

Emerging Company Research

Horizon Pharma — Outperform (1)

Horizon Reports 4Q11 Financials: Strong Balance Sheet For A Year of Growth

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Summary: This morning, Horizon reported a loss per share of \$3.92 for 4Q11 as compared to our estimate of a loss of \$1.26. The difference is mainly due to a \$69.6MM intangible impairment charge recorded during the quarter resulting primarily from the decline in Horizon's stock price during that period. For the year, Horizon reported a loss per share of \$12.56 as compared to our estimate of a loss per share of \$4.82. Horizon ended 2011 with cash and cash equivalents of \$18.0MM but raised net proceeds of \$81.7MM through both a debt and an equity financing in February and March 2012. With a strong cash balance, Horizon began 2012 in good financial health for a year full of commercial and regulatory activities.

- **DUEXIS launch in the U.S. signaling success.** Horizon held their launch meeting with reps on January 24th. Horizon reported that DUEXIS has 70% access with regard to commercial plans and that 90% of an initial 120 doctors detailed were able to identify a patient that would be a candidate for DUEXIS, with 76% willing to use samples for the patient. We believe over the next few quarters, DUEXIS will make strong in-roads into the prescribing community.
- **Global markets bode well for Horizon.** Horizon modified the MAA submission in February to include the recently approved manufacturing site for DUEXIS and anticipates a decision in 2H12. Additionally, LODOTRA achieved significant increase in product sales in Europe in 4Q11 and Horizon has entered into an exclusive agreement with Mundipharma for the commercialization in Latin America.
- **More excitement to come in 2012.** We are maintaining our estimates assuming an approval of LODOTRA by the FDA in 3Q12 and a subsequent launch in 4Q12. Based on what we believe is a strong launch for DUEXIS and U.S. approval of LODOTRA, we reiterate our Outperform rating on shares of Horizon Pharma.

HZNP (03/23)	\$3.79	Revenue \$MM							
Mkt cap	\$74.3MM	FY	2011	2012E	2013E	2014E	2015E		
		Dec	Actual	Prior	Current	Prior	Current	Current	Current
Dil shares out	19.6MM	Q1	1.8	—	7.5	—	—	—	—
Avg daily vol	16.3K	Q2	1.3	—	9.6	—	—	—	—
52-wk range	\$3.1-9.3	Q3	0.3	—	13.4	—	—	—	—
Dividend	Nil	Q4	3.5	—	20.2	—	—	—	—
Dividend yield	Nil	Year	6.9	—	51.1	—	142.9	243.1	311.9
BV/sh	NA	CY	—	—	—	—	—	—	—
Net cash/sh	\$4.22	EV/S	—	—	2.9x	—	1.0x	0.6x	0.5x
Debt/cap	NA								
ROA (LTM)	NA								
5-yr fwd EPS growth (Norm)	NA								
		FY	2011	2012E	2013E	2014E	2015E		
		Dec	Actual	Prior	Current	Prior	Current	Current	Current
		Q1	(2.33)	—	(1.10)	—	—	—	—
		Q2	(7.78)	—	(0.55)	—	—	—	—
		Q3	(1.30)	—	(0.52)	—	—	—	—
		Q4	(3.92)	—	(0.58)	—	—	—	—
S&P 500	1396.8	Year	(12.56)	—	(2.36)	—	(0.24)	2.52	3.86
		CY	—	—	—	—	—	—	—
		P/E	—	—	—	—	—	1.5x	1.0x

Horizon Pharma 4Q Variance Table

	Q4 Reported	Cowen Estimate	Variance
Total Revenue	3.5	3.4	-4%
COGS	2.1	1.6	-23%
R&D	3.8	4.4	15%
Sales & Marketing	12.9	8.1	-37%
G&A	4.4	4.6	5%
Intangible impairment charge	69.6	0.0	
Total Operating Expenses	90.7	17.1	-81%
Net Income (Loss)	(76.7)	(16.9)	-78%
EPS (Basic)	(3.92)	(1.26)	
Shares Outstanding	19.6	13.4	

All figures in \$MM except per share data and shares outstanding

Source: Cowen and Company

Horizon Pharma Quarterly P&L Model

	2010A	Q1:11A	Q2:11A	Q3:11A	Q4:11A	2011A	Q1:12E	Q2:12E	Q3:12E	Q4:12E	2012E
Duexis	0.0	0.0	0.0	0.0	0.0	0.0	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	1.8	1.3	0.2	3.5	6.8	1.5	1.6	1.8	2.0	6.9
Total Product Revenues	0.0	0.0	0.0	0.0	0.0	0.0	6.0	8.0	11.6	18.2	43.8
Total Royalty Revenues	0.0	1.8	1.3	0.2	3.5	6.8	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	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Total Revenues	2.4	1.8	1.3	0.3	3.5	6.9	7.5	9.6	13.4	20.2	51.1
COGS	4.3	0.9	2.1	1.2	2.1	7.3	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	3.8	15.4	3.8	4.0	4.0	4.2	16.0
Sales (including sales rebates)	5.6	0.6	1.2	5.1	12.9	20.3	8.6	9.5	12.0	19.0	49.1
General & Administrative	18.6	2.9	3.3	4.2	4.4	15.0	4.8	5.0	5.3	5.9	21.0
Intangible impairment charge					69.6	69.6					
Total Operating Expenses:	46.2	6.7	10.1	15.9	92.8	127.6	19.1	20.9	24.7	34.2	98.9
Income from Operations	(43.8)	(4.9)	(8.8)	(15.7)	(89.2)	(120.6)	(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	0.0	0.0	0.0	(2.8)	(2.2)	(1.8)	(1.0)	(7.8)
Interest Expense	(3.1)	(0.6)	(3.2)	(1.0)	(0.8)	(6.3)	(0.5)	(0.3)	0.0	0.0	(0.8)
Pretax Income	(46.9)	(6.4)	(12.0)	(16.7)	(90.1)	(126.9)	(14.9)	(13.8)	(13.1)	(14.8)	(56.2)
Foreign Exchange Loss	(0.0)	0.0	0.1	0.8	0.8	1.0	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)	(14.1)	(14.7)	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)	(6.4)	11.7	(17.2)	(76.7)	(113.3)	(14.9)	(13.8)	(13.1)	(14.8)	(56.2)
GAAP EPS, Basic	(\$9.20)	(\$2.15)	(\$7.78)	(\$1.30)	(\$3.92)	(\$12.56)	(\$1.10)	(\$0.55)	(\$0.52)	(\$0.58)	(\$2.36)
Weighted Average Shares Outstanding	3.0	3.0	1.5	13.3	19.6	9.0	13.5	25.0	25.3	25.4	23.8

