

Emerging Company Research

Horizon Pharma — Outperform (1)

3Q11 Financials: Duexis Launch in T Minus Three Weeks

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Summary: Horizon Pharma reported 3Q11 financials this morning. While the financials were business as usual, the real focus is on the near-term launch of Duexis in the U.S. We believe Duexis will successfully grab market share from both Vimovio as well as Celebrex. We are confident that the management team has in place a strong sales and marketing effort and that the reimbursement strategy has been well thought out.

- **As Duexis approaches its U.S. launch date all is a "go" on the sales and marketing front.** Horizon has in place its initial 75 sales reps and management structure necessary for a strong initial launch of Duexis. The company still intends on hiring an additional 75 reps throughout 2012 to buttress the Duexis launch and to aid in the LODOTRA launch as well. We expect SG&A to climb and R&D to fall off as Horizon transforms itself into a commercial entity.
- **The FDA has approved the Sanofi-Aventis manufacturing facility in Canada.** Horizon also announced today that the FDA has checked off on the manufacturing facility in Canada that will be producing commercial supply of Duexis. Additionally, Horizon has secured Cardinal as its third party logistics distribution partner and initial orders have been secured from wholesalers and pharmacy chains.
- **Current cash position is sufficient to get the launch underway, but as guided additional capital will be required.** Horizon ended 3Q11 with approximately \$33 million in cash and cash equivalents. As guided during the IPO roadshow, the company will need to raise additional capital in 2Q12 to continue to fund marketing efforts for Duexis and for the initial ramp-up of expected LODOTRA sales.

HZNP (11/11)	\$8.19	Revenue \$MM						
Mkt cap	\$108.9MM	FY	2010	2011E	2012E	2013E	2014E	
		Dec	Actual	Prior	Current	Prior	Current	Current
Dil shares out	13.3MM	Q1	0.0	—	0.0A	—	7.5	—
Avg daily vol	0.2K	Q2	0.0	—	1.3A	—	9.6	—
52-wk range	\$4.5-9.3	Q3	0.0	—	0.3A	—	13.4	—
Dividend	Nil	Q4	0.0	—	3.4	—	20.2	—
Dividend yield	Nil	Year	0.0	—	7.3	—	51.1	142.9
BV/sh	NA	CY	—	—	—	—	—	—
Net cash/sh	\$2.48	EV/S	—	—	20.1x	—	2.9x	1.0x
Debt/cap	NA							0.6x
ROA (LTM)	NA							
5-yr fwd EPS growth (Norm)	NA							
		EPS \$	2010	2011E	2012E	2013E	2014E	
		Dec	Actual	Prior	Current	Prior	Current	Current
		Q1	0.00	—	(2.33)A	(0.98)	(1.10)	—
		Q2	0.00	—	(7.78)A	(0.69)	(0.55)	—
		Q3	0.00	—	(1.30)A	(0.50)	(0.52)	—
		Q4	0.00	(1.13)	(1.26)	(0.32)	(0.58)	—
S&P 500	1256.5	Year	(9.20)	(5.82)	(4.82)	(2.47)	(2.36)	(0.24)
		CY	—	—	—	—	—	—
		P/E	—	—	—	—	—	3.3x

