Horizon Pharma, Inc. [1,3]

Lodotra NDA Acceptance - Timeline Clarity and Reduced Overhang on Endpoints

MARKET OUTPERFORM **HZNP $6.54**

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Price	$6.54
Target Price	$16.00
52-Wk Range	$4.53 - $9.34
Shares Out. (M)	44
Market Cap. (M)	$291
Average Daily Vol. (000)	0.03
Float (M)	19
LT Debt (M)	19.25
Cash (M)	71.08
Enterprise Value (M)	$87.5
Cash/Share	1.60

FY Dec		2010A	2011E	2012E
Revenue (M)	1Q	--	$1.8A	$6.5
	2Q	--	$1.3A	$10.5
	3Q	--	$0.3A	$14.8
	4Q	--	$1.1	$18.3
	FY	**$2.4**	**$4.5**	**$50.2**
		2010A	**2011E**	**2012E**
EPS	1Q	--	($5.13)A	($0.87)
	2Q	--	($7.78)A	($0.53)
	3Q	--	($1.30)A	($0.29)
	4Q	--	($1.04)	($0.07)
	FY	**($8.91)**	**($6.83)**	**($1.65)**
	P/E	NM	NM	NM
	Previous FY	--	NC	NC
	CY	**($8.91)**	**($6.83)**	**($1.65)**
	PE	NM	NM	NM

NC indicates no change to previous estimate. NE indicates no previous estimate.
Source: Company reports and JMP Securities

INVESTMENT HIGHLIGHTS

- **NDA acceptance for Lodotra highlights positive clinical evidence as well as management execution; reiterate Market Outperform rating and $16 price target on Horizon Pharma.** Horizon announced this morning the acceptance of the NDA filing for Lodotra (programmed-release, low-dose prednisone). In our view, the acceptance is a positive signal consistent with our diligence on the Phase III studies run with Lodotra. The FDA has scheduled a standard 10 month review and a July 26, 2012, PDUFA date. We anticipate Lodotra to gain approval at the PDUFA date and view an Advisory Committee panel meeting as unlikely based on the well-established profile of prednisone, Lodotra's low-dose formulation, and its established use in Europe. 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%.
- **Positive regulatory outlook on strong clinical data.** The NDA filing includes data from two pivotal trials for Lodotra, CAPRA-I and -II. CAPRA-I supported approval of Lodotra in Europe and compared Lodotra to immediate-release prednisone. The primary endpoint of CAPRA-II was statistical significance in ACR20 score (an established RA endpoint for the U.S.) vs. placebo, which Lodotra met with p=0.0007. CAPRA-II also demonstrated improvements in ACR50 and ACR70 scores (p-values of 0.0063 and 0.0955). We view the clinical efficacy and safety data submitted in the NDA filing as clearly sufficient to support the approval of Lodotra in mid-2012.
- **Morning stiffness an important endpoint for commercialization.** Morning stiffness is a common symptom in RA patients that is inadequately addressed by immediate release steroids. Lodotra is designed to release in the middle of the night to reduce the inflammatory molecule release, which peaks around that time. Importantly, in our view, Lodotra has significantly reduced morning stiffness in both CAPRA trials (p-value = 0.045 in CAPRA-I, = 0.0015 in CAPRA-II).
- **Launch timelines remain on track.** We are maintaining our expectation for a 2H12 launch for Lodotra in the U.S. Horizon also partnered Lodotra in Asia with Mundipharma this November. Mundipharma has sold Lodotra in Europe since March 2009. In addition, we look to the launch of Duexis in the U.S. before YE11 and view Duexis launch metrics as possible HZNP share price catalysts through 2012. Finally, with strong execution on the Duexis launch, we believe that the company will be well positioned to bolster its commercial operations for Lodotra through a partnership or hiring additional sales reps in 2H12.

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

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 ~56MM 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.

JMP FACTS AND DISCLOSURES

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

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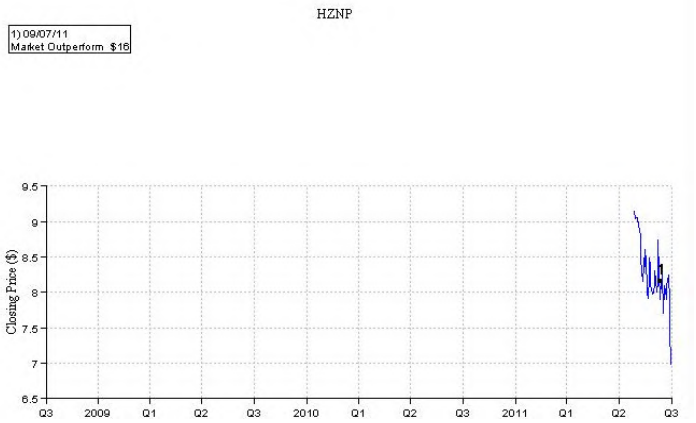
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% *of Total*	Regulatory Rating	# Co's Under Coverage	% *of Total*	# Co's Receiving IB Services in Past 12 Months	*% of Co's With This Rating*
Market Outperform	Buy	207	*66%*	Buy	207	*66%*	58	*28%*
Market Perform	Hold	105	*33%*	Hold	105	*33%*	7	*7%*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



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