

## Horizon Pharma, Inc. <sup>(1,3)</sup>

### Capital Raise Reduces Execution Risk on Duexis Launch, Commercial Build

#### MARKET OUTPERFORM

**HZNP \$3.45**

Price	\$3.45	FY Dec		2010A	2011E	2012E
Target Price	\$16.00	Revenue (M)	1Q	--	\$1.8A	\$1.7
52-Wk Range	\$3.05 - \$9.34		2Q	--	\$1.3A	\$3.2
Shares Out. (M)	19.5		3Q	--	\$0.3A	\$6.9
Market Cap. (M)	\$67		4Q	--	\$1.0	\$12.6
Average Daily Vol. (000)	0.03		FY	\$2.4	\$4.4	\$24.3
Float (M)	19			2010A	2011E	2012E
LT Debt (M)	41	EPS	1Q	--	(\$5.13)A	(\$0.66)
Cash (M)	81.9		2Q	--	(\$7.78)A	(\$0.74)
Enterprise Value (M)	\$24.3		3Q	--	(\$1.30)A	(\$0.78)
Cash/Share	4.20		4Q	--	(\$1.34)	(\$0.62)
			FY	(\$8.91)	(\$7.37)	(\$2.80)
			P/E	NM	NM	NM
		Previous FY	--	(\$6.94)	(\$1.74)	
			CY	(\$8.91)	(\$7.37)	(\$2.80)
			PE	NM	NM	NM

NC indicates no change to previous estimate. NE indicates no previous estimate.

Source: Company reports and JMP Securities

#### INVESTMENT HIGHLIGHTS

- Capital raise reduces execution risk on Duexis launch and commercial infrastructure build; reiterate Market Outperform rating and \$16 price target on Horizon Pharma.** Based on recent/ongoing diligence with KOLs regarding the Duexis value-proposition and launch messaging, we have reaffirmed our 2012 revenue ramp expectations. We have been encouraged by KOL feedback regarding the clinical benefits of Duexis, in particular efficacy, which is a surprise. Additionally, we believe the company's recent capital raises lower execution risk by providing sufficient fuel for Horizon's sales force to reach its destination of fully targeted physician base (33,000) and to prepare for possible Lodotra approval in 3Q12. We derive our \$16 price target from 4x estimated U.S. revenues and 7x estimated EU royalties for Duexis and Lodotra in 2017, but we have incorporated the increased number of shares outstanding while lowering our discount rate to 20% to accommodate the recent dilution and reflect lowered execution risk of these capital raises. That said, we maintain our discounting of Duexis in the EU and Lodotra in the US at 30%.
- Physician feedback positive.** Our KOL diligence has highlighted clinical attributes that further enhance our conviction for Duexis' eventual share of the NSAID market. Recent physician contacts have pointed out that it is clear that patients would be well served in almost every case to be provided GI protection with NSAID use. However, many physicians don't prescribe GI protectants because they don't want to overburden the patient's tolerance for pills, among other reasons. Additionally, ibuprofen is highly effective and the most commonly prescribed NSAID. Our physician contacts are enthusiastic to have this effective NSAID in a convenient delivery form that increases patient safety. This outlook is supported by data from Horizon which showed that 88% of surveyed physicians have one or more patients who could benefit from Duexis.

**FOR DISCLOSURE AND FOOTNOTE INFORMATION, REFER TO THE JMP FACTS AND DISCLOSURES SECTION**

- Model revisions.** We are adjusting our model to reflect increases in cash, debt, and fully diluted shares from the recent financings (Figure 1). Additionally, we are adjusting our net sales projections for Duexis to reflect the company's copay buy-downs, estimated at 20% of sales vs. including it in operating expenses as marketing. However, we are not reducing our operating expense outlook given uncertainty around the company's expected spending on Duexis' sales reach, particularly in light of the recent financings. We believe the increased spending would most likely show an impact in 2Q, ~4-5 months following the launch meeting of January 24th, a time frame we view as adequate for Duexis to demonstrate meaningful traction in the market. Also we are lowering our discount rate to 20% from 30% for the approved products to reflect lowered commercial execution risk that we perceive as a result of the bolstered capital balances. Based on our model, we believe that Horizon may have sufficient funding to profitability, unless sales fail to ramp as expected or the company invests in new growth initiatives.

