

Otonomy, Inc. (OTIC)

Overweight

OTO-104 P2b For Ménière's Completes Enrollment, Data In 2Q15. Reiterate Overweight

CONCLUSION

This morning OTIC announced that enrollment in the P2b study of OTO-104 (sustained release depot dexamethasone for intra-tympanic delivery) for Ménière's Disease is complete with data expected in 2Q15. OTIC shares have performed well but there is still considerable upside to our \$46 PT as we believe the current valuation reflects little beyond the lead program, AuriPro which has successfully completed P3 results for children undergoing tympanostomy tube placement. OTO-104 could add substantial upside while AuriPro confers substantial downside protection to shares. We reiterate our OW as OTIC remains a top small-cap pick.

- **P2b OTO-104 on track for 2Q15:** This placebo-controlled trial has enrolled 140 patients, randomizing to a single intra tympanic dose of OTO-104 versus placebo. The primary endpoint is vertigo frequency in month 3. Meniere's patients suffer from other symptoms such as tinnitus (ringing in ears), fullness in the ear and hearing loss, but vertigo is frequently one of the most disabling features. OTO-104 showed a benefit in vertigo and hearing loss in P1 and a benefit in vertigo has been shown with studies evaluating other steroids (without depot formulation and so requiring cumbersome administration approaches). We estimate the commercial opportunity for Meniere's to be in the hundreds of millions of dollars annually given the very high prevalence of the disease. Success in P2b would predict successful development and commercialization and as such would represent a meaningful inflection in value for OTIC shares.

COMPANY DESCRIPTION

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

PRICE: US\$24.01

TARGET: US\$46.00

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

Joshua E. Schimmer, MD

Sr Research Analyst, Piper Jaffray & Co.
212 284-9322, joshua.e.schimmer@pjc.com

Jerry Yang, Ph.D.

Research Analyst, Piper Jaffray & Co.
212 284-9331, jerry.n.yang@pjc.com

Steven P. Breazzano, Ph.D.

Research Analyst, Piper Jaffray & Co.
212 284-6114, Steven.P.Breazzano@pjc.com

RISKS TO ACHIEVEMENT OF PRICE TARGET

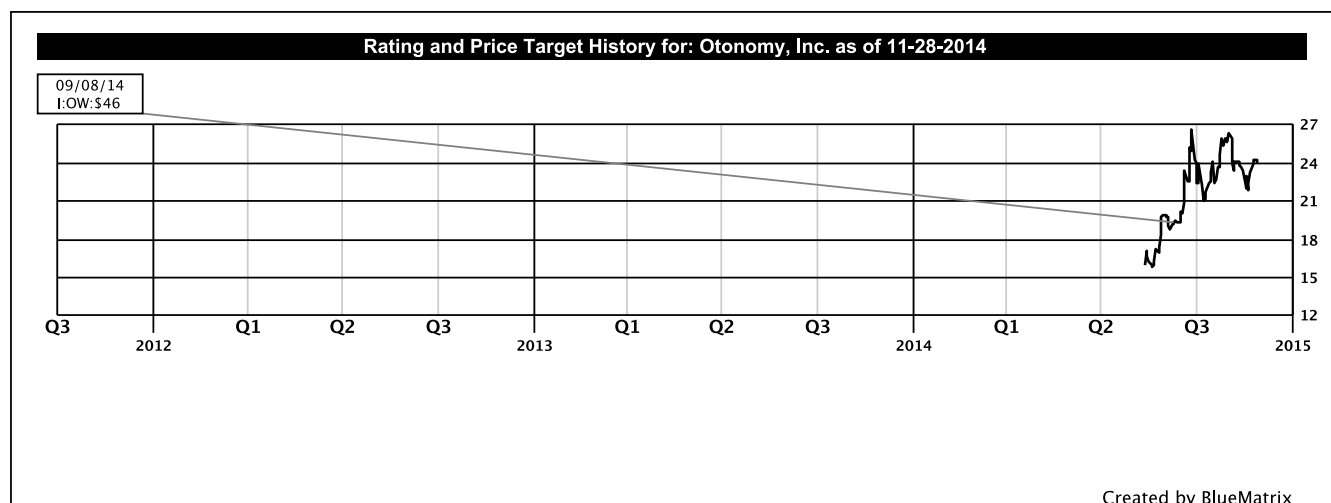
Development candidates may face clinical, regulatory or commercial setbacks.

Price Performance - 1 Year



Source: Bloomberg

IMPORTANT RESEARCH DISCLOSURES



Notes: The boxes on the Rating and Price Target History chart above indicate the date of the Research Note, the rating, and the price target. Each box represents a date on which an analyst made a change to a rating or price target, except for the first box, which may only represent the first Note written during the past three years.

