Zacks Small-Cap Research

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Aralez Pharmaceuticals Inc. (ARLZ-NASDAQ)

ARLZ: A Strong Management Team and Plenty of Capital Makes Aralez a Top Specialty Pharmaceutical Pick…

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	02/26/2016
Current Price (02/26/16)	$5.92
Target Price	**$10.50**

INITIATION

On February 5, 2016, Pozen, Inc. and Tribute Pharmaceuticals Canada, Inc. announced the planned merger between the two company's was complete, resulting in the newly formed parent company, Aralez Pharmaceuticals, Inc. Aralez will be headquartered in Canada, with additional operations in the U.S. and Ireland.

The company will resubmit the New Drug Application (NDA) for Yosprala to the FDA in the second quarter of 2016, leading to a likely approval in 4Q16. In addition, we anticipate at least one accretive deal transpiring during 2016 to lead to further growth. Aralez has a strong management team with a proven track record in M&A, making the company a top pick in the specialty pharmaceutical sector.

SUMMARY DATA

52-Week High	**$12.44**
52-Week Low	**$5.57**
One-Year Return (%)	**-20.43**
Beta	**1.65**
Average Daily Volume (sh)	**381,935**
Shares Outstanding (mil)	**64**
Market Capitalization ($mil)	**$379**
Short Interest Ratio (days)	**9.15**
Institutional Ownership (%)	**36**
Insider Ownership (%)	**15**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/M**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2015 Estimate	**N/M**
P/E using 2016 Estimate	**13.6**

Risk Level	**Average**
Type of Stock	**Small-Growth**
Industry	**Med-Drugs**

ZACKS ESTIMATES

Revenue
(In millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	7.5 A	7.4 A	7.5 A	9.9 A	32.4 A
2015	4.4 A	5.2 A	5.8 A	6.5 E	21.4 E
2016					49.7 E
2017					88.8 E

Earnings per Share
(EPS is operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2014	$0.09 A	$0.09 A	$0.20 A	$0.21 A	$0.60 A
2015	-$0.00 A	-$0.50 A	-$0.25 A	$0.01 E	-$0.74 E
2016					-$1.33 E
2017					-$0.76 E

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WHAT'S NEW

An Overview of Aralez Pharmaceuticals

On February 5, 2015, Aralez Pharmaceuticals Inc. (ARLZ) announced that the planned merger between Pozen, Inc. and Tribute Pharmaceuticals Canada, Inc. was complete following approval by the shareholders of each company. The combined company will continue operations as Aralez Pharmaceuticals Inc. and will be headquartered in Canada, with additional operations in the U.S. and Ireland.

The strategy behind Aralez is that the company will become a cardiovascular focused specialty pharmaceutical company with support from a pain-focused franchise. We expect that the company will be centered on YOSPRALA®, once it is approved, which we believe will occur in 2016 (discussed further below). In the run-up to the launch of YOSPRALA®, the company will focus its efforts on increasing sales of Fibricor® in the U.S., which Tribute had recently purchased from Sun Pharma and Aralez will begin promoting in the U.S. in the second quarter of 2016.

In conjunction with the completion of the merger, a group of leading healthcare investors, led by Deerfield Management, has committed up to $350 million in capital for Aralez to fund the anticipated commercial launch of YOSPRALA® and for "future acquisitions". The investment in Aralez consisted of $75 million in equity and $75 million in 2.5% convertible senior secured notes due in six years.

In addition to the $150 million that was invested in Aralez at closing, another $200 million in senior secured debt is available to the company to "fund future acquisitions". We believe this will translate into a number of deals that will transpire in 2016 and beyond to build Aralez into a company with a cardiovascular-based and North American focused portfolio of products. These deals are likely to focus on products that are already approved or very near approval that the company views as low-risk, high-value assets.

Cardiovascular Products

YOSPRALA® is composed of a delayed-release aspirin and an immediate-release omeprazole intended for the secondary prevention of heart attack and stroke. For patients who have suffered a heart attack or stroke, taking daily aspirin has been shown to help prevent the occurrence a second heart attack or stroke. In the U.S., there are approximately 24 million secondary prevention patients, with approximately 70% of them taking daily aspirin. In addition, approximately 40% of prescribing physicians recommend that their patients take some form of gastric acid reducer. The reason for this is that daily use of nonsteroidal anti-inflammatory drugs (NSAIDs), such as aspirin, is associated with an increased risk of developing gastric ulcers, thus the addition of an agent that decreases stomach acid production, such as the proton pump inhibitor (PPI) omeprazole, is intended to decrease the chance for the development of ulcers. Pozen has previously shown that patients taking YOSPRALA® develop significantly fewer gastric ulcers than patients taking enteric-coated aspirin after six months of treatment (Whellan *et al*., 2014). Patent coverage for YOSPRALA® expires in Feb. 2023, with the potential for filed patent applications to extend protection to 2032.

