

Emerging Company Research

Horizon Pharma — Outperform (1)

Horizon Reports 1Q12 Financials; Commercial Growth Ready To Accelerate

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Summary: This morning, Horizon reported 1Q12 financial results and conducted a conference call to provide an update on the U.S. commercialization efforts for DUEXIS. Horizon reported a loss per share of \$0.98 as compared to our estimate of a loss per share of \$1.06 and ended the quarter with approximately \$80.4MM in cash and cash equivalents. Horizon has made impressive progress since the commercial launch of DUEXIS in December 2011, with prescriptions growing rapidly and steadily.

- **DUEXIS continues to gain momentum.** The pre-launch market research performed by Horizon demonstrated high levels of awareness and strong intent to prescribe within the targeted physician community. Horizon has contracted PDI to provide about 4,000 physician detailings per month and is planning to double the current sales force of 80 reps to 160 to reach an additional 15,000 physicians in 2H12. Additionally, with the co-pay buy-down program successfully implemented, a majority of patients have access to DUEXIS.
- **A strengthened cash position will aid Horizon in achieving its commercial and regulatory goals.** Horizon raised net proceeds of approximately \$81.7MM through both a debt and an equity financing in February and March 2012. We believe the strong cash position will sustain the company's operation into 1H13 and places the company in a position of strength in anticipation of multiple catalysts for the rest of the year.
- **More excitement to come in 2H12.** We are maintaining our current financial estimates which assume an FDA approval for RAYOS on or before the PDUFA date of July 26, 2012 and a subsequent launch in 2H12. Based on what we believe is a strong initial launch for DUEXIS and the upcoming potential U.S. approval of RAYOS, we reiterate our Outperform rating on shares of Horizon.

HZNP (05/10)	\$3.54	Revenue \$MM							
Mkt cap	\$85.3MM	FY	2011	2012E		2013E	2014E	2015E	
Dil shares out	24.1MM	Dec	Actual	Prior	Current	Prior	Current	Current	Current
Avg daily vol	99.2K	Q1	1.8	—	2.7A	—	—	—	—
52-wk range	\$3.1-9.3	Q2	1.3	9.6	4.6	—	—	—	—
Dividend	Nil	Q3	0.3	13.4	9.4	—	—	—	—
Dividend yield	Nil	Q4	3.5	20.2	13.1	—	—	—	—
BV/sh	NA	Year	6.9	51.1	30.1	142.9	71.8	171.9	277.6
Net cash/sh	\$3.34	CY	—	—	—	—	—	—	—
Debt/cap	NA	EV/S	—	—	—	—	—	—	—
ROA (LTM)	NA								
5-yr fwd EPS growth (Norm)	NA								
		EPS \$	2011	2012E		2013E	2014E	2015E	
		FY	Actual	Prior	Current	Prior	Current	Current	Current
		Q1	(2.33)	—	(0.98)A	—	—	—	—
		Q2	(7.78)	(0.55)	(0.68)	—	—	—	—
		Q3	(1.30)	(0.52)	(0.56)	—	—	—	—
		Q4	(3.92)	(0.58)	(0.56)	—	—	—	—
		Year	(12.56)	(2.36)	(2.81)	(0.24)	(2.07)	1.11	3.83
		CY	—	—	—	—	—	—	—
		P/E	—	—	—	—	—	3.2x	0.9x
S&P 500	1361.7								

DUEXIS Prescriptions

	TRx	M/M Growth Rate	NRx	M/M Growth Rate
December 2011	856		843	
January 2012	1,820	112.6%	1,724	104.5%
February 2012	3,229	77.4%	2,967	72.1%
March 2012	4,688	45.2%	4,143	39.6%

Source: IMS Health

Recent And Upcoming Milestones

Event	Time
U.S. launch of DUEXIS	5-Dec-11
First DUEXIS launch meeting	24-Jan-12
RAYOS PDUFA date	26-Jul-12
U.S. launch of RAYOS	2H12
Decision on MAA for DUEXIS	2H12

