

Quick Take

Hyperion Therapeutics — Outperform (1)

HPTX: \$23.79

Quick Take: Exercises Option To Acquire Buphenyl And Ammonul

April 30, 2013

Analysts

Phil Nadeau, Ph.D.

(646) 562-1336

phil.nadeau@cowen.com

Nicholas Bishop, Ph.D.

(646) 562-1378

nicholas.bishop

@cowen.com

This morning Hyperion issued an 8K announcing that it has exercised its option to acquire Buphenyl and Ammonul from Valeant. Buphenyl, like HPTX's Ravicti, is a nitrogen scavenger that is used for the chronic management of patients with urea cycle disorders and is therefore competitive with Ravicti. Ammonul is an intravenous nitrogen scavenger used in the hospital to quickly reduce ammonia levels in a patient in a hyperammonemic crisis. It is not used for the chronic management of UCD patients and is therefore not competitive with Ravicti. Under the collaboration agreement between Hyperion and Valeant, Hyperion was able to exercise the option for a period of 90 days following Ravicti's February 1, 2013 approval. This announcement is in-line with expectations as we and most investors anticipated Hyperion would purchase the assets near the end of April.

Valeant now has 20 days to formally notify Hyperion whether it intends to retain Ammonul. Given that Valeant in January 2013 increased the price of Ammonul three-fold, we suspect that Valeant intends to keep the drug, so we do not include Ammonul revenues in our model. If Valeant elects to retain Ammonul, Valeant must pay Hyperion \$13MM, and Hyperion will owe milestones and royalties to Valeant. If Valeant elects to not retain Ammonul, Hyperion would make a \$22MM upfront payment to Valeant for Buphenyl and Ammonul, plus future milestones and royalties. Hyperion would be able to fund the \$22MM purchase via a loan from Valeant that is payable over 8 quarters.

Once the transaction is completed, Hyperion expects to increase Buphenyl's price so that it is nearly as high as Ravicti's. Ravicti will retain some price premium because of Hyperion's view that its efficacy profile is superior to Buphenyl's, given the observed improvement in executive function in Ravicti's clinical trials. We currently assume a gross Buphenyl price of \$200K/patient/year. The Buphenyl price increase will apply specifically to the private-pay portion of the market, as the price increases to the Medicaid portion are limited to the CPI. In fact, Hyperion expects that the Buphenyl price increase will be large enough to put the drug in a "super rebate" situation, in which the additional price increase will be rebated back to Medicaid, essentially making Buphenyl free for Medicaid patients. Therefore, our model reflects an average price of \$130K/patient to reflect the impact of the Medicaid super-rebate.

Our opinion of Hyperion is unchanged. 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 only modest

Please see addendum of this report for important disclosures.

www.cowen.com

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.

Addendum

STOCKS MENTIONED IN IMPORTANT DISCLOSURES

Ticker	Company Name
HPTX	Hyperion Therapeutics

ANALYST CERTIFICATION

Each author of this research report hereby certifies that (i) the views expressed in the research report accurately reflect his or her personal views about any and all of the subject securities or issuers, and (ii) no part of his or her compensation was, is, or will be related, directly or indirectly, to the specific recommendations or views expressed in this report.

IMPORTANT DISCLOSURES

Cowen and Company, LLC and or its affiliates make a market in the stock of HPTX securities.

Cowen and Company, LLC and/or its affiliates managed or co-managed a public offering of HPTX within the past twelve months.

Cowen and Company, LLC and/or its affiliates received in the past 12 months compensation for investment banking services from HPTX.

HPTX is or was in the past 12 months a client of Cowen and Company, LLC; during the past 12 months, Cowen and Company, LLC provided IB services.

HPTX has been client(s) of Cowen and Company, LLC in the past 12 months.

Cowen and Company, LLC and/or its affiliates expect to receive, or intend to seek, compensation for investment banking services in the next 3 months from HPTX.

Cowen and Company, LLC compensates research analysts for activities and services intended to benefit the firm's investor clients. Individual compensation determinations for research analysts, including the author(s) of this report, are based on a variety of factors, including the overall profitability of the firm and the total revenue derived from all sources, including revenues from investment banking. Cowen and Company, LLC does not compensate research analysts based on specific investment banking transactions.

DISCLAIMER

This research is for our clients only. Our research is disseminated primarily electronically and, in some cases, in printed form. Research distributed electronically is available simultaneously to all Cowen and Company, LLC clients. All published research, including required disclosures, can be obtained on the Firm's client website, www.cowenresearch.com.

Further information on any of the above securities may be obtained from our offices. This report is published solely for information purposes, and is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Other than disclosures relating to Cowen and Company, LLC, the information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete statement or summary of the available data. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice.

Notice to UK Investors: This publication is produced by Cowen and Company, LLC which is regulated in the United States by FINRA. It is to be communicated only to persons of a kind described in Articles 19 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. It must not be further transmitted to any other person without our consent.

