
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2018
or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 001-38381

EVOLUS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

46-1385614
(I.R.S. Employer
Identification Number)

**17901 Von Karman Avenue,
Suite 150
Irvine, California**
(Address of Principal Executive
Offices)

92614
(Zip Code)

(949) 284-4555
(Registrant's Telephone Number,
Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
Emerging Growth Company	<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of May 10, 2018, 23,640,389 shares of the registrant's common stock, par value \$0.00001, were outstanding.

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that involve risks and uncertainties, including statements based on our current expectations, assumptions, estimates and projections about future events, our business, financial condition, results of operations and prospects, our industry and the regulatory environment in which we operate. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would” or the negative of those terms, or other comparable terms intended to identify statements about the future. Forward-looking statements include, but are not limited to, statements about:

- our ability to obtain and maintain regulatory approval of our sole product candidate, DWP-450, and any related restrictions, limitations and/or warnings in the label of DWP-450;
- our ability to successfully commercialize DWP-450, if approved;
- the potential market size, opportunity and growth potential for DWP-450, if approved;
- the attractiveness of DWP-450’s characteristics (including the benefits of a 900 kilodalton, or kDa, botulinum toxin type A complex) and the rate and degree of physician and patient acceptance of DWP-450, if approved;
- our ability to build our own sales and marketing capabilities, or seek collaborative partners, to commercialize DWP-450, if approved;
- the pricing of DWP-450, if approved, and the flexibility of our pricing and marketing strategy compared to our competitors;
- the performance of our third-party licensors, suppliers, manufacturers and distributors, and our ability to forecast demand for our products and to scale our sources of supply to meet that demand;
- our expectations regarding our future development of DWP-450 for other indications;
- the accuracy of our estimates regarding the amount and timing of expenses, future revenue, capital requirements and needs for additional financing;
- the timing or likelihood of regulatory filings and approvals or clearances for DWP-450;
- regulatory and legislative developments in the United States, European Union, or EU, Canada and other countries;
- developments and projections relating to our competitors and our industry, including competing products and procedures;
- the loss of key management personnel;
- our future financial performance and our ability to continue as a going concern, our ability to raise additional capital as needed at acceptable terms;
- our relationship with ALPHAEON Corporation, or ALPHAEON, our controlling stockholder, and its ability to control the direction of our business; and
- the results of current and any future legal proceedings.

The forward-looking statements included herein are based on current expectations of our management based on available information and involve a number of risks and uncertainties, all of which are difficult or impossible to predict accurately and many of which are beyond our control. As such, our actual results may differ significantly from those expressed in any forward-looking statements. Factors that may cause or contribute to such differences include, but are not limited to, those discussed in more detail in Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of Part I and Item 1A “Risk Factors” of Part II of this Quarterly Report on Form 10-Q. Readers should carefully review these risks, as well as the additional risks described in other documents we file from time to time with the Securities

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and Exchange Commission, or SEC. In light of the significant risks and uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that such results will be achieved, and readers are cautioned not to place undue reliance on such forward-looking statements. Except as required by law, we undertake no obligation to revise the forward-looking statements contained herein to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. You should read this Quarterly Report on Form 10-Q and the documents we file with the SEC, with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

Unless the context indicates otherwise, as used in this Quarterly Report on Form 10-Q, the terms “Evolus,” “company,” “we,” “us” and “our” refer to Evolus, Inc., a Delaware corporation, and our subsidiaries taken as a whole, unless otherwise noted.

EVOLUS™ is one of our trademarks that is used in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q also includes trademarks, trade names and service marks that are the property of other organizations, such as BOTOX® and BOTOX® Cosmetic, which we refer to throughout this Quarterly Report on Form 10-Q as BOTOX. Solely for convenience, trademarks and trade names referred to in this Quarterly Report on Form 10-Q appear without the ® and ™ symbols, but those references are not intended to indicate that we will not assert, to the fullest extent under applicable law, our rights, or that the applicable owner will not assert its rights, to these trademarks and trade names. We do not intend our use or display of other companies’ trade names or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Evolus, Inc.

Condensed Balance Sheets

(in thousands, except share data)

	March 31, 2018	December 31, 2017
	(unaudited)	(Note 2)
ASSETS		
Current assets		
Cash and cash equivalents	\$ 49,570	\$ —
Prepaid expenses and other current assets	541	185
Related party receivable	—	72,639
Total current assets	50,111	72,824
Intangible asset	56,076	56,076
Goodwill	21,208	21,208
Other assets	—	2,125
Total assets	\$ 127,395	\$ 152,233
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities		
Accounts payable	\$ 547	\$ 445
Related party accounts payable	730	—
Related party borrowings	—	72,639
Accrued expenses	2,352	977
Note obligation	—	138,687
Total current liabilities	3,629	212,748
Deferred rent	35	38
Contingent royalty obligation payable to related party	40,600	—
Contingent promissory note payable to related party	16,149	—
Deferred tax liability	15,000	14,990
Total liabilities	75,413	227,776
Commitments and contingencies (Note 5)		
Stockholders' equity (deficit)		
Convertible Series A Preferred, \$0.00001 par value; no shares authorized; 0 and 1,250,000 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	—	—
Preferred Stock, \$0.00001 par value; 10,000,000 shares authorized; no shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	—	—
Common Stock, \$0.00001 par value; 100,000,000 shares authorized; 23,640,389 and 16,527,000 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	1	—
Additional paid-in capital	134,301	—
Accumulated deficit	(82,320)	(75,543)
Total stockholders' equity (deficit)	51,982	(75,543)
Total liabilities and stockholders' equity (deficit)	\$ 127,395	\$ 152,233

See accompanying notes to financial statements.

Evolus, Inc.
Condensed Statements of Operations and Comprehensive Loss
(in thousands, except share and per share data)
(Unaudited)

	Three Months Ended	
	March 31,	
	2018	2017
Operating expenses:		
Research and development	\$ 1,678	\$ 2,651
General and administrative	3,467	1,215
Revaluation of contingent royalty obligation payable to related party	900	—
Depreciation and amortization	—	111
Total operating expenses	6,045	3,977
Loss from operations	(6,045)	(3,977)
Other expense:		
Interest expense, net	107	1
Loss before taxes	(6,152)	(3,978)
Income tax expense	10	20
Net loss and comprehensive loss	\$ (6,162)	\$ (3,998)
Net loss per share, basic and diluted	\$ (0.30)	\$ (0.24)
Weighted-average shares outstanding used to compute basic and diluted net loss per share	20,226,460	16,527,000

See accompanying notes to financial statements.

Evolus, Inc.

Condensed Statements of Cash Flows

(in thousands)

(Unaudited)

Three Months Ended
March 31,

	2018	2017
Cash flows from operating activities		
Net loss	\$ (6,162)	\$ (3,998)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	—	111
Stock-based compensation	1,006	143
Interest expense	107	—
Income tax expense	10	20
Revaluation of contingent royalty obligation payable to related party	900	—
Changes in assets and liabilities:		
Prepaid expenses and other current assets	(356)	3
Accounts payable	205	(1,991)
Related party accounts payable	730	—
Accrued expenses	1,361	134
Deferred rent	(2)	—
Net cash used in operating activities	<u>(2,201)</u>	<u>(5,578)</u>
Cash flows from financing activities		
Proceeds from initial public offering, net of underwriters fees	56,330	—
Related party borrowings	1,127	5,391
Payments on related party borrowings	(5,000)	—
Payments for offering costs	(686)	—
Net cash provided by financing activities	<u>51,771</u>	<u>5,391</u>
Change in cash, cash equivalents, and restricted cash	49,570	(187)
Cash, cash equivalents, and restricted cash, beginning	—	187
Cash and cash equivalents, ending	<u>\$ 49,570</u>	<u>\$ —</u>
Supplemental disclosure of cash flow information		
Non-cash financing activities:		
Related party receivable	\$ 73,690	\$ —
Related party borrowings	\$ (68,767)	\$ —
Note obligation	\$ (140,688)	\$ —
Contingent royalty obligation payable to related party	\$ 39,700	\$ —
Contingent promissory note payable to related party	\$ 16,042	\$ —
Capital contribution from parent, convertible note write-off	\$ 66,998	\$ —
Capital contribution from parent, forgiveness of related party borrowings	\$ 13,188	\$ —
Deferred IPO costs	\$ (2,885)	\$ —
Accounts payable, paid by parent	\$ (163)	\$ —
Deferred offering costs, unpaid	\$ (74)	\$ —

See accompanying notes to financial statements.

Evolus, Inc.

Notes to Condensed Financial Statements

Note 1. Organization

Organization and Description of Business

Evolus, Inc., (“Evolus” or the “Company”) is a medical aesthetics company focused on delivering advanced aesthetic procedures and treatments to physicians and consumers. The Company’s focus is on the self-pay aesthetic market and its only product candidate, DWP-450 (the “Product”), is an injectable 900 kilodalton botulinum toxin type A complex designed to address the needs of the facial aesthetics market. The Company is headquartered in Irvine, California.

In January 2018, the Company’s board of directors and its then sole stockholder approved an amendment to the Company’s amended and restated certificate of incorporation to effect a split of shares of the Company’s common stock on a 1.6527-for-1 basis (the “Stock Split”). The Company’s outstanding shares of convertible Series A preferred stock (“Series A preferred stock”), the par value of the common stock, and the authorized shares of the common stock were not adjusted as a result of the Stock Split. All issued and outstanding shares of common stock, stock options, restricted stock units and related per share amounts contained in the financial statements have been retroactively adjusted to reflect this Stock Split for all periods presented. The Stock Split was effected on January 26, 2018.

On February 12, 2018 the Company completed its initial public offering (“IPO”) and issued of 5,047,514 shares of common stock, which included the exercise by the underwriters of their option to purchase 47,514 additional shares of common stock, at an offering price to the public of \$12.00 per share. The Company received net proceeds of approximately \$56.3 million after deducting underwriting discounts and commissions, excluding other offering costs. In connection with the IPO, the Company’s outstanding shares of Series A preferred stock were automatically converted into 2,065,875 shares of common stock. In connection with the completion of its IPO, the Company’s amended and restated certificate of incorporation was further amended and restated to provide for 100,000,000 authorized shares of common stock with a par value of \$0.00001 per share and 10,000,000 authorized shares of preferred stock with a par value of \$0.00001 per share.

As of May 10, 2018, ALPHAEON, which is majority-owned by SCH-AEON, LLC, or SCH, owns 78.6% of the Company’s outstanding shares of common stock.

In connection with the completion of its IPO, the Company also entered into a services agreement (“Services Agreement”) with ALPHAEON Corporation (“ALPHAEON”), its controlling stockholder. The Services Agreement sets forth certain agreements between ALPHAEON and the Company that govern the respective responsibilities and obligations between ALPHAEON and the Company as it relates to the services to be performed between the parties. Pursuant to the Services Agreement, ALPHAEON provides the Company, and the Company provides ALPHAEON, certain administrative and development support services. Prior to the IPO, the Company was dependent upon ALPHAEON for a majority of its working capital and financing requirements.

Liquidity and Financial Condition

The accompanying unaudited condensed financial statements have been prepared on a basis that assumes that the Company will continue as a going concern. Since inception, the Company has incurred recurring net operating losses. The Company has recorded net loss and comprehensive losses of 6.2 million and 4.0 million for the three months ended March 31, 2018, and 2017. Additionally, the Company used \$2.2 million and \$5.6 million cash for operations in the three months ended March 31, 2018, and 2017, respectively. As of March 31, 2018, the Company had 49.6 million in cash and cash equivalents and had an accumulated deficit of 82.3 million. Subsequent to December 31, 2017, the Company completed its IPO and received net proceeds of approximately \$56.3 million after deducting underwriting discounts and commissions, excluding other offering costs.

The Company believes that its current capital resources will be sufficient to fund operations through at least the next twelve months from the date the financial statements are issued based on the expected cash burn rate. The Company may be required to raise additional capital to fund future operations through the sale of its equity securities, incurring debt, entering into licensing or collaboration agreements with partners, grants or other sources of financing. Sufficient funds may not be available to the Company at all or on attractive terms when needed from equity or debt financings. If the Company is unable to obtain additional funding from these or other sources when needed, or to the extent needed, it may be necessary to

Evolus, Inc.

Notes to Condensed Financial Statements

significantly reduce its scope of operations and its current rate of spending through reductions in staff and delaying, scaling back, or suspending certain research and development or sales and marketing programs and other operational goals. There can be no assurance, however, that such funding efforts will be successful or that, in the event they are successful, the terms and conditions of such financing will be favorable to the company

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements for the periods prior to the Company's IPO have been prepared on a standalone basis and are derived from ALPHAEON's consolidated financial statements and accounting records. The Company's financial statements included an allocation of certain assets and liabilities that have historically been held at the ALPHAEON corporate level but which were specifically identifiable or allocable to the Company. The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the instructions to Form 10-Q and Article 10 of Regulation S-X. These results reflect amounts attributable to the Company's business, including the costs ALPHAEON incurred for the development and commercialization of the Product and costs and expenses under the License and Supply Agreement (the "Daewoong Agreement") entered into with Daewoong Pharmaceuticals Co., Ltd. ("Daewoong"), a South Korean pharmaceutical manufacturer, in September 2013, as further described below in Note 5, *Commitments and Contingencies*.

Prior to February 12, 2018, ALPHAEON charged the Company external and internal administrative and research and development expenses ALPHAEON incurred on the Company's behalf. External research and development expenses charged to the Company included costs for contract research organizations ("CROs"), costs to conduct nonclinical and clinical studies on the Product, costs to acquire and evaluate clinical study data such as investigator grants, patient screening fees and laboratory work, and fees paid to consultants. ALPHAEON charged these costs to the Company at the same amount that ALPHAEON incurred such cost. Internal development expenses included costs for the work that ALPHAEON development employees perform for the Company. ALPHAEON charged the Company a full-time equivalent ("FTE") rate that covers personnel-related expenses, including salaries and benefits, plus an allocation of facility-related expenses, including rent, utilities, depreciation, insurance and property taxes, for those research and development employees who work either directly or indirectly on the development of the Company's drugs and certain administrative employees. ALPHAEON calculated the facility-related expenses to the Company based on a percentage of aggregate expenses incurred at ALPHAEON. ALPHAEON calculated depreciation expense of property and equipment using the straight-line method over the estimated useful lives of its assets of 3 to 5 years.

As a result, the Company historically incurred related party borrowings from ALPHAEON for its share of the internal and external expenses for each of these functions based on the Company's relative use of each function, plus an allocation of facility-related expenses. The Company's management believes that the allocation and results were reasonable for all periods presented. However, allocations may not be indicative of actual expense Evolus would have incurred had it operated as an independent company for the periods presented. Pursuant to the Services Agreement (see Note 1, *Organization*) executed in connection with the IPO and as of March 31, 2018, the Company incurred related party accounts payable to ALPHAEON of \$0.7 million.

The Company has calculated its income tax amounts using a separate return methodology and has presented these amounts as if it were a separate taxpayer from ALPHAEON in each jurisdiction for each period the Company presented. Subsequent to the IPO, the Company will prepare a stand-alone tax return. As of March 31, 2018 and December 31, 2017, the Company did not have a tax sharing agreement with ALPHAEON.

The accompanying unaudited condensed financial statements and related disclosures have been prepared pursuant to Securities and Exchange Commission (the "SEC"), rules and regulations regarding interim financial reporting and should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. As permitted under those rules, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted.

Evolus, Inc.

Notes to Condensed Financial Statements

The unaudited condensed financial statements have been prepared on the same basis as the annual financial statements. In the opinion of Company management, the interim financial statements reflect all adjustments, which include normal recurring adjustments, considered necessary for a fair statement of the interim periods. The results for the period ended March 31, 2018 are not necessarily indicative of the results of operations to be expected for the full year ending December 31, 2018 or for any other interim period.

Acquisition

The accounting for acquisitions requires extensive use of estimates and judgments to measure the fair value of the identifiable tangible and intangible assets acquired, including in-process research and development (“IPR&D”), and liabilities assumed. Additionally, the Company must determine whether an acquired entity is considered to be a business or a set of net assets, because the excess of the purchase price over the fair value of net assets acquired can only be recognized as goodwill in a business combination.

Evolus was formed in November 2012 for the purposes of developing the Product for distribution and sale. In October 2013, in a Stock Purchase Agreement, SCH acquired all of the Company’s outstanding equity from certain former stockholders of the Company (the “Evolus Contributors”) in exchange for 15,000 Class AA units of SCH and 15,000 Class D units of SCH, which resulted in SCH obtaining a controlling financial interest in Evolus. Prior to the transaction with SCH, Evolus had executed the Daewoong Agreement with Daewoong and thereby secured exclusive rights to license and distribute the Product for aesthetic indications in the United States and certain other international markets, as well as non-exclusive rights to distribute in Japan (see Note 4, *Related Party Transactions*). The acquisition of the Company, which represented a business combination by SCH, was to provide SCH and ALPHAEON, access to the license held by Evolus to develop, produce and market clinical neurotoxins.

In a series of related transactions in 2013, SCH, acquired all of the Company’s outstanding equity in exchange for membership interests in SCH. In 2014, SCH contributed equity that it had acquired in 2013 to ALPHAEON. As a result of these transactions, the Company became a wholly-owned subsidiary of ALPHAEON. The Company remained a wholly-owned subsidiary of ALPHAEON until the completion of the IPO.

SCH elected to apply push-down accounting pursuant to the guidance in ASC 805, *Business Combinations*. Accordingly, the financial statements reflect the new basis of accounting established by SCH when SCH obtained control of the Company in October 2013. The assets acquired and liabilities assumed in connection with the acquisition were recognized based on their estimated fair values at the acquisition date. The determination of estimated fair values requires significant estimates and assumptions including, but not limited to, determining the timing and estimated costs to complete the in-process projects, projecting regulatory approvals, estimating future cash flows and developing appropriate discount rates. The estimated fair values assigned to the assets acquired and liabilities assumed were based on reasonable assumptions.

In connection with the acquisition, SCH and ALPHAEON, entered into a stock purchase agreement (the “Stock Purchase Agreement”) pursuant to which they were obligated to make certain contingent payments to the Evolus Contributors. However, since Evolus did not have an obligation associated with the contingent consideration arrangement prior to February 12, 2018, no amounts were recognized in the Company’s financial statements for the contingent royalty obligation arrangement between SCH and ALPHAEON, and the Evolus Contributors. As described in Note 4, *Related Party Transactions*, on December 14, 2017, SCH and ALPHAEON entered into an amendment to the Stock Purchase Agreement (the “Amended Purchase Agreement”), and the Company joined as a contractual party. Certain of the Evolus Contributors from whom SCH purchased its equity interests include individuals employed by the Company in operational roles, including J. Christopher Marmo, Ph.D., the Company’s Chief Operating Officer.

Pursuant to the Amended Purchase Agreement, ALPHAEON’s existing payment obligations set forth in the Stock Purchase Agreement were replaced with revised payment obligations, which will be payable directly to the Evolus Contributors. As provided in the Amended Purchase Agreement, upon the closing of the IPO on February 12, 2018, ALPHAEON immediately and automatically assigned to the Company its payment obligations under the Amended Purchase Agreement. The fair value of these payment obligations are referred to as the “contingent royalty obligation” and the “contingent promissory note” in the accompanying condensed balance sheets.

Evolus, Inc.

Notes to Condensed Financial Statements

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, judgments, and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes. Actual results could materially differ from those estimates, judgments, and assumptions. Management considers many factors in selecting appropriate financial accounting policies and controls and in developing the estimates and assumptions that are used in the preparation of these financial statements. Management must apply significant judgment in this process. In addition, other factors may affect estimates, including expected business and operational changes, sensitivity and volatility associated with the assumptions used in developing estimates, and whether historical trends are expected to be representative of future trends. The estimation process often may yield a range of potentially reasonable estimates of the ultimate future outcomes, and management must select an amount that falls within that range of reasonable estimates.

On an ongoing basis, the Company evaluates the most significant estimates, including those related to the fair values of financial instruments, intangible assets and goodwill, useful lives of intangible assets, joint and several liability obligations, and royalty obligations, among others. Although the Company bases these estimates on historical experience, knowledge of current events and actions it may undertake in the future, and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments over the carrying values of assets and liabilities, this process may result in actual results differing materially from those estimated amounts used in the preparation of the financial statements.

Risk and Uncertainties

The Company has not commenced principal operations in the form of commercialized product sales. The Product requires regulatory approval from the U.S. Food and Drug Administration (“FDA”), the European Medicines Agency, and other similar regulatory authorities prior to commercial sales. The Company’s current and any future product candidates may not receive the necessary approvals. If the Company is denied approval or approval is delayed, it may have a material adverse impact on the Company’s business and its financial statements.

The Company is subject to risks common to early stage companies in the pharmaceutical industry including, but not limited to, dependency on the clinical and commercial success of its current and any future product candidates, ability to obtain regulatory approval of its current and any future product candidates, the need for substantial additional financing to achieve its goals, uncertainty of broad adoption of its approved products, if any, by physicians and patients, significant competition and untested manufacturing capabilities.

Segment Reporting

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker in making decisions regarding resource allocation and assessing performance. The Company has determined that it operates in a single operating and reportable segment. The Company’s chief operating decision maker, its Chief Executive Officer, manages operations and reviews the financial information as a single operating segment for purposes of allocating resources and evaluating its financial performance.

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or an exit price paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value hierarchy defines a three-tiered valuation hierarchy for disclosure of fair value measurement is classified and disclosed by the Company in one of the three categories as follows:

- Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Evolus, Inc.

Notes to Condensed Financial Statements

- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly, or can be corroborated by observable market data for substantially the full term of the asset or liability; and
- Level 3—Prices or valuation techniques that require inputs that are unobservable that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The categorization of a financial instrument within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in a business combination. The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. The Company performs an annual qualitative assessment of its goodwill in the fourth quarter each calendar year to determine if any events or circumstances exist, such as an adverse change in business climate or a decline in the overall industry demand, that would indicate that it would more likely than not reduce the fair value of a reporting unit below its carrying amount, including goodwill. If events or circumstances do not indicate that the fair value of a reporting unit is below its carrying amount, then goodwill is not considered to be impaired and no further testing is required. If further testing is required, the Company performs a two-step process. The first step involves comparing the fair value of the Company's reporting unit to its carrying value, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step of the test is performed by comparing the carrying value of the goodwill in the reporting unit to its implied fair value. An impairment charge is recognized for the excess of the carrying value of goodwill over its implied fair value. For the purpose of impairment testing, the Company has determined that it has one reporting unit. There has been no impairment of goodwill for any of the periods presented.

Intangible Asset

The intangible asset in the accompanying condensed balance sheets represents IPR&D projects acquired that have not yet been completed. IPR&D assets with indefinite useful lives are not amortized, but instead tested for impairment until the successful completion and commercialization or abandonment of the associated research and development efforts, at which point the IPR&D assets are either amortized over their estimated useful lives or written-off immediately. There has been no impairment of long-lived assets for any periods presented.

Deferred Initial Public Offering Costs

Deferred offering costs, which primarily consist of direct incremental legal and accounting fees relating to the IPO, were capitalized. During the three months ended March 31, 2018, approximately \$2.9 million of deferred offering costs were offset against IPO proceeds upon the effectiveness of the IPO in February 2018. As of December 31, 2017, \$2.1 million of deferred offering costs were capitalized and deferred in "*Other assets*" on the balance sheet.

Joint and Several Liability Arrangements

The Company measures obligations resulting from joint and several liability arrangements as the sum of the amount that the Company has (i) agreed to pay on the basis of its arrangement among its co-obligors, and (ii) any additional amounts that the Company expects to pay on behalf of its co-obligors. The determination of the "best estimate" from within the range of amounts that might be paid involves substantial judgment by the Company's management. These estimates are subject to periodic revisions at each period as the joint and several liability is re-measured.

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Notes to Condensed Financial Statements

Contingent Payment Obligations Payable to the Evolus Contributors

The Company determined the fair value of the contingent royalty obligation payable to the Evolus Contributors under the Amended Purchase Agreement using a discounted cash flow method approach based on projected sales of the Product and an appropriate discount rate. Changes in the fair value of this contingent consideration are determined each period end and recorded in the operating expenses section of the condensed statements of operations and comprehensive loss and the non-current liabilities section of the condensed balance sheets. The fair value of the contingent royalty obligation could be impacted by changes such as: (i) changes in the discount rate assumed, or (ii) the amount and timing of sales of the Product, or (iii) a delay in FDA approval of the Product.

The Company also determined the fair value of the contingent promissory note payable at present value using a discount rate for similar rated debt securities and is based on an estimated date that the Company believes the contingent promissory note will mature. Accretion related to the contingent promissory note is recorded in interest expense of the condensed statements of operations and comprehensive loss with a corresponding increase to the non-current liabilities section of the condensed balance sheets. The fair value of the contingent promissory note could be impacted by changes such as: (i) changes in the discount rate, or (ii) a delay in the first commercial sale of the Product in the United States.

Stock-Based Compensation

The Company recognizes stock-based compensation expense for employees and non-employee directors based on fair value at the date of grant. The fair value of equity awards that are expected to vest is amortized on a straight-line basis over the requisite service period. Stock-based compensation expense recognized is net of an estimated forfeiture rate, which is updated as appropriate.

The Company uses the Black-Scholes option pricing model to value stock option grants. The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected volatility of the Company's common stock, expected risk-free interest rate, and the option's expected life. The fair value of the Company's restricted stock units are based on the closing market price of the Company's common stock on the date of grant and is amortized on a straight-line basis over the requisite service period.

Compensation cost related to the grant of ALPHAEON awards to the Company's employees is recognized as a capital contribution and in the statement of operations. The Company recorded stock-based compensation expense for the three months ended March 31, 2018, and 2017 of \$1.0 million and \$0.1 million, respectively.

Prior to the IPO, the ALPHAEON common stock awards were valued at fair value on the date of grant and that fair value is recognized over the requisite service period. Estimates were used to determine the fair value of these awards, as shares of ALPHAEON's common stock are not publicly traded. ALPHAEON common stock awards are subject to specified vesting schedules and requirements. The Company estimated the fair value of each ALPHAEON option on the date of grant using the Black-Scholes model. Stock-based compensation expense is allocated to the Company over the required service period over which these ALPHAEON common stock awards and options would vest and is based upon the relative percentage of time utilized by ALPHAEON employees on Company matters.

Income Taxes

The Company accounts for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are determined on the basis of differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

A valuation allowance is recorded against deferred tax assets, to reduce the net carrying value, by the Company when it is more likely than not that some portion or all of a deferred tax asset will not be realized. In making such a determination, management considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, and ongoing prudent and feasible tax planning strategies in assessing the amount of the valuation allowance. When the Company establishes or reduces the valuation allowance against its deferred tax assets, its provision for income taxes will increase or decrease, respectively, in the period such determination is made.

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Additionally, the Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefit recognized in the financial statements for a particular tax position is based on the largest benefit that is more likely than not to be realized upon settlement. Accordingly, the Company establishes reserves for uncertain tax positions. The Company has not recognized interest or penalties in its statement of operations and comprehensive loss.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “TCJA”). Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning in 2018. The Company has calculated its best estimate of the impact of the TCJA in its 2017 income tax provision in accordance with its understanding of the TCJA and guidance available as of the date of this filing.

In addition, the SEC Staff issued SAB 118, which provides guidance on accounting for the tax effects of the TCJA. SAB 118 provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the TCJA for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the TCJA.

The Company’s accounting for the following elements of the TCJA is incomplete, but the Company was able to make reasonable estimates of certain effects and, therefore, recorded provisional adjustments. The provisional amounts described below are subject to revisions as the Company completes its analysis of the TCJA, collection of any additional data, and interpretation of any additional guidance issued by the U.S. Treasury Department, Internal Revenue Service, the Financial Accounting Standards Board (“FASB”), and other standard-setting and regulatory bodies. The Company’s accounting for the tax effects of the TCJA will be completed during the one-year measurement period.

For certain of its deferred tax assets and deferred tax liabilities, the Company has recorded a provisional decrease in net deferred tax assets of \$3.2 million, with a corresponding decrease in the valuation allowance of \$9.6 million, and a reduction in the net deferred tax liability and a income tax benefit of \$6.3 million for the year ended December 31, 2017. This provisional estimate may be affected by other analysis related to the TCJA, including, but not limited to, adjustments made to estimates of 2017 federal temporary differences and state tax conformity with respect to federal tax provisions. There were no changes for the three months ended March 31, 2018 during the measurement period.

Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, excluding the effects of convertible preferred stock and stock options outstanding. Diluted net loss per share is computed by dividing the net loss by the sum of the weighted-average number of shares of common stock outstanding during the period plus the potential dilutive effects of convertible preferred stock and stock options outstanding during the period calculated in accordance with the treasury stock method but are excluded if their impact is anti-dilutive. Because the impact of these items is anti-dilutive during periods of net loss, there was no difference between the weighted-average number of shares used to calculate basic and diluted net loss per common share for the three months ended March 31, 2018 and 2017. See Note 8, *Net Loss per Share* for more information.

