

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

4Q11 Bodes Well for '12 With All Eyes on Duexiis, but Don't Overlook Lodotra

MARKET OUTPERFORM

HZNP \$3.67

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Price	\$3.67	FY Dec		2011A	2012E	2013E
Target Price	\$16.00	Revenue (M)	1Q	\$1.8	\$1.7	\$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)	\$123		4Q	\$3.5	\$12.6	\$40.0
Average Daily Vol. (000)	0.04		FY	\$6.9	\$24.3	\$116.8
Float (M)	19					
				2011A	2012E	2013E
LT Debt (M)	40.754	EPS	1Q	(\$5.13)	(\$0.66)	(\$0.47)
Cash (M)	82.5		2Q	(\$7.78)	(\$0.72)	(\$0.33)
Enterprise Value (M)	\$79.5		3Q	(\$1.30)	(\$0.72)	(\$0.19)
Cash/Share	2.46		4Q	(\$3.92)	(\$0.59)	(\$0.05)
			FY	(\$12.56)	(\$2.68)	(\$1.03)
			P/E	NM	NM	NM
		Previous FY		(\$7.37)	(\$2.80)	(\$0.84)
		CY		(\$12.56)	(\$2.68)	(\$1.03)
		PE		NM	NM	NM

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

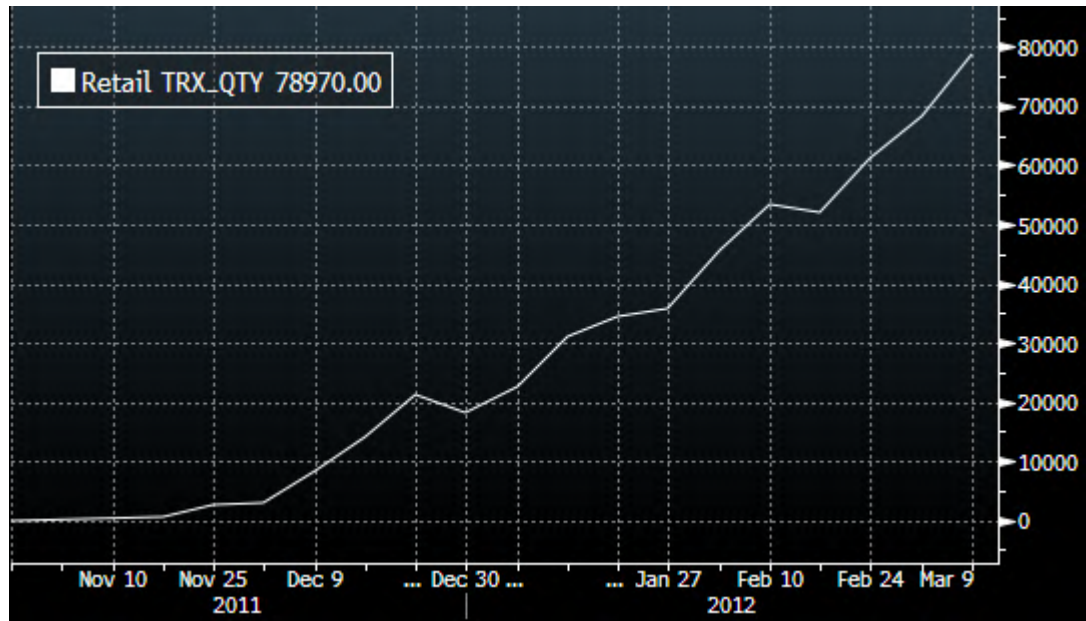
Source: Company reports and JMP Securities