As a reminder, the New Drug Application (NDA) for YOSPRALA® was originally filed in March 2013. On August 25, 2014, Pozen received a complete response letter (CRL) from the FDA, noting that deficiencies were found during an inspection of the facility that manufactures the active ingredient of YOSPRALA®. The supplier responded to the FDA and on June 30, 2014 the NDA was resubmitted. On December 17, 2014, Pozen received a second CRL, which contained identical wording to the first CRL. YOSPRALA® cannot be approved until there is satisfactory resolution to the deficiencies noted in the CRL or an alternative supplier is utilized. On December 28, 2015, Pozen announced that the NDA would move forward with a previously announced secondary provider of the active pharmaceutical ingredient (API) for YOSPRALA®, thus the NDA will receive a Class-2 (six month) review. With a second quarter submission of the NDA, we anticipate that YOSPRALA® will be approved in the fourth quarter of 2016.

Fibricor® is a unique formulation of fenofibric acid and is indicated as an adjunctive therapy to diet for the treatment of severe hypertriglyceridemia (triglycerides ≥ 500 mg/dL), to reduce elevated LDL cholesterol, total cholesterol, triglycerides, apolipoprotein B (Apo B), and to increase HDL cholesterol. Fenofibrate was originally sold by Abbott Labs (now AbbVie Pharmaceuticals) as TriCor, with peak sales in excess of $1 billion. AbbVie brought a

blockbuster next-generation product, Trilipix (fenofibric acid) to the market as a follow-on to TriCor, but now 80% of the market for fenofibrate and fenofibric acid is generic. As a reminder, Tribute had recently acquired Fibricor® from Sun Pharma in May 2015. Tribute paid $10 million for the rights to the product, which included $5 million upfront, $2 million due in November 2015, and $3 million due in May 2016. Trailing twelve-month sales of Fibricor ending April 30, 2015 totaled $4.7 million, and that was with little to no promotion by Sun Pharma. We believe Aralez will utilize approximately 20-25 sales representatives to promote Fibricor® to approximately 3,500 cardiologists and primary care physicians beginning in the second quarter of 2016. Patent coverage for Fibricor expires in Feb. 2027.

Bezalip® SR (bezafibrate sustained release) was one of Tributes largest products, with sales in Canada of around CND$6-7 million. Beyond Canada, the product is approved in approximately 40 countries around the globe, but not yet approved (or filed) in the U.S. Bezalip® SR is indicated as an adjunct to diet and other therapeutic measures for the treatment of mixed hyperlipidemia, a condition defined as the elevation of plasma cholesterol, triglycerides (TGs), or both, or a low high-density lipoprotein (HDL) level that contributes to the development of atherosclerosis. The 400 mg Bezalip® SR tablet is designed for sustained release such that only once-daily dosing is sufficient to obtained therapeutic pharmacology. Bezalip® SR is currently promoted with a 20-person primary-care focused sales force in Canada.

In addition to the products discussed above, Aralez also has a synthetic beta-adrenergic blocker drug Visken® (approved in Canada) for hypertension and angina along with a combination product that includes the active ingredient in Visken® (pindolol) with a diuretic agent hydrochlorothiazide under the brand name Viskazide® (approved in Canada).

Pain Products

Vimovo® is composed of the NSAID naproxen and the PPI esomeprazole, with the theory behind the drug identical to that of YOSPRALA®. Aralez will continue to collect royalties on sales of Vimovo® in the U.S. from Horizon and outside the U.S. from AstraZeneca. Patent coverage for Vimovo® expires in the U.S. in Oct. 2031.

Durela® is an extended release tramadol product with sales in Canada of approximately CND$1.5 million. Tribute acquired Durela® when the company closed on the Medical Futures acquisition in June 2015. Penetration rates for Durela® in Canada are extremely low and offer significant upside should Aralez management be able to improve uptake of the drug. The drug is patent protected in Canada until October 2022. We believe peak Durela® sales are approximately CND$5 million.

