

AuriPro Pushes Forward Clinically Into Second Indication

Market size of AuriPro could increase significantly with less clinical risk

This morning Otonomy announced the initiation of a Phase II label expansion study for AuriPro to treat pediatric patients with acute otitis media with tympanostomy tubes (AOMT).

We believe label expansion could significantly increase the market size of AuriPro. Recurrent ear infections frequently occur in pediatric patients. Epidemiologic studies demonstrate that after TTP (tympanostomy tube placement) surgery, the proportion of children developing one or more episodes of otorrhea reached 74.8% after 12 months and 83.0% after 18 months. We believe the use of AuriPro **post** TTP surgery (i.e., AOMT) could roughly translate to a potential increase of approximately 75% of our market share forecast for AuriPro where it is indicated for use **during** TTP surgery. The current standard of care is the use of antibiotic drops, such as Ciprodex, which requires four drops being administered in the child's affected ear(s) twice daily for seven days. We believe AuriPro's single administration which covers the full course of treatment is far more convenient and will have a much higher adoption and compliance rate. Ciprodex had 2014 annual sales of \$368M. In our financial model we have not included the market opportunity of AuriPro in AOMT, which we believe could provide additional upside potential.

We believe the clinical success rate of AuriPro in AOMT is high. 1) AuriPro successfully completed two Phase III studies treating middle ear effusion during TTP surgery. We believe the pathophysiology of AOMT is very similar, if not the same as middle ear effusion during TTP surgery. 2) Ciprodex is approved for AOMT, but its off-label use in treating middle ear effusion during TTP surgery is effective and is widely used. We believe AuriPro can be as effective in treating these two indications as Ciprodex. 3) The trial design of AOMT is similar to that of the middle ear effusion during TTP surgery. The AOMT study is a one-month, open-label clinical trial expected to enroll 30 pediatric patients in the U.S. The presence of otorrhea will be assessed for up to two weeks. In the two Phase III trials of AuriPro in treating middle ear effusion during TTP surgery, the cumulative proportion of otorrhea is a secondary endpoint which was measured for two weeks. This endpoint was met with statistical significance ($p=0.038$ and $p<0.001$) in both Phase III trials.

Top-line data potentially released in 2H15. Otonomy has not guided as to the date for releasing the top-line data, nor has it reported the number of clinical sites currently enrolling or to be opened. However, the Phase III trial of AuriPro in treating middle ear effusion during TTP surgery for over 500 patients took approximately eight months from dosing the first patient

Edward Nash
212-319-5578
edward.nash@suntrust.com

Yun Zhong, Ph.D.
212-303-4193
yun.zhong@suntrust.com

SEE PAGE 3 FOR REQUIRED DISCLOSURE INFORMATION

Buy

Price: \$32.46

to reporting top-line results. We believe the time frame for AOMT should be similar or shorter with top-line data readout in 2H15.

We would continue to be strong buyers of Otonomy shares and are eying the top-line data readout of the Phase IIb trial of OTO-104 for Ménière's disease in 2Q15.

Analyst Certification

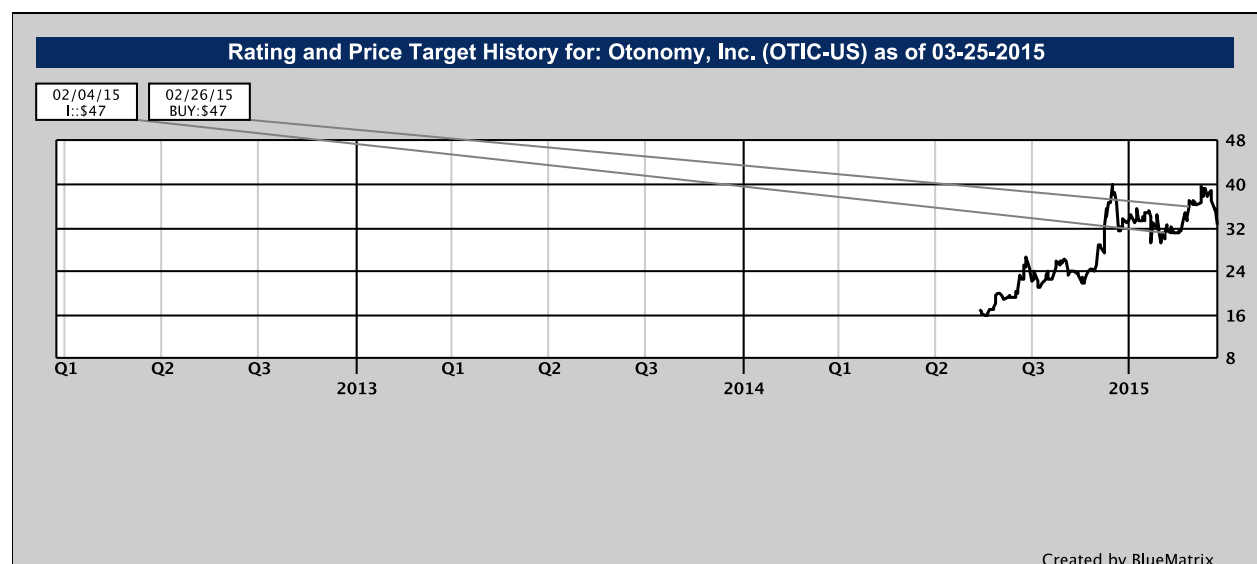
I, Edward Nash, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Required Disclosures

