

## Neothetics Inc.

## NEOT - BUY - Still Positive Post 2Q15 Results and In Front of LIPO-202 Phase 3 Data

August 13, 2015

**Conclusion:** Post 2Q15 results, we still expect positive Phase 3 data for LIPO-202 in 2H15. Therefore, we remain positive on NEOT, as we believe Street earnings expectations do not fully reflect the peak sales potential of LIPO-202. 1) We continue to think LIPO-202 could be the next Botox, with peak sales potential of over \$1B (expected launch in '18), but NEOT's market cap suggests that the Street is underestimating this opportunity; 2) We believe investing in NEOT could provide a good entry point into the body contouring market early in its growth and development; 3) We believe there is a free call option on LIPO-102, which has orphan designation for the treatment of exophthalmos. NEOT's valuation ascribes no value for this pipeline product, in our view.

**2Q15 Positives:** 1) Initiated Phase 3 trials in the U.S. for LIPO-202 (AbCONTOUR1 and AbCONTOUR2); 2) Initiated LIPO-202-CL-23, an extension study to evaluate the safety and duration of clinical effect of LIPO-202; and 3) Cash on hand of \$63MM at June 30, 2015, which NEOT believes will fund the company through completion of LIPO-202 Phase 3 trials.

NEOT reported 2Q15 EPS of (\$0.69), \$0.45 higher than consensus and \$0.99 better than our estimate. Our Variance Analysis has details. NEOT is a development stage company, so we think pipeline advancements are more important than quarterly earnings. We updated our model for 2Q15 results, which increased our '15 EPS estimates.

**Potential Catalysts:** 1) LIPO-202 Phase III results, '15 and '16; 2) LIPO-202 submission in 2H16; 3) LIPO-202 approval and launch in 2H17.

LOUISE CHEN	ANALYST
<a href="mailto:louise.chen@guggenheimpartners.com">louise.chen@guggenheimpartners.com</a>	212 381 4195
SWATI KUMAR	ANALYST
<a href="mailto:swati.kumar@guggenheimpartners.com">swati.kumar@guggenheimpartners.com</a>	212 918 8754
BRANDON FOLKES	ASSOCIATE
<a href="mailto:brandon.folkes@guggenheimpartners.com">brandon.folkes@guggenheimpartners.com</a>	212 518 9976

## NEOT BUY

### EARNINGS RELEASE

#### Investment Thesis: Growth

SHARE PRICE	\$12.48
PRICE TARGET	\$16.00

Revenue (\$M) (FY Dec)	1Q	2Q	3Q	4Q	FY
2014	0.0	0.0	0.0	0.0	0.0
2015	0.0	0.0	0.0E	0.0E	0.0E
2016	—	—	—	—	0.0E

Adjusted EPS (\$)	1Q	2Q	3Q	4Q	FY
2014	(0.49)	(0.68)	(1.22)	(0.45)	(2.83)
P/E					NM
2015	(0.50)	(0.69)	(1.80)E	(1.75)E	(4.75)E
Prior	—	(1.68)	(1.45)E	(1.29)E	(4.93)E
P/E					NM
2016	—	—	—	—	(4.79)E
P/E					NM

#### Market Data & Valuation Multiples

52-Week Range	\$5.92 - \$15.05
Shares Out (M)	13.7
Market Cap (M)	\$171
ADV (3 mo; 000)	138

SCENARIO	VALUATION	INVESTMENT THESIS
<b>BULL CASE</b>	<b>2020E EPS: \$6.75</b>  <b>12-Month Bull-Case Scenario: \$28.00</b>  <b>Upside/Downside Potential: 124%</b>	<ul style="list-style-type: none"> <li>• LIPO-202 sales of \$515MM in 2020</li> <li>• Additional business development</li> <li>• Additional pipeline advancements</li> </ul>
<b>BASE CASE</b>	<b>2020E EPS: \$5.63</b>  <b>12-Month Base-Case Scenario: \$16.00</b>  <b>Upside/Downside Potential: 28%</b>	<ul style="list-style-type: none"> <li>• LIPO-202 sales of \$472MM in 2020</li> <li>• No additional business development</li> <li>• No additional pipeline advancements</li> </ul>
<b>BEAR CASE</b>	<b>2020E EPS: \$4.75</b>  <b>12-Month Bear-Case Scenario: \$11.00</b>  <b>Upside/Downside Potential: -12%</b>	<ul style="list-style-type: none"> <li>• LIPO-202 sales of \$410MM in 2020</li> <li>• No additional business development</li> <li>• No additional pipeline advancements</li> </ul>

