November 15, 2011

Brian Marckx, CFA
bmarckx@zacks.com
Ph (312) 265-9474

Zacks Small-Cap Research

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

# Pernix Therapeutics (PTX-AMEX)

***PTX: Q3 Earnings.***

## OUTLOOK

Q3 revenue very strong, benefitting from recent launch of Natroba. EPS missed our estimate by $0.02 on lower gross margin.

We are maintaining our Outperform rating and $13 price target on shares of Pernix.

| | |
|---|---|
| **Current Recommendation** | **Outperform** |
| Prior Recommendation | N/A |
| Date of Last Change | 08/24/2010 |
| Current Price (11/15/11) | $9.18 |
| **Target Price** | **$13.00** |

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$13.23** |
| **52-Week Low** | **$3.44** |
| **One-Year Return (%)** | **146.67** |
| **Beta** | **0.95** |
| **Average Daily Volume (sh)** | **21,919** |
| **Shares Outstanding (mil)** | **26** |
| **Market Capitalization ($mil)** | **$238** |
| **Short Interest Ratio (days)** | **7.20** |
| **Institutional Ownership (%)** | **3** |
| **Insider Ownership (%)** | **66** |
| **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** | **23.0** |
| **P/E using 2011 Estimate** | **34.0** |
| **P/E using 2012 Estimate** | **15.3** |
| **Zacks Rank** | **N/A** |

| | |
|---|---|
| **Risk Level** | **Average,** |
| **Type of Stock** | **Small-Growth** |
| **Industry** | **Med-Generic Drg** |

## ZACKS ESTIMATES

**Revenue**
(in millions)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2010 | $8.9 A | $4.4 A | $7.8 A | $12.2 A | $33.2 A |
| 2011 | $10.1 A | $12.0 A | $17.1 A | $15.5 E | $54.7 E |
| 2012 | | | | | $72.3 E |
| 2013 | | | | | $98.5 E |

**Earnings per Share**

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2010 | $0.24 A | $0.01 A | $0.10 A | $0.07 A | $0.40 A |
| 2011 | $0.04 A | $0.07 A | $0.08 A | $0.08 E | $0.27 E |
| 2012 | | | | | $0.60 E |
| 2012 | | | | | $1.07 E |

Zacks Projected EPS Growth Rate - Next 4 Years % **43**

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

## Q3 2011 RESULTS

Pernix reported financial results for the third quarter on November 15th. Net sales came in at $17.1 million, well ahead of our $12.2 million estimate and up almost 120% y-o-y, benefitting from the recent launch of Natroba. Despite the significantly better revenue number, EPS of $0.08 was below our $0.10 estimate mostly due to lower gross margin from commissions paid to ParaPro on sales of Natroba.

Operating expenses were $6.3 million, compared to our $5.9 million estimate.

**Cash**
Pernix exited the quarter with $27.6 million in cash and equivalents. In July 2011 the company received net proceeds of $19.3 million from the sale of 3 million common shares. Cash flow from operations was negative $7.3 million in Q3 but excluding changes in working capital (including a $12.6MM spike in A/R, a significant portion of which should be collected in Q4) cash flow from operations was positive $2.4 million.

## OUR REVISED 2011 OUTLOOK

We have made updates to our model based on today's results. For 2011 we now look for net sales of $54.7MM (revised up from $51.8MM prior to Q3 results) and EPS of $0.27 (revised down from $0.38 - revised down due to the $0.02 miss in Q3 and lowering gross margin for Q4).