SunTrust Robinson Humphrey, Inc. makes a market in the following companies at the time of this report: OTIC-US

Analyst compensation is based upon stock price performance, quality of analysis, communication skills, and the overall revenue and profitability of the firm, including investment banking revenue.

As a matter of policy and practice, the firm prohibits the offering of favorable research, a specific research rating or a specific target price as consideration or inducement for the receipt of business or compensation. In addition, associated persons preparing research reports are prohibited from owning securities in the subject companies.



STRH Ratings System for Equity Securities

3 designations based on total returns* within a 12-month period**

- **Buy** – total return \geq 15% (10% for low-Beta securities)***
- **Reduce** – total return \leq negative 10% (5% for low Beta securities)
- **Neutral** – total return is within the bounds above
- **NR** – NOT RATED, STRH does not provide equity research coverage
- **CS** – Coverage Suspended

*Total return (price appreciation + dividends)

**Price targets are within a 12-month period, unless otherwise noted

***Low Beta defined as securities with an average Beta of 0.8 or less, using Bloomberg's 5-year average Beta

Legend for Rating and Price Target History Charts:

D = drop coverage

I = initiate coverage

T = transfer coverage

SunTrust Robinson Humphrey ratings distribution (as of 03/26/2015):

Coverage Universe			Investment Banking Clients Past 12 Months		
Rating	Count	Percent	Rating	Count	Percent
Buy	279	52.25%	Buy	101	36.20%
Neutral	244	45.69%	Neutral	45	18.44%
Sell/Reduce	11	2.06%	Sell/Reduce	2	18.18%

Other Disclosures

Information contained herein has been derived from sources believed to be reliable but is not guaranteed as to accuracy and does not purport to be a complete analysis of the security, company or industry involved. This report is not to be construed as an offer to sell or a solicitation of an offer to buy any security. SunTrust Robinson Humphrey, Inc. and/or its officers or employees may have positions in any securities, options, rights or warrants. The firm and/or associated persons may sell to or buy from customers on a principal basis. Investors may be prohibited in certain states from purchasing some over-the-counter securities mentioned herein. Opinions expressed are subject to change without notice. The information herein is for persons residing in the United States only and is not intended for any person in any other jurisdiction.

SunTrust Robinson Humphrey, Inc.'s research is provided to and intended for use by Institutional Accounts as defined in FINRA Rule 4512(c). The term "Institutional Account" shall mean the account of: (1) a bank, savings and loan association, insurance company or registered investment company; (2) an investment adviser registered either with the SEC under Section 203 of the Investment Advisers Act or with a state securities commission (or any agency or office performing like functions); or (3) any other person (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least \$50 million.

SunTrust Robinson Humphrey, Inc. is a registered broker-dealer and a member of FINRA and SIPC. It is a service mark of SunTrust Banks, Inc. SunTrust Robinson Humphrey, Inc. is owned by SunTrust Banks, Inc. ("SunTrust") and affiliated with SunTrust Investment Services, Inc. Despite this affiliation, securities recommended, offered, sold by, or held at SunTrust Robinson Humphrey, Inc. and at SunTrust Investment Services, Inc. (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including SunTrust Bank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. SunTrust Bank may have a lending relationship with companies mentioned herein.

© SunTrust Robinson Humphrey, Inc. 2015 . All rights reserved. Reproduction or quotation in whole or part without permission is forbidden.

ADDITIONAL INFORMATION IS AVAILABLE at our website, www.suntrustrh.com, or by writing to: SunTrust Robinson Humphrey, Research Department, 3333 Peachtree Road N.E., Atlanta, GA 30326-1070