

Horizon Pharma, Inc. ^(1,3)

Encouraging Early Signs of Duexis Commercial Execution Bode Well for Launch

MARKET OUTPERFORM

HZNP \$3.77

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Price	\$3.77	FY Dec		2010A	2011E	2012E
Target Price	\$16.00	Revenue (M)	1Q	--	\$1.8A	\$2.5
52-Wk Range	\$3.05 - \$9.34		2Q	--	\$1.3A	\$7.8
Shares Out. (M)	19.147		3Q	--	\$0.3A	\$12.1
Market Cap. (M)	\$72		4Q	--	\$1.1	\$27.7
Average Daily Vol. (000)	0.03		FY	\$2.4	\$4.5	\$50.2
Float (M)	18			2010A	2011E	2012E
LT Debt (M)	19.246	EPS	1Q	--	(\$5.13)A	(\$1.07)
Cash (M)	71.08		2Q	--	(\$7.78)A	(\$0.66)
Enterprise Value (M)	\$41.4		3Q	--	(\$1.30)A	(\$0.46)
Cash/Share	3.71		4Q	--	(\$1.11)	\$0.29
			FY	(\$8.91)	(\$6.94)	(\$1.74)
			P/E	NM	NM	NM
		Previous FY	--	(\$6.83)	(\$1.54)	
		CY	(\$8.91)	(\$6.94)	(\$1.74)	
		PE	NM	NM	NM	NM

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

Source: Company reports and JMP Securities

INVESTMENT HIGHLIGHTS

- Early Duexis launch metrics support potential to beat expectations while ramping sales efforts; reiterate Market Outperform rating and \$16 price target on Horizon Pharma.** Though it's only ~2 weeks following the salesforce "kick-off" meeting and ~2 holiday-heavy months into the market availability for Duexis, we believe early metrics point to strong commercial execution. Specifically, we look to patient access (70% coverage on tier 3) and fulfillment rate (estimated 90%) as signs that Duexis will get traction with payors, patients, and physicians. We note that the current weekly 'script numbers are in line or slightly above our expectations and our recent and ongoing KOL/prescriber diligence suggests that the message on Duexis' differentiation "is being heard." Therefore, plans to double the sales force which we expect in 3Q12, largely to support Duexis but also in anticipation of Lodotra's possible approval on/around its July 26, 2012 PDUFA date, make sense to us. We derive our \$16 price target from 4x estimated U.S. revenues and 7x estimated EU royalties for Duexis and Lodotra in 2017 discounted back at 30%.
- Duexis 'script growth should increasingly become visible throughout 2012.** According to our Wolters Kluwer data, total Duexis prescriptions were ~855 in December, more than 1,705 in January, and 651 for the week ended February 3rd. The week-over-week average prescription growth for the three most recent weeks for which we have data has been ~15%. However, we caution that the week-to-week deltas are expected to be volatile given the early, sampling-intensive (and low "signal-to-noise") period of the launch. We believe more reliable visibility on the trajectory may materialize in March and April. We expect the company to continue to optimize sales effectiveness and to see pull-through from successfully placed Duexis samples.
- Uptake initiatives continue to demonstrate good execution abilities.** Impressively, in our view, Duexis currently has ~70% access to all Tier III lives, comparing very favorably to ~80% for all branded NSAIDs and the company's Y/E12 goal. Horizon's co-pay reduction strategy is gaining traction as well. Savvy, in our view, the company has kept each patient's co-pay at or below \$20, to create an effective daily cost below that of competitor Vimovo's. Market research indicates that patients tend to fill their prescription when the co-pay is maintained below \$35, as is the case with Celebrex prescriptions which are filled approximately 85% of the time with pricing above Duexis'. Currently, the patient fill rate for Duexis is approximately 90% with the co-pay plan.

