Zacks Small-Cap Research

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POZEN, Inc. (POZN-NASDAQ)

POZN: Slow Vimovo Launch Causes Selloff, But We Remain Optimistic…

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	03/07/2007
Current Price (02/09/11)	$5.98
Target Price	**$10.00**

UPDATE

We remain optimistic on Pozen.

We view the company as financially sound, with an estimated $64 million in cash to be on hand at the end of 2010. The royalty line should begin to accelerate over the next few quarter as sales of both Treximet and Vimovo ramp at Glaxo and AstraZeneca, respectively. Based on our financial model, Pozen should turn cash flow positive in 2013 based on the royalties off the Treximet and Vimovo ramp. Plus, Pozen still offers shareholders significant opportunity for upside with the currently ongoing phase III program on PA-325/40 (cardiovascular disease) and PA-650/20 (pain). Our price target is $10 per share.

SUMMARY DATA

52-Week High	**$12.08**
52-Week Low	**$5.58**
One-Year Return (%)	**4.70**
Beta	**1.43**
Average Daily Volume (sh)	**111,013**
Shares Outstanding (mil)	**30**
Market Capitalization ($mil)	**$180**
Short Interest Ratio (days)	**19.68**
Institutional Ownership (%)	**54**
Insider Ownership (%)	**16**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**15.3**
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	**20.1**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Growth**
Industry	**Med-Drugs**
Zacks Rank in Industry	**40 of 79**

ZACKS ESTIMATES

Revenue
(In millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	8.8 A	4.9 A	14.3 A	4.2 A	32.2 A
2010	6.9 A	28.2 A	4.3 A	29.0 E	68.5 E
2011	4.3 E	5.1 E	5.8 E	6.3 E	21.6 E
2012					33.8 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2009	-$0.12 A	-$0.14 A	$0.22 A	-$0.19 A	-$0.23 A
2010	-$0.10 A	$0.53 A	-$0.29 A	$0.53 E	$0.68 E
2011	-$0.27 E	-$0.23 E	-$0.22 E	-$0.23 E	-$0.95 E
2012					-$0.84 E

Zacks Projected EPS Growth Rate - Next 4 Years % **N/A**

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WHAT'S NEW

Updating Our Financial Model

We are updating our financial model on Pozen following the release of sales figures on Vimovo at AstraZeneca and Treximet at Glaxo.

	Q4 Z-SCR Estimate	Q4 Actual Sales (USD)	Pozen's Royalty
Vimovo Sales (AstraZeneca)	$15 Mil	$0 Mil	$0 Mil
Treximet Sales (Glaxo)	$22 Mil	$22 Mil	$4 Mil

Sales of Treximet at Glaxo were dead-on with our forecast. Based on an 18% royalty, Pozen should record $4 million in royalties in the fourth quarter Glaxo. Sales of Vimovo greatly disappointed. In fact, AstraZeneca did not record any sales of Vimovo in the fourth quarter 2010. The company reported working down the $5 million launch-stock in the third quarter 2010. AstraZeneca noted in their fourth quarter release that they was prescription demand during the quarter, but it was offset by the effects of sampling and discounted prescription programs in support of the launch. Management at AstraZeneca also noted continuing to work towards formulary access and patient reimbursement. We expect that sales will begin to track demand and pick-up in the first quarter 2011. We remind investors that on November 12, 2010 AstraZeneca received marketing and pricing approval in the United Kingdom for Vimovo. This resulted in a $25 million milestone payable to Pozen, which we record fully in our fourth quarter revenue estimate. Vimovo was originally approved in the U.S. in April 2010, and AstraZeneca began selling the product in late September 2010.

Based on revising our fourth quarter figures to account for the $25 million milestone on Vimovo approval in the UK, as well as the actual sales figures for Treximet and Vimovo, we now forecast fourth quarter revenues of $29.0 million and net income of $15.9 million, or $0.53 per share. Pozen should report estimated $64 million in cash and investments. We find this to be sufficient to fund operations for the foreseeable future, including the funding of four ongoing phase III studies on the PA franchise.

Optimistic On Pozen

We remain optimistic on Pozen. We view the company as financially sound, with an estimated $64 million in cash to be on hand at the end of 2010. The royalty line should begin to accelerate over the next few quarter as sales of both Treximet and Vimovo ramp at Glaxo and AstraZeneca, respectively. Based on our financial model, Pozen should turn cash flow positive in 2013 based on the royalties off the Treximet and Vimovo ramp. Plus, Pozen still offers shareholders significant opportunity for upside with the currently ongoing phase III program on PA-325/40 (cardiovascular disease) and PA-650/20 (pain). Our price target is $10 per share.

