COWEN
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Pharmaceuticals/Specialty

Ocular Therapeutix

Equity Research

Earnings Update

March 10, 2015

Price: $40.25 (03/9/2015)
Price Target: $60.00 (Prior $40.00)

OUTPERFORM (1)

Ken Cacciatore
646.562.1305
ken.cacciatore@cowen.com

Tyler Van Buren, M.Sc.
646.562.1338
tyler.vanburen@cowen.com

Sal Rais, M.D.
646.562.1420
sal.rais@cowen.com

Key Data

Symbol	NASDAQ: OCUL
52-Week Range:	$40.62 - 11.90
Market Cap (MM):	$858.2
Net Debt (MM):	$(15.1)
Cash/Share:	$6.54
Dil. Shares Out (MM):	22.0
Enterprise Value (MM):	$792.1
ROIC:	NA
ROE (LTM):	NA
BV/Share:	$3.08
Dividend:	NA

FY (Dec)	2014E	2015E	2016E
Earnings Per Share			
Year	$(2.69)	$(1.15)	$(0.65)
Prior Year	*$(1.25)*	-	-
P/E	NM	NM	NM
Consensus EPS	$(2.24)	$(1.44)	$(1.44)

Consensus source: Thomson Reuters

Revenue (MM)			
Year	$0.8	$8.5	$22.5
Prior Year	*$1.5*	-	-
EV/S	990.1x	93.2x	35.2x

We Would Be Buying Aggressively

The Cowen Insight

Positive Phase III data for OTX-DP validates OCUL's novel approach. Numerous milestones remain in 2015 and our consultants continue to suggest these candidates serve a real unmet need. Our valuation suggests significant potential and is primarily predicated on the success of OTX-TP in glaucoma alone. Additional disclosures (such as long-acting anti-VEGF) could drive even more rapid value creation.

We Continue To Believe There Is An Under-appreciation Of The Depth And Breadth Of The Ocular Development Portfolio

Given today's additional de-risking event, we are lowering our discount rate, which escalates our DCF to $60 per share, our new price target. As for today's disclosure, Ocular announced positive findings from the first of two pivotal Phase III trials for OTX-DP in post-operative pain and inflammation. Recall, Ocular's lead development candidates are OTX-TP and OTX-DP. OTX-TP is a travoprost punctum plug in Phase II development for glaucoma and ocular hypertension and OTX-DP is a dexamethasone punctum plug in Phase III clinical development for post-surgical ocular pain and inflammation, upcoming Phase III studies for allergic conjunctivitis, and ongoing Phase II studies for dry eye. Additionally, the company is in collaboration with four undisclosed partners to develop a long-acting anti-VEGF hydrogel depot that has successfully demonstrated a duration of 4-6 months during in vitro studies. While this program is admittedly very early, we view it as having tremendous valuation optionality given its potential blockbuster status, and disclosures about potential licensing candidates could occur within the next 3-6 months. We do not believe the Street appreciates this potential disclosure. Before discussing today's positive OTX-DP results, we did just want to emphasize that Ocular is also independently evaluating their hydrogel technology in combination with compounded Avastin. The studies are progressing well and the company expects to present two papers on the initial findings at the Association for Research in Vision and Ophthalmology (ARVO) meeting May 3-7. Ocular has already had pre-IND discussions with the FDA on the necessary requirements to initiate a Phase I clinical study of the Avastin hydrogel.

As for the Phase IIIa OTX-DP study (n=247), it met both primary efficacy endpoints by demonstrating a statistically significant reduction in pain (8 days after punctum plug placement) and inflammatory cells in the anterior chamber of the eye (14 days after punctum plug placement). Specifically, 33.7% of patients treated with OTX-DP showed an absence of inflammatory cells in the anterior chamber of the study eye at day 14 versus 14.6% of patients that received placebo vehicle control punctum plug ($p=0.0015$). Additionally, 76.1% of patients treated with OTX-DP reported absence of eye pain in the eye on day 8 versus 36.1% of patients that received placebo vehicle control punctum plug ($p< 0.0001$). Ocular is still evaluating the secondary endpoints and the safety findings from the clinical trial, with full details expected to be presented at the American Society of Cataract and Refractive Surgery (ASCRS) meeting in April 2015. Management noted that the Phase IIIb topline data may also be presented at the ASCRS meeting.

Please see addendum of this report for important disclosures.

At A Glance

Our Investment Thesis

Our base case valuation model assumes approval for OTX-TP in 2017, and U.S. peak sales eventually reaching approximately $450MM. We also assume modest ex-U.S. sales for OTX-TP with a peak sales value of ~$150MM. For OTX-DP, we assume a successful approval in 2015 with steady growth and total peak sales of $300MM across all indications. We also expect growth for ReSure to be stable with total worldwide peak sales of approximately $150MM. Finally, we assume Ocular moves forward with OTX-MP and the product is launched in 2018/2019. Our peak sales estimate for the product is slightly above $100MM. We would note, our valuation does not attribute any value to the long-duration anti-VEGF hydrogel which has the greatest potential upside of any of Ocular's products. If the company successfully entered the $3B+ and growing wet AMD market, with a transformational duration product, our valuation could inflect to 2-3x our base case $60 per share valuation.

