Zacks Small-Cap Research

February 28, 2012
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POZEN, Inc. (POZN-NASDAQ)

POZN: Top-Line Data From Phase 3 PA Trials Expected In The Second Quarter…

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	03/07/2007
Current Price (02/28/12)	$4.47
Target Price	**$7.00**

UPDATE

We believe Pozen is significantly under-valued given the royalties from Vimovo and PA, along with the significant cash on the books.

Vimovo sales outside the U.S. are gaining traction, and the two phase 3 PA trials are set to offer data in the second quarter 2012. We are confident in the outcome of these two trials and confident in our forecasts found in the back of this report.

We reiterate our Outperform rating and $7 target based on discounted cash flow (DCF).

SUMMARY DATA

52-Week High	**$6.26**
52-Week Low	**$2.26**
One-Year Return (%)	**-13.03**
Beta	**1.36**
Average Daily Volume (sh)	**65,356**
Shares Outstanding (mil)	**30**
Market Capitalization ($mil)	**$134**
Short Interest Ratio (days)	**9.35**
Institutional Ownership (%)	**45**
Insider Ownership (%)	**17**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**14.7**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2012 Estimate	**N/M**
P/E using 2013 Estimate	**N/A**

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)
2011	4.5 A	4.6 A	4.9 A	73.0 A	87.0 A
2012	1.0 E	1.2 E	16.3 E	1.4 E	19.9 E
2013					32.6 E
2014					29.8 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2011	-$0.19 A	-$0.21 A	-$0.24 A	$2.04 A	$1.40 A
2012	-$0.32 E	-$0.28 E	$0.27 E	-$0.20 E	-$0.53 E
2013					-$0.07 E
2014					-$0.20 E

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WHAT'S NEW

Recent Financials

On February 28, 2012, Pozen reported financial results for the fourth quarter and full year ended December 31, 2011. Pozen reported revenues in the fourth quarter of $73.0 million, driven largely by monetization of the Treximet royalty sold to CPPIB Credit Investments (CIT) in November 2011 for a net $71.9 million. The remaining revenue of $1.1 million came from royalties on worldwide sales of Vimovo at AstraZeneca. Revenues of $73.0 million were in-line with our estimate of $73.5 million, which pegged the net Treximet revenue at of $72.5 million instead of $71.9 million (after fees). Treximet was sold to CIT for $75 million. Total revenues in 2011 were $87.0 million, driven by $12.2 million in royalties on U.S. sales of Treximet at Glaxo, $1.1 million in royalties on worldwide sales of Vimovo at AstraZeneca, and $71.9 million in monetization of the Treximet royalty.

Pozen reported net income in the fourth quarter 2011 of $61.5 million, or $2.04 per share. SG&A was higher than expected in the fourth quarter, but this was offset by lower-than-expected R&D. This was right in-line with our estimate. Net income for the full year 2011 total $42.3 million, or $1.40 per share. It was Pozen's second profitable year in a row, and third profitable year in the past five years.

Pozen exited 2011 with $113.9 million in cash and investments. In 2012, management expects SG&A to decline slightly, whereas R&D will decline substantially once the two phase 3 PA-325/40 trials complete. We note both programs have completed enrollment and data is expected in the second quarter 2012. We expect that Pozen will exit 2012 with $88.1 million in cash and investment. This estimate includes no upfront payment from a commercialization partnership on PA-325/40.

Stock Remains Significantly Undervalued

Pozen remains one of the most undervalued names in our coverage list. The stock is currently trading with a market capitalization of $135 million. We have posted our (adjusted) DCF model in the back of this report outlining or belief that the stock should be trading at $7+ per share. This includes a NPV of roughly $2 for the future Vimovo royalties, $2+ for the PA franchise, and $3+ in cash.

As a reminder, on October 3, 2011, Pozen announced it had retained Keelin Reeds to assist in executing a strategic partnership on the PA franchise. We think it is highly unlikely that one company is interested in both PA-325/40 (a cardiovascular product) and PA-650/20 (a pain product). At this point it remains to be seen if Pozen will sign one global partner on PA-325/40, or look to do region-specific deals for commercialization of PA.