Source: Guggenheim Securities, LLC

**VALUATION METHODOLOGY AND RISKS**

We use a DCF analysis to get to our 12-month price target of \$16. We use a WACC of 28% and an exit multiple of 2x forward EBIT to arrive at our price target. This compares favorably to NEOT's peers, which trade, on average, at a forward EV/EBIT of 17x. This compares favorably to other dermatology companies that have been acquired in the industry for 13x EV/EBITDA, which means the EV/EBIT could be even higher. Risks to our valuation are as follows: 1) Neothetics faces competition in each of its markets from a number of large and small companies, some of which have greater financial, R&D, production, and other resources than Neothetics. 2) Pipeline failures would delay the company's time to achieve profitability; And, 3) Neothetics' drugs may not be commercially successful. This could be a result of better competing products on the market and/or an economic downturn.

## VARIANCE ANALYSIS

	Actual 2Q15		Guggenheim Estimate 2Q15		Variance	Comments
	Amount	% Change YOY	Amount	% Change YOY		
Total Revenue	-	NM	-	NM	-	
COGS	-	NM	-	NM	-	
Gross Profit	-	NM	-	NM	-	
SG&A	1.7	NM	5.1	NM	(3.4)	Timing of spend
R&D	7.5	NM	17.1	NM	(9.6)	Timing of spend
Other Operating Expenses	-	NM	-	NM	-	
Operating Income	(9.2)	NM	(22.2)	NM	13.0	
Non Operating Items	(0.3)	NM	(0.9)	NM	0.7	
Pre-Tax Income	(9.5)	NM	(23.1)	NM	13.7	
Taxes	-	NM	-	NM	-	
Tax Rate	0.0%	NM	0.0%	NM	-	
Net Income	(9.5)	NM	(23.1)	NM	13.7	
Averages Shares	13.8	NM	13.8	NM	-	
Cash EPS	(\$0.69)	NM	(\$1.68)	NM	\$0.99	
<b>Margin Analysis</b>						
Revenues	NM		NM			
COGS	NM		NM			
Gross Margin	NM		NM			
SG&A	NM		NM			
R&D	NM		NM			
Net Income	NM		NM			

Source: Guggenheim Securities, LLC and Company reports

## CATALYST CALENDAR

Date	Driver	Upcoming Event
<b>2015</b>		
End of '15	LIPO-202	Topline Phase 3 results
<b>2016+</b>		
2H16	LIPO-202	NDA filing
3Q16	LIPO-202	Safety Update
1H17	LIPO-202	FDA AdCom
2H17	LIPO-202	FDA approval
4Q17 or End of 2017	LIPO-202	Launch
2026 to 2031+	LIPO-202	Patents expire