Forthcoming Catalysts

- March 2015 – OTX-DP Phase IIIb study data for post-cataract surgery pain and inflammation; NDA filing in Q2:2015. Initiate Phase III allergic conjunctivitis study in mid-2015 and inflammatory dry eye data in Q4:2015
- May 2015 – Initial Avastin hydrogel data; partnered anti-VEGF hydrogel data in H1:2015
- Q4:2015 – OTX-TP Phase IIb glaucoma study data

Base Case Assumptions

$60 assuming conservative market penetration from OTX-TP

Upside Scenario

$100+ if the long-duration anti-VEGF hydrogel depot product is successfully developed

Downside Scenario

$25 on low commercial performance of products once they reach the market

Price Performance

Source: Bloomberg

Company Description

Ocular Therapeutix has one FDA-approved product, ReSure Sealant, and a promising pipeline, including a variety of drug-eluting punctum plugs and a long-duration intravitreal anti-VEGF hydrogel depot.

Analyst Top Picks

	Ticker	Price (03/9/2015)	Price Target	Rating
Shire Pharmaceutical	SHPG	$238.14	$285.00	Outperform
Actavis	ACT	$293.60	$350.00	Outperform
Teva Pharmaceutical	TEVA	$56.79	$70.00	Outperform

Numerous Milestones In 2015

As a reminder, the Phase IIIa data is just the first of several upcoming milestones in 2014: (1) Phase IIIb data for OTX-DP in post-surgical ocular inflammation and pain studies at the end of March. If the results are positive, which is likely given the Phase IIIa data, the NDA will be submitted in Q2, with a potential launch of the Company's first sustained-release punctum plug product in 2016; (2) OTX-DP has also been evaluated in Phase II studies for allergic conjunctivitis, and after discussions with the FDA, have decided to move the program forward with two Phase III studies utilizing the Conjunctival Allergen Challenge (CAC) model; the studies are expected to begin in mid-2015; (3) OTX-DP is also being evaluated for the treatment of inflammatory dry eye disease, with Phase II data expected in Q4:2015; (4) feasibility studies with biopharmaceutical partners for the long-acting anti-VEGF hydrogel depot are ongoing and should be complete in H1:2015 with potential for a licensing agreement soon thereafter. Ocular's independent assessment of their hydrogel technology with Avastin have also been progressing and two papers on the generated are expected at the ARVO meeting in May 2015; (4) Finally, and most importantly, patient enrollment for the OTX-TP Phase IIb study in glaucoma is on track and data is expected in Q4:2015.

The bottom-line is that all programs continue to progress as expected and the upcoming year contains a series critical milestones. Our consultants continue to reiterate that Ocular's innovative drug delivery technology has the potential to serve a real unmet need of compliance in the markets that the company is targeting. Our price target of $60 per share is almost entirely predicated on OTX-TP in glaucoma alone with reasonable penetration rates. Meaningful success in the other programs – especially the Company's long-acting anti-VEGF hydrogel depot – could more than double our target valuation. We would add heading into a catalyst-rich 2015 with significant potential for value creation.

Specifics On Clinical Program Updates

OTX-TP: in November of last year Ocular announced the enrollment of its first patient in a randomized, blinded, active-controlled Phase IIb study comparing the product to timolol. The study will evaluate 80 patients across 10 clinical sites with topline results expected in Q4:2015. Recall, the Phase IIa data for OTX-TP looked promising as efficacy was comparable to twice-daily timolol with a duration of 2-3 months. The poor compliance for topical glaucoma eye drops is well understood by the physician community and the improvement in compliance seen with once-daily PGAs relative to treatments that require multiple daily drops suggests that a product that only requires administration every 2-3 months could have a profound impact on compliance. Despite our initial concerns about plug retention, our consultants noted that a treatment option that lasted anywhere between 60 and 90 days would be a "game changer" and that the 2-3 month duration of the product would fit well into the currently established glaucoma treatment protocol. The next generation NSR3 plug design will be used in the Phase IIb study and though early, management noted on the Q4:2014 earnings call that initial retention rate results look promising.

For perspective, at the 2015 Cowen Health Care Conference, nearly all of our surveyed clinicians suggested that if OTX-TP is successfully developed, the percentage of glaucoma patients who would be candidates for therapy is 50%+. Our glaucoma panelists noted that compliance is indeed a major issue and physicians want a sustained-release product. Importantly, it is well within the comfort zone of all ophthalmologists to place punctum plugs. Consolidating all of the feedback from our clinicians, we believe OTX-TP could be at least a $450MM product in the U.S. and approval in the E.U. and Japan, could provide additional upside.

