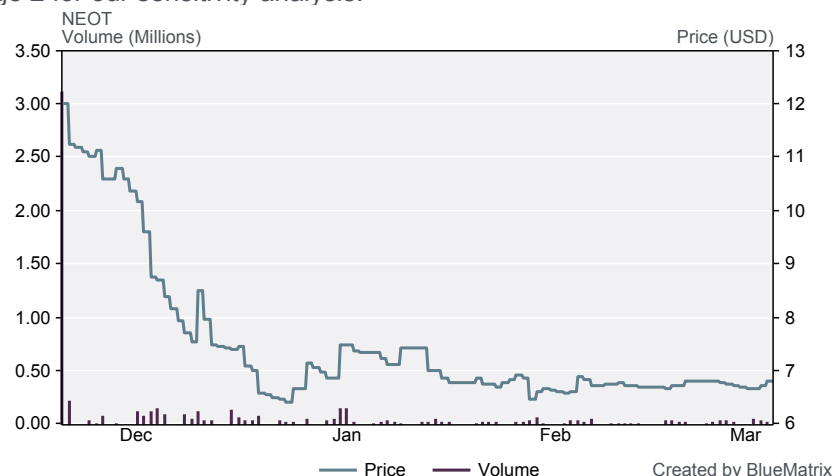


Neothetics Inc.

NEOT - BUY - Kythera AdCom Documents Are Positive for NEOT

March 5, 2015

- **Conclusion:** We remain positive on NEOT after the FDA released briefing documents today ahead of KYTH's AdCom for ATX-101, which is being developed for submental fat (or chin fat). The AdCom is scheduled for 3/9/15. We continue to think LIPO-202 could be the next Botox (which has sales of \$1B+) for fat reduction, with peak sales potential of over \$1B (we expect a launch in '18), but NEOT's market cap of only ~\$100MM (and ~\$75MM of cash at the end of '14) suggests to us that the Street is underestimating this opportunity. Companies similar to NEOT, like KYTH and RVNC, have much larger market caps (\$1.1B and \$390MM, respectively). We believe investing in NEOT could provide a good entry point into the body contouring market early in its growth and development.
- We view the Agency's summary as positive for the AdCom. The FDA noted the available data support a favorable benefit-risk assessment for the use of ATX-101 to improve the appearance of moderate to severe chin fat. There were no major safety issues associated with ATX-101.
- The positive review of ATX-101 signals a good climate for aesthetics, in our view. Historically, the FDA's Derm Committee has been comfortable approving cosmetic drugs, but it has not reviewed such an application for many years until now. We view the read-through to NEOT as positive regarding fat measurement and endpoints: 1) the FDA was comfortable with KYTH's MRI measurements for fat (prior issues resolved); and 2) KYTH used co-endpoints (1 & 2 grade changes, NEOT also has co-endpoints). The FDA said that an accurate rating system is important for applications where no previously established endpoints exist.
- We estimate \$1,179MM of U.S. LIPO-202 sales in '25. NEOT's stock could be worth an additional \$104.56 if LIPO-202's peak sales potential increased to \$2,678.8MM, or \$1,500MM above our current sales estimate. Please see page 2 for our sensitivity analysis.



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NEOT BUY

COMPANY UPDATE

Investment Thesis: Growth

SHARE PRICE	\$6.80
PRICE TARGET	\$16.00

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

Adjusted EPS (\$)	1Q	2Q	3Q	4Q	FY
2014	(0.49)	(0.68)	(1.22)	(0.35)E	(2.73)E
P/E					NM
2015	(1.46)E	(1.23)E	(1.16)E	(1.09)E	(4.94)E
P/E					NM
2016	—	—	—	—	(4.79)E
P/E					NM

Market Data & Valuation Multiples

52-Week Range	\$6.11 - \$14.10
Shares Out (M)	13.6
Market Cap (M)	\$93
ADV (3 mo; 000)	39

LIPO-202 MARKET POTENTIAL

We believe LIPO-202 addresses a large, unmet need in aesthetics (\$2B market opportunity today, by our estimate). LIPO-202 appears to offer a better option to existing options for fat reduction. Liposuction involves significant risk, has a long recovery time, and takes four to six months to see an effect. Current non-invasive treatments are lower risk than liposuction; however, these still require equipment space and take two to four months to see an effect. Patients see results with LIPO-202 in one to two months.

There is a lot of opportunity for a faster-acting, non-invasive fat reduction procedure because non-invasive options have only ~1% market share. In the United States, lipoplasty is one of the most common surgical procedures (ASAPS 2013, Neothetics Market Research 2014).

