



Hyperion Therapeutics

Outperform (1)

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Analysts

Phil Nadeau, Ph.D.

(646) 562-1336

phil.nadeau@cowen.com

Nicholas Bishop, Ph.D.

(646) 562-1378

nicholas.bishop@cowen.com

Reports Q4:12; Ravicti's Launch On Track For April

Conclusion: This morning Hyperion reported Q4:12 financials and provided a business update. Most important, Ravicti remains on track for an April launch. We continue to expect Hyperion to transfer the majority of UCD patients to Ravicti over the next few years. Moreover, we think Ravicti's recently allowed patent claims will protect the franchise through 2032, driving substantial value for HPTX shareholders. We believe that Hyperion is undervalued based on the potential of Ravicti in urea cycle disorders alone. We think investors should take advantage of the fact that the market is giving Hyperion little credit for Ravicti's extended period of exclusivity. We expect the stock to Outperform the market over the next 12 months as Ravicti is launched, Hyperion breaks into profitability, and investors better appreciate the value in Hyperion's urea cycle disorder franchise.

- **Q4:12 Financials.** HPTX reported a \$8.3MM Q4:12 net loss, and ended 2012 with \$49.9MM in cash. Our estimates suggest that HPTX's current cash will be sufficient to fund operations through profitability (although our model does not anticipate a big increase in R&D spend to support Ravicti's hepatic encephalopathy program).
- **Ravicti Launch On Track For April; Buphenyl Due Diligence Continues.** HPTX has begun training the sales and market access field teams, and has initiated reimbursement discussions with payers. HPTX expects to launch by the end of April. Hyperion's due diligence on Buphenyl and Ammonul continues. We expect HPTX to exercise its option to purchase both, although we also anticipate that VRX will retain Ammonul.
- **Little Appreciation For Value Of The Claims Of Ravicti's 13/417,137 Patent Application.** Allowed claims include a novel dosing method for an ammonia scavenger, and Ravicti's label instructs physicians to use the method to adjust its dose.

HPTX (02/25)	\$19.00	Revenue \$MM							
Mkt cap	315.4MM	FY	2012	2013E	2014E	2015E	2016E		
		Dec	Actual	Prior	Current	Prior	Current	Current	Current
Dil shares out	16.6MM	Q1	0.0	—	0.0	—	—	—	—
Avg daily vol	36.7K	Q2	0.0	—	1.8	—	—	—	—
52-wk range	\$10.0-23.5	Q3	0.0	—	14.5	—	—	—	—
Dividend	Nil	Q4	0.0	—	17.5	—	—	—	—
Dividend yield	Nil	Year	0.0	—	33.8	—	95.0	105.0	115.0
BV/sh	\$2.07	EV/S	—	—	8.0x	—	2.8x	2.6x	2.3x
Net cash/sh	\$3.00								
Debt/cap	2.4%								
ROE (LTM)	NA								
5-yr fwd EPS growth (Norm)	NA								
		EPS \$	2012	2013E	2014E	2015E	2016E		
		Dec	Actual	Prior	Current	Prior	Current	Current	Current
		Q1	(1.14)	—	(0.55)	—	—	—	—
		Q2	(0.68)	—	(0.50)	—	—	—	—
		Q3	(0.44)	—	0.18	—	—	—	—
		Q4	(0.50)	—	0.30	—	—	—	—
S&P 500	1503.9	Year	(2.64)	—	(0.55)	—	1.80	1.85	1.85
		P/E	—	—	—	—	10.6x	10.3x	10.3x

Please see addendum of this report for important disclosures.