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

Distribution of Ratings/IB Services Piper Jaffray				
Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY [OW]	378	61.97	101	26.72
HOLD [N]	220	36.07	22	10.00
SELL [UW]	12	1.97	0	0.00

Note: Distribution of Ratings/IB Services shows the number of companies currently in each rating category from which Piper Jaffray and its affiliates received compensation for investment banking services within the past 12 months. FINRA rules require disclosure of which ratings most closely correspond with "buy," "hold," and "sell" recommendations. Piper Jaffray ratings are not the equivalent of buy, hold or sell, but instead represent recommended relative weightings. Nevertheless, Overweight corresponds most closely with buy, Neutral with hold and Underweight with sell. See Stock Rating definitions below.

Analyst Certification — Joshua E. Schimmer, MD, Sr Research Analyst

— Jerry Yang, Ph.D., Research Analyst

— Steven P. Breazzano, Ph.D., Research Analyst

The views expressed in this report accurately reflect my personal views about the subject company and the subject security. In addition, no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Research Disclosures

Piper Jaffray was making a market in the securities of Otonomy, Inc. at the time this research report was published. Piper Jaffray will buy and sell Otonomy, Inc. securities on a principal basis.

Piper Jaffray expects to receive or intends to seek compensation for investment banking services from Otonomy, Inc. in the next 3 months.

Piper Jaffray has received compensation for investment banking services from or has had a client relationship with Otonomy, Inc. within the past 12 months.

Within the past 12 months Piper Jaffray was a managing underwriter of a public offering of, or dealer manager of a tender offer for, the securities of Otonomy, Inc. or the securities of an affiliate.

Within the past 3 years Piper Jaffray participated in a public offering of, or acted as a dealer manager for, Otonomy, Inc. securities.

Piper Jaffray research analysts receive compensation that is based, in part, on overall firm revenues, which include investment banking revenues.

Rating Definitions

Stock Ratings: Piper Jaffray ratings are indicators of expected total return (price appreciation plus dividend) within the next 12 months. At times analysts may specify a different investment horizon or may include additional investment time horizons for specific stocks. Stock performance is measured relative to the group of stocks covered by each analyst. Lists of the stocks covered by each are available at www.piperjaffray.com/researchdisclosures. Stock ratings and/or stock coverage may be suspended from time to time in the event that there is no active analyst opinion or analyst coverage, but the opinion or coverage is expected to resume. Research reports and ratings should not be relied upon as individual investment advice. As always, an investor's decision to buy or sell a security must depend on individual circumstances, including existing holdings, time horizons and risk tolerance. Piper Jaffray sales and trading personnel may provide written or oral commentary, trade ideas, or other information about a particular stock to clients or internal trading desks reflecting different opinions than those expressed by the research analyst. In addition, Piper Jaffray technical research products are based on different methodologies and may contradict the opinions contained in fundamental research reports.

- **Overweight (OW):** Anticipated to outperform relative to the median of the group of stocks covered by the analyst.
- **Neutral (N):** Anticipated to perform in line relative to the median of the group of stocks covered by the analyst.
- **Underweight (UW):** Anticipated to underperform relative to the median of the group of stocks covered by the analyst.

Other Important Information

The material regarding the subject company is based on data obtained from sources we deem to be reliable; it is not guaranteed as to accuracy and does not purport to be complete. This report is solely for informational purposes and is not intended to be used as the primary basis of investment decisions. Piper Jaffray has not assessed the suitability of the subject company for any person. Because of individual client requirements, it is not, and it should not be construed as, advice designed to meet the particular investment needs of any investor. This report is not an offer or the solicitation of an offer to sell or buy any security. Unless otherwise noted, the price of a security mentioned in this report is the market closing price as of the end of the prior business day. Piper Jaffray does not maintain a predetermined schedule for publication of research and will not necessarily update this report. Piper Jaffray policy generally prohibits research analysts from sending draft research reports to subject companies; however, it should be presumed that the analyst(s) who authored this report has had discussions with the subject company to ensure factual accuracy prior to publication, and has had assistance from the company in conducting diligence, including visits to company sites and meetings with company management and other representatives.

Notice to customers: This material is not directed to, or intended for distribution to or use by, any person or entity if Piper Jaffray is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to such person or entity. Customers in any of the jurisdictions where Piper Jaffray and its affiliates do business who wish to effect a transaction in the securities discussed in this report should contact their local Piper Jaffray representative. **Europe:** This material is for the use of intended recipients only and only for distribution to professional and institutional investors, i.e. persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom, or persons who have been categorised by Piper Jaffray Ltd. as professional clients under the rules of the Financial Conduct Authority. **United States:** This report is distributed in the United States by Piper Jaffray & Co., member SIPC, FINRA and NYSE, Inc., which accepts responsibility for its contents. The securities described in this report may not have been registered under the U.S. Securities Act of 1933 and, in such case, may not be offered or sold in the United States or to U.S. persons unless they have been so registered, or an exemption from the registration requirements is available.

This report is produced for the use of Piper Jaffray customers and may not be reproduced, re-distributed or passed to any other person or published in whole or in part for any purpose without the prior consent of Piper Jaffray & Co. Additional information is available upon request.

Copyright 2014 Piper Jaffray. All rights reserved.