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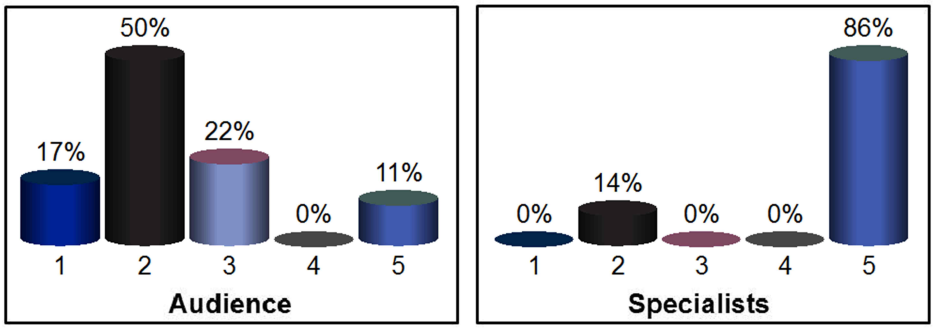
19. Ocular Therapeutix' OTX-TP is a travoprost punctum plug that lasts for 2-3 months and aims to fix compliance related issues and improve upon side effects with current glaucoma treatments. Assuming successful development of OTX-TP, the percentage of glaucoma patients who would be candidates for therapy are:

1. <10%
2. 20%
3. 30%
4. 40%
5. 50%+



Source: Cowen and Company 35th Annual Health Care Conference

OTX-DP: As noted above, positive Phase IIIa results have been reported and Phase IIIb results are expected by the end of March. The initial findings from the Phase IIIa study suggest a high likelihood of success for the second Phase III trial. If the data is favorable, an NDA will likely be filed in Q2:2015. Ocular has already had CMC meetings with the FDA and will soon meet with the Agency again to discuss the clinical findings. Phase II findings for OTX-DP were also promising for both primary endpoints including a statistically significant reduction in anterior chamber inflammatory cells at days 14 and 30 and absence of pain in the eye on all measured days. A secondary endpoint measuring absence of anterior chamber flare was also statistically significant on all measured days.

In January 2015, Ocular announced the enrollment of the first patient in a Phase II study evaluating OTX-DP for the treatment of dry eye. The randomized, double-blinded, vehicle-controlled study will evaluate 40 patients (up to 80 eyes) exhibiting signs and symptoms of dry eye disease. Clinical endpoints will include corneal and conjunctival staining, tear osmolarity, tear film break-up time, presence of the plug, ease of product use and visualization, and resorption of the plug following treatment. Patients will be enrolled at two U.S. sites, and in order to establish a baseline level of disease, they will initially be administered a placebo vehicle plug for 30 days. Patients who respond to the placebo plug in treatment of their dry eye will be excluded from the study, while those who continue to exhibit symptoms during the initial 30 days will continue into the treatment phase. Patients will then be randomized to receive either OTX-DP or a placebo vehicle plug. Topline data from the Phase II dry eye study are expected in Q4:2015.

Regarding the OTX-DP indication for allergic conjunctivitis, Ocular announced topline data from a Phase II study of OTX-DP in November of last year. The randomized, blinded, placebo-controlled study evaluated 68 patients across two clinical sites. The primary endpoints for the study were ocular itching and conjunctival redness at 14 days using a modified Conjunctival Allergen Challenge (CAC) model. OTX-DP demonstrated a statistically significant reduction in ocular itching and conjunctival redness at all measured days (14, 28, and 42). Using a 5-point scale, a mean

difference greater than 0.5 units was seen at day 14, but a mean difference of 1.0 units was not seen at any of the measured days. Our consultants note that for currently approved topical treatments (emphasis on topical) for allergic conjunctivitis, a difference of 1.0 units is generally observed, but is not an absolute requirement as products have been approved by the FDA without meeting this criteria. Additionally, the previous FDA guidance of a treatment difference of 1.0 units is specifically tailored towards topical eye drop treatments. Ocular is using a new, sustained-release approach with OTX-DP that does not achieve the same peaks seen with topical agents. As a result, the findings from the Phase II study are not surprising and we believe it's important to remember that OTX-DP is providing a similar treatment effect over 42 days, compared to the meager 8-16 hours experienced with eye drops. Our consultants agree that the findings support continued development for the allergic conjunctivitis indication and the company has already met with the FDA to discuss adjustments for the Phase III trials. The CAC model will once again be utilized, and importantly, given the established safety data from the post-operative pain and inflammation trials, the Phase III allergic conjunctivitis should only require approximately 75 patients. Thus, the ompany's decision to pursue the additional indication provides a compelling risk/reward opportunity. The Phase III trials are expected to begin in mid-2015.

Anti-VEGF Hydrogel: Finally, Ocular continues to make progress with its long-acting anti-VEGF hydrogel depot. The company is working with four confidential biopharmaceutical partners on feasibility studies, which are expected to be completed in H1:2015. Initial findings suggest a duration toward the high-end of the 4-6 month range. The product is well-tolerated in animal models and importantly, the hydrogel appears to be delivering a meaningful amount of drug in the eye. Given the nature of the development timeline for a duration-based product, if the data is positive in H1, the company would expect to begin clinical trials in 12-18 months. Interestingly, Ocular is also independently evaluating their hydrogel technology in combination with compounded Avastin. The studies are progressing well and the company expects to present two papers on the initial findings at the Association for Research in Vision and Ophthalmology (ARVO) meeting in May 2015. It is worth noting that drug duration with the hydrogel technology is highly customizable and that the initial data for the Avastin hydrogel is likely not indicative of the maximum duration of the potential treatment. Ocular has already had pre-IND discussions with the FDA on the necessary requirements to initiate a Phase I clinical study of the Avastin hydrogel and it does appear that the program could move forward. Management noted that the FDA discussions have also been helpful in understanding the regulatory requirements if one of the partnered programs does move forward.

