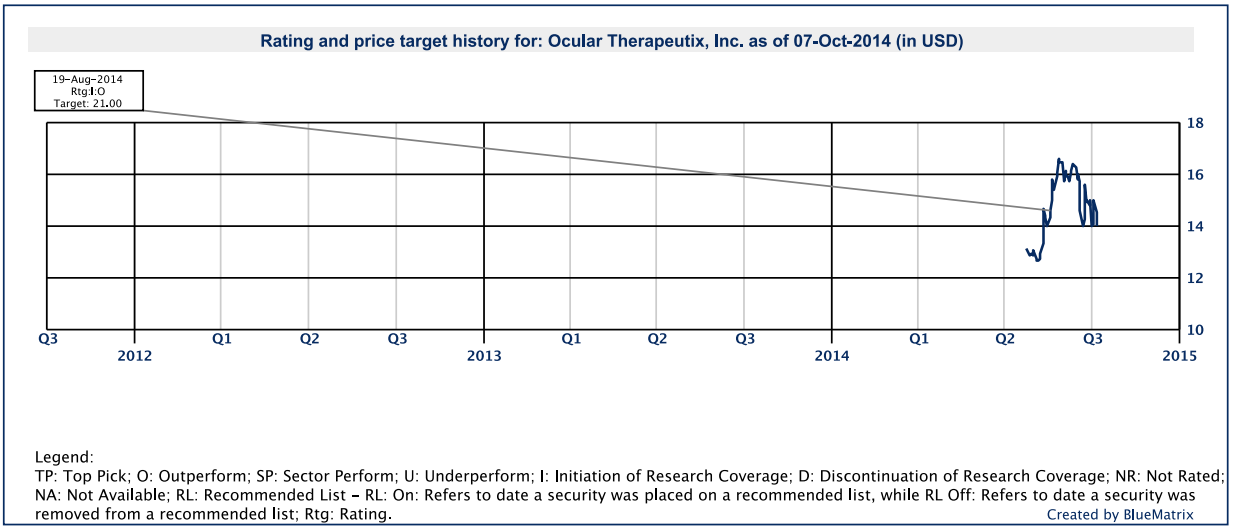

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