**FIGURE 1: Valuation Model**

	Revenues	Peak penetration	Sales year	Multiple	Discount rate	Years to discount	Value (\$MM)	Value per share
<b>Duexis</b>								
US	221.4	2.0%	2017	4	20%	5	355.8	<b>\$11.64</b>
EU	12.2	1.6%	2017	7	30%	5	23.0	
<b>Lodotra</b>								
US	77.2	8.5%	2017	4	30%	5	83.2	<b>\$3.26</b>
EU	8.1	8.5%	2017	7	20%	5	22.8	
<b>Cash (YE12)</b>							26.3	<b>\$0.81</b>
Fully Diluted Shares							32.5	
<b>Valuation</b>								<b>\$15.71</b>

Source: JMP Securities LLC

## INVESTMENT RISKS

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**Regulatory risk.** The FDA, and/or other ex-U.S. regulatory agencies, could reject any of the firms', or its partners', future regulatory filings or require additional studies prior to granting approval.

**Commercial risk.** If successfully developed and approved, Horizon's products may face competition both from approved products and also potentially from new product candidates in development by biotechnology and pharmaceutical companies. The company may also face IP risk from competing brand or generic products or product candidates.

**Balance sheet risk.** The expenses associated with drug development and commercialization are high. Horizon may return to the capital markets to secure additional financing to fund current or future development programs or marketing efforts. Horizon had approximately \$33MM in cash and equivalents at the end of 3Q11 that we believe will be sufficient to fund operations into 2Q12. We have projected a raise of ~\$6MM in 2Q12 at \$15/share. However, the company may also complete one or multiple ex-U.S. partnerships for Duexis which would reduce the need for equity financing.

## COMPANY DESCRIPTION

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Horizon Pharma is a specialty pharmaceutical company focused on the development and commercialization of novel drug formulations for the treatment of pain and inflammatory indications, particularly arthritis. The company has two approved products, Duexis in the U.S. and Lodotra in Europe. The primary near/mid-term drivers for Horizon are successful execution on the launch of Duexis in the U.S. (planned for 4Q11) as well as U.S. approval of Lodotra (NDA filing expected in 3Q11). Horizon has partnered Lodotra in Europe and Asia, with Mundipharma and Merck/Serono, and intends to secure a partner for Duexis for ex-U.S. geographies.

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Company	Disclosures
Horizon Pharma, Inc.	(1,3)

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Market Outperform (MO): JMP Securities expects the stock price to outperform relevant market indices over the next 12 months.

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Market Underperform (MU): JMP Securities expects the stock price to underperform relevant market indices over the next 12 months.

### JMP Securities Research Ratings and Investment Banking Services: (as of January 3, 2012)

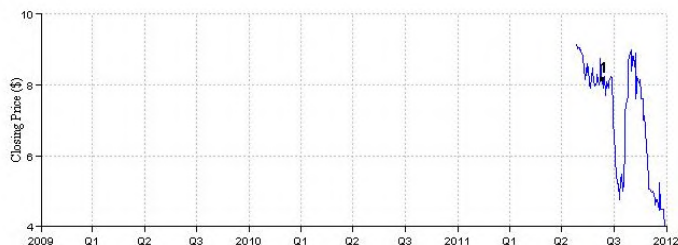
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Rating	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
Market Outperform	Buy	226	65%	Buy	226	65%	43	19%
Market Perform	Hold	117	34%	Hold	117	34%	11	9%
Market Underperform	Sell	6	2%	Sell	6	2%	0	0%
TOTAL:		349	100%		349	100%	54	15%

### Stock Price Chart of Rating and Target Price Changes:

Note: First annotation denotes initiation of coverage or 3 years, whichever is shorter. If no target price is listed, then the target price is N/A. In accordance with NASD Rule 2711, the chart(s) below reflect(s) price range and any changes to the rating or price target as of the end of the most recent calendar quarter. The action reflected in this note is not annotated in the stock price chart. Source: Jovus and JMP Securities.

1) 09/07/11  
Market Outperform \$16

HZNP



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