Several Opportunities For Value Creation Exist

Our base case valuation model for Ocular assumes approval for OTX-TP in 2017, and U.S. peak sales eventually reaching approximately $450MM, which is a conservative penetration of roughly 5% of total U.S. glaucoma prescriptions by 2020. We also assume modest ex-U.S. sales for OTX-TP with a peak sales value of ~$150MM. For OTX-DP, we assume a successful approval in post-operative pain and inflammation, with steady growth and total peak sales of $300MM across all potential indications. We also expect growth for ReSure to be stable with total worldwide peak sales of approximately $150MM. Finally, we assume Ocular moves forward with OTX-MP and the product is launched in 2018/2019. Our peak sales estimate for the product is slightly above $100MM. We would note, our valuation does not attribute any value to the long-duration anti-VEGF hydrogel, which has the greatest potential upside of any of Ocular's products. If the company successfully enters the $3B+ and growing wet AMD market, with a transformational duration product, our valuation could inflect to 2-3x our base case $60 per share valuation.

Ocular Therapeutix Annual P&L

OCULAR THERAPEUTIX - 2014-2023 ESTIMATED ANNUAL EPS BUILDUP ($MM)

	2014	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	CGR	Comments
U.S. ReSure Sales	$0.5	$8.5	$16.0	$30.0	$40.0	$50.0	$60.0	$65.0	$70.0	$75.0	+27%	- Launched in February 2014
Growth Rate		+1748%	+88%	+88%	+33%	+25%	+15%	+12%	+10%	+10%		- Steady growth expected; patent expires in 2025
International ReSure Sales			$3.0	$18.0	$35.0	$45.0	$60.0	$70.0	$75.0	$80.0	+51%	- Expected launch in 2016
Growth Rate				+500%	+94%	+29%	+20%	+15%	+10%	+9%		- EU and Japan sales
U.S. OTX-DP Sales			$3.5	$35.0	$80.0	$155.0	$195.0	$220.0	$240.0	$255.0	+71%	- OTX-DP in Phase III; Launch expected in 2H 2016; Patent expires in 2030
Growth Rate				+900%	+129%	+94%	+26%	+12%	+8%	+7%		- Could be a competitive threat to topical steroids which need daily dosing
U.S OTX-TP Sales					$95.0	$190.0	$280.0	$310.0	$340.0	$365.0	+25%	- OTX-TP in Phase II; Launch expected in 2017/2018; Patent expires in 2030
Growth Rate						+100%	+47%	+10%	+9%	+8%		- Could be a competitive threat to topical glaucoma products; longer duration
International OTX-TP Sales					$15.0	$50.0	$95.0	$120.0	$130.0	$140.0	+45%	- EU and Japan sales; Patent expected to expire in 2030
Growth Rate						+233%	+90%	+25%	+10%	+8%		
U.S. OTX-MP Sales					$15.0	$40.0	$75.0	$90.0	$100.0	$110.0	+39%	- OTX-MP is Phase II-ready; Launch expected in 2018; Patent expires in 2030
Growth Rate						+167%	+88%	+20%	+12%	+8%		- Could be a competitive threat to topical antibiotics which need multiple daily doses
Collaboration Revenues	$0.3											
Total Ocular Revenues	**$0.8**	**$8.5**	**$22.5**	**$83.0**	**$280.0**	**$530.0**	**$765.0**	**$875.0**	**$955.0**	**$1,025.0**		
% Change				+269%	+237%	+89%	+44%	+14%	+9%	+7%		
Cost of Goods	$0.1	$3.5	$2.5	$18.0	$55.0	$105.0	$115.0	$130.0	$145.0	$155.0		
Gross Profit	$0.7	$5.0	$20.0	$65.0	$225.0	$425.0	$650.0	$745.0	$810.0	$870.0		
Gross Margin	88.2%	80.0%	80.0%	80.0%	80.0%	80.0%	85.0%	85.0%	85.0%	85.0%		- Solid margins; factors in royalty payment to Incept
SG&A	$8.9	$10.0	$15.0	$60.0	$90.0	$120.0	$150.0	$175.0	$190.0	$175.0	+35%	- Salesforce expansion in 2017, in preparation for OTX-TP
% of Revs				72%	32%	23%	20%	20%	20%	17%		- Salesforce expansion required with additional product
R&D	$18.9	$20.0	$20.0	$25.0	$25.0	$25.0	$25.0	$25.0	$25.0	$25.0	+3%	- Clinical trial costs in 2013 of approximately $10MM; Expected to double in 2014
% of Revs				30.1%	8.9%	4.7%	3.3%	2.9%	2.6%	2.4%		- Additional clinical trials for OTX-DP, OTX-TP, OTX-MP
Operating Expenses	$27.8	$30.0	$35.0	$85.0	$115.0	$145.0	$175.0	$200.0	$215.0	$200.0	+22%	
% of Revenues				102.4%	41.1%	27.4%	22.9%	22.9%	22.5%	19.5%		
Operating Income	($27.1)	($25.0)	($15.0)	($20.0)	$110.0	$280.0	$475.0	$545.0	$595.0	$670.0	+35%	- Operating profit expected in 2018
% Operating Margin	NM	NM	NM	-24.1%	39.3%	52.8%	62.1%	62.3%	62.3%	65.4%		
Non-Operating Income												
Interest Income	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		
Interest Expense	($1.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other Income	($0.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Non-Operating Income	($1.6)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		
Pretax Income	($28.7)	($25.0)	($15.0)	($20.0)	$110.0	$280.0	$475.0	$545.0	$595.0	$670.0	NM	
% of Revs	NM	NM	NM	NM	39.3%	52.8%	62.1%	62.3%	62.3%	65.4%		
Income Taxes					$38.5	$98.0	$166.3	$190.8	$208.3	$234.5	NM	
Income Tax Rate					35.0%	35.0%	35.0%	35.0%	35.0%	35.0%		
Net Income - Operations	($28.7)	($25.0)	($15.0)	($20.0)	$71.5	$182.0	$308.8	$354.3	$386.8	$435.5	NM	
% Net Margin	NM	NM	NM	NM	25.5%	34.3%	40.4%	40.5%	40.5%	42.5%		
Extraordinary Items	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		
Reported Net Income	($28.7)	($25.0)	($15.0)	($20.0)	$71.5	$182.0	$308.8	$354.3	$386.8	$435.5	NM	
Interest Add-Back	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		
EPS (GAAP) - Before Ex. Items	($2.69)	($1.15)	($0.65)	($0.75)	$2.55	$6.05	$9.65	$10.40	$10.75	$11.45	NM	- Profitable in 2018 following the launch of OTX-DP and OTX-TP
Growth	NM	NM	NM	NM	-440%	+137%	+60%	+8%	+3%	+7%		
EPS - Extraordinary Items	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00		
EPS - Reported	($2.69)	($1.15)	($0.65)	($0.75)	$2.55	$6.05	$9.65	$10.40	$10.75	$11.45	NM	
Shares - Fully Diluted (MM)	10.7	22.0	24.0	26.0	28.0	30.0	32.0	34.0	36.0	38.0		- Diluted shares; assuming some onward dilution from options

