Zacks Small-Cap Research

November 28, 2011
Jason Napodano, CFA
312-265-9421
jnapodano@zacks.com

scr.zacks.com
111 North Canal Street, Chicago, IL 60606

POZEN, Inc. (POZN-NASDAQ)

POZN: Treximet Royalty Sold for $75M in Cash, Stock Still Significantly Undervalued.

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	03/07/2007
Current Price (11/28/11)	$3.35
Target Price	**$7.00**

UPDATE

This morning Pozen announced that has sold the rights to its royalty on Treximet to CPPIB Credit Investments (CIT) for $75 million in cash. The transaction is retroactive back to October 1, 2011. Pozen retained the potential to receive 20% of the total royalty payment starting on April 1, 2018 (the time of the U.S. patent expiration assuming pediatric extension). CIT assumes all financial responsibility for any and all outstanding Treximet patent litigation.

We believe that management entered into the deal to help unlock value in the Pozen story. The $75 million in cash was more than the entire Pozen market capitalization last week. We still believe the stock is significantly under-valued given the royalties from Vimovo and PA.

SUMMARY DATA

52-Week High	**$7.17**
52-Week Low	**$2.26**
One-Year Return (%)	**-45.40**
Beta	**1.37**
Average Daily Volume (sh)	**271,069**
Shares Outstanding (mil)	**30**
Market Capitalization ($mil)	**$108**
Short Interest Ratio (days)	**7.38**
Institutional Ownership (%)	**44**
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 2011 Estimate	**N/M**
P/E using 2012 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)
2010	6.9 A	28.2 A	4.3 A	29.0 A	68.5 A
2011	4.5 A	4.6 A	4.9 A	73.5 E	87.4 E
2012					6.1 E
2013					13.4 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2010	-$0.10 A	$0.53 A	-$0.29 A	$0.61 A	$0.76 A
2011	-$0.19 A	-$0.21 A	-$0.24 A	$2.04 E	$1.14 E
2012					-$0.93 E
2013					-$0.68 E

© Copyright 2011, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW

Treximet Royalty Sold for $75 Million

On November 23, 2011, Pozen entered into an agreement with CPPIB Credit Investments (CIT) whereby the company sold the U.S. royalty rights to Treximet for $75 million in cash. The transaction is retroactive back to October 1, 2011. Pozen retained the potential to receive 20% of the total royalty payment starting on April 1, 2018 (the time of the U.S. patent expiration assuming pediatric extension). CIT assumes all financial responsibility for any and all outstanding Treximet patent litigation.

We view the deal as a home-run transaction for Pozen. Our previous NPV analysis of the Treximet royalty payments from Glaxo totaled $53 million (assumed 14% discount rate using CAPM). CIT's payment to Pozen of $75 million in cash equated to a cost of capital of around 10%. We believe this was a highly efficient transaction for management. Pozen exited the third quarter 2011 with $46.4 million in cash. We now forecast Pozen will exit 2011 with over $110 million in cash. This equates to $3.60+ per share. Additionally, we expect operating burn in 2012 to decline significantly once the two phase 3 PA-325/40 trials complete in the first half of the year. Accordingly, we believe Pozen will still have over $85 million in cash at year end 2012.

Vimovo Ramp Continues

Separately, on November 17, 2011, Pozen CEO, John Plachetka, stated that he believed worldwide Vimovo sales could exceed $100 million in 2012. We remind investors that since the end of the third quarter 2011, AstraZeneca has reported launching the product in a total of 16 countries outside the U.S., bringing the total to 25. We expect the ramp in Vimovo sales will slowly gain steam outside the U.S. throughout the next few years. Additionally, AstraZeneca is working to gain coverage under Medicare Part-D for Vimovo in January 2012. Current coverage is around 20% in the U.S. AstraZeneca believes it could get this number to 60% by year end 2012. This would better position the product competitively vs. Celebrex. We continue to believe that patient demand for Vimovo remains on track with peak sales of at least $250 million worldwide.

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 $105 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 $1.80 for the future Vimovo royalties, $1.85 for the PA franchise, and $3.70 in cash.

As a reminder, on October 3, 2011, Pozen announced it had retained Keelin Reeds to assist in executing a strategic partnership on PA-325/40. 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, potentially seeking a co-promotion in the U.S.

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 the third quarter 2011 with $46.4 million in cash and investments. Adding in the $73 million (net) from CIT along with operating burn of around $8 million in the fourth quarter, and we forecast Pozen should exit 2011 with approximately $111 million in cash. Based on a ~30.5 million (fully-diluted) shares outstanding, that equates to $3.65 per share in cash.