- Aggregate lipoplasty revenue was over \$1B
- Over 364K procedures were performed (+16% YOY)
- Females accounted for 86% of these procedures
- Lipoplasty is the most common cosmetic surgery for men

According to Neothetics, ~50% of patients who consider a body contouring procedure decide against a procedure

- Demonstrates a need for alternative options
- We estimate the cosmetic injectable patient market is currently over \$2B annually and these patients would be an easy target for LIPO-202 because they are already familiar with the process associated with other aesthetic injections

We estimate \$1,179MM of U.S. LIPO-202 sales in 2025. We estimate LIPO-202 could be worth an additional \$104.56 to today's share price if it reaches sales of \$2,678.8MM, or \$1,500MM above our current sales estimate of \$1,179MM in 2025.

Share Price Impact of LIPO-202 2025 Sales Above or (Below) our \$1,179MM Sales Estimate

Incremental Sales from Guggenheim Current Estimate (\$ in millions)	WACC						
	15.5%	17.0%	18.5%	20.0%	21.5%	23.0%	24.5%
(\$500.0)	(\$49.16)	(\$43.77)	(\$39.03)	(\$34.85)	(\$31.17)	(\$27.91)	(\$25.02)
(\$250.0)	(\$24.58)	(\$21.89)	(\$19.52)	(\$17.43)	(\$15.58)	(\$13.95)	(\$12.51)
\$250.0	\$24.58	\$21.89	\$19.52	\$17.43	\$15.58	\$13.95	\$12.51
\$500.0	\$49.16	\$43.77	\$39.03	\$34.85	\$31.17	\$27.91	\$25.02
\$750.0	\$73.75	\$65.66	\$58.55	\$52.28	\$46.75	\$41.86	\$37.54
\$1,000.0	\$98.33	\$87.55	\$78.06	\$69.71	\$62.33	\$55.82	\$50.05
\$1,250.0	\$122.91	\$109.43	\$97.58	\$87.13	\$77.92	\$69.77	\$62.56
\$1,500.0	\$147.49	\$131.32	\$117.10	\$104.56	\$93.50	\$83.73	\$75.07

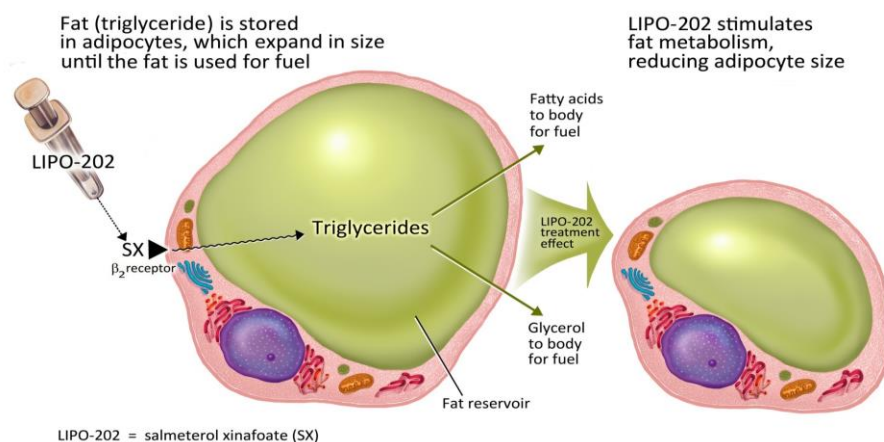
Source: Guggenheim Securities LLC Estimates

WHAT IS LIPO-202?

LIPO-202 (Salmeterol Xinafoate for Injection) is a first-in-class, injectable drug treatment for targeted subcutaneous abdominal fat reduction (non-surgical liposuction).

LIPO-202 has a well understood targeted mechanism of action to shrink fat cells.

- It enhances the body's natural lipolysis pathway, resulting in a reduction in size and volume of fat cells in the treatment area.
 - 20 anterior abdomen injections
 - Spaced 4 cm apart
 - Drug diffuses ~ 2 cm in diameter
- Salmeterol xinafoate is a highly selective, long-acting β_2 -adrenergic receptor agonist. Adrenergic receptors play a major role in the regulation of several processes in the body, including fat cell metabolism.
- As shown in the Figure below, salmeterol xinafoate activates β_2 -adrenergic receptors located on human fat cells and triggers the metabolism of triglycerides in these cells to free fatty acids and glycerol by means of the natural process of lipolysis.
- Administering LIPO-202 evenly across the abdomen shrinks fat cells and reduces central abdominal bulging due to subcutaneous fat.
- LIPO-202 reduces local fat stores and the bulges they create with no inflammatory reaction.



Source: Neothetics September 12th S-1 pages 93

LIPO-202 PHASE II DATA - ENDPOINTS

There are no FDA subjective or objective tools for measuring subcutaneous fat in torso; subjective and objective tools assessed by Neothetics include:

Composite Ratings of Patient Assessment and Clinician Rating Scales: Patient and Clinician Photonumeric rating scale (PnS), Abdominal Contour Scale (P-ACS), and Patient-Reported Patient-Global Abdominal Perception Scale (PGAPS).