Source: Guggenheim Securities, LLC and Company reports

## FINANCIAL MODEL

Neothetics - Quarterly Income Statement Analysis 2012-2025E

(\$ in Millions, except per share amounts)																			
(Year Ended December 31)	2012	2013	2014	1Q15A	2Q15A	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	CAGR 20E-25E
Total Revenue	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8	20.1
COGS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	27.3	25.5	42.4	52.6	68.0	76.0	84.7	94.3	
Gross Profit	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	81.8	206.0	429.0	605.1	782.1	873.8	974.3	1084.5	
R&D	3.2	11.4	5.2	4.7	7.5	18.3	17.3	47.8	35.1	37.0	37.7	38.5	30.0	30.6	31.2	31.8	32.5	33.1	
SG&A	2.6	3.0	4.4	1.9	1.7	6.5	7.3	17.5	55.0	95.0	110.0	168.0	171.4	174.8	178.3	181.8	185.5	189.2	
Total Operating Expense	5.8	14.4	9.6	6.6	9.2	24.8	24.6	65.2	90.1	132.0	147.7	206.5	201.4	205.4	209.5	213.7	218.0	222.3	
Operating Income	(5.7)	(14.4)	(9.6)	(6.6)	(9.2)	(24.8)	(24.6)	(65.2)	(90.1)	(132.0)	(65.9)	(0.5)	227.7	399.7	572.6	660.1	756.4	862.1	30.5
Interest Income	0.0	0.0	0.0	0.0	0.0	0.2	0.6	0.8	0.1	0.7	1.3	0.3	0.1	1.1	3.1	6.3	10.1	14.5	
Interest Expense	(0.9)	(0.1)	(0.4)	(0.3)	(0.3)	(0.2)	(0.2)	(1.0)	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other Income/(Expense)	(1.2)	(0.5)	(0.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Non-Operating Items	(2.1)	(0.6)	(1.2)	(0.3)	(0.3)	(0.0)	0.3	(0.2)	(0.8)	0.7	1.3	0.3	0.1	1.1	3.1	6.3	10.1	14.5	
Pre-tax Income	(7.8)	(15.0)	(10.8)	(6.9)	(9.5)	(24.8)	(24.3)	(65.5)	(90.9)	(131.3)	(64.7)	(0.2)	227.8	400.8	575.7	666.4	766.5	876.7	
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	
Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	91.1	160.3	230.3	266.6	306.6	350.7	
Net Income	(7.8)	(15.0)	(10.8)	(6.9)	(9.5)	(24.8)	(24.3)	(65.5)	(90.9)	(131.3)	(64.7)	(0.2)	136.7	240.5	345.4	399.8	459.9	526.0	30.9
Diluted Shares Outstanding	3.1	3.1	3.8	13.7	13.7	13.8	13.9	13.8	19.0	24.0	24.1	24.2	24.3	24.4	24.5	24.6	24.7	24.8	
Adjusted Diluted EPS	(\$2.57)	(\$4.81)	(\$2.83)	(\$0.50)	(\$0.69)	(\$1.80)	(\$1.75)	(\$4.75)	(\$4.79)	(\$5.48)	(\$2.69)	(\$0.01)	\$5.63	\$9.87	\$14.12	\$16.28	\$18.65	\$21.24	30.4
% Change																			
Total Revenue	-100.0%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%	
COGS	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-6.6%	66.7%	24.0%	29.3%	11.7%	11.5%	11.3%	
Gross Profit	-100.0%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	151.8%	108.3%	41.0%	29.3%	11.7%	11.5%	11.3%	
R&D	252.3%	-54.8%	NM	NM	NM	NM	NM	823.2%	-26.5%	5.4%	2.0%	2.0%	-22.1%	2.0%	2.0%	2.0%	2.0%	2.0%	
SG&A	14.8%	48.4%	NM	NM	NM	NM	NM	295.5%	214.9%	72.7%	15.8%	52.7%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
Operating Income	NM	NM	NM	NM	NM	NM	NM	NM	38.1%	46.5%	-50.0%	-99.2%	-42984.7%	75.6%	43.3%	15.3%	14.6%	14.0%	
Non-Operating Items	NM	NM	NM	NM	NM	NM	NM	NM	229.7%	-188.1%	84.1%	-74.6%	-56.7%	648.4%	197.1%	99.1%	61.4%	43.9%	
Pre-tax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	75.9%	43.7%	15.7%	15.0%	14.4%	
Tax Rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	0.0%	0.0%	0.0%	0.0%	0.0%	
Taxes	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	75.9%	43.7%	15.7%	15.0%	14.4%	
Net Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	75.9%	43.7%	15.7%	15.0%	14.4%	
Adjusted Diluted EPS	87.4%	-41.1%	2.5%	2.6%	48.2%	290.0%	67.6%	1.0%	14.3%	-51.0%	-99.7%	NM	75.2%	43.1%	15.3%	14.6%	13.9%		

Source: Guggenheim Securities, LLC and Company Reports

(1) Assume 40% tax rate when profitable, to be conservative.

## Neothetics - Quarterly Margin Analysis 2012-2025E

	2012	2013	2014	1Q15A	2Q15A	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	25.0%	11.0%	9.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Gross Margin	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	75.0%	89.0%	91.0%	92.0%	92.0%	92.0%	92.0%	92.0%
R&D	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	34.6%	16.6%	6.4%	4.7%	3.7%	3.4%	3.1%	2.8%
SG&A	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	100.9%	72.6%	36.3%	26.6%	21.0%	19.1%	17.5%	16.1%
Oper. Inc.	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-60.5%	-0.2%	48.3%	60.8%	67.4%	69.5%	71.4%	73.1%
Operating Expenses	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	135.5%	89.2%	42.7%	31.2%	24.6%	22.5%	20.6%	18.9%
Non-Oper. Items	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	1.2%	0.1%	0.0%	0.2%	0.4%	0.7%	1.0%	1.2%
Pretax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-59.3%	-0.1%	48.3%	60.9%	67.7%	70.2%	72.4%	74.4%
Net Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-59.3%	-0.1%	29.0%	36.6%	40.6%	42.1%	43.4%	44.6%