Vimovo Royalties

Sales of Vimovo at AstraZeneca in the third quarter 2011 were only $10 million. However, this includes sales into only 10 countries (including the U.S.). AstraZeneca has filed applications in a total of 69 countries to date, received 38 approvals, and launch in 25 as of late November 2011. 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.

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%). Pozen has hired an independent consulting firm, LEK, separate from the work AstraZeneca is doing, to analyze the Vimovo market opportunity. This work has been completed and Pozen has shared the info with AstraZeneca. 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. Current coverage is around 20% in the U.S. 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	$31.8	$61.0	$84.0	$110.0	$135.0	$163.0	$189.0	$209.0	$225.0	$240.0	$255.0	$270.0
Royalties	$3.2	$6.1	$8.4	$11.0	$13.5	$16.3	$18.9	$20.9	$22.5	$24.0	$25.5	$27.0

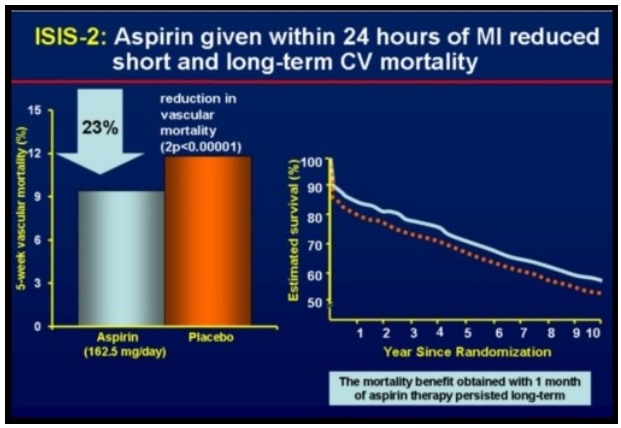
We note royalties on Vimovo are cash payments with little to no ongoing expenses. The net present value (NPV) of the above cash flows, using a 14% discount rate and 30% tax rate, is $56 million. Divided by a fully diluted share count of 30.5 million and the Vimovo royalty alone is worth $1.80.

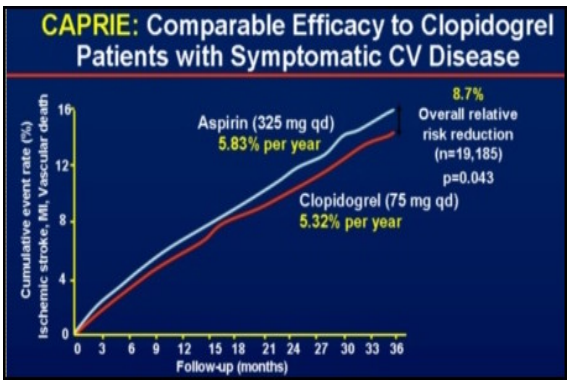
PA Is The Wildcard That Offers Big Upside

Pozen is currently in 2 phase 3 trials for PA-325/40, a "safer aspirin" product that combines 325mg of enteric coated aspirin with the PPI 40mg omeprazole (sold as branded 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 Pozen's "safer aspirin" will find its way into daily aspirin therapy for cardiovascular disease. The potential 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., with over 50% mortality. 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. 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%

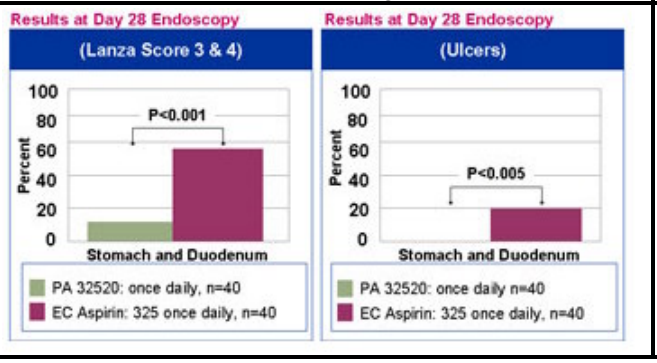
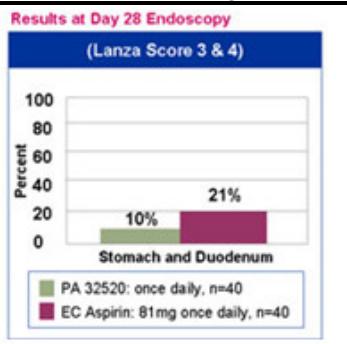
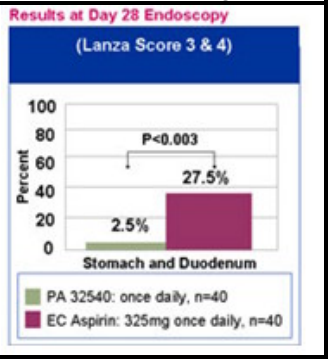
The AHA and ACC recommend daily aspirin use at 75mg to 162mg per day. The European Society of Cardiology recommends 75mg to 150mg per day. These guidelines were put into place to reduce the potential for GI-related bleeding events. Data published in the *American Journal of Cardiology* shows a 2-fold 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 from phase 2 (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:

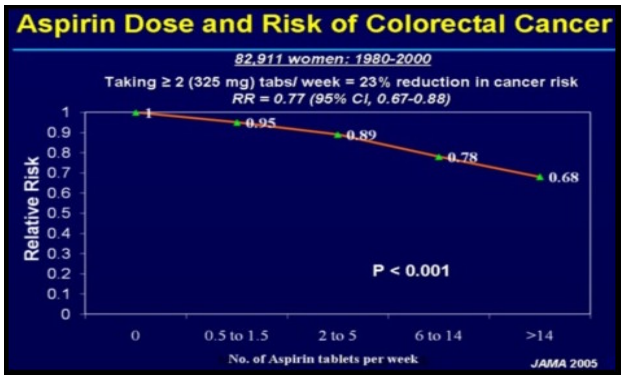
A) PA-325/40 in the morning plus 300mg clopidogrel over 10 hours later on day 1, and PA-325/40 in the morning plus 75mg clopidogrel 10 hours later on days 2-7,

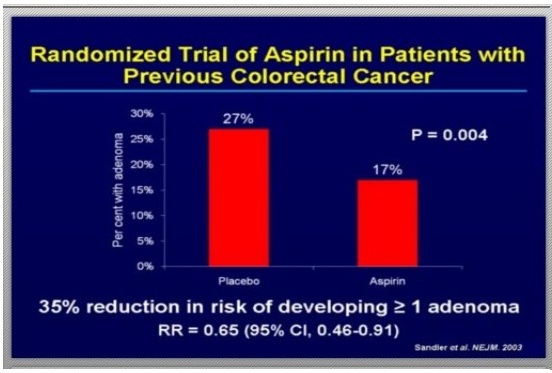
B) 81mg enteric-coated aspirin plus 300mg clopidogrel plus 40mg enteric-coated omeprazole (Prilosec) all in the morning on day 1 followed by 81mg enteric-coated aspirin plus 75mg clopidogrel plus 40mg enteric-coated omeprazole all in the morning on days 2-7

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.

…Cancer & Pain Indication Offer Upside…

We are intrigued by the significant meta-analysis data showing aspirin use as a potential to reduce incidence of colon cancer. There are an estimated 150k cases of colon or rectal cancer in the U.S each year, with 50k deaths. Data from a prospective analysis of nearly 83k women from 1980 to 2000 published in JAMA in 2005 shows a significant risk reduction when on daily aspirin 325mg.





Randomized Trials of Aspirin and Adenoma Recurrence

Trial	N	Duration	Dose	Result
Sandler, 2003	635	3 years	325 mg	0.65 (0.46-0.91)
Baron, 2003	1121	3 years	81 mg 325 mg	0.83 (0.70-0.98) 0.96 (0.81-1.13)
Benamouzig, 2003	272	1 year	160 mg 300 mg	0.85 (0.57-1.26) 0.61 (0.37-0.99)
Logan, 2008	945	3 years	300 mg	0.79 (0.63-0.99)

In total, there have been four randomized clinical programs demonstrating a significant risk reduction in patients with confirmed adenomas taking aspirin vs. placebo. The pooled analysis shows a 20% to 40% reduction in risk of cancer development for patients taking that high-dose aspirin (325mg). Unfortunately, the same increased risk of GI bleeding and gastric ulcers was seen in the trials as discussed above for cardiovascular disease prevention.

There is a 2-fold increase in risk of a major GI bleed for patients taking 325mg aspirin per day vs. placebo. Therefore, despite the reduction in risk of cancer progression, the U.S. Preventive Services Task Force stated in 2007 that, “The harms outweigh the benefits of aspirin and NSAID use for prevention of colorectal cancer.” Pozen’s PA-325/40 could see sizable off-label use in this indication following approval.

