

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

## Good 3Q Progress Bodes Well for Duexis

### MARKET OUTPERFORM

**HZNP \$8.19**

**Charles C. Duncan, PhD**  
cduncan@jmpsecurities.com  
(212) 906-3510

**Jason N. Butler, PhD**  
jbutler@jmpsecurities.com  
(212) 906-3505

**Gena H. Wang, PhD**  
gwang@jmpsecurities.com  
(212) 906-3528

**Roy Buchanan, PhD**  
rbuchanan@jmpsecurities.com  
(212) 906-3514

Price	\$8.19	FY Dec		2010A	2011E	2012E
Target Price	\$16.00	Revenue (M)	1Q	--	\$1.8A	\$6.5
52-Wk Range	\$4.53 - \$9.34		2Q	--	\$1.3A	\$10.5
Shares Out. (M)	19.1		3Q	--	\$0.3A	\$14.8
Market Cap. (M)	\$156.8		4Q	--	\$1.1	\$18.3
Average Daily Vol. (000)	8		FY	\$4.5	\$4.5	\$50.1
Float (M)	\$6.7			2010A	2011E	2012E
LT Debt (M)	\$17.5	EPS	1Q	--	(\$5.13)A	(\$0.87)
Cash (M)	\$33.0		2Q	--	(\$7.78)A	(\$0.53)
Enterprise Value (M)	\$141.3		3Q	--	(\$1.30)A	(\$0.29)
Cash/Share	\$1.72		4Q	--	(\$1.04)	(\$0.07)
			FY	(\$8.91)	(\$6.83)	(\$1.65)
			P/E	NM	NM	NM
		Previous FY	--	(\$4.40)	(\$1.25)	
			CY	(\$8.91)	(\$6.83)	(\$1.65)
			PE	NM	NM	NM

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

Source: Company reports and JMP Securities

### INVESTMENT HIGHLIGHTS

- **Adequate financial performance in 3Q11, Duexis launch progressing on track; reiterate Market Outperform rating and \$16 price target.** Horizon reported 3Q11 earnings slightly below our and consensus expectations on both top and bottom lines, largely due to a one-time inventory write-down and increased expenses associated with Duexis commercialization. The company ended the quarter with \$33MM cash, which in our view could support operations into 3Q12. The Duexis launch is progressing well, with manufacturing approval received from the FDA this morning, in line with our expectation. We look forward to Duexis' commercial launch in 4Q11 and Lodotra approval in 2H12. We derive our \$16 price target from 4X estimated US revenues and 7X estimated EU royalties for Duexis and Lodotra in 2017 discounted back at 30%.
- **3Q11 financial performance.** Horizon reported \$0.3MM in revenues in 3Q11, lower than our estimate of \$0.5MM and consensus of \$1.1MM. The company reported COGS of \$1.2MM, higher than our estimate of \$0.3MM, primarily due to a one-time write down of Lodotra inventory. SG&A was \$9.3MM, higher than our estimated of \$6.8MM, largely due to increased costs for Duexis launch preparation. Horizon reported EPS of a (\$1.30) loss, lower than our estimate of (\$0.63) and consensus of (\$0.94), mainly due to higher net loss and lower share numbers. After the adjustment of non-cash and extraordinary expenses, Non-GAAP EPS was (\$1.18). We are adjusting our 2011 Non-GAAP EPS from (\$4.40) to (\$6.41) to reflect these changes.
- **Launches in near term may lead to profitability.** Horizon received FDA approval in April 2011 for lead product Duexis, a single tablet combination of the NSAID ibuprofen and the histamine H2-receptor antagonist famotidine. In our view, Duexis offers a unique value to the pain management space, in providing NSAID pain relief while lowering risk of developing upper gastrointestinal ulcers associated with NSAIDs. Partner Sanofi received manufacturing approval from the FDA for its Canadian manufacturing site and Horizon has secured initial orders from wholesalers and key pharmacy chains in anticipation of the 4Q launch, based on our diligence. Additionally, the company submitted an NDA for its pipeline candidate Lodotra in Sept 2011 with an anticipated approval in 2H12. In our view, recent progress could strengthen Horizon balance sheet and potentially bring profitability in near-term.

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

- **Duexis patent position increasingly robust.** In September and October 2011, Horizon received the allowance of two key Duexis patents to cover a method-of-use patent and a patent on stable compositions of famotidine and ibuprofen, respectively. In our view, these allowances add strength to the Duexis patent estate and will likely provide protection until 2026. We expect any ANDA challenges that may arise to be settled or fail in court.