Copyright, User Agreement and other general information related to this report

© 2013 Cowen and Company, LLC. Member NYSE, FINRA and SIPC. All rights reserved. This research report is prepared for the exclusive use of Cowen clients and may not be reproduced, displayed, modified, distributed, transmitted or disclosed, in whole or in part, or in any form or manner, to others outside your organization without the express prior written consent of Cowen. Cowen research reports are distributed simultaneously to all clients eligible to receive such research prior to any public dissemination by Cowen of the research report or information or opinion contained therein. Any unauthorized use or disclosure is prohibited. Receipt and/or review of this research constitutes your agreement not to reproduce, display, modify, distribute, transmit, or disclose to others outside your organization the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets). All Cowen trademarks displayed in this report are owned by Cowen and may not be used without its prior written consent.

Cowen and Company, LLC. New York (646) 562-1000 **Boston** (617) 946-3700 **San Francisco** (415) 646-7200
Chicago (312) 577-2240 **Cleveland** (440) 331-3531 **Atlanta** (866) 544-7009 **London (affiliate)** 44-207-071-7500

COWEN AND COMPANY RATING DEFINITIONS (a)

Rating	Definition
Outperform (1)	Stock expected to outperform the S&P 500
Neutral (2)	Stock expected to perform in line with the S&P 500
Underperform (3)	Stock expected to underperform the S&P 500

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

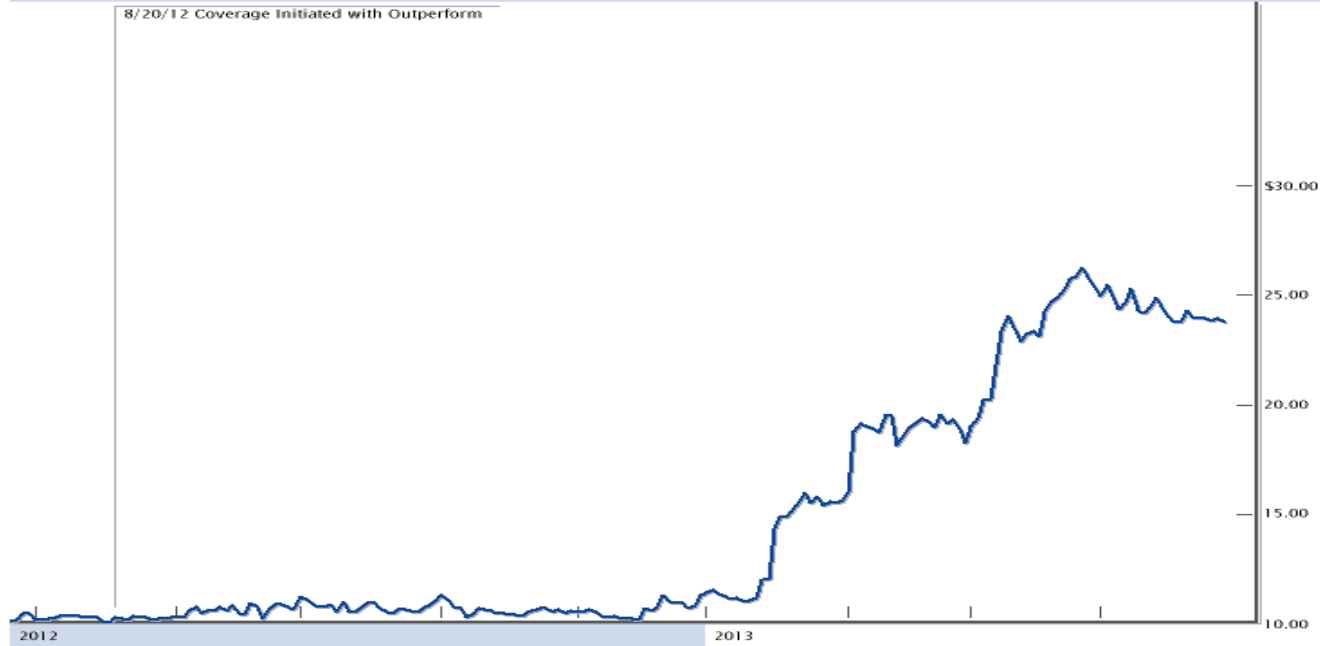
COWEN AND COMPANY RATING ALLOCATION (a)

Rating	Pct of companies under coverage with this rating	Pct for which Investment Banking services have been provided within the past 12 months
Buy (b)	53.3%	9.3%
Hold (c)	43.0%	0.5%
Sell (d)	3.4%	0.0%

(a) As of 03/31/2013. (b) Corresponds to "Outperform" rated stocks as defined in Cowen and Company, LLC's rating definitions (see above). (c) Corresponds to "Neutral" as defined in Cowen and Company, LLC's ratings definitions (see above). (d) Corresponds to "Underperform" as defined in Cowen and Company, LLC's ratings definitions (see above). Note: "Buy," "Hold" and "Sell" are not terms that Cowen and Company, LLC uses in its ratings system and should not be construed as investment options. Rather, these ratings terms are used illustratively to comply with NASD and NYSE regulations.

Cowen and Company Price and Ratings History

Hyperion Therapeutics - HPTX



Pricing data provided by Reuters America. Chart as of 4/29/13 in USD.