Source: Guggenheim Securities, LLC and Company Reports

## Neothetics - Quarterly Revenue Model 2012-2025E

(\$ in Millions)																		
(Year Ended December 31)	2012	2013	2014	1Q15A	2Q15A	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
<b>Base Business</b>																		
LIPO-102	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LIPO-202	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8
<b>Total Base Business Revenues</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>109.1</b>	<b>231.4</b>	<b>471.5</b>	<b>657.7</b>	<b>850.1</b>	<b>949.8</b>	<b>1,059.1</b>	<b>1,178.8</b>
<b>New Products</b>																		
Product 1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Product 2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Product 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total New Product Revenues</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Other</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Revenues</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>109.1</b>	<b>231.4</b>	<b>471.5</b>	<b>657.7</b>	<b>850.1</b>	<b>949.8</b>	<b>1,059.1</b>	<b>1,178.8</b>
<b>%Change</b>																		
<b>Base Business</b>																		
LIPO-102		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
LIPO-202		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%
<b>Total Base Business Revenues</b>		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%
<b>New Products</b>																		
Product 1		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Product 2		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Product 3		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
<b>Total New Product Revenues</b>		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
<b>Other</b>		-100.0%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
<b>Total Revenues</b>		-100.0%	NM	NM	NM	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%

Source: Guggenheim Securities, LLC and Company Reports

Neothetics - Annual Revenue Model 2012-2025E

(\$ in Millions)	Year Ended December 31st,														2013E/	2014/	2015E/	2016E/	2017E/	2018E/	2019E/	2020E/	2021E/	2022E/	2023E/	2024E/	2025E/	CAGR 18E-25E	
	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E		
Base Business																													
LPO-102	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
LPO-202	0.0	0.0	0.0	0.0	0.0	0.0	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8	NM	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%	40.5%
Total Base Business Revenues	0.0	0.0	0.0	0.0	0.0	0.0	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8	NM	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%	40.5%
New Products																													
Product 1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Product 2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Product 3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Total New Product Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Other	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-100.0%	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	
Total Revenues	0.1	0.0	0.0	0.0	0.0	0.0	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8	-100.0%	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%	40.5%

Source: Guggenheim Securities, LLC and Company Reports



## Neothetics - Cash Flow Analysis 2012-2025E

(\$ in Millions)														
(Year ended December 31)	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
<b>Cash flows provided by Operating Activities:</b>														
Net Income/(loss)	(7.8)	(15.0)	(10.8)	(65.5)	(90.9)	(131.3)	(64.7)	(0.2)	136.7	240.5	345.4	399.8	459.9	526.0
Depreciation and Amortization	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	2.1	0.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Changes in Working Capital	(1.8)	1.4	(0.3)	0.0	0.0	0.0	(31.2)	(18.4)	(45.0)	(31.8)	(33.7)	(15.3)	(16.5)	(17.8)
<b>Net cash provided by Operating Activities</b>	<b>(7.4)</b>	<b>(12.9)</b>	<b>(9.6)</b>	<b>(65.5)</b>	<b>(90.9)</b>	<b>(131.3)</b>	<b>(95.8)</b>	<b>(18.5)</b>	<b>91.7</b>	<b>208.6</b>	<b>311.7</b>	<b>384.5</b>	<b>443.4</b>	<b>508.3</b>
<b>Cash flows from Investing Activities</b>														
Purchase/Proceeds of property and equipment	0.0	0.0	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash used in Investing Activities</b>	<b>0.0</b>	<b>0.1</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.0)</b>
<b>Cash flows from Financing Activities</b>														
Proceeds/Payment on Notes Payable and Bank Loan	2.4	(0.4)	9.8	0.1	0.2	(10.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Issuance of Common Stocks and Other	0.0	0.0	57.8	0.0	150.0	200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Issuance of Preferred Stock for Cash, net of offering	10.2	6.5	13.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net cash (used in) provided by Financing Activities</b>	<b>12.7</b>	<b>6.1</b>	<b>81.2</b>	<b>0.1</b>	<b>150.2</b>	<b>190.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net (decrease) increase in cash and equivalents</b>	<b>5.3</b>	<b>(6.7)</b>	<b>71.6</b>	<b>(65.4)</b>	<b>59.2</b>	<b>58.7</b>	<b>(95.8)</b>	<b>(18.6)</b>	<b>91.7</b>	<b>208.6</b>	<b>311.7</b>	<b>384.5</b>	<b>443.4</b>	<b>508.2</b>
Cash and equivalents at beginning of year	5.8	11.1	4.4	75.9	10.6	69.8	128.5	32.7	14.1	105.9	314.5	626.2	1,010.7	1,454.1
<b>Cash and equivalents at end of year</b>	<b>11.1</b>	<b>4.4</b>	<b>75.9</b>	<b>10.6</b>	<b>69.8</b>	<b>128.5</b>	<b>32.7</b>	<b>14.1</b>	<b>105.9</b>	<b>314.5</b>	<b>626.2</b>	<b>1,010.7</b>	<b>1,454.1</b>	<b>1,962.4</b>