Pozen seeks a partner or partners that embrace the company's philosophy of affordable pricing and has demonstrated success in selling in the cardiovascular field. Pozen plans to remain active in the commercialization efforts for PA-325 by providing strategy and guidance.

We sat down with management at Pozen (CEO John Plachetka & CFO Bill Hodges) on January 9, 2012. Mr. Plachetka reiterated his goal on signing a commercialization partnership for PA-325/40 this year. We think the deal will be superior to the Vimovo transaction with AstraZeneca that provided $40 million upfront, $45 million in approval milestones, and potentially $290 million in sales milestones plus roughly 10% royalties on sales. Phase 3 data from both trials is expected in April 2012 (our estimate).

INVESTMENT THESIS

We believe Pozen's stock remains significantly undervalued based on the two core remaining products, Vimovo and PA325/40, and the solid cash balance.

Cash

Pozen exited 2011 with $119.6 million in cash and investments. A balance sheet adjustment occurred in early January 2012 that reduced cash by $5.8 million. Our financial model forecasts cash burn in 2012 of $25.7 million. As such, we estimate that cash at year-end 2012 will be $88.1 million. Based on a ~30.5 million (fully-diluted) shares outstanding, that equates to $2.88 per share in cash. However, we suspect that if Pozen signs a global commercialization deal for PA, it will come with an upfront payment in the area of $15-20 million. Therefore, we believe Pozen will exit 2012 with still over $3 per share in cash and investments.

Vimovo Royalties

Sales of Vimovo at AstraZeneca in the fourth quarter 2011 were $14 million, up $4 million sequentially from the third quarter 2011. We note that sales in the third quarter included only 10 countries (including the U.S.). AstraZeneca has since launched the product in 28 countries. Applications have been filed in a total of 71 countries, having received 45 approvals. International sales of Vimovo are going to increase meaningfully in the coming quarters. In fact, on November 17, 2011, Pozen CEO, John Plachetka, stated that he believed worldwide Vimovo sales could exceed $100 million in 2012. We model $61.0 million.

Pozen collects a 10% royalty on U.S. sales, and high-single digit / low double-digit royalties on sales outside the U.S. (we model 10%). We have previously been bullish on Vimovo, believing the drug represents a good alternative to Pfizer's $2 billion drug, Celebrex. However, cheap generics and a difficult reimbursement and pricing market has slowed uptake. Still, given the size of the opportunity here – 30 million American's with osteoarthritis / 60 million prescriptions for Cox-2 drugs per year – we think AstraZeneca will eventually get Vimovo to a $100 million run-rate in the U.S., and a $150 million run-rate in Europe. Increased coverage by Medicare Part-D in 2012 should help drive U.S. sales in 2012 and beyond. Coverage was around 20% in the U.S. at the end of 2011. AstraZeneca believes it could get this number to 60% by year end 2012. Our sales forecast for Vimovo (patent expiration in 2023) are below.