- **CPnS** is a clinician rating of the amount of bulging in the central abdomen on a six-point photonumeric scale pursuant to which the clinician performs a match-to-sample from two gender-specific scales of lateral profile torso pictures with progressively larger abdominal bulges.
- **P-GAPS** is a patient self assessment of the amount of bulging in the central abdomen on a five-point ordinal scale, as follows:
 - 0 = Flat
 - 1 = Almost Flat
 - 2 = Slight Bulge, Not Flat
 - 3 = Bulge
 - 4 = Big Bulge

Measurements of Patient Satisfaction: Abdominal Contour Questionnaire (ACQ)

- **ACQ** is a 10-item patient questionnaire on the impact of bulging in the central abdomen, each on an ordinal scale.

Objective Measure: Tape Measure, Canfield 3-D, MRI, Calipers, Laser-Guided Tape Measure and Ultrasound

- **Laser-Guided Manual Tape Measure Procedure.** Neothetics' procedure involves a precise and reproducible measure of circumference at three levels on the abdomen using patient standardization instructions, such as positioning, posture, breathing, a self-tensioning tape measure, the company's treatment area grid, consisting of a temporary tattoo applied to the central abdomen, and a tripod-mounted laser level to assure horizontal placement of the tape measure.

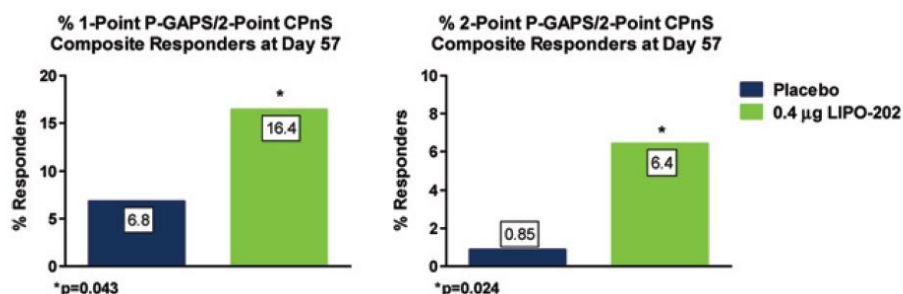
LIPO-202 PHASE II DATA - RESULTS

NEOT completed its largest (N=513) Phase II trial, RESET, in July 2013. Statistically significant reductions in central abdominal bulging due to subcutaneous fat in non-obese patients from baseline at day one and from placebo were demonstrated with a 0.4 µg weekly dose on the key clinical endpoint measures. The 0.4 µg dose is the most effective dose and will be taken forward.

#1. Significant Increase in Responders to LIPO-202 Treatment Compared to Placebo

	Neothetics' Clinical Endpoint Definition	FDA Division of Dermatologic and Dental Product
Responder Endpoint Definition	1-point/grade improvement on P-GAPS that is corroborated by treating clinician as at least a 2-point/grade improvement on the CPnS	2-point/grade improvement on a patient scale that is corroborated by the treating clinician as at least a 2-point/grade improvement on a clinician scale
RESET Results in Patients Treated with 4µg dose weekly for 8 weeks	LIPO-202 treated patients showed 16.4%, versus 6.8% of placebo patients, which translates to statistically significant improvement of p=0.043	LIPO-202 treated patients showed 6.4%, versus less than 1% of placebo patients, which translates to statistically significant improvement of p=0.024

Source: Guggenheim Securities LLC and Neothetics S-1 dated 9/12/14 pages 96 to 97



Source: Neothetics September 12th S-1 pages 96 to 97

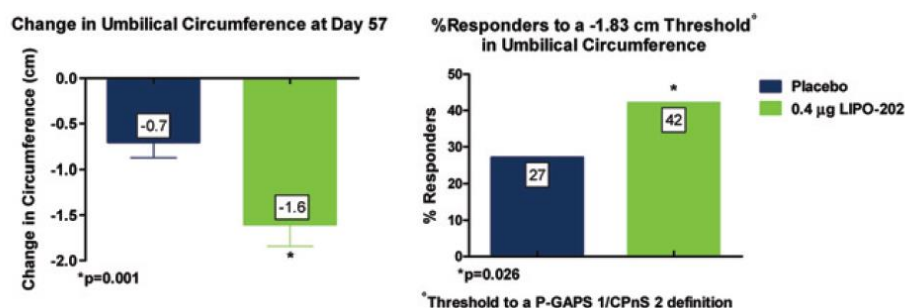
- According to Neothetics, the inverse dose response was a result of Tachyphylaxis. This is a decrease in the response to a drug after its administration. This can sometimes be caused by depletion or marked reduction of the amount of neurotransmitter responsible for creating the drug's effect, or by the depletion of receptors available to which the drug or neurotransmitter can bind. This depletion is caused by the cells reducing the number of receptors in response to their saturation.
- Safety is same percent injection site reaction as placebo; most adverse events were from the needle sticks themselves.