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

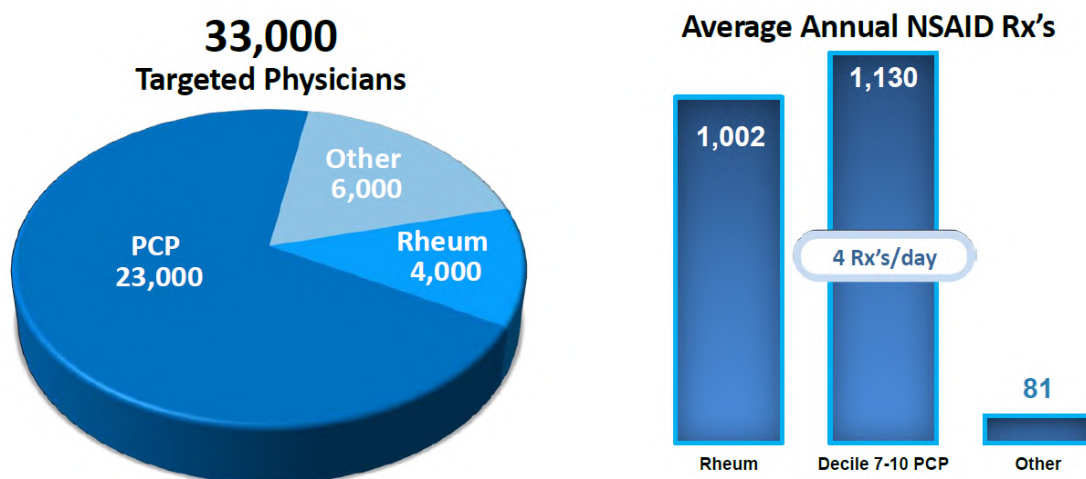
- **Physician feedback highlights sales force effectiveness in delivering Duexis' message.** Horizon has gathered feedback from physicians to gauge the effectiveness of sales efforts. Of 120 responding physicians, 88% believe that one or more of their patients may benefit from Duexis and 76% plan to use the Duexis samples. Over half the physicians are effectively hearing the three key messages about Duexis shown in Figure 1. These observations are consistent with our ongoing KOL/prescriber diligence.
- **Sampling program also likely to drive uptake, in our view.** Horizon has indicated that over a thousand physicians have enrolled in the company's sampling program and sales reps have been provided with samples sufficient for 50 patients. In addition, Horizon is conducting an early experience program which surveys Duexis patients; so far, the company has received good feedback about Duexis from ~40 patients. Medical literature indicates that less than a quarter of patients are prescribed GI protection with NSAIDs and more than a third of those that are, do not comply. We anticipate that prescription gains are likely to accelerate after patients and physicians gain experience with the drug and as more physicians are exposed to the key messages about Duexis' advantages.
- **Large market opportunity waiting to be tapped.** Horizon is focusing its efforts on the top prescribing physicians for NSAIDs in the U.S. The company plans to reach 33 thousand physicians that prescribe 40% of the 91MM annual NSAID prescriptions (for ~36MM annual prescriptions) with 160 sales reps. The concentrated nature of the market is especially highlighted by the right side of Figure 2 where data from Wolters Kluwer shows that top prescribing rheumatologists and primary care physicians prescribe approximately 3-4 NSAIDs on average each day. Figure 3 illustrates the decline in sales efforts that have followed in the wake of the Vioxx and Bextra withdrawals. Horizon is addressing this lack of attention with its NSAID-specializing sales force.
- **Lodotra expected to take advantage of sales force synergies.** We continue to anticipate that Lodotra will be approved in July on or around its PDUFA date based on the candidate's demonstrated safety and efficacy (see our November 29th, 2011 report for a review of the clinical data). Lodotra meets a currently unmet need for what we estimate is approximately 900k rheumatoid arthritis patients taking glucocorticoids in the U.S. We feel that Lodotra will likely be part of a regimen to reduce overall methotrexate and steroid use, thereby reducing the serious side effects from these drugs. We also believe that Lodotra may have a robust launch as it will leverage the Duexis sales force to target the same 4,000 high prescribing rheumatologists. Similar to Duexis, Horizon will target Tier 3 for broad access for Lodotra.
- **Model adjustments.** We are adjusting our model to correct for an error in projected interest income, resulting in slight changes to EPS for 4Q11 and 2012 as reflected in the header box.

FIGURE 1: Key Messages Being Delivered to Physicians

1. **DUEXIS provides #1 prescribed NSAID with convenience of built-in gastroprotection**
2. **DUEXIS reduced the risk of ibuprofen-induced upper GI ulcers by ~50%**
3. **Patient out-of-pocket costs as low as \$20 with the DUEXIS Savings Plus Program**

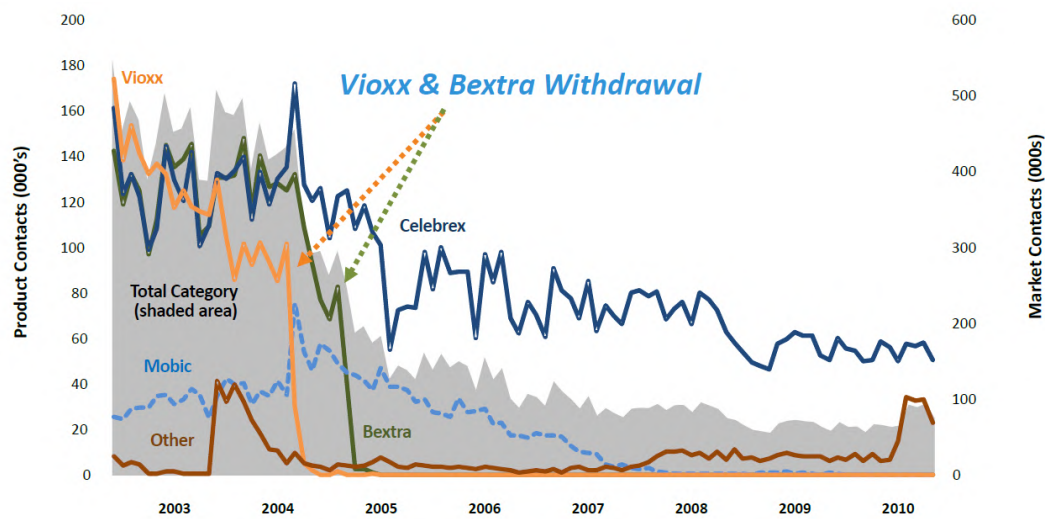
Source: Company reports

FIGURE 2: Targeting High-Prescribing Physicians



Source: Company reports

FIGURE 3: Current Lack of Detailing of NSAIDs



Contacts = Promotional product information delivered from sales representatives to physicians, pharmacists, or physicians' office personnel.

Source: Company reports

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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JMP Securities Research Ratings and Investment Banking Services: (as of January 3, 2012)

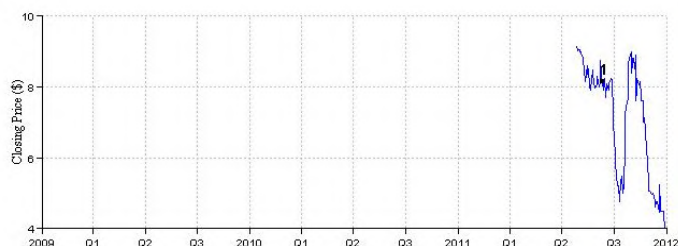
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Rating	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
Market Outperform	Buy	226	65%	Buy	226	65%	43	19%
Market Perform	Hold	117	34%	Hold	117	34%	11	9%
Market Underperform	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.

1) 09/07/11
Market Outperform \$18

HZNP



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