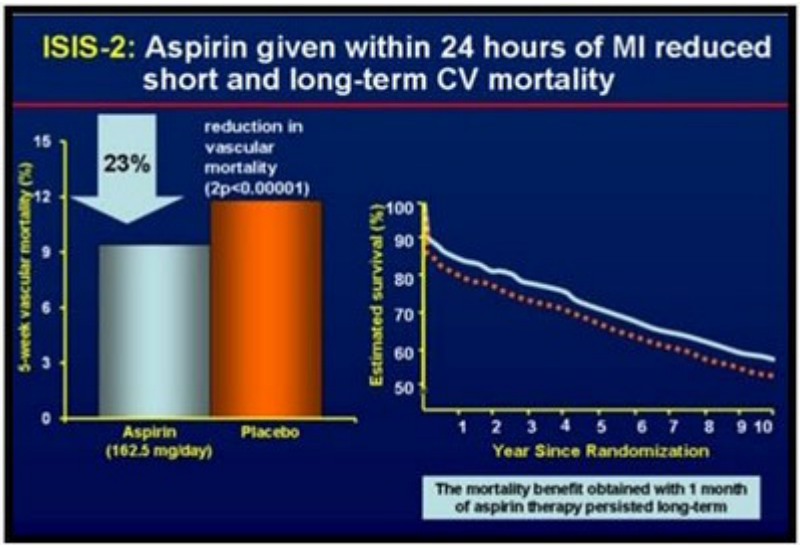
Vimovo	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Sales	$33.8	$61.0	$84.0	$110.0	$135.0	$163.0	$189.0	$209.0	$225.0	$240.0	$255.0	$270.0
Royalties	$2.9	$4.9	$7.6	$11.0	$13.5	$16.3	$18.9	$20.9	$22.5	$24.0	$25.5	$27.0

We note royalties on Vimovo are cash payments with little to no ongoing expenses. The net present value (NPV) of the above cash flows, using a 12.5% discount rate and 30% tax rate, is $59 million. Divided by a fully diluted share count of 30.5 million and the Vimovo royalty alone is worth $1.92.

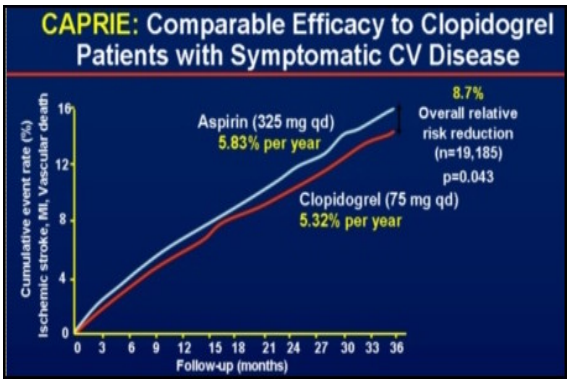
PA Is The Wildcard That Offers Big Upside

Pozen is currently in 2 phase 3 trials for PA, a "safer aspirin" product that combines 325mg of enteric coated aspirin with a PPI 40mg omeprazole (Prilosec). It's a novel formulation and a simple idea that builds off the already approved pathway defined by Vimovo. We expect that once approved, PA will find its way into daily aspirin therapy for cardiovascular disease. The label will be for secondary prevention of cardiovascular or cerebrovascular events in patients at risk for gastric or esophageal ulcers. This is an enormous market. Cardiovascular disease is the leading cause of death in the U.S. An American has a heart attack roughly every 26 seconds!

Aspirin has been used to prevent recurrent myocardial infarction (MI) since the 1940's when the drugs anti-platelet activation properties where first discovered. In 1988, the U.S. FDA approved the use of aspirin for the prevention of recurrent MI. Since that time, data reported in The Lancet from the ISIS-2 (2nd International Study of Infract Survival of MI) demonstrates that daily use of 162.5mg aspirin reduces the potential for vascular mortality by 23% ($p<0.00001$) vs. placebo in the first five weeks following a myocardial infarction. Long-term follow-up data suggest the benefit of daily aspirin use persists in the prevention of recurrent MI as long as 10 years post event.



Over 50 million American's use daily aspirin therapy. Unfortunately, of the 50+ million Americans that take daily aspirin therapy, as many as 50% are at risk for major complications due to gastric bleeding. Roughly 25% of the people that start a daily aspirin therapy will discontinue or reduce frequency or dose due to serious gastrointestinal side-effects. The same less-than-optimal use is found in stroke patients. Market research shows a significant opportunity for Pozen's product. Data published from the CAPRIE (Clopidogrel versus Aspirin in Patients at Risk of Ischemic Events) study in 1996 shows that Plavix (clopidogrel) offers only a modest 8.7% efficacy improvement over aspirin, and Plavix posted sales over $7 billion worldwide at its peak. Aspirin use is limited by gastrointestinal intolerance and bleeding.