Cambia® (diclofenac) was the primary growth driver of the Canadian business at Tribute Pharma. The product was approved back in March 2012, but recently prescriptions have been accelerating thanks to Canadian Headache Society (CHS) guidelines published back in October 2013 recommending the product as first-line therapy for migraine attacks where OTC products fail. This puts Cambia® ahead of triptans such as Maxalt®, Imitrex®, and Zomig®. Tribute (in collaboration with the CHS and KOLs) developed and disseminated a national continuing education program based on the CHS guidelines to help drive awareness and uptake of Cambia®. The drug is patent protected in Canada until May 2017.

Tribute acquired the Canadian rights to Fiorinal® and Fiorinal® C in October 2014. The products are indicated for the relief of tension-type headache and would be easy to co-promote with Cambia®.

We remind investors that Pernix Pharma now has the U.S. rights to Treximet® (naproxen + sumatriptan), one of the leading triptan products on the market for acute migraine. Aralez still owns the ex-U.S. rights to Treximet, called MT-400, which may make a nice complement to Cambia® or Fiorinal® / Fiorinal® C in Canada. If Aralez did decide to move forward with developing MT-400 in Canada, we believe the company would offer the best migraine/headache product suite for active promotion, and could see incredible synergistic uptake of all three products thanks to established awareness and strong KOL relationships.

Other Products

Other important drugs that Aralez has include Soriatane® (acitretin) in Canada for the treatment of severe psoriasis, Collatamp® G (gentamicin-impregnated collagen) for post-operative infection, Bilastine® (antihistamine) in Canada for allergic rhinitis and urticaria, Proferrin® for iron deficiency, and Resultz® (50% isopropyl myristate) for the treatment of head lice.

Tribute acquired the rights to Proferrin® via the Medical Futures acquisition in June 2015. Proferrin® is an iron supplement made up of heme iron polypeptide naturally sourced from bovine hemoglobin. The product is designed

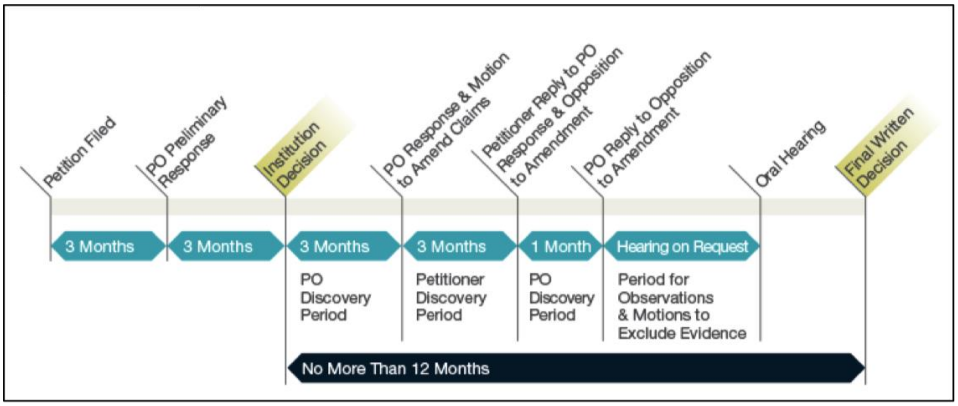
to provide high absorption of iron with low incidences of side effects commonly associated with iron treatments, such as cramping and constipation. Medical Futures was privately-owned prior to the acquisition by Tribute last, so exact financials are not available; however, we have been told that sales of Proferrin® in Canada were about CND$4 million for the trailing twelve months.

Resultz® (50% isopropyl myristate topical solution) was also acquired from Medical Futures. The product is indicated for the treatment of head lice infestations in individuals 2 years and older. Resultz® is a unique, non-toxic/pesticide free, patent protected, topical solution which is available without a prescription in pharmacies across Canada. Resultz® treatment for head lice infestations is simple and consists of only 1 to 2 applications to achieve efficacy. The drug is patent protected in Canada until Apr. 2023.

Aralez also has worldwide rights to NeoVisc® for osteoarthritis and Uracyst® for interstitial cystitis. Having two products on the market in Europe will certainly help should the company look to commercialize Yosprala® or MT-400 in the EU, or look to acquire the EU rights to Vimovo® from AstraZeneca.