#2. Significant Reduction of Umbilical Circumference by LIPO-202

Laser-guided manual tape measure showed that the 0.4 µg weekly dose produced significant reduction in abdominal circumference at the umbilical circumference compared to placebo, whether expressed as:

- Mean change from baseline.** LIPO-202 0.4 µg dose reduced on average by 1.6 cm, versus 0.7 cm for placebo, which is statistically significant (p=0.001).
- Percentage of responders to a clinically meaningful threshold of a reduction of at least 1.83 cm as defined by 1-point P-GAPS and 2-point CPnS responder definition.** Approximately 42% of patients treated with 0.4 µg dose had a reduction of

at least 1.83 cm, versus 27% of placebo treated patients, which is statistically significant ($p=0.026$).

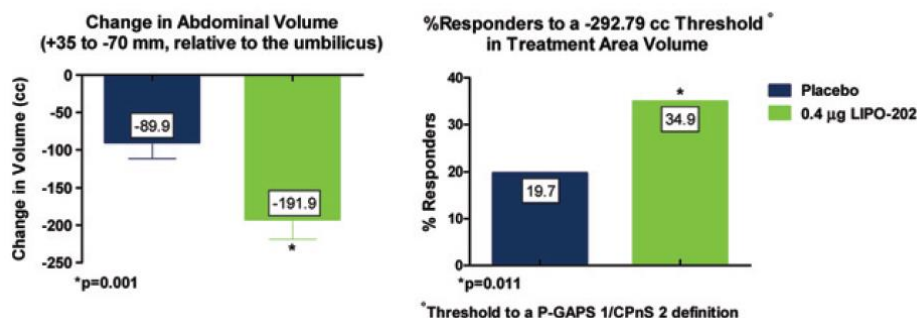


Source: Neothetics September 12th S-1 pages 97 to 98

#3. Significant Reduction in Treatment Area Volume Produced by LIPO-202.

- Average change from baseline.** 0.4 µg dose reduced treatment area volume on average by 161.6 cubic centimeters (cc) compared to 89.9 cc for placebo, which is statistically significant ($p=0.001$)
- Percentage of responders to a clinically meaningful threshold for reduction in volume of 292.79 cc as defined by the 1-point/grade P-GAPS and 2-point/grade CPnS responder definition.** Approximately 34.9% of patients treated with 0.4 µg dose had a reduction of at least 292.79 cc, compared to 19.7% for placebo, which is statistically significant ($p=0.011$)

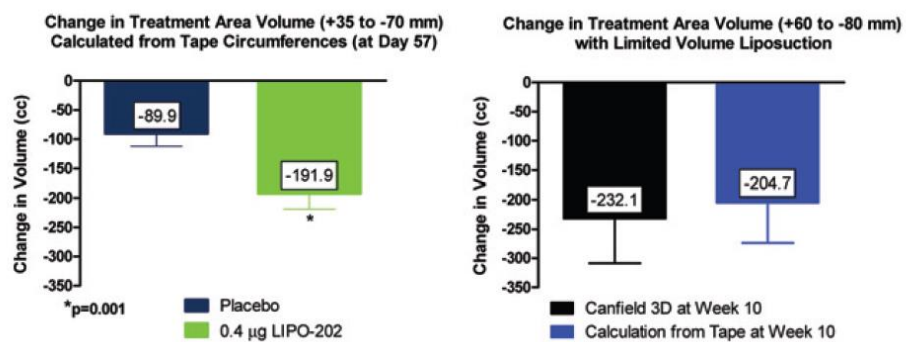
Change from baseline and change from placebo treatment effects with 0.4 µg dose of LIPO-202 were enhanced on all outcome measures in subjects who remained weight neutral or lost weight.



Source: Neothetics September 12th S-1 pages 98

#4. Similar Reduction in Treatment Area Volume Produced by LIPO-202 and Limited Volume Liposuction in Separate Studies.

In a non-drug, limited volume (VAL-CL-10) liposuction study conducted in a similar population over a similar area, mean reduction in treatment area volume of 200 cc was seen in both eight weeks of treatment with 0.4 µg dose in RESET and limited volume liposuction as assessed ten weeks after surgery.



Source: Neothetics September 12th S-1 pages 98

LIPO-202 PHASE III ENDPOINTS

Phase III endpoints will be similar to the RESET Phase II trial.

The Phase III study will be a randomized, double-blind, placebo-controlled study using P-GAPS (Patient-Global Abdominal Perception Scale), CPnS (Clinician Photnumeric Scale), laser guided tape endpoints, and ultrasound.

