

November 18, 2014

HEALTHCARE/BIOTECHNOLOGY

Stock Rating:
OUTPERFORM

12-18 mo. Price Target \$25.00
OCUL - NASDAQ \$16.95

3-5 Yr. EPS Gr. Rate NA
52-Wk Range \$17.50-\$11.90
Shares Outstanding 20.6M
Float 6.5M
Market Capitalization \$361.4M
Avg. Daily Trading Volume 82,381
Dividend/Div Yield NA/NM
Book Value \$0.72
Fiscal Year Ends Dec
2014E ROE NA
LT Debt \$15.0M
Preferred NA
Common Equity \$56M
Convertible Available No
Trading range since July 2014 IPO.

| EPS Diluted | Q1 | Q2 | Q3 | Q4 | Year | Mult. |
|------------------|---------|---------|---------|--------|--------|-------|
| 2013A | -- | -- | -- | -- | (5.11) | NM |
| 2014E | (2.45)A | (2.10)A | (0.48)A | (0.40) | (2.78) | NM |
| 2015E | -- | -- | -- | -- | (1.31) | NM |
| Revenue (\$/mil) | Q1 | Q2 | Q3 | Q4 | Year | Mult. |
| 2013A | -- | -- | -- | -- | 0.0 | NM |
| 2014E | 0.0A | 0.1A | 0.1A | 0.2 | 0.5 | NM |
| 2015E | -- | -- | -- | -- | 1.8 | NM |

Ocular Therapeutix

Notes from the Road

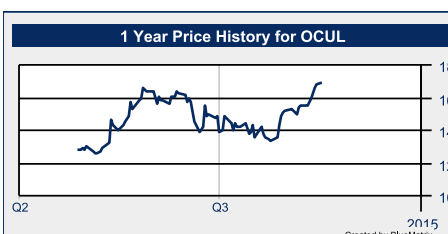
SUMMARY

We accompanied Ocular Therapeutix mgmt for several marketing meetings yesterday in the mid-Atlantic region. Recall Ocular is developing sustained-release drug delivery technologies for post-surgical ocular inflammation/pain and allergic conjunctivitis (OTX-DP punctal plug), as well as glaucoma (OTX-TP punctal plug). Ocular also has a preclinical program to develop sustained-release anti-VEGF drugs in partnership with key players with approved agents for back-of-the eye diseases. See our initiation [report](#) for full details on Ocular's pipeline. Below we highlight incremental updates from our interactions while traveling with mgmt.

KEY POINTS

- Signs a fourth pharma partner for the sustained-release anti-VEGF program.** Ocular is already collaborating pre-clinically with major anti-VEGF players (not disclosed but we assume Regeneron, Novartis, Roche). We learned a fourth (\$100B+ market cap) partner with an oncology focus aiming to enter the ophthalmology space signed on in the last week.
- Phase 3 data for OTX-DP late 1Q15.** There are two replicate Phase 3's (3a, 3b) testing the dexamethasone plug (OTX-DP) in post-cataract surgery inflammation/pain. Data readouts are expected to be slightly staggered with a ~1 month delta between the 3a/3b top-line prints, with *both* trials having read out by late 1Q15.
- Allergic conjunctivitis.** The FDA *may* be willing to consider the completed Ph.2 as sufficient for one of two required Ph.3's, on grounds the Ph.2 already adheres to the design/size (n~60-70) for a Ph.3 allergic conjunctivitis study. Relatedly, ocular itching ranged from 0.78-0.98 on mean score differences vs. placebo (day 14).
- Other tidbits.** 1) The anti-VEGF sustained-delivery program is ~15 months from the clinic, 2) there is an outside chance the allergic conjunctivitis data could still appear at ASCRS (April 2015), and 3) we could see a dry eye study geared for ~1.5-2 month plug duration down the road (timing unspecified).

Stock Price Performance



Company Description

Ocular Therapeutix, Inc. is a biopharmaceutical company focused on the development and commercialization of therapies for diseases and conditions of the eye using its hydrogel platform technology. The company's bioresorbable hydrogel based product candidates are designed to provide sustained delivery of therapeutic agents to the eye.

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Stock prices of other companies mentioned in this report (as of 11/17/14 close):

Novartis (NVS-NYSE, \$94.38, Not Covered)

Roche (ROG.VX, CHF284.20, Not Covered)

Investment Thesis

Ocular is an appealing platform play in the ophthalmology space, driven by several technological advances that permit steady delivery of drugs to the eye using punctal plugs. The company's pipeline is substantially de-risked as Ocular's plugs deliver medications already approved for glaucoma (travoprost) and post-surgical inflammation (dexamethasone). Both the inflammation (OTX-DP) and glaucoma (OTX-TP) plugs have achieved clinical proof-of-concept, and we expect FDA approvals in 2016/2018, respectively. Longer term, we see the interplay between compliance advantages of plugs vs. generic/soon-to-be generic eye-drop markets as a key debate for the stock. However, at current levels even a conservative view of peak share suggests significant upside.