Source: Cowen and Company

Horizon Pharma Quarterly P&L Model

	2010A	Q1:11A	Q2:11A	Q3:11A	Q4:11A	2011A	Q1:12A	Q2:12E	Q3:12E	Q4:12E	2012E
Duexis	0.0	0.0	0.0	0.0	0.0	0.0	1.1	3.0	7.0	9.8	21.0
Lodotra	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	1.3	1.9
Duexis Royalty	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Lodotra Royalty	0.0	1.8	1.3	0.2	3.5	6.8	1.5	1.6	1.8	2.0	6.9
Total Product Revenues	0.0	0.0	0.0	0.0	0.0	0.0	1.1	3.0	7.6	11.1	22.8
Total Royalty Revenues	0.0	1.8	1.3	0.2	3.5	6.8	1.6	1.6	1.8	2.0	7.3
Total Revenues	2.4	1.8	1.3	0.3	3.5	6.9	2.7	4.6	9.4	13.1	30.1
COGS	4.3	0.9	2.1	1.2	2.1	7.3	2.1	1.2	2.4	3.3	7.5
R&D	17.7	2.3	3.5	5.3	3.8	15.4	4.1	4.0	4.0	4.2	16.0
Sales	5.6	0.6	1.2	5.1	12.9	20.1	11.0	8.5	9.5	12.9	45.3
Sales Rebates	0.0					0.2	0.2	1.0	2.5	3.5	3.8
Total Sales (including sales rebates)	5.6	0.6	1.2	5.1	12.9	20.3	11.2	9.5	12.0	16.4	49.1
General & Administrative	18.6	2.9	3.3	4.2	4.4	15.0	5.2	5.0	5.3	5.5	21.0
Intangible impairment charge					69.6	69.6					
Total Operating Expenses:	46.2	6.7	10.1	15.9	92.8	127.4	22.5	18.7	21.2	25.9	89.9
Income from Operations	(43.8)	(4.9)	(8.8)	(15.7)	(89.2)	(120.4)	(19.8)	(14.1)	(11.8)	(12.8)	(59.8)
Interest Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Other Income (expense)	0.0	(0.9)	0.0	0.0	0.0	0.0	(0.1)	(2.2)	(1.8)	(1.0)	(7.8)
Interest Expense	(3.1)	(0.6)	(3.2)	(1.0)	(0.8)	(6.3)	(4.6)	(0.3)	0.0	0.0	(0.8)
Pretax Income	(46.9)	(6.4)	(12.0)	(16.7)	(90.1)	(126.7)	(24.4)	(16.6)	(13.6)	(13.6)	(68.2)
Foreign Exchange Loss	(0.0)	0.0	0.1	0.8	0.8	1.0	(0.5)	0.0	0.0	0.0	0.0
Bargain Purchase Gain	19.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income Tax Provision	0.0	0.0	0.2	(0.2)	(14.1)	(14.7)	(0.2)	0.0	0.0	0.0	0.0
<i>Tax rate</i>	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net Income (loss)	(27.6)	(6.4)	11.7	(17.2)	(76.7)	(113.1)	(23.7)	(16.6)	(13.6)	(13.6)	(68.2)
GAAP EPS, Basic	(\$9.20)	(\$2.15)	(\$7.78)	(\$1.30)	(\$3.92)	(\$12.54)	(\$0.98)	(\$0.68)	(\$0.56)	(\$0.56)	(\$2.81)
Weighted Average Shares Outstand	3.0	3.0	1.5	13.3	19.6	9.0	24.1	24.2	24.2	24.4	24.2

Source: Cowen and Company

Horizon Pharma Annual P&L Model

	2010A	2011A	2012E	2013E	2014E	2015E	2016E
Duexis	0.0	0.0	21.0	43.2	100.1	171.8	236.0
Lodotra	0.0	0.0	1.9	15.6	49.9	74.9	106.1
Duexis Royalty	0.0	0.0	0.4	3.6	10.9	18.1	21.7
Lodotra Royalty	0.0	6.8	6.9	9.4	11.1	12.8	14.5
Total Product Revenues	0.0	0.0	22.8	58.8	150.0	246.7	342.1
Total Royalty Revenues	0.0	6.8	7.3	13.0	21.9	30.9	36.2
Total Revenues	2.4	6.9	30.1	71.8	171.9	277.6	378.3
COGS	4.3	7.3	7.5	14.4	25.8	41.6	56.7
R&D	17.7	15.4	16.0	20.0	21.0	23.0	25.0
Sales	5.6	20.1	45.3	69.8	65.7	56.1	49.8
Sales Rebates	0.0	0.2	3.8	7.5	17.0	28.3	37.7
Total Sales (including sales rebates)	5.6	20.3	49.1	77.3	82.7	84.4	87.5
General & Administrative	18.6	15.0	21.0	23.0	24.5	26.0	27.0
Intangible impairment charge		69.6					
Total Operating Expenses:	46.2	127.4	89.9	127.1	137.0	146.8	158.5
Income from Operations	(43.8)	(120.4)	(59.8)	(55.3)	34.9	130.8	219.8
Interest Income	0.0	0.0	0.2	0.4	0.6	1.0	1.4
Other Income (expense)	0.0	0.0	(7.8)	(1.0)	(1.0)	(1.0)	(1.0)
Interest Expense	(3.1)	(6.3)	(0.8)	0.0	0.0	0.0	0.0
Pretax Income	(46.9)	(126.7)	(68.2)	(55.9)	34.5	130.8	220.2
Foreign Exchange Loss	(0.0)	1.0	0.0	0.0	0.0	0.0	0.0
Bargain Purchase Gain	19.3	0.0	0.0	0.0	0.0	0.0	0.0
Income Tax Provision	0.0	(14.7)	0.0	0.0	2.8	19.6	66.0
<i>Tax rate</i>	0%	0%	0%	0%	8%	15%	30%
Net Income (loss)	(27.6)	(113.1)	(68.2)	(55.9)	31.8	111.2	154.1
GAAP EPS, Basic	(\$9.20)	(\$12.54)	(\$2.81)	(\$2.07)	\$1.11	\$3.83	\$4.97
Weighted Average Shares Outstand	3.0	9.0	24.2	27.0	28.5	29.0	31.0