Source: Cowen and Company

Ocular Therapeutix DCF

Assumptions:		*Output:*	
Increase in WC	5.0%	Equity Value	$1,330.0
Discount Rate	12.5%	**Estimated Share Price**	**$60.00**
Shares Outstanding	22.0	Net Cash	$15.0
		Enterprise Value	$1,345.0

OCULAR THERAPEUTIX DCF

	2013P	2014P	2015P	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	2026P	2027P	2028P	2029P	2030P	
Total Revenues	$0.0	$0.8	$8.5	$22.5	$83.0	$280.0	$530.0	$765.0	$875.0	$955.0	$1,025.0	$1,090.0	$1,075.0	$1,075.0	$1,080.0	$1,095.0	$1,090.0	$345.0	
% Change			+1001%	+165%	+269%	+237%	+89%	+44%	+14%	+9%	+7%	+6%	-1%	+0%	+0%	+1%	-0%	-68%	
Cost of Goods	$0.0	$0.1	$3.5	$2.5	$18.0	$55.0	$105.0	$115.0	$130.0	$145.0	$155.0	$165.0	$160.0	$160.0	$160.0	$165.0	$165.0	$50.0	
Gross Profit	$0.0	$0.7	$5.0	$20.0	$65.0	$225.0	$425.0	$650.0	$745.0	$810.0	$870.0	$925.0	$915.0	$915.0	$920.0	$930.0	$925.0	$295.0	
Gross Margin - Total	NM	88.2%	80.0%	80.0%	80.0%	80.0%	80.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	
SG&A	$2.4	$8.9	$10.0	$15.0	$60.0	$90.0	$120.0	$150.0	$175.0	$190.0	$175.0	$190.0	$200.0	$205.0	$210.0	$215.0	$210.0	$150.0	
% of Revs	NM	NM	NM	66.7%	72.3%	32.1%	22.6%	19.6%	20.0%	19.9%	17.1%	17.4%	18.6%	19.1%	19.4%	19.6%	19.3%	43.5%	
R&D	$10.5	$18.9	$20.0	$20.0	$25.0	$25.0	$25.0	$25.0	$25.0	$25.0	$25.0	$25.0	$20.0	$20.0	$20.0	$15.0	$15.0	$15.0	
% of Revs	NM	NM	NM	88.9%	30.1%	8.9%	4.7%	3.3%	2.9%	2.6%	2.4%	2.3%	1.9%	1.9%	1.9%	1.4%	1.4%	4.3%	
Operating Expenses	$12.9	$27.8	$30.0	$35.0	$85.0	$115.0	$145.0	$175.0	$200.0	$215.0	$200.0	$215.0	$220.0	$225.0	$230.0	$230.0	$225.0	$165.0	
% of Revenues	NM	NM	NM	NM	NM	41.1%	27.4%	22.9%	22.9%	22.5%	19.5%	19.7%	20.5%	20.9%	21.3%	21.0%	20.6%	47.8%	
Operating Income	($12.9)	($27.1)	($25.0)	($15.0)	($20.0)	$110.0	$280.0	$475.0	$545.0	$595.0	$670.0	$710.0	$695.0	$690.0	$690.0	$700.0	$700.0	$130.0	
% Operating Margin	NM	NM	NM	NM	NM	39.3%	52.8%	62.1%	62.3%	62.3%	65.4%	65.1%	64.7%	64.2%	63.9%	63.9%	64.2%	37.7%	
Other Income	(0.013)	(0.5)	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	
Adjusted EBIT	($12.9)	($27.5)	($25.0)	($15.0)	($20.0)	$110.0	$280.0	$475.0	$545.0	$595.0	$670.0	$710.0	$695.0	$690.0	$690.0	$700.0	$700.0	$130.0	
% of Revs	NM	NM	NM	NM	NM	39.3%	52.8%	62.1%	62.3%	62.3%	65.4%	65.1%	64.7%	64.2%	63.9%	63.9%	64.2%	37.7%	
Taxes						$38.5	$98.0	$166.3	$190.8	$208.3	$234.5	$248.5	$243.3	$241.5	$241.5	$245.0	$245.0	$45.5	
Income Tax Rate						35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	
NOPAT	($12.9)	($27.5)	($25.0)	($15.0)	($20.0)	$71.5	$182.0	$308.8	$354.3	$386.8	$435.5	$461.5	$451.8	$448.5	$448.5	$455.0	$455.0	$84.5	
Adjustments:																			Terminal
Capex	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	($10.0)	
Depreciation & Amortization	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0	
Change In Working Capital	($5.0)	($5.3)	($5.5)	($5.8)	($6.1)	($6.4)	($6.7)	($7.0)	($7.4)	($7.8)	($8.1)	($8.6)	($9.0)	($9.4)	($9.9)	($10.4)	($10.9)	($11.5)	
Free Cash Flow	($22.9)	($37.8)	($35.5)	($25.8)	($31.1)	$60.1	$170.3	$296.7	$341.9	$374.0	$422.4	$447.9	$437.8	$434.1	$433.6	$439.6	$439.1	$68.0	$544.3