IPR Petition Against Vimovo® Patent Instituted

The Coalition for Affordable Drugs (CFAD) filed petitions for *Inter Partes* Review (IPR) of three of Aralez's U.S. Patent's related to Vimovo® (Nos. 6,926,907, 8,858996, and 8,852636) as well as one owned jointly by Horizon and Aralez (No. 8,945,621) with the Patent Trials and Appeal Board (PTAB) of the U.S. Patent and Trademark Office (USPTO). The IPR was instituted with the America Invents Act of 2011 to replace the *inter partes* reexamination, which up until that time was one of two methods for reexamination of a patent. However, reexamination had earned a reputation for taking a long time to finish and often with results that were ambiguous. The hope with establishing IPR was that a patent review would go quickly and involve the PTAB in the first instance, rather than on appeal as with *inter partes* reexamination. The timeline for IPR is indicated below:



Source: fishpostgrant.com

J. Kyle Bass, the hedge fund billionaire most famous for predicting the subprime mortgage crisis in 2008, established the CAFD (a wholly owned subsidiary of Bass' Hayman hedge fund) to challenge patents owned by several publicly traded pharmaceutical companies in an attempt to invalidate patents they viewed as being improperly granted, and thus pave the way for generics of the targeted drugs and lower drug costs. In addition to filing IPR petitions, CAFD takes short positions in the company's stock that they are targeting, thus attempting to profit off a decline in a company's stock price upon notice of the IPR petition or the successful invalidation of the company's patent.

On February 22, 2016, the PTAB announced that the IPR filed against patent 8,945,621 ('621 patent) was instituted and thus the challenge against that patent will proceed. Investors should be aware that a 2014 review in the University of Chicago Law Review showed that at the time of the review, of the 160 IPRs with decisions on merit, 78% resulted in all instituted patent claims being invalidated or disclaimed. Thus, at least for the first two years of the program, parties who were able to have their IPRs instituted were extremely successful in having the challenged patent claims invalidated (Love and Abwani, 2014). None of the CAFD's IPR challenges that have been instituted have rendered a final decision, thus it is unclear if they will have the same type of success. Based upon the timeline shown above, it will be at least another 12 months until there is a final decision rendered on the challenge against the '621 patent, and we will continue to follow it closely. Ultimately, even if the challenged patent claims are invalidated we do not believe there will be any material effect on Aralez's business, and the fact that the PTAB did not institute three prior challenges to other Vimovo®-related patents leads us to believe that the chance of success for the CAFD in in the '621 case is low.

MANAGEMENT PROFILES

Adrian Adams – Chief Executive Officer

Mr. Adams is Chief Executive Officer and a Director of Aralez Pharmaceuticals Inc. and served in this role with the company's predecessor, Pozen Inc., since June 1, 2015. Prior to joining the company, Mr. Adams served as Chief Executive Officer and President of Auxilium Pharmaceuticals, Inc. from December 2011 until its acquisition by Endo International plc in January 2015 for $2.6 billion. Prior to joining Auxilium, Mr. Adams served as Chairman and Chief Executive Officer of Neurologix, Inc., a company focused on development of multiple innovative gene therapy development programs. Before Neurologix, Mr. Adams served as President and Chief Executive Officer of Inspire Pharmaceuticals, Inc., where he oversaw the commercialization and development of prescription pharmaceutical products and led the company through a strategic acquisition by global pharmaceutical leader Merck & Co., Inc. in May 2011 for $430 million. Prior to Inspire, Mr. Adams served as President and Chief Executive Officer of Sepracor Inc. from December 2006 until its acquisition by Dainippon Sumitomo Pharma Co in February 2010 for $2.6 billion. Prior to joining Sepracor, Mr. Adams was President and Chief Executive Officer of Kos Pharmaceuticals, Inc. from 2002 until the acquisition of the company by Abbott Laboratories in December 2006 for $3.7 billion. Mr. Adams graduated from the Royal Institute of Chemistry at Salford University in the U.K. Mr. Adams serves as Chairman of the Board of AcelRx Pharmaceuticals and recently served as a director of Amylin Pharmaceuticals.