Recent Accounting Pronouncements

In May 2017, the FASB issued Accounting Standards Update (“ASU”), No. 2017-09, *Compensation—Stock Compensation (Topic 718)* (“ASU 2017-09”) which amends the scope of modification accounting for share-based payment arrangements. The amendment provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted. The Company adopted guidance effective January 1, 2018 and it did not have a material impact on its financial statements.

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In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). This standard simplifies the accounting for goodwill impairment by removing step two of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will be the amount by which a reporting unit's carrying amount, including goodwill, exceeds its fair value. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. ASU 2017-04 will be effective for the Company beginning January 1, 2022 (or January 1, 2020 should the Company cease to be classified as an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012). The standard requires prospective application. Early adoption is permitted. The Company is in the process of determining the effects the adoption will have on its financial statements as well as whether to early adopt the new guidance.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”), which clarifies when transactions should be accounted for as acquisitions (or disposals) of assets or business. The amendments were effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company adopted guidance effective January 1, 2018 and it did not have a material impact on its financial statements. However, any prospective impact to the financial statements will depend on the terms specified in any future transactions subject to the guidance in ASU 2017-01.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”) which requires restricted cash to be included in the beginning-of-period and end-of-period totals with cash and cash equivalents. The guidance is effective for public companies for fiscal years beginning after December 15, 2017, and interim periods within those years. The standard requires retrospective application. The Company adopted this standard on January 1, 2018. The adoption of the standard did not have a material impact on the Company's statement of cash flows. However, prior period restricted cash was added to the beginning cash and cash equivalents in the Condensed Statements of Cash Flows to conform to the current presentation.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”), that clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows. The guidance also clarifies how the predominance principle should be applied when cash receipts and cash payments have aspects of more than one class of cash flows. The guidance is effective for public companies for fiscal years beginning after December 15, 2017, and interim periods within those years. The Company adopted this standard on January 1, 2018 using the retrospective approach. The adoption of the standard did not have a material impact on the Company's statement of cash flows.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (“ASU 2016-02”), which amends the existing accounting standards for leases. In September 2017, the FASB issued ASU No. 2017-13, which provides additional clarifications and implementation guidance on previously issue ASU 2016-02. The new guidance requires lessees to put most leases on their balance sheet but to recognize expenses on their income statement in a manner similar to current accounting principles; this will include qualitative and quantitative disclosures in the Company's notes to the financial statements. The new guidance also eliminates the current real estate-specific provisions for all entities. The standard is effective for public companies for annual periods beginning after December 15, 2018, including interim periods within those years. Early adoption is permitted. The Company is in the process of assessing the impact of the adoption of the standard on the Company's financial statements.

Note 3. Goodwill and Intangible Asset

Goodwill and intangible assets were established as a result of the application of push-down accounting in connection with the acquisition by SCH in October 2013, as described in Note 2, *Summary of Significant Accounting Policies*. The excess of the purchase price of \$56.3 million over the fair value of net assets acquired was recognized as goodwill. Goodwill recognized in connection with the acquisition is not deductible for tax purposes. The net assets acquired as of the acquisition date comprised solely of IPR&D valued at \$56.1 million and a deferred tax liability of \$20.9 million, which represented the difference between the book and tax basis related to the IPR&D asset. The IPR&D asset related to the development of the Product in clinical trials in the United States as of the acquisition date.

Goodwill of \$21.2 million was recognized based on the excess of consideration transferred over the net assets acquired. As of March 31, 2018 and December 31, 2017, the carrying value of the IPR&D in the accompanying condensed balance sheets was \$56.1 million.

The estimated fair value of the IPR&D asset on the acquisition date was determined using a discounted cash flow model using an income approach (the multiple-period excess earnings method). Significant assumptions used in the valuation included projected future cash flows, projected costs, a weighted average cost of capital and appropriate discount rates.

The IPR&D recognized represents the license and associated distribution rights to develop the Product and the ability to pursue new indications and is subject to the success of clinical studies. As part of the transaction, \$13.5 million in additional cash consideration is due to Daewoong based upon Evolus' successful completion of certain technical and sales milestones. The fair value of the milestones was recorded by the Company as an element of the acquired IPR&D at the acquisition date.

The IPR&D asset is classified as an indefinite-lived intangible asset until the successful completion and commercialization or abandonment of the associated research and development efforts.

Note 4. Related Party Transactions

Services with ALPHAEON

Prior to the Company's IPO and since the Company's acquisition in 2014 by ALPHAEON, the Company had funded its operations primarily through contributions and related party borrowings from ALPHAEON. ALPHAEON has historically provided Evolus certain services, including, without limitation, research and development, general and

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administrative support services and support services. ALPHAEON had historically allocated a certain percentage of personnel to perform the services that it provides to the Company based on its good faith estimate of the required services. These allocated costs reflect the ALPHAEON FTE rate for the applicable personnel, plus out-of-pocket expenses such as occupancy costs associated with the FTEs allocated to providing Evolus these services. Evolus historically had not paid a mark-up on the external or internal expenses ALPHAEON allocated to it. Prior to February 12, 2018, all research and development, general and administrative, and other support services expenses shown in the Company's financial statements for 2018 and 2017 excluding stock-based compensation which is treated as a capital contribution, were treated as related party borrowings from ALPHAEON.

In January 2018, the Company entered into the Services Agreement with ALPHAEON, which became effective upon the Company's IPO. The Services Agreement sets forth certain agreements between ALPHAEON and the Company that governs the respective responsibilities and obligations between ALPHAEON and the Company as it relates to the services to be performed between them. The Services Agreement has a one year term and thereafter will renew for successive one year terms unless sooner terminated by either party. The Company or ALPHAEON may terminate the Services Agreement upon sixty days' notice to the other party. In accordance with the Services Agreement, the Company paid ALPHAEON \$5.0 million during the first quarter of 2018, subsequent to the IPO.

As of March 31, 2018 Evolus owed ALPHAEON \$0.7 million in related party accounts payable. As of December 31, 2017, Evolus owed ALPHAEON \$72.6 million in related party borrowings. See Note 6, *Stockholders' Equity (Deficit)—Deemed Distribution and Capital Contribution* for information around the Company's reorganization of its assets and liabilities immediately preceding, and in connection, with the IPO.

The following table summarizes the amounts included in Evolus' general and administrative expenses as disclosed in the accompanying condensed statements of operations and comprehensive loss that were generated by transactions with ALPHAEON for the following periods (in thousands):

	Three Months Ended	
	March 31,	
	2018	2017
Compensation and benefits	\$ 184	\$ 298
Third party service fees	84	319
Stock-based compensation	30	139
Facility related expenses	80	430
Other	5	140
	<u>\$ 383</u>	<u>\$ 1,326</u>

Note Obligation

In 2016, ALPHAEON entered into two separate debt transactions: (i) a convertible note with one of its shareholders, also a related party (the "Bridge Note") with a principal amount of \$2.5 million and (ii) a Secured Convertible Note Purchase Agreement (the "Purchase Agreement") pursuant to which ALPHAEON could issue up to an aggregate of \$55.0 million ("Note Facility" and together with the Bridge Note, the "Notes"). The Notes have substantially similar terms and accrue simple interest at a rate of ten percent (10%) per annum, subject to adjustment pursuant to terms of the Notes. The Notes may be paid at a redemption price equal to 2.5 times the face amount of the Note less any prepayment of principal and any principal amount of the Notes that may convert into shares of ALPHAEON on (i) maturity in December 2018, (ii) a required prepayment event, or (iii) prepayment at any time at ALPHAEON's election. Upon the occurrence of certain corporate events at ALPHAEON, at the election of the holder, the Notes will convert into a variable number of shares of ALPHAEON with an aggregate fair value equaling the principal value of the Notes or such Notes will continue to maturity as unsecured promissory notes with a reduced interest rate.

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Notes to Condensed Financial Statements

ALPHAЕON's obligations under the Notes are secured by a first priority lien and security interest in substantially all of ALPHAЕON's assets, including all of the shares of the Company's capital stock held by ALPHAЕON, which as of December 31, 2017 represented all of the Company's outstanding capital stock, as collateral for the holders of the Notes.

In April 2017, ALPHAЕON amended and restated the Purchase Agreement (the "Amended and Restated Secured Note Purchase Agreement") with the Note holders to amend and restate the terms of the Purchase Agreement and the outstanding Notes and form of Notes to be issued. In addition, the Purchase Agreement was amended and restated to, among other things, set forth the terms for the issuance of up to an additional \$30.0 million in principal amount of Notes. Concurrent with the Amended and Restated Secured Note Purchase Agreement, the Company also executed two substantially similar guaranty and security agreements (the "Guaranty Agreements"), with the holders of the Notes. Pursuant to the Guaranty Agreements, the Company absolutely, unconditionally and irrevocably guaranteed, as primary obligor and not merely as surety, the full and punctual payment when due, whether at stated maturity or earlier, by reason of acceleration all the obligations of the Notes. In addition, pursuant to the Guaranty Agreements, the Company agreed to a first priority lien and security interest in and to all its right, title and interest in the assets of the Company. As a result of executing the Guaranty Agreements, there was no requirement that the holders of the Notes first seek payment from ALPHAЕON. Instead, they may demand payment from the Company, from ALPHAЕON or from both simultaneously.

The Amended and Restated Secured Note Purchase Agreement and Guaranty Agreements stipulate that any payment by the Company under their terms shall result in a dollar-for-dollar offset and reduction in the amount of related party loans owed by the Company to ALPHAЕON. The Guaranty Agreements will terminate upon the earlier of (i) the date on which all secured obligations under the Guaranty Agreements have been paid and performed in full and (ii) the date on which the entire outstanding principal amount of the Notes has been either converted into equity or unsecured notes pursuant to the terms of the Notes.

Concurrent with the execution of the Guaranty Agreements with the holders of the Notes in April 2017, the Company jointly and severally agreed to pay the redemption amount of 2.5 times the principal amount of the Notes upon maturity if not paid by ALPHAЕON. As a co-obligor to these Notes, the Company applied the accounting guidance provided in ASC 405-40, *Obligations Resulting from Joint and Several Liability Arrangements*. This guidance requires companies to measure obligations resulting from joint and several liability arrangements as the sum of the amount that the entity has (a) agreed to pay on the basis of its arrangement with its co-obligors and (b) any additional amount that the entity expects to pay on behalf of its co-obligors.

The Company initially recorded a liability and corresponding deemed distribution to ALPHAЕON as a reduction to additional paid-in-capital in equity in April 2017 to reflect the joint and several liability. These amounts were subsequently adjusted to reflect changes in the balance of the Note obligation. As the Company and ALPHAЕON had not agreed to what portion of this joint and several liability each would pay, the Company developed a range of amounts that it expected to pay under the Guaranty Agreements and selected the amount from within that range that it determined to be the best estimate, which equaled \$138.7 million as of December 31, 2017 (2.5 times the outstanding principal amount of the Notes as of that date), representing the total principal amount due to the Note holders upon redemption of the Notes at maturity.

On December 14, 2017, the Company and ALPHAЕON entered into amendments with the holder of the convertible bridge note, and with the collateral agent for the holders of the convertible promissory notes. Under the terms of the amendment it was agreed that the Company's guaranty of the Notes and the security interest in the Company's assets would terminate effective upon the closing of the IPO.

Subsequent to December 31, 2017, ALPHAЕON issued \$0.8 million additional convertible promissory notes, including \$0.1 million convertible promissory notes to Murthy Simhambhatla, Ph.D., the Company's former President and Chief Executive Officer and former member of the board of directors. As a result of this additional issuance, the total note obligations under all the Notes increased to \$140.7 million (2.5 times the total outstanding principal amount of \$56.3 million) on January 16, 2018.

As provided for within the Amended and Restated Secured Note Purchase Agreement and Guaranty Agreements, in conjunction with its recognition of the joint and several liability, the Company also recorded a receivable from ALPHAЕON,

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Notes to Condensed Financial Statements

which equals the current balance of the amounts it owed to ALPHAEON under its related party borrowing arrangements. No amounts were paid under this joint and several liability by the Company in the year ended December 31, 2017. The difference between the amount of the joint and several liability and the related party receivable of \$66.1 million in the year ended December 31, 2017, was recorded as a deemed contribution from ALPHAEON, in stockholders' equity (deficit) to additional paid-in capital in the period the transaction with the related party was made. Amounts in excess of additional paid-in capital were recorded into accumulated deficit.

As of February 12, 2018, the Company was released of all guaranty and security obligations under the Guaranty Agreements and the security interest in Evolus' assets was terminated. See Note 6, *Stockholders' Equity (Deficit)-Equity Related Transactions*, for more information regarding equity transactions that occurred in connection with the IPO.

Evolus Contributors

Certain of the Evolus Contributors from whom SCH purchased its equity interests include individuals employed by the Company in operational roles, including J. Christopher Marmo, Ph.D., the Company's Chief Operating Officer.

Payment Obligations Related to the Acquisition by ALPHAEON

In connection with the acquisition by SCH and ALPHAEON, as described in Note 2, *Summary of Significant Accounting Policies*, the Evolus Contributors were issued Class D units of SCH which contained certain rights and privileges that provide the Evolus Contributors with a 10% economic interest in Evolus. The original payment obligations included (i) a \$10.0 million up-front payment upon obtaining FDA approval for the Product for the treatment of glabellar lines, (ii) perpetual quarterly royalties of a mid-teen percentage of net sales of the Product within the United States and (iii) a high-single digit percentages of net sales of the Product outside of the United States. As these future royalty streams were perpetual, ALPHAEON had the right under the Stock Purchase Agreement to terminate any future payments for a one-time lump sum payment to SCH of \$145.0 million.

On December 14, 2017, SCH and ALPHAEON entered into the Amended Purchase Agreement, whereby Evolus also joined as a contractual party. Pursuant to the Amended Purchase Agreement, ALPHAEON's existing payment obligations were replaced with revised payment obligations, payable directly to the Evolus Contributors, to be distributed to them ratably in accordance with their previous respective percentage ownership in Series A preferred stock, and in exchange for the cancellation of the Class D units of SCH. Pursuant to the Amended Purchase Agreement, effective upon the closing of the IPO, ALPHAEON immediately and automatically assigned to Evolus and Evolus immediately and automatically accepted and assumed all of ALPHAEON's payment obligations under the Stock Purchase Agreement, as amended by the Amended Purchase Agreement.

Under the Amended Purchase Agreement, the revised payment obligations consist of (i) an approximately \$9.2 million up-front payment upon obtaining FDA approval for the Product for the treatment of glabellar lines, (ii) quarterly royalty payments of a low single digit percentage of net sales of the Product within the United States, (iii) quarterly royalty payments of a low single digit percentage of net sales of the Product outside of the United States, and (iv) a \$20.0 million promissory note that will mature on the 2.5 years anniversary of the first commercial sale of the Product in the United States. The revised payment obligations set forth in (ii) and (iii) above will terminate in the quarter following the 10 year anniversary of the first commercial sale of the Product in the United States. As these revised payment obligations are not perpetual, neither Evolus nor ALPHAEON will have the right to terminate any future payments for a one-time lump sum payment. Under the Amended Purchase Agreement, the Company recorded the fair value of all revised payment obligations and the promissory note owed to the Evolus Contributors of \$56.7 million (comprised of \$40.6 million related to the contingent royalty obligation and \$16.1 million related to the contingent promissory note) as of February 12, 2018. See Note 7, *Fair Value Measurements* for more information about the Company's accounting thereof. In addition, the outstanding related party borrowings from ALPHAEON were set-off and reduced, on a dollar-for-dollar basis, taking into account the then-fair value of all payment obligations Evolus assumed from ALPHAEON, the fair value of which, as of February 12, 2018, was \$56.7 million.

Under the Amended Purchase Agreement, Evolus agreed to make one-time bonuses of \$1.6 million to certain of its employees upon FDA approval of the Product, including a one-time bonus of \$700,000 payable to Rui Avelar, M.D., Evolus' Chief Medical Officer.

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Evolus will have the right to prepay the promissory note, in whole or in part, at any time and from time to time without penalty. Upon an event of default under the promissory note, all unpaid principal will become immediately due and payable at the option of the holder. An event of default will occur under the terms of the promissory note upon any of the following events: (i) Evolus fails to meet the obligations to make the required payments thereunder, (ii) Evolus makes an assignment for the benefit of creditors, (iii) Evolus commences any bankruptcy proceeding, (iv) Evolus materially breaches the Stock Purchase Agreement or Tax Indemnity Agreement (which is defined below) and such breach is not cured within 30 days, or (v) when ALPHAEON was the borrower, there occurs an event of default under the Notes that is not cured during the applicable cure period or waived by the noteholders, and such noteholders have exercised their rights to foreclose on the collateral securing the Notes under ALPHAEON's pledge of its assets, as discussed further below. No event of default was triggered or payment by ALPHAEON was made under the promissory note prior to the closing of the IPO.

In addition, upon a change-of-control of Evolus, all unpaid principal will become immediately due and payable. Under the terms of the promissory note, a change-of-control is defined as (i) the sale of all or substantially all of Evolus' assets, (ii) the exclusive license of the Product or the business related to the Product to a third-party (other than a sublicense under the Daewoong Agreement), or (iii) any merger, consolidation, or acquisition of Evolus, except a merger, consolidation, or acquisition of Evolus in which the holders of capital stock of Evolus immediately prior to such merger, consolidation, or acquisition hold at least 50% of the voting power of the capital stock of Evolus or the surviving entity. Notwithstanding the foregoing, the promissory note expressly provides that neither the IPO or any merger with or acquisition by ALPHAEON or any of its subsidiaries or affiliates constitutes a change-of-control.

Further, under the Amended Purchase Agreement, Evolus, ALPHAEON and SCH agreed to terminate the non-competition provision set forth in the contribution agreement, pursuant to which the Evolus Contributors were prohibited, subject to limited exceptions, for a period of 5 years from October 2013, from engaging in any business relating to the development, license, commercialization of, or performing any services or supervisory functions for persons or entities engaged in any business related to, a neurotoxin or neuromodulator.

As of March 31, 2018, the Company revalued the fair value of the obligations and recorded a \$0.9 million charge in the condensed statements of operations and comprehensive loss. The Company will revalue the obligations at each reporting period.

In connection with the Amended Purchase Agreement, Evolus entered into a tax indemnity agreement with the Evolus Contributors ("Tax Indemnity Agreement") pursuant to which, effective upon Evolus' assumption of the revised payment obligations under the Amended Purchase Agreement, which occurred upon the completion of the IPO, Evolus was obligated to indemnify the Evolus Contributors for any tax liability resulting from such assignment of the revised payment obligations from ALPHAEON to Evolus. Under the Stock Purchase Agreement, the payment obligations are contingent and are thus eligible for installment sale reporting under Section 453 of the Internal Revenue Code of 1986, as amended. The entry into the Amended Purchase Agreement would cause the Evolus Contributors to be treated for U.S. federal income tax purposes as receiving a distribution from SCH of the right to receive the contingent payments in a transaction in which no gain or loss is recognized such that the Evolus Contributors may continue installment sale reporting with respect to the revised payment obligations to the same extent that installment sale reporting was available to SCH with respect to the original payment obligations prior to the execution of the Amended Purchase Agreement. Under the Tax Indemnity Agreement, Evolus was obligated to indemnify the Evolus Contributors for any taxes or penalties required to be paid by the Evolus Contributors in the event the U.S. Internal Revenue Service or other taxing authority were to determine that Evolus' assumption of the revised payment obligations under the Amended Purchase Agreement rendered continued installment sale reporting unavailable to the Evolus Contributors. Any taxes or penalties paid by us on behalf of the Evolus Contributors under the Tax Indemnity Agreement will be offset dollar-for-dollar against the promissory note and future royalties that will be payable to the Evolus Contributors under the Amended Purchase Agreement.

Exclusive Distribution and Supply Agreement with Clarion Medical Technologies Inc.

On November 30, 2017, the Company entered into an exclusive distribution and supply agreement (the "Distribution Agreement"), with Clarion Medical Technologies Inc. ("Clarion"). The Distribution Agreement provides terms pursuant to which the Company will exclusively supply the Product to Clarion in Canada, if approved. Clarion was previously a wholly-owned subsidiary of ALPHAEON. However, pursuant to previous agreements among ALPHAEON, Clarion, and previous

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equity holders of Clarion, the previous equity holders of Clarion had the option, and have exercised such option, to unwind ALPHAEON's acquisition of Clarion. As a result, ALPHAEON owes the equity holders of Clarion an unwinding fee of \$9.6 million (the "Unwinding Fee"). The Distribution Agreement sets forth that a portion of the proceeds received by the Company from each unit of the Product purchased by Clarion shall be paid directly to the previous equity holders of Clarion, and will reduce, on a dollar-for-dollar basis, the amount of the Unwinding Fee ALPHAEON owes. In addition, ALPHAEON and SCH have agreed with Clarion to pay the unpaid amount of the Unwinding Fee on December 31, 2022, if demanded by the previous equity holders of Clarion.

Under the Distribution Agreement, if the Company does not receive approval from Health Canada to promote and sell the Product in Canada prior to October 31, 2018, the Company will pay liquidated damages to Clarion in the amount of \$1.0 million within 30 days of December 31, 2018, which damages will not reduce the Unwinding Fee. The Company does not consider this an existing obligation to record as a liability as of March 31, 2018 or until the measurement date of October 31, 2018. As of March 31, 2018, no amounts have been paid towards the Unwinding Fee.

Therapeutic Option Letter Agreement

On December 18, 2017, the Company entered into a therapeutic option letter agreement with ALPHAEON relating to certain rights to the therapeutic indications of the Product under the Daewoong Agreement. The Company may exercise the therapeutic option upon thirty days' notice to Daewoong. The therapeutic option expires December 31, 2018. The Company recorded this transaction as a reduction in the related party borrowings and a non-cash capital contribution from ALPHAEON, in stockholders' deficit of additional paid-in capital.

Note 5. Commitments and Contingencies***Operating Lease***

The Company leases its Santa Barbara, California offices under an operating lease. The office lease is with a third-party vendor under a non-cancelable operating lease. The office lease includes rent escalation clauses which are recorded on a straight-line basis with the difference between the rent expense accounted for over the term of the lease and actual amounts paid. Total rental expense, including allocated lease expense from ALPHAEON for the Irvine, California office, for the three months ended March 31, 2018 and 2017 was \$52,000 and \$41,000, respectively.

As of March 31, 2018, future minimum payments under the operating lease agreement with non-cancelable terms greater than one year are as follows (in thousands):

Remainder of 2018	\$	179
2019		175
2020 and thereafter		74
	\$	<u>428</u>

FDA Milestone Payments

In connection with the Daewoong Agreement, as described in detail below, the Company is obligated to make future milestone payments for certain confidential development and commercial milestones associated with the Product.

License and Supply Agreement

In October 2013, Evolus entered into the Daewoong Agreement with Daewoong. Pursuant to the Daewoong Agreement, the Company has an exclusive distribution license to the Product from Daewoong for aesthetic indications in the United States, European Union, Canada, Australia, Russia, Commonwealth of Independent States, and South Africa, as well as co-exclusive distribution rights with Daewoong in Japan. The Company also has an option to exercise a similar license in these territories for therapeutic indications by the end of 2018, which it has assigned to ALPHAEON during the fourth quarter of 2017 for a

Evolus, Inc.

Notes to Condensed Financial Statements

\$2.5 million reduction in related party borrowings. The Product will be manufactured by Daewoong in a recently constructed facility in South Korea that is designed with the intention of complying with FDA and the European Medicines Agency's current Good Manufacturing Practice requirements. The Company also has the option to negotiate first with Daewoong to secure a distribution license for any product that Daewoong directly or indirectly develops or commercializes that is classified as an injectable botulinum toxin (other than the Product) in a territory covered by the Daewoong Agreement.

The Daewoong Agreement also includes certain minimum annual purchases the Company is required to make in order to maintain the exclusivity of the license. The Company may, however, meet these minimum purchase obligations by achieving certain market share in its covered territories. These potential minimum purchase obligations are contingent upon the occurrence of future events, including receipt of governmental approvals and the Company's future market share in various jurisdictions.

Legal Proceedings

The Company, from time to time, is involved in various litigation matters or regulatory encounters arising in the ordinary course of business that could result in unasserted or asserted claims or litigation. The Company is not subject to any currently pending legal matters or claims that would have a material adverse effect on its accompanying financial position, results of operations or cash flows.

In the normal course of business, the Company enters into contracts and agreements that contain a variety of representations and warranties and provide for general indemnifications. The Company's exposure under these agreements is unknown because it involves claims that may be made against the Company in the future, but have not yet been made. The Company accrues a liability for such matters when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. No amounts were accrued as of March 31, 2018 and December 31, 2017.

Medytox Litigation

The Company, ALPHAEON, SCH and Daewoong are defendants to a lawsuit brought by Medytox, Inc. ("Medytox") alleging, among other things, that Daewoong stole Medytox's botulinum toxin bacterial strain and that Daewoong misappropriated certain trade secrets of Medytox, including the process used to manufacture the Product. The Company intends to vigorously defend Medytox's claims. Given the early stage in the Medytox litigation, the Company is unable to determine the likelihood of success of Medytox's claims against the Company, and an estimate of the possible loss or range of loss cannot be made. While the Company is entitled to indemnity under the Daewoong Agreement, the indemnity may not be sufficient.

Citizen Petition

In December 2017, Medytox filed a Citizen Petition (the "Citizen Petition") with the FDA. The Citizen Petition seeks to delay approval of the Biologics License Application submitted by the Company to the FDA in May 2017 for the Product until the FDA determines the identity and source of the botulinum strain for the Product and validates the integrity of the data and information in the Biologics License Application. Medytox further requests that the FDA require the source and identity information in the Biologics License Application to include a single nucleotide polymorphism analysis of the whole genome sequence of the botulinum strain for the Product.

Indemnification

In accordance with the Company's amended and restated certificate of incorporation and amended and restated bylaws, the Company has indemnification obligations to its officers and directors for certain events or occurrences. There have been no claims to date and the Company has a director and officer insurance policy that may enable it to recover amounts paid for future claims.

Evolus, Inc.

Notes to Condensed Financial Statements

Note 6. Stockholders' Equity (Deficit)

On February 12, 2018, the Company completed its IPO of 5,047,514 shares of common stock, which included the exercise by the underwriters of their option to purchase 47,514 additional shares of common stock, for net proceeds of \$56.3 million, after deducting underwriting discounts and commissions, excluding other offering costs.

Convertible Series A Preferred Stock

At December 31, 2017, the Company had 2,500,000 shares of Series A preferred stock authorized, of which 1,250,000 were issued or outstanding. ALPHAEON, as the sole holder of Series A preferred stock, had certain dividends, conversion, redemption, voting, protective, and liquidation preferences. The number of shares of common stock to which a preferred stockholder was entitled was the product obtained by multiplying the Series A preferred stock conversion rate by the number of shares of preferred stock being converted, subject to adjustments as provided in the amended and restated certificate of incorporation.

In connection with the IPO, all shares of Series A preferred stock were converted into 2,065,875 shares of common stock. As a result, no shares of Series A convertible preferred stock were issued or outstanding as of March 31, 2018.

Preferred Stock

In connection with the completion of its IPO, the Company also amended and restated its certificate of incorporation to provide for 10,000,000 authorized shares of preferred stock with a par value of \$0.00001 per share. As a result and at March 31, 2018, the Company had 10,000,000 shares of preferred stock authorized, of which none were issued and outstanding.

Common Stock

At December 31, 2017, the Company had 20,000,000 shares of common stock authorized, of which 16,527,000 were issued and outstanding.

In connection with the completion of its IPO, the Company also amended and restated its certificate of incorporation to provide for 100,000,000 authorized shares of common stock with a par value of \$0.00001 per share. As a result and at March 31, 2018, the Company had 100,000,000 shares of common stock authorized, of which 23,640,389 were issued and outstanding.

Equity Related Transactions

As of February 12, 2018, the Company assumed from ALPHAEON the revised payment obligations under the Amended Purchase Agreement of \$56.7 million (comprised of \$40.6 million related to the contingent royalty obligation and \$16.1 million related to the contingent promissory note). Pursuant to the Amended Purchase Agreement, ALPHAEON agreed to offset and reduce the amount of related party borrowings by the estimated value of the revised payment obligations on a dollar-for-dollar basis and pursuant to the Services Agreement, the Company paid \$5.0 million to ALPHAEON in satisfaction of a portion of the outstanding related party borrowings (see Note 4, *Related Party Transactions*). The remaining balance of related party borrowings of \$13.2 million was recharacterized as a capital contribution from ALPHAEON pursuant to the Services Agreement.

2017 Omnibus Incentive Plan and Stock-based Compensation Allocation

On November 21, 2017, the board of directors and the then sole stockholder of the Company approved the Company's 2017 Omnibus Incentive Plan (the "Plan"). The Plan provides for the grant of incentive options to employees of the Company, and for the grant of nonstatutory options, restricted stock awards, restricted stock unit awards, stock appreciation rights, performance stock awards and other forms of stock compensation to the Company's employees, including officers, directors, consultants and employees of the Company. The maximum number of shares of common stock that may be issued under the Plan is 4,361,291 shares, plus an annual increase on each anniversary of November 21,

Evolus, Inc.