Cumulative Event Rate
(Ischemic Stroke, MI, CV-Death)

Plavix = 5.32%
Aspirin = 5.83%

+8.7% Overall risk reduction for Plavix

Severe Adverse Events…	**Plavix**	**Aspirin**
…Overall Hemorrhage	9.27%	9.28%
…Intracranial Hemorrhage	0.31%	0.42%
…GI Hemorrhage	1.99%	2.66%
…Severe GI Bleeding	0.49%	0.71%
…GI Adverse Events	27.1%	29.8%

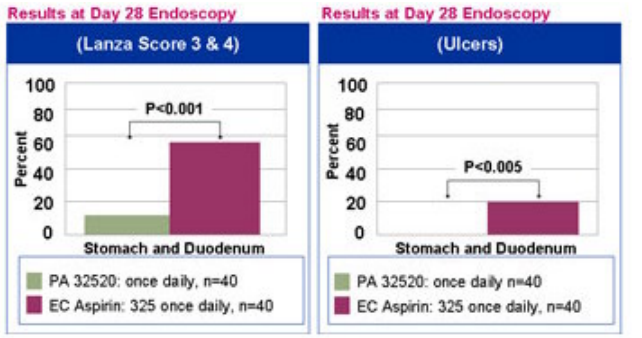
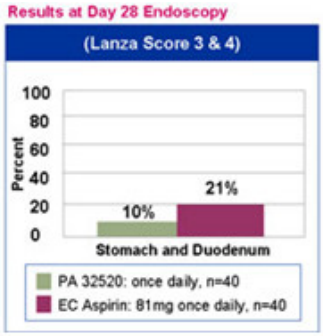
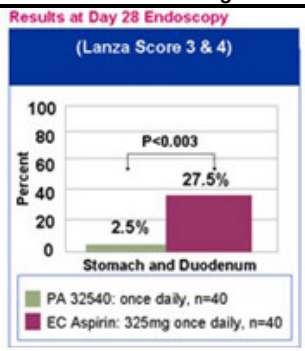
The AHA and ACC recommend daily aspirin use at 75mg to 162mg per day. The European Society of Cardiology recommends 75mg to 150mg per day. These guidelines were put into place to reduce the potential for GI-related bleeding events. Data published in the American Journal of Cardiology shows a 2-fold reduction in major bleeding events and a 3-fold reduction in total bleeding events on daily aspirin use <100mg when compared to use >200mg. Pozen's "safer aspirin" product, a drug that is designed to provide a full 325 mg dose of aspirin while greatly reducing the risk for GI-bleeding and ulcers, could find significant use among the 50+ million American's at risk for recurrent MI and GI-related side-effects.

Management has conducted market research yielding encouraging statistics. At about $1/day, roughly 30% of physicians would prescribe PA-325/40 to their patients in need of secondary prevention aspirin therapy. We see this as a $250 million opportunity in the U.S.

…Phase 2 Data Gives Us Confidence…

Pozen's phase 2 trial with PA-325/40 showed a 90% reduction in endoscopic diagnosed Lanza 3 & 4 GI-related damage compared to 325 mg of aspirin alone, and a 50% reduce when compare to 81 mg (baby) aspirin. The current phase 3 program, being conducted under a U.S. FDA Special Protocol Assessment (SPA), is essentially a larger version of the successful phase 2 trial. Management expects enrollment to complete shortly, with data expected in the second quarter 2012.

As a reminder, the primary endpoint of the trials is, "Cumulative incidence of gastric ulcers following administration of either PA32540 or 325 mg enteric-coated aspirin in subjects at risk for developing aspirin-associated ulcers." Based on previous data (below), and data from the Vimovo pivotal programs, we think hitting statistical significance is a slam dunk.

