

Quick Take

Horizon Pharma — Outperform (1)

HZNP: \$4.75

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Quick Take: It Takes Two To Make A Thing Go Right

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Today, Horizon Pharma announced that they have entered into a co-promotion agreement with Mallinckrodt, the pharmaceuticals business of Covidien, to market Duexis in the U.S. By tapping into the Mallinckrodt sales force, Horizon will have extra heft in helping to detail Duexis to the primary care physicians who treat a significant amount of OA and RA cases. In addition to this co-promote, Horizon is increasing its own sales force by an additional 80 representatives. Horizon will continue to record all Duexis revenue and is responsible for the continued manufacturing, supply and regulatory activities associated with the drug. Yes, while the name Mallinckrodt doesn't exactly roll off the tongue, it does have a strong specialty and generic business and is expected to become a stand-alone company from Covidien in mid-2013.

Mallinckrodt will begin the co-promotion in August 2012 which will continue through December 2014 with the option to renew for additional periods. Mallinckrodt will target to specified physicians and will receive performance-based compensation. We believe the Duexis brand will fit in nicely with the other pain products that Mallinckrodt currently markets such as Exalgo (hydromorphone) and PENNSAID (diclofenac).

Everybody Hurts

On April 25, 2011, Horizon announced that the company had received approval of Duexis from the FDA based on the results of the REDUCE clinical trials and subsequent NDA filing. Based upon this approval, Horizon has launched Duexis and capitalized on the large market opportunity resulting from the millions of patients seeking GI protection along with pain relief for OA and RA. Currently, the market for NSAIDs totals more than 91 million prescriptions annually with ibuprofen representing the largest share of this market at approximately 28 million prescriptions. While this total market is not comprised solely of patients using NSAIDs chronically for RA and OA, it does represent the magnitude of the number of patients at increased risk of developing GI complications from NSAID use. Priced similarly to currently available prescription NSAIDs such as Celebrex, treatments in this category represent revenues of \$200 million for every 1% share of the NSAID market captured. While these statistics demonstrate that even a small penetration of this market could lead to sizable revenue, we believe that Duexis has the potential to capture a fair portion of the prescription NSAID market for chronic users.

The company's strategy has been to target a core of 33,000 high prescribing physicians in the U.S. The company has hired a sales force of 70 sales reps, with another 80 coming on board soon, to reach these high prescribers, which represent 40% of the total U.S. NSAID market. This core group consists of approximately 23,000 primary care providers as well as 4,000 rheumatologists and 6,000 other specialists.

We believe this co-promote is a great move on the part of Horizon. While we have no doubt they have the skill-set required to break into this market successfully, it requires a lot of manpower and we believe Mallinckrodt will bring that to the table for the company. What we don't know is how large of a U.S. sales force presence Mallinckrodt has that is focused on pain. We spoke to Covidien, the parent of Mallinckrodt and they said they do not break these types of numbers out.

Please see addendum of this report for important disclosures.

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Addendum

STOCKS MENTIONED IN IMPORTANT DISCLOSURES

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.

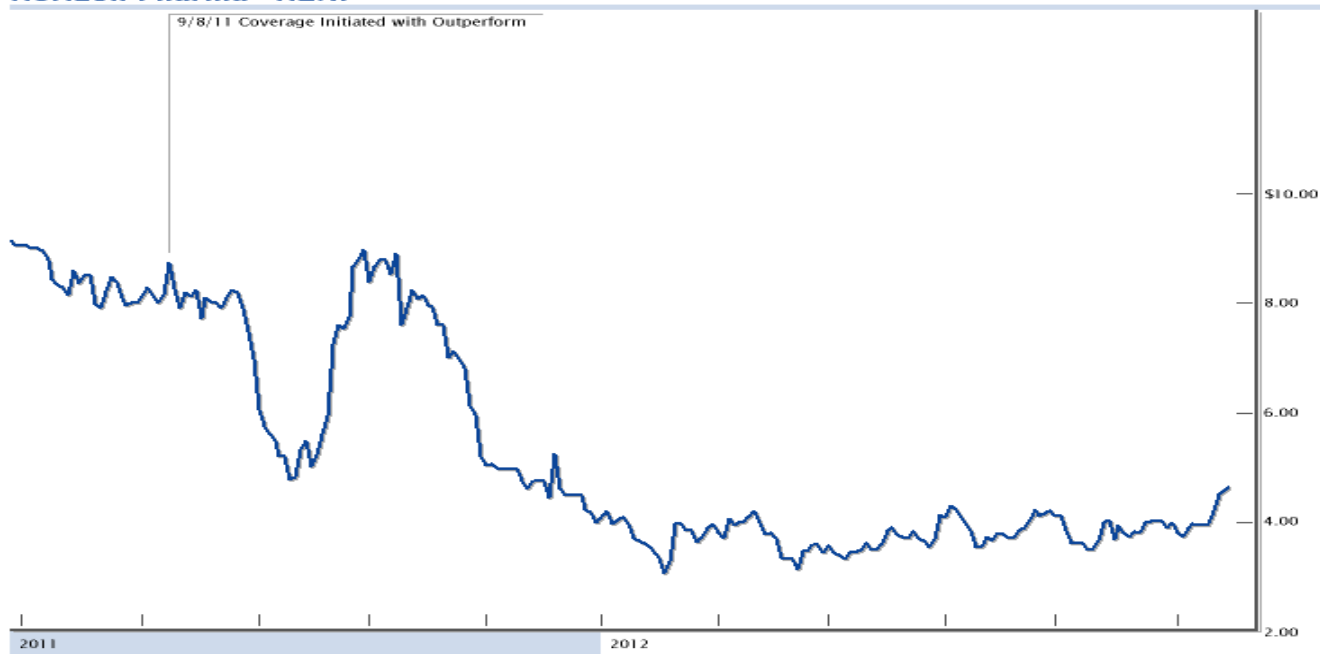
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Horizon Pharma - HZNP



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