- **Primary Endpoints:** % responders with > 1-point improvement P-GAPS and > 2-point CPnS, then > 2-point P-GAPS and > 2-point CPnS.
- **Second Endpoint:** % responders with > 1.83cm decrease in umbilical circumference by laser-guided tape measure.
- **Other Studies:** Bridging PK (to Advair), retreatment study, durability of effect and long-term safety study, special population (obese), and supportive studies.

Based on meeting with FDA, Neothetics will initiate and complete an additional exploratory evaluation of two-dimensional ultrasound as a secondary measure in the Phase III trials. During Neothetics' end of Phase II meeting with the FDA, the Agency expressed concerns regarding Neothetics' proposed endpoint tools used to assess the efficacy of LIPO-202. The FDA wanted to know if a more accurate tool than laser-guided tape measure could be used to assess the reduction of subcutaneous fat. Therefore, Neothetics is using both two-dimensional ultrasound and laser-guided tape measure in the Phase III trials.

	Clinical Trial	# of Patients	Trial Purpose	Expected Trial Initiation	Data Expected
Pivotal	LIPO-202-CL-18	800	Pivotal Phase III clinical trial of safety & efficacy	1H15	End of 2015
	LIPO-202-CL-19	800	Pivotal Phase III clinical trial of safety and efficacy (identical design to LIPO-202-CL18)	1H15	End of 2015
Supporting	LIPO-202-CL-12	24	Comparative bioavailability of LIPO-202 and Advair Diskus 500/50 Clinical bridge for 505(b)(2) NDA	1H15	1H15
	LIPO-202-CL-21	120	Safety in a special population of obese patients	1H15	2H15
	LIPO-202-CL-22	120	Long-term safety of repeated cycles of treatment	1H15	1H16
	LIPO-202-CL-23	200	Long-term safety and durability of efficacy in responders to treatment	2H15	2H16
Supplement	LIPO-202-CL-25	10 to 12	Exploratory study in submental fat	1H15	2H15
	LIPO-202-CL-26	10 to 12	Exploratory study in lipomas	1H15	2H15

Source: Guggenheim Securities LLC and Neothetics S-1 dated 9/12/14 pages 99 to 100.

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; 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; 4) The USPTO granted patent reexamination of Neothetics' '625 patent (an update is usually 12-18 months post granting of reexamination), and we believe it is very likely '750 may be reexamined as well (we would expect the company to hear before the end of '14). If any of the patent claims in the '625 or the '750 patents are ultimately invalidated or narrowed during prosecution before the USPTO, the extent of the patent coverage afforded to LIPO- 202 could be impaired or eliminated, which could potentially harm Neothetics' ability to prevent others from copying its technology.

COMPANIES MENTIONED

Kythera (KYTH, NC, \$39.90)

Neothetics (NEOT, BUY, \$6.80)

Revance (RVNC, NC, \$15.44)

