# Horizon Pharma, Inc. [1,3]

Diligence Highlights Commercial Progress, Potential Duexis Competitive Advantage

## MARKET OUTPERFORM HZNP $7.36

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| | |
|---|---|
| Price | $7.36 |
| Target Price | $16.00 |
| 52-Wk Range | $4.53 - $9.34 |
| Shares Out. (M) | 19.1 |
| Market Cap. (M) | $140.8 |
| Average Daily Vol. (000) | 41 |
| Float (M) | $6.7 |
| LT Debt (M) | $10.4 |
| Cash (M) | $51.8 |
| Enterprise Value (M) | $99.4 |
| Cash/Share | $2.71 |

| FY Dec | | 2010A | 2011E | 2012E |
|---|---|---|---|---|
| Revenue (M) | 1Q | -- | $1.8A | $6.5 |
| | 2Q | -- | $1.3A | $10.5 |
| | 3Q | -- | $0.5 | $14.8 |
| | 4Q | -- | $1.1 | $18.3 |
| | **FY** | **$4.7** | **$4.7** | **$50.1** |
| | | **2010A** | **2011E** | **2012E** |
| EPS | 1Q | -- | ($5.13)A | ($0.62) |
| | 2Q | -- | ($7.78)A | ($0.40) |
| | 3Q | -- | ($0.63) | ($0.23) |
| | 4Q | -- | ($0.73) | ($0.06) |
| | **FY** | **($8.91)** | **($4.40)** | **($1.25)** |
| | P/E | NM | NM | NM |
| | Previous FY | -- | NC | NC |
| | **CY** | **($8.91)** | **($4.40)** | **($1.25)** |
| | PE | NM | NM | NM |

*NC indicates no change to previous estimate. NE indicates no previous estimate.*
*Source: Company reports and JMP Securities*

## INVESTMENT HIGHLIGHTS

- **KOL and management diligence provides enhanced conviction on our outlook for Duexis' imminent launch; reiterate Market Outperform rating and a $16 price target for Horizon.** We recently had an opportunity to meet with Horizon's management and are conducting ongoing diligence with physician thought leaders. As a result, we have incrementally increased visibility on the near-term launch of Duexis in the U.S., expected this quarter. The company has hired the Duexis sales force of 80 reps, and approximately 60 of those reps have been fully trained. We maintain our expectation for a solid launch from Duexis given management's marketing experience and feedback from physicians suggesting the product is likely to be well received based on its clinical value. Our $16 price target is derived from 4x our estimated U.S. revenues and 7x estimated E.U. royalties for Duexis and Lodotra in 2017 with a discount rate of 30%.
- **Duexis' value proposition is multifaceted and backed by strong execution to date.** In our view, Duexis is a product offering bringing unique value to the pain management space. The product has much needed safety advantages lacking from the majority of the highly-prescribed NSAID class. While Duexis' clinical advantages would be theoretically achieved by multiple individual pills (up to 16 daily), this prescribing behavior hasn't occurred in actual clinical practice due to a combination of prescribing and patient compliance habits. Duexis provides immediate NSAID relief (unlike competing NSAID/acid-blocker combination offerings) with three pills a day, lowering the burden on the patient's tolerance, memory, and patience.
- **Duexis' patent position increasingly robust.** In addition, our continued diligence with legal experts supports our view on the increasingly robust Duexis patent estate, and we fully expect any ANDA challenges that may arise to be settled or fail in court. Earlier this month, Horizon announced the allowance of a key U.S. formulation patent for Duexis (Application #12/324808, "Stable Compositions of Famotidine and Ibuprofen", Pub. App. #20090142393), which our diligence suggests should be the more robust Duexis patent and provides protection until 2028. The company also received an allowance for a method-of-use patent in September (Application #11/779,204, "Methods and Medicaments for Administration of Ibuprofen", Pub. App. #20080063706), providing protection until 2026. Tables provided by Horizon that describe the allowed and pending IP for Duexis are shown in Figures 1 and 2.