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Investment Thesis

Hyperion is developing treatments in the areas of orphan disorders and hepatology. Hyperion's lead program includes a suite of products to treat urea cycle disorders (UCDs). UCDs are a constellation of diseases in which the body lacks the ability to clear ammonia, a byproduct of protein digestion. Approximately 2,000 people in the United States have a UCD, and just over 500 are receiving pharmacotherapy. Untreated, UCDs can cause learning disabilities, mental retardation, and death. Hyperion owns an option to purchase the leading FDA-approved therapy for the chronic management of UCDs, Buphenyl, and will begin marketing it by mid-2013. While Buphenyl can rescue patients from death, it has an excessive pill burden, a foul taste, and causes GI side effects in most patients. Hyperion has developed Ravicti to replace Buphenyl. Ravicti received FDA approval on February 1, 2013. Ravicti's most important advantage is its far superior palatability in a dramatically reduced drug volume (1 tablespoon or less) with few GI side effects, making it much more tolerable for patients. Our checks suggest that Hyperion will successfully transfer the vast majority of treated UCD patients from Buphenyl to Ravicti over the next few years, and given ultra-orphan pricing of \$250-290K per year, we project it will achieve \$100MM+ in sales in 2016. Allowed patent claims should lead to a patent issuance later this year that will protect Ravicti through 2032. Outside of UCD, Ravicti has shown intriguing Phase II data in Hepatic Encephalopathy (HE), a potential \$1B market. Hyperion met with the FDA in Q4:12, and it expects to begin Phase III for HE in 2014. We believe that Hyperion is undervalued based on Ravicti's potential in UCD, without any contribution from other indications.

Upcoming Hyperion Milestones

Event	Timing
Exercise option to purchase Buphenyl, Ammonul from Medicis	H1:13
Ravicti's U.S. commercial launch	April 2013
Potential initiation of Ravicti's pivotal trials in HE	2014

Source: Cowen and Company

UCD Revenue Model

	2012E	2013E	2014E	2015E	2016E	2017E
U.S. Urea Cycle Disorder Market						
Chronic Therapy						
Prevalence Of Urea Cycle Disorders In U.S.	2138	2186	2234	2282	2330	2378
Annual Incidence of UCD	160	160	160	160	160	160
Annual Mortality from UCD	112	112	112	112	112	112
Total Patients With Urea Cycle Disorders In The U.S.	2186	2234	2282	2330	2378	2426
% Diagnosed	50%	50%	50%	50%	50%	50%
Number Diagnosed	1069	1093	1117	1141	1165	1189
Buphenyl						
% on Buphenyl	40%	31%	24%	13%	3%	1%
Number of Patients On Buphenyl	425	342	192	154	38	15
Average Cost per Patient per Year (\$000)	55	95	130	130	130	130
Buphenyl Revenue (\$MM)	23.4	32.5	25.0	20.0	5.0	2.0
Ravicti						
% on Ravicti		6%	27%	37%	47%	53%
Number of Patients On Ravicti		67	350	425	550	625
Average Cost per Patient per Year (\$000)		200	200	200	200	200
Ravicti Revenue		\$13.3	\$70.0	\$85.0	\$110.0	\$125.0
Y/Y Growth			425%	21%	29%	14%

Source: Cowen and Company

Hyperion Quarterly P&L (\$MM)

	Q1:12A	Q2:12A	Q3:12A	Q4:12A	2012A	Q1:13E	Q2:13E	Q3:13E	Q4:13E	2013E
Ravicti						-	1.8	3.5	8.0	13.3
Buphenyl						-	-	11.0	9.5	20.5
Ammonul						-	-	-	-	-
License and Other										
Total Revenue	-	-	-	-	-	-	1.8	14.5	17.5	33.8
COGS						-	0.2	0.9	1.3	2.4
Gross Margin							90%	94%	93%	93%
R&D	8.9	2.7	2.4	3.0	17.0	4.0	4.8	5.0	5.3	19.1
SG&A	2.3	2.0	2.4	4.8	11.5	5.2	5.3	5.4	5.5	21.4
Other										
Operating Expenses	11.2	4.8	4.8	7.8	28.5	9.2	10.3	11.3	12.1	42.9
Operating Income / (Loss)	(11.2)	(4.8)	(4.8)	(7.8)	(28.5)	(9.2)	(8.5)	3.2	5.4	(9.1)
Interest and other income, net	(0.7)	(2.4)	(0.2)	(0.5)	(3.7)	(0.1)	(0.1)	(0.1)	(0.1)	(0.5)
Pretax net income	(11.9)	(7.2)	(4.9)	(8.3)	(32.3)	(9.3)	(8.6)	3.1	5.3	(9.6)
Taxes						-	-	-	-	-
Tax Rate						0%	0%	0%	0%	0%
GAAP Net Income	(11.9)	(7.2)	(4.9)	(8.3)	(32.3)	(9.3)	(8.6)	3.1	5.3	(9.6)
GAAP EPS	\$(1.14)	\$(0.68)	\$(0.44)	\$(0.50)	\$(2.64)	\$(0.55)	\$(0.50)	\$ 0.18	\$ 0.30	\$(0.55)
Diluted Shares Outstanding (MM)	10.4	10.5	11.3	16.6	12.2	17.0	17.3	17.5	17.8	17.4