Source: Cowen and Company

Positives

1. Horizon has two products approved, one in the U.S. and one in the E.U. Both products should be fully launched in the U.S. by the end of 2012, with DUEXIS being launched initially in 4Q11. Both of these programs provide near-term revenue generation for Horizon.
2. DUEXIS currently has two U.S. patent allowances and more are expected. The patents have an expiry of 2026. We expect additional patents surrounding use and formulation to be issued, thereby creating a strong patent estate.
3. DUEXIS and RAYOS (LODOTRA) both have strong differentiating characteristics that distinguish them from the competitive landscape. These are the key to grabbing the attention of doctors and thereby increasing market share and formulary penetration.
4. Horizon has a strong management team that distinguishes itself by having worked on developing and launching NSAIDS for most of their careers. We believe this is key to the overall successful launch of the products and therefore the success of Horizon.

Negatives

1. The NSAID market is very crowded with many players with varied pros and cons. It will take a very strong and dedicated sales force to make the needed penetration into the top prescribers to make DUEXIS and RAYOS (LODOTRA) profitable.
2. While we believe Horizon has a strong pricing strategy with regard to DUEXIS, there are many large pharmaceutical companies that market other NSAIDS and they can weather a price-cutting war if one were to ensue. Also, the rebate programs may need to last longer than expected, thereby cutting into the revenue projections for DUEXIS.
3. Horizon is currently involved in the patent infringement litigation with Par Pharmaceutical with regard to DUEXIS. Although we are confident in Horizon defending their patent rights, the litigation inevitably brings uncertainties.

Addendum

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Ticker	Company Name
HZNP	Horizon Pharma

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(a) Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period.

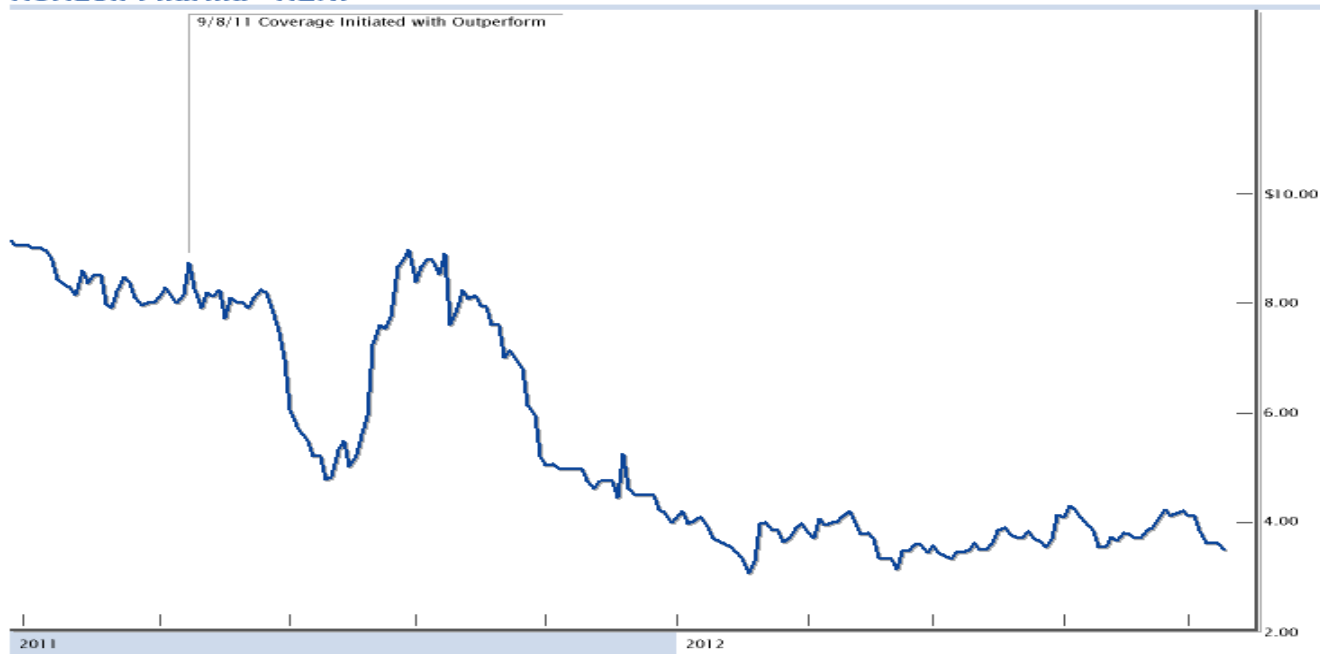
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Hold (c)	44.2%	1.2%
Sell (d)	2.7%	0.0%

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Horizon Pharma - HZNP



Pricing data provided by Reuters America. Chart as of 5/9/12 in USD.