Besides PA-325/40, Pozen is also in plans to conduct a phase 3 trial on PA-650/20 for indications in pain and inflammation. This would be a similar market opportunity to Vimovo, where Pozen would attempt to convince patients to take aspirin for pain instead of NSAIDs or Cox-2 drugs.

…Commercialization Plans…

On October 3, 2011, Pozen retained Keelin Reeds LLC to assist in the strategic partner search for PA-325/40. Keelin Reeds is a global expert in helping life science companies value assets, develop business development strategies and execute partnership transactions. Pozen believes it has added substantial value to the asset by executing the critical NDA development and pre-commercialization phases around PA-325/40. Management intends to secure a relationship with one or more strategic partners in order to maximize the sales potential of the drug in both the U.S. and globally. The ideal strategic partner for Pozen is one who embraces the company’s philosophy of affordable pricing and shares management’s vision for the brand.

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 Johnson and Johnson subsidiaries. She most recently held the position of World-Wide Vice President Personal Products Franchise, Johnson & Johnson Healthcare Products. Her experience spans both prescription and OTC businesses across many therapeutic areas.

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 July 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 a $250 million product. 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 $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%)	$3.2	$6.1	$8.4	$11.0	$13.5	$16.3	$18.9	$20.9	$22.5	$24.0	$25.5	$27.0
YoY	*3%*	*92%*	*38%*	*31%*	*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)	**$87.8**	**$21.1**	**$30.9**	**$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	$25.7	$16.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0
SG&A	$19.9	$19.0	$20.0	$21.0	$21.5	$22.0	$22.5	$23.0	$23.5	$24.0	$24.5	$25.0
EBITDA	$42.3	($13.9)	($4.1)	($6.3)	$3.3	$18.1	$22.7	$37.9	$45.3	$51.3	$48.5	$49.5
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	**$41.3**	**($14.9)**	**($5.4)**	**($7.3)**	**$2.3**	**$17.1**	**$21.7**	**$36.9**	**$44.3**	**$50.3**	**$47.5**	**$48.5**
EBITDA margin	*47.0%*	*-70.6%*	*-17.3%*	*-24.4%*	*5.7%*	*31.0%*	*36.0%*	*48.6%*	*52.8%*	*55.7%*	*54.0%*	*54.2%*
Cash Taxes	$0	$0	$0	$0	($0.7)	($5.1)	($6.5)	($11.1)	($13.3)	($15.1)	($14.3)	($14.6)
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	*47.0%*	*-70.6%*	*-17.3%*	*-24.4%*	*4.0%*	*21.7%*	*25.2%*	*34.0%*	*37.0%*	*39.0%*	*37.8%*	*37.9%*
Discounted Cash Flow												
Net Income	$41.3	($14.9)	($5.4)	($7.3)	$1.6	$11.9	$15.2	$25.8	$31.0	$35.2	$33.3	$34.0
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	**$44.3**	**($13.2)**	**($3.6)**	**($4.8)**	**$4.1**	**$14.4**	**$17.7**	**$28.3**	**$33.5**	**$37.7**	**$35.8**	**$36.5**
Dividends	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Free Cash Flow	**$44.3**	**($13.2)**	**($3.6)**	**($4.8)**	**$4.1**	**$14.4**	**$17.7**	**$28.3**	**$33.5**	**$37.7**	**$35.8**	**$36.5**

Assumptions	
Beta:	1.4
Equity Risk Premium:	8%
Risk Free Rate:	3%
Risk Adjustment:	40%
Discount Rate:	**14.2%**

Valuation	
10-Year Model:	$52
Terminal Growth:	0%
Terminal Value:	$60
Cash - Debt:	$111
Firm Value:	**$223**

Price Target	
Basic Outstanding:	29.9
Warrants / Options:	0.5
Dilution:	1.0
Fully Diluted:	31.4
Target Price:	**$7.09**

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

© Copyright 2011, Zacks Investment Research. All Rights Reserved.