Source: Cowen and Company

Hyperion Annual P&L (\$MM)

	2012A	2013E	2014E	2015E	2016E	2017E
Ravicti	-	13.3	70.0	85.0	110.0	125.0
Buphenyl	-	20.5	25.0	20.0	5.0	2.0
Ammonul	-	-	-	-	-	-
License and Other	-	-	-	-	-	-
Total Revenue	-	33.8	95.0	105.0	115.0	127.0
COGS	-	2.4	8.3	9.5	11.3	12.6
Gross Margin		93%	91%	91%	90%	90%
R&D	17.0	19.1	22.0	24.0	24.5	25.0
SG&A	11.5	21.4	24.2	26.8	28.2	29.2
Other	-	-	-	-	-	-
Operating Expenses	28.5	42.9	54.5	60.3	64.0	66.8
Operating Income / (Loss)	(28.5)	(9.1)	40.6	44.7	51.1	60.2
Interest and other income, net	(3.7)	(0.5)	(2.2)	-	4.0	4.0
Pretax net income	(32.3)	(9.6)	38.4	44.7	55.1	64.2
Taxes	-	-	2.1	6.7	16.5	19.3
Tax Rate	-	0%	6%	15%	30%	30%
GAAP Net Income	(32.3)	(9.6)	36.2	38.0	38.5	44.9
GAAP EPS	(2.64)	(0.55)	1.80	1.85	1.85	2.10
Diluted Shares Outstanding (MM)	12.2	17.4	20.1	20.6	20.8	21.4

Source: Cowen and Company

Hyperion DCF - With Patent Protection

Financial Year End	12/31/2012
Valuation Date	2/25/2013
Discount Rate	10.0%
Terminal Growth Rate	-20.0%

Hyperion: DCF Valuation

SMM	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Ravicti Sales	13	70	85	110	125	138	144	152	159	167	175	184	193	203	213	224	235	247	259	272	218
Growth (%)		426%	21%	29%	20%	10%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	-20%
Buphenyl	21	25	20	5	2	2	1	1	1	1	1	1	1	0	0	0	0	0	0	0	0
Growth (%)		22%	-20%	-75%	-15%	-15%	-15%	-15%	-15%	-15%	-15%	-15%	-15%	-15%	-15%	-15%	-15%	-15%	-15%	-15%	-15%
Ammonul	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Growth (%)					0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
License and Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Growth (%)																					
Total Revenues	34	95	105	115	127	139	146	153	160	168	176	185	194	204	214	224	235	247	259	272	218
Growth (%)		181%	11%	10%	10%	10%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	-20%
COGS	2	8	10	11	13	14	15	15	16	17	18	18	19	20	21	22	24	25	26	27	22
COGS as a % of sales		18%	12%	11%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
R&D	19	22	24	25	25	18	16	15	16	17	18	18	19	20	21	22	24	25	26	27	22
R&D as a % of Revenues		57%	23%	23%	21%	15%	13%	11%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
SG&A	21	24	27	28	29	25	23	18	19	20	21	22	23	24	26	27	28	30	31	33	26
SG&A as a % of Revenues		63%	25%	26%	25%	20%	18%	16%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%
Operating Income	-30	16	25	46	58	81	90	103	108	113	119	125	131	138	145	152	160	168	176	185	148
Tax	0	1	4	14	17	24	27	31	32	34	36	38	39	41	43	46	48	50	53	56	44
Tax rate		0%	6%	15%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
NOL/ Tax Assets Utilized																					
Tax rate																					
Taxes Paid	0	1	4	14	17	24	27	31	32	34	36	38	39	41	43	46	48	50	53	56	44
Approx Free Cash Flow	(30)	15	21	32	41	56	63	72	76	79	83	88	92	97	101	107	112	117	123	130	104
Years	0.84	1.84	2.84	3.84	4.84	5.84	6.84	7.84	8.84	9.84	10.84	11.84	12.84	13.84	14.84	15.84	16.84	17.84	18.84	19.84	20.84
Discount Factor	0.92	0.84	0.76	0.69	0.63	0.57	0.52	0.47	0.43	0.39	0.36	0.32	0.29	0.27	0.24	0.22	0.20	0.18	0.17	0.15	0.14
NPV of Cash flows	(27)	12	16	22	26	32	33	34	33	31	30	28	27	26	25	24	22	21	20	20	14