Source: Cowen and Company

Valuation Methodology And Risks

Valuation Methodology

Pharmaceuticals/Specialty

For our valuation methodology, we arrive at fair value utilizing a discounted cash flow (DCF) approach to derive our 12-month price target.

Investment Risks

Pharmaceuticals/Specialty

Risks include: (1) growing competitive dynamics in the specialty pharmaceuticals space; (2) the ability of management to execute on external growth by successfully acquiring new strategic, accretive products; (3) the ability to grow organically and keep the product pipeline robust; (4) potential regulatory delays, rejections, or failures of pipeline products; (5) economic sensitivity of any self-pay products or weakening consumer demand; (6) domestic or international pricing pressures for marketed products; and (7) failure to execute on new product launches.

Risks To The Price Target

Ocular Therapeutix' valuation is primarily based upon its clinical development programs and failure of its late-stage development programs could have a significant negative impact on its valuation.

Addendum

Stocks Mentioned In Important Disclosures

Ticker	Company Name
ACT	Actavis
OCUL	Ocular Therapeutix
SHPG	Shire Pharmaceutical
TEVA	Teva Pharmaceutical

Analyst Certification

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Cowen and Company, LLC. New York (646) 562-1000 **Boston** (617) 946-3700 **San Francisco** (415) 646-7200 **Chicago** (312) 577-2240 **Cleveland** (440) 331-3531 **Atlanta** (866) 544-7009 **London** (affiliate) 44-207-071-7500

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Cowen and Company Rating System effective May 25, 2013

Outperform (1): The stock is expected to achieve a total positive return of at least 15% over the next 12 months

Market Perform (2): The stock is expected to have a total return that falls between the parameters of an Outperform and Underperform over the next 12 months

Underperform (3): Stock is expected to achieve a total negative return of at least 10% over the next 12 months

Assumption: The expected total return calculation includes anticipated dividend yield

Cowen and Company Rating System until May 25, 2013

Outperform (1): Stock expected to outperform the S&P 500

Neutral (2): Stock expected to perform in line with the S&P 500

Underperform (3): Stock expected to underperform the S&P 500

Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period

Cowen Securities, formerly known as Dahlman Rose & Company, Rating System until May 25, 2013

Buy – The fundamentals/valuations of the subject company are improving and the investment return is expected to be 5 to 15 percentage points higher than the general market return

Sell – The fundamentals/valuations of the subject company are deteriorating and the investment return is expected to be 5 to 15 percentage points lower than the general market return

Hold – The fundamentals/valuations of the subject company are neither improving nor deteriorating and the investment return is expected to be in line with the general market return

Cowen And Company Rating Definitions

Distribution of Ratings/Investment Banking Services (IB) as of 12/31/14

Rating	Count	Ratings Distribution	Count	IB Services/Past 12 Months
Buy (a)	461	60.50%	109	23.64%
Hold (b)	288	37.80%	14	4.86%
Sell (c)	13	1.71%	0	0.00%

(a) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's rating definitions. (b) Corresponds to "Market Perform" as defined in Cowen and Company, LLC's ratings definitions. (c) Corresponds to "Underperform" as defined in Cowen and Company, LLC's ratings definitions.