Notes to Condensed Financial Statements

2017 equal to 4% of the total issued and outstanding shares of the Company's common stock as of such anniversary (or such lesser number of shares as may be determined by the Company's board of directors). On January 6, 2018, pursuant to the Plan, the Company granted to certain of its employees and non-employee directors 1,496,005 options to purchase shares of its common stock ("Stock Options"), with an exercise price of \$9.98 per share. In addition, on January 6, 2018, pursuant to the Plan, the Company granted restricted stock units for 230,516 shares of its common stock with a per share fair value of \$9.98. The January 6, 2018 Stock Options were valued using the IPO price of the Company's common stock of \$12.00. On February 19, 2018, the Company granted to certain of its employees 102,835 options to purchase shares of its common stock with an exercise price of \$11.70 per share.

The following table summarizes stock-based compensation expense (in thousands) which was allocated to Evolus by ALPHAEON and amounts recorded by Evolus pursuant to the above Plan:

	Three Months Ended March 31,	
	2018	2017
General and administrative	\$ 677	\$ 139
Research and development	329	4
	<u>\$ 1,006</u>	<u>\$ 143</u>

Note 7. Fair Value Measurements

The carrying amounts of cash equivalents, accounts payable, and accrued liabilities are considered to be representative of their respective fair values because of the short term nature of those instruments.

Financial Instruments Not Recorded at Fair Value on a Recurring Basis

At March 31, 2018, the Company had \$49.6 million in cash and cash equivalents, a Level 1 asset; these cash and cash equivalents do not carry a maturity date. The Company believes the carrying value of cash and cash equivalents approximated its fair value. The Company did not carry a cash and cash equivalents balance at December 31, 2017.

At March 31, 2018, the Company had a \$20.0 million contingent promissory note payable, a Level 2 liability, to the representative of the Evolus Contributors, that will mature 2.5 years after the anniversary date of the first commercial sale of DWP-450 in the United States. The Company measures the fair value of this contingent promissory note at present value using a discount rate for similar rated debt securities and is based on an estimated date that the Company believes the contingent promissory note will mature. At March 31, 2018, the fair value of this contingent promissory note was \$16.1 million. Accretion related to the contingent promissory note is recorded in interest expense of the condensed statements of operations and comprehensive loss with a corresponding increase to the non-current liabilities section of the condensed balance sheets. The Company did not carry a contingent promissory note payable balance at December 31, 2017. The fair value of the contingent promissory note could be impacted by changes such as: (i) changes in the discount rate assumed, or (ii) a delay in the first commercial sale of the Product in the United States.

Financial Instruments Recorded at Fair Value on a Recurring Basis

The following table (in thousands) presents the major security types the Company held at March 31, 2018, that are measured at fair value on a recurring basis. The Company did not hold any major security types that required a fair value measurement on a recurring basis at December 31, 2017.

	Fair Value Hierarchy	March 31, 2018		
		Beginning Balance	Change in Fair Value	Ending Balance
Contingent royalty obligation payable to related party	Level 3 Liability	\$ 39,700	\$ 900	\$ 40,600

The Company determines the fair value of the contingent royalty obligation using a discounted cash flow method approach based on projected net sales of the Product and an appropriate discount rate. Changes in the fair value of this contingent royalty obligation are determined each period end and recorded in the operating expenses section of the condensed statements of operations and comprehensive loss and the non-current liabilities section of the condensed balance sheets, increasing the value of the promissory note. The significant unobservable input assumptions included in the calculations were the contingent period payment probabilities, based on low single digit percentage of net sales, a discount rate derived from rates related development stage companies, and the timing of payments. The fair value of the expected payments considers the time at which the obligations are expected to be settled and a discount rate that reflects the risk associated with the performance payments. The fair value of the contingent royalty obligation could be impacted by changes such as: (i) changes in the discount rate assumed, or (ii) the amount and timing of sales of the Product, or (iii) a delay in FDA approval of the Product.

There were no transfers between any level classifications during the three months ended March 31, 2018.

Evolus, Inc.**Notes to Condensed Financial Statements****Note 8. Net Loss per Share Attributable to Common Stockholders**

The following table sets forth the computation of the Company's basic and diluted net loss per share attributable to common stockholders (in thousands, except share and per share amounts):

	Three Months Ended March 31,	
	2018	2017
Net loss and comprehensive loss	\$ (6,162)	\$ (3,998)
Net loss per share, basic and diluted	\$ (0.30)	\$ (0.24)
Weighted-average shares outstanding used to compute basic and diluted net loss per share	20,226,460	16,527,000

The Company incurred a net loss for the three months ended March 31, 2018 and 2017, accordingly, the Company did not include the following dilutive common equivalent shares (in thousands):

	Three Months Ended March 31,	
	2018	2017
Common stock options	1,599	—
Unvested restricted stock units	231	—
	1,830	—

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion contains management’s discussion and analysis of our financial condition and results of operations and should be read together with the unaudited condensed financial statements and related notes include in Part I, Item 1 of this Quarterly Report on Form 10-Q and in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017 and other documents previously filed with the SEC. This discussion contains forward-looking statements that reflect our plans, estimates and beliefs and involve numerous risks and uncertainties, including but not limited to those described in Item 1A “Risk Factors” of this Quarterly Report on Form 10-Q. Actual results may differ materially from those contained in any forward-looking statements. You should carefully read “Special Note Regarding Forward-Looking Statements” and Item 1A “Risk Factors” of Part II of this Quarterly Report on Form 10-Q.

Overview

We are a medical aesthetics company focused on delivering advanced aesthetic procedures and treatments to physicians and consumers. We focus on the self-pay aesthetic market and our first product candidate, PrabotulinumtoxinA (DWP-450), is an injectable 900 kDa botulinum toxin type A complex designed to address the needs of the large and growing facial aesthetics market. We believe we will offer physicians and consumers a compelling value proposition with DWP-450. Currently, onabotulinumtoxinA (BOTOX) is the neurotoxin market leader and the only known approved 900 kDa botulinum toxin type A complex in the United States. We believe aesthetic physicians generally prefer the performance characteristics of the complete 900 kDa neurotoxin complex and are accustomed to injecting this formulation. We have completed the clinical development program for DWP-450 for the treatment of moderate to severe glabellar lines, also known as “frown lines,” between the eyebrows in the United States, EU and Canada. The U.S. Food and Drug Administration, or FDA, issued a Prescription Drug User Fee Act, or PDUFA date of May 15, 2018 for completion of its review of our Biologics License Application, or BLA. We submitted a Marketing Authorization Application, or MAA, to the European Medicines Agency, or EMA, and it was accepted for review in July 2017 with a decision expected by the second half of 2018. We have also submitted a New Drug Submission, or NDS, in Canada and it was accepted for review in October 2017 with a decision expected by the second half of 2018.

Since our inception in 2012, we have devoted substantially all our efforts to identify and recruit personnel, conduct clinical trials, and seek regulatory approval for our DWP-450 product candidate. Our resources have largely been devoted to the clinical development of DWP-450. On September 30, 2013, we entered into a License and Supply Agreement, or the Daewoong Agreement, with Daewoong Pharmaceuticals Co., Ltd., or Daewoong, a South Korean pharmaceutical manufacturer, pursuant to which Daewoong agreed to manufacture and supply us with DWP-450 and granted us an exclusive license to develop, distribute, market and sell the product in the United States, EU, Canada, Australia, Russia, Commonwealth of Independent States, or C.I.S., and South Africa, or the covered territories. Daewoong also granted us a non-exclusive license to do the same in Japan.

In a series of related transactions in 2013, SCH-AEON, LLC, or SCH, acquired all of our outstanding equity in exchange for membership interests in SCH. In 2014, SCH contributed our equity that it had acquired in 2013 to ALPHAEON. As a result of these transactions, we became a wholly-owned subsidiary of ALPHAEON, which we remained until the completion of our initial public offering in February 2018.

We have never generated revenue from DWP-450 and have never been profitable. As of March 31, 2018, we had an accumulated deficit of \$82.3 million and we incurred net losses of approximately \$6.2 million and \$4.0 million for the three months ended March 31, 2018 and 2017, respectively.

We do not expect to receive any revenue from DWP-450 or any future product candidates that we develop unless and until we obtain regulatory approval and commercialize DWP-450 or any future product candidates, or enter into collaborative arrangements with third parties. We expect to continue to incur significant expenses and increasing net operating losses for the foreseeable future as we seek regulatory approval, prepare for and, if approved, proceed to commercialization of DWP-450. We utilized contract research organizations, or CROs, to carry out our clinical development and we do not yet have a sales organization. We expect to incur significant expenses related to building our commercialization infrastructure, including marketing, sales and distribution functions, inventory build prior to commercial launch and training and deploying a specialty sales force and implementing a targeted marketing campaign. We plan to launch DWP-450, if approved, in the United States by building a commercialization infrastructure with a specialty sales force of approximately 65 sales representatives within our first year of commercial launch and growing to 150 sales representatives over time. We also expect to incur additional costs associated with operating as a public company and in building our internal resources.

Initial Public Offering

On February 12, 2018, we closed our initial public offering and sold 5,047,514 shares of our common stock at a public offering price of \$12.00 per share, inclusive of 47,514 shares of our common stock issued upon the exercise by the underwriters of their option to purchase additional shares. The gross proceeds from the initial public offering were approximately \$60.6 million and the net proceeds were approximately \$56.3 million, each after deducting underwriting discounts and commissions.

Based on our estimated use of proceeds, we anticipate that the net proceeds from our initial public offering will be sufficient to fund our operating plan through the launch and initial commercialization of DWP-450, if approved by the FDA. However, we may require additional funds earlier than we currently expect if, in the event that we are required to conduct additional clinical trials, we experience a delay in receiving marketing approval of DWP-450 or market acceptance of DWP-450 is slower than expected. Adequate funding may not be available to us on acceptable terms, or at all, which could have a material adverse effect on our business, results of operations, and financial condition.

Daewoong License and Supply Agreement

On September 30, 2013, we entered into the Daewoong Agreement pursuant to which we have an exclusive distribution license to DWP-450 from Daewoong for aesthetic indications in the United States, EU, Canada, Australia, Russia, C.I.S., and South Africa, as well as co-exclusive distribution rights with Daewoong in Japan. We have the option, subject to certain payment conditions, to expand the permitted use of the product beyond aesthetic indications and into therapeutic indications, the latter of which we have assigned to and are currently holding in trust for ALPHAEON. Under the Daewoong Agreement, we are required to make certain minimum annual purchases upon commercialization in order to maintain the exclusivity of the license. These potential minimum purchase obligations are contingent upon the occurrence of future events, including receipt of governmental approvals and our future market share in various jurisdictions. In connection with our entry into the Daewoong Agreement, we made an upfront payment to Daewoong of \$2.5 million. We further agreed to make milestone payments upon certain confidential development and commercial milestones, including a confidential payment to Daewoong upon each of FDA and EMA approval of DWP-450. Under the Daewoong Agreement, the maximum aggregate amount of future milestone payments that could be owed to Daewoong upon the satisfaction of all milestones is \$13.5 million. Under the Daewoong Agreement, Daewoong is responsible for all costs related to the manufacturing of DWP-450, including costs related to the operation and upkeep of its manufacturing facility, and we are responsible for all costs related to obtaining regulatory approval, including clinical expenses, and commercialization of DWP-450.

Payment Obligations Related to Our Acquisition by ALPHAEON

As part of our acquisition by SCH pursuant to a stock purchase agreement, or the Stock Purchase Agreement, ALPHAEON became obligated to make certain payments to SCH for the benefit of certain of our former stockholders, or the Evolus Contributors. On December 14, 2017, SCH and ALPHAEON entered into an amendment to the Stock Purchase Agreement, or the Amended Purchase Agreement, whereby we also joined as a contractual party. Pursuant to the Amended Purchase Agreement, ALPHAEON's existing payment obligations were replaced with revised payment obligations, payable directly to the Evolus Contributors. Effective upon the closing of our initial public offering, ALPHAEON immediately and automatically assigned to us and we immediately and automatically accepted and assumed all of ALPHAEON's payment obligations under the Stock Purchase Agreement, as amended by the Amended Purchase Agreement.

Under the Amended Purchase Agreement, the revised payment obligations consist of (i) an approximately \$9.2 million up-front payment upon obtaining FDA approval for DWP-450 for the treatment of glabellar lines, (ii) quarterly royalty payments of a low single digit percentage of net sales of DWP-450 within the United States, (iii) quarterly royalty payments of a low single digit percentage of net sales of DWP-450 outside of the United States, and (iv) a \$20.0 million non-interest bearing promissory note that will mature on the 2.5 year anniversary of the first commercial sale of DWP-450 in the United States, or the contingent promissory note. The revised payment obligations set forth in (ii) and (iii) above, will terminate for the quarter following the 10 year anniversary of the first commercial sale of DWP-450 in the United States. The fair value of the obligations set forth in items (i), (ii) and (iii) are valued quarterly and are referred to in our financial statements as the "contingent royalty obligation." Under the Amended Purchase Agreement, the combined fair value of both the contingent royalty obligation and the contingent promissory note owed to the Evolus Contributors was \$56.7 million as of March 31, 2018. In addition, under the Amended Purchase Agreement, Evolus agreed to make one-time bonuses to certain of its employees aggregating approximately \$1.6 million pursuant to the respective terms of their offer letters, including a one-time bonus of \$700,000 payable to Rui Avelar, M.D., our Chief Medical Officer, which was previously payable out of amounts owed to the contributors under the Stock Purchase Agreement.

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Upon completion of our initial public offering, we assumed and agreed to pay the revised payment obligations under the Amended Purchase Agreement. At the closing of our initial public offering, the outstanding related party borrowings from ALPHAEON were set-off and reduced, on a dollar-for-dollar basis, taking into account the then-fair value of all payment obligations we assumed from ALPHAEON, the fair value of which, immediately prior to our initial public offering date or February 12, 2018, was \$56.7 million.

Our Relationship with ALPHAEON Corporation

Prior to our initial public offering and since our acquisition in 2014 by ALPHAEON, we have funded our operations primarily through contributions and related party borrowings from ALPHAEON. Prior to the closing of our initial public offering, we derived the unaudited condensed financial statements we present in this Quarterly Report on Form 10-Q by allocating expenses associated with DWP-450 from ALPHAEON's consolidated financial statements in accordance with applicable accounting standards and SEC regulations. Our management believes that the allocations and results are reasonable for all periods presented in our financial statements. However, allocations may not be indicative of the actual expense we would have incurred had we operated as an independent company for the periods presented and do not include additional expenses we expect to incur in connection with the commercialization of DWP-450, including the creation of a commercialization infrastructure and hiring of our sales force.

In January 2018, we entered into a services agreement with ALPHAEON, or the services agreement, which became effective in connection with our initial public offering. The services agreement sets forth certain terms between ALPHAEON and us that govern the respective responsibilities and obligations between ALPHAEON and us, as it relates to the services to be performed between us.

Pursuant to the services agreement, ALPHAEON provides us, and we provide ALPHAEON, as the case may be, certain administrative and development support services. For example, we receive from ALPHAEON certain general management, communication, intellectual property, human resources, office and information technology services, and we provide general accounting and legal services to ALPHAEON. In addition, pursuant to the services agreement, we sublease from ALPHAEON all or part of its lease for its headquarters encompassing approximately 3,639 square feet of space, as certain of our executive, legal and financial personnel are located at ALPHAEON's headquarters.

The fees charged for any services rendered pursuant to the services agreement are the actual cost incurred by ALPHAEON or us, as the case may be, in providing the services for the relevant period.

In addition, pursuant to the services agreement, upon completion of our initial public offering, we paid ALPHAEON \$5.0 million towards the repayment of our related party borrowings and the remaining related party borrowings then outstanding were forgiven and the amount was re-characterized as a capital contribution of ALPHAEON. As a result, upon the completion of our initial public offering, we were no longer indebted to ALPHAEON pursuant to our historical related party borrowings from ALPHAEON.

Prior to February 12, 2018, we incurred obligations to ALPHAEON for the research and development expenses it incurred on our behalf, which included both external and internal expenses as well as general and administrative support services. External research and development expenses included costs for CROs to conduct nonclinical and clinical studies on our product candidate, costs to acquire and evaluate clinical study data such as investigator grants, patient screening fees and laboratory work, and fees paid to consultants. Internal development expenses included costs for the work that ALPHAEON's research and development employees perform for us.

Financial Overview

Our historical financial statements for the periods prior to our initial public offering in February 12, 2018 have been prepared on a standalone basis and are derived from ALPHAEON's consolidated financial statements and accounting records. Our unaudited condensed financial statements reflect our financial position, results of operations, and cash flows as our business was operated as part of ALPHAEON prior to the separation, in conformity with U.S. generally accepted accounting principles, or GAAP. The unaudited condensed financial statements include the allocation of certain assets and liabilities that have historically been held at the ALPHAEON corporate level but which are specifically identifiable or allocable to us. Cash and cash equivalents held by ALPHAEON were not allocated to us unless the cash was held by an entity that was transferred to us in the distribution. Most intercompany transactions between us and ALPHAEON for the periods prior to February 12, 2018 were considered to be effectively settled at the time the transaction was recorded but for those transition related services.

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Prior to February 12, 2018, we derived our financial results on a standalone basis from ALPHAEON's financial statements and accounting records and prepared them in accordance with GAAP, for three months ended March 31, 2018 and 2017, including the year ended December 31, 2017. The financial results reflect amounts attributable to our business, including the costs that ALPHAEON incurred for the development and commercialization of DWP-450 and costs and expenses under the Daewoong Agreement. Management believes that the allocations and results are reasonable for all periods presented. However, allocations may not be indicative of the actual expense we would have incurred had the business operated as an independent company for the periods presented.

The following is a description of the components of our results of operations:

General and Administrative Expenses

Our general and administrative expenses consist of salaries and personnel-related costs (other than research personnel), including stock-based compensation of ALPHAEON's and our stock, for our employees in executive and administrative functions. Our general and administrative expenses also include professional fees for accounting, auditing and consulting services, legal services, investor relations, travel and facilities. As described above, prior to our initial public offering, ALPHAEON charged us for many of the expenses associated with these functions. Pursuant to the services agreement, ALPHAEON provides us and we provide ALPHAEON certain administrative and development support services. For example, we receive from ALPHAEON certain general management, communication, intellectual property, human resources, office and information technology services, and we provide general accounting and legal services to ALPHAEON. The amounts to be charged for services rendered pursuant to the services agreement will be the actual cost incurred by ALPHAEON or us, as the case may be, in providing the services for the relevant period. ALPHAEON has historically charged us market rates for the portion of the resources that we use. Accordingly, we do not expect the overall general and administrative expenses representing functions historically reimbursed by ALPHAEON to change significantly as we transition functions from ALPHAEON to us, however we do expect such expenses to increase as described below. We expect to assume responsibility from ALPHAEON for these general and administrative functions as our business grows and we build our internal development and commercialization capabilities

We anticipate our general and administrative expenses to increase in the future to support our continued development and potential commercialization of DWP-450. In addition, if DWP-450 obtains regulatory approval, we expect that we will incur expenses associated with building a sales and marketing team. Increases over and above the level of work that ALPHAEON is currently performing on our behalf will result in an increase in general and administrative expenses and could include costs related to hiring additional personnel, increased office space, implementing new information technology systems and other costs associated with expanding our general and administrative functions. Our general and administrative expenses will also increase due to the costs of operating as a public company and may further increase when we are no longer able to rely on certain "emerging growth company" exemptions we are afforded under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act.

Research and Development Expenses

Since our inception, we have focused on developing DWP-450. Our research and development expenses primarily consist of:

- personnel costs, which include salaries and related expenses for research and development personnel, including expenses related to stock-based compensation granted to personnel in development functions;
- fees paid to clinical study sites and vendors, including CROs, in connection with our clinical studies, costs of acquiring and evaluating clinical study data such as investigator grants, patient screening fees, laboratory work and statistical compilation and analysis, and fees paid to clinical consultants related to the execution of clinical trials;
- expenses to acquire clinical study materials;
- other consulting fees paid to third parties;
- expenses related to compliance with drug development regulatory requirements; and
- travel, facilities, which includes cost associated with rent, maintenance and related facilities costs as well as depreciation and amortization, insurance and other expenses.

We expense our research and development costs as we incur them. Our expenses related to clinical studies are based on estimates of patient enrollment and related expenses at clinical investigator sites as well as estimates for the services received and efforts expended pursuant to contracts with CROs that we may use to conduct and manage our clinical studies on our behalf. We generally accrue expenses related to clinical studies based on contracted amounts applied to the level of patient enrollment and activity. If we modify timelines or contracts based upon changes in the clinical study protocol or scope of work to be performed, we modify our estimates of accrued expenses accordingly on a prospective basis.

Results of Operations

Comparison of the Three Months Ended March 31, 2018 and 2017

The following table summarizes our results of operations for the periods indicated (in thousands):

	Three Months Ended March 31,		Change (dollars)
	2018	2017	
Operating expenses:			
Research and development	\$ 1,678	\$ 2,651	\$ (973)
General and administrative	3,467	1,215	2,252
Revaluation of contingent royalty obligation	900	—	900
Depreciation and amortization	—	111	(111)
Total operating expenses	6,045	3,977	2,068
Loss from operations	(6,045)	(3,977)	(2,068)
Interest expense, net	107	1	106
Loss before taxes	(6,152)	(3,978)	(2,174)
Income tax expense	10	20	(10)
Net loss and comprehensive loss	\$ (6,162)	\$ (3,998)	\$ (2,164)

Research and Development

Research and development expenses were \$1.7 million during the three months ended March 31, 2018 compared to \$2.7 million during the three months ended March 31, 2017, reflecting a decrease of approximately \$1.0 million. The decrease was primarily attributable to a reduction of \$1.2 million in our clinical trial costs associated with the completion of our Phase III clinical trials in 2017. There was also a \$0.2 million decrease in market research costs, including travel and related expenses. Other 2018 research and development expenses that offset these decreases included an increase in personnel related costs such as compensation and related payroll expenses which increased by approximately \$0.1 million, and stock-based compensation expense which increased by \$0.3 million.

General and Administrative

General and administrative expenses were \$3.5 million during the three months ended March 31, 2018 compared to \$1.2 million during the three months ended March 31, 2017, reflecting an increase of approximately \$2.3 million. The increase was largely attributable to \$0.8 million in personnel related costs such as compensation and related payroll expenses, as well as \$0.6 million in stock-based compensation. The increase was also attributable to approximately \$1.2 million of professional services such as an audit, tax, and recruitment fees, as well as \$0.3 million of business operating costs such as office related expenses. These increases were partially offset by a \$0.8 million reduction in ALPHAEON expenses allocated to us, reflecting an overall decrease in ALPHAEON operations and personnel prior to our initial public offering in 2018 compared with 2017, for services provided to us by its employees.

Revaluation of Contingent Royalty Obligation Payable to Related Party

Expense related to revaluation of our contingent royalty obligation was \$0.9 million during the three months ended March 31, 2018; we incurred no such charge during the three months ended March 31, 2017, for an increase of approximately \$0.9

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million. During the three months ended March 31, 2018, we adjusted the fair value of the contingent royalty obligation owed to the Evolus Contributors by \$0.9 million. A fair value measurement was not recorded during the three months ended March 31, 2017 since the Amended Purchase Agreement was not effective at that time.

Depreciation and Amortization

Depreciation and amortization expense was \$0.1 million during the three months ended March 31, 2017. All fixed assets were fully depreciated as of December 31, 2017 and accordingly, no depreciation was recorded for the three months ended March 31, 2018.

Interest expense, net

Interest expense, net was \$0.1 million during the three months ended March 31, 2018 compared to \$1,000 during the three months ended March 31, 2017, for an increase of approximately \$0.1 million. The increase was primarily attributable to interest expense accretion relating to the contingent promissory note payable to the Evolus Contributors.

Income tax expense

Income tax expense was \$10,000 for the three months ended March 31, 2018 compared to income tax expense of \$20,000 for the three months ended March 31, 2017, for an immaterial decrease of approximately \$10,000.

Liquidity and Capital Resources

As of March 31, 2018, we had \$49.6 million in cash or cash equivalents and stockholders' equity of \$52.0 million.

Prior to our initial public offering and since our acquisition in 2014 by ALPHAEON, we had funded our operations primarily through contributions and related party borrowings from ALPHAEON. We have no revenue, have incurred operating losses and have an accumulated deficit as a result of ongoing efforts to develop our product DWP-450, including conducting nonclinical testing and clinical trials and providing general and administrative support for these operations. We had an accumulated deficit of \$82.3 million as of March 31, 2018 and working capital of \$46.5 million as of March 31, 2018. We had net losses of \$6.2 million and \$4.0 million for the three months ended March 31, 2018 and 2017, respectively, and we used net cash in operating activities of \$2.2 million and \$5.6 million for the three months ended March 31, 2018 and 2017, respectively. We anticipate that operating losses and net cash used in operating activities will increase over the next few years as we commercialize DWP-450, if approved.

On February 12, 2018, we closed our initial public offering and sold 5,047,514 shares of our common stock at a public offering price of \$12.00 per share, inclusive of 47,514 shares of our common stock issued upon the exercise by the underwriters of their option to purchase additional shares. The gross proceeds from our initial public offering were approximately \$60.6 million and the net proceeds were approximately \$56.3 million, each after deducting underwriting discounts and commissions. We believe that our current capital resources will be sufficient to fund operations through at least the next twelve months based on our expected cash burn rate.

Until such time, if ever, as we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity or debt financings, entering into licensing or collaboration agreements with partners, grants or other sources of financing. Sufficient funds may not be available to us at all or on attractive terms when needed from these sources. We currently have no credit facility or committed sources of capital. To the extent that we raise additional capital through the future sale of equity or debt, the ownership interests of our stockholders will be diluted, and the terms of these securities may

include liquidation or other preferences that adversely affect the rights of our existing common stockholders. If we raise additional funds through the issuance of debt securities, these securities could contain covenants that would restrict our operations. We may require additional capital beyond our currently anticipated amounts. If we are unable to obtain additional funding from these or other sources when needed, it may be necessary to significantly reduce our scope of operations and current rate of spending through reductions in staff and delaying, scaling back, or stopping our research and development or sales and marketing activities. Insufficient liquidity may also require us to relinquish rights to our product candidate at an earlier stage of development or on less favorable terms than we would otherwise choose.

We have based our projections of operating capital requirements on assumptions that may prove to be incorrect and we may use all our available capital resources sooner than we expect. Because of the numerous risks and uncertainties associated with research, development and commercialization of pharmaceutical products, we are unable to estimate the exact amount of our operating capital requirements. Our future funding requirements will depend on many factors, including, but not limited to:

- the number and characteristics of any additional product candidates we develop or acquire;
- the timing of any cash milestone payments to Daewoong if we successfully achieve certain predetermined milestones;
- our ability to forecast demand for our products and scale our supply to meet that demand;
- the cost of manufacturing our product candidate or any future product candidates and any products we successfully commercialize, including costs associated with building our supply chain;
- the cost of commercialization activities if our product candidate or any future product candidates are approved or cleared for sale, including marketing, sales and distribution costs;
- the cost of building a sales force in anticipation of product commercialization;
- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of any such agreements that we may enter into;
- any product liability or other lawsuits related to our product candidate or any future product candidates;

- the expenses needed to attract and retain skilled personnel;
- the costs associated with being a public company;
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, including ongoing litigation costs related to DWP-450 and the outcome of this and any other future patent litigation we may be involved in; and
- the timing, receipt and amount of sales of any future approved or cleared products, if any.

Cash Flows

The following table summarizes our cash flows for the periods indicated (in thousands):

	Three Months Ended	
	March 31,	
	2018	2017
Net cash (used in) provided by:		
Operating activities	\$ (2,201)	\$ (5,578)
Financing activities	51,771	5,391
Change in cash, cash equivalents, and restricted cash	49,570	(187)
Cash, cash equivalents, and restricted cash, beginning	—	187
Cash and cash equivalents, ending	\$ 49,570	\$ —

Operating Activities

Our cash used in operating activities is primarily driven by our net loss and related party borrowings from ALPHAEON for expenses paid on our behalf.

Operating activities used \$2.2 million of cash for the three months ended March 31, 2018 primarily resulting from our net loss of \$6.2 million, a net cash inflow of \$1.9 million for changes in our net operating assets and liabilities, and non-cash charges of \$2.0 million. Non-cash charges included stock-based compensation of \$1.0 million, the revaluation of our contingent royalty obligation of \$0.9 million, and interest expense of \$0.1 million related to the contingent promissory note. The change in our net operating assets and liabilities was primarily driven by a increase in accounts payable, related party accounts payable, and accrued expenses of \$2.3 million, partially offset by a change in prepaid expenses of \$0.4 million.