CATALYST CALENDAR

Date	Driver	Upcoming Event
2015		
1H15	LIPO-202	Start Phase 3 trials after EOP2 meeting
End of '15	LIPO-202	Topline Phase 3 results
2016+		
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	1Q14A	2Q14A	3Q14A	4Q14E	2014E	1Q15E	2Q15E	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	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	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	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	1.4	0.9	0.9	0.9	4.2	14.0	11.0	10.0	9.0	44.0	35.2	37.0	37.7	38.5	30.0	30.6	31.2	31.8	32.5	33.1	
SG&A	2.6	3.0	1.1	1.1	0.9	0.9	4.0	5.0	5.1	5.2	5.3	20.6	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	2.5	2.0	1.9	1.9	8.2	19.0	16.1	15.2	14.3	64.6	90.2	132.0	147.7	206.5	201.4	205.4	209.5	213.7	218.0	222.3	
Operating Income	(5.7)	(14.4)	(2.5)	(2.0)	(1.9)	(1.9)	(8.2)	(19.0)	(16.1)	(15.2)	(14.3)	(64.6)	(90.2)	(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	0.0	0.0	0.2	0.2	0.2	0.2	0.8	0.1	0.7	1.2	0.3	0.1	1.0	3.1	6.2	10.1	14.5	
Interest Expense	(0.9)	(0.1)	(0.0)	(0.0)	(0.1)	(0.2)	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)	(0.9)	(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	(0.3)	(2.0)	(1.9)	(3.3)	(0.9)	(0.9)	(0.9)	(0.9)	(3.6)	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)	0.9	(0.3)	(2.2)	(2.1)	(3.7)	(0.9)	(0.9)	(0.9)	(0.9)	(3.7)	(0.8)	0.7	1.2	0.3	0.1	1.0	3.1	6.2	10.1	14.5	
Pre-tax Income	(7.8)	(15.0)	(1.6)	(2.3)	(4.0)	(4.0)	(11.9)	(19.9)	(17.0)	(16.1)	(15.2)	(68.3)	(91.0)	(131.3)	(64.7)	(0.3)	227.8	400.7	575.7	666.3	766.4	876.6	
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%	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	0.0	0.0	0.0	0.0	91.1	160.3	230.3	266.5	306.6	350.6	
Net Income	(7.8)	(15.0)	(1.6)	(2.3)	(4.0)	(4.0)	(11.9)	(19.9)	(17.0)	(16.1)	(15.2)	(68.3)	(91.0)	(131.3)	(64.7)	(0.3)	136.7	240.4	345.4	399.8	459.9	526.0	30.9
Diluted Shares Outstanding	3.1	3.1	3.3	3.4	3.3	11.5	4.4	13.7	13.8	13.9	14.0	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)	(\$0.49)	(\$0.68)	(\$1.22)	(\$0.35)	(\$2.73)	(\$1.46)	(\$1.23)	(\$1.16)	(\$1.09)	(\$4.94)	(\$4.79)	(\$5.47)	(\$2.69)	(\$0.01)	\$5.62	\$9.85	\$14.10	\$16.25	\$18.62	\$21.21	30.4
% Change																							
Total Revenue	-100.0%	NM	NM	NM	NM	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	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	NM	NM	NM	NM	151.8%	108.3%	41.0%	29.3%	11.7%	11.5%	11.3%	
R&D	252.3%	NM	NM	NM	NM	NM	-63.3%	NM	NM	NM	NM	948.1%	-20.0%	5.1%	2.0%	2.0%	-22.1%	2.0%	2.0%	2.0%	2.0%	2.0%	
SG&A	14.8%	NM	NM	NM	NM	NM	34.6%	NM	NM	NM	NM	414.4%	167.0%	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	NM	NM	NM	NM	39.6%	46.3%	-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	NM	NM	NM	NM	-77.7%	-178.3%	89.5%	-77.5%	-67.1%	998.3%	207.0%	100.8%	61.9%	44.1%	
Pre-tax Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	75.9%	43.7%	15.8%	15.0%	14.4%	14.4%	
Tax Rate	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Taxes	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	75.9%	43.7%	15.8%	15.0%	14.4%	14.4%	
Net Income	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	75.9%	43.7%	15.8%	15.0%	14.4%	14.4%	
Adjusted Diluted EPS	87.4%	NM	NM	NM	NM	NM	-43.2%	195.3%	82.7%	-4.5%	213.3%	80.8%	-3.0%	14.2%	-50.9%	-99.6%	-54128.6%	75.2%	43.1%	15.3%	14.6%	13.9%	#

Source: Guggenheim Securities, LLC and Company Reports

(1) Assumes 4.65MM shares from IPO on 11/19/14 in 4Q14.

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

Neothetics - Quarterly Margin Analysis 2012-2025E

	2012	2013	1Q14A	2Q14A	3Q14A	4Q14E	2014E	1Q15E	2Q15E	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%	100.0%	100.0%	100.0%	100.0%
COGS	NM	NM	NM	NM	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	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	NM	NM	NM	NM	34.6%	16.6%	6.4%	4.7%	3.7%	3.4%	3.1%	2.5%
SG&A	NM	NM	NM	NM	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	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	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	NM	NM	NM	NM	1.1%	0.1%	0.0%	0.2%	0.4%	0.7%	0.9%	1.2%
Pretax Income	NM	NM	NM	NM	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	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	1Q14A	2Q14A	3Q14A	4Q14E	2014E	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Base Business																						
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	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	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
Total Base Business 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	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8
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	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	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	0.0	0.0	0.0	0.0
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenues	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	109.1	231.4	471.5	657.7	850.1	949.8	1,059.1	1,178.8
% Change																						
Base Business																						
LIPO-102	NM	NM	NM	NM	NM	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	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%
Total Base Business Revenues	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	112.2%	103.7%	39.5%	29.3%	11.7%	11.5%	11.3%
New Products																						
Product 1	NM	NM	NM	NM	NM	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	NM	NM	NM	NM	NM
Product 3	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Total New Product Revenues	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Other	-100.0%		NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Total Revenues	-100.0%		NM	NM	NM	NM	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/	2014E/	2015E/	2016E/	2017E/	2018E/	2019E/	2020E/	2021E/	2022E/	2023E/	2024E/	2025E/	CAGR 18E-25E
	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	
Base Business																													
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	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
LIPO-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	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	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	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	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	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