Price Target Calculation

We value Ocular Therapeutix using a discounted cash flow (DCF) analysis with a weighted average cost of capital (WACC) of 10% and a 0% terminal growth rate post-2030, generating a terminal value of \$255M. Our DCF valuation indicates an equity value of ~\$585M or \$25 per diluted share.

Key Risks to Price Target

Key risks include the following: 1) Future retention rates and/or the degree of IOP reductions in Phase 2b and/or Phase 3 for OTX-TP in glaucoma may prove insufficient for widespread treatment adoption. 2) The Phase 3 post-surgical inflammation and pain trial may fail to meet clinical endpoints. 3) Future competitors may develop punctal plug products with better clinical efficacy and/or retention characteristics than Ocular's. 4) Ocular's patent estate could be challenged by third parties owning related pending or issued patents for technology similar to ReSure and/or the hydrogel plugs. 5) Ocular may not be successful in commercializing OTX-TP and OTX-DP and/or share capture may be weaker than our current projections. 6) Our pricing assumptions may not be supportable in view of generic dexamethasone eye drops and soon-to-be generic travoprost eye drops. 7) Ocular will likely need additional dilutive capital to develop its products, and we assume additional financings of \$150MM over 2016-2018. 8) OCUL has a relatively small float (~6.5M of ~20.6M shares outstanding), which could generate high volatility. 9) Approximately ~15.6M shares are restricted securities under Rule 144, shares which existing shareholders may elect to sell upon waiver or expiration of the 180-day post-IPO lockup period (i.e., Versant Ventures, Polaris Ventures, SV Life Sciences, CHV II LP and others entities own ~70% of the restricted securities, and directors and named executive officers own ~30%).

