

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

Green Flag Flies for Duexis in the U.S.

## MARKET OUTPERFORM

**HZNP \$4.99**

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Price	\$4.99	FY Dec		2010A	2011E	2012E
Target Price	\$16.00	Revenue (M)	1Q	--	\$1.8A	\$2.5
52-Wk Range	\$4.53 - \$9.34		2Q	--	\$1.3A	\$7.9
Shares Out. (M)	44		3Q	--	\$0.3A	\$12.1
Market Cap. (M)	\$99		4Q	--	\$1.1	\$27.7
Average Daily Vol. (000)	0.04		FY	\$2.4	\$4.5	\$50.2
Float (M)	19			2010A	2011E	2012E
LT Debt (M)	19.25	EPS	1Q	--	(\$5.13)A	(\$1.02)
Cash (M)	71.08		2Q	--	(\$7.78)A	(\$0.62)
Enterprise Value (M)	\$66.6		3Q	--	(\$1.30)A	(\$0.40)
Cash/Share	1.60		4Q	--	(\$1.04)	\$0.34
			FY	(\$8.91)	(\$6.83)	(\$1.54)
			P/E	NM	NM	NM
		Previous FY	--	NC	NC	(\$1.65)
			CY	(\$8.91)	(\$6.83)	(\$1.54)
			PE	NM	NM	NM

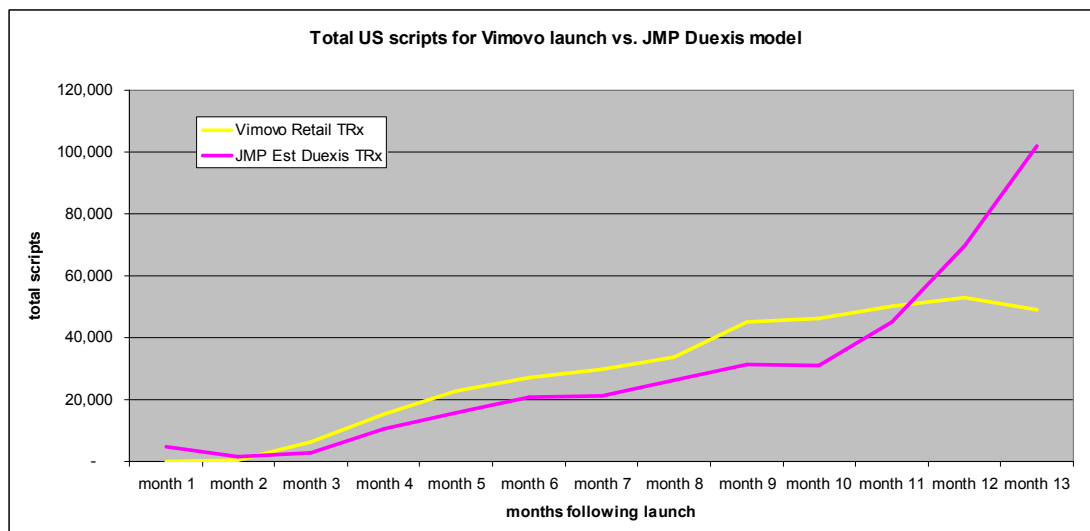
NC indicates no change to previous estimate. NE indicates no previous estimate.

Source: Company reports and JMP Securities

## INVESTMENT HIGHLIGHTS

- Duexis launch in the U.S., and now the 'script watch starts; reiterate Market Outperform rating and \$16 price target on Horizon Pharma.** Horizon announced the U.S. launch of Duexis this AM, in line with guidance and our expectation for a 4Q launch. In our view, the launch timing is another clear example of strong execution by this management since the company's IPO mid'11. In addition to other early launch metrics, we now anticipate the 'script-watch phase for HZNP investors but expect Duexis to ramp at a pace at least consistent with prior NSAID launches. That said, we view our projected peak sales of ~\$275MM in the U.S. as the more important goal rather than the weekly ramp in the near term. We derive our \$16 price target from 4x estimated U.S. revenues and 7x estimated E.U. royalties for Duexis and Lodotra in 2017 discounted back at 30%.
- Timing in line with expectations, now Horizon can "show their stuff".** Our view continues to be that Horizon's strength should largely derive from management's prior extensive experience selling NSAIDs and related products. We believe the management team is likely to have hired the top NSAID sales people who are highly trained and motivated, and we expect this to be a differentiating factor in this market. Figure 1 highlights our projected Duexis launch vs. the launch of Vimovo. We are conservatively projecting a launch slightly below that of Vimovo to capture any "growing pains" that may be evident as this is Horizon's first launch as a company.
- Has "short the launch" been priced in already?** We anticipate that a subset of investors will be focused on weekly 'script trends as an indicator of where sales are heading. The "short the launch" crowd may have already sunk their teeth in Horizon shares in anticipation of the Duexis launch. We caution that 'script trends can show a high level of volatility that doesn't necessarily accurately reflect the final sales level. If "short the launch" pressures have or do take hold, we advise value-oriented investors to see that as an opportunity to buy in to a company with two, in our view, potentially game-changing products at a discount.
- Will support eventual launch of Lodotra.** Should Lodotra gain approval, we believe it brings meaningful benefits in terms of clinical outcomes as well as helps to keep overall healthcare costs in line. In our view, Horizon is likely to benefit from gaining approximately a year of experience selling Duexis in the U.S. market before the expected 2H12 launch for Lodotra, following last week's NDA filing acceptance.

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

**FIGURE 1: Projected Duexis Launch vs. Vimovo Historical**


Source: JMP Securities, LLC and Wolters Kluwer

## 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.	(1,3)

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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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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)

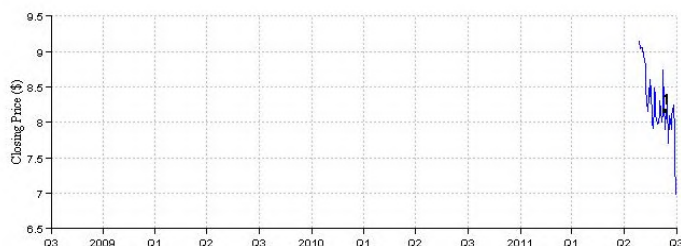
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Rating	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
Market Outperform	Buy	207	66%	Buy	207	66%	58	28%
Market Perform	Hold	105	33%	Hold	105	33%	7	7%
Market Underperform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



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