PROJECTED INCOME STATEMENT

POZEN INC.

Income statement

	2009 A	Q1 A	Q2 A	Q3 A	Q4 E	2010 E	2011 E	2012 E	2013 E	2014 E
Treximet (sales)	$86.1	$21.0	$22.7	$21.6	$22.0	$87.3	$92.0	$96.0	$100.0	$104.0
Treximet (royalty)	**$4.3**	**$3.8**	**$4.1**	**$3.9**	**$4.0**	**$15.7**	**$16.6**	**$17.3**	**$18.0**	**$18.7**
YOY Growth	*83.6%*	*272.4%*	*331.6%*	*222.7%*	*248.9%*	*265.0%*	*5.4%*	*4.3%*	*4.2%*	*4.0%*
Vimovo (sales)	$0	$0	$0	$4.6	$0	$4.6	$50.0	$115.0	$185.0	$250.0
Vimovo (royalty)	**$0**	**$0**	**$0**	**$0.5**	**$0**	**$0.5**	**$5.0**	**$11.5**	**$18.5**	**$25.0**
YOY Growth	-	-	-	-	-	-	*987.0%*	*130.0%*	*60.9%*	*35.1%*
PA-325/40 (Sales)	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$40.0**	**$80.0**
YOY Growth	-	-	-	-	-	-	-	-	-	*100.0%*
Licensing / Development	**$27.9**	**$3.1**	**$24.1**	**$0.0**	**$25.0**	**$52.3**	**$0**	**$5.0**	**$5.0**	**$5.0**
YOY Growth	*-56.3%*	*-59.4%*	*508.5%*	*-100.0%*	*709.6%*	*87.5%*	*-100.0%*	*#DIV/0!*	*0.0%*	*0.0%*
Total Revenues	$32.2	$6.9	$28.2	$4.3	$29.0	$68.5	$21.6	$33.8	$81.5	$128.7
YOY Growth	*-51.3%*	*-50.7%*	*101.2%*	*-93.4%*	*230.7%*	*112.7%*	*-68.5%*	*56.7%*	*141.3%*	*57.9%*
Cost of Goods Sold	$0	$0	$0	$0	$0	$0	$0	$0	$6.0	$12.0
Product Gross Margin	*100.0%*	-	-	-	-	*100.0%*	*100.0%*	*100.0%*	*92.2%*	*90.3%*
SG&A	$17.8	$5.2	$5.7	$7.0	$6.5	$24.4	$21.0	$30.0	$36.0	$44.0
% SG&A	*55.2%*	*75.2%*	*20.1%*	*161.5%*	*22.4%*	*35.6%*	*97.4%*	*88.8%*	*44.2%*	*34.2%*
R&D	$22.4	$4.7	$6.4	$6.0	$6.7	$23.8	$29.7	$30.0	$25.0	$25.0
% R&D	*69.7%*	*68.1%*	*22.6%*	*137.7%*	*23.1%*	*6+.%*	*137.8%*	*88.8%*	*30.7%*	*19.4%*
Operating Income	($8.0)	($3.0)	$16.2	($8.7)	$15.8	$20.3	($29.1)	($26.2)	$14.5	$47.7
Operating Margin	*-24.9%*	*-43.3%*	*57.3%*	*-199.2%*	*54.4%*	*29.6%*	*-135.2%*	*-77.6%*	*17.8%*	*37.1%*
Interest Income / Net	$0.5	$0.0	$0.0	$0.1	$0.1	$0.2	$0.4	$0.5	$0.6	$0.6
Pre-Tax Income	($7.5)	($3.0)	$16.2	($8.6)	$15.9	$20.5	($28.7)	($25.7)	$15.1	$48.3
Taxes	($0.63)	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0.0%*	*0.0%*
Net Income	($6.9)	($3.0)	$16.2	($8.6)	$15.9	$20.5	($28.7)	($25.7)	$15.1	$48.3
YOY Growth	-	-	-	-	-	-	*-240.2%*	*-10.5%*	*-158.7%*	*220.0%*
Net Margin	*-21.3%*	*-42.8%*	*57.4%*	*-197.7%*	*54.8%*	*29.9%*	*-133.3%*	*-76.1%*	*18.5%*	*37.5%*
Reported EPS	($0.23)	($0.10)	$0.53	($0.29)	$0.53	$0.68	($0.95)	($0.84)	$0.49	$1.51
FAS-123R Expense	$5.1	$0.8	$1.0	$1.0	$1.4	$4.2	$6.0	$6.5	$7.0	$7.5
EPS Impact of FAS-123R	($0.17)	($0.03)	($0.03)	($0.03)	($0.05)	($0.14)	($0.20)	($0.21)	($0.23)	($0.23)
Fully Diluted Shares	29.9	29.8	30.4	29.9	30.2	30.1	30.3	30.5	31.0	32.0

