



Horizon Pharma, Inc. ^(1,2,3)

Duexis Commercial Deals Turn Eyes Toward Possible Rayos Regulatory News

MARKET OUTPERFORM

HZNP \$6.85

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Price	\$6.85	FY Dec		2011A	2012E	2013E
Target Price	\$16.00	Revenue (M)	1Q	\$1.8	\$2.5A	\$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)	\$229		4Q	\$3.5	\$12.6	\$40.0
Average Daily Vol. (000)	1.14		FY	\$6.9	\$25.2	\$116.8
Float (M)	33			2011A	2012E	2013E
LT Debt (M)	50.4	EPS	1Q	(\$5.13)	(\$0.85)A	(\$0.48)
Cash (M)	80.4		2Q	(\$7.78)	(\$0.83)	(\$0.28)
Enterprise Value (M)	\$199.5		3Q	(\$1.18)	(\$0.82)	(\$0.08)
Cash/Share	\$2.40		4Q	(\$0.97)	(\$0.64)	\$0.12
			FY	(\$5.38)	(\$3.15)	(\$0.72)
			P/E	NM	NM	NM
		Previous FY		--	NC	NC
		CY		(\$5.38)	(\$3.15)	(\$0.72)
		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

- Covidien deal a smart move for Duexis, increasing Rayos visibility on the near-term horizon; reiterate Market Outperform rating and \$16 price target on Horizon Pharma.** We are encouraged by the recent announcement that Horizon has entered a co-promote for Duexis with Covidien (COV, Not Covered), intended to focus on high-prescribing primary care physicians. As the deal is in addition to the doubling of the sales force planned for 2H12, we expect Duexis sales to benefit from these awareness-driving efforts. Our diligence suggests the sales force hiring is going well, with recent adds and "upgrades." In addition, we believe the recent Covidien deal was done, in part, to "make room" for Horizon's sales force to give more attention to Rayos, for which we anticipate approval on its July 27th PDUFA date. We continue to derive our \$16 price target from 4x estimated U.S. revenues and 7x estimated EU royalties for Duexis and Rayos in 2017, discounted at 20% (30% for Duexis in the EU and Rayos in the U.S.).
- Validation from an experienced pain drug marketer.** We view the deal with Covidien as validation from both Horizon and Covidien for Duexis' outlook. Covidien markets a number of high-value pain medications, including Zalicus' Exalgo (ZLCS, Market Outperform, \$5 PT) and multiple (e.g., hydrocodone, hydromorphone, fentanyl, etc.) generics. Covidien is "paid for performance" on Duexis sales. Though the details of the deal were not released, Covidien's pharma division (Mallinckrodt) sees this commercial arrangement as one way to justify the spin-out of its pharma division.
- Rayos starting to hit investors' radars.** While the argument can be made for attempting to create Duexis from generic components, the same cannot be said for Rayos. While Rayos is a reformulation of generic prednisone, it is the novel delayed release that is the basis for Rayos' clinical advantage. Recall that Rayos (dosed once at bedtime) demonstrated not only strong ACR20, 50, and 70 scores, but also a significant improvement in morning stiffness duration in pivotal testing vs. immediate release prednisone (dosed once upon waking) in rheumatoid arthritis (RA) patients. We believe that Rayos' ability to make patients "feel better" while also having potential for modifying the course of certain inflammatory diseases with a focus first on RA, is what will drive use and reimbursement of the drug once it is approved. This is different to the "asymptomatic" situation with early stage ulceration of the GI tract that can occur on ibuprofen use (the clinical utility of Duexis). Following approval, we believe that Rayos may be utilized for conditions outside RA that present with morning stiffness, such as ankylosing spondylitis,

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polymyalgia rheumatic (PMR) or chronic obstructive pulmonary disease (COPD), for example. Mundipharma is expected to start a Phase III study in PMR in 2H12 and an investigator-sponsored Phase II is currently underway for this indication. We have not included these indications in our model as yet, pending Rayos' approval and additional clarity on the marketing outlook; however, we believe that at least some of the recent share price appreciation may be due to investor optimism on the outlook for Rayos. Our initial model of these conditions suggests a total opportunity possibly 3x that in RA alone.