PA325/20 vs. 325mg ECA	PA325/20 vs. 81mg ECA	PA325/40 vs. 325mg ECA
		

We expect the U.S. NDA filing to take place in the third quarter 2012. The 12-month safety study with PA-325/40 to evaluate the long-term safety of the drug in patients who are at risk for developing aspirin-associated gastric ulcers has been completed. Pozen is reviewing the data and we expect a presentation shortly. Management noted the initial analysis is consistent with what was expected. The full data will give excellent insight into the outcome of the phase 3 programs discussed above

…Co-Rx Study Show Potential…

In March 2011, Pozen announced positive top-line results from a phase 1 study of PA-325/40 used in conjunction with clopidogrel (sold as branded Plavix). The data from the Co-Rx Study suggest that PA-325/40 given in conjunction with clopidogrel, dosed at least 10 hours apart, resulted in an approximate 20% improvement inhibition of ADP-induced platelet aggregation (anti-clotting) when compared to a current standard of care (81 mg of EC aspirin, EC omeprazole 40 mg and clopidogrel).

This suggests that the dosing combination of Plavix and PA-325/40 could offer a promising new option for the secondary prevention of heart attacks and strokes in cardiovascular patients who require aspirin therapy, but are at risk for gastric ulcers. We expect to see additional data from this study at an upcoming scientific meeting later in the year. As a reminder, The Co-Rx study was a phase 1, randomized, open-label, two-arm crossover study in which 30 healthy subjects were treated with one of the following:

- ✓ PA-325/40 in the morning plus 300mg clopidogrel over 10 hours later on day 1, and PA-325/40 in the morning plus 75mg clopidogrel 10 hours later on days 2-7
- ✓ 81mg enteric-coated aspirin plus 300mg clopidogrel plus 40mg enteric-coated omeprazole (Prilosec) all in the morning on day 1 followed by 81mg enteric-coated aspirin plus 75mg clopidogrel plus 40mg enteric-coated omeprazole all in the morning on days 2-7

Subjects were first randomized to treatment A or treatment B and then crossed over to the alternate treatment. Each treatment was separated by a 14 day washout period. The primary objective of the study was to assess the effects of PA-325/40 and enteric-coated omeprazole on clopidogrel activity as measured by ex-vivo platelet aggregation using 20 uM adenosine diphosphate (ADP), a commonly used platelet assay of clopidogrel effect. The primary endpoint was the percent inhibition of platelet aggregation (IPA) after morning dosing on day seven of each period. In the study, PA-325/40 in the morning, plus clopidogrel 10 hours later, resulted in a significantly greater IPA than 81 mg enteric-coated aspirin plus 40mg enteric-coated omeprazole plus clopidogrel all dosed in the morning.

…Commercialization Plans…

As a reminder, on October 3, 2011, Pozen announced it had retained Keelin Reeds to assist in executing a strategic partnership on the PA franchise. Keelin Reeds is a global expert in helping life science companies value assets, develop business development strategies and execute partnership transactions. We think it is highly unlikely that one company is interested in both PA-325/40 (a cardiovascular product) and PA-650/20 (a pain product). At this point it remains to be seen if Pozen will sign one global partner on PA-325/40, or look to do region-specific deals for commercialization of PA.

Pozen seeks a partner or partners that embrace the company's philosophy of affordable pricing and has demonstrated success in selling in the cardiovascular field. Pozen plans to remain active in the commercialization efforts for PA-325 by providing strategy and guidance. Pozen believes it has added substantial value to the asset by executing the critical NDA development and pre-commercialization phases around PA-325/40.

We sat down with management at Pozen (CEO John Plachetka & CFO Bill Hodges) on January 9, 2012. Mr. Plachetka reiterated his goal on signing a commercialization partnership for PA-325/40 this year. We think the deal will be superior to the Vimovo transaction with AstraZeneca that provided $40 million upfront, $45 million in approval milestones, and potentially $290 million in sales milestones plus roughly 10% royalties on sales.

That being said, we think Pozen would like to remain active in the positioning and commercial strategy planning for PA-325/40.

