Zacks Small-Cap Research

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Access Pharma (ACCP-OTC)

ACCP: MuGard sales broke out in 4Q11 and will continue current momentum in 1Q12-Outperform

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	02/23/2012
Current Price (04/03/12)	$1.15
12-month Target Price	**$7.00**

OUTLOOK

Access reported meaningful sales number for **MuGard** in 4Q11 for the first time since the launch of the product in August 2010.

Based on information we have gathered so far, sales of MuGard will continue current momentum in 1Q12 and throughout the year of 2012. Therefore, we estimate sales of MuGard will exceed $6 million in the US alone in 2012.

We are still bullish about ACCP and maintain an Outperform rating on ACCP shares.

SUMMARY DATA

52-Week High	**$2.45**
52-Week Low	**$0.98**
One-Year Return (%)	**-44.98**
Beta	**1.06**
Average Daily Volume (sh)	**40,027**
Shares Outstanding (mil)	**24**
Market Capitalization ($mil)	**$28**
Short Interest Ratio (days)	**0.35**
Institutional Ownership (%)	**68**
Insider Ownership (%)	**6**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2010 Estimate	**N/A**
P/E using 2011 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Avg.,**
Type of Stock	**N/A**
Industry	**Med-Drugs**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	0.15 A	0.15 A	1.04 A	0.51 A	1.85 A
2012	0.88 E	1.28 E	1.79 E	3.30 E	7.25 E
2013					17.00 E
2014					41.00 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	-$0.14 A	-$0.16 A	-$0.13 A	-$0.05 A	-$0.47 A
2012	-$0.08 E	-$0.07 E	-$0.06 E	-$0.03 E	-$0.24 E
2013					$0.03 E
2014					$0.30 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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WHAT'S NEW

MuGard Sales Broke Out in 4Q11

On March 23, 2012, Access Pharma (ACCP) reported financial results for the fourth quarter of 2011 ending December 31, 2011.

Fourth quarter MuGard product sales were $0.41 million, an increases of 400% over third quarter product sales of $0.08 million. According to management, the increase was mainly due to increased adoption of MuGard, as well as significant expansion by pharmacy benefit managers and payers to include MuGard in their benefit plans for reimbursement.

The 4Q11 was an important one, which was the first quarter in which MuGard sales were meaningful after it was launched in early August 2010 in the US.

On the conference call held today (April 4, 2012), management reviewed the progresses ACCP has made during 4Q11 and 1Q12. One key progress the Company has made is that reimbursement rate for MuGard in 1Q12 has been over 50% and that it continues to grow.

ACCP is working closely with specialty pharmacies and pharmacy benefit managers (PBMs) to make MuGard accessible to cancer patients who need supportive care. As a result of this effort by the Company, on April 4, 2012, Memorial Sloan-Kettering Cancer Center (MSKCC) has added MuGard to its cancer supportive care pharmacy formulary. Patients undergoing cancer treatment will now have direct access to MuGard from the first day of cancer treatment to manage oral mucositis.

This is an important milestone for MuGard and the Company as MSKCC is a world-renowned cancer institution, which treats numerous cancer patients each year.

Cash Burn is not an Immediate Concern

As of December 31, 2011, Access had cash and cash equivalents of $2.5 million. Management believes that current cash and expected license fees should fund expected burn rate into the second quarter of 2012.

However, in November 2011, Access has entered into definitive agreements for the purchase of $5.2 million of units, consisting of common stock and warrants in a private placement financing with a select group of institutional and accredited investors. Each unit consists of the one share of common stock at $1.45 share price, with 50% warrant coverage with an exercise price of $1.67 per share and a term of two and half years and 50% warrant coverage with an exercise price of $2.00 per share and a term of five years.

With this financing, the Company's liquidity could fund the operations into the end of 2012.

MuGard Sales Expected to Accelerate in 2012

MuGard sales ramp has been slower than expected, disappointing but somewhat understandable. With all the groundwork done in 2011, we think MuGard sales could start to accelerate in 2012.

Our call is based on the following facts and assumptions:

In the international markets

- Access' MuGard partner in China Rhei Pharmaceuticals HK Ltd received regulatory and marketing approval for MuGard in China on Feb 24, 2012. ACCP has been talking with the

contract manufacturer and manufacturing of MuGard will commence shortly in the United States to meet the demand created by Jian An, Rhei's sales and marketing partner in China.