Source: Guggenheim Securities, LLC and Company Reports

## Neothetics - Balance Sheet Analysis 2012-2025E

(\$ in Millions)														
(Year ended December 31)	2012	2013	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
<b>Assets</b>														
Cash and Cash Equivalents	11.1	4.4	75.9	10.6	69.8	128.5	32.7	14.1	105.9	314.5	626.2	1,010.7	1,454.1	1,962.4
Accounts receivables	0.0	0.0	0.0	0.0	0.0	0.0	18.2	37.9	76.0	104.4	132.8	146.1	160.5	175.9
Inventory	0.0	0.0	0.0	0.0	0.0	0.0	13.0	11.6	18.4	21.9	27.2	29.2	31.4	33.7
Prepaid expenses and other current assets	1.5	0.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
<b>Total Current Assets</b>	<b>12.6</b>	<b>4.5</b>	<b>76.9</b>	<b>11.5</b>	<b>70.7</b>	<b>129.4</b>	<b>64.8</b>	<b>64.6</b>	<b>201.3</b>	<b>441.7</b>	<b>787.2</b>	<b>1,187.0</b>	<b>1,646.9</b>	<b>2,172.9</b>
Property and equipment, net	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restricted cash	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Other Assets</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>TOTAL ASSETS</b>	<b>12.8</b>	<b>4.5</b>	<b>76.9</b>	<b>11.5</b>	<b>70.8</b>	<b>129.5</b>	<b>64.8</b>	<b>64.6</b>	<b>201.3</b>	<b>441.8</b>	<b>787.2</b>	<b>1,187.0</b>	<b>1,646.9</b>	<b>2,172.9</b>
<b>Liabilities &amp; Shareholder's Equity</b>														
Accounts Payable	0.7	0.6	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Accrued Expenses	0.6	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Current Portion of Term Loan Payable	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Liabilities	0.0	0.0	9.7	9.8	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>1.9</b>	<b>1.5</b>	<b>11.7</b>	<b>11.8</b>	<b>11.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>
<b>Total Stockholder's Equity</b>	<b>10.9</b>	<b>3.0</b>	<b>65.2</b>	<b>-0.2</b>	<b>58.9</b>	<b>127.6</b>	<b>62.9</b>	<b>62.7</b>	<b>199.4</b>	<b>439.8</b>	<b>785.3</b>	<b>1,185.1</b>	<b>1,645.0</b>	<b>2,171.0</b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>	<b>12.8</b>	<b>4.5</b>	<b>76.9</b>	<b>11.5</b>	<b>70.8</b>	<b>129.5</b>	<b>64.8</b>	<b>64.6</b>	<b>201.3</b>	<b>441.8</b>	<b>787.2</b>	<b>1,187.0</b>	<b>1,646.9</b>	<b>2,172.9</b>

Source: Guggenheim Securities, LLC and Company Reports

## ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

## IMPORTANT DISCLOSURES

The research analyst(s) and research associate(s) have received compensation based upon various factors, including quality of research, investor client feedback, and Guggenheim Securities, LLC's overall revenues, which includes investment banking revenues.