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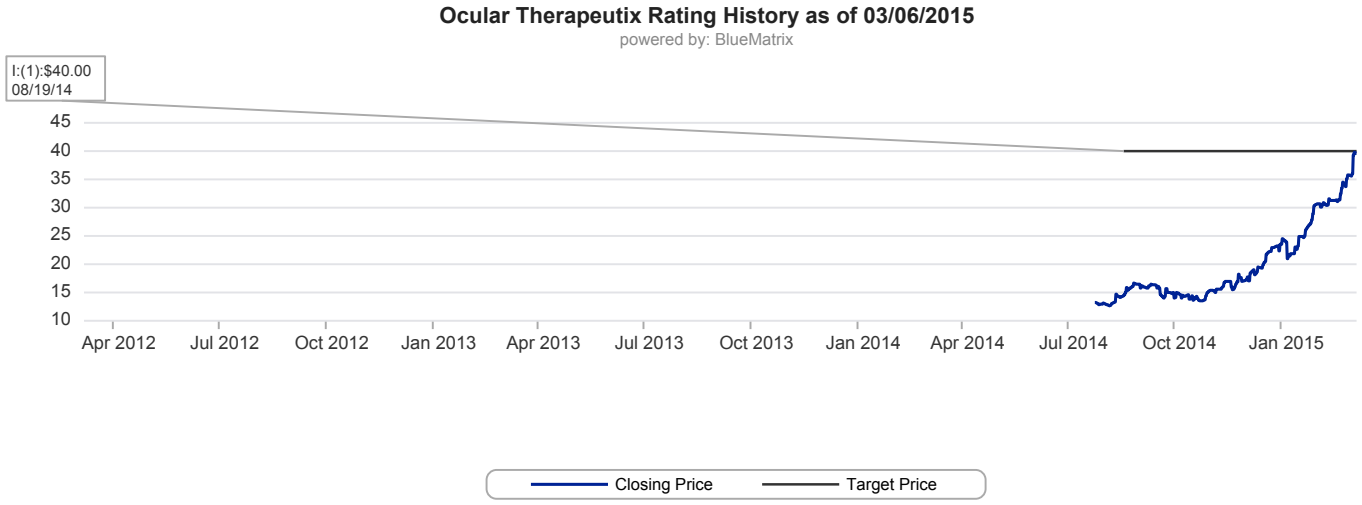