Operating activities used \$5.6 million of cash for the three months ended March 31, 2017 primarily resulting from our net loss of \$4.0 million, which was partially offset by non-cash charges of \$0.3 million and an increase in our net operating assets and liabilities of \$1.9 million. Non-cash charges included depreciation and amortization of \$0.1 million and non-cash stock-based compensation of \$0.1 million. The increase in our net operating assets and liabilities was primarily driven by a decrease in accounts payable of \$2.0 million, partially offset by a increase in accrued expenses of \$0.1 million.

Financing Activities

Our cash provided from financing activities is primarily driven by changes in our related party borrowings from ALPHAEON for expenses paid on our behalf and proceeds from our initial public offering.

Financing activities provided \$51.8 million of cash during the three months ended March 31, 2018 primarily resulting from initial public offering proceeds of \$56.3 million and related party borrowings from ALPHAEON of \$1.1 million. These were partially offset by a \$5.0 million payment to ALPHAEON from the proceeds of our initial public offering.

Financing activities provided \$5.4 million of cash in the three months ended March 31, 2017 primarily resulting from related party borrowings from ALPHAEON.

Indebtedness

ALPHAEON has historically provided us certain services that were not covered under a services agreement, including, without limitation, general and administrative support services and research and development support services. ALPHAEON had allocated a certain percentage of personnel to perform the services that it provided to us based on its good faith estimate of the required services. These allocated costs have historically increased related party borrowings. The costs reflect ALPHAEON full-time equivalent, or FTE, rate for the applicable personnel, plus out-of-pocket expenses such as occupancy costs associated with the FTEs allocated to providing us these services. We historically have not recorded a mark-up on the external or internal expenses ALPHAEON allocates to us. All ALPHAEON-provided operating expenses shown in our financial statements were treated as related party borrowings from ALPHAEON to us for the three months ended March 31, 2017 and for the period between January 1, 2018 and February 11, 2018. After the initial public offering, we no longer rely on ALPHAEON for funding.

To satisfy all outstanding related party borrowings from ALPHAEON through the closing of our initial public offering on February 12, 2018 (inclusive of amounts that have been offset pursuant to the therapeutic agreement), we remunerated ALPHAEON through three methods, each of which was agreed upon between ALPHAEON and us. First, pursuant to the Amended Purchase Agreement, upon the completion of our initial public offering, we assumed and agreed to pay the revised payment obligations under the Amended Purchase Agreement, and the outstanding related party borrowings from ALPHAEON was offset and reduced, on a dollar-for-dollar basis, taking into account the then-fair value of all payment obligations we assume from ALPHAEON, the fair value of which, as of February 12, 2018, was \$56.7 million. Second, pursuant to the services agreement, upon the completion of our initial public offering, we paid ALPHAEON \$5.0 million from the proceeds of our initial public offering. Third, pursuant to the services agreement, the remaining balance of related party borrowings, after taking into account the offset and reduction of the then-fair value of all payment obligations we assumed from ALPHAEON under the Amended Purchase Agreement, and the payment of \$5.0 million, each upon completion of our initial public offering, was re-characterized as a capital contribution of ALPHAEON. Pursuant to the services agreement and as of March 31, 2018, we owed ALPHAEON \$0.7 million for reimbursement of our employee salaries paid by ALPHAEON.

Guaranty of ALPHAEON's Convertible Notes and Intercreditor Agreement

Prior to the IPO, ALPHAEON was the borrower under (i) certain convertible promissory notes issued by ALPHAEON for an aggregate principal amount of approximately \$53.0 million, or the convertible promissory notes, and (ii) a certain convertible bridge note issued by ALPHAEON to Longitude Venture Partners II, L.P., or Longitude for a principal amount of \$2.5 million, or the convertible bridge note, collectively, the Notes. Kristine Romine, M.D., a member of our board of directors, DI, and Alpha International Investment Ltd., or Alpha, each hold one or more convertible promissory notes. Simone Blank, a member of our board of directors, is the co-owner of DI. Bosun Hau, a member of our board of directors, is employed by an entity affiliated with Alpha. In April 2017, we agreed to unconditionally guaranty ALPHAEON's obligations under the Notes and we granted to Longitude, as the holder of the convertible bridge note, and DI, as collateral agent for the holders of the convertible promissory notes, a first priority lien and security interest in substantially all of our assets pursuant to separate guaranty and security agreements, or the Evolus security agreements. We refer to the ALPHAEON security agreements and the Evolus security agreements collectively as the convertible notes security agreements. In April 2017, we, as guarantor, also entered into an amended and restated intercreditor agreement with ALPHAEON, as borrower, Longitude, as the holder of the convertible bridge note, and DI, as collateral agent for the holders of the convertible promissory notes, or the intercreditor agreement. The intercreditor agreement sets forth certain rights of Longitude and DI in connection with the convertible bridge note, the convertible promissory notes and the collateral pledged pursuant to the convertible notes security agreements. ALPHAEON's obligations under the Notes are secured by a first priority lien and security interest in substantially all of ALPHAEON's assets, including all of the shares of our capital stock, granted by ALPHAEON to DI as collateral agent for the holders of the convertible promissory notes, and Longitude, as the holder of the convertible bridge note, pursuant to separate pledge and security agreements, or the ALPHAEON security agreements. On December 14, 2017, ALPHAEON entered into an amendment to the amended and restated secured convertible note purchase agreement, or the amendment, pursuant to which it issued the convertible promissory notes, in order to permit ALPHAEON to issue an additional \$3.3 million of convertible promissory notes.

On December 14, 2017, we and ALPHAEON entered into amendments with each of Longitude, as the holder of the convertible bridge note, and DI, as collateral agent for the holders of the convertible promissory notes. Pursuant to these amendments, we obtained a release of our guaranty and a termination of the security interest in our assets and the Evolus security agreements, effective immediately upon the completion of our initial public offering. ALPHAEON's obligations under the ALPHAEON security agreements remained outstanding following the completion of our initial public offering.

For periods prior to the release of the guaranty and termination of the security interest in our asset and Evolus security Agreements, we recorded this joint and several liability as Note obligations and recorded a corresponding deemed distribution to ALPHAEON as a reduction to additional paid-in-capital in equity as of April 2017 to reflect the joint and several liability. As we and ALPHAEON had not agreed to what portion of this joint and several liability each would pay, we developed a range of amounts that we expect to pay under the convertible notes security agreements and selected the amount from within that range that we determined to be the best estimate, which equaled \$138.7 million as of December 31, 2017 (2.5 times the outstanding principal amount of the Notes as of that date), representing the total principal amount due to the Note holders upon redemption of the Notes at maturity. As provided for within the intercreditor agreement and convertible notes security agreements, in conjunction with our recognition of the joint and several liability, we also recorded a receivable from ALPHAEON, which equals the current balance of the amounts we owe to ALPHAEON under our related party borrowings. No amounts have been paid under this joint and several liability by us in the year ended December 31, 2017. As of December 31, 2017, the liability recorded by us to the Note holders pursuant to the above joint and several liability was \$138.7 million (2.5 times the outstanding principal amount of the Notes as of that date) and the related party receivable was \$72.6 million, representing the amount by which related party borrowings could be reduced pursuant to the terms of the convertible notes security agreements. The difference between the amount of the joint and several liability and the related party receivable of \$66.1 million was recorded as a deemed distribution to ALPHAEON, in stockholders' deficit as a charge to additional paid-in capital in the period the transaction with the related party was made. Amounts in excess of additional paid-in capital were recorded into accumulated deficit. In connection with the completion of our initial public offering, we were released of all guarantor obligations and the Note obligation, and the related party receivable was removed from our balance sheet, with the difference recorded to stockholders' deficit.

Subsequent to December 31, 2017, ALPHAEON issued an additional \$0.8 million of convertible promissory notes in the aggregate principal amount of \$56.3 million. As a result, the total note obligations under all the Notes increased to \$140.7 million (2.5 times the total outstanding principal amount of the Notes).

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On April 19, 2017, as a result of the entry into the Evolus security agreements, we recorded a non-cash deemed distribution to ALPHAEON. As of December 31, 2017, the difference between the amount of the joint and several liability and the related party receivable of \$66.1 million was recorded as a deemed distribution to ALPHAEON, in stockholders' deficit as a charge to additional paid-in capital in the period the transaction with the related party was made. Amounts in excess of additional paid-in capital were recorded into accumulated deficit.

In connection with the completion of our initial public offering in February 2018 and as of March 31, 2018, we were relieved of our joint and several liability and the difference between the amount of the joint and several liability and the related party borrowings of \$67.0 million was recorded as a capital contribution from ALPHAEON, in stockholders' equity (deficit) and as an increase to additional paid-in capital in the period the transaction with the related party was made.

As of February 12, 2018, we assumed from ALPHAEON the revised payment obligations under the Amended Purchase Agreement of \$56.7 million (comprised of \$40.6 million related to the contingent royalty obligation and \$16.1 million related to the contingent promissory note). Pursuant to the Amended Purchase Agreement, ALPHAEON agreed to offset and reduce the amount of related party borrowings by the estimated value of the revised payment obligations on a dollar-for-dollar basis and pursuant to the services agreement, we paid \$5.0 million to ALPHAEON in satisfaction of a portion of the outstanding related party borrowings. The remaining balance of related party borrowings of \$13.2 million was recharacterized as a capital contribution from ALPHAEON pursuant to the services agreement.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in the rules and regulations of the SEC. We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for any other contractually narrow or limited purpose.

Contractual Obligations and Commitments

There have been no material changes to the contractual obligations and commitments during the three months ended March 31, 2018 as compared to those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities, revenue and expenses at the date of the financial statements as well as the expenses incurred during the reporting period. Generally, we base our estimates on historical experience and on various other assumptions in accordance with GAAP that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions and such differences could be material to the financial position and results of operations. On an ongoing basis, we evaluate our judgments and estimates in light of changes in circumstances, facts and experience. We believe there have been no material changes to our critical accounting policies and estimates as discussed in our Annual Report on Form 10-K filed for the year ended December 31, 2017, except as described below.

Stock-based Compensation

We recognize stock-based compensation expense for employees and non-employee directors based on fair value at the date of grant. The fair value of equity awards that are expected to vest is amortized on a straight-line basis over the requisite service period. Stock-based compensation expense recognized is net of an estimated forfeiture rate, which is updated as appropriate.

We use the Black-Scholes option pricing model to value stock option grants. The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected volatility of our common stock, expected risk-free interest rate, and the option's expected life. The fair value of our restricted stock is based on the closing market price of our common stock on the date of grant.

Contingent Royalty Obligation Payable to Related Party

We determine the fair value of the contingent royalty obligation payable to the Evolus Contributors under the Amended Purchase Agreement using a discounted cash flow method approach based on projected sales of our only product candidate, DWP-450, and an appropriate discount rate. Changes in the fair value of this contingent consideration are determined each period end and recorded in the operating expenses section of our condensed statements of operations and comprehensive loss and the non-current liabilities section of our condensed balance sheets. The fair value of the contingent royalty obligation could be impacted by changes such as: (i) changes in the discount rate assumed, or (ii) the amount and timing of sales of our only product candidate, DWP-450, or (iii) a delay in FDA approval of DWP-450.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

We are exposed to market risks in the ordinary course of our business. These risks primarily include risk related to interest rate sensitivities. During the three months ended March 31, 2018, our market risks changed materially from those discussed in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017, as noted below.

Interest Rate Sensitivity

Our exposure to market risk for changes in interest rates relates to our contingent promissory note and contingent royalty obligation owed to the Evolus Contributors under the Amended Purchase Agreement, which were \$16.1 million and \$40.6 million, respectively, for the three months ended March 31, 2018. Our market risk exposure is to interest rate sensitivity, which is affected by changes in the general level of the interest rates in the United States, including interest rates related to various debt securities ratings and similarly situated debt. We measure the fair value of the contingent promissory note and of the contingent royalty obligation using an appropriate discount rate which is based on interest rates. A change in the discount rate used could affect non-cash interest expense and non-cash revaluation of contingent consideration for the contingent promissory note and contingent royalty obligation, respectively, on our condensed statements of operations and comprehensive loss. A change in the general level of interest rates could also affect the carrying balance of the

foregoing liabilities on our condensed balance sheets.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As of March 31, 2018, our management, with the participation of our Chief Executive Officer who serves as our principal executive officer and principal financial officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosures. Based on this evaluation, our Chief Executive Officer concluded that, as of March 31, 2018, our disclosure controls and procedures were effective at a reasonable assurance level.

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II—Other Information

Item 1. Legal Proceedings.

The following is an update to the legal proceedings disclosed in Item 3 “Legal Proceedings” of Part I of our Annual Report on Form 10-K for the year ended December 31, 2017.

Medytox Litigation

On June 7, 2017, Medytox, Inc., or Medytox, filed proceedings in the Superior Court of the State of California against us, ALPHAEON, SCH, Daewoong, among others. Medytox alleges, among other things, that Daewoong stole Medytox’s botulinum toxin, or BTX, strain, that Daewoong misappropriated certain trade secrets of Medytox, including the process used to manufacture DWP-450 (which Medytox claims is similar to its biopharmaceutical drug, Meditoxin) using the BTX strain, and that Daewoong thereby interfered with Medytox’s plan to license Meditoxin to us. Medytox claims that as a result of Daewoong’s conduct, we entered into the Daewoong Agreement instead of an agreement with Medytox to license Meditoxin.

On April 27, 2018, pursuant to a motion to dismiss brought by Daewoong, the Superior Court of the State of California dismissed Medytox’s suit against Daewoong, without prejudice, on the basis that Medytox had brought a substantially similar proceeding against Daewoong in South Korea. The proceedings against us, ALPHAEON and SCH remain stayed in the Superior Court of the State of California pending resolution of the proceedings between Medytox and Daewoong in South Korea.

Item 1A. Risk Factors.

You should carefully consider the risks and uncertainties described below together with all the other information in this Quarterly Report on Form 10-Q, including Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements and the related notes included in Part I, Item 1. If any of the following risks actually occurs, our business, reputation, financial condition, results of operations, revenue, and future prospects could be seriously harmed. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. Unless otherwise indicated, references to our business being seriously harmed in these risk factors will include harm to our business, reputation, financial condition, results of operations, revenue, and future prospects. In that event, the market price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Strategy

We have a limited operating history and have incurred significant losses since our inception and anticipate that we will continue to incur losses for the foreseeable future. We have only one product candidate and no commercial sales, which, together with our limited operating history, make it difficult to assess our future viability.

We are a medical aesthetics company with a limited operating history. Pharmaceutical product development is a highly speculative undertaking and involves a substantial degree of risk. To date, we have invested substantially all of our efforts and financial resources in the clinical development and regulatory approval of, and commercial planning for, DWP-450, which is currently our only product candidate. We are not profitable and have incurred losses in each year since our inception in 2012. We have a limited operating history upon which you can evaluate our business and prospects. Consequently, any predictions about our future success, performance or viability may not be as accurate as they could be if we had a longer operating history or an approved product on the market. In addition, we have limited experience and have not yet demonstrated an ability to successfully overcome many of the risks and uncertainties frequently encountered by companies in the medical aesthetics field. To date, we have not obtained any regulatory approvals for DWP-450 or generated any revenue from product sales relating to DWP-450. We continue to incur significant expenses related to regulatory approval and commercialization operations of DWP-450. We have recorded net losses of \$6.2 million, \$20.1 million, and \$31.1 million for the three months ended March 31, 2018, and years ended December 31, 2017 and 2016, respectively, and had an accumulated deficit as of March 31, 2018 of \$82.3 million. We expect to continue to incur losses for the foreseeable future, and we anticipate these losses will increase as we continue to seek regulatory approval for, and begin to commercialize, DWP-450, if approved. Our ability to achieve revenue and profitability is dependent on our ability to obtain necessary regulatory approvals and successfully market and commercialize DWP-450. We have limited experience in successfully commercializing a product candidate once approved. Even if we achieve profitability in the future, we may not be able to sustain profitability in

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subsequent periods. Our prior losses, combined with expected future losses, may adversely affect the market price of our common stock and our ability to raise capital and continue operations.

We currently depend entirely on the successful and timely regulatory approval and commercialization of our only product candidate, DWP-450. DWP-450 may not receive regulatory approval or, if it does receive regulatory approval, we may not be able to successfully commercialize it.

We currently have only one product candidate, DWP-450, and our business presently depends entirely on our ability to obtain regulatory approval for DWP-450 and to successfully commercialize it in a timely manner. We have no products currently approved for sale and we may never be able to develop marketable products. We are not permitted to market DWP-450 in the United States until we receive approval of a BLA from the FDA, in the EU until we receive approval of a MAA from the EMA, in Canada until we receive approval of a NDS from Health Canada or in any other countries permitted under the Daewoong Agreement until we receive the requisite approval from the applicable regulatory authorities in such countries. The FDA issued a PDUFA date of May 15, 2018 for completion of its review of our BLA. We submitted a MAA to the EMA and it was accepted for review in July 2017 with a decision that we expect by the second half of 2018. We also submitted a NDS to Health Canada in July 2017 that was accepted for review in October 2017 and for which we expect a decision by the second half of 2018. We do not know if or when we will receive any such approvals or whether we will need to make modifications or significant additional expenditures to obtain any such approvals. In addition, if we receive approval in one country, we may not receive a similar approval in any other jurisdiction.

Our near-term prospects, including our ability to finance our company and generate revenue, as well as our future growth, depend entirely on the successful and timely regulatory approval and commercialization of DWP-450. The regulatory and commercial success of DWP-450 will depend on a number of factors, including the following:

- whether we are required by the FDA, EMA or other similar regulatory authorities to conduct additional clinical trials to support the approval of DWP-450;
- our success in educating physicians and consumers about the benefits, administration and use of DWP-450, if approved;
- the prevalence, duration and severity of potential side effects experienced with DWP-450;
- the timely receipt of necessary marketing approvals from the FDA, EMA and other similar regulatory authorities;
- achieving and maintaining compliance with all regulatory requirements applicable to DWP-450;
- the ability to raise additional capital on acceptable terms, or at all, if needed, to support the commercial launch of DWP-450;
- the acceptance by physicians and consumers of the safety and efficacy of DWP-450, if approved;
- our ability to successfully commercialize DWP-450, if approved, whether alone or in collaboration with others;
- the ability of our current manufacturer and any third parties with whom we may contract to manufacture DWP-450 to remain in good standing with regulatory agencies and develop, validate and maintain commercially viable manufacturing processes that are compliant with current Good Manufacturing Practice, or cGMP, requirements; and
- the availability, perceived advantages, relative cost, relative safety and relative efficacy of competing products.

If we do not achieve one or more of these factors, many of which are beyond our control, in a timely manner or at all, we could experience significant delays or an inability to obtain regulatory approvals or commercialize DWP-450. Even if regulatory approvals are obtained, we may never be able to successfully commercialize DWP-450 or any future product candidates. In addition, we will need to transition at some point from a company with a development focus to a company capable of supporting commercial activities. We may not be successful in such a transition. Accordingly, we may not be able to generate sufficient revenue through the sale of DWP-450 or any future product candidates to continue our business.

We may be unable to obtain regulatory approval for DWP-450 or any future product candidates under applicable regulatory requirements. The FDA, EMA and other similar regulatory authorities have substantial discretion in the approval process, including the ability to delay, limit or deny approval of product candidates. The delay, limitation or

denial of any regulatory approval would delay commercialization and have a material and adverse effect on our potential to generate revenue, our business and our operating results.

We currently have no products approved for sale, and we may never obtain regulatory approval to commercialize DWP-450 or any future product candidates. The research, testing, manufacturing, safety surveillance, efficacy, quality control, recordkeeping, labeling, packaging, storage, approval, sale, marketing, distribution, import, export, and reporting of safety and other post-market information related to DWP-450 and any future product candidates are subject to extensive regulation by the FDA and other regulatory authorities in the United States and in other countries, and such regulations differ from country to country.

To gain approval to market a biologic product such as DWP-450, we must provide the FDA, the EMA and other similar regulatory authorities with clinical data that adequately demonstrates the safety, efficacy, purity and potency of the product for the intended indication applied for in a BLA, a MAA or other respective regulatory filing. The development and approval of biologic products is a long, expensive and uncertain process, and delay or failure can occur at any stage. The approval process across jurisdictions is also not necessarily the same in time or scope.

The regulatory review and approval processes are expensive and lengthy, and their outcome is inherently uncertain. Although we have completed a comprehensive five-study clinical development program in the United States, EU and Canada to meet the regulatory requirements for a BLA in the United States, a MAA in the EU, and a NDS in Canada for DWP-450 for the treatment of moderate to severe glabellar lines, we may not receive marketing approval for DWP-450 in one or more of the countries in which marketing approval is sought. In addition, any future product candidates will require extensive clinical testing and will be subject to the numerous risks inherent with the regulatory approval process, including development delay or failure after commencement of a clinical trial. A number of companies in the pharmaceutical and biopharmaceutical industry have suffered significant setbacks in clinical trials, including in Phase III clinical development, even after promising results in earlier preclinical studies or clinical trials. These setbacks have been caused by, among other things, findings made while clinical trials were underway and safety or efficacy observations made in clinical trials, including previously unreported adverse events. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful, and the results of clinical trials by other parties may not be indicative of the results in trials we or our partners may conduct. We may experience these setbacks during the clinical trial process for any of our future product candidates. Any such setbacks could also result in negative publicity that could damage our reputation in jurisdictions in which we have been approved.

The FDA, the EMA and other similar regulatory authorities have substantial discretion in the drug approval process, including the ability to delay, limit or deny approval of product candidates for many reasons, including, without limitation:

- the FDA, the EMA or other similar regulatory authorities may disagree with the design or implementation of one or more clinical trials;
- the FDA, the EMA or other similar regulatory authorities may not deem a product candidate safe and effective for its proposed indication or may deem a product candidate's safety or other perceived risks to outweigh its clinical or other benefits;
- the FDA, the EMA or other similar regulatory authorities may not find the data from preclinical studies and clinical trials sufficient to support approval, or the results of clinical trials may not meet the level of statistical or clinical significance required by the FDA, the EMA or any similar regulatory authorities for approval;
- the FDA, the EMA or other similar regulatory authorities may disagree with our interpretation of data from preclinical studies or clinical trials performed by us or third parties;
- the data collected from clinical trials may not be sufficient to support the submission of a BLA, a MAA, a NDS, or other applicable regulatory filing;
- the FDA, the EMA or other similar regulatory authorities may require additional preclinical studies or clinical trials;
- the FDA, the EMA or other similar regulatory authorities may identify deficiencies in the formulation, quality control, labeling or specifications of DWP-450 or future product candidates;
- the FDA, the EMA or other similar regulatory authorities may grant approval contingent on the performance of costly additional post approval clinical trials;

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- the FDA, the EMA or other similar regulatory authorities also may approve DWP-450 or any future product candidates for a more limited indication or a narrower patient population than we originally requested;
- the FDA's, the EMA's or other similar regulatory authority's failure to approve the manufacturing processes or facilities of third-party manufacturers with which we contract;
- the FDA, the EMA or other similar regulatory authorities may change its approval policies or adopt new regulations in a manner rendering our clinical data or regulatory filings insufficient for approval; or
- the FDA, the EMA or other similar regulatory authorities may not approve the labeling that we believe is necessary or desirable for the successful commercialization of our product candidates.

Therefore, even if we comply with all FDA, EMA or other similar regulatory requirements, the regulatory body may determine that DWP-450 or any of our future product candidates are not safe or effective, and we may never obtain regulatory approval for such product candidates. Any delay in obtaining, or inability to obtain, applicable regulatory approval for DWP-450 or any of our future product candidates would delay or prevent commercialization of our product candidates and would materially adversely impact our business, results of operations and prospects. Additionally, any negative publicity or safety concerns related to our competitors' products could cause further scrutiny and delay of our products.

We rely on the Daewoong Agreement to provide us exclusive rights to distribute DWP-450 in certain territories. Any termination or loss of significant rights, including exclusivity, under the Daewoong Agreement would materially and adversely affect our development or commercialization of DWP-450.

Pursuant to the Daewoong Agreement, we have secured an exclusive license from Daewoong, a South Korean pharmaceutical manufacturer, to import, distribute, promote, market, develop, offer for sale and otherwise commercialize and exploit DWP-450 for aesthetic indications in the United States, EU, Canada, Australia, Russia, C.I.S., and South Africa, as well as co-exclusive distribution rights with Daewoong in Japan. The Daewoong Agreement imposes on us obligations relating to exclusivity, territorial rights, development, commercialization, funding, payment, diligence, sublicensing, intellectual property protection and other matters. We are obligated to conduct development activities, obtain regulatory approval of DWP-450, obtain from Daewoong all of our product supply requirements for DWP-450 and pay to Daewoong regulatory milestone payments and other cash payments in connection with the net sales of DWP-450. In addition, under the Daewoong Agreement, we are required to submit our commercialization plan to a joint steering committee, or JSC, comprised of an equal number of development and commercial representatives from Daewoong and us, for review and input. Although the Daewoong Agreement provides us with final decision-making power regarding the marketing, promotion, sale and/or distribution of DWP-450, any disagreement among the JSC would be referred to Daewoong's and our respective senior management for resolution if the JSC is unable to reach a decision within thirty days, which may result in a delay in our ability to implement our commercialization plan or harm our working relationship with Daewoong. After the commercial launch of DWP-450, if it occurs, Daewoong may, at its sole option, elect to convert the exclusive license to a non-exclusive license if we fail to achieve minimum annual purchase targets of DWP-450 upon commercialization of the product.

The initial term of the Daewoong Agreement will expire on the later of September 30, 2023 or the fifth anniversary of our receipt of marketing approval in any of the aforementioned territories. The Daewoong Agreement will renew for unlimited additional three year terms after the expiration of the initial term, only if we meet certain performance requirements during the initial term or preceding renewal term, as applicable. We or Daewoong may terminate the Daewoong Agreement if the other party breaches any of its duties or obligations and such breach continues without cure for ninety days, or thirty days in the case of a payment breach, or if we declare bankruptcy or assign our business for the benefit of creditors.

If we breach any material obligations, or use the intellectual property licensed to us in an unauthorized manner, we may be required to pay damages to Daewoong and Daewoong may have the right to terminate our license. In addition, if any of the regulatory milestones or other cash payments become due under the terms of the Daewoong Agreement, we may not have sufficient funds available to meet our obligations, which would allow Daewoong to terminate the Daewoong Agreement. Any termination or loss of rights (including exclusivity) under the Daewoong Agreement would materially and adversely affect our ability to develop and commercialize DWP-450, which in turn would have a material adverse effect on our business, operating results and prospects. If we were to lose our rights under the Daewoong Agreement, we believe it would be difficult for us to find an alternative supplier of a botulinum toxin type A complex. In addition, to the extent the alternative supplier has not secured regulatory approvals in a jurisdiction, we would have to expend significant resources to obtain regulatory approvals that may never be obtained or require several years to obtain, which could significantly delay commercialization. We may be unable to raise additional capital to fund our operations during this extended time on terms acceptable to us or at

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all. If we were to commercialize DWP-450 and later experienced delays as a result of a dispute with Daewoong, the demand for DWP-450 could be materially and adversely affected.

We currently rely solely on Daewoong to manufacture DWP-450, and as such, any production or other problems with Daewoong could adversely affect us.

We depend solely upon Daewoong for the manufacturing of DWP-450. Although alternative sources of supply may exist, the number of third-party suppliers with the necessary manufacturing and regulatory expertise and facilities is limited, and it could be expensive and take a significant amount of time to arrange for and qualify alternative suppliers, which could have a material adverse effect on our business. New suppliers of any product candidate would be required to qualify under applicable regulatory requirements and would need to have sufficient rights under applicable intellectual property laws to the method of manufacturing the product candidate. Obtaining the necessary FDA approvals or other qualifications under applicable regulatory requirements and ensuring non-infringement of third-party intellectual property rights could result in a significant interruption of supply and could require the new manufacturer to bear significant additional costs which may be passed on to us.

In addition, our reliance on Daewoong entails additional risks, including reliance on Daewoong for regulatory compliance and quality assurance, the possible breach of the Daewoong Agreement by Daewoong, and the possible termination or nonrenewal of the Daewoong Agreement at a time that is costly or inconvenient for us. Our failure, or the failure of Daewoong, to comply with applicable regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of DWP-450. Our dependence on Daewoong also subjects us to all of the risks related to Daewoong's business, which are all generally beyond our control. Daewoong's ability to perform its obligations under the Daewoong Agreement is dependent on Daewoong's operational and financial health, which could be negatively impacted by several factors, including changes in the economic, political and legislative conditions in South Korea and the broader region in general and the ability of Daewoong to continue to successfully attract customers and compete in its market. Furthermore, upon completion of inspections, Daewoong's recently constructed manufacturing facility will be Daewoong's only facility meeting FDA and EMA cGMP requirements. Daewoong's lack of familiarity with, or inability to effectively operate, the facility and produce products of consistent quality, may harm our ability to compete in our market.

Any failure or refusal to supply DWP-450 or any other product candidates or products that we may develop could delay, prevent or impair our clinical development or commercialization efforts.

