

# Horizon Pharma, Inc. <sup>(1,2,3)</sup>

First Duexis Survey Highlights Potential and Early Interest

## MARKET OUTPERFORM

**HZNP \$4.16**

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Price	\$4.16	<b>FY Dec</b>		<b>2011A</b>	<b>2012E</b>	<b>2013E</b>
Target Price	\$16.00	Revenue (M)	1Q	\$1.8	\$1.7	\$18.6
52-Wk Range	\$3.05 - \$9.34		2Q	\$1.3	\$3.2	\$25.5
Shares Out. (M)	33.5		3Q	\$0.3	\$6.9	\$32.7
Market Cap. (M)	\$140		4Q	\$3.5	\$12.6	\$40.0
Average Daily Vol. (000)	0.25		<b>FY</b>	<b>\$6.9</b>	<b>\$24.3</b>	<b>\$116.8</b>
Float (M)	33					
LT Debt (M)	44.166	<b>EPS</b>	1Q	(\$5.13)	(\$0.66)	(\$0.47)
Cash (M)	82.5		2Q	(\$7.78)	(\$0.72)	(\$0.33)
Enterprise Value (M)	\$76.4		3Q	(\$1.30)	(\$0.72)	(\$0.19)
Cash/Share	2.46		4Q	(\$3.92)	(\$0.59)	(\$0.05)
			<b>FY</b>	<b>(\$12.56)</b>	<b>(\$2.68)</b>	<b>(\$1.03)</b>
			P/E	NM	NM	NM
		Previous FY		--	NC	NC
		<b>CY</b>		<b>(\$12.56)</b>	<b>(\$2.68)</b>	<b>(\$1.03)</b>
		P/E		NM	NM	NM

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

Source: Company reports and JMP Securities

## INVESTMENT HIGHLIGHTS

- Primary care physicians recognize need for GI-protection, patient benefit from Duexis; reiterate Market Outperform rating and \$16 price target on Horizon Pharma.** We have conducted the first of what we expect will be an ongoing series of surveys to gauge Duexis uptake. The results highlight what we view to be areas both of physician recognition and adoption as well as initiatives to increase market share through the company's marketing efforts. Duexis was officially launched at the end of 2011 and sales efforts kicked in fully following Horizon's national sales meeting in February. We continue to view Duexis as a best-in class offering for NSAID treatments but recognize that it is likely detail sensitive with cost being a prime factor, a result supported by our survey. We view early prescription trends to be supportive and anticipate several ongoing early launch and sales force expansion efforts to be important to achieving our projections. We reiterate our \$16 price target which is derived from 4x estimated U.S. revenues and 7x estimated EU royalties for Duexis and Lodotra in 2017, discounted at 20% (30% for Duexis in the EU and Lodotra in the U.S.).
- Survey captures a broad swath of U.S. primary care physicians.** While our survey is relatively small (N=26), it is a sampling of a geographically diverse population of primary care physicians (Figure 1). We note multiple physicians from the Northeast and Southern California and a lack of physicians sampled in some regions. Physicians were mostly in solo (5, 19%) or group practice (16, 26%), with two hospital staff physicians, one medical educator, and two unspecified. We anticipate expanding the size and reach of our subsequent survey which will likely be completed quarterly.