**FIGURE 1: Duexis Patent Estate**

| Subject Matter | Publication No. | Territory | Key Claims | Patent Term |
|---|---|---|---|---|
| Admixture | WO07012019 | All Major Markets | - Dosage Form with 800 mg Ibuprofen / 26.6 mg Famotidine<br>- TID Administration<br>- Prevention of Ibuprofen-induced Ulcers with Dosage Form | 2026 |
| Separate Compartments | WO08011426 | All Major Markets | - Dosage Form Architecture<br>- Barrier Layer Prevents Famotidine Degradation<br>- Prevention of Ibuprofen-induced Ulcers with Dosage Form | 2026 |
| Unit Dose I | US080021078 | US | - Dosage Form Architecture<br>- Barrier Layer and Ibuprofen Surrounds Famotidine<br>- Prevention of Ibuprofen-induced Ulcers with Dosage Form | 2026 |

*Source: Company reports*

**FIGURE 2: Additional Duexis Patents**

| Subject Matter | Publication No. | Territory | Key Claims | Patent Term |
|---|---|---|---|---|
| Unit Dose II | US080020040 | US | - Dosage Form Architecture<br>- pH Independent Barrier Layer<br>- Prevention of Ibuprofen-induced Ulcers with Dosage Form | 2026 |
| Unit Dose III | US080063706<br>US090264484 | US | - Dosage Form Architecture<br>- Optimal Barrier Layer<br>- Prevention of Ibuprofen-induced Ulcers with Dosage Form | 2026 |
| Unit Dose IV | US090142393 | US | - Dosage Form Architecture<br>- Preventing "Work-arounds" | 2028 |
| Commercial Formulation | Not Yet Published | Worldwide | - Commercial Formulation<br>- Additional "Work-arounds" | 2031 |
| Phase 3 Study Results | Not Yet Published | Worldwide | - Treatment of RA<br>- Combination Therapies<br>- Patient Subgroups | 2031 |

*Source: Company reports*

## 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. Horizon had approximately $5.7MM in cash and equivalents at the end of 2Q11 and netted approximately $46MM from its July IPO that we believe will be sufficient to fund operations through 2011. We have projected a raise of ~56MM 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

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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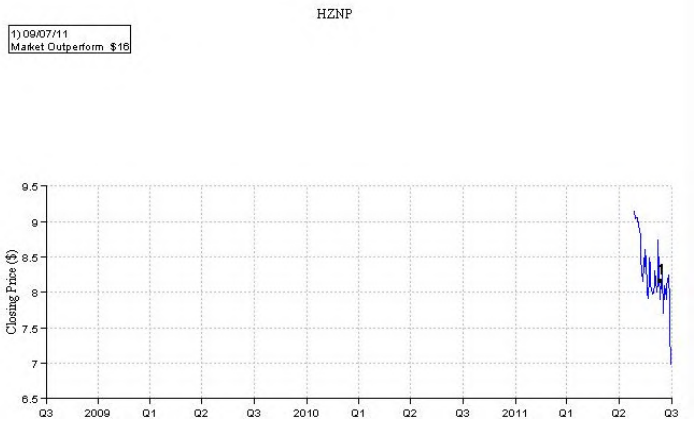
| JMP Rating | Regulatory Equivalent | # Co's Under Coverage | % *of Total* | Regulatory Rating | # Co's Under Coverage | % *of Total* | # Co's Receiving IB Services in Past 12 Months | *% of Co's With This Rating* |
|---|---|---|---|---|---|---|---|---|
| Market Outperform | Buy | 207 | *66%* | Buy | 207 | *66%* | 58 | *28%* |
| Market Perform | Hold | 105 | *33%* | Hold | 105 | *33%* | 7 | *7%* |
| Market Underperform | Sell | 3 | *1%* | Sell | 3 | *1%* | 0 | *0%* |
| TOTAL: | | 315 | *100%* | | 315 | *100%* | 65 | *21%* |

**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.

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