- In 2011, Access and Rhei signed a $30 million supply agreement for MuGard to ensure manufacturing capacity of up to a minimum of $30 million of product in the licensed territories. In addition, Access also approved a sub-license agreement between Rhei Pharmaceuticals and Jian An Pharmaceuticals Limited in Shenzhen, China to leverage Jian An's extensive sales, marketing and regulatory infrastructure for the launch of MuGard in China and Taiwan. Jian An is headquartered in Shenzhen, China and has a 25-year history of selling pharmaceutical and other medical products in the China market. Jian An has 1400 sales representatives covering all majors centers in China through 169 sales offices.

- China represents a key target market for MuGard. China is one of the fastest growing oncology markets and cancer supportive care has been improving throughout recent years. We believe revenue from China MuGard sales will make a meaningful contribution to total revenue in 2012.

In the US market

- **MuGard prescriptions** continued to increase through the 1Q12. Clinicians prescribing MuGard continue to provide feedback and anecdotal evidence of positive clinical experiences. Over 700 clinicians have prescribed MuGard for their patients and over 75% of these doctors are recurring prescribers.

- Throughout the 1Q12, Access made significant progress in increasing **reimbursement** for MuGard. MuGard continued receiving reimbursement from many networks of leading insurance companies and pharmacy benefit managers including Group Health Incorporated (GHI), TRICARE, Harvard Pilgrim, Humana and ExpressScripts. Reimbursement has more than doubled and now includes payers such as several state Anthem plans, various Aetna and Cigna plans, Assurant Health, Keystone, Premera and additional BlueCross Blue Shield (BCBS) and United Healthcare state plans. Over the past few months, Access has more than doubled the amount of payers providing coverage for MuGard in the U.S.; growing from approximately 30 payers to over 70 payers and pharmacy benefit managers (PBM's).

- Since its launch, Access' MuGard Patient Reimbursement and Support Center (**PRSC**), also known as the MuGard HUB, has improved patient access to MuGard by enhancing product distribution and facilitating payment for MuGard by insurance carriers. In addition to the MuGard HUB, Access also brought on several specialty pharmacies including CSPN (Community Specialty Pharmacy Network) and CuraScript, the specialty division of Express Scripts, to further expand its specialty pharmacy and third party logistics networks. CSPN and CuraScript began providing MuGard to the patients within their expansive network. CuraScript Specialty Distribution, its third party logistics division, warehouses MuGard and serves as its specialty distributor and wholesaler for specialty pharmacy providers.

- Some hospitals purchase products, drugs, devices through large Group Purchasing Organizations **(GPOs).** Access is currently negotiating a Preferred Product/Rebate agreement with the largest GPO in the US that represents approximately 2,000 of the 5,000-5,500 hospitals in the US.

- Access has spent significant resources on creating and building demand throughout the U.S. Part of the effort included an extensive sampling to reach patients, caregivers, and the oncology community. The formulary process in local hospitals and large institutions are well underway with many decisions already made by the end of 2011.

- Access' **contracted sales reps** continue their broad-scale marketing push for MuGard. Access has identified under-resourced geographic areas and allocated additional coverage in these

underserved areas and in new territories as it solidifies reimbursement activities and gains additional payer acceptance.

- MuGard clinical trial: Access has been running what it believes is the "gold-standard" oral mucositis trial in the US which is double-blinded, randomized, controlled, multi-center trial. The trial is targeted to be 80 patients, roughly 65 has been enrolled and randomized right now. The successful outcome of this trial will make MuGard the standard of care in the treatment of oral mucositis.

At the front of partnership

- Access continues to have active discussions with potential **co-promotion partners** in the US. If this can materialize in the first half of 2012, it will have a significant impact on MuGard sales for the year of 2012 and beyond. With a decent product and the entire infrastructure in place, a co-promotion partner with much stronger marketing muscle will help Access better reach the oncology community.

The dramatic increase of MuGard US sales in the fourth quarter compared to that in the first nine months of 2011 demonstrates that the company's marketing efforts has begun to bear fruits. We have pointed out in our previous reports that sales ramp-up of MuGard is important for Access since MuGard is the Company's only marketed product. In this regard, we think the sales increase in 4Q11is predictive of future success.