The FDA and the UK Medicines and Healthcare Products Regulatory Agency, or MHRA, each conducted a cGMP and pre-approval inspection of Daewoong's manufacturing facility in South Korea related to our BLA and MAA for DWP-450 in November 2017 and February 2018, respectively. At the end of the inspection, the FDA issued an FDA Form 483 with ten inspectional observations to Daewoong. The Form 483 includes observations relating to the need for adherence to and improved procedures, processes and documentation relating to investigations of and corrective actions for non-compliance with specifications for batches and components, environmental monitoring, drug substance testing, computer system access, material handling and staff training. The MHRA issued an inspection report for the manufacturing facility. The MHRA found one major observation related to controls around the sterility assurance process and found other observations related to quality control and related processes and procedures. Daewoong timely responded to the FDA and MHRA with a plan for implementing corrective actions related to these observations. Daewoong has informed us that it believes that its responses will satisfy the requirements of the FDA and MHRA and that no significant further actions will be necessary. However, the FDA or the MHRA may not be satisfied with such response, and it may require Daewoong to take additional corrective actions or other measures, require re-inspection, or decline to approve the facility. If any of these scenarios were to occur, we and Daewoong may be required to expend significant time and resources, which could cause delays and adversely affect our results of operations. Furthermore, any failure to adequately resolve the FDA's or MHRA's observations at the Daewoong facility would likely cause FDA or EMA approval of DWP-450 to be delayed or denied and therefore our ability to generate revenues from DWP-450 could be materially and adversely affected and our reputation and ability to continue as a going concern could be seriously harmed.

We may require additional financing to fund our future operations, and a failure to obtain additional capital when needed on acceptable terms, or at all, could force us to delay, limit, reduce or terminate our operations.

We have utilized substantial amounts of cash since our inception in order to conduct clinical development to support regulatory approval of DWP-450 initially in the United States, EU and Canada. We expect that we will continue to expend substantial resources for the foreseeable future in order to finalize regulatory approval for DWP-450, to commercialize

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DWP-450, for the development of any other indications of DWP-450, and for the clinical development of any additional product candidates we may choose to pursue.

In the near term, these expenditures will include costs associated with the development and expansion of our sales force and commercialization infrastructure in connection with commercializing DWP-450, if approved. In the long term, these expenditures will include costs associated with the continued commercialization of DWP-450, if approved, and any of our future product candidates, such as research and development, conducting preclinical studies and clinical trials and manufacturing and supplying as well as marketing and selling any products approved for sale. In addition, other unanticipated costs may arise. Because the regulatory approval process and commercialization expenditures needed to meet our sales objectives is highly uncertain, we cannot reasonably estimate the actual amounts necessary to successfully complete the development and commercialization of DWP-450 or any future product candidates. We expect to incur additional costs associated with operating as a public company, hiring additional personnel and expanding our operations.

We believe that our existing cash will be sufficient to fund our operating plan through the launch and initial commercialization of DWP-450, if approved by the FDA. We have based these estimates, however, on assumptions that may prove to be wrong, and we could spend our available capital resources much faster than we currently expect or require more capital to fund our operations than we currently expect. For example, we may require additional funds earlier than we currently expect in the event that we are required to conduct additional clinical trials, experience a delay in receiving marketing approval of DWP-450 or market acceptance of DWP-450 is slower than expected. Our currently anticipated expenditures for the commercialization of DWP-450 may exceed the net proceeds from the initial public offering and we may need to seek additional debt or equity financing.

We have historically funded our operations through the support of ALPHAEON. However, since the completion of our initial public offering in February 2018, such funding is no longer available. We may need to raise additional capital to fund our operations and continue to support both our near and long-term expenditures.

Our future capital requirements depend on many factors, including:

- the timing of, and the costs involved in, obtaining regulatory approvals for DWP-450 or any future product candidates;
- the cost of commercialization activities if DWP-450 or any future product candidates are approved for sale, including marketing, sales and distribution costs;
- the scope, progress, results and costs of researching and developing any future product candidates, and conducting preclinical and clinical trials;
- our ability to accurately forecast demand for our products and the ability of our third-party manufacturers to scale production to meet that demand.
- costs under our third-party manufacturing and supply arrangements for our current and any future product candidates and any products we commercialize;
- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the terms of and timing of such arrangements;
- the degree and rate of market acceptance of DWP-450 or any future approved products;
- the emergence, approval, availability, perceived advantages, relative cost, relative safety and relative efficacy of alternative and competing products;
- costs of operating as a public company; and
- costs associated with any acquisition or in-license of products and product candidates, technologies or businesses.

If we raise additional capital through marketing and distribution arrangements or other collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish certain valuable rights to our product candidates, technologies, future revenue streams or research programs or grant licenses on terms that may not be favorable to us. If we raise additional capital through public or private equity offerings or offerings of securities convertible into our equity, the ownership interest of our existing stockholders will be diluted and the terms of any such securities may have a preference over our common stock. Debt financing, receivables financing and royalty financing may also be coupled with an equity

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component, such as warrants to purchase our capital stock, which could also result in dilution of our existing stockholders' ownership, and such dilution may be material. Additionally, if we raise additional capital through debt financing, we will have increased fixed payment obligations and may be subject to covenants limiting or restricting our ability to take specific actions, such as incurring additional debt or making capital expenditures to meet specified financial ratios, and other operational restrictions, any of which could restrict our ability to commercialize our product candidates or operate as a business and may result in liens being placed on our assets. If we were to default on any of our indebtedness, we could lose such assets.

In the event we are unable to raise sufficient capital to fund our commercialization efforts to achieve specified minimum sales targets under the Daewoong Agreement, we will lose exclusivity of the license that we have been granted under the Daewoong Agreement. In addition, if we are unable to raise additional capital when required or on acceptable terms, we may be required to significantly reduce operating expenses and delay, reduce the scope of or discontinue some of our development programs, commercialization efforts or other aspects of our business plan, out-license intellectual property rights to our product candidates and sell unsecured assets, or a combination of the above. As a result, our ability to achieve profitability or to respond to competitive pressures would be significantly limited and may have a material adverse effect on our business, results of operations, financial condition and/or our ability to fund our scheduled obligations on a timely basis or at all.

Even if DWP-450 or future product candidates, if any, receive regulatory approval, they may fail to achieve the broad degree of physician adoption and use necessary for commercial success.

Even if DWP-450 receives marketing approval, it may nonetheless fail to gain sufficient market acceptance by physicians, consumers and others in the medical aesthetics community. The commercial success of DWP-450 and any future product candidates, if approved, will depend significantly on the broad adoption and use of the resulting product by physicians for approved indications, including, in the case of DWP-450, the treatment of glabellar lines and other aesthetic indications that we may seek to pursue. We are aware that other companies are seeking to develop alternative products and treatments, any of which could impact the demand for DWP-450.

The degree and rate of physician adoption of DWP-450 and any future product candidates, if approved, depend on a number of factors, including:

- the effectiveness, ease of use, and safety of DWP-450 and any future product candidates as compared to existing products or treatments;
- physician and consumer willingness to adopt DWP-450 to treat glabellar lines or other aesthetic indications we may pursue over products and brands with which consumers and physicians may have more familiarity or recognition or additional approved uses;
- overcoming any biases physicians or consumers may have toward the use, safety and efficacy of existing products or treatments and successful marketing of the benefits of a 900 kDa botulinum toxin type A complex;
- the cost of DWP-450 and any future product candidates in relation to alternative products or treatments and willingness to pay for the product or treatment, if approved, on the part of consumers;
- proper training and administration of DWP-450 and any future product candidates by physicians and medical staff;
- consumer satisfaction with the results and administration of DWP-450 and any future product candidates and overall treatment experience;
- changes in pricing, promotional and bundling efforts by competitors;
- consumer demand for the treatment of glabellar lines or other aesthetic indications that may be approved in the future;
- the willingness of consumers to pay for DWP-450 and any future product candidates relative to other discretionary items, especially during economically challenging times;
- the revenue and profitability that DWP-450 and any future product candidates may offer a physician as compared to alternative products or treatments;
- the effectiveness of our sales, marketing and distribution efforts and our ability to develop our brand awareness;

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- any adverse impact on our brand resulting from key opinion leader relationships with our parent organizations, whether or not related to us;
- our ability to compete with our competitors' product bundling offerings as we plan to initially launch DWP-450 as a stand-alone product; and
- adverse publicity about our product candidates, competitive products, or the industry as a whole, or favorable publicity about competitive products.

In addition, in its clinical trials, DWP-450 was clinically tested with one DWP-450 unit compared to one BOTOX unit. If approved, DWP-450 is expected to be the only known neurotoxin product in the United States with a 900 kDa complex other than BOTOX. We believe that aesthetic physicians' familiarity with the 900 kDa complex's handling, preparation and dosing will more easily facilitate incorporation of DWP-450 into their practices. However, the ease of integration of DWP-450 into a physician's practice may not be as seamless as we anticipate.

If DWP-450 or any future product candidates are approved for use but fail to achieve the broad degree of physician adoption necessary for commercial success, our operating results and financial condition will be adversely affected, which may delay, prevent or limit our ability to generate revenue and continue our business.

Even if DWP-450 is approved for commercialization, if there is not sufficient consumer demand for DWP-450, our financial results and future prospects will be harmed.

Treatment of glabellar lines with DWP-450 is an elective procedure, the cost of which must be borne by the consumer, and we do not expect costs related to the treatment to be reimbursable through any third-party payor, such as Medicaid, Medicare or commercial insurance. The decision by a consumer to elect to undergo treatment with DWP-450 for the treatment of glabellar lines or other aesthetic indications that we may pursue may be influenced by a number of factors, including:

- the success of any sales and marketing programs that we, or any third parties we engage, undertake, and as to which we have limited experience and are still in the process of planning and developing;
- the extent to which physicians recommend DWP-450 to their patients;
- the extent to which DWP-450 satisfies consumer expectations and overcoming consumer loyalty with existing products and brands;
- our ability to properly train physicians in the use of DWP-450 such that their consumers do not experience excessive discomfort during treatment or adverse side effects;
- the cost, safety and effectiveness of DWP-450 versus other aesthetic treatments;
- the development and availability of alternative products and treatments that seek to address similar goals;
- consumer sentiment about the benefits and risks of aesthetic procedures generally and DWP-450 in particular;
- the success of any direct-to-consumer marketing efforts that we may initiate;
- the ability and ease with which physicians are able to incorporate DWP-450 into their practices;
- changes in demographic and social trends; and
- general consumer confidence, which may be impacted by economic and political conditions.

It is expected that upon U.S. approval, DWP-450 will be the only U.S. neurotoxin without a therapeutic indication, although other companies may seek to develop a similar product in the future. We believe pursuing an aesthetic-only non-reimbursed product strategy will allow for meaningful strategic advantages in the United States, including pricing and marketing flexibility. However, physicians may choose to not pass any cost benefits received by them due to such pricing flexibility to their patients. In addition, companies offering aesthetic products competitive to DWP-450, whether they pursue an aesthetic-only non-reimbursed product strategy or not, may nonetheless try to compete with DWP-450 on price both directly through rebates, promotional programs and coupons and indirectly through attractive product bundling and customer loyalty

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programs. Our business, financial results and future prospects will be materially harmed if we cannot generate sufficient consumer demand for DWP-450, if approved.

In addition, we have not pursued regulatory approval of DWP-450 for indications other than for the treatment of glabellar lines, which may limit adoption of DWP-450. Many of our competitors have received approval of multiple aesthetic and therapeutic indications for their neurotoxin product and may be able to market such product for use in a way we cannot. For example, we are aware that one of our competitors, Allergan, has obtained and plans to obtain additional indications for their neurotoxin product within medical aesthetics and therefore is able to market their product across a greater number of indications than DWP-450. If we are unable to obtain approval for indications in addition to our anticipated approval for glabellar lines, our marketing efforts for DWP-450 will be severely limited. As a result, we may not generate physician and consumer demand or approval of DWP-450.

DWP-450 and any future product candidates, if approved, will face significant competition and our failure to effectively compete may prevent us from achieving significant market penetration and expansion.

In the near term, we expect to enter into the highly competitive aesthetic neurotoxin market through the commercial launch of DWP-450, if approved. In the long term, we expect to expand our focus to the broader self-pay healthcare market. While numerous companies are engaged in the development, patenting, manufacture and marketing of aesthetic neurotoxin products competitive with DWP-450, Allergan, through its product BOTOX, held approximately 73.1% of the global market share in the aesthetic neurotoxin market by revenue in 2016. Allergan plc, or Allergan, and many of these potential competitors are large, experienced companies that enjoy significant competitive advantages, such as substantially greater financial, research and development, manufacturing, personnel and marketing resources, greater brand recognition, larger sales forces and more experience and expertise in obtaining marketing approvals from the FDA and other regulatory authorities.

These competitors may also try to compete with DWP-450 on price both directly, through rebates and promotional programs to high volume physicians and coupons to consumers, and indirectly, through attractive product bundling with complimentary products, such as dermal fillers that offer convenience and an effectively lower price compared to the total price of purchasing each product separately. These companies may also seek to compete based on their longer operating history. Larger competitors may also be able to offer greater customer loyalty benefits to encourage repeat use of their products and finance a sustained global advertising campaign to compete with our commercialization efforts at launch. A number of our larger competitors also have access to a significant amount of studies and research papers that they could use to compete with us. Competitors and other parties may also seek to impact regulatory approval of the BLA filed for DWP-450 or our future product applications through the filing of citizen petitions or other similar documents, which could require costly and time-consuming responses to the regulatory agencies. We could face competition from other sources as well, including academic institutions, governmental agencies and public and private research institutions. In addition, we are aware of other companies also developing and/or marketing products in one or more of our target markets, including competing injectable botulinum toxin type A formulations that are currently in Phase III clinical development in North America for the treatment of glabellar lines. We would face similar risks with respect to any future product candidates that we may seek to develop or commercialize in the broader self-pay healthcare market. Successful competitors in that market have the ability to effectively discover, obtain patents, develop, test and obtain regulatory approvals for products, as well as the ability to effectively commercialize, market and promote approved products, including communicating the effectiveness, safety and value of products to actual and prospective customers and medical staff.

Our planned strategy to compete in the aesthetic neurotoxin market is dependent on the marketing and pricing flexibility that we believe is afforded to a company with a portfolio limited to self-pay healthcare, comprised of products and procedures that are not reimbursed by third-party payors. In the event that regulations applicable to reimbursed products are changed to apply to self-pay healthcare products, we would no longer have this flexibility and we may not be able to compete as effectively with our competitors which may have a material affect on our business, financial condition and results of operations.

Upon marketing approval, the first expected use of DWP-450 will be in aesthetic medicine. The aesthetic product market, and the facial aesthetic market in particular, is highly competitive and dynamic and is characterized by rapid and substantial technological development and product innovations. We are seeking regulatory approval of DWP-450 for the treatment of glabellar lines. We anticipate that DWP-450, if approved, will face significant competition from other facial aesthetic products, such as other injectable and topical botulinum toxins and dermal fillers. If approved, DWP-450 may also compete with unapproved and off-label treatments. In addition, competitors may develop new technologies within the aesthetic market that may be superior in safety and efficacy to DWP-450 or offer alternatives to the use of toxins, including surgical and radio frequency techniques. To compete successfully in the aesthetic market, we will have to demonstrate that DWP-450 is at least

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as safe and effective as current products sold by our competitors. Competition in the aesthetic market could result in price-cutting and reduced profit margins, any of which would harm our business, financial condition and results of operations.

Due to less stringent regulatory requirements, there are many more aesthetic products and procedures available for use in international markets than are approved for use in the United States. There are also fewer limitations on the claims that our competitors in international markets can make about the effectiveness of their products and the manner in which they can market them. As a result, we face more competition in these markets than in the United States.

Our commercial opportunity could also be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than DWP-450 or any other product that we may develop. Our competitors also may obtain FDA or other regulatory approval for these products more rapidly than we may obtain approval for our products, which could result in our competitors establishing a strong market position before we are able to enter the market, which may create additional barriers to successfully commercializing our products and attracting physician and consumer demand.

DWP-450 or any other product candidate for which we seek approval as a biologic may face competition sooner than anticipated.

With the enactment of the Biologics Price Competition and Innovation Act of 2009, or the BPCI Act, as part of the Patient Protection and Affordable Care Act, an abbreviated pathway for the approval of biosimilar or interchangeable biological products was created. The abbreviated regulatory pathway establishes legal authority for the FDA to review and approve biosimilar biologics. Under the BPCI Act, an application for a biosimilar product cannot be approved by the FDA until twelve years after the original branded product was approved under a BLA. The law is complex and is still being interpreted and implemented by the FDA. For example, one company has filed a Citizen Petition requesting that the FDA not apply the BPCI Act to pre-enactment BLAs. As a result, its ultimate impact, implementation, and meaning are subject to uncertainty. While it is uncertain when such processes intended to implement the BPCI Act may be fully adopted by the FDA, any such processes could have a material adverse effect on the future commercial prospects for our biological products.

We believe that DWP-450 should qualify for the twelve-year period of exclusivity. However, there is a risk that this exclusivity could be shortened due to congressional action or otherwise, or that the FDA will not consider any of our product candidates to be a reference product for competing products, potentially creating the opportunity for competition sooner than anticipated. Moreover, the extent to which a biosimilar product, once approved, will be substituted for any one of our reference products in a way that is similar to traditional generic substitution for non-biological products is not yet clear and will depend on a number of marketplace and regulatory factors that are still developing.

DWP-450 is manufactured exclusively in one facility located in South Korea, and we plan to utilize this facility in the future to support commercial production if DWP-450 is approved. If this facility were damaged or destroyed, or if there occurs a significant disruption in operations at this facility for any reason, our ability to continue to operate our business would be materially harmed.

Daewoong developed the manufacturing process for DWP-450 and manufactures DWP-450 in a recently constructed facility located in South Korea, which was completed in 2016 with the intention to comply with FDA and EMA regulations and is now fully validated by Daewoong under cGMP requirements. FDA and EMA approval of the facility is pending review and expected to occur in the first quarter of 2018. Any delay or failure to obtain these approvals may result in delays in the initiation of commercial production of DWP-450, which could have an adverse effect on our business and prospects.

We plan to utilize Daewoong's facility in the future for commercial production if DWP-450 is approved. If this facility were to be damaged, destroyed or otherwise unable to operate or comply with regulatory requirements, whether due to earthquakes, fire, floods, hurricanes, storms, tornadoes, other natural disasters, employee malfeasance, terrorist acts, power outages or otherwise, or if operations at the facility is disrupted for any other reason, such an event could, if DWP-450 is approved, jeopardize Daewoong's ability to manufacture DWP-450 as promptly as we or our customers expect or possibly at all. If we experience delays in achieving our development objectives, or if Daewoong is unable to manufacture DWP-450 within a timeframe that meets ours and our customers' expectations, our business, prospects, financial results and reputation could be materially harmed.

If these disruptions exceed coverage provided by Daewoong's insurance policies, Daewoong may be unable to satisfy its obligations to us.

We or the third parties upon whom we depend may be adversely affected by earthquakes or other natural disasters or political unrest and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster or political unrest.

Daewoong, the sole manufacturer of DWP-450, manufactures DWP-450 in a facility located in South Korea. In addition, the underlying drug substance for DWP-450 is also manufactured in a separate facility on the same campus. The risk of extreme weather and earthquakes in the Pacific Rim region is significant due to the proximity of major earthquake fault lines. There is also a level of political unrest or uncertainty in South Korea and the broader region. Natural disasters or political unrest could severely disrupt Daewoong's operations, and have a material adverse effect on our business, results of operations, financial condition and prospects.

If a natural disaster, political unrest, power outage or other event occurred that prevented Daewoong from using all or a significant portion of its manufacturing facility, or prevented us from using all or a significant portion of our headquarters, that damaged critical infrastructure, or that otherwise disrupted operations, it may be difficult or, in certain cases, impossible for us to continue our business for a substantial period of time. In particular, because Daewoong manufactures DWP-450 in its facility, in the event of a natural disaster, political unrest, power outage or other event affecting this facility, we would be required to seek additional manufacturing facilities and capabilities that have obtained the necessary approvals required by state, federal or other applicable authorities in order to continue or resume manufacturing activities, which we may not be able to do on commercially reasonable terms if at all. Any disaster recovery and business continuity plans that we and Daewoong have in place or put in place may not be adequate in the event of a serious disaster or similar event. We may incur substantial expenses as a result of our or Daewoong's lack of disaster recovery and business continuity plans, or the adequacy thereof, which could have a material adverse effect on our business.

Our ability to market DWP-450, if approved, will be limited to use for the treatment of glabellar lines, and if we want to expand the indications for which we market DWP-450, we will need to obtain additional regulatory approvals, which will be expensive and may not be granted.

We are currently seeking regulatory approval for DWP-450 in the United States, EU and Canada for the treatment of moderate to severe glabellar lines. If DWP-450 is approved for this indication, the terms of that approval will restrict our ability to market or advertise DWP-450 for other indications, which could limit physician and consumer adoption. Under the U.S. Federal Food Drug and Cosmetic Act, we may generally only market DWP-450 for approved indications. Many of our competitors have received approval of multiple aesthetic and therapeutic indications for their neurotoxin products and may be able to market such products for use in a way we cannot. For example, we are aware that one of our competitors, Allergan, has obtained and plans to obtain additional indications for its neurotoxin product within medical aesthetics and therefore is able to market its product across a greater number of indications than DWP-450. If we are unable to obtain approval for indications in addition to our anticipated approval for glabellar lines, our marketing efforts for DWP-450 will be severely limited. As a result, we may not generate physician and consumer demand or approval of DWP-450.

We have entered into the therapeutic agreement with ALPHAEON relating to certain rights to the therapeutic indications of DWP-450 under the Daewoong Agreement and, as a result, our ability to pursue therapeutic indications for DWP-450 is limited.

On December 18, 2017, we entered into a therapeutic agreement with ALPHAEON, or the therapeutic agreement, relating to certain rights to the therapeutic indications of DWP-450 under the Daewoong Agreement. We previously paid an aggregate of \$1.0 million to Daewoong pursuant to the Daewoong Agreement to receive an option to expand the permitted uses of DWP-450 to cover all therapeutic uses in the United States, EU, Canada, Australia, Russia, C.I.S., and South Africa, or the covered territories, and Japan, or the therapeutic option. Pursuant to the Daewoong Agreement, we may exercise the therapeutic option for a confidential exercise price, or the therapeutic option fee, upon thirty days' notice to Daewoong. The therapeutic option expires December 31, 2018.

However, pursuant to the therapeutic agreement, we have agreed not to sell, sub-license or otherwise dispose in whole or in part the therapeutic option or the rights underlying the therapeutic option and we will hold the therapeutic option and the underlying rights in trust for ALPHAEON. We further agreed not to develop or make plans to develop any therapeutic indications for DWP-450. In exchange for this, and as of the date of the therapeutic agreement, ALPHAEON reduced the related party borrowings owed by us by the amount of \$2.5 million. If prior to December 31, 2018, ALPHAEON desires for us to exercise the therapeutic option in whole or in part on ALPHAEON's behalf, ALPHAEON will wire funds to us equal to the therapeutic option fee and we will apply those funds solely to the exercise of the therapeutic option fee. The obligations stated above will terminate upon the prior written consent of ALPHAEON, which consent may be withheld for any or no reason.

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In addition, under the therapeutic agreement, ALPHAEON has the right to negotiate the entry into an agreement with Daewoong for distribution rights for therapeutic indications of DWP-450 that are separate and distinct from the Daewoong Agreement, or the ALPHAEON-Daewoong agreement. We have agreed to ALPHAEON and Daewoong's entry into the ALPHAEON-Daewoong agreement, so long as the terms do not diminish, interfere with or adversely affect our ability to distribute DWP-450 for aesthetic indications in the covered territories and Japan under the Daewoong Agreement. To the extent sales under the ALPHAEON-Daewoong agreement require royalty payments to be made to the Evolus Contributors,

ALPHAEON will either enter into a direct agreement with the Evolus Contributors for such royalty payments or make quarterly payments to us equal to a low single digit percentage of net sales of the therapeutic indications of DWP-450 to be paid solely to the Evolus Contributors.

It is expected that upon U.S. approval, DWP-450 will be the only U.S. neurotoxin without a therapeutic indication. We believe pursuing an aesthetic-only non-reimbursed product strategy will allow for meaningful strategic advantages in the United States, including pricing and marketing flexibility. Additionally, our entry into the therapeutic agreement eliminates our ability to expand the permitted uses of DWP-450 for therapeutic indications without ALPHAEON's consent, which consent may be withheld for any or no reason. Even though we presently intend to pursue an aesthetic-only non-reimbursed product strategy, we could in the future decide to pursue therapeutic indications for DWP-450 (subject to ALPHAEON's consent) or any of our future product candidates. We may, however, be deterred from pursuing therapeutic indications for DWP-450 by the consent requirement of the therapeutic agreement and may be further deterred from pursuing therapeutic indications for any of our future product candidates. As a result, we may not pursue product candidates with therapeutic indications.

If DWP-450 or any of our future product candidates are approved for marketing, and we are found to have improperly promoted off-label uses, or if physicians misuse our products or use our products off-label, we may become subject to prohibitions on the sale or marketing of our products, significant fines, penalties, sanctions, or product liability claims, and our image and reputation within the industry and marketplace could be harmed.

The FDA and other regulatory agencies strictly regulate the marketing and promotional claims that are made about pharmaceutical products, such as DWP-450, if approved. In particular, a product may not be promoted for uses or indications that are not approved by the FDA or other similar regulatory authorities as reflected in the product's approved labeling. If we receive marketing approval for DWP-450 for the treatment of moderate to severe glabellar lines, which is the first indication that we are pursuing, physicians could use DWP-450 on their patients in a manner that is inconsistent with the approved label, potentially including for the treatment of other aesthetic or therapeutic indications. If we are found to have promoted such off-label uses, we may receive warning letters from the FDA, EMA and other regulatory agencies, and become subject to significant liability, which would materially harm our business. The federal government has levied large civil and criminal fines against companies for alleged improper promotion and has enjoined several companies from engaging in off-label promotion. If we become the target of such an investigation or prosecution based on our marketing and promotional practices, we could face similar sanctions, which would materially harm our business. In addition, management's attention could be diverted from our business operations, significant legal expenses could be incurred, and our reputation could be damaged. The FDA has also required that companies enter into consent decrees or permanent injunctions under which specified promotional conduct is changed or curtailed in order to resolve FDA enforcement actions. If we are deemed by the FDA to have engaged in the promotion of our products for off-label use, we could be subject to FDA prohibitions or other restrictions on the sale or marketing of our products and other operations or significant fines and penalties, and the imposition of these sanctions could also affect our reputation and position within the industry.

Physicians may also misuse DWP-450 or any future product candidates, if approved, or use improper techniques, potentially leading to adverse results, side effects or injury, which may lead to product liability claims. If DWP-450 or any future product candidates, if approved, are misused or used with improper techniques or are determined to cause or contribute to consumer harm, we may become subject to costly litigation by our customers or their patients. Product liability claims could divert management's attention from our core business, be expensive to defend, result in sizable damage awards against us that may not be covered by insurance and subject us to negative publicity resulting in reduced sales of our products. Furthermore, the use of DWP-450 or any future product candidates, if approved, for indications other than those cleared by the FDA may not effectively treat such conditions, which could harm our reputation in the marketplace among physicians and consumers. Any of these events could harm our business and results of operations and cause our stock price to decline.

DWP-450 or any of our future product candidates may cause serious or undesirable side effects or possess other unexpected properties that could delay or prevent their regulatory approval, limit the commercial profile of approved labeling or result in post-approval regulatory action.

Unforeseen side effects from DWP-450 or our future product candidates could arise either during clinical development or, if approved, after marketing such product. Undesirable side effects caused by product candidates could cause us or regulatory authorities to interrupt, modify, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the FDA, EMA or similar regulatory authorities. Results of clinical trials could reveal a high and unacceptable severity and prevalence of side effects. In such an event, trials could be suspended or terminated and the FDA, EMA or similar regulatory authorities could order us to cease further development of or deny approval of product candidates for any or all targeted indications. The drug-related side effects could affect patient recruitment or the ability of enrolled patients to complete the trial or result in product liability claims. Any of these occurrences may harm our business, financial condition, operating results and prospects.

Additionally, if we or others identify undesirable side effects, or other previously unknown problems, caused by DWP-450, or any of our future product candidates, after obtaining regulatory approval in the United States or other jurisdictions, a number of potentially negative consequences could result, including:

- regulatory authorities may withdraw their approval of the product;
- regulatory authorities may require a recall of the product or we may voluntarily recall a product;
- regulatory authorities may require the addition of warnings or contraindications in the product labeling, narrowing of the indication in the product label or issuance of field alerts to physicians and pharmacies;
- regulatory authorities may require us to create a medication guide outlining the risks of such side effects for distribution to patients or institute a Risk Evaluation and Mitigation Strategies, or REMS;
- we may be subject to limitations as to how we promote the product;
- we may be required to change the way the product is administered or modify the product in some other way;
- regulatory authorities may require additional clinical trials or costly post-marketing testing and surveillance to monitor the safety or efficacy of the product;
- sales of the product may decrease significantly;
- we could be sued and held liable for harm caused to patients; and
- our brand and reputation may suffer.