**FIGURE 1: 3Q11 Actual Results vs. Estimates**

HZNP	3Q11			2011 est			2012 est		
	JMP est	Consensus	Actual	JMP old	JMP new	Consensus	JMP old	JMP new	Consensus
Revenue	0.5	1.1	0.3	4.7	4.5	6.5	50.1	50.1	51.6
COGS	0.3		1.2	4.9	5.9		15.5	15.5	
R&D	5.5		5.3	16.1	15.7		20.6	19.7	
SG&A	6.8		9.3	26.3	28.8		45.6	45.1	
Total operating expense	12.3		14.7	42.4	44.5		66.2	64.8	
Non-GAAP Net income (loss)	(12.1)	(18.2)	(15.6)	(45.4)	(47.2)	(56.8)	(28.4)	(27.4)	(48.0)
Shares outstanding (diluted)	19.1		13.3	10.3	7.4		22.7	16.6	
Non-GAAP EPS (diluted)	(\$0.63)	(\$0.94)	(\$1.18)	(\$4.40)	(\$6.41)	(\$4.89)	(\$1.25)	(\$1.65)	(\$2.26)

Source: JMP Securities, LLC and FactSet

## 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 \$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

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.

## JMP FACTS AND DISCLOSURES

### Analyst Certification:

The research analyst(s) who prepared this report does/do hereby certify that the views presented in this report are in accordance with my/our personal views on the securities and issuers discussed in this report. As mandated by SEC Regulation AC no part of my/our compensation was, is or will be directly or indirectly related to the specific views or recommendations expressed herein. This certification is made under the obligations set forth in SEC Regulation AC. Any other person or entity may not use it for any other purpose. This certification is made based on my/our analysis on the date of this report's publication. I/We assume no obligation to update this certification to reflect any facts, circumstances or events that may subsequently come to my/our attention. Signed Charles C. Duncan, PhD, Jason N. Butler, PhD, Gena H. Wang, PhD, Roy Buchanan, PhD

### Publicly Traded Companies Covered by JMP and Mentioned in This Report (as of November 14, 2011):

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

### JMP Securities Disclosure Definitions:

(1) JMP Securities currently makes a market in this security. (2) JMP Securities has received compensation for banking or other services rendered to this company in the past 12 months. (3) JMP Securities was manager or co-manager of a public offering for this company in the past 12 months. (4) JMP Securities participated as an underwriting or selling group member of a public offering by this company in the past 12 months. (5) JMP Securities and/or its affiliates have obtained a position of at least 1% in the equity securities of this company during the ordinary course of its/their business/investments. (6) An officer of JMP Securities is a director or officer of this company. (7) The analyst covering this company (as defined in NASD Rule 2711) or a member of the analyst's household has a financial interest in this company. (8) The analyst covering this company or a member of the analyst's household serves as an officer, director, or advisory board member of this company. (9) The analyst covering this company has had discussions of employment with the company.

### JMP Securities Investment Opinion Definitions:

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

Market Perform (MP): JMP Securities expects the stock price to perform in line with relevant market indices over the next 12 months.

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 October 3, 2011)

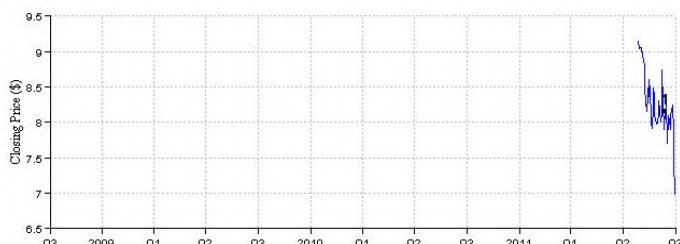
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Rating	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
Market Outperform	Buy	207	66%	Buy	207	66%	58	28%
Market Perform	Hold	105	33%	Hold	105	33%	7	7%
Market Underperform	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.