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

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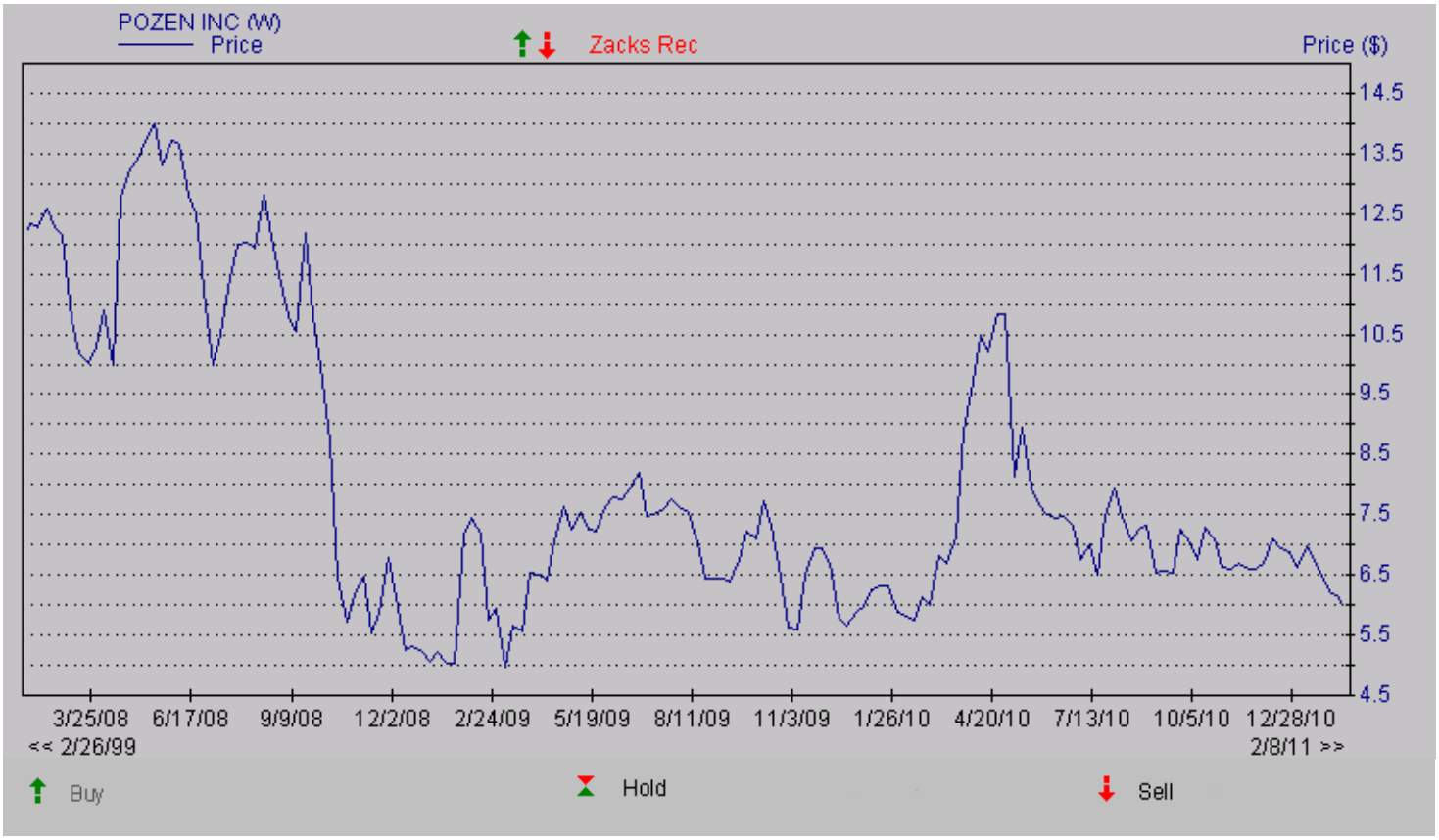

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