Horizon Pharma Revenue Build-Up Model

	2011E	2012E	2013E	2014E	2015E	2016E
Duexis (ibuprofen/famotidine)						
U.S. Population that regularly uses NSAIDS (MM)	60.0	60.0	60.0	60.0	60.0	60.0
U.S. Population >65 years of age (MM)	39.6	39.6	39.6	41.0	41.0	41.0
U.S. Population >65 years of age with gastric erosion related to NSAIDS (50%) (MM)	19.8	19.8	19.8	20.5	20.5	20.5
Percentage of NSAID users who concomitantly take a PPI (29%)* (MM)	17.4	17.4	17.4	17.4	17.4	17.4
Available patient population for Duexis (MM)	17.4	17.4	17.4	17.4	17.4	17.4
Average number of days used per year (avg. 5/wk)	260.0	260.0	260.0	260.0	260.0	260.0
Market penetration by Horizon for Duexis	0.01%	0.20%	0.56%	0.80%	0.95%	1.10%
AWP per patient per day	4.5	4.6	4.8	4.9	5.1	5.2
Total Revenue for Duexis pre-rebate	2.0	41.9	119.9	178.0	217.7	259.6
Co-pay coupons and rebates absorbed by Horizon for Duexis	0.38	7.54	20.92	30.16	35.82	41.47
Revenue booked by Horizon for U.S. market of Duexis (MM)	2.0	41.9	119.9	178.0	217.7	259.6
Prevalence of NSAID use in ROW in ROW (MM)	-	17.4	17.4	17.4	17.4	17.4
Market penetration	-	0.0%	0.2%	0.4%	0.5%	0.6%
AWP per patient per dose	-	8.0	8.0	8.0	8.0	8.0
Average number of days used per year (avg. 5/wk)	-	260.0	260.0	260.0	260.0	260.0
Total annual revenue for Duexis in ROW (MM)	-	3.6	72.4	144.8	181.0	217.2
Royalty paid back to Horizon (10%) (MM)	-	0.4	7.2	14.5	18.1	21.7
Total WW revenue and royalties to Horizon for Duexis (MM)	2.0	42.3	127.1	192.4	235.8	281.3
Lodotra (modified release version of prednisone) for RA						
Prevalence of Rheumatoid Arthritis (RA), U.S. (MM)	-	3.2	3.2	3.2	3.2	3.2
Patients diagnosed with RA (58%)	-	1.9	1.9	1.9	1.9	1.9
Diagnosed RA Patients that undergo treatment (93%)	-	1.7	1.7	1.7	1.7	1.7
Patients with RA who take prednisone chronically (25%) (MM)	-	0.43	0.43	0.43	0.43	0.43
AWP per patient (\$6/tab)	-	1,446.0	1,446.0	1,446.0	1,446.0	1,446.0
Penetration of Market By Lodotra	-	0.3%	2.5%	8.0%	12.0%	17.0%
Total annual revenue for RA in U.S. (MM)	-	1.9	15.6	49.9	74.9	106.1
Prevalence of RA in ROW (MM)	-	-	2.0	2.0	2.0	2.0
Patients with RA who take prednisone chronically (25%) (MM)	-	-	0.2	0.2	0.2	0.2
AWP per patient (\$5/tab)	-	-	1,205	1,205	1,205	1,205
Penetration of Market By Lodotra	-	-	1%	3%	5%	7%
Total annual revenue for RA in ROW (MM)	-	-	2.4	7.2	12.1	16.9
Royalty paid back to Horizon (10%) (MM)	-	-	0.2	0.7	1.2	1.7
Total WW revenue and royalties to Horizon for RA (MM)	-	1.87	15.8	50.6	76.1	107.8
Total WW product revenue and royalties to Horizon (MM)	2.0	44.2	142.9	243.1	311.9	389.1