Andrew I. Koven – President and Chief Business Officer

Mr. Koven is President and Chief Business Officer of Aralez Pharmaceuticals Inc. and served in this role with the company's predecessor, Pozen Inc., since June 1, 2015. Mr. Koven has over 26 years of experience practicing law, most of which has been in the pharmaceutical industry. Prior to joining the company, Mr. Koven served as Executive Vice President, Chief Administrative Officer, and General Counsel and Secretary of Auxilium Pharmaceuticals, Inc. from February 2012 until its acquisition by Endo International plc in January 2015. In his role, Mr. Koven was responsible for Auxilium's legal functions, government affairs, and technical operations. Prior to Auxilium, Mr. Koven served as President and Chief Administrative Officer of Neurologix, Inc. Prior to that, Mr. Koven was Executive Vice President and Chief Administrative and Legal Officer at Inspire Pharmaceuticals, Inc., where he oversaw all matters related to legal, quality and compliance, corporate development and licensing and technical operations prior to the strategic acquisition of the company by Merck & Co. From 2007 to 2010 Mr. Koven served as Executive Vice President, General Counsel and Corporate Secretary at Sepracor Inc. before its acquisition by Dainippon Sumitomo Pharma Co in 2009. Before joining Sepracor, Mr. Koven was Executive Vice President, General Counsel and Corporate Secretary at Kos Pharmaceuticals, Inc., where he oversaw the company's legal, compliance and quality assurance departments until the acquisition of the company by Abbott Laboratories in 2006. Mr. Koven began his career in the pharmaceutical industry as an Assistant General Counsel at Warner-Lambert Company from 1993 to 2000, followed by his role as Senior Vice President and General Counsel at Lavipharm Corporation from 2000 to 2003. From 1986 to 1992 he was a corporate associate at Cahill, Gordon & Reindel in New York.

Eric L. Trachtenberg – General Counsel, Chief Compliance Officer & Corporate Secretary

Mr. Trachtenberg serves as General Counsel, Chief Compliance Officer and Corporate Secretary of Aralez Pharmaceuticals Inc. since February 5, 2016. Previously, Mr. Trachtenberg served as Deputy General Counsel of Pozen Inc., the company's predecessor, which he joined on June 22, 2015. Mr. Trachtenberg has extensive experience practicing law, including over ten years in the pharmaceutical industry. Mr. Trachtenberg most recently served as Deputy General Counsel at Auxilium Pharmaceuticals, Inc., from 2012 through its acquisition by Endo Pharmaceuticals in February 2015. Prior to Auxilium, he was Vice President, General Counsel and Corporate Secretary of Enobia Pharma, Inc. and managed all legal aspects of Enobia's sale to Alexion Pharmaceuticals. Prior to that, Mr. Trachtenberg served as Vice President and Associate General Counsel of Sepracor Inc. and remained in that position with Sunovion Pharmaceuticals Inc. following the acquisition of Sepracor by Dainippon Sumitomo Pharma. Mr. Trachtenberg also held a Senior Counsel position at Kos Pharmaceuticals, Inc. before its acquisition by Abbott. Mr. Trachtenberg began his career as an Associate at Blank Rome LLP. He holds a Bachelor of Science degree in Management from Tulane University and a Juris Doctorate and Master of Business Administration degree from Temple University.

James Tursi, M.D. – Chief Medical Officer

Dr. Tursi is Chief Medical Officer of Aralez Pharmaceuticals Inc. and served in this role with the company's predecessor, Pozen Inc., since October 1, 2015. Dr. Tursi has over 11 years of extensive experience developing pharmaceuticals across a number of therapeutic areas. Prior to joining the company, he served as Chief Medical Officer of Innocoll AG where he was responsible for managing all clinical research and development, medical affairs

and safety activities. Prior to joining Innocoll, Dr. Tursi served as Chief Medical Officer at Auxilium Pharmaceuticals Inc. from 2011 to 2015, where he previously held the position of Vice President of Clinical Research & Development from 2009 to 2011. He was responsible for oversight of clinical and nonclinical development programs, clinical operations, medical affairs and global safety activities. Dr. Tursi served as the clinical medical safety lead for all regulatory agency interactions with the FDA, Europe, and Canada. Prior to Auxilium, he served as Director of Medical Affairs for GlaxoSmithKline Biologicals from 2006 to 2009 and directed all medical affairs responsibilities for cervical cancer vaccines in North America. Dr. Tursi entered the pharmaceutical industry in 2004 as a Medical Director for Procter and Gamble Pharmaceuticals until 2006. He worked on several products and therapeutic areas, which included female sexual dysfunction, overactive bladder, and osteoporosis. His responsibilities included clinical development and medical affairs. Dr. Tursi was a board certified OB/GYN and practiced medicine and surgery for over 10 years. Dr. Tursi received his doctor of medicine degree from the Medical College of Pennsylvania and completed his residency training at the Johns Hopkins Hospital. He serves as a member of the board of directors of Agile Therapeutics.