	Year Ending December 31st,												
	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Experienced Aesthetic Injectable Patient Population (in 000s)	1,818	1,909	2,004	2,105	2,210	2,320	2,436	2,558	2,686	2,820	2,961	3,109	3,265
Growth Rate	NM	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Injectable Patient Population With Stomach Fat (assume 80%)	1,454	1,527	1,603	1,684	1,768	1,856	1,949	2,046	2,149	2,256	2,369	2,488	2,612
Injectable Patient Population Willing To Undergo LIPO-202 (assume 50%)	727	764	802	842	884	928	975	1,023	1,074	1,128	1,185	1,244	1,306
Annual Penetration Rate for LIPO-202	0%	0%	0%	0%	0%	7%	14%	25%	32%	38%	39%	40%	41%
Experienced Aesthetic Injectable LIPO-202 Treatments Annually (in 000s)	0	0	0	0	0	520	1,052	2,046	2,750	3,430	3,696	3,980	4,284
Annual Growth Rate	NM	NM	NM	NM	NM	NM	103%	94%	34%	25%	8%	8%	8%

Source: Guggenheim Securities, LLC and Company Reports

(1) We assume each patient gets 8 treatments.

	Year Ending December 31st,												
	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Inexperienced Aesthetic Injectable Patient Population (in 000s)													
Household Income \$50K+ Market (Ages 18 to 55)	80,000	80,800	81,608	82,424	83,248	84,081	84,922	85,771	86,629	87,495	88,370	89,253	90,146
Growth Rate	NM	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
BMI 18.5 to 30.0 (assume 60%)	48,000	48,480	48,965	49,454	49,949	50,448	50,953	51,462	51,977	52,497	53,022	53,552	54,088
Potential Consumers for Aesthetic Injectables (assume 24%)	11,520	11,635	11,752	11,869	11,988	12,108	12,229	12,351	12,475	12,599	12,725	12,852	12,981
Consumers with Stomach Fat (assume 80%)	9,216	9,308	9,401	9,495	9,590	9,686	9,783	9,881	9,980	10,079	10,180	10,282	10,385
Injectable Naïve Patients Willing to Undergo LIP-202 (in 000s, assume 9%)	829	838	846	855	863	872	880	889	898	907	916	925	935
Annual Penetration Rate for LIPO-202	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	2.3%	5.0%	7.0%	9.0%	10.0%	11.0%	12.0%
Aesthetics Injectable Inexperienced LIPO-202 Treatments (in 000s)	0	0	0	0	0	70	162	356	503	653	733	814	897
Growth Rate	NM	NM	NM	NM	NM	NM	132%	120%	41%	30%	12%	11%	10%

Source: Guggenheim Securities, LLC and Company Reports

(1) We assume each patient gets 8 treatments.

	Year Ending December 31st,												
	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Experienced Aesthetic Injectable Lipo-202 Treatments in 000s	0	0	0	0	0	520	1,052	2,046	2,750	3,430	3,696	3,980	4,284
Inexperienced Aesthetics Injectable Lipo-202 Treatments (in 000s)	0	0	0	0	0	70	162	356	503	653	733	814	897
Total Annual LIPO-202 Treatments (in 000s)	0	0	0	0	0	589	1,214	2,402	3,253	4,083	4,429	4,794	5,181
Growth Rate	NM	NM	NM	NM	NM	NM	106%	98%	35%	25%	8%	8%	8%
Cost Per Treatment	\$185.00	\$185.00	\$185.00	\$185.00	\$185.00	\$185.00	\$190.55	\$196.27	\$202.15	\$208.22	\$214.47	\$220.90	\$227.53
Annual Price Increases	NM	NM	NM	NM	NM	NM	3%	3%	3%	3%	3%	3%	3%
Experienced Aesthetic Injectable Lipo-202 Sales (MMs)	\$0	\$0	\$0	\$0	\$0	\$96	\$201	\$402	\$556	\$714	\$793	\$879	\$975
Inexperienced Aesthetics Injectable Lipo-202 Sales (MMs)	0	0	0	0	0	13	31	70	102	136	157	180	204
Total LIPO-202 Revenue (in MMs)	\$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
Growth Rate	NM	NM	NM	NM	NM	NM	112%	104%	39%	29%	12%	12%	11%
Experienced Aesthetic Injectable Lipo-202 % of Total Sales	NM	NM	NM	NM	NM	NM	88%	87%	85%	84%	83%	83%	83%
Inexperienced Aesthetics Injectable Lipo-202 % of Total Sales	NM	NM	NM	NM	NM	NM	12%	13%	15%	16%	17%	17%	17%
Total LIPO-202 Revenue (in MMs)	NM	NM	NM	NM	NM	NM	100%	100%	100%	100%	100%	100%	100%