Guggenheim Securities, LLC managed or co-managed a public offering of securities for Neothetics Inc. during the past 12 months.

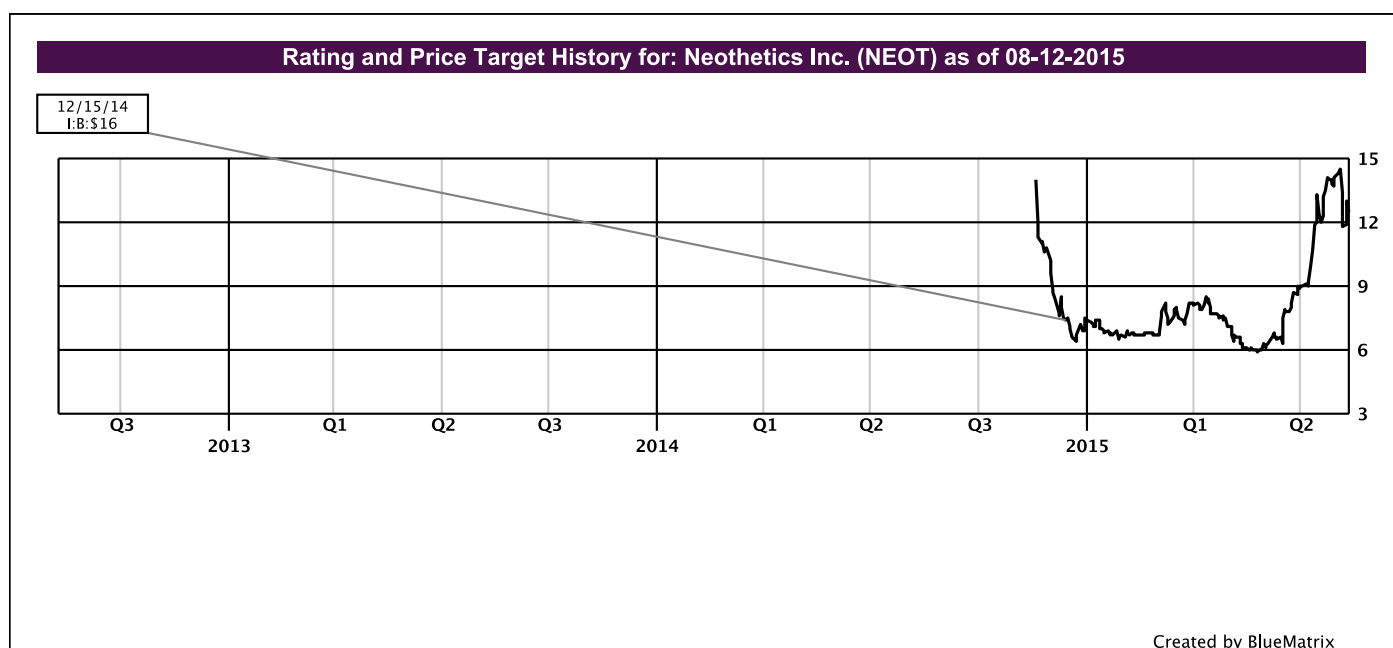
Guggenheim Securities, LLC makes a market in the securities or derivatives Neothetics Inc..

Neothetics Inc. is or was during the 12-month period preceding the date of the distribution of this report a client of Guggenheim Securities, LLC. Guggenheim Securities, LLC provided Neothetics Inc. investment banking services.

Guggenheim Securities, LLC or its affiliates received compensation for investment banking services from Neothetics Inc. during the past 12 months.

Guggenheim Securities, LLC or its affiliates expect(s) to receive or intend(s) to seek compensation for investment banking services from Neothetics Inc. in the next 3 months.

Please refer to this website for company-specific disclosures referenced in this report: [https://guggenheimsecurities.bluematrix.com/sellside/](https://guggenheimsecurities.bluematrix.com/sellside/Disclosures.action) Disclosures.action. Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.



## RATING DEFINITIONS

**BUY (B)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

**NEUTRAL (N)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 10% or minus 10% within a 12-month period. No price target is assigned.

**SELL (S)** - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

**NR** - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

**CS** - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

**NC** - Not covered. Guggenheim Securities, LLC does not cover this company.

**Restricted** - Describes issuers where, in conjunction with Guggenheim Securities, LLC engagement in certain transactions, company policy or applicable securities regulations prohibit certain types of communications, including investment recommendations.