Income statement:

	2009 A	2010 A	Q1 A	Q2 A	Q3 A	Q4 E	2011 E	2012 E	2013 E	2014 E
Treximet (sales)	$86.1	$87.3	$22.0	$23.0	$23.0	$23.0	$91.0	$95.0	$98.0	$100.0
Treximet (royalty)	**$4.3**	**$15.7**	**$4.1**	**$4.0**	**$4.1**	**$0**	**$12.2**	**$0**	**$0**	**$0**
YOY Growth	*83.6%*	*265.0%*	*8.3%*	*-1.9%*	*4.3%*	*-100.0%*	*-22.6%*	*-100.0%*	-	-
Vimovo (sales)	$0	$4.6	$4.1	$6.3	$9.4	$12.0	$31.8	$61.0	$84.0	$110.0
Vimovo (royalty)	**$0**	**$0.5**	**$0.4**	**$0.6**	**$0.8**	**$1.0**	**$2.7**	**$6.1**	**$8.4**	**$11.0**
YOY Growth	-	-	-	-	-	-	*496.1%*	*122.5%*	*37.7%*	*31.0%*
PA-325/40 (net)	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$5.0**	**$18.8**
YOY Growth	-	-	-	-	-	-	-	-	-	*275.0%*
Licensing / Development	**$27.9**	**$52.3**	**$0**	**$0**	**$0**	**$72.5**	**$72.5**	**$0**	**$0**	**$0**
YOY Growth	*-56.3%*	*87.6%*	-	-	-	-	-	-	-	-
Total Revenues	$32.2	$68.5	$4.5	$4.6	$4.9	$73.5	$87.4	$6.1	$13.4	$29.8
YOY Growth	*-51.3%*	*113.0%*	*-68.8%*	*8.6%*	*-84.8%*	*960.7%*	*27.5%*	*-93.0%*	*119.7%*	*122.0%*
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	$17.8	$23.8	$4.3	$4.8	$5.7	$5.1	$19.9	$19.0	$20.0	$21.0
% SG&A	*55.2%*	*34.7%*	*96.5%*	*103.8%*	*116.4%*	*6.9%*	*22.7%*	*311.5%*	*149.3%*	*70.6%*
R&D	$22.4	$22.6	$5.9	$6.3	$6.3	$7.2	$25.7	$16.0	$15.0	$15.0
% R&D	*69.7%*	*6+.%*	*132.5%*	*136.7%*	*128.2%*	*9.8%*	*29.4%*	*262.3%*	*111.9%*	*50.4%*
Operating Income	($8.0)	$22.1	($5.8)	($6.4)	($7.1)	$61.2	$41.9	($28.9)	($21.6)	($6.3)
Operating Margin	*-24.9%*	*32.3%*	*-129.0%*	*-140.6%*	*-144.6%*	*83.3%*	*47.9%*	*-473.8%*	*-161.2%*	*-21.0%*
Interest Income / Net	$0.5	$0.9	$0.1	$0.0	$0.0	$0.1	$0.2	$0.5	$0.6	$0.6
Pre-Tax Income	($7.5)	$23.1	($5.7)	($6.4)	($7.1)	$61.3	$42.1	($28.4)	($21.0)	$5.7
Taxes	($0.63)	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($6.9)	$23.1	($5.7)	($6.4)	($7.1)	$61.3	$42.1	($28.4)	($21.0)	($5.7)
YOY Growth	-	-	-	-	-	-	*82.5%*	*-167.4%*	*-26.1%*	*-73.1%*
Net Margin	*-21.3%*	*33.7%*	*-127.4%*	*-139.6%*	*-144.2%*	*83.4%*	*48.2%*	*-465.6%*	*-156.7%*	*-19.0%*
Reported EPS	($0.23)	$0.76	($0.19)	($0.21)	($0.24)	$2.04	$1.41	($0.93)	($0.68)	($0.18)
Fully Diluted Shares	29.9	30.2	29.9	29.9	29.9	30.0	29.9	30.5	31.0	32.0

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

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Investment Research ("ZIR") and Zacks Small-Cap Research ("Zacks SCR") and the issuers covered by the Zacks SCR analysts in the Small-Cap Universe.

ZIR or Zacks SCR Analysts do not hold or trade securities in the issuers which they cover. Each analyst has full discretion on the rating and price target based on their own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for non-investment banking services. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or blog.

ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Zacks SCR has never received compensation for investment banking services on the small-cap universe. Zacks SCR does not expect received compensation for investment banking services on the small-cap universe. Zacks SCR has received compensation for non-investment banking services on the small-cap universe, and expects to receive additional compensation for non-investment banking services on the small-cap universe, paid by issuers of securities covered by Zacks SCR. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, investment research, and investment management.

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Because of individual objectives, the report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change. Reports are not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. Zacks SCR uses the following rating system for the securities it covers. Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters. Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters. Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution of Zacks Ratings is as follows on the 1040 companies covered: Buy/Outperform- 16.5%, Hold/Neutral- 74.6%, Sell/Underperform – 6.9%. Data is as of midnight on the business day immediately prior to this publication.

© Copyright 2011, Zacks Investment Research. All Rights Reserved.