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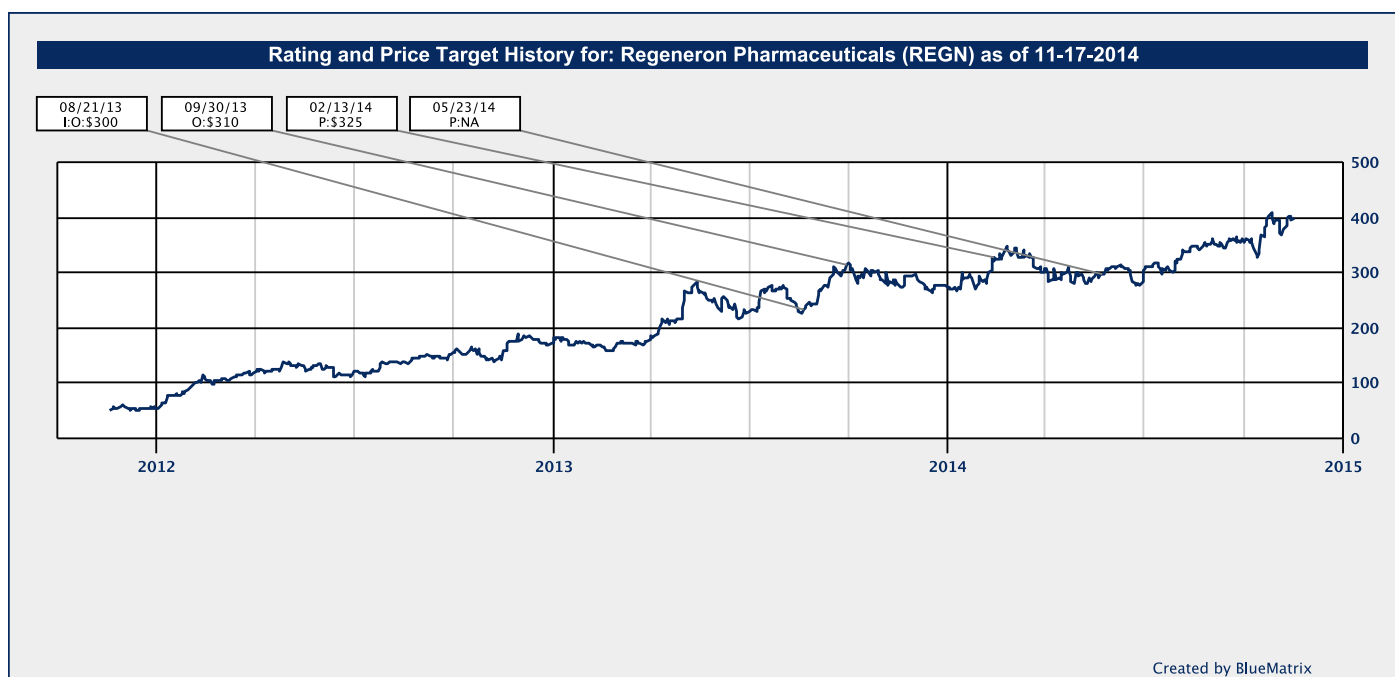
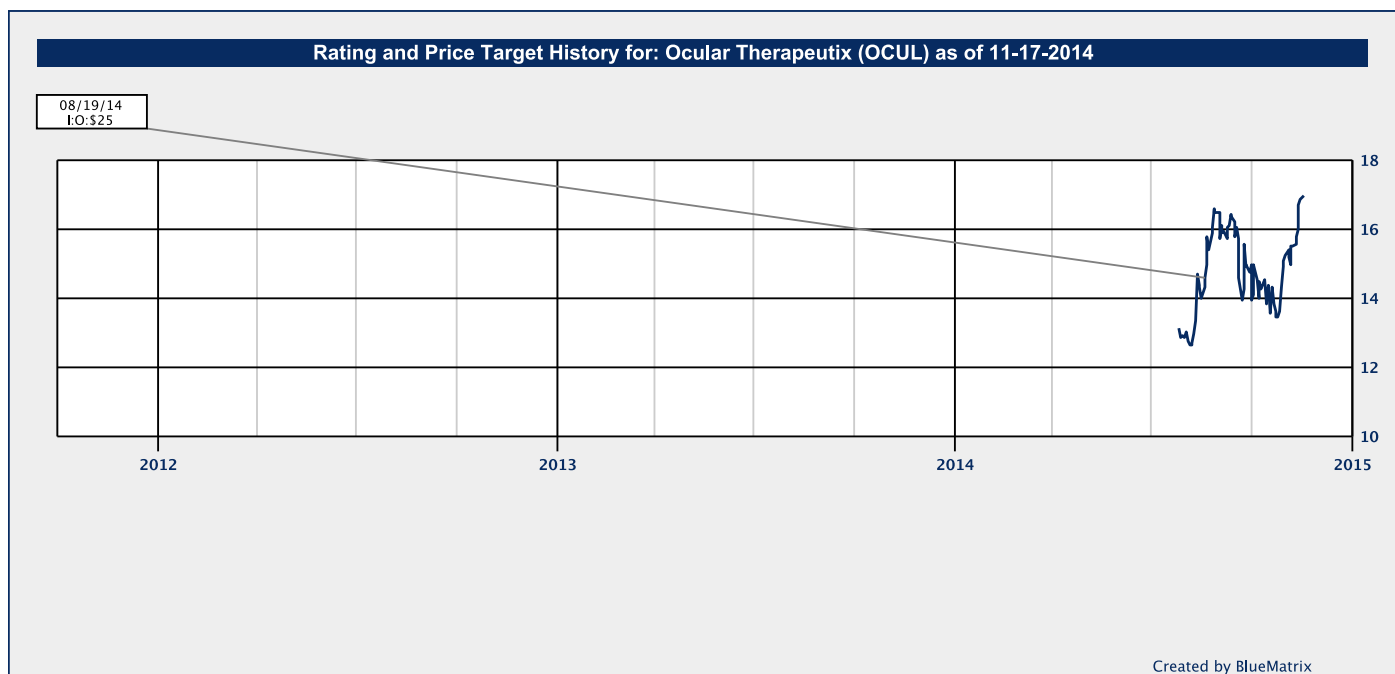
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Stock Prices as of November 18, 2014

Regeneron Pharmaceuticals (REGN - NASDAQ, \$399.65, PERFORM)



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Not Rated (NR) - Oppenheimer & Co. Inc. does not maintain coverage of the stock or is restricted from doing so due to a potential conflict of interest.

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| Distribution of Ratings/IB Services Firmwide | | | | |
|--|-------|----------------------|---------|-------|
| Rating | Count | IB Serv/Past 12 Mos. | | Count |
| | | Percent | Percent | |
| OUTPERFORM [O] | 319 | 54.62 | | 147 |
| PERFORM [P] | 258 | 44.18 | | 96 |
| UNDERPERFORM [U] | 7 | 1.20 | | 0 |

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