INVESTMENT HIGHLIGHTS

- Horizon reports 4Q11 earnings; reiterate Market Outperform rating and \$16 price target on Horizon Pharma.** Horizon reported 4Q11 earnings essentially in line with our and the Street's expectations. Importantly, the company reported pro forma cash of \$82.5MM as of March 16th, which we model as sufficient through YE12. Encouragingly, Lodotra sales well above our projections, possibly signaling more to come from that franchise and boding well for '13 and beyond projects after a possible U.S. launch before YE12. The company provided no 2012 guidance, as it is still early days in the Duexis launch, but we believe the next 1-2 quarterly reports may be the time Duexis scripts become a meaningful metric. We derive our \$16 price target from 4x estimated U.S. revenues and 7x estimated EU royalties for Duexis and Lodotra in 2017, discounted at 20% (30% for Duexis in the EU and Lodotra in the US).
- Duexis still too early to call, but Lodotra picking-up in EU.** While we believe Duexis scripts are starting to ramp (Figure 1), with the week-over-week growth rate average for the four most recent available dates at about 10%, it is still "early days" with a relatively small base to build from. We will look to this and next quarter to gauge early effectiveness of the sales force following the late January sales meeting. Based on our ongoing diligence, we continue to view Duexis as having a distinct clinical advantage due to the effectiveness of ibuprofen, the drug's immediate release formulation, and the safety advantages of famotadine (see our March 1st note for additional details on our physician diligence). Encouragingly, Lodotra sales appear to be picking-up based on the 4Q results. We believe this bodes well for a possible 2012 launch in the US as well as the recent deal for Latin America signed with Mundipharma, signed earlier this month.

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

- 4Q11 financial performance.** Horizon reported \$3.5MM in revenues in 4Q11, exceeding our estimate of \$1.0MM and consensus of \$2.6MM, largely on accelerating EU Lodotra sales (Figure 2). The company reported COGS of \$2.1MM, higher than our estimate of \$0.3MM and also due to Lodotra. SG&A was \$17.3MM, higher than our projected \$12.6MM, on efforts directed to the Duexis launch. Horizon reported non-GAAP EPS of a (\$0.97) loss, beating our estimate of (\$1.23) and consensus of (\$1.20), essentially due to a higher share count. Removing the adjustment of non-cash and extraordinary expenses, GAAP EPS was (\$3.92). Horizon reported a \$69.6MM intangible impairment attributed to the company's stock price drop. We are making slight adjustments our 2012 expense outlook.

FIGURE 1: Duexis Scripts


Source: Bloomberg (Wolters Kluwer)

FIGURE 2: 4Q11 Results, Estimates vs. Actual

HZNP	4Q11			2011			2012 est		
	JMP est	Consensus	Actual	JMP est	Consensus	Actual	JMP old	JMP new	Consensus
Revenue	1.0	2.6	3.5	4.4	6.0	6.9	24.3	24.3	39.2
COGS	0.3		2.1	5.5		7.3	6.6	6.6	
R&D	4.2		3.8			15.4	19.7	18.0	
SG&A	12.6		17.3	30.7		35.3	70.1	85.7	
Total operating expense	16.8		90.7	46.4		120.3	89.8	103.6	
Non-GAAP Net income (loss)	(16.3)	(16.9)	(19.0)	(51.2)	(48.3)	(48.5)	(78.0)	(92.0)	(51.4)
Shares outstanding (diluted)	13.3		19.6	7.4		9.0	27.8	34.3	
Non-GAAP EPS (diluted)	(\$1.23)	(\$1.20)	(\$0.97)	(\$6.95)	(\$5.92)	(\$5.38)	(\$2.80)	(\$2.68)	(\$2.46)

Source: JMP Securities LLC, Company reports, 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. 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.

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Company	Disclosures
Horizon Pharma, Inc.	(1,2,3)

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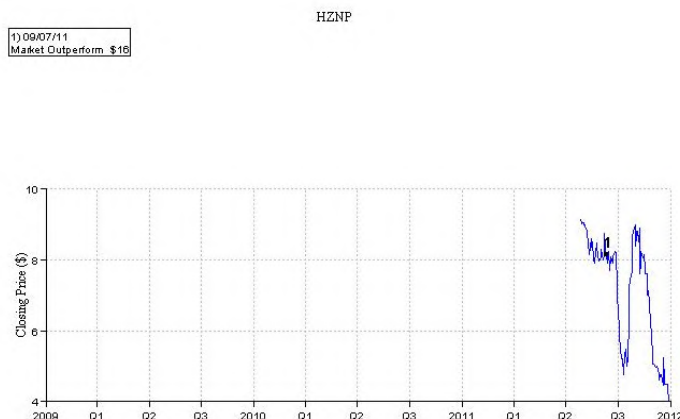
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JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Rating	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
Market Outperform	Buy	226	65%	Buy	226	65%	43	19%
Market Perform	Hold	117	34%	Hold	117	34%	11	9%
Market Underperform	Sell	6	2%	Sell	6	2%	0	0%
TOTAL:		349	100%		349	100%	54	15%

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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