Mark A. Glickman – Chief Commercial Officer

Mr. Glickman is Chief Commercial Officer of Aralez Pharmaceuticals Inc. and served in this role with the company's predecessor, Pozen Inc., since June 22, 2015. Mr. Glickman has over 20 years of experience in pharmaceutical sales and operations, with expertise in a variety of fields including sales turnarounds, global product introductions, and organizational expansions. Prior to joining the company, Mr. Glickman served as Executive Vice President of Sales and Marketing for Auxilium Pharmaceuticals. Prior to that, he served as Vice President in the medical device division at Otsuka America Pharmaceutical, Inc. At Otsuka, he helped to reinvigorate the company's sales and increase its business by 50% over two years, while also spearheading quality improvement initiatives and playing a critical role in new regulatory filings. Prior to Otsuka, Mr. Glickman served as Senior Vice President of Sales and Marketing at Oscient Pharmaceuticals Corp., during which time he completed a successful turnaround of the company's commercial strategy, driving a significant increase in sales. Before joining Oscient, Mr. Glickman served as Vice President of Sales at Bayer Healthcare's Diabetes Care Division. From 2001 to 2007 he played a major role in helping to build the commercial organization at Kos Pharmaceuticals and held various positions including Director of Marketing, Regional Sales Director and Vice President of Sales. Mr. Glickman started his pharmaceutical career at Bristol-Myers Squibb where he was responsible for the marketing of cardiovascular products, including the blockbuster Plavix. Mr. Glickman holds a Master of Business Administration degree from New York University.

Scott J. Charles – Chief Financial Officer

Mr. Charles is Chief Financial Officer of Aralez Pharmaceuticals Inc. Previously, Mr. Charles served as Senior Vice President of Finance of Pozen Inc., the company's predecessor, which he joined on July 27, 2015. Mr. Charles has over 19 years of experience with a record of accomplishment across a spectrum of financial operations in public and private environments. Prior to joining the company, he most recently served as the Vice President of Finance and Treasurer at Ikaria, Inc., a critical care pharmaceutical company based in Hampton, New Jersey with annual revenues in excess of $400 million. Mr. Charles played a lead role in the spin-off of Ikaria's R&D operations and sale of its commercial business to a private equity firm in 2014 for $1.6B and then to Mallinckrodt in April 2015 for $2.3B. Mr. Charles also successfully helped raise over $3B through numerous capital market transactions. While at Ikaria, Mr. Charles had the opportunity to lead all of the finance functions. Prior to that, Mr. Charles held several senior finance roles of increasing responsibility, culminating as the Vice President of Finance and Treasurer at Reliant Pharmaceuticals, Inc. Mr. Charles played an integral role in the company's M&A process that resulted in the successful sale of Reliant to GlaxoSmithKline for $1.6B in 2007. He was also instrumental in closing several business development transactions, including the acquisition of Lovaza, a product that grew to over $1B in annual revenues. Prior to that he was a Manager of Assurance and Business Advisory Services at Arthur Andersen, LLP. He holds a Bachelor of Science degree in Business Administration from Bucknell University and is a Certified Public Accountant.

VALUATION AND RECOMMENDATION

We have built a detailed financial model for Aralez that takes into account potential future revenues from YOSPRALA®, Fibricor®, the other assets acquired from Tribute, and royalty income for Vimovo®. Included in the model on the following page is an estimate of the pro forma combined numbers for Pozen and Tribute for 2015 along with estimates for 2016-2018.

For YOSPRALA®, we anticipate the NDA being refiled in the second quarter of 2016 and approval of the drug in 2016, leading to minimal revenues this year. For 2017 and 2018 we model for revenues of $40 and $100 million, respectively, with the total continuing to rise to a peak of $250 million in 2022. The company has indicated it will file for approval of the drug in Canada and the E.U., however we do not include potential revenues in our model from these sources as of yet, thus presenting potential upside to our revenue forecast.

For Fibricor and the company's other assets, we model for just over $3 million in revenue for Fibricor and just over $20 million in revenue for the rest of the portfolio in 2016, with revenues growing in the mid-single digits in the following years.

Our model calls for gross margins to be near 80% in 2016 and slowly rise to the mid-to-upper 80's by 2020. We model for operating expenses in 2016 of approximately $148.5 million, which includes $10 million in share based compensation (which is included for all successive years as well) along with $15 million in one time costs related to the merger and $9 million in excise taxes. Operating expenses will decrease slightly in 2017 before rising in 2018 due to expansion of the sales force promoting YOSPRALA®.

Our target price is derived using an enterprise value (EV)/revenues multiple based on forecasted 2020 revenue. We view this as an appropriate methodology for a company with increasing revenue transitioning to sustained profitability. Applying a 5.0x multiple to projected 2020 revenues of $249 million yields a target EV of approximately $1.2 billion. Discounting back 4 years with a 15% discount rate yields a net present EV of $712 million. Taking into account the company's estimated debt and cash as of the end of the first quarter of 2016 leads to a net present market cap of $784 million, and when divided by the fully diluted share count of 75 million results in a fair value of approximately $10.50 per share and we are assigning a 'Buy' rating to the shares. Additional upside to our model is possible from the company attaining approval for YOSPRALA® in Canada and the E.U., better than anticipated sales of products from the company's portfolio, and of course any accretive deals, at least one of which we anticipate occurring before the end of 2016.