For the reasons mentioned above, we think sales could accelerate from 2012 onwards. We will closely watch MuGard sales ramp in the coming quarters and update investors in this regard.

VALUATION AND RECOMMENDATION

We continue to maintain our Outperform rating on Access Pharma and reiterate our price target of $7 per share.

MuGard sales finally broke out in 4Q11 though it came a little later than we have expected. Based on all the information we have gathered, we believe MuGard will strongly boost the Company's top line in the coming quarters.

Some investors have been expecting a strong partner for MuGard in past few months, but disappointed that it did not materialize. Our position is that even without a marketing partner, ACCP can still achieve significant MuGard sales increase from 2012 onwards due to over one year committed efforts in marketing and sales.

MuGard has competitive advantages over its competitors for the management of oral mucositis. World-wide sales could exceed $200 million in 2017. Our confidence in MuGard is based upon factors including the strong clinical data, unmet medical needs in the mucositis market and the Company's focused marketing strategy. Although initial sales ramp has been slow, sales of MuGard in the US should pick up steam when more and more doctors/nurses are convinced by MuGard's clinical benefits. Sales of MuGard will grow at a tremendous CAGR of 242% from 2011 to 2015 according to our long term model.

In addition to MuGard, the company's pipeline will provide sustainable growth for the company in the years to come. Both **ProLindac** and **Thiarabine** are in middle stage of development and both target the multi-billion dollar cancer market.

We see great potential for the Company's three key platform technologies which create multiple product opportunities. We are especially impressed with the Company's CobOral delivery system. The oral insulin

and oral human growth hormone have already achieved unprecedented oral bioavailability in preclinical studies. The Company has signed agreements with two major biotech companies to develop oral drugs with its CobOral delivery system. We believe Access will continue to monetize its platform technology to boost its balance sheet.

We believe Access is undervalued at current share price compared to its peers. The Company will be profitable in fiscal 2013 with EPS of $0.03 per share. From 2011 to 2015, top line will grow at a CAGR of 242%. At current price of $1.18, Access trades at 3.9 x our estimated 2014 EPS of $0.30 and 1.5 x our estimated 2015 EPS of $0.77 which is at deep discount compared to its peers. We believe Access should be trading at a P/E multiple of 20x, which translate into per share price of $7 based on our estimated EPS of $0.77 in fiscal 2015, discounted at 30% for three years.