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

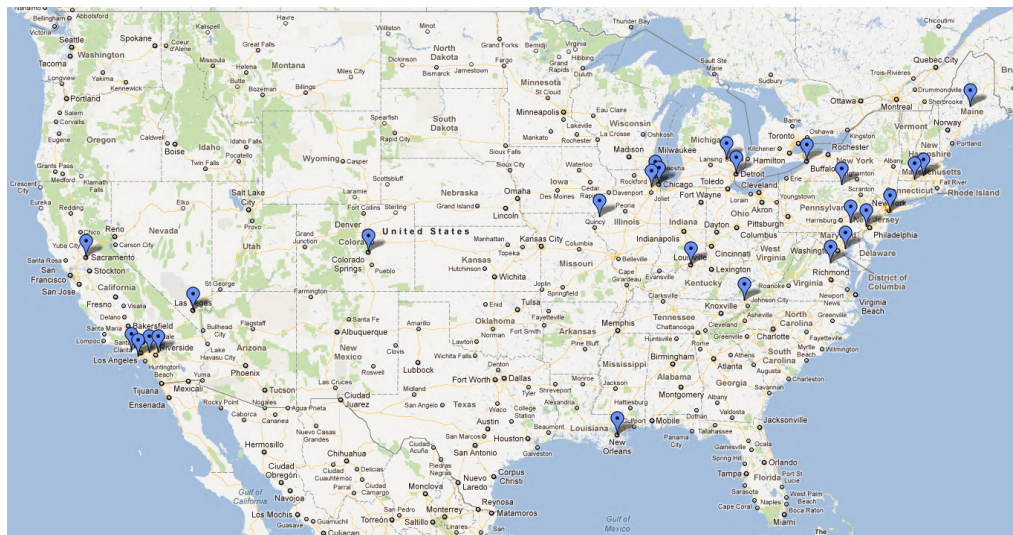
- **Responses illustrate potential for "low-hanging fruit."** We asked a set of ten questions intended to gain insight on physician perspectives on the role of the NSAID-based combo drug Duexis (Figure 2). Question 1 on the average monthly NSAID prescriptions written by the doctors resulted in an average of 100/month. The median was 75 prescriptions per month, 30/month was the fewest prescribed and 350/month the most. The majority of physicians prescribed a broad set of NSAIDs. All 26 regularly prescribe ibuprofen, 25 (96%) naproxen, 24 (92%) celecoxib, 21 (81%) diclofenac, and 10 (38%) some other NSAID. Despite 24 physicians (92%) claiming to currently prescribe GI-protectants with NSAIDs (question #9), only five physicians (19%) were aware of Duexis prior to taking the survey (question #3). In our view, this level of awareness is the result of limited sales efforts to date (number of reps and time in the field) and it signals high potential for uptake given continued marketing efforts - especially considering Horizon's polling data on doctors that have been visited by a sales representative which indicates that over 90% have a patient suited for Duexis and over half planned to write a Duexis script in the week polled.

Note that, although it has national sales territory coverage in all major metropolitan centers, Horizon has been primarily targeting the Southeast (as well as the Southwest), a region largely missed in our survey. By YE12, we consider it likely that Duexis will see increased awareness and uptake with DTP&C initiatives that we anticipate will begin after mid-year, approximately six months post-launch, and the planned doubling of the Horizon sales force also in 2H12.

- **Prescribing habits highly individualized.** Physicians' NSAID prescribing habits fit a wide range of preferences, with ibuprofen and naproxen having the largest share of prescriptions (Figure 3 - 22 physicians whose answers added to 100%, +/- 5%). A majority of the ibuprofen prescribing physicians cited efficacy and familiarity as reasons for choosing this drug; many also cited cost. Naproxen prescribers primarily mentioned efficacy and cost, some physicians also favor naproxen in patients with cardiac disease. Diclofenac was frequently prescribed in non-oral formulations for site-specific applications or due to patient preference or non-response to other NSAIDs. Celecoxib was prescribed primarily due to GI-protective aspects but cost was cited as a key drawback. Most of the "other" prescriptions were for meloxicam, due to GI-protection.
- **Duexis' advantages and disadvantages.** Surveyed physicians recognized the benefits of having GI-protection provided with the NSAID and generally took a favorable view on the use of ibuprofen due to its efficacy. Some physicians cited the avoidance of PPIs as a benefit due to the recent linkage of that drug class with helicobacter, *c. difficile*, and osteoporosis. A number of physicians believed Duexis would be inexpensive and cited that as an advantage. However, on the other side of the equation, when asked about the negative aspects of Duexis, a common comment was concern over cost. That said, we believe that Horizon has made a compelling cost argument vs. OTC prescriptions through co-pay assistance programs as well as reduced pill burden (Figure 4). Physicians also see only the PPI class as having been shown to reduce ulcers, which is not consistent with the data from Duexis' Phase III studies. Should Horizon achieve wider disbursement of the results of the Phase III studies leading to Duexis' approval, it may result in increased market share. Given the clear recognition of the efficacy of ibuprofen and physician familiarity, we believe Duexis will experience accelerating sales if the sales force is able to communicate clinical benefits and the low cost of Duexis to a broader (and more frequently prescribing) base of physicians.
- **Barriers to uptake - as usual it is cost vs. benefit.** Question #7 asked what the largest impediments are to uptake from Duexis. The most important limiting factor cited was cost (average score of ~8 on a scale from 1 to 10, 10 being most limiting and 1 not limiting). Again, we believe it is important for the company to focus on highlighting cost benefits relative to self-dosing with generics (Figure 4), as well as the pharmacoeconomic value of effective ulcer avoidance from Duexis in order to drive uptake. Horizon has also conducted research that suggests many physicians do not prescribe GI-protection and that many patients do not comply when these agents are prescribed. The high level of claimed prescribing of GI-protectants suggests that either our sample of physicians may not be "in need" (and are thus uncommonly enlightened) of Duexis to support the use of GI-protection and are therefore not representative of a larger group of NSAID prescribers, or they are possibly unaware of a lack of compliance by their patients to prescribed GI-protection. Additionally, cost and patient compliance were cited as reasons for not prescribing GI-protectants (question 10). Encouragingly, neither the need for GI-protection, nor Duexis' efficacy or safety were questioned by the majority of physicians surveyed (average scores ~3-4). Finally, one of the key takeaways from this survey that supports our projections is that physicians reported that an average of ~25% of their patients were likely to benefit from Duexis, with most physicians reporting 11-20% of their patients were likely to benefit (Figure 5). This number suggests that prescriptions may eventually exceed our projection of peak penetration of 2% of the U.S. NSAID prescriptions for Duexis with greater educational efforts highlighting the benefits of the product.