Lastly, it would be remiss of us to neglect to mention that four out of the last five companies where Adrian Adams, the current CEO of Aralez, worked as CEO were acquired for an average premium of 39%. Long term it would not surprise us to see a similar outcome for Aralez.

Dates	Position	Company	Outcome	Premium
Dec. 2011 - Jan. 2015	CEO/President	Auxillium Pharmaceuticals, Inc.	Acquired by Endo Pharmaceuticals, Inc.	47%
Sep. 2011 - Nov. 2011	CEO/Chairman	Neurologix, Inc.	Filed for Ch. 7 Bankruptcy	N/A
Feb. 2010 - May 2011	CEO/President	Inspire Pharmaceuticals, Inc.	Acquired by Merck	26%
Mar. 2007 - Feb. 2010	CEO/President	Sepracor, Inc.	Acquired by Dainippon Sumitomo Pharma Co.	28%
2002 - Dec. 2006	CEO/President	Kos Pharmaceuticals, Inc.	Acquired by Abbott Laboratories	56%

Source: Zacks SCR

PROJECTED FINANCIALS

Aralez Pharmaceuticals Inc.
Income Statement

Aralez Pharmaceuticals, Inc.	2015 E	Q1 E	Q2 E	Q3 E	Q4 E	2016 E	2017 E	2018 E
Fibricor	**$2.5**	**$0.7**	**$0.8**	**$0.8**	**$0.8**	**$3.1**	**$3.3**	**$3.5**
YOY Growth	-	-	-	-	-	-	-	-
Vimovo (royalty)	**$21.4**	**$5.7**	**$5.7**	**$5.8**	**$5.8**	**$23.0**	**$24.0**	**$25.0**
YOY Growth		-	-	-	-	*7.5%*	*4.3%*	*4.2%*
Yosprala	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$3.0**	**$3.0**	**$40.0**	**$100.0**
YOY Growth	-	-	-	-	-	-	-	-
Other Products	**$20.0**	**$4.8**	**$5.0**	**$5.3**	**$5.5**	**$20.6**	**$21.5**	**$22.0**
Total Revenues	$43.9	$11.2	$11.5	$11.9	$15.1	$49.7	$88.8	$150.5
YOY Growth	-	-	-	-	-	*13.1%*	*78.9%*	*69.5%*
Cost of Goods Sold	$12.5	$2.0	$2.2	$2.3	$2.8	$9.3	$14.0	$22.0
Product Gross Margin	*71.5%*	*82.1%*	*80.8%*	*80.7%*	*81.5%*	*81.3%*	*84.2%*	*85.4%*
SG&A	$50.0	$24.5	$28.5	$32.5	$32.5	$118.0	$110.0	$125.0
% SG&A	*113.9%*	*218.8%*	*248.9%*	*273.1%*	*215.2%*	*237.7%*	*123.9%*	*83.1%*
R&D	$7.0	$2.5	$2.7	$3.2	$3.3	$11.7	$7.0	$5.0
% R&D	*15.9%*	*22.3%*	*23.6%*	*26.9%*	*21.9%*	*23.6%*	*7.9%*	*3.3%*
Amortization Expense	$8.5	$2.2	$2.3	$2.5	$2.5	$9.5	$10.0	$11.0
EBITDA	($34.1)	($20.0)	($24.25)	($28.60)	($26.00)	($98.9)	($52.2)	($12.5)
Operating Margin	*-77.7%*	*-178.6%*	*-211.8%*	*-240.3%*	*-172.2%*	*-199.1%*	*-58.8%*	*-8.3%*
Interest Income / Net	($8.0)	($0.5)	($0.5)	($0.6)	($0.6)	($2.1)	($2.5)	($3.0)
Pre-Tax Income	($42.1)	($20.5)	($24.8)	($29.2)	($26.6)	($101.0)	($54.7)	($15.5)
Taxes	$3.0	$0.8	$0.8	$1.0	$1.0	$3.6	$4.0	$5.0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*30%*	*28%*
Net Income	($45.1)	($21.3)	($25.6)	($30.2)	($27.6)	($104.6)	($58.7)	($20.5)
YOY Growth	-	-	-	-	-	*131.8%*	*-43.9%*	*-65.1%*
Net Margin	*-102.7%*	*-190.2%*	*-223.1%*	*-253.4%*	*-182.5%*	*-210.6%*	*-66.1%*	*-13.6%*
Reported EPS	($0.74)	($0.30)	($0.36)	($0.42)	($0.38)	($1.46)	($0.76)	($0.26)
Fully Diluted Shares	61.0	70.0	71.0	72.0	73.0	71.5	77.0	80.0