## SECTOR: SPECIALTY PHARMACEUTICALS

August 13, 2015

**Monitor** - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Guggenheim Securities, LLC methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Prior to 12/8/14, Guggenheim Securities, LLC's BUY, NEUTRAL, and SELL ratings definitions were as follows (no other ratings definitions were changed):

**BUY (B)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

**NEUTRAL (N)** - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 15% within a 12-month period.

**SELL (S)** - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 15% or more within a 12-month period.

## RATINGS DISTRIBUTIONS FOR GUGGENHEIM SECURITIES:

Rating Category	Count	Percent	IB Serv./ Past 12Mos.	
			Count	Percent
Buy	125	48.83%	27	21.60%
Neutral	129	50.39%	5	3.88%
Sell	2	0.78%	0	0.00%

## OTHER DISCLOSURES

This research is for our clients and prospective clients only. Other than disclosures relating to Guggenheim Securities and its affiliates, this research is based on current public information that we consider reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. We seek to update our research as appropriate, but various regulations may prevent us from doing so. Other than certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate in the research analyst's judgment. Guggenheim Securities conducts a full-service, integrated investment banking and brokerage business, and one or more of its affiliates conduct an investment management business. Guggenheim Securities is a member of SIPC (<http://www.sipc.org>). Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our employees trading for our own account that reflect opinions that are contrary to the opinions expressed in this research. Guggenheim Securities or certain of its affiliates conducts an investment management business, trades for its own account, and conducts an investment business, and may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

Where this material is being distributed in Europe, the recipients should note that this material has been prepared by Guggenheim Securities, LLC and is distributed in Europe by Guggenheim Securities International Limited, a UK Company registered under Company Number 06624746 with its registered office at 5th Floor, The Peak, 5 Wilton Road, London, SW1V 1AN; and is authorized and regulated by the Financial Conduct Authority (FRN 485435). This material is intended solely for distribution to professional and institutional investors and is not available to retail clients within the meaning of the rules of the Financial Conduct Authority nor in any jurisdiction within which its distribution would be prohibited.

We and our affiliates, officers, directors, and employees, excluding equity and credit analysts, will from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research. We and our affiliates also may sell to or buy from customers on a principal basis the securities described herein. We and our affiliates also do business with, or that relates to, companies covered in Guggenheim Securities' research, and may have a position in the debt of the company or companies discussed herein.

This research is not an offer to sell or the solicitation of an offer to buy any security. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Clients should consider whether any advice or recommendation in this research is suitable for their particular circumstances and, if appropriate, seek professional advice, including tax advice. The price and value of investments referred to in this research and the income from them may fluctuate. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may occur. Fluctuations in exchange rates could have adverse effects on the value or price of, or income derived from, certain investments.

## TACTICAL TRADING IDEA DISCLAIMER

Guggenheim Securities, LLC produces "Tactical Trade Ideas" that identify short-term, catalyst-driven trading opportunities impacting companies within the Firm's coverage universe. Tactical Trade Ideas may exist on companies in this report and may be contrary to the analyst's published rating.

Copyright © 2015 by Guggenheim Securities, LLC, ("Guggenheim") a FINRA registered broker-dealer. All rights reserved. The contents of this report are based upon information or are obtained from sources that Guggenheim generally considers reliable, but Guggenheim makes no representations or warranties with respect to their accuracy, completeness, timeliness, suitability or otherwise, and assumes no responsibility to update them for subsequent events or knowledge. Guggenheim is not responsible for your use of this information.