Source: Guggenheim Securities, LLC and Company Reports

Neothetics - Balance Sheet Analysis 2012-2025E

(\$ in Millions)														
(Year ended December 31)	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Assets														
Cash and Cash Equivalents	11.1	4.4	75.0	6.5	65.4	123.9	27.9	9.2	100.7	309.2	620.8	1005.1	1448.4	1956.4
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	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Current Assets	12.6	4.5	75.2	6.7	65.5	124.0	59.2	58.8	195.4	435.6	780.9	1180.6	1640.3	2166.2
Property and equipment, net	0.2	0.0	0.2	0.3	0.4	0.5	0.7	0.8	0.9	1.0	1.2	1.3	1.4	1.6
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
Total Other Assets	0.2	0.0	0.2	0.3	0.4	0.5	0.7	0.8	0.9	1.0	1.2	1.3	1.4	1.6
TOTAL ASSETS	12.8	4.5	75.3	7.0	65.9	124.6	59.9	59.6	196.3	436.7	782.1	1181.9	1641.8	2167.7
Liabilities & Shareholder's Equity														
Accounts Payable	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Accrued Expenses	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
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	10.0	10.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities	1.9	1.5	11.3	11.3	11.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Total Stockholder's Equity	10.9	3.0	64.0	(4.4)	54.6	123.3	58.5	58.3	195.0	435.4	780.8	1180.6	1640.5	2166.4
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	12.8	4.5	75.3	7.0	65.9	124.6	59.9	59.6	196.3	436.7	782.1	1181.9	1641.8	2167.7

Source: Guggenheim Securities, LLC and Company Reports

Neothetics - Cash Flow Analysis 2012-2025E

(\$ in Millions)														
(Year ended December 31)	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Cash flows provided by Operating Activities:														
Net Income/(loss)	(7.8)	(15.0)	(11.9)	(68.3)	(91.0)	(131.3)	(64.7)	(0.3)	136.7	240.4	345.4	399.8	459.9	526.0
Depreciation and Amortization	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	2.1	0.6	0.0	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	0.0	0.0	0.0	0.0	(31.2)	(18.4)	(45.0)	(31.8)	(33.7)	(15.3)	(16.5)	(17.8)
Net cash provided by Operating Activities	(7.4)	(12.9)	(11.8)	(68.3)	(91.0)	(131.3)	(95.8)	(18.5)	91.8	208.7	311.8	384.6	443.4	508.3
Cash flows from Investing Activities														
Purchase/Proceeds of property and equipment	0.0	0.0	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
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
Net cash used in Investing Activities	0.0	0.1	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Cash flows from Financing Activities														
Proceeds/Payment on Notes Payable and Bank Loan	2.4	(0.4)	9.8	0.0	0.0	(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	72.9	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net cash (used in) provided by Financing Activities	12.7	6.1	82.7	0.0	150.0	190.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net (decrease) increase in cash and equivalents	5.3	(6.7)	70.6	(68.5)	58.8	58.5	(96.0)	(18.7)	91.6	208.5	311.6	384.4	443.2	508.1
Cash and equivalents at beginning of year	5.8	11.1	4.4	75.0	6.5	65.4	123.9	27.9	9.2	100.7	309.2	620.8	1005.1	1448.4
Cash and equivalents at end of year	11.1	4.4	75.0	6.5	65.4	123.9	27.9	9.2	100.7	309.2	620.8	1005.1	1448.4	1956.4

Source: Guggenheim Securities, LLC and Company Reports

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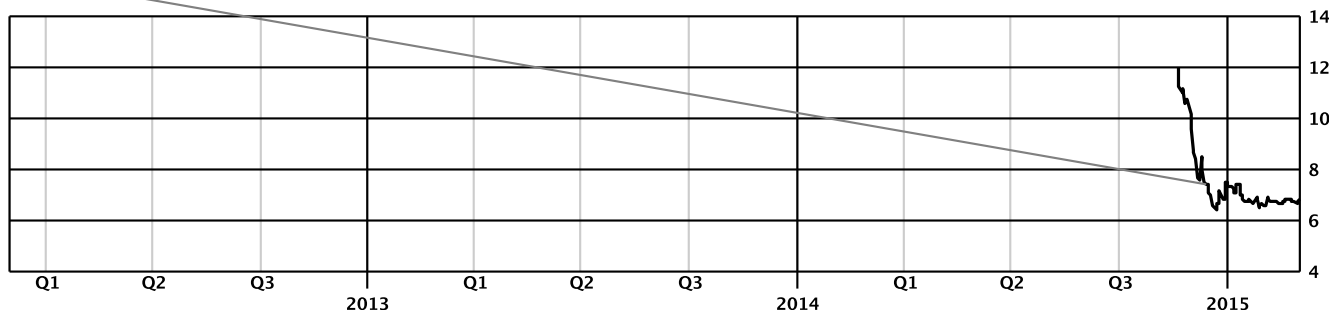
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Rating and Price Target History for: Neothetics Inc. (NEOT) as of 03-04-2015

12/15/14
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			Count	Percent
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Neutral	98	52.97%	4	4.08%
Sell	0	0.00%	0	0.00%

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