Source: Cowen and Company

Horizon Pharma Quarterly P&L Model

	2010A	Q1:11A	Q2:11A	Q3:11A	Q4:11E	2011E	Q1:12E	Q2:12E	Q3:12E	Q4:12E	2012E
Duexis	0.0	0.0	0.0	0.0	2.0	2.0	6.0	8.0	11.0	16.9	41.9
% Growth (y/y)	-	-	-	-	-	-	-	-	-	-	-
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	0.0	1.3	0.2	1.4	4.1	1.5	1.6	1.8	2.0	6.9
Total Product Revenues	0.0	0.0	0.0	0.0	2.0	2.0	6.0	8.0	11.6	18.2	43.8
Total Royalty Revenues	0.0	0.0	1.3	0.2	1.4	4.1	1.5	1.6	1.8	2.0	7.3
Duexis License Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lodotra License Fees	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Milestone Payments	0.0	1.2	0.0	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0
Total Revenues	2.4	1.2	1.3	0.3	3.4	7.3	7.5	9.6	13.4	20.2	51.1
COGS	4.3	0.9	2.1	1.2	1.6	7.2	1.9	2.4	3.4	5.1	12.8
COGS as a percent of revenue	-	-	-	-	-	-	25%	25%	25%	25%	25%
R&D	17.7	2.3	3.5	5.3	4.4	15.5	3.8	4.0	4.0	4.2	16.0
Sales (including sales rebates)	5.6	0.6	1.2	5.1	8.1	15.0	8.6	9.5	12.0	19.0	49.1
General & Administrative	18.6	2.9	3.3	4.2	4.6	15.0	4.8	5.0	5.3	5.9	21.0
Total Operating Expenses:	46.2	6.7	10.1	15.9	18.6	52.7	19.1	20.9	24.7	34.2	98.9
Income from Operations	(43.8)	(5.5)	(8.8)	(15.7)	(15.2)	(45.4)	(11.6)	(11.3)	(11.3)	(14.0)	(47.8)
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	(0.8)	(0.9)	(3.6)	(2.8)	(2.2)	(1.8)	(1.0)	(7.8)
Interest Expense	(3.1)	(0.6)	(3.2)	(1.0)	(0.8)	(5.2)	(0.5)	(0.3)	0.0	0.0	(0.8)
Pretax Income	(46.9)	(7.0)	(12.0)	(17.4)	(16.9)	(54.2)	(14.9)	(13.8)	(13.1)	(14.8)	(56.2)
Foreign Exchange Loss	(0.0)	0.0	0.1	0.0	0.0	0.0	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	0.0	0.0	0.0	0.0
Income Tax Provision	0.0	0.0	0.2	(0.2)	0.0	0.0	0.0	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)	(7.0)	11.7	(17.2)	(16.9)	(64.6)	(14.9)	(13.8)	(13.1)	(14.8)	(56.2)
GAAP EPS, Basic	(\$9.20)	(\$2.33)	(\$7.78)	(\$1.30)	(\$1.26)	(\$4.82)	(\$1.10)	(\$0.55)	(\$0.52)	(\$0.58)	(\$2.36)
Weighted Average Shares Outstanding	3.0	3.0	1.5	13.3	13.4	13.4	13.5	25.0	25.3	25.4	23.8

Source: Cowen and Company

Horizon Pharma Annual P&L Model

	2010A	2011E	2012E	2013E	2014E	2015E	2016E
Duexis	0.0	2.0	41.9	119.9	178.0	217.7	259.6
% Growth (y/y)	-	-	-	186%	48%	22%	19%
Lodotra	0.0	0.0	1.9	15.6	49.9	74.9	106.1
Duexis Royalty	0.0	0.0	0.4	7.2	14.5	18.1	21.7
Lodotra Royalty	0.0	4.1	6.9	0.2	0.7	1.2	1.7
Total Product Revenues	0.0	2.0	43.8	135.5	227.9	292.6	365.7
Total Royalty Revenues	0.0	4.1	7.3	7.5	15.2	19.3	23.4
Duexis License Fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lodotra License Fees	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Milestone Payments	0.0	1.2	0.0	0.0	0.0	0.0	0.0
Total Revenues	2.4	7.3	51.1	142.9	243.1	311.9	389.1
COGS	4.3	7.2	12.8	28.6	36.5	46.8	58.4
COGS as a percent of revenue	-	-	25%	20%	15%	15%	15%
R&D	17.7	15.5	16.0	20.0	21.0	23.0	25.0
Sales (including sales rebates)	5.6	15.0	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
Total Operating Expenses:	46.2	52.7	98.9	148.9	164.7	180.2	197.9
Income from Operations	(43.8)	(45.4)	(47.8)	(5.9)	78.4	131.7	191.2
Interest Income	0.0	0.0	0.2	0.4	0.6	1.0	1.4
Other Income (expense)	0.0	(3.6)	(7.8)	(1.0)	(1.0)	(1.0)	(1.0)
Interest Expense	(3.1)	(5.2)	(0.8)	0.0	0.0	0.0	0.0
Pretax Income	(46.9)	(54.2)	(56.2)	(6.5)	78.0	131.7	191.6
Foreign Exchange Loss	(0.0)	0.0	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	0.0	0.0	0.0	6.2	19.8	57.5
<i>Tax rate</i>	0%	0%	0%	0%	8%	15%	30%
Net Income (loss)	(27.6)	(64.6)	(56.2)	(6.5)	71.8	111.9	134.1
GAAP EPS, Basic	(\$9.20)	(\$4.82)	(\$2.36)	(\$0.24)	\$2.52	\$3.86	\$4.33
Weighted Average Shares Outstanding	3.0	13.4	23.8	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 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. Cash is a strong focal point currently for the company, as more funding will be required in 2Q12 to hire the additional 75 sales reps needed to reach the company's financial projections as well as ours.
2. 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 LODOTRA profitable.
3. 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.