1) 09/07/11  
Market Outperform \$10

HZNP



### JMP Disclaimer:

JMP Securities LLC (the "Firm") compensates research analysts, like other Firm employees, based on the Firm's profitability, which includes revenues from the Firm's institutional sales, trading, and investment banking departments as well as on the quality of the services and activities performed that are intended to benefit the Firm's institutional clients. These data have been prepared by JMP Securities LLC for informational purposes only and are based on information available to the public from sources that we believe to be reliable, but we do not guarantee their accuracy or completeness. Any opinions and projections expressed herein reflect our judgment at this date and are subject to change without notice. These data are neither intended nor should be considered as an offer to sell or a solicitation or a basis for any contract for the purchase of any security or other financial product. JMP Securities LLC, its affiliates, JMP Group LLC, Harvest Capital Strategies LLC, and their respective partners, directors, officers, and associates may have a long or short position in, may act as a market maker for, or may purchase or sell a position in the securities mentioned herein. JMP Securities LLC or its affiliates may be performing, have performed, or seek to perform investment banking, advisory, or other services and may have acted as manager or co-manager for a public offering of securities for any company mentioned herein. The reader should assume that JMP Securities LLC will solicit business from the company covered in this report. Members of our Sales and Trading Department provide oral and/or written market opinions and trading strategies to our clients that reflect their personal opinions about stocks that are the subject of the firm's research reports. Our research analysts discuss trading strategies with clients and complete surveys from clients that sometimes reflect short-term expectations for the price of the securities that are the subject of research reports. Those trading strategies and survey responses are distinct from the analysts' fundamental rating for the stock, which is based upon the analysts' view compared to other stocks under coverage for the relevant time period. © Copyright 2011. All rights reserved by JMP Securities LLC. JMP Securities LLC is a member of FINRA, NYSE Arca, NASDAQ, and SIPC.



## JMP SECURITIES LLC

600 Montgomery Street, Suite 1100, San Francisco, CA 94111-2713, [www.jmpsecurities.com](http://www.jmpsecurities.com)

**Peter V. Coleman**  
Director of Equity Research  
(415) 869-4455

---

### Financial Services

#### Capital Markets

David Trone	(212) 906-3525
Steven Fu, CFA	(212) 906-3548
Chris Ross, CFA	(212) 906-3532

#### Consumer & Specialty Finance, Commercial Banks

John Hecht	(415) 835-3912
Kyle M. Joseph	(415) 835-3940

#### Financial Processing & Outsourcing

David M. Scharf	(415) 835-8942
-----------------	----------------

Kevane A. Wong	(415) 835-8976
----------------	----------------

#### Insurance

Matthew J. Carletti	(312) 768-1784
Christine Worley	(312) 768-1786

#### Market Structure

David M. Scharf	(415) 835-8942
-----------------	----------------

Kevane A. Wong	(415) 835-8976
----------------	----------------

#### Residential & Commercial Real Estate Finance

Steven C. DeLaney	(404) 848-7773
Trevor Cranston, CFA	(415) 869-4431

Trevor Cranston, CFA	(415) 869-4431
----------------------	----------------

### Healthcare

#### Biotechnology

Charles C. Duncan, PhD	(212) 906-3510
Roy Buchanan, PhD	(212) 906-3514
Jason N. Butler, PhD	(212) 906-3505
Gena H. Wang, PhD	(212) 906-3528

Liisa A. Bayko	(312) 768-1785
Heather Behanna, PhD	(312) 768-1795

Jason N. Butler, PhD	(212) 906-3505
----------------------	----------------

#### Healthcare Facilities & Services

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963

#### Healthcare Services

Constantine Davides, CFA	(617) 235-8502
Tim McDonough	(617) 235-8504

#### Medical Devices

J. T. Haresco, III, PhD	(415) 869-4477
-------------------------	----------------

### Real Estate

#### Hotels & Resorts

William C. Marks	(415) 835-8944
------------------	----------------

#### Housing & Housing Supply Chain

Michael G. Smith	(415) 835-8965
------------------	----------------

#### Land Development

Michael G. Smith	(415) 835-8965
------------------	----------------

#### Real Estate & Property Services

William C. Marks	(415) 835-8944
------------------	----------------

#### Real Estate Technology

Michael G. Smith	(415) 835-8965
------------------	----------------

#### REITs: Healthcare

Peter L. Martin, CFA	(415) 835-8904
Aaron Hecht	(415) 835-3963

#### REITs: Office & Industrial

Mitch Germain	(212) 906-3546
---------------	----------------

### Technology

#### Clean Technology

Alex Gauna	(415) 835-8998
------------	----------------

#### Communications Equipment

Erik Suppiger	(415) 835-3918
---------------	----------------

#### Semiconductors

Alex Gauna	(415) 835-8998
Matt Danziger	(415) 869-4454

#### Software

Patrick Walravens	(415) 835-8943
Greg McDowell	(415) 835-3934
Peter Lowry	(415) 869-4418

Greg McDowell	(415) 835-3934
---------------	----------------

---

### For Additional Information

Mark Lehmann  
President, JMP Securities  
(415) 835-3908

Erin Seidemann  
Vice President, Publishing  
(415) 835-3970