- In September 2009, Pozen hired Elizabeth A. Cermak as Chief Commercial Officer. Ms. Cermak will be responsible for the development and implementation of Pozen's commercialization efforts. Ms. Cermak was employed for twenty-five years at Johnson & Johnson, where she held positions of increasing responsibility at Ortho-McNeil Pharmaceuticals, McNeil Consumer and Specialty Pharmaceuticals and other J&J subsidiaries.

- In July 2011, Pozen hired Tomas S. Bocanegra, M.D. as Executive VP of Development. Dr. Bocanegra is responsible for driving all product development activities at Pozen, starting with lead pipeline candidate, PA-325/40.

- In August 2011, Pozen hired Clint Burrus as VP of Customer Development. In this role, Mr. Burrus will be responsible for developing and executing managed markets, trade and reimbursement strategies for PA-325/40. The company is clearly pushing forward on its plans with PA, putting the necessary piece in place ahead of the planned NDA filing in the third quarter 2012.

Pozen plans to conduct an Internet-centric / direct-marketing strategy around PA-325/40. Given the planned cost of the drug at around $1/day, the traditional model that employs large primary-care sales force, heavy physician detailing, direct-to-consumer television and print advertising, and couponing and patient access cards to reduce the high out-of-pocket expense indicative of Tier-3 formulary coverage will not work. Instead, Pozen plans to use the Internet and social media to educate and promote PA in a more efficient manner.

In September 2011, Pozen assembled an esteemed group of digital thought-leaders both in and outside of healthcare to help progress the company's vision for revolutionizing the traditional pharmaceutical commercial model. The Digital Advisory Board (DAB) will work alongside management as it prepares to assist in the launch and market PA-325/40. The DAB comprised of leaders in technology, social media and digital marketing, bringing expertise and insights from a wide range of industries to Pozen.

…A Simple Concept…

PA is such a simple product concept. Fifty million American's use daily aspirin therapy, with 50% of those patients at risk of developing major complications due to gastric bleeding. Roughly 25% of the people that start a daily aspirin therapy will discontinue or reduce frequency or dose due to serious gastrointestinal side-effects. We believe that PA, at $1/day, is about a $250 million product, and that's with only 5% penetration. We think this is easily achievable.

- 50 Million Americans on Aspirin
  - 25% at risk for GI bleeds
    - 5% convert to PA (penetration)
      - $1 per day x 365 days
        - ⇨ $230 Million.

Below is a cartoon that first appeared in the New Yorker magazine we believe sums up the PA story nicely.



Source: The New Yorker

…Valuation…

We expect that Pozen will sign a commercialization agreement on PA in 2012. Our financial model assumes a $15 million upfront payment in 2012, along with the potential for over $100 million in backend milestones, including $20 million for approval in 2013. We expect that Pozen will capture 20-25% of the PA net sales as a royalty. Our sales forecasts and royalty payment schedule is below.

PA	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Sales	$0	$0	$10.0	$75.0	$105.0	$135.0	$165.0	$200.0	$225.0	$245.0	$10.0	$75.0
Royalties	$0	$0	$2.5	$18.8	$26.3	$33.8	$41.3	$50.0	$56.3	$61.3	$62.5	$62.5

We see the PA franchise at Pozen (NPV of royalties and milestone payments), including operating costs and corporate overhead, worth approximately $50 to $60 million ($1.75 to $2.00 per share).

PROJECTED INCOME STATEMENT

DCF Model:

POZEN, INC.	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Royalties on Treximet (~18%)	$12.2	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
YoY	*3%*	*-100%*	-	-	-	-	-	-	-	-	-	-
Royalties on Vimovo (~10%)	$3.4	$4.9	$7.6	$11.0	$13.5	$16.3	$18.9	$20.9	$22.5	$24.0	$25.5	$27.0
YoY	*3%*	*44%*	*55%*	*46%*	*23%*	*21%*	*16%*	*11%*	*8%*	*7%*	*6%*	*6%*
Royalties on PA-325 (~25%)	$0	$0	$2.5	$18.8	$26.3	$33.8	$41.3	$50.0	$56.3	$61.3	$62.5	$62.5
YoY	-	-	-	*650%*	*40%*	*29%*	*22%*	*21%*	*13%*	*9%*	*2%*	*0%*
Licensing & Collaborative	$72.5	$15.0	$20.0	$0	$0	$5.0	$0	$5.0	$5.0	$5.0	$0	$0
Revenues (in Millions)	**$88.0**	**$19.9**	**$30.1**	**$29.8**	**$39.8**	**$55.1**	**$60.2**	**$75.9**	**$83.8**	**$90.3**	**$88.0**	**$89.5**
CoGS	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
R&D	$23.0	$16.3	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0
SG&A	$21.8	$21.7	$21.0	$22.0	$22.5	$23.0	$23.5	$24.0	$24.5	$25.0	$25.5	$26.0
EBITDA	$43.3	($18.1)	($5.9)	($7.3)	$2.3	$17.1	$21.7	$36.9	$44.3	$50.3	$47.5	$48.5
Depreciation and amortization	$1.0	$1.0	$1.3	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0
EBIT	**$42.3**	**($19.1)**	**($7.2)**	**($8.3)**	**$1.3**	**$16.1**	**$20.7**	**$35.9**	**$43.3**	**$49.3**	**$46.5**	**$47.5**
EBITDA margin	*48.0%*	*-96.2%*	*-23.9%*	*-27.7%*	*3.1%*	*29.2%*	*34.3%*	*47.3%*	*51.6%*	*54.6%*	*52.8%*	*53.1%*
Cash Taxes	$0	$0	$0	$0	($0.4)	($4.8)	($6.2)	($10.8)	($13.0)	($14.8)	($14.0)	($14.3)
Tax Rate	-	-	*0%*	*0%*	*30%*	*30%*	*30.0%*	*30%*	*30%*	*30%*	*30%*	*30%*
Balance Sheet												
Capital Expenditures	($1.0)	($2.0)	($2.0)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)	($1.0)
Working Capital	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0
Other Expense	$2.0	$1.8	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5
Captial Adjustments	**$2.0**	**$0.8**	**$0.5**	**$1.5**	**$1.5**	**$1.5**	**$1.5**	**$1.5**	**$1.5**	**$1.5**	**$1.5**	**$1.5**
Net Margin	*48.0%*	*-96.2%*	*-23.9%*	*-27.7%*	*2.2%*	*20.4%*	*24.0%*	*33.1%*	*36.1%*	*38.2%*	*37.0%*	*37.2%*
Discounted Cash Flow												
Net Income	$42.3	($19.1)	($7.2)	($8.3)	$0.9	$11.2	$14.5	$25.1	$30.3	$34.5	$32.6	$33.3
Depreciation and amortization	$1.0	$1.0	$1.3	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0
Net Cash Changes	$2.0	$0.8	$0.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5	$1.5
Post-Tax Operating Cash Flow	**$45.3**	**($17.4)**	**($5.4)**	**($5.8)**	**$3.4**	**$13.7**	**$17.0**	**$27.6**	**$32.8**	**$37.0**	**$35.1**	**$35.8**
Dividends	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Free Cash Flow	**$45.3**	**($17.4)**	**($5.4)**	**($5.8)**	**$3.4**	**$13.7**	**$17.0**	**$27.6**	**$32.8**	**$37.0**	**$35.1**	**$35.8**

Assumptions	
Beta:	1.4
Equity Risk Premium:	7.5%
Risk Free Rate:	2.0%
Risk Adjustment:	40.0%
Discount Rate:	**12.5%**

Valuation	
10-Year Model:	$53
Terminal Growth:	0%
Terminal Value:	$78
Cash - Debt:	$103
Firm Value:	**$234**

Price Target	
Basic Outstanding:	30.0
Warrants / Options:	0.5
Dilution:	1.0
Fully Diluted:	31.5
Target Price:	**$7.43**