PROJECTED INCOME STATEMENT

$ in million except per share data	Q1	Q2	Q3	Q4	12/11A	Q1E	Q2E	Q3E	Q4E	12/12E	12/13E	12/14E	12/15E
Product Revenue	$0.01	$0.04	$0.08	$0.41	$0.55	$0.60	$1.00	$1.50	$3.00	$6.10	$15.00	$35.00	$75.00
YOY Growth	-	-	-	-	-	*4515.4%*	*2225.6%*	*1729.3%*	*631.7%*	*1013.1%*	*145.9%*	*133.3%*	*114.3%*
Royalties Revenue	$0.02	$0.02	$0.02	$0.03	$0.09	$0.03	$0.03	$0.04	$0.05	$0.15	$1.00	$5.00	$10.00
YOY Growth					*17.1%*					*68.5%*	*566.7%*	*400.0%*	*100.0%*
License and R&D revenue	$0.12	$0.09	$0.94	$0.07	$1.21	$0.25	$0.25	$0.25	$0.25	$1.00	$1.00	$1.00	$1.00
Total Revenues	**$0.15**	**$0.15**	**$1.04**	**$0.51**	**$1.85**	**$0.88**	**$1.28**	**$1.79**	**$3.30**	**$7.25**	**$17.00**	**$41.00**	**$86.00**
YOY Growth	*47.1%*	*43.8%*	*719.7%*	*251.4%*	*286.6%*	*486.7%*	*747.7%*	*72.0%*	*552.2%*	*292.3%*	*134.5%*	*141.2%*	*109.8%*
CoGS	$0.1	$0.3	$0.5	$0.4	$1.2	$0.3	$0.4	$0.4	$0.5	$1.2	$3.0	$7.0	$15.0
Gross Income	**0.06**	**(0.12)**	**0.59**	**0.10**	**0.63**	**0.58**	**0.88**	**1.39**	**2.77**	**5.62**	**14.00**	**34.00**	**71.00**
Product Gross Margin	*38.7%*	*-76.2%*	*56.4%*	*20.2%*	*34.2%*	*50.0%*	*60.0%*	*73.3%*	*82.3%*	*80.0%*	*80.0%*	*80.0%*	*80.0%*
SG&A	$1.0	$1.0	$1.1	$1.0	$4.1	$1.1	$1.1	$1.2	$1.2	$4.6	$6.0	$10.0	$15.0
% SG&A	*684.0%*	*674.8%*	*102.1%*	*191.1%*	*220.5%*	*125.0%*	*85.9%*	*67.0%*	*36.4%*	*63.4%*	*35.3%*	*24.4%*	*17.4%*
R&D	$1.1	$1.1	$1.3	$0.8	$4.2	$1.0	$1.2	$1.3	$1.5	$5.0	$6.5	$8.5	$10.5
% R&D	*746.7%*	*702.0%*	*120.3%*	*151.8%*	*227.3%*	*113.6%*	*93.8%*	*72.6%*	*45.5%*	*69.0%*	*38.2%*	*20.7%*	*12.2%*
Other	$0.1	$0.1	$0.1	$0.1	$0.2	$0.1	$0.1	$0.1	$0.1	$0.4	$0.3	$0.3	$0.3
% Other	*40.7%*	*39.1%*	*5.4%*	*11.3%*	*12.6%*	*11.4%*	*7.8%*	*5.6%*	*3.0%*	*5.5%*	*1.8%*	*0.7%*	*0.3%*
Operating Income	**($2.1)**	**($2.3)**	**($1.8)**	**($1.7)**	**($7.9)**	**($1.6)**	**($1.5)**	**($1.2)**	**($0.0)**	**($4.4)**	**$1.2**	**$15.2**	**$45.2**
Operating Margin	*-1432.7%*	*-1492.1%*	*-171.4%*	*-334.0%*	*-426.2%*	*-184.1%*	*-118.8%*	*-67.6%*	*-0.9%*	*-60.4%*	*7.1%*	*37.1%*	*52.6%*
Other Net	$0.3	$1.0	$2.1	$2.0	$5.4	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	**($1.9)**	**($1.3)**	**$0.4**	**$0.3**	**($2.5)**	**($1.6)**	**($1.5)**	**($1.2)**	**($0.0)**	**($4.4)**	**$1.2**	**$15.2**	**$45.2**
Pref. stk Div + oth.	$0.4	$0.4	$0.4	$0.4	$1.8	$0.4	$0.5	$0.6	$0.8	$2.3	$2.5	$3.0	$3.5
Taxes + Other	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$1.5	$6.8
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*-1.0%*	*-0.7%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*10.0%*	*15.0%*
Reported Net Income	**($2.3)**	**($1.7)**	**($0.1)**	**($0.2)**	**($4.3)**	**($2.0)**	**($2.0)**	**($1.8)**	**($0.8)**	**($6.7)**	**$1.2**	**$13.7**	**$38.4**
YOY Growth	-	-	-	-	-	-	-	-	-	-	*-118.0%*	*1040.0%*	*180.8%*
Net Margin	*108.7%*	*75.7%*	*5.4%*	*9.8%*	*-233.0%*	*124.7%*	*132.9%*	*149.6%*	*2766.7%*	*-92.1%*	*7.1%*	*33.4%*	*44.7%*
Shares Out	*19.2*	*19.4*	*19.5*	*21.8*	*20.0*	*23.9*	*27.5*	*29.0*	*30.0*	*27.6*	*35.0*	*45.0*	*50.0*
Reported EPS	**($0.12)**	**($0.09)**	**($0.00)**	**($0.01)**	**($0.22)**	**($0.08)**	**($0.07)**	**($0.06)**	**($0.03)**	**($0.24)**	**$0.03**	**$0.30**	**$0.77**
YOY Growth	-	-	-	-	-	-	-	-	-	-	*-114.2%*	*786.7%*	*152.8%*
One time charge	($0.41)	($1.34)	($2.42)	($0.82)	*($4.99)*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*	*$0.00*
Non GAAP Net Income	**($2.7)**	**($3.0)**	**($2.5)**	**($1.0)**	**($9.3)**	**($2.0)**	**($2.0)**	**($1.8)**	**($0.8)**	**($6.7)**	**$1.2**	**$13.7**	**$38.4**
Non GAAP EPS	**($0.14)**	**($0.16)**	**($0.13)**	**($0.05)**	**($0.47)**	**($0.08)**	**($0.07)**	**($0.06)**	**($0.03)**	**($0.24)**	**$0.03**	**$0.30**	**$0.77**