Source: Zacks Investment Research, Inc. *David Bautz, PhD*

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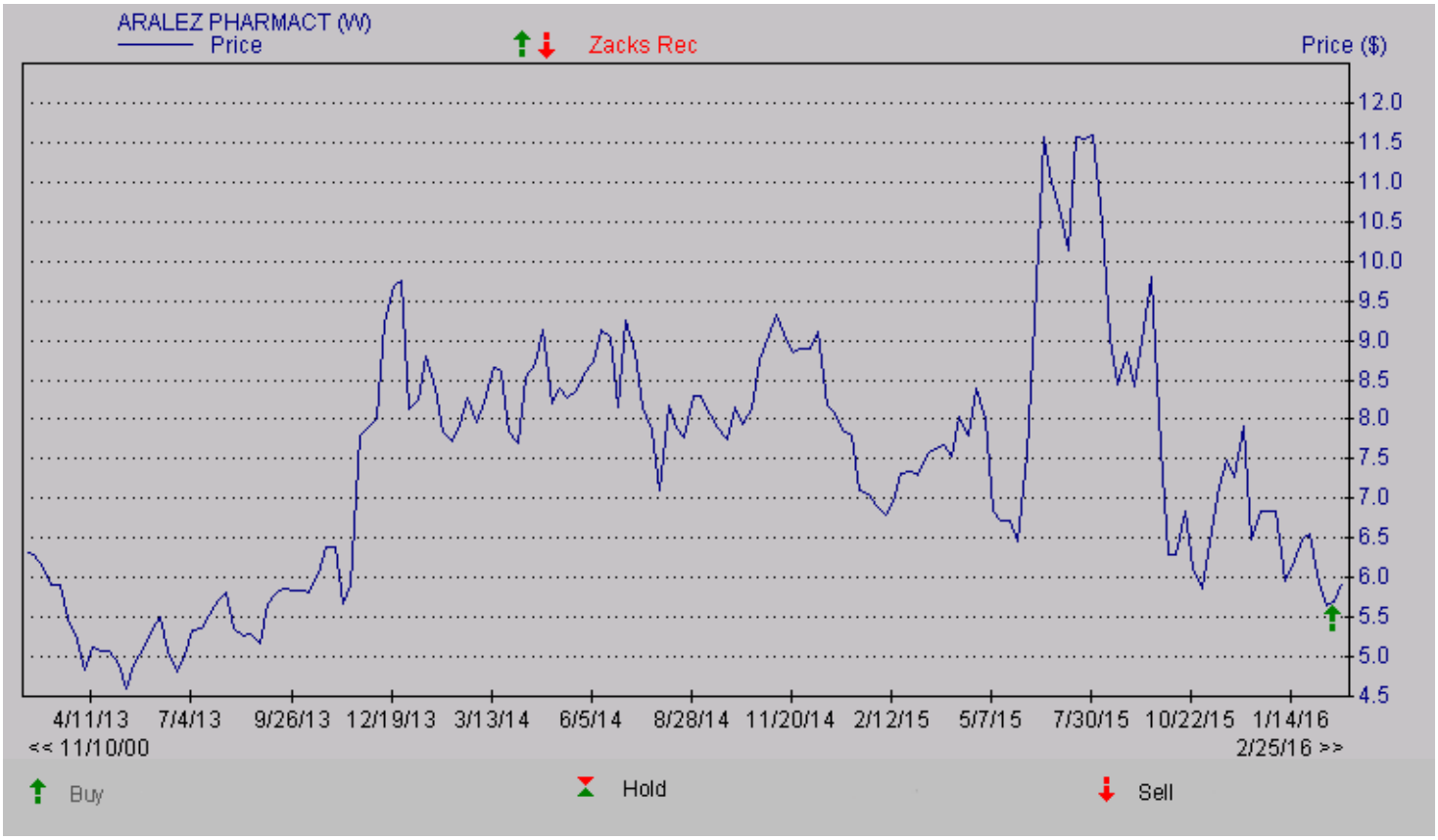

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