- 1Q12 progress is good for early launch efforts.** We have modeled \$1.2MM in gross Duexis sales for 1Q12, slightly under Wolters Kluwer total prescription dollars of \$1.4MM on ~11.1k prescriptions. From this we derive net 1Q12 Duexis revenues of approximately \$0.95MM. Consistent with the positive observations on clinical need and possible role of Duexis seen with our survey, we believe Duexis prescriptions are likely to accelerate in 2H12 on increased physician awareness and experience with the drug and gain additional momentum in late 2H12 with the anticipated doubling of the sales force, supported by telemarketing initiatives. Our full-year projection for 2012 Duexis sales are ~\$24.6MM gross, ~\$19.7MM net. We estimate net Rayos/Lodotra sales of ~\$4.1MM for the year with possible U.S. approval on/within three months of the upcoming July 26th PDUFA date. Adding to our 2012 sales projections is the anticipated approval of Rayos in the U.S. and approval of Duexis in the EU (expected 2H12). We do not currently include sales of Duexis or Rayos/Lodotra outside the U.S. and EU in our valuation, but view regulatory and commercial milestones in Latin America as a potential share catalyst in 2012.

**FIGURE 1: Geographic Distribution of Surveyed Physicians**

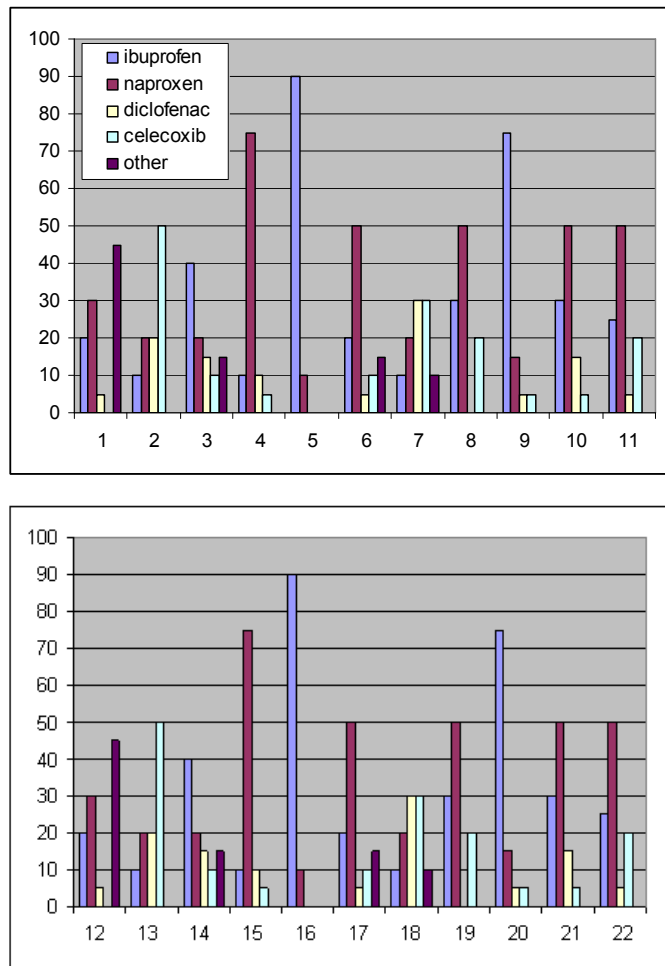


Source: JMP Securities LLC, Google Maps

**FIGURE 2: Duexis Survey Question Set**









#	Question	Possible answers
1	In an average month, how many NSAID prescriptions do you write?	Numerical
2	Which NSAIDs do you prescribe? Please choose all that apply.	Ibuprofen, Naproxen, Diclofenac, Celecoxib, Other
3	Short description of Duexis and link to its label followed by: "Were you familiar with Duexis prior to this survey?"	Yes/no
4	Based on this product profile, what do you believe are the strengths of this new drug vs. its competitors?	Open ended
5	Based on this product profile, what do you believe are the weaknesses of this new drug vs. its competitors?	Open ended
6	What specific patient types/profile do you think Duexis will be most effective for? Please be as specific as possible.	Open ended
7	On a scale of 1 to 10, please rank these items as limiting the incorporation of Duexis into your practice.	Cost, Availability of generic versions of the components of Duexis, GI-protection not really needed when taking NSAIDs, Duexis' efficacy, Duexis' safety
8	What percentage of your NSAID-taking patients do you believe would benefit from Duexis?	Numerical
9	Do you currently prescribe acid-blocking drugs to be taken with NSAIDs?	Yes/no
10	What limits your use of acid-blockers with NSAIDs?	Open ended