## Contact Information

## NEW YORK SALES &amp; TRADING DESK

212 292 4700

## EQUITY TRADING DESK

212 292 4701

## MEDIA INQUIRIES

310 367 6567

## EMAIL

general@guggenheimpartners.com

## Locations

## NEW YORK

330 Madison Avenue  
New York, NY 10017

## WASHINGTON, DC

1055 Thomas Jefferson Street, NW  
Suite 450  
Washington, DC 20007

## BOSTON

500 Boylston Street, 13<sup>th</sup> Floor  
Boston, MA 02116

## LOS ANGELES

601 South Figueroa Street  
Suite 4005  
Los Angeles, CA 90017

## DALLAS

1717 McKinney Avenue  
Suite 870  
Dallas, TX 75202

## SAN FRANCISCO

50 California Street  
Suite 1515  
San Francisco, CA 94111

## NASHVILLE

104 Woodmont Blvd  
Suite 203  
Nashville, TN 37205

## RICHMOND

919 East Main Street  
Suite 1605  
Richmond, VA 23219

## Guggenheim Equity Research

ENERGY: EXPLORATION & PRODUCTION,  
OIL SERVICES & EQUIPMENT

## Subash Chandra, CFA, Analyst

subash.chandra@guggenheimpartners.com  
212 918 8771

## Marshall Coltrain, Associate

marshall.coltrain@guggenheimpartners.com  
212 518 9904

## Michael LaMotte, Analyst

michael.lamotte@guggenheimpartners.com  
972 638 5502

## Eric Loyet, Associate

eric.w.loyet@guggenheimpartners.com  
212 518 9782

## ENERGY: POWER &amp; UTILITIES

## Shahriar Pourreza, CFA, Analyst

shahriar.pourreza@guggenheimpartners.com  
212 518 5862

## FINANCIAL SERVICES: INVESTMENT

COMPANIES, COMMUNITY &  
REGIONAL BANKS, SPECIALTY FINANCE

## Taylor Brodarick, Analyst

taylor.brodarick@guggenheimpartners.com  
212 293 2820

## FINANCIAL SERVICES: COMMUNITY &amp;

REGIONAL BANKS, PAYMENTS & CREDIT  
SERVICES

## David Darst, Analyst

david.darst@guggenheimpartners.com  
615 208 1224

## Ryan Strain, Associate

ryan.strain@guggenheimpartners.com  
615 208 1226FINANCIAL SERVICES: SUPER REGIONAL,  
UNIVERSAL BANKS & BROKERS, PAYMENT  
& CREDIT SERVICES, SPECIALTY FINANCE

## Eric Wasserstrom, Analyst

eric.wasserstrom@guggenheimpartners.com  
212 823 6571

## Jeff Cantwell, Associate

jeffrey.cantwell@guggenheimpartners.com  
212 823 6543

## HEALTHCARE: BIOPHARMA

## Tony Butler, Analyst

tony.butler@guggenheimpartners.com  
212 823 6540

## HEALTHCARE: BIOTECHNOLOGY

## Bill Tanner, Analyst

william.tanner@guggenheimpartners.com  
212 518-9012

## Matthew Lillis, Associate

matthew.lillis@guggenheimpartners.com  
617 859-4618

## HEALTHCARE: SPECIALTY PHARMA

## Louise Chen, Analyst

louise.chen@guggenheimpartners.com  
212 381 4195

## Swati Kumar, Analyst

swati.kumar@guggenheimpartners.com  
212 918 8754

## Brandon Folkes, Associate

brandon.folkes@guggenheimpartners.com  
212 518 9976RETAIL & CONSUMER: CONSUMABLES;  
FOOD & DRUG

## John Heinbockel, Analyst

john.heinbockel@guggenheimpartners.com  
212 381 4135

## Steven Forbes, Analyst

steven.forbes@guggenheimpartners.com  
212 381 4188

## RETAIL &amp; CONSUMER: RESTAURANTS

## Matthew DiFrisco, Analyst

matthew.difrisco@guggenheimpartners.com  
212 823 6599

## RETAIL &amp; CONSUMER: SOFTLINES

## Howard Tubin, Analyst

howard.tubin@guggenheimpartners.com  
212 823 6558TMT: DATA & COMMUNICATION  
INFRASTRUCTURE

## Ryan Hutchinson, Analyst

ryan.hutchinson@guggenheimpartners.com  
415 852 6458

## Nate Cunningham, Associate

nathaniel.cunningham@guggenheimpartners.com  
212 823 6597

## TMT: INTERNET

## Jake Fuller, Analyst

jake.fuller@guggenheimpartners.com  
212 518 9013

## Mickey Gallagher, Associate

michael.gallagher@guggenheimpartners.com  
212 823 6562TMT: MEDIA & ENTERTAINMENT,  
CABLE & SATELLITE TV

## Michael Morris, Analyst

michael.morris@guggenheimpartners.com  
804 253 8025

## Curry Baker, Associate

curry.baker@guggenheimpartners.com  
804 253 8029