- **Valuation remains compelling, with near-term milestones to potentially fuel appreciation.** A relative valuation examining EV/sales ratios for a comparable group of companies vs. Horizon, suggests that HZNP shares may be undervalued when considering the mid-term growth outlook (Figure 1). Our absolute valuation remains the same, a multiple of sales of Duexis and Lodotra/Rayos in both the U.S. and EU in 2017 (Figure 2). However, note that this valuation is largely made up of projected Duexis sales, ~75% Duexis and 20% Lodotra/Rayos. An approval of Rayos in the U.S. on July 27th and additional visibility on its market opportunity may lead us to re-examine our valuation in light of this discrepancy. Additional near-term catalysts for Horizon shares may be ex-U.S. approvals for Duexis (MAA approval in 2H12 and possibly in Latin America), sales and marketing metrics for Duexis in the U.S. (such as coverage wins, % Tier 3, and sales visits per doctor, for example), and indication expansion plans for Rayos following its approval such as progress with the investigator sponsored trial.

FIGURE 1: Relative Value Comparison

		Price	Mkt Cap (\$MM)	EV (\$MM)	FY Sales				Growth FY11-FY14	EV/Sales		
					2011A	2012E	2013E	2014E		2012E	2013E	2014E
AVANIR PHARMACEUTICALS, INC.	AVNR-US	\$3.83	521	441	10	43	79	142	275.1%	10.3	5.6	3.1
BIODELIVERY SCIENCES INTERNAT	BDSI-US	\$4.43	128	117	4	54	18	28	176.2%	2.2	6.6	4.2
POZEN INC.	POZN-US	\$6.32	189	69	87	10	36	32	-39.2%	6.7	1.9	2.2
ZALICUS INC.	ZLCS-US	\$1.19	140	111	8	11	21	16	40.1%	10.4	5.3	6.8
CADENCE PHARMACEUTICALS, INC	CADX-US	\$3.51	305	206	17	49	100	186	230.6%	4.2	2.1	1.1
HORIZON PHARMA, INC.	HZNP-US	\$6.85	214	215	6	33	98	174	439.6%	6.6	2.2	1.2
Mean									136.6%	6.8	4.3	3.5
Median									176.2%	6.7	5.3	3.1
HZNP Shares if trading at group (ex-HZNP) mean										\$ 7.05	\$ 13.36	\$ 19.23
HZNP Shares if trading at group (ex-HZNP) median										\$ 6.99	\$ 16.51	\$ 17.20

Source: JMP Securities LLC, Thomson Reuters

FIGURE 2: Absolute Valuation

	Revenues	Peak penetration	Sales year	Multiple	Discount rate	Years to discount	Value (\$MM)	Value per share
Duexis								
US	221.4	2.0%	2017	4	20%	5	355.8	\$13.00
EU	12.2	1.6%	2017	7	30%	5	23.0	
Lodotra								
US	77.2	8.5%	2017	4	30%	5	83.2	\$3.64
EU	8.1	8.5%	2017	7	20%	5	22.8	
Cash (YE12)							23.9	\$0.82
Fully Diluted Shares							29.1	
Valuation								\$17.47

Source: JMP Securities LLC, Thomson Reuters

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 (Rayos) 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 Rayos. 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.	(1,2,3)

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

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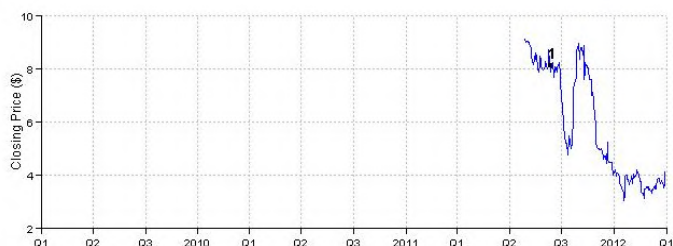
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Rating	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
Market Outperform	Buy	225	63%	Buy	225	63%	40	18%
Market Perform	Hold	127	35%	Hold	127	35%	16	13%
Market Underperform	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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