Any of the above events could prevent us from achieving or maintaining market acceptance of the affected product and could substantially increase the costs of commercializing our products. The demand for DWP-450 could also be negatively impacted by any adverse effects of a competitor's product or treatment.

Our failure to successfully in-license, acquire, develop and market additional product candidates or approved products would impair our ability to grow our business.

Although a substantial amount of our effort will focus on the potential regulatory approval and commercialization of DWP-450, a key element of our long-term strategy is to in-license, acquire, develop, market and commercialize a portfolio of products to serve the self-pay aesthetic market, which may include dermal fillers, aesthetic lasers and energy devices, and breast implants. Because our internal research and development capabilities are limited, we may be dependent upon pharmaceutical companies, academic scientists and other researchers to sell or license products or technology to us. The success of this strategy depends partly upon our ability to identify and select promising pharmaceutical product candidates and products, negotiate licensing or acquisition agreements with their current owners and finance these arrangements.

The process of proposing, negotiating and implementing a license or acquisition of a product candidate or approved product is lengthy and complex. Other companies, including some with substantially greater financial, marketing, sales and other resources, may compete with us for the license or acquisition of product candidates and approved products. We have limited

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resources to identify and execute the acquisition or in-licensing of third-party products, businesses and technologies and integrate them into our current infrastructure. Moreover, we may devote resources to potential acquisitions or licensing opportunities that are never completed, or we may fail to realize the anticipated benefits of such efforts. We may not be able to acquire the rights to additional product candidates on terms that we find acceptable, or at all.

Further, any product candidate that we acquire may require additional development efforts prior to commercial sale, including preclinical or clinical testing and approval by the FDA, the EMA and other similar regulatory authorities. All product candidates are prone to risks of failure during pharmaceutical product development, including the possibility that a product candidate will not be shown to be sufficiently safe and effective for approval by regulatory authorities. In addition, any approved products that we acquire may not be manufactured or sold profitably or achieve market acceptance.

If we are unable to establish sales and marketing capabilities on our own or through third parties, we will be unable to successfully commercialize DWP-450 or any other future product candidates, if approved, or generate product revenue.

We currently have limited marketing capabilities and no sales organization. To commercialize DWP-450 or any other future product candidates, if approved, in the United States, EU, Canada and other jurisdictions we may seek to enter, we must build our marketing, sales, distribution, managerial and other capabilities or make arrangements with third parties to perform these services, and we may not be successful in doing so. If DWP-450 receives regulatory approval, we expect to market DWP-450 in the United States through an internal specialized sales force and outside the United States through distributors, which will be expensive and time consuming.

We have no prior experience in the marketing, sale and distribution of pharmaceutical products, and there are significant risks involved in building and managing a sales organization, including our ability to hire, retain and incentivize qualified individuals, provide adequate training to sales and marketing personnel, generate sufficient sales leads, effectively manage a geographically dispersed sales and marketing team, adequately provide complementary products to be offered by sales personnel, which may otherwise put us at a competitive disadvantage relative to companies with more extensive product lines, and handle any unforeseen costs and expenses. Any failure or delay in the development of our internal sales, marketing and distribution capabilities would adversely impact the commercialization of these products. We may choose to collaborate with third parties that have direct sales forces and established distribution systems, either to augment our own sales force and distribution systems or in lieu of our own sales force and distribution systems. If we are unable to enter into such arrangements on acceptable terms or at all, we may not be able to successfully commercialize DWP-450 or any future product candidates. To the extent we commercialize our product candidates by entering into agreements with third-party collaborators, we may have limited or no control over the sales, marketing and distribution activities of these third parties, in which case our future revenues would depend heavily on the success of the efforts of these third parties. If we are not successful in commercializing DWP-450 or any future product candidates, either on our own or through collaborations with one or more third parties, our future product revenue will suffer and we would incur significant additional losses.

We will need to increase the size of our organization, and we may experience difficulties in managing this growth.

As of May 10, 2018, we had 27 employees, all of whom constituted full-time employees. Three of our full-time employees, including our Chief Operating Officer, J. Christopher Marmo, Ph.D., are employed by ALPHAEON and we reimburse ALPHAEON for amounts due under their respective employment agreements with ALPHAEON. We will need to continue to expand our managerial, operational, finance and other resources to manage our operations, commercialize DWP-450 or any other product candidates, if approved, and continue our development activities. For example, we plan to hire a specialty sales force of approximately 65 sales representatives within our first year of commercial launch of DWP-450 and expect to grow our sales force to 150 sales representatives over time. Our management and personnel, systems and facilities currently in place may not be adequate to support this future growth. Our need to effectively execute our growth strategy requires that we:

- manage any of our future clinical trials effectively;
- identify, recruit, retain, incentivize and integrate additional employees;
- manage our internal development efforts effectively while carrying out our contractual obligations to third parties; and
- continue to improve our operational, financial and management controls, reporting systems and procedures.

Due to our limited financial resources and our limited experience in managing a company with such anticipated growth, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The

physical expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability to manage growth could delay the execution of our development and strategic objectives or disrupt our operations.

Our employees, independent contractors, consultants, commercial collaborators, principal investigators, vendors and other agents may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements.

We are exposed to the risk that our employees, independent contractors, consultants, commercial collaborators, principal investigators, vendors and other agents may engage in fraudulent conduct or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to us that violates applicable regulations, including those laws requiring the reporting of true, complete and accurate information to regulatory agencies, manufacturing standards, and federal and state healthcare laws and regulations. In particular, sales, marketing and business arrangements in the healthcare industry are subject to extensive laws and regulations intended to prevent fraud, kickbacks, self-dealing and other abusive practices. Although our strategy to focus only on the self-pay market will reduce our risk under the Anti-Kickback Statute, we could face liability under similar state laws that are not limited to products reimbursed by the government or if we obtain regulatory approval for products reimbursed by federal healthcare programs in the future. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, referrals, customer incentive programs and other business arrangements. Misconduct by these parties could also involve the improper use of individually identifiable information, including, without limitation, information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. The precautions we take to detect and prevent misconduct may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant civil, criminal and administrative penalties, including, without limitation, damages, fines, disgorgement, imprisonment and the curtailment or restructuring of our operations.

In the future, we may rely on third parties and consultants to conduct all of our preclinical studies and clinical trials. If these third parties or consultants do not successfully carry out their contractual duties or meet expected deadlines, we may be unable to obtain regulatory approval for any future product candidates.

In the future, we may rely on medical institutions, clinical investigators, contract laboratories, collaborative partners and other third parties, such as CROs to conduct clinical trials on our product candidates. The third parties with whom we may contract for execution of any of our future clinical trials may play a significant role in the conduct of these trials and the subsequent collection and analysis of data. However, any of these third parties may not be our employees, and except for contractual duties and obligations, we would have limited ability to control the amount or timing of resources that they devote to any of our future programs. Although we may rely on these third parties to conduct our preclinical studies and clinical trials, we would remain responsible for ensuring that each of our preclinical studies and clinical trials is conducted in accordance with the investigational plan and protocol. Moreover, the FDA and other similar regulatory authorities require us to comply with good clinical practices, or GCP, for conducting, monitoring, recording and reporting the results of clinical trials to ensure that the data and results are scientifically credible and accurate, and that the trial subjects are adequately informed of the potential risks of participating in clinical trials. We may also rely on consultants to assist in the execution, including data collection and analysis, of any of our future clinical trials.

In addition, the execution of preclinical studies and clinical trials, and the subsequent compilation and analysis of the data produced, requires coordination among various parties. In order for these functions to be carried out effectively and efficiently, it is imperative that these parties communicate and coordinate with one another. Moreover, these third parties may also have relationships with other commercial entities, some of which may compete with us. If the third parties or consultants conducting our clinical trials do not perform their contractual duties or obligations, experience work stoppages, do not meet expected deadlines, terminate their agreements with us or need to be replaced, or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical trial protocols or GCPs, or for any other reason, we may need to conduct additional clinical trials or enter into new arrangements with alternative third parties, which could be difficult, costly or impossible, and our clinical trials may be extended, delayed or terminated or may need to be repeated. If any of the foregoing were to occur, we may not be able to obtain, or may be delayed in obtaining, regulatory approval for and will not be able to, or may be delayed in our efforts to, successfully commercialize any future product candidates being tested in such trials.

We plan to rely on third-party distribution partners for the distribution of our products, product candidates and services, which could delay or limit our ability to generate revenue.

With respect to certain markets for our products, product candidates and services, we plan to retain third-party service providers to perform functions related to the marketing, distribution and sale of DWP-450 and any future product candidates. Key aspects of those functions may be out of our direct control, including regulatory compliance, warehousing and inventory management, distribution, contract administration, accounts receivable management and call center management. Any future distribution partners may hold significant control over important aspects of the commercialization of our products, including market identification, regulatory compliance, marketing methods, pricing, composition of sales force and promotional activities.

We may not be able to control the amount and timing of resources that any future third-party distribution partners may devote to our products, or prevent any third-party from pursuing the development of alternative technologies or products that compete with our products, except to the extent our contractual arrangements protect us against such activities. Also, we may not be able to prevent any other third-party from withdrawing its support of our products.

If third-party service providers fail to comply with applicable laws and regulations, fail to meet expected deadlines, encounter natural or other disasters at their facilities or otherwise fail to perform their services to us in a satisfactory or predicted manner, or at all, our ability to deliver product to meet commercial demand could be significantly impaired. In addition, we may use third parties to perform various other services for us relating to sample accountability and regulatory monitoring, including adverse event reporting, safety database management and other product maintenance services. If the quality or accuracy of the data maintained by these service providers is insufficient, our ability to continue to market our products could be jeopardized or we could be subject to regulatory sanctions, and any indemnity we may receive from such third-party service providers could be limited by such provider's ability to pay and otherwise might not be sufficient to cover all losses we may experience.

We will forecast the demand for commercial quantities of our products, and if our forecasts are incorrect, we may experience delays in shipments or increased inventory costs.

If DWP-450 is approved, we will purchase the product from Daewoong. Pursuant to the Daewoong Agreement, we will submit forecasts of anticipated product orders to Daewoong and may, from time to time, submit purchase orders on the basis of these forecasting requirements. Our limited historical experience may not provide us with enough data to accurately predict future demand. In addition, we expect Daewoong to manufacture its own product, Nabota, a DWP-450 formulation, from this facility. If our business significantly expands, our demand for commercial products would increase and Daewoong may be unable to meet our increased demand. In addition, our product will have fixed future expiration dates. If we overestimate our component and material requirements, we will have excess inventory, which may have to be disposed of if such inventory exceeds approved expiration dates, which would result in lost revenues and increase our expenses. If we underestimate our component and material requirements, we may have inadequate inventory, which could interrupt, delay or prevent delivery of our products to our customers. Any of these occurrences would negatively affect our financial performance.

When we expand internationally, our international operations will expose us to risks, and failure to manage these risks may adversely affect our operating results and financial condition.

We expect to have operations both inside and outside the United States. International operations are subject to a number of inherent risks, and our future results could be adversely affected by a number of factors, including:

- requirements or preferences for domestic products or solutions, which could reduce demand for our products;
- differing existing or future regulatory and certification requirements;
- management communication and integration problems resulting from cultural and geographic dispersion;
- greater difficulty in collecting accounts receivable and longer collection periods;
- difficulties in enforcing contracts;
- difficulties and costs of staffing and managing non-U.S. operations;
- the uncertainty of protection for intellectual property rights in some countries;

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- tariffs and trade barriers, export regulations and other regulatory and contractual limitations on our ability to sell our products;
- more stringent data protection standards in some countries;
- greater risk of a failure of foreign employees to comply with both U.S. and foreign laws, including export and antitrust regulations, the U.S. Foreign Corrupt Practices Act, or FCPA, quality assurance and other healthcare regulatory requirements and any trade regulations ensuring fair trade practices;
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements;
- foreign currency exchange rates;
- potentially adverse tax consequences, including multiple and possibly overlapping tax structures and difficulties relating to repatriation of cash; and
- political and economic instability, political unrest and terrorism.

These and other factors could harm our ability to gain future revenue and, consequently, materially impact our business, operations results and financial condition.

A perception of a conflict of interest of our indirect physician investors by other physicians or consumers could negatively impact our future product sales or product approvals.

We have been indirectly funded through investments in our controlling stockholder, ALPHAEON, and its majority stockholder, SCH, in part, by leading physicians in the self-pay healthcare market, or the indirect physician investors. As a result, through ALPHAEON and SCH, these indirect physician investors may have an indirect financial interest in our success (as our successes, if any, will in part be imputed to ALPHAEON and ultimately SCH) and may be more inclined to use, promote or recommend DWP-450 to their patients and other physicians. Other physicians may become aware of the indirect and potential financial interest and investments of these indirect physician investors and realize their additional incentives in recommending DWP-450 and any of our future product candidates, if approved. If these other physicians perceive this to be a significant conflict, the other physicians may be unwilling to purchase DWP-450 or any of our future product candidates without obtaining additional third-party evidence of their benefits and efficacy. If consumers perceive these indirect physician investors have a conflict of interest in recommending DWP-450 or any of our future product candidates, they may be unwilling to purchase DWP-450 or any of our future product candidates and may have a negative view of our brand, which could harm our reputation in the market. If physicians do not recommend DWP-450 or any of our future product candidates or consumers choose not to purchase any of our products as a result of these conflicts of interest, it could adversely affect our business.

In addition, ALPHAEON is presently a technology company focused on providing healthcare products and services, including patient financing services, and SCH is presently a holding company with direct and/or indirect interests, as the case may be, in ALPHAEON and various other healthcare related and energy related companies. ALPHAEON and SCH may engage in, acquire or otherwise conduct their business in a manner that partners with or otherwise collaborates with the business of our company, DWP-450 and any of our future product candidates. For example, ALPHAEON offers a patient financing service whereby a qualified patient can receive a line of credit for certain approved medical procedures. An aesthetic medical procedure sought by a qualified patient for the treatment of moderate to severe glabellar lines whereby the physician uses DWP-450 may be an eligible procedure covered under ALPHAEON's patient financing service. As a result, our indirect physician investors may receive an additional incremental benefit through a patient's use of ALPHAEON's patient financing service and the physician's use of DWP-450. If other physicians or consumers perceive this to be a significant conflict, the other physicians or consumers may be unwilling to purchase DWP-450 or any of our future product candidates without obtaining additional third-party evidence of their benefits and efficacy, and it may result in a negative view of our brand, which could harm our reputation in the market.

Further, for our two identical double blind, pivotal U.S. Phase III clinical trials of DWP-450 (EV-001 and EV-002), one of the twenty clinical investigators was at the time of the pivotal clinical trial an indirect physician investor in our company. For our pivotal double blind, European Phase III study of DWP-450 (EVB-003), one of the nineteen clinical investigators was at the time an indirect physician investor in our company. Additionally, in our unblinded, non-pivotal U.S. Phase II clinical trials of DWP-450 (EV-004 and EV-006), eight of the twenty-nine clinical investigators are or were at the time of the non-pivotal

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clinical trial indirect physician investors of our company. In the future, clinical investigators for any of our future pivotal or non-pivotal clinical trials may be indirect physician investors in our company. We believe it is likely that they will be required to report some of these relationships to the FDA to the extent not already disclosed. The FDA may conclude that a financial relationship, such as an indirect investment, between us and a clinical investigator has created a conflict of interest or otherwise affected interpretation of the study. The FDA may therefore question the integrity of the data generated at the applicable clinical trial site and the utility of the clinical trial itself may be jeopardized. This could result in a delay in approval, or rejection, of our marketing applications by the FDA and may ultimately lead to the denial of marketing approval of one or more of our future product candidates. In addition, should our products become eligible for government reimbursement in the future, such indirect investments or other financial relationships with clinical investigators may become subject to additional regulations and disclosure requirements.

If product liability lawsuits are brought against us, we may incur substantial liabilities and may be required to limit commercialization of any future products we develop.

We face an inherent risk of product liability as a result of the clinical testing of DWP-450 and any of our future product candidates and will face an even greater risk if we commercialize any products. For example, we may be sued if any product we develop allegedly causes injury or is found to be otherwise unsuitable during product testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability and a breach of warranties. Claims could also be asserted under state consumer protection acts. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products. Even a successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in:

- decreased demand for DWP-450 or any future product candidates or products we develop;
- termination of clinical trial sites or entire trial programs;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial participants or cancellation of clinical trials;
- significant costs to defend the related litigation;
- a diversion of management's time and our resources;
- substantial monetary awards to trial participants or patients;
- regulatory investigations, product recalls, withdrawals or labeling, marketing or promotional restrictions;
- loss of revenue;
- the inability to commercialize any products we develop; and
- a decline in our share price.

Our inability to obtain and maintain sufficient product liability insurance at an acceptable cost and scope of coverage to protect against potential product liability claims could prevent or inhibit the commercialization of DWP-450 or any future products that we develop. We currently carry product liability insurance covering our clinical trials. Although we maintain such insurance, any claim that may be brought against us could result in a court judgment or settlement in an amount that is not covered, in whole or in part, by our insurance or that is in excess of the limits of our insurance coverage. Our insurance policies also have various exclusions and deductibles, and we may be subject to a product liability claim for which we have no coverage. We will have to pay any amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance, and we may not have, or be able to obtain, sufficient capital to pay such amounts. Moreover, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses. If and when we obtain approval for marketing DWP-450, we intend to expand our insurance coverage to include the sale of DWP-450, however, we may be unable to obtain this liability insurance on commercially reasonable terms.

If we fail to attract and keep senior management and key scientific personnel, we may be unable to successfully develop DWP-450 or any future product candidates, conduct our clinical trials and commercialize DWP-450 or any future products we develop.

Our success depends in part on our continued ability to attract, retain and motivate highly qualified management, including a chief financial officer and clinical and scientific personnel. We expect to appoint a chief financial officer. We believe that our future success is highly dependent upon the contributions of our senior management, particularly David Moatazedi our President, Chief Executive Officer and member of our board of directors, as well as other members of our senior management team. The loss of services of any of these individuals could delay or prevent the successful development of our product pipeline, completion of our planned clinical trials or the commercialization of DWP-450 or any future products we develop.

In addition, we could experience difficulties attracting and retaining qualified employees in the future. For example, competition for qualified personnel in the pharmaceuticals field is intense due to the limited number of individuals who possess the skills and experience required by our industry. We will need to hire additional personnel, including experienced sales representatives, as we expand our clinical development and commercial activities. We may not be able to attract and retain quality personnel on acceptable terms, or at all. In addition, to the extent we hire personnel from competitors, we may be subject to allegations that they have been improperly solicited or that they have divulged proprietary or other confidential information or that their former employers own their research output.

Unfavorable global economic conditions could adversely affect our business, financial condition or results of operations.

Our results of operations could be adversely affected by general conditions in the global economy and in the global financial markets. Furthermore, the market for aesthetic medical procedures may be particularly vulnerable to unfavorable economic conditions. We do not expect DWP-450 for the treatment of glabellar lines to be reimbursed by any government or third-party payor and, as a result, our product candidate will be wholly-paid for by the consumer. Demand for this product will be tied to discretionary spending levels of our targeted consumer population. A severe or prolonged economic downturn could result in a variety of risks to our business, including a decline in the discretionary spending of our target consumer population, which could lead to a weakened demand for DWP-450 or any future product candidates, if approved. A severe or prolonged economic downturn may also affect our ability to raise additional capital when needed on acceptable terms, if at all. A weak or declining economy could also strain our suppliers, possibly resulting in supply disruption, or cause our customers to delay making payments for our services. Any of the foregoing could harm our business.

In addition, our business strategy was developed based on a number of important assumptions about the self-pay healthcare market. For example, we believe that the number of self-pay healthcare procedures will increase in the future. However, these trends are uncertain and limited sources exist to obtain reliable market data. Therefore, sales of DWP-450 or any of our future product candidates could differ materially from our projections if our assumptions are incorrect. In addition, our strategy of focusing exclusively on the self-pay healthcare market may limit our ability to increase sales or achieve profitability. For example, to maintain the marketing and pricing flexibility we believe results from offering products and procedures that are not reimbursed by third-party payors, we cannot offer products or services available in the broader healthcare market that are reimbursed by third-party payors. This eliminates our ability to offer a substantial number of products. In the event that we elect to seek regulatory approval for and market therapeutic indications of DWP-450 (if ALPHAEON consents under the therapeutic agreement, which consent may be withheld for any or no reason) or any other product candidates, we will be subject to regulations governing the marketing and pricing of products that are reimbursed by third-party payors, which may have an adverse affect on our business.

Our strategy of focusing exclusively on the self-pay healthcare market may limit our ability to increase sales or achieve profitability.

Our near-term strategy of focusing exclusively on the self-pay healthcare market may limit our ability to increase sales or achieve profitability. For example, to maintain our business model, we cannot offer products or services available in the broader healthcare market that are reimbursed by third-party payors such as Medicare, Medicaid or commercial insurance. This eliminates our ability to offer a substantial number of products.

Pursuant to the Daewoong Agreement, we have an option to expand our license to include therapeutic indications. We have, however, entered into the therapeutic agreement with ALPHAEON pursuant to which we have agreed not to sell, sub-license or otherwise dispose in whole or in part the therapeutic option or the rights underlying the therapeutic option and we will hold the therapeutic option and the underlying rights in trust for ALPHAEON. Even though we presently intend to pursue an aesthetic-only non-reimbursed product strategy, if, pursuant to the therapeutic agreement, ALPHAEON consents to the expansion of our license to include therapeutic indications, which consent may be withheld for any or no reason, we may

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attempt to develop, promote and commercialize new treatment indications and protocols for DWP-450 in the future, but we may not receive the regulatory approvals required to do so in a timely manner, if at all. In addition, if we were to pursue regulatory approvals for additional indications, we would be required to conduct additional clinical trials or studies to support such indications, which would be time consuming and expensive, and may produce results that do not support such regulatory approvals. If we do not obtain additional regulatory approvals or obtain ALPHAEON's consent under the therapeutic agreement, our ability to expand our business into therapeutic indications will be limited. Further, we would not be able to benefit from the pricing and marketing flexibility we currently enjoy due to our exclusive focus on the aesthetic self-pay healthcare market. We will be required to calculate DWP-450's average sales price, inclusive of both aesthetic and therapeutic sales, for purposes of therapeutic reimbursement. As a result, we may limit our aesthetic neurotoxin discounting to protect our therapeutic neurotoxin reimbursement rate, which many of our competitors currently do. Additional regulations would also impose limits on the permitted interaction with our physician-customers. This would require us to compete without using pricing and marketing flexibility, at which we may not be successful, if at all.

We will incur significant increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives. We may fail to comply with the rules that apply to public companies, including Section 404 of the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, which could result in sanctions or other penalties that would harm our business.

We will incur significant legal, accounting and other expenses as a public company, including costs resulting from public company reporting obligations under the Exchange Act and regulations regarding corporate governance practices. The listing requirements of the Nasdaq Global Market, or Nasdaq, and the rules of the SEC require that we satisfy certain corporate governance requirements. Our management and other personnel will need to devote a substantial amount of time to ensure that we comply with all of these requirements. Moreover, the reporting requirements, rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. Any changes we make to comply with these obligations may not be sufficient to allow us to satisfy our obligations as a public company on a timely basis, or at all. These reporting requirements, rules and regulations, coupled with the increase in potential litigation exposure associated with being a public company, could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors or board committees or to serve as executive officers, or to obtain certain types of insurance, including directors' and officers' insurance, on acceptable terms.

We are subject to Section 404 of the Sarbanes-Oxley Act, or Section 404, and the related rules of the SEC, which generally require our management and independent registered public accounting firm to report on the effectiveness of our internal control over financial reporting. In order to maintain effective internal controls, we will need to assume certain functions that have historically been provided by ALPHAEON and we will need additional financial personnel, systems and resources. Beginning with the second annual report on Form 10-K that we will be required to file with the SEC, Section 404 requires an annual management assessment of the effectiveness of our internal control over financial reporting. However, for so long as we remain an emerging growth company, as defined in the JOBS Act, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not emerging growth companies, including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404(b). Once we are no longer an emerging growth company or, if prior to such date, we opt to no longer take advantage of the applicable exemption, we will be required to include an opinion from our independent registered public accounting firm on the effectiveness of our internal control over financial reporting. We would cease to be an emerging growth company on the date that is the earliest of: (i) the last day of the fiscal year in which we have total annual gross revenues of \$1.07 billion or more; (ii) December 31, 2023; (iii) the date on which we have issued more than \$1 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

To date, we have never conducted a review of our internal controls for the purpose of providing the reports required by these rules. During the course of our review and testing, we may identify deficiencies and be unable to remediate them before we must provide the required reports. Furthermore, if we have a material weakness in our internal control over financial reporting, we may not detect errors on a timely basis and our financial statements may be materially misstated. We or our independent registered public accounting firm may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting, which could harm our operating results, cause investors to lose confidence in our reported financial information and cause the trading price of our stock to fall. In addition, as a public company we will be required to file accurate and timely quarterly and annual reports with the SEC under the Exchange Act. Any failure to report our financial results on an accurate and timely basis could result in sanctions, lawsuits, delisting of our shares from Nasdaq or other adverse consequences that would materially harm our business and reputation.

Our business involves the use of hazardous materials, and we and our third-party manufacturer and supplier must comply with environmental laws and regulations, which can be expensive and restrict how we do business.

Our research and development and manufacturing activities in the future may, and Daewoong's manufacturing and supplying activities presently do, involve the controlled storage, use and disposal of hazardous materials, including botulinum toxin type A, a key component of DWP-450, and other hazardous compounds. We and Daewoong are subject to laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous materials. In some cases, these hazardous materials and various wastes resulting from their use are stored at Daewoong's facilities pending their use and disposal. We and Daewoong cannot eliminate the risk of contamination, which could cause an interruption of Daewoong's manufacturing processes, our commercialization efforts, business operations and environmental damage resulting in costly clean-up and liabilities under applicable laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. Although we believe that the safety procedures utilized by Daewoong for handling and disposing of these materials generally comply with the standards prescribed by these laws and regulations, this may not eliminate the risk of accidental contamination or injury from these materials. In such an event, we may be held liable for any resulting damages and such liability could exceed our resources, and state or federal or other applicable authorities may curtail our use of certain materials and interrupt our business operations. Furthermore, environmental laws and regulations are complex, change frequently and have tended to become more stringent.

We may use third-party collaborators to help us develop, validate or commercialize any new products, and our ability to commercialize such products could be impaired or delayed if these collaborations are unsuccessful.

We may license or selectively pursue strategic collaborations for the development, validation and commercialization of DWP-450 and any future product candidates. In any third-party collaboration, we would be dependent upon the success of the collaborators in performing their responsibilities and their continued cooperation. Our collaborators may not cooperate with us or perform their obligations under our agreements with them. Our collaborators may choose to pursue alternative technologies in preference to those being developed in collaboration with us. The development, validation and commercialization of our product candidates will be delayed if collaborators fail to conduct their responsibilities in a timely manner or in accordance with applicable regulatory requirements or if they breach or terminate their collaboration agreements with us. Disputes with our collaborators could also impair our reputation or result in development delays, decreased revenues and litigation expenses.

In addition, we may face significant competition in seeking appropriate collaborators. Whether we reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the collaborator's resources and expertise, the terms and conditions of the proposed collaboration and the proposed collaborator's evaluation of a number of factors. Those factors may include the design or results of clinical trials, the likelihood of approval by the FDA or similar regulatory authorities outside the United States, the potential market for the subject product candidate, the costs and complexities of manufacturing and delivering such product candidate to consumers, the potential of competing products, the existence of uncertainty with respect to our ownership of technology, which can exist if there is a challenge to such ownership without regard to the merits of the challenge and industry and market conditions generally. The collaborator may also consider alternative product candidates or technologies for similar indications that may be available to collaborate on and whether such a collaboration could be more attractive than the one with us for our product candidate. Collaborations are complex and time-consuming to negotiate and document.

We may not be able to negotiate collaborations on a timely basis, on acceptable terms, or at all. If we are unable to do so, we may have to curtail the development of such product candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of any sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase our expenditures to fund development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms or at all. If we do not have sufficient funds, we may not be able to further develop our product candidates or bring them to market and generate revenue.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

We have incurred substantial losses during our history and do not expect to become profitable in the near future, and we may never achieve profitability. To the extent that we continue to generate taxable losses, unused losses will carry forward to offset future taxable income, if any, until such unused losses expire. In addition, we currently don't have a tax sharing arrangement in place with ALPHAEON. Under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an "ownership change," generally defined as a greater than 50% change (by value) in its equity ownership over a three-year period, the corporation's ability to use its pre-change net operating loss carryforwards, or NOLs,

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and other pre-change tax attributes, such as research tax credits, to offset its post-change income may be limited. As of December 31, 2017, we had \$72.6 million of federal NOLs, available to offset our future taxable income, if any. As of December 31, 2017, we had federal research and development credit carryforwards of \$1.0 million. These federal NOLs and research and development tax credit carryforwards expire at various dates beginning in 2034. We may experience ownership changes in the future as a result of subsequent shifts in our stock ownership. As a result, if we earn net taxable income, our ability to use our pre-change NOLs to offset U.S. federal taxable income may be subject to limitations, which could potentially result in increased future tax liability to us. In addition, at the state level, there may be periods during which the use of NOLs is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed.

