

Horizon Pharma, Inc. ^(1,3)

New Allowance Building Out Duexis IP

MARKET OUTPERFORM

HZNP \$4.86

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Price	\$4.86	FY Dec		2010A	2011E	2012E
Target Price	\$16.00	Revenue (M)	1Q	--	\$1.8A	\$6.5
52-Wk Range	\$4.53 - \$9.34		2Q	--	\$1.3A	\$10.5
Shares Out. (M)	19.1		3Q	--	\$0.5	\$14.8
Market Cap. (M)	\$93.1		4Q	--	\$1.1	\$18.3
Average Daily Vol. (000)	41		FY	\$4.7	\$4.7	\$50.1
Float (M)	\$6.7			2010A	2011E	2012E
LT Debt (M)	\$10.4	EPS	1Q	--	(\$5.13)A	(\$0.62)
Cash (M)	\$51.8		2Q	--	(\$7.78)A	(\$0.40)
Enterprise Value (M)	\$51.6		3Q	--	(\$0.63)	(\$0.23)
Cash/Share	\$2.71		4Q	--	(\$0.73)	(\$0.06)
			FY	(\$8.91)	(\$4.40)	(\$1.25)
			P/E	NM	NM	NM
		Previous FY	--	NC	NC	NC
			CY	(\$8.91)	(\$4.40)	(\$1.25)
			PE	NM	NM	NM

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

Source: Company reports and JMP Securities

INVESTMENT HIGHLIGHTS

- U.S. patent allowance extends Duexis protection; reiterate Market Outperform rating and a \$16 price target for Horizon.** Earlier today, Horizon announced the receipt a notice of allowance from the U.S. PTO for the patent application #12/324808 for Duexis. We view this as a positive step forward for Horizon since the allowance will both strengthen Duexis' IP protection beyond method-of-use and extend the protection from 2026 to 2028. Our \$16 price target is derived from 4x our estimated U.S. revenues and 7x estimated E.U. royalties for Duexis and Lodotra in 2017 with a discount rate of 30%.
- New patent extends protection to composition of matter.** In our view, the addition of this current patent to the '779 method-of-use patent issued in September this year should adequately protect Duexis' IP estate from the inevitable ANDA challenge. We also anticipate that Pozen (currently subject to its own ANDA challenge for Vimovo) may mount a misdirected (based on our diligence) attack on the Duexis IP on the basis of the Vimovo patents. However, as we have previously said, we believe the Vimovo patents clearly guide away from concurrent release of NSAID and acid blocker as well as the use of H2-receptor antagonists in conjunction with NSAIDs. With this latest patent allowance that reads on the compatibility of ibuprofen and famotidine, we believe Horizon has fully formed a strong IP estate for Duexis and expect the IP to hold up through its allowed life into 2028.
- Key value driver is successful sales execution of Duexis.** Duexis was approved in the U.S. in April 2011, and we continue to anticipate a launch in 4Q11 and wouldn't be surprised with an early 4Q launch. The planned ~75 NSAID-trained sales representatives have been hired and the majority has completed training, according to management. We continue to view Horizon as a story of execution, which we anticipate to be a strong advantage for Horizon based on the history of the company's management in this market. Although competition for Duexis may arise from generic NSAIDs as well as from Vimovo and Celebrex, in our view, Horizon can leverage its market experience with NSAIDs and clinical differentiation of Duexis to exceed sales projections. We currently model ~\$277MM in peak sales in the U.S. for Duexis in 2017.

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 \$5.7MM in cash and equivalents at the end of 2Q11 and netted approximately \$46MM from its July IPO that we believe will be sufficient to fund operations through 2011. 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.

JMP FACTS AND DISCLOSURES

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The research analyst(s) who prepared this report does/do hereby certify that the views presented in this report are in accordance with my/our personal views on the securities and issuers discussed in this report. As mandated by SEC Regulation AC no part of my/our compensation was, is or will be directly or indirectly related to the specific views or recommendations expressed herein. This certification is made under the obligations set forth in SEC Regulation AC. Any other person or entity may not use it for any other purpose. This certification is made based on my/our analysis on the date of this report's publication. I/We assume no obligation to update this certification to reflect any facts, circumstances or events that may subsequently come to my/our attention. Signed Charles C. Duncan, PhD, Jason N. Butler, PhD, Gena H. Wang, PhD, Roy Buchanan, PhD

Publicly Traded Companies Covered by JMP and Mentioned in This Report (as of October 13, 2011):

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)

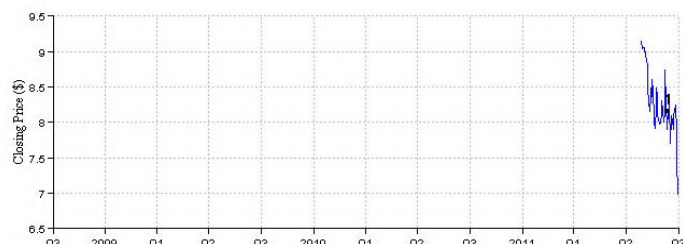
JMP Rating	Regulatory Equivalent	# Co's Under Coverage	% of Total	Regulatory Rating	# Co's Under Coverage	% of Total	# Co's Receiving IB Services in Past 12 Months	% of Co's With This Rating
Market Outperform	Buy	207	66%	Buy	207	66%	58	28%
Market Perform	Hold	105	33%	Hold	105	33%	7	7%
Market Underperform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