Source: Zacks Investment Research, Inc. *Jason Napodano, CFA*

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Income statement:

	2010 A	2011 A	Q1 E	Q2 E	Q3 E	Q4 E	2012 E	2013 E	2014 E	2015 E
Treximet (royalty)	**$15.7**	**$12.2**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth	*265.0%*	*-22.6%*	-	-	-	-	*-100.0%*	-	-	-
Vimovo (royalty)	**$0.5**	**$2.9**	**$1.0**	**$1.2**	**$1.3**	**$1.4**	**$4.9**	**$7.6**	**$11.0**	**$13.5**
YOY Growth	-	*533.0%*	-	-	-	-	*67.6%*	*54.9%*	*45.5%*	*22.7%*
PA-325/40 (net)	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$5.0**	**$18.8**	**$26.3**
YOY Growth	-	-	-	-	-	-	-	-	*275.0%*	*40.0%*
Licensing / Development	**$52.3**	**$71.9**	**$0**	**$0**	**$15.0**	**$0**	**$15.0**	**$20.0**	**$0**	**$0**
YOY Growth	*87.6%*	-	-	-	-	-	-	-	-	-
Total Revenues	$68.5	$87.0	$1.0	$1.2	$16.3	$1.4	$19.9	$32.6	$29.8	$39.8
YOY Growth	*113.0%*	*26.8%*	*-76.1%*	*-95.9%*	*-76.3%*	*-69.5%*	*-77.1%*	*63.8%*	*-8.6%*	*33.6%*
Cost of Goods Sold	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Product Gross Margin	*100.0%*	*100.0%*	-	-	-	-	*100.0%*	*100.0%*	*100.0%*	*100.0%*
SG&A	$23.8	$21.8	$6.5	$6.0	$5.2	$4.5	$22.2	$21.0	$22.0	$22.5
% SG&A	*34.7%*	*25.0%*	*625.0%*	*500.0%*	*31.9%*	*330.9%*	*111.7%*	*64.5%*	*73.9%*	*56.6%*
R&D	$22.6	$23.0	$4.8	$4.0	$3.3	$3.4	$15.5	$15.0	$15.0	$15.0
% R&D	*6+.%*	*26.5%*	*461.5%*	*333.3%*	*20.3%*	*250.0%*	*78.0%*	*46.1%*	*50.4%*	*37.7%*
Operating Income	$22.1	$42.2	($10.3)	($8.8)	$7.8	($6.5)	($17.8)	($3.4)	($7.3)	$2.3
Operating Margin	*32.3%*	*48.5%*	*-986.5%*	*-733.3%*	*47.8%*	*-480.9%*	*-89.6%*	*-10.6%*	*-24.4%*	*5.7%*
Interest Income / Net	$0.9	$0.2	$0.5	$0.4	$0.4	$0.3	$1.6	$1.2	$1.0	$1.0
Pre-Tax Income	$23.1	$42.3	($9.8)	($8.4)	$8.2	($6.2)	($16.2)	($2.2)	$6.3	$3.3
Taxes	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	$23.1	$42.3	($9.8)	($8.4)	$8.2	($6.2)	($16.2)	($2.2)	($6.3)	$3.3
YOY Growth	-	*83.5%*	-	-	-	-	*-138.3%*	*-86.2%*	*179.0%*	*-152.0%*
Net Margin	*33.7%*	*48.7%*	*-938.5%*	*-700.0%*	*50.2%*	*-458.8%*	*-81.6%*	*-6.9%*	*-21.0%*	*8.2%*
Reported EPS	$0.76	$1.40	($0.32)	($0.28)	$0.27	($0.20)	($0.53)	($0.07)	($0.20)	$0.10
Fully Diluted Shares	30.2	30.3	30.3	30.4	30.5	30.6	30.5	31.0	31.5	32.0

Source: Zacks Investment Research, Inc. *Jason Napodano, CFA*

HISTORICAL ZACKS RECOMMENDATIONS



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