U.S. federal income tax reform could adversely affect us.

On December 22, 2017, the Tax Cuts and Jobs Act, or TCJA, was signed into law, significantly reforming the Code. The TCJA, among other things, includes changes to U.S. federal tax rates, imposes significant additional limitations on the deductibility of interest, allows for the expensing of capital expenditures, puts into effect the migration from a “worldwide” system of taxation to a territorial system and modifies or repeals many business deductions and credits. We continue to examine the impact the TCJA may have on our business. We will evaluate the effect of the TCJA on our projection of minimal cash taxes or to our net operating losses. The estimated impact of the TCJA is based on our management’s current knowledge and assumptions and recognized impacts could be materially different from current estimates based on our actual results and our further analysis of the new law. Our net deferred tax assets and liabilities will be revalued at the newly enacted U.S. corporate rate, and the impact will be recognized in our tax expense or benefit in the year of enactment. Notwithstanding the reduction in the corporate income tax rate, the overall impact of the TCJA is uncertain and our business and financial condition could be adversely affected. In addition, it is uncertain if and to what extent various states will conform to the newly enacted federal tax law.

Our business and operations would suffer in the event of computer system failures.

Despite the implementation of security measures, our internal computer systems, and those of third parties on which we rely, are vulnerable to damage from computer viruses, malware, natural disasters, terrorism, war, telecommunication and electrical failures, cyber-attacks or cyber-intrusions over the internet, attachments to emails, persons inside our organization, or persons with access to systems inside our organization. The risk of a security breach or disruption, particularly through cyber-attacks or cyber-intrusions, including by computer hackers, foreign governments, and cyber-terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. If such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our current or future product development programs. For example, the loss of clinical trial data from completed or any future ongoing or planned clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach was to result in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur material legal claims and liability, damage to our reputation, and the further development of our product candidates could be delayed.

Risks Related to Intellectual Property

If we or any of our current or future licensors, including Daewoong, are unable to maintain, obtain or protect intellectual property rights related to DWP-450 or any of our future product candidates, we may not be able to compete effectively in our market.

We and our current licensor Daewoong currently rely upon a combination of trademarks, trade secret protection, confidentiality agreements and proprietary know-how. Botulinum toxin cannot be patented, as it is produced by *Clostridium botulinum*, a gram-positive, rod-shaped, anaerobic, spore-forming, motile bacterium with the ability to produce the neurotoxin botulinum. Only the manufacturing process for botulinum toxin can be patented, for which Daewoong has obtained a U.S. patent. Under the Daewoong Agreement, we license the trademark associated with DWP-450. Our trade secrets and other confidential proprietary information and those of our licensors could be disclosed or competitors could otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques. Further, the laws of some foreign countries do not protect proprietary rights to the same extent or in the same manner as the laws of the United States. As a result, we or any of our current or future licensors may encounter significant problems in protecting and defending our or their intellectual property both in the United States and internationally. If we or any of our current or future licensors are unable to prevent material disclosure of the non-patented intellectual property related to DWP-450 to third parties, we may not be able to establish or maintain a competitive advantage in our market, which could adversely affect our business.

In addition to the protection afforded by trademarks, confidentiality agreements and proprietary know-how, we may in the future rely upon in-licensed patents for any future product offerings. The strength of patents we may in-license in the technology and healthcare fields involves complex legal and scientific questions and can be uncertain. The patent applications that we may in-license may fail to result in issued patents with claims that cover any of our future product candidates in the United States or in other foreign countries, and the issued patents that we may in-license may be declared invalid or unenforceable.

We are reliant on the ability of Daewoong, as the licensor of our only product candidate, and will be reliant on future licensors of any future product candidates, to maintain their intellectual property and protect their intellectual property against misappropriation, infringement or other violation. We may not have primary control over Daewoong's or our future licensors' patent prosecution activities. Furthermore, we may not be allowed to comment on prosecution strategies, and patent applications currently being prosecuted may be abandoned by the patent owner without our knowledge or consent. With respect to patents that are issued to our licensors, or patents that may issue on patent applications, third parties may challenge their validity, enforceability or scope, which may result in such patents being narrowed or invalidated. As a licensee, we are reliant on Daewoong and our future licensors to defend any third-party claims, including Daewoong's defense in connection with the Medytox Litigation, which is defined below. Our licensors may not defend or prosecute such actions as vigorously or in the manner that we would have if entitled to do so, and we will be subject to any judgment or settlement resulting from such actions. Also, a third-party may challenge the validity of our in-licensing transactions. Furthermore, even if they are unchallenged, any of our future in-licensed patents and patent applications may not adequately protect the licensors or our intellectual property or prevent others from designing around their or our claims.

Third-party claims of intellectual property infringement may prevent or delay our development and commercialization efforts.

Our commercial success depends in part on our avoiding infringement of the proprietary rights of third parties. Competitors in the field of dermatology, aesthetic medicine and neurotoxins have developed large portfolios of patents and patent applications in fields relating to our business. In particular, there are patents held by third parties that relate to the treatment with neurotoxin-based products for the indication we are currently developing. There may also be patent applications that have been filed but not published that, when issued as patents, could be asserted against us. There is a substantial amount of litigation, both within and outside the United States, involving patent and other intellectual property rights in the technology, medical device and pharmaceutical industries, including patent infringement lawsuits, interferences, oppositions and inter-party reexamination proceedings before the U.S. Patent and Trademark Office, or USPTO. Numerous U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in the fields in which we are developing DWP-450. As the technology, medical device and pharmaceutical industries expand and more patents are issued, the risk increases that our product candidates may be subject to claims of infringement of the patent rights of third parties.

Third parties may assert that we or any of our current or future licensors, including Daewoong, are employing their proprietary technology without authorization. There may be third-party patents or patent applications with claims to materials, methods of manufacture or methods for treatment related to the use or manufacture of DWP-450 or any future product candidates. Because patent applications can take many years to issue, there may be currently pending patent applications that may later result in issued patents that DWP-450 or any future product candidates may infringe. In addition, third parties may obtain patents in the future and claim that use of our technologies infringes upon these patents. If any third-party patents were held by a court of competent jurisdiction to cover the manufacturing process of DWP-450 or any future product candidates, the holders of any such patents may be able to block our ability to commercialize such product candidate unless we obtain a license under the applicable patents or until such patents expire. Similarly, if any third-party patent were held by a court of competent jurisdiction to cover aspects of our methods of use, the holders of any such patent may be able to block our ability to develop and commercialize the applicable product candidate unless we obtain a license or until such patent expires. In either case, such a license may not be available on commercially reasonable terms or at all.

In addition to claims of patent infringement, third parties may bring claims against us asserting misappropriation of proprietary technology or other information in the development, manufacture and commercialization of our product candidates. Defense of such a claim would require dedicated time and resources, which time and resources could otherwise be used by us toward the maintenance of our own intellectual property and the development and commercialization of our product candidates or by any of our current or future licensors for operational upkeep and manufacturing of our products. Presently, we, ALPHAEON, SCH and Daewoong are defendants to a lawsuit brought by Medytox on June 7, 2017 in the Superior Court of the State of California, alleging, among other things, that Daewoong stole Medytox's botulinum toxin bacterial strain, or the BTX strain, that Daewoong misappropriated certain trade secrets of Medytox, including the process used to manufacture DWP-450 (which Medytox claims is similar to its biopharmaceutical drug, Meditoxin) using the BTX

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strain, and that Daewoong thereby interfered with Medytox's plan to license Meditoxin to us, or the Medytox Litigation. Medytox claims that as a result of Daewoong's conduct, we entered into the Daewoong Agreement instead of an agreement with Medytox to license Meditoxin.

With specific regard to us, Medytox alleges that (i) we have violated California Uniform Trade Secrets Act, Cal. Civ. Code § 3426 because Daewoong's alleged knowledge of the misappropriation of certain trade secrets of Medytox is imputed to us as a result of our relationship with Daewoong, (ii) we have stolen the BTX strain through our possession of and refusal to return the BTX strain, (iii) we have engaged in unlawful, unfair and fraudulent business acts and practices in violation of California Bus. & Prof. Code § 17200, including conversion of the BTX strain and misrepresentations to the public regarding the source of the botulinum toxin bacterial strain used to manufacture DWP-450, and (iv) the Daewoong Agreement is invalid and in violation of Medytox's rights.

Medytox seeks, among other things, (i) actual, consequential and punitive damages, (ii) a reasonable royalty, as appropriate, (iii) a declaration that the Daewoong Agreement is void and unenforceable and that Medytox is entitled to disgorgement of all property wrongfully and unjustly retained or acquired by the defendants, including unlawfully gained profits, (iv) injunctive relief prohibiting us from using the license under the Daewoong Agreement and distributing DWP-450, and (v) attorneys' fees and costs.

Daewoong filed a motion to dismiss or stay for forum non conveniens, claiming that the place where the complaint has been filed, in the Superior Court of the State of California, is not the proper place for the trial of the claims in the complaint because, among other reasons, the underlying facts that gave rise to the complaint occurred in South Korea. Daewoong's motion to dismiss was granted by the Superior Court of the State of California on October 12, 2017. As a result, the action filed with the Superior Court of the State of California is stayed pending resolution of the proceedings in South Korea. In October 2017, Medytox initiated a civil lawsuit against Daewoong and its parent company, Daewoong Co. Ltd., in the Seoul Central District Court in Seoul, South Korea, related to the same subject matter in the Medytox litigation and is seeking, among other things, money damages, injunctive relief and destruction of related documents and products. None of us, ALPHAEON or SCH are parties to the litigation in the Seoul Central District Court.

On April 27, 2018, pursuant to a motion to dismiss brought by Daewoong, the Superior Court of the State of California dismissed Medytox's suit against Daewoong, without prejudice, on the basis that Medytox had brought a substantially similar proceeding against Daewoong in South Korea. The proceedings against us, ALPHAEON and SCH remain stayed in the Superior Court of the State of California pending resolution of the proceedings between Medytox and Daewoong in South Korea.

Given the early stage in the Medytox Litigation, we are unable to predict the likelihood of success of Medytox's claims against us, ALPHAEON, SCH or Daewoong or to quantify any risk of loss. The Medytox Litigation and any other similar claims, suits, government investigations, and proceedings are inherently uncertain and their results may not be favorable for us. For example, if the Medytox Litigation has a negative outcome for us, ALPHAEON or Daewoong, it could result in us losing access to DWP-450 and the manufacturing process and require us to negotiate a new license with Medytox for continued access to DWP-450. We may not be able to successfully negotiate such license on terms acceptable to us or at all. If we are unable to license DWP-450, we may not be able to find a replacement product, if at all, without expending significant resources and being required to seek additional regulatory approvals, which would be uncertain, time consuming and costly. Regardless of the outcome, such proceedings can have an adverse impact on us because of legal costs, diversion of management resources, and other factors. An adverse ruling against either us or one of the other defendants of any such proceedings could adversely affect our business, financial position, results of operations, or cash flows and could also result in reputational harm. Any of these consequences could adversely affect our business and results of operations.

In December 2017, Medytox filed a Citizen Petition, or the Citizen Petition, with the FDA. The Citizen Petition seeks to delay approval of the BLA submitted by us in May 2017 for DWP-450 until the FDA determines the identity and source of the botulinum strain for DWP-450 and validates the integrity of the data and information in the BLA. Medytox further requests that the FDA require the source and identity information in the BLA to include a single nucleotide polymorphism analysis of the whole genome sequence of the botulinum strain for DWP-450. The Citizen Petition alleges, among other things, that we made false statements in the BLA about the source and identity of the botulinum strain for DWP-450. If successful, the Citizen Petition could significantly delay, or even prevent, the FDA's approval of the BLA. Even if the FDA ultimately denies the Citizen Petition, the FDA may substantially delay approval of or deny the BLA in connection with its response to the Citizen Petition or issues raised therein.

Parties making claims against us or any of our current or future licensors may request and obtain injunctive or other equitable relief, which could effectively block our ability to further develop and commercialize one or more of our product candidates.

Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from our business. In the event of a successful claim of infringement, we or any of our current or future licensors may have to pay substantial damages, including treble damages and attorneys' fees for willful infringement, obtain one or more licenses from third parties which may not be commercially or more available, pay royalties or redesign our infringing products or manufacturing processes, which may be impossible or require substantial time and monetary expenditure. Furthermore, even in the absence of litigation, we may need to obtain licenses from third parties to advance our research, manufacture clinical trial supplies or allow commercialization of DWP-450 or any future product candidates. We may fail to obtain any of these licenses at a reasonable cost or on reasonable terms, if at all. In that event, we would be unable to further develop and commercialize one or more of our product candidates, which could harm our business significantly. Similarly, third-party patents could exist that might be enforced against our products, resulting in either an injunction prohibiting our sales, or with respect to our sales, an obligation on our part to pay royalties and/or other forms of compensation to third parties.

We may become involved in lawsuits to protect or enforce our intellectual property or the patents and other intellectual property of our licensors, which could be expensive and time-consuming.

Competitors may infringe our intellectual property, including any future patents we may acquire, or the patents and other intellectual property of our licensors, including Daewoong. As a result, we or any of our current or future licensors may be required to file infringement claims to stop third-party infringement or unauthorized use. This can be expensive, particularly for a company of our size, and time-consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours or any of our current or future licensors is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patent claims do not cover its technology or that the factors necessary to grant an injunction against an infringer are not satisfied.

An adverse determination of any litigation or other proceedings could put one or more of such patents at risk of being invalidated or interpreted narrowly. Interference, derivation or other proceedings brought at the USPTO may be necessary to determine the priority or patentability of inventions with respect to any of our future patent applications or those of our licensors or collaborators. Litigation or USPTO proceedings brought by us or any of our current or future licensors may fail or may be invoked against us or our licensors by third parties. Even if we are successful, domestic or foreign litigation or USPTO or foreign patent office proceedings may result in substantial costs and distraction to our management or the management of any of our current or future licensors, including Daewoong. We may not be able, alone or with any of our current or future licensors or collaborators, to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation or other proceedings, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation or proceedings. In addition, during the course of this kind of litigation or proceedings, there could be public announcements of the results of hearings, motions or other interim proceedings or developments or public access to related documents. If investors perceive these results to be negative, the market price for our common stock could be significantly harmed.

Most of our competitors are larger than we are and have substantially greater resources. They are, therefore, likely to be able to sustain the costs of complex patent litigation longer than we could. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. In addition, the uncertainties associated with litigation could compromise our ability to raise the funds necessary to continue our clinical trials, continue our internal research programs, or in-license needed technology or other product candidates. There could also be public announcements of the results of the hearing, motions, or other interim proceedings or developments. If securities analysts or investors perceive those results to be negative, it could cause the price of shares of our common stock to decline.

We may not be able to protect our intellectual property rights throughout the world.

Filing, prosecuting and defending patents on product candidates in all countries throughout the world would be prohibitively expensive, and our intellectual property rights in some countries outside the United States can be less extensive than those in the United States. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States and in some cases may even force us to grant a compulsory license to competitors or other third parties. Consequently, we may not be able to prevent third parties from using our inventions in all countries outside the United States or from selling or importing products made using our inventions in and into the United States or other jurisdictions. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and further, may export otherwise infringing products to territories where we have

patent protection, but enforcement is not as strong as that in the United States. These products may compete with our products and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection, particularly those relating to biopharmaceuticals, which could make it difficult for us to stop the infringement of our patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, our efforts to enforce our intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop or license.

In addition, our ability to protect and enforce our intellectual property rights may be adversely affected by unforeseen changes in domestic and foreign intellectual property laws.

If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed.

In addition to seeking patents for our product candidates, we also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position.

We seek to protect our trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, collaborators, consultants, advisors and other third parties. We expect to enter into confidentiality and invention assignment agreements with our employees and consultants. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside the United States are less willing or unwilling to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them, or those to whom they communicate it, from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed by a competitor, our competitive position would be harmed.

We may be subject to claims that our employees, consultants or independent contractors have wrongfully used or disclosed confidential information of third parties.

We employ individuals who were previously employed at other pharmaceutical companies. We may be subject to claims that we or our employees, consultants or independent contractors have inadvertently or otherwise used or disclosed confidential information of our employees' former employers or other third parties. We may also be subject to claims that former employers or other third parties have an ownership interest in our patents. Litigation may be necessary to defend against these claims. We may not be successful in defending these claims, and even if we are successful, litigation could result in substantial cost and be a distraction to our management and other employees. Any litigation or the threat thereof may adversely affect our ability to hire employees. A loss of key personnel or their work product could diminish or prevent our ability to commercialize product candidates, which could have an adverse effect on our business, results of operations and financial condition.

We may need to license intellectual property from third parties, and such licenses may not be available or may not be available on commercially reasonable terms.

A third-party may hold intellectual property, including patent rights that are important or necessary to the development of our future product candidates. It may be necessary for us to use the patented or proprietary technology of third parties to commercialize our product candidates, in which case we would be required to obtain a license from these third parties on commercially reasonable terms, or our business could be harmed, possibly materially.

If our trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our markets of interest and our business may be adversely affected.

Our registered or unregistered trademarks or trade names may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks. We may not be able to protect our rights to these trademarks and trade names,

which we need to build name recognition by potential partners or customers in our markets of interest. Over the long term, if we are unable to establish name recognition based on our trademarks and trade names, then we may not be able to compete effectively and our business may be adversely affected.

Third parties may assert that we are using trademarks or trade names that are confusingly similar to their marks. If any third-party were able to establish that our trademarks or trade names were infringing their marks, that third-party may be able to block our ability to use the infringing trademark or trade name. In addition, if a third-party were to bring such a claim, we would be required to dedicate time and resources to fight the claim, which time and resources could otherwise be used toward the maintenance of our own intellectual property.

Parties making claims against us may request and obtain injunctive or other equitable relief, which could prevent our ability to use the subject trademarks or trade names. Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from our business. In the event of a successful claim of infringement against us, we may have to pay substantial damages, including treble damages and attorneys' fees for willful infringement. We may be required to re-brand one or more of our products, product candidates, or services offered under the infringing trademark or trade name, which may require substantial time and monetary expenditure. Third parties could claim senior rights in marks which might be enforced against our use of trademarks or trade names, resulting in either an injunction prohibiting our sales under those trademarks or trade names.

Risks Related to Government Regulation

Our business and products are subject to extensive government regulation.

We are subject to extensive, complex, costly and evolving regulation by federal and state governmental authorities in the United States, the EU, Canada and other countries, principally by the FDA, the U.S. Drug Enforcement Administration, the Centers for Disease Control and Prevention, the EMA and other similar regulatory authorities. Daewoong is also subject to extensive regulation by the FDA and the South Korean regulatory authorities as well as other regulatory authorities. Our failure to comply with all applicable regulatory requirements, or Daewoong's failure to comply with applicable regulatory requirements, including those promulgated under the Federal Food, Drug, and Cosmetic Act, the Public Health Service Act, and the Controlled Substances Act, may subject us to operating restrictions and criminal prosecution, monetary penalties and other enforcement or administrative actions, including, sanctions, warning letters, product seizures, recalls, fines, injunctions, suspension, revocation of approvals, or exclusion from future participation in the Medicare and Medicaid programs.

In the event our products receive regulatory approval, we, and our direct and indirect suppliers, including Daewoong, will remain subject to the periodic inspection of our plants and facilities, review of production processes, and testing of our products to confirm that we are in compliance with all applicable regulations. Adverse findings during regulatory inspections may result in requirements that we implement REMS programs, requirements that we complete government mandated clinical trials, and government enforcement actions including those relating to labeling, advertising, marketing and promotion, as well as regulations governing manufacturing controls.

If we experience delays in obtaining approval or if we fail to obtain approval of our product candidates, the commercial prospects for our product candidates may be harmed and our ability to generate revenue will be materially impaired.

We may not obtain regulatory approval for the commercialization of DWP-450 or any future product candidates.

The research, testing, manufacturing, labeling, approval, selling, import, export, marketing and distribution of drug and biologic products are subject to extensive regulation by the FDA and other regulatory authorities in the United States and other countries, with regulations differing from country to country. Neither we nor any collaboration partner is permitted to market DWP-450 or any future product candidates in the United States until we receive approval of a BLA from the FDA. We submitted a BLA to the FDA in May 2017, a MAA to the EMA in June 2017, and a NDS to Health Canada in July 2017 for DWP-450 for the treatment of glabellar lines. Our BLA and MAA were accepted for review by the FDA and EMA, respectively, in July 2017 and our NDS was accepted for review by Health Canada in October 2017. If we, our products or the manufacturing facilities for our products fail to comply with applicable regulatory requirements, a regulatory agency may:

- impose restrictions on the marketing or manufacturing of the product, suspend or withdraw product approvals or revoke necessary licenses;
- issue warning letters, show cause notices or untitled letters describing alleged violations, which may be publicly available;

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- mandate modifications to promotional materials or require us to provide corrective information to healthcare practitioners;
- require us to enter into a consent decree, which can include imposition of various fines, reimbursements for inspection costs, required due dates for specific actions and penalties for noncompliance;
- commence criminal investigations and prosecutions;
- impose injunctions;
- impose other civil or criminal penalties;
- suspend any ongoing clinical trials;
- delay or refuse to approve pending applications or supplements to approved applications filed by us;
- refuse to permit drugs or active ingredients to be imported or exported to or from the United States;
- suspend or impose restrictions on operations, including costly new manufacturing requirements; or
- seize or detain products or require us to initiate a product recall.

Prior to obtaining approval to commercialize a product candidate in the United States or abroad, we or our collaborators must demonstrate with substantial evidence from well-controlled clinical trials, and to the satisfaction of the FDA, EMA or other similar foreign regulatory authorities, that such product candidates are safe and effective for their intended uses. Results from preclinical studies and clinical trials can be interpreted in different ways. Even if we and our collaborators believe the preclinical or clinical data for our product candidates are promising, such data may not be sufficient to support approval by the FDA, the EMA and other similar regulatory authorities. Administering product candidates to humans may produce undesirable side effects, which could interrupt, delay or halt clinical trials and result in the FDA, the EMA or other similar regulatory authorities delaying or denying approval of a product candidate for any or all targeted indications.

Regulatory approval of a BLA or BLA supplement, MAA, NDS or other product approval is not guaranteed, and the approval process is expensive and may take several years. The FDA, EMA and other regulatory authorities have substantial discretion in the approval process. Despite the time and expense expended, failure can occur at any stage, and we could encounter problems that cause us to abandon, modify or repeat clinical trials, or perform additional preclinical studies and clinical trials. The number of preclinical studies and clinical trials that will be required for FDA, EMA or other regulatory approval varies depending on the product candidate, the disease or condition that the product candidate is designed to address and the regulations applicable to any particular product candidate. The FDA, EMA and other regulatory authorities can delay, limit or deny approval of a product candidate for many reasons, including the following:

- a product candidate may not be deemed safe, effective, pure or potent;
- the data from preclinical studies and clinical trials may not be deemed sufficient;
- the FDA or other regulatory authorities might not approve our third-party manufacturers' processes or facilities;
- deficiencies in the formulation, quality control, labeling, or specifications of a product candidate or in response to citizen petitions or similar documents filed in connection with the product candidate;
- a general requirement intended to address risks associated with a class of drugs, such as a new REMS requirement for neurotoxins;
- the enactment of new laws or promulgation of new regulations that change the approval requirements; or
- the FDA or other regulatory authorities may change their approval policies or adopt new regulations.

If DWP-450 or any future product candidates fail to demonstrate safety and efficacy in clinical trials or do not gain approval, our business and results of operations will be materially and adversely harmed.

In addition, we have entered into an exclusive distribution and supply agreement, or the distribution agreement, with Clarion

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Medical Technologies Inc., or Clarion. The distribution agreement provides terms pursuant to which we will exclusively supply DWP-450 to Clarion in Canada, if approved. Under the distribution agreement, if we do not receive approval from Health Canada to promote and sell DWP-450 in Canada prior to October 31, 2018, we are obligated to pay liquidated damages to Clarion in the amount of \$1.0 million within 30 days of December 31, 2018. If DWP-450 is not approved by Health Canada prior to October 31, 2018, our business and results of operations could be materially and adversely harmed.

Even if we receive regulatory approval for DWP-450 or any future product candidates, we will be subject to ongoing regulatory obligations and continued regulatory review, which may result in significant additional expense, limit or delay regulatory approval and subject us to penalties if we fail to comply with applicable regulatory requirements.

Once regulatory approval has been granted, DWP-450 or any other approved product will be subject to continual regulatory review by the FDA, the EMA and other similar regulatory authorities.

Any regulatory approvals that we or our collaborators receive for DWP-450 or any future product candidates may also be subject to limitations on the approved indications for which the product may be marketed or to the conditions of approval, or contain requirements for potentially costly post-marketing testing, including Phase IV clinical trials, and surveillance to monitor the safety and efficacy of the product. In addition, if the applicable regulatory agency approves DWP-450 or any future product candidates, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for the product will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, registration, as well as continued compliance with cGMP requirements and GCPs, for any clinical trials that we conduct post-approval. Later discovery of previously unknown problems with DWP-450 or any future product candidates, including adverse events of unanticipated severity or frequency, or with our third-party manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

- restrictions on the marketing or manufacturing of the product, withdrawal of the product from the market, or voluntary or mandatory product recalls;
- fines, warning letters or holds on clinical trials;
- refusal by the FDA, EMA or other similar regulatory authorities to approve pending applications or supplements to approved applications filed by us or our strategic collaborators or suspension or revocation of product license approvals;
- product seizure or detention or refusal to permit the import or export of products; and
- injunctions or the imposition of civil or criminal penalties.

Our ongoing regulatory requirements may also change from time to time, potentially harming or making costlier our commercialization efforts. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and we may not achieve or sustain profitability, which would adversely affect our business.

If we fail to obtain regulatory approvals in foreign jurisdictions for DWP-450 or any future product candidates, we will be unable to market our products outside of the United States.

In addition to regulations in the United States, we are and will be subject to a variety of foreign regulations governing manufacturing, clinical trials, commercial sales and distribution of our future products. Whether or not we obtain FDA approval for a product candidate, we must obtain approval of the product by the comparable regulatory authorities of foreign countries before commencing clinical trials or marketing in those countries. The approval procedures vary among countries and can involve additional clinical testing, and the time required to obtain approval may differ from that required to obtain FDA approval. Clinical trials conducted in one country may not be accepted by regulatory authorities in other countries. Approval by the FDA does not ensure approval by regulatory authorities in other countries, and approval by one or more foreign regulatory authorities does not ensure approval by regulatory authorities in other foreign countries or by the FDA. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval. We may not be able to file for regulatory approvals or to do so on a timely basis, and even if we do file, we may not receive necessary approvals to commercialize our products in markets outside of the United States.

If approved, DWP-450 or any future products may cause or contribute to adverse medical events that we are required to

report to regulatory agencies and if we fail to do so, we could be subject to sanctions that would materially harm our business.

Some participants in our clinical trials have reported adverse events after being treated with DWP-450. If we are successful in commercializing DWP-450 or any other products, FDA and foreign regulatory agency regulations require that we report certain information about adverse medical events if those products may have caused or contributed to those adverse events. The timing of our obligation to report would be triggered by the date we become aware of the adverse event as well as the nature of the event. We may fail to report adverse events that we become aware of within the prescribed timeframe. We may also fail to appreciate that we have become aware of a reportable adverse event, especially if it is not reported to us as an adverse event or if it is an adverse event that is unexpected or removed in time from the use of our products. If we fail to comply with our reporting obligations, the FDA, the EMA or other similar regulatory authority could take action including criminal prosecution, the imposition of civil monetary penalties, seizure of our products, or delay in approval or clearance of future products.

We may in the future be subject to various U.S. federal and state laws pertaining to health care fraud and abuse, including anti-kickback, self-referral, false claims and fraud laws, and any violations by us of such laws could result in fines or other penalties.

While we do not expect that DWP-450, if approved for the treatment of moderate to severe glabellar lines, will subject us to the various U.S. federal and most state laws intended to prevent health care fraud and abuse, we may in the future become subject to such laws. The Anti-Kickback Statute prohibits the offer, receipt, or payment of remuneration in exchange for or to induce the referral of patients or the use of products or services that would be paid for in whole or part by Medicare, Medicaid or other federal health care programs. Remuneration has been broadly defined to include anything of value, including cash, improper discounts, and free or reduced price items and services. Many states have similar laws that apply to their state health care programs as well as private payors. Violations of anti-kickback and other applicable laws can result in exclusion from federal health care programs and substantial civil and criminal penalties.