Source: JMP Securities LLC

**FIGURE 3: Surveyed Physician Prescribing Habits**


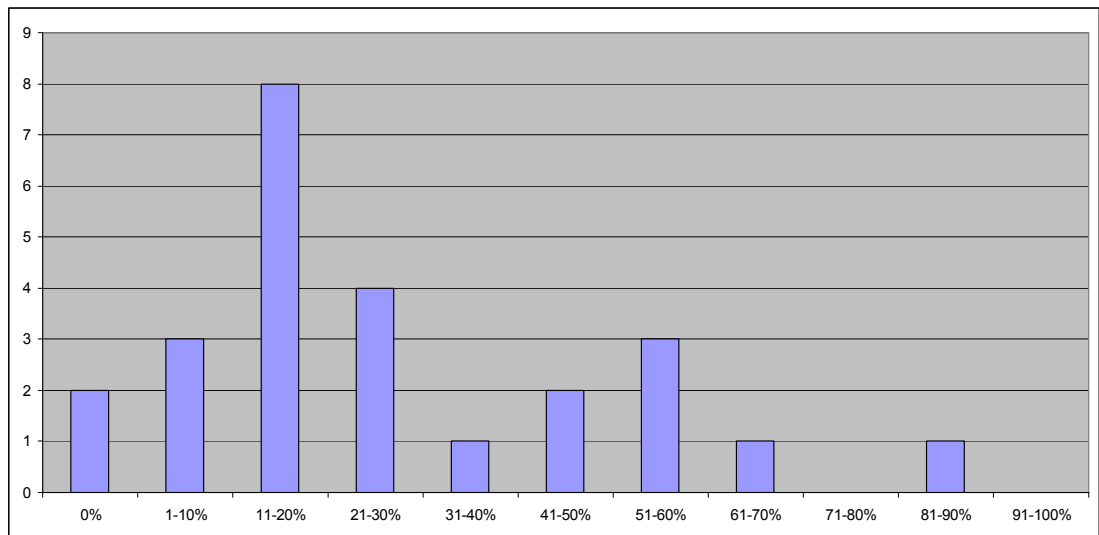
Source: JMP Securities LLC

**FIGURE 4: Duexis Cost Profile vs. OTC**

	OTC Option		DUEXIS Rx Alternative	
Morning	 4 x 200mg ibuprofen	 2 x 20mg famotidine	 1 tablet DUEXIS (800mg ibuprofen + 26.6mg famotidine)	\$0.08-\$0.09 + \$0.56-\$1.13 \$35-\$40/Rx Tier 3 copay = \$0.40
Mid Day	 4 x 200mg ibuprofen		 1 tablet DUEXIS	\$0.40
Early Evening	 2 x 20mg famotidine			
Bed Time	 4 x 200mg ibuprofen		 1 tablet DUEXIS	\$0.40
TOTAL	16 tablets per day	=	3 tablets per day	= \$1.20 per day

Source: Company reports

**FIGURE 5: Proportion of Patients Likely to Benefit from Duexis**



Source: JMP Securities LLC

## INVESTMENT RISKS

**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. Importantly, the company reported pro forma cash of \$82.5MM as of March 16th, which we model as sufficient through 1Q13.

## COMPANY DESCRIPTION

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. as well as U.S. approval of Lodotra. 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
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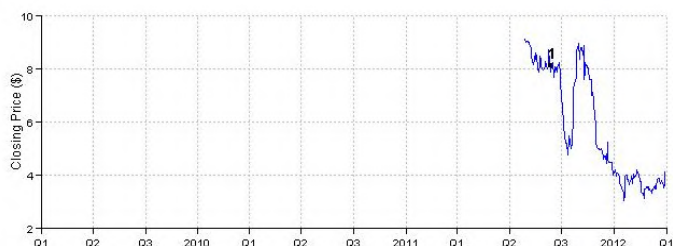
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Rating	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
Market Outperform	Buy	225	63%	Buy	225	63%	40	18%
Market Perform	Hold	127	35%	Hold	127	35%	16	13%
Market Underperform	Sell	7	2%	Sell	7	2%	0	0%
TOTAL:		359	100%		359	100%	56	16%

### 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. \$10

HZNP



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