Source: Company filings and Zacks Investment Research Inc. estimates

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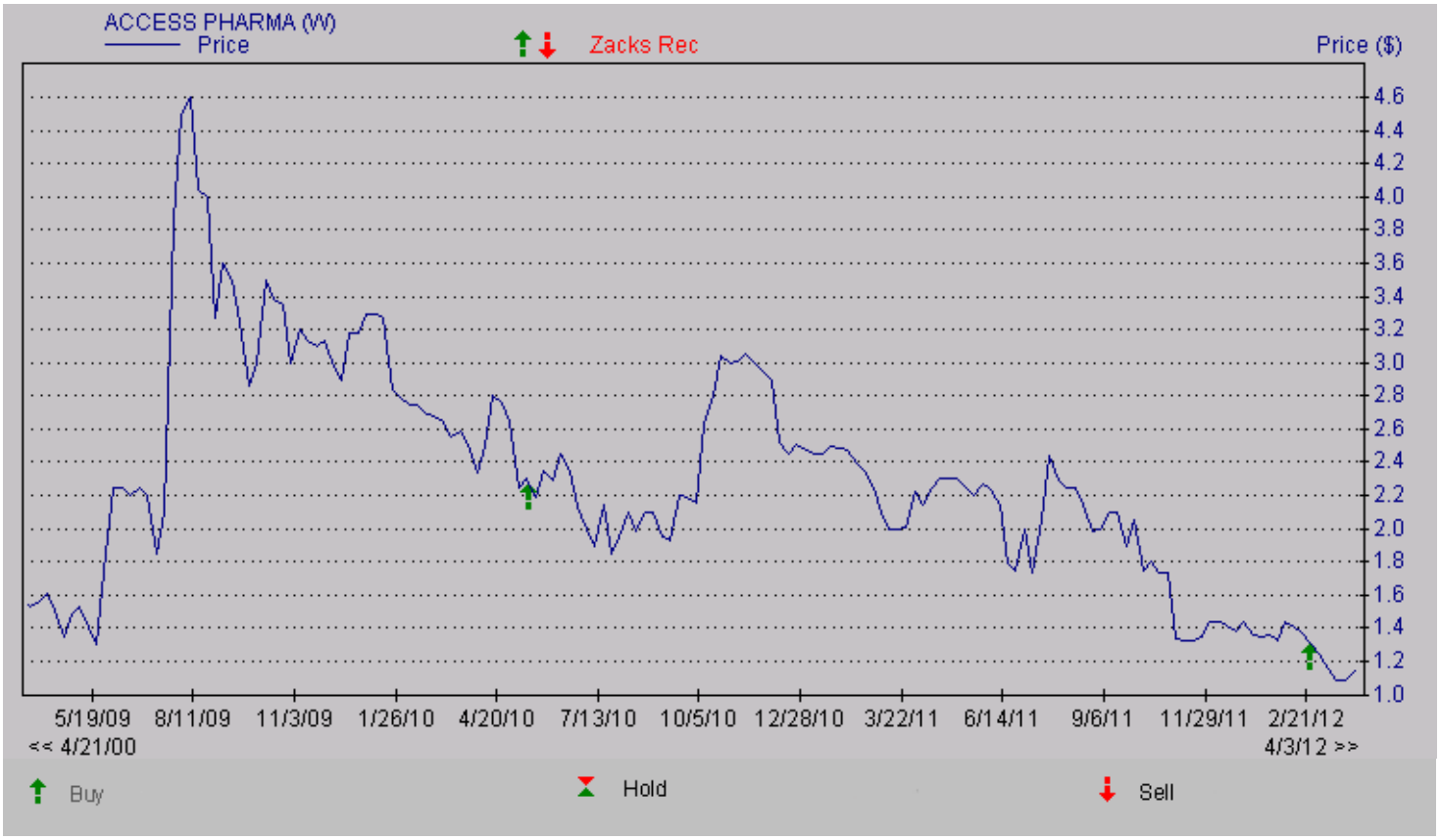
HISTORICAL ZACKS RECOMMENDATIONS



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