Source: Cowen and Company

Horizon Pharma Annual P&L Model

	2010A	2011A	2012E	2013E	2014E	2015E	2016E
Duexis	0.0	0.0	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	6.8	6.9	0.2	0.7	1.2	1.7
Total Product Revenues	0.0	0.0	43.8	135.5	227.9	292.6	365.7
Total Royalty Revenues	0.0	6.8	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	0.2	0.0	0.0	0.0	0.0	0.0
Total Revenues	2.4	6.9	51.1	142.9	243.1	311.9	389.1
COGS	4.3	7.3	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	15.4	16.0	20.0	21.0	23.0	25.0
Sales (including sales rebates)	5.6	20.3	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
Intangible impairment charge		69.6					
Total Operating Expenses:	46.2	127.6	98.9	148.9	164.7	180.2	197.9
Income from Operations	(43.8)	(120.6)	(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	0.0	(7.8)	(1.0)	(1.0)	(1.0)	(1.0)
Interest Expense	(3.1)	(6.3)	(0.8)	0.0	0.0	0.0	0.0
Pretax Income	(46.9)	(126.9)	(56.2)	(6.5)	78.0	131.7	191.6
Foreign Exchange Loss	(0.0)	1.0	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	(14.7)	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)	(113.3)	(56.2)	(6.5)	71.8	111.9	134.1
GAAP EPS, Basic	(\$9.20)	(\$12.56)	(\$2.36)	(\$0.24)	\$2.52	\$3.86	\$4.33
Weighted Average Shares Outstanding	3.0	9.0	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 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. 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.
2. 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.

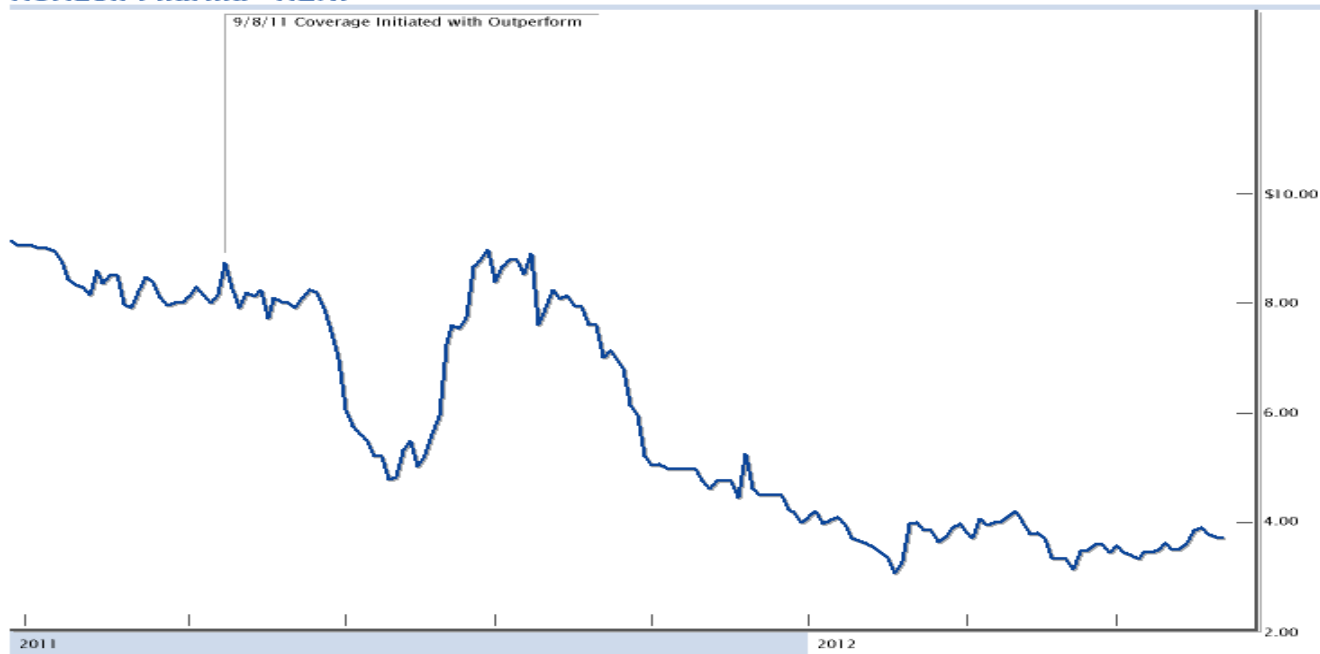
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Horizon Pharma - HZNP



Pricing data provided by Reuters America. Chart as of 3/22/12 in USD.