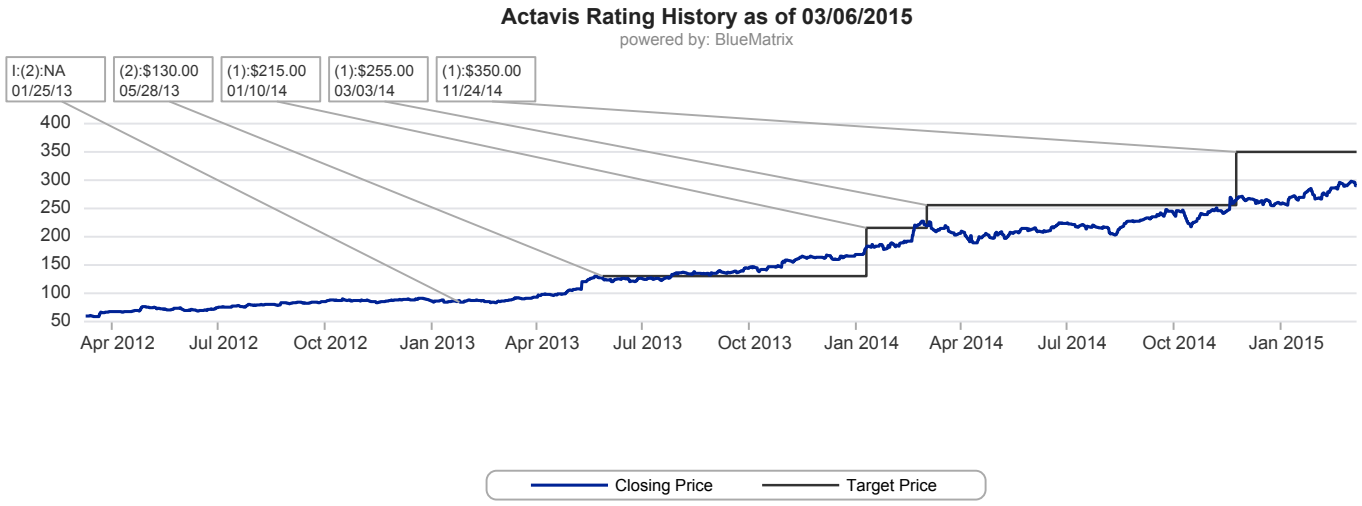

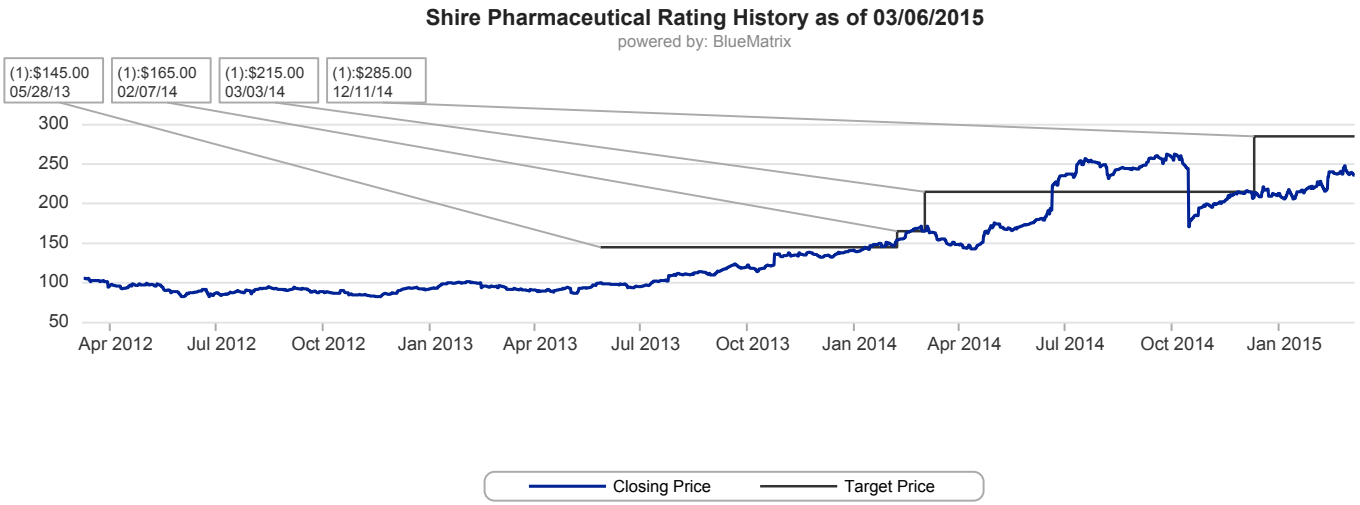

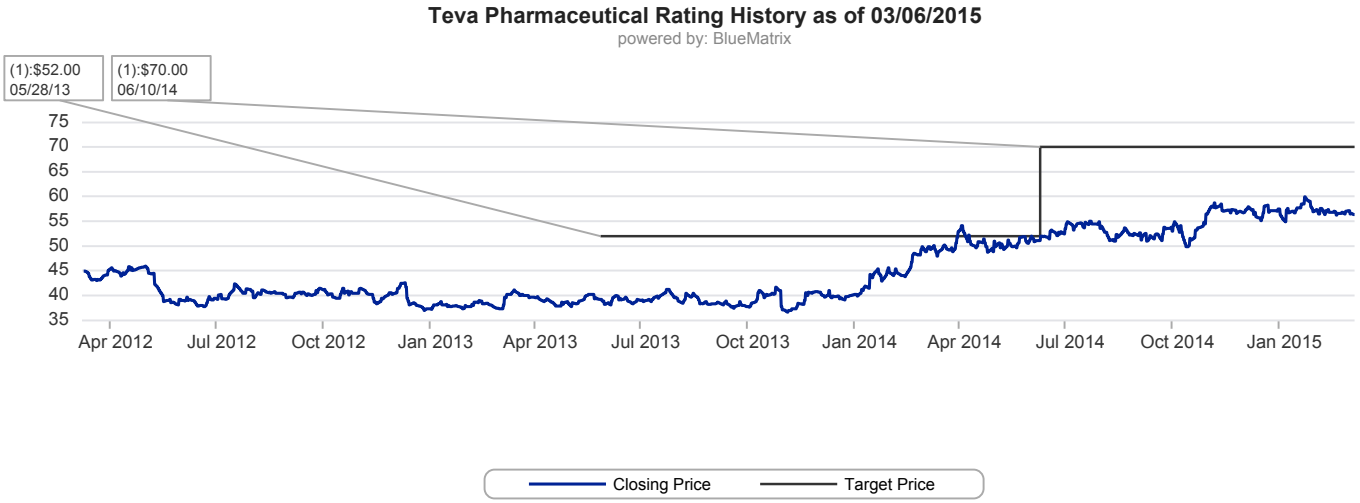

Legend for Price Chart:

I = Initiation | 1 = Outperform | 2 = Market Perform | 3 = Underperform | UR = Price Target Under Review | T = Terminated Coverage | $xx = Price Target | NA = Not Available | S=Suspended

Points Of Contact

Analyst Profiles

Ken Cacciatore
New York
646.562.1305
ken.cacciatore@cowen.com

Ken is a senior analyst covering specialty pharmaceuticals. He has been with Cowen for 17 years in health care banking & equity research.

Tyler Van Buren, M.Sc.
New York
646.562.1338
tyler.vanburen@cowen.com

Tyler Van Buren is a vice president covering specialty pharma. He joined Cowen in 2013, after working at LifeSci Advisors and Amylin.

Sal Rais, M.D.
New York
646.562.1420
sal.rais@cowen.com

Sal Rais is an associate covering specialty pharmaceuticals. He previously worked at Campbell Alliance and has an M.D. and MBA from UVA.

Reaching Cowen

Main U.S. Locations

New York
599 Lexington Avenue
New York, NY 10022
646.562.1000
800.221.5616

Boston
Two International Place
Boston, MA 02110
617.946.3700
800.343.7068

Cleveland
20006 Detroit Road
Suite 100
Rocky River, OH 44116
440.331.3531

San Francisco
555 California Street, 5th Floor
San Francisco, CA 94104
415.646.7200
800.858.9316

Atlanta
3399 Peachtree Road NE
Suite 417
Atlanta, GA 30326
866.544.7009

Chicago
181 West Madison Street
Suite 3135
Chicago, IL 60602
312.577.2240

International Locations

Cowen International Limited

London
1 Snowden Street - 11th Floor
London EC2A 2DQ
United Kingdom
44.20.7071.7500

Cowen and Company (Asia) Limited

Hong Kong
Suite 1401 Henley Building
No. 5 Queens Road Central
Central, Hong Kong
852 3752 2333

@CowenResearch

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