Terminal Value Calculation

Final year FCF	104
Perpetual Growth Rate	-20.0%
Terminal Value	276
Discount Factor	0.14
Present Value of Terminal Value	38
Present Value of Cash Flows	469
Enterprise Value	507
Add: Net cash	51
Market Value	558
Fully Diluted Shares Outstanding	16.6
Value per Fully Diluted Share	\$33.59

Source: Cowen and Company

Addendum

STOCKS MENTIONED IN IMPORTANT DISCLOSURES

Ticker	Company Name
HPTX	Hyperion Therapeutics

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(a) Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period.

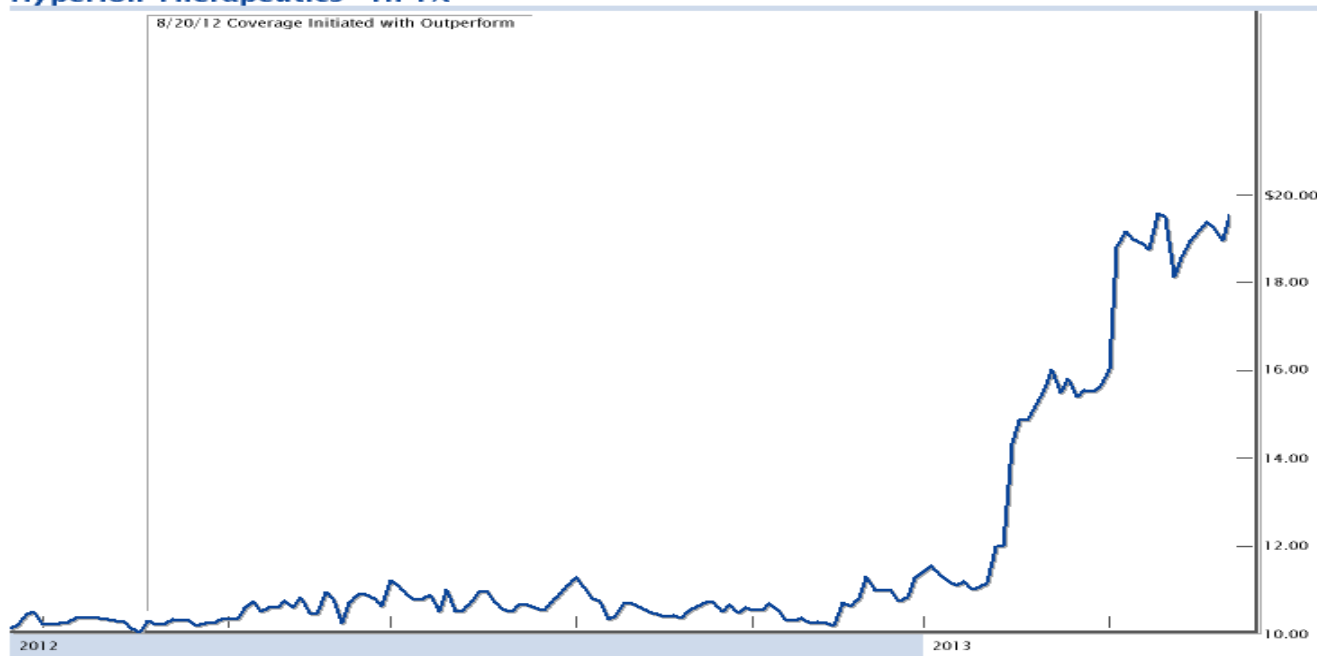
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Buy (b)	53.0%	9.6%
Hold (c)	43.4%	1.5%
Sell (d)	2.8%	0.0%

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Cowen and Company Price and Ratings History

Hyperion Therapeutics - HPTX



Pricing data provided by Reuters America. Chart as of 2/22/13 in USD.