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.

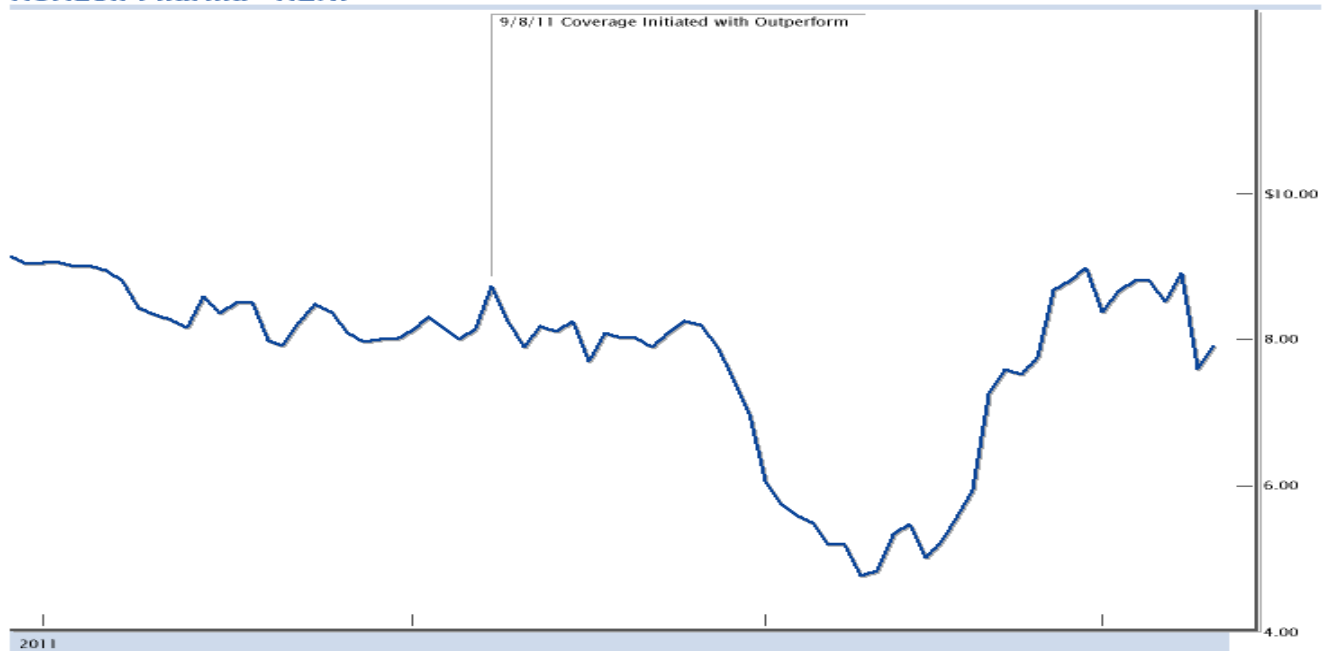
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Hold (c)	46.4%	2.3%
Sell (d)	2.3%	0.0%

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Horizon Pharma - HZNP



Pricing data provided by Reuters America. Chart as of 11/10/11 in USD.