The federal False Claims Act, or FCA, imposes liability on persons who, among other things, present or cause to be presented false or fraudulent claims for payment by a federal health care program. The FCA has been used to prosecute persons submitting claims for payment that are inaccurate or fraudulent, that are for services not provided as claimed, or for services that are not medically necessary. The FCA includes a whistleblower provision that allows individuals to bring actions on behalf of the federal government and share a portion of the recovery of successful claims. Some state law equivalents of the above federal laws, such as the Anti-Kickback Statute and FCA, apply to items or services regardless of whether the good or service was reimbursed by a government program, so called all-payor laws. These all-payor laws could apply to our sales and marketing activities even if the Anti-Kickback Statute and FCA laws are inapplicable.

If our marketing or other arrangements were determined to violate anti-kickback or related laws, including the FCA or an all-payor law, then we could be subject to penalties, including administrative, civil and criminal penalties, damages, fines, disgorgement, the exclusion from participation in federal and state healthcare programs, individual imprisonment or the curtailment or restructuring of our operations, any of which could materially and adversely affect our ability to operate our business and our financial results.

State and federal authorities have aggressively targeted pharmaceutical companies for alleged violations of these anti-fraud statutes, based on improper research or consulting contracts with doctors, certain marketing arrangements with pharmacies and other healthcare providers that rely on volume-based pricing, off-label marketing schemes, and other improper promotional practices. Companies targeted in such prosecutions have paid substantial fines, have been ordered to implement extensive corrective action plans, and have in many cases become subject to consent decrees severely restricting the manner in which they conduct their business, among other consequences. Additionally, federal and state regulators have brought criminal actions against individual employees responsible for alleged violations. If we become the target of such an investigation or prosecution based on our contractual relationships with providers or institutions, or our marketing and promotional practices, we could face similar sanctions, which would materially harm our business.

Also, the FCPA and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our internal control policies and procedures may not protect us from reckless or negligent acts committed by our employees, future distributors, partners, collaborators or agents. Violations of these laws, or allegations of such violations, could result in fines, penalties or prosecution and have a negative impact on our business, results of operations and reputation.

Legislative or regulatory healthcare reforms in the United States and other countries may make it more difficult and costly

for us to obtain regulatory clearance or approval of DWP-450 or any future product candidates and to produce, market, and distribute our products after clearance or approval is obtained.

From time to time, legislation is drafted and introduced in the U.S. Congress or other countries that could significantly change the statutory provisions governing the regulatory clearance or approval, manufacture, and marketing of regulated products or the reimbursement thereof. In addition, regulations and guidance are often revised or reinterpreted by the FDA and other regulatory authorities in ways that may significantly affect our business and our products. Any new regulations or revisions or reinterpretations of existing regulations may impose additional costs or lengthen review times of DWP-450 or any future product candidates. Such changes could, among other things, require:

- changes to manufacturing or marketing methods;
- changes to product labeling or promotional materials;
- recall, replacement, or discontinuance of one or more of our products; and
- additional recordkeeping.

Each of these would likely entail substantial time and cost and could materially harm our business and our financial results. In addition, delays in receipt of or failure to receive regulatory clearances or approvals for any future products would harm our business, financial condition, and results of operations.

Risks Related to Our Relationship with ALPHAEON

ALPHAEON controls the direction of our business, and the concentrated ownership of our common stock and certain contractual rights of ALPHAEON may prevent you and other stockholders from influencing significant decisions.

As of May 10, 2018, ALPHAEON, which is majority-owned by SCH, owns 78.6% of our outstanding shares of common stock. As long as ALPHAEON beneficially owns a majority of the voting power of our outstanding common stock, it will generally be able to determine the outcome of all corporate actions requiring stockholder approval, including the election and removal of directors. Even if ALPHAEON were to beneficially own less than a majority of the voting power of our outstanding common stock, it may have the ability to influence the outcome of such corporate actions if it owns a significant portion of our common stock. In addition, if SCH chooses to sell some or all of its controlling interest in ALPHAEON, it could result in a change-of-control of ALPHAEON that could result in us being indirectly controlled by an unknown third-party.

As a result, ALPHAEON has the ability to control the direction of our business and the concentrated ownership of our common stock, and the rights described above will prevent you and other stockholders from influencing significant decisions. In addition, we may take actions that stockholders other than ALPHAEON do not view as beneficial. This voting control may also discourage transactions involving a change-of-control of our company, including transactions in which you as a holder of our common stock might otherwise receive a premium for your shares.

If ALPHAEON sells a controlling interest in our company to a third-party in a private transaction, you may not realize any change-of-control premium on shares of our common stock and we may become subject to the control of a presently unknown third-party.

ALPHAEON controls a majority of the voting power of our outstanding common stock. ALPHAEON will have the ability after the lock-up period of 180 days from February 7, 2018, the date of the final prospectus for our initial public offering, should it choose to do so, to sell some or all of its shares of our common stock in a privately negotiated transaction, which, if sufficient in size, could result in a change-of-control of our company without your approval and without providing for a purchase of your shares.

In addition, ALPHAEON entered into two substantially similar pledge and security agreements whereby ALPHAEON pledged and granted a continuing first priority lien and security interest in and to all of ALPHAEON's right, title and interest in, among other items, securities and all other investment property held by ALPHAEON, including ALPHAEON's entire ownership of our capital stock (collateral). The collateral secures the payment and performance of the obligations of ALPHAEON under certain convertible notes issued by ALPHAEON and other related agreements. Upon certain events of default, these secured lenders may take possession, hold, collect, sell, lease, deliver, grant options to purchase or otherwise retain, liquidate or dispose of all or any portion of the collateral, and as such, a change-of-control of our company may result. In addition, upon such events of default, the registration rights granted to ALPHAEON under the stockholder agreement we

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entered into with ALPHAEON will immediately and automatically be assigned in full to the secured lenders with respect to any registrable securities held by such secured lenders. We have no obligation to maintain ALPHAEON's financial viability and ALPHAEON may not remain current on such obligations.

The ability of ALPHAEON to privately sell its shares of our common stock, with no requirement for a concurrent offer to be made to acquire your shares of our common stock could prevent you from realizing any change-of-control premium on your shares of our common stock that may otherwise accrue to ALPHAEON on its private sale of our common stock. Additionally, if ALPHAEON privately sells its significant equity interest in our company, we may become subject to the control of a presently unknown third-party. Such third-party may have conflicts of interest with those of other stockholders. In addition, if ALPHAEON sells a controlling interest in our company to a third-party, any future indebtedness we have may be subject to acceleration, and our other commercial agreements and relationships could be impacted, all of which may adversely affect our ability to run our business as described herein and may have a material adverse effect on our operating results and financial condition.

We are a "controlled company" within the meaning of the listing requirements of Nasdaq, or the Nasdaq Marketplace Rules, and, as a result, will qualify for, and may rely on, exemptions from certain corporate governance requirements.

ALPHAEON continues to control a majority of the voting power of our outstanding common stock. As a result, we are a "controlled company" within the meaning of the Nasdaq Marketplace Rules. Under these rules, a listed company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain corporate governance requirements, including:

- the requirement that a majority of our board of directors consist of independent directors;
- the requirement that our nominating and corporate governance committee be comprised entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- the requirement that our compensation committee be comprised entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- the requirement for an annual performance evaluation of our corporate governance and compensation committees.

Presently, we utilize these "controlled company" exemptions to the corporate governance requirements of Nasdaq, and as a result, we do not have our nominating and corporate governance and compensation committees consisting entirely of independent directors. Accordingly, you do not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of Nasdaq.

Certain of our directors may have actual or potential conflicts of interest because of their ownership of debt and equity securities in ALPHAEON.

Vikram Malik, Simone Blank, Bosun Hau, Kristine Romine, M.D., and Robert Hayman serve on our board of directors. Such directors or entities they are affiliated with currently own and may in the future own shares of common stock or preferred stock of ALPHAEON, debt instruments convertible into equity interests of ALPHAEON, options to purchase shares of common stock or other equity awards of ALPHAEON. These individuals' or entities' holdings of ALPHAEON debt or equity securities, options to purchase shares of ALPHAEON or other equity awards may be significant for some of these persons or entities compared to these persons' or entities' total assets. Their positions at ALPHAEON and the ownership of any ALPHAEON equity or equity awards may create, or may create the appearance of, conflicts of interest when these directors are faced with decisions that could have different implications for ALPHAEON than the decisions have for us.

These decisions include:

- corporate opportunities;
- the impact that operating decisions for our business may have on ALPHAEON's consolidated financial statements;
- the impact that operating or capital decisions (including the incurrence of indebtedness) for our business may have on ALPHAEON's current or future indebtedness or the covenants under that indebtedness;
- business combinations involving us;

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- our dividend policy;
- management stock ownership; and
- the related party services and agreements between ALPHAEON and us.

Potential conflicts of interest could also arise if we decide to enter into any new commercial arrangements with ALPHAEON or SCH in the future or in connection with ALPHAEON's desire to enter into new commercial arrangements with third parties.

Furthermore, disputes may arise between ALPHAEON and us relating to our past and ongoing relationship, and these potential conflicts of interest may make it more difficult for us to favorably resolve such disputes, including those related to:

- indemnification and other matters arising from our initial public offering;
- the nature, quality and pricing of services ALPHAEON agrees to provide to us;
- sales or other disposal by ALPHAEON of all or a portion of its ownership interest in us; and
- business combinations involving us.

We may not be able to resolve any potential conflicts, and even if we do, the resolution may be less favorable to us than if we were dealing with an unaffiliated party. While we are controlled by ALPHAEON, we may not have the leverage to negotiate amendments to these agreements, if required, on terms as favorable to us as those we would negotiate with an unaffiliated third-party.

ALPHAEON and its directors and officers will have limited liability to us or you for breach of fiduciary duty.

Our certificate of incorporation provides that, subject to any contractual provision to the contrary, ALPHAEON has no obligation to refrain from:

- engaging in the same or similar business activities or lines of business as we do;
- doing business with any of our clients or consumers; or
- employing or otherwise engaging any of our officers or employees.

Our certificate of incorporation provides for the allocation of certain corporate opportunities between us and ALPHAEON. Under these provisions, neither ALPHAEON nor its other affiliates, nor any of their officers, directors, agents stockholders, members, partners, and subsidiaries (other than us), will have any obligation to present to us certain corporate opportunities. ALPHAEON is presently a technology company focused on providing healthcare products and services, including patient financing services. ALPHAEON may engage in other lines of business in the future. For example, a director or officer of our company who also serves as a director, officer or employee of ALPHAEON or any of its other affiliates may present to ALPHAEON certain acquisitions, in-licenses, potential development programs or other opportunities that may be complementary to our business, if he or she was not offered such corporate opportunity in his or her capacity as our director or officer, and, as a result, such opportunities may not be available to us. To the extent attractive corporate opportunities are allocated to ALPHAEON or its other affiliates instead of to us, we may not be able to benefit from these opportunities.

In addition, under our certificate of incorporation, neither ALPHAEON nor any officer or director of ALPHAEON, except as provided in our certificate of incorporation, will be liable to us or to our stockholders for breach of any fiduciary or other duty by reason of any of these activities.

SCH is presently a holding company with direct and/or indirect interests, as the case may be, in ALPHAEON and various other healthcare related and energy related companies. SCH may engage in other lines of business in the future, including engaging, acquiring or otherwise conducting their business in a manner that partners with or otherwise collaborates with the business of our company, DWP-450 and any of our future product candidates. While our certificate of incorporation does not provide the same provision with respect to SCH, SCH may be able to exercise voting and investment control over ALPHAEON and effect the allocation of certain corporate opportunities between us and ALPHAEON.

ALPHAEON has historically performed or supported many of our general and administrative corporate functions and will continue to do so pursuant to a services agreement, and if we are unable to replicate or replace these functions if the services agreement is terminated, our operations could be adversely affected.

ALPHAEON has historically performed or supported many general and administrative corporate functions for our company. For example, ALPHAEON has provided certain general management, communication, intellectual property, human resources, office and information technology services. Historically, our financial statements reflect charges for these services on an allocation basis.

In January 2018, we entered into the services agreement which became effective in connection with our initial public offering. The services agreement sets forth certain agreements between ALPHAEON and us that govern the respective responsibilities and obligations between ALPHAEON and us as it relates to the services to be performed between us.

Pursuant to the services agreement, ALPHAEON provides us, and we provide ALPHAEON, as the case may be, certain administrative and development support services. For example, we receive from ALPHAEON certain general management, communication, intellectual property, human resources, office and information technology services, and we provide general accounting and legal services to ALPHAEON. In addition, pursuant to the services agreement, we sublease from ALPHAEON all or part of its lease for its headquarters encompassing approximately 3,639 square feet of space, as certain of our executive, legal and financial personnel are located at ALPHAEON's headquarters.

The fees charged for any services rendered pursuant to the services agreement are the actual cost incurred by ALPHAEON or us, as the case may be, in providing the services for the relevant period.

In addition, pursuant to the services agreement, upon completion of our initial public offering, we paid ALPHAEON \$5.0 million towards the repayment of our related party borrowings and the remaining related party borrowings then outstanding were forgiven and the amount was re-characterized as a capital contribution of ALPHAEON. As a result, upon the completion of our initial public offering, we were no longer indebted to ALPHAEON pursuant to our historical related party borrowings from ALPHAEON.

The services agreement became effective upon the completion of our initial public offering and will have a one year term. Thereafter, the services agreement will renew for successive one year terms unless sooner terminated by either party. We or ALPHAEON may terminate the services agreement upon sixty days' notice to the other party.

In the event the services agreement is terminated by us or ALPHAEON, we will need to replicate or replace certain functions, systems and infrastructure to which we will no longer have the same access. We may also need to make investments or hire additional employees to operate without the same access to ALPHAEON's existing operational and administrative infrastructure. These initiatives may be costly to implement. Due to the scope and complexity of the underlying projects relative to these efforts, the amount of total costs could be materially higher than our estimate, and the timing of the incurrence of these costs is subject to change.

In addition, we may not be able to replace these services or enter into appropriate third-party agreements on terms and conditions, including cost, comparable to those that we will receive from ALPHAEON under the services agreement. When we begin to operate these functions separately, if we do not have our own adequate systems and business functions in place, or are unable to obtain them from other providers, we may not be able to operate our business effectively or at comparable costs, and our profitability may decline.

Moreover, in providing services to ALPHAEON, the services agreement may affect our employees' ability to devote their time, attention, and effort to us.

Risks Related to Our Common Stock

The trading price of our common stock may be volatile, and purchasers of our common stock could incur substantial losses.

Our stock price may be volatile. The stock market in general and the market for pharmaceutical companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. The market price for our common stock may be influenced by many factors, some of which are beyond our control, including:

- announcements of regulatory approval or disapproval of DWP-450 or any future product candidates;

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- adverse results from or delays in clinical trials of any of our future product candidates;
- unanticipated safety concerns related to the use of DWP-450 or any of our future products;
- any termination or loss of rights under the Daewoong Agreement;
- FDA or other U.S. or foreign regulatory or legal actions or changes affecting us or our industry;
- adverse developments concerning our manufacturer or any future strategic partnerships;
- introductions and announcements of new technologies and products by us, any commercialization partners or our competitors, and the timing of these introductions and announcements;
- variations in our financial results or those of companies that are perceived to be similar to us;
- success or failure of competitive products or medical aesthetic products generally;
- changes in the structure of healthcare payment systems;
- announcements by us or our competitors of significant acquisitions, licenses, strategic partnerships, new product approvals and introductions, joint ventures or capital commitments;
- market conditions in the pharmaceutical and biopharmaceutical sectors and issuance of securities analysts' reports or recommendations;
- quarterly variations in our results of operations or those of our future competitors;
- changes in financial estimates or guidance, including our ability to meet our future revenue and operating profit or loss estimates or guidance;
- the public's reaction to our earnings releases, other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- sales of substantial amounts of our stock by ALPHAEON or other significant stockholders or our insiders, or the expectation that such sales might occur;
- general economic, industry and market conditions, including the size and growth, if any, of the medical aesthetics market;
- news reports relating to trends, concerns and other issues in medical aesthetics market or the pharmaceutical or biopharmaceutical industry;
- operating and stock performance of other companies that investors deem comparable to us and overall performance of the equity markets;
- additions or departures of key personnel;
- intellectual property, product liability or other litigation against us, our manufacturer or other parties on which we rely or litigation against our general industry;
- announcements or actions taken by ALPHAEON as our principal stockholder, including sales of substantial amounts of our common stock by ALPHAEON;
- changes in our capital structure, such as future issuances of securities and the incurrence of additional debt;
- changes in accounting standards, policies, guidelines, interpretations or principles; and
- other factors described in this "Risk Factors" section.

In addition, in the past, stockholders have initiated class action lawsuits against pharmaceutical companies following periods

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of volatility in the market prices of these companies' stock. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources.

If securities or industry analysts publish unfavorable research about our business or decrease the frequency or cease to provide coverage of our company, our stock price and trading volume could decline.

The trading market for our common stock will rely in part on the research and reports that equity research analysts publish about us and our business. If one or more of the equity research analysts who cover us downgrades our common stock or issues other unfavorable commentary or research the price of our common stock may decline. If one or more equity research analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which in turn could cause the trading price or trading volume of our common stock to decline.

Our historical financial data is not necessarily representative of the results that we would have achieved as a stand-alone company and may not be a reliable indicator of our future results.

Our historical financial data included in this Quarterly Report on Form 10-Q does not reflect the financial condition, results of operations or cash flows that we would have achieved as a stand-alone company during the periods presented or those we will achieve in the future. This is primarily the result of the following factors:

- our historical financial data reflects expense allocations for certain support functions that are provided on a centralized basis within ALPHAEON, such as expenses for business technology, facilities, legal, finance, human resources and business development, that may be higher or lower than the comparable expenses that we would have actually incurred, or will incur in the future, as a stand-alone company; and
- significant increases will occur in our cost structure as a result of our completed initial public offering, including costs related to public company reporting, investor relations and compliance with the Sarbanes-Oxley Act.

As a result, it may be difficult for investors to compare our future results to historical results or to evaluate our relative performance or trends in our business.

Future sales of common stock by ALPHAEON or others of our common stock, or the perception that such sales may occur, could depress the market price of our common stock.

As of May 10, 2018, ALPHAEON held approximately 78.6% of our outstanding shares of common stock. Subject to the restrictions described in the paragraph below, future sales of these shares in the public market will be subject to the volume and other restrictions of Rule 144 under the Securities Act for so long as ALPHAEON is deemed to be our affiliate, unless the shares to be sold are registered with the SEC. The sale by ALPHAEON of a substantial number of shares of our common stock, or a perception that such sales could occur, could significantly reduce the market price of our common stock.

We, our executive officers, directors and all holders of our outstanding equity awards, and ALPHAEON, Longitude V, and Dental Innovations BVBA, or DI, agreed with the underwriters of our initial public offering that, without the prior written consent of Cantor Fitzgerald & Co., as a representative of the underwriters, we and they will not, subject to certain exceptions and extensions, during the period ending 180 days after the date of our initial public offering, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any shares of common stock or any securities convertible into or exercisable or exchangeable for shares of common stock. Cantor Fitzgerald & Co., as a representative of the underwriters, may, in its sole discretion and at any time without notice, release all or any portion of the shares of our common stock subject to the lock-up.

We have filed a registration statement with the SEC covering shares of our common stock available for future issuance under our 2017 plan, and may file future registration statements covering shares of our common stock for future issuance under any future plans. Upon effectiveness of such registration statements, any shares subsequently issued under such plans will be eligible for sale in the public market, except to the extent that they are restricted by the lock-up agreements referred to above and subject to compliance with Rule 144 in the case of our affiliates. Sales of a large number of the shares issued under these plans in the public market could have an adverse effect on the market price of our common stock.

Anti-takeover provisions in our certificate of incorporation and bylaws, as well as Delaware law, could discourage a takeover.

Our certificate of incorporation, bylaws and Delaware law contain provisions that might enable our management to resist a takeover and might make it more difficult for an investor to acquire a substantial block of our common stock. These include the following provisions:

- permit our board of directors to issue shares of preferred stock, with any rights, preferences and privileges as they may designate, without stockholder approval, which could be used to dilute the ownership of a hostile bidder significantly;
- provide that the authorized number of directors may be changed only by resolution of our board of directors and that, from and after the date on which ALPHAEON no longer beneficially owns a majority of the voting power of all of the then-outstanding shares of our capital stock, a director may only be removed for cause by the affirmative vote of the holders of at least 66 2/3% of our voting stock;
- provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
- divide our board of directors into three classes, with each class serving staggered three-year terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- from and after the date on which ALPHAEON no longer beneficially owns a majority of the voting power of all of the then-outstanding shares of our capital stock, require that any action to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and not be taken by written consent;
- provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner and also specify requirements as to the form and content of a stockholder's notice, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company;
- prohibit cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates; and
- provide that special meetings of our stockholders may be called only by the chairman of the board, our Chief Executive Officer or by our board of directors pursuant to a resolution adopted by a majority of the total number of authorized directors, which may delay the ability of our stockholders to force consideration by our company of a take-over proposal or to take certain corporate actions, including the removal of directors.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, our certificate of incorporation provides that, from and after the date on which ALPHAEON no longer beneficially owns a majority of the voting power of all of the then-outstanding shares of our capital stock, we will be subject to Section 203 of the General Corporation Law of the State of Delaware, or the DGCL, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with an interested stockholder who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner. This provision could have the effect of delaying or preventing a change-of-control, whether or not it is desired by or beneficial to our stockholders. Further, other provisions of Delaware law may also discourage, delay or prevent someone from acquiring us or merging with us.

In addition, our certificate of incorporation specifies that the Court of Chancery of the State of Delaware is the sole and exclusive forum for most legal actions involving actions brought against us by stockholders. We believe this provision benefits us by providing increased consistency in the application of Delaware law by chancellors particularly experienced in resolving corporate disputes, efficient administration of cases on a more expedited schedule relative to other forums and protection against the burdens of multi-forum litigation. However, the provision may have the effect of discouraging lawsuits against our directors and officers.

Claims for indemnification by our directors and officers may reduce our available funds to satisfy successful third-party claims against us and may reduce the amount of money available to us.

Our certificate of incorporation and bylaws provide that we will indemnify our directors and officers, in each case to the fullest extent permitted by Delaware law.

In addition, as permitted by Section 145 of the DGCL, our bylaws and our indemnification agreements that we have entered into with our directors and officers, among other things provide that:

- We will indemnify our directors and officers for serving us in those capacities, or for serving as a director, officer, employee or agent of other business enterprises at our request, to the fullest extent permitted by Delaware law. Delaware law provides that we may indemnify such person if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to our best interest and, with respect to any criminal proceeding, had no reasonable cause to believe such person's conduct was unlawful.
- We may, in our discretion, indemnify employees and agents in those circumstances where indemnification is permitted by applicable law.
- We will be required to advance expenses, as incurred, to our directors and officers in connection with defending a proceeding, except that such directors or officers shall undertake to repay such advances if it is ultimately determined that such person is not entitled to indemnification.
- The rights conferred in our bylaws will not be exclusive. We may not retroactively amend our bylaw provisions to reduce our indemnification obligations to directors, officers, employees and agents.

As a result, claims for indemnification by our directors and officers may reduce our available funds to satisfy successful third-party claims against us and may reduce the amount of money available to us.

We have not paid dividends in the past and do not expect to pay dividends in the future, and any return on investment may be limited to the value of our stock.

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our common stock will depend on our earnings, financial condition and other business and economic factors affecting us at such time as our board of directors may consider relevant. If we do not pay dividends, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

We are an "emerging growth company," and the reduced reporting requirements available to emerging growth companies could make our common stock less attractive to investors.

We qualify as an "emerging growth company," as defined in the JOBS Act. For as long as we remain an emerging growth company, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies. These provisions include, but are not limited to:

- being permitted to have only two years of audited financial statements and only two years of related selected financial data and management's discussion and analysis of financial condition and results of operations disclosure;
- an exemption from compliance with the auditor attestation requirement in the assessment of our internal control over financial reporting pursuant to the Sarbanes-Oxley Act;
- reduced disclosure about executive compensation arrangements in our periodic reports, registration statements and proxy statements; and
- exemptions from the requirements to seek non-binding advisory votes on executive compensation or golden parachute arrangements.

To the extent we take advantage of any of these exemptions, the information that we provide stockholders may be different than what is available with respect to other public companies. Investors may find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

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Even after we no longer qualify as an emerging growth company, we may still qualify as a “smaller reporting company” which would allow us to take advantage of many of the same exemptions from disclosure requirements, including exemption from compliance with the auditor attestation requirements of Section 404 and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. Investors could find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our trading price may be more volatile.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

Stock Option and Restricted Stock Unit Grants

On January 6, 2018, pursuant to our 2017 Omnibus Incentive Plan, or the Plan, we granted to certain of our employees and non-employee directors (i) options to purchase 1,496,005 shares of our common stock with an exercise price of \$9.98 per share. In addition, on January 6, 2018, pursuant to the Plan and (ii) restricted stock units for 230,516 shares of our common stock with a per share fair value of \$9.98.

The offer, sale and issuance of these options and restricted stock units were deemed to be exempt from registration under the Securities Act under Rule 701 promulgated under the Securities Act as offers and sale of securities pursuant to certain compensatory benefit plans and contracts relating to compensation in compliance with Rule 701. On February 16, 2018, we filed a registration statement on Form S-8 under the Securities Act to register all of the shares of our common stock subject to outstanding options and all shares of our common stock otherwise issuable pursuant to the Plan.

Issuances of Common Stock upon Conversion of Preferred Stock

On February 12, 2018, upon the closing of our initial public offering, all shares of our then-outstanding Series A preferred stock automatically converted into 2,065,875 shares of our common stock. The common stock was issued pursuant to the exemption from the registration requirements of the Securities Act provided by Section 3(a)(9) or Section 4(2) of the Securities Act.

Use of Proceeds

On February 7, 2018, our Registration Statement on Form S-1 (File No. 333-222478) was declared effective for our initial public offering, pursuant to which we have sold 5,047,514 shares of our common stock at a public offering price of \$12.00 per share, for aggregate gross proceeds of approximately \$60.6 million. As a result of our initial public offering, we received aggregate net proceeds of approximately \$56.3 million, after deducting underwriting discounts and commissions, excluding other offering costs. From the net proceeds of our initial public offering, we paid ALPHAEON \$5.0 million pursuant to the services agreement. No other offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or to any other affiliates.

There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) on February 9, 2018.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

EXHIBIT INDEX

Exhibit Number	Exhibit Title	Incorporated by Reference				Filed Herewith (x)
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation	8-K	001-38381	3.1	2/12/18	
3.2	Amended and Restated Bylaws	8-K	001-38381	3.1	2/12/18	
4.1	Specimen certificate evidencing shares of common stock of the Registrant	S-1/A	333-222478	4.1	1/25/18	
10.1	Services Agreement, dated as of January 23, 2018, by and between ALPHAEON Corporation and the Registrant	S-1/A	333-222478	10.12	1/25/18	
10.2+	Transfer Letter, dated as of January 22, 2018, by and between Rui Avelar and the Registrant	S-1/A	333-222478	10.27	1/25/18	
10.3+	Employment Agreement, by and between Murthy Simhambhatla and the Registrant, effective as of February 12, 2018	S-1/A	333-222478	10.26	1/25/18	
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.					X
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.					X
32.1#	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS**	XBRL Instance Document.					X
101.SCH**	XBRL Taxonomy Extension Schema Document.					X
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.					X

+ Indicates management contract or compensatory plan.

The information in Exhibit 32.1 shall not be deemed “filed” for purposes of Section 18 of the Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act or the Exchange Act (including this Quarterly Report on Form 10-Q), unless the Registrant specifically incorporates the foregoing information into those documents by reference.

** In accordance with Rule 402 of Regulation S-T, this interactive data file is deemed not filed or part of this Quarterly Report on Form 10-Q for purposes of Sections 11 or 12 of the Securities Act or Section 18 of the Exchange Act and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 10, 2018

Evolus, Inc.

By: /s/ David Moatizedi

David Moatizedi

President and Chief Executive Officer

(Principal Executive Officer and

Principal Financial Officer)

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Moatazedi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Evolus, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-15(a)];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2018

/s/ David Moatazedi

David Moatazedi

President, Chief Executive Officer and Director

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Moatazedi, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Evolus, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [Omitted pursuant to Exchange Act Rules 13a-14(a) and 15d-15(a)];
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2018

/s/ David Moatazedi

David Moatazedi

President, Chief Executive Officer and Director

(Principal Financial Officer)

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies, in accordance with 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Evolus, Inc., that the Quarterly Report on Form 10-Q of Evolus, Inc. for the quarter ended March 31, 2018 fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of Evolus, Inc.

Date: May 10, 2018

By: /s/ David Moatazedi

David Moatazedi

President and Chief Executive Officer

(Principal Executive Officer and Principal Financial Officer)