## FINANCIAL MODEL

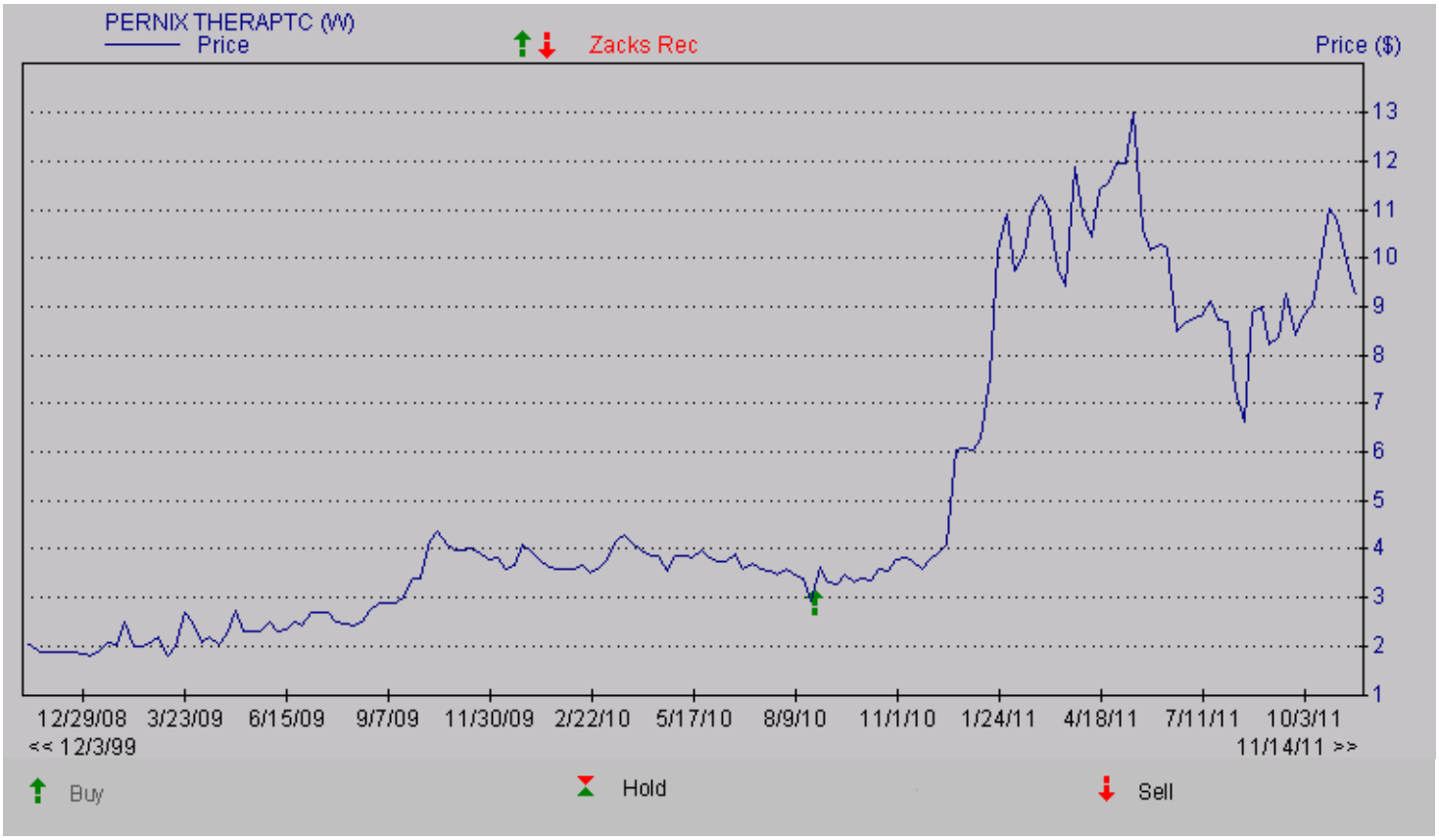
Pernix Therapeutic Holdings, Inc

| | 2010 A | Q1A | Q2A | Q3A | Q4E | 2011 E | 2012 E | 2013 E | 2014 E |
|---|---|---|---|---|---|---|---|---|---|
| Net Sales | $33,227.4 | $10,095.0 | $12,044.8 | $17,064.2 | $15,488.0 | $54,692.0 | $72,309.9 | $98,489.2 | $137,928.2 |
| *YOY Growth* | *19.0%* | *13.8%* | *176.4%* | *119.4%* | *26.8%* | *64.6%* | *32.2%* | *36.2%* | *40.0%* |
| Cost of product sales | $6,500.3 | $2,319.2 | $3,565.3 | $7,815.4 | $5,688.0 | $19,387.9 | $22,322.0 | $24,889.0 | $29,870.0 |
| Gross Income | $26,727.1 | $7,775.8 | $8,479.4 | $9,248.8 | $9,800.0 | $35,304.1 | $49,987.9 | $73,600.2 | $108,058.2 |
| *Gross Margin* | *80.4%* | *77.0%* | *70.4%* | *54.2%* | *63.3%* | *64.6%* | *69.1%* | *74.7%* | *78.3%* |
| SG&A | $14,130.7 | $4,856.6 | $4,657.0 | $5,411.2 | $5,087.0 | $20,011.7 | $22,095.7 | $28,011.7 | $35,338.7 |
| *% SG&A* | *28.2%* | *26.6%* | *29.8%* | *34.4%* | *32.8%* | *27.5%* | *21.2%* | *21.1%* | *19.2%* |
| Royalty expenses | $738.9 | $261.4 | $83.4 | $32.5 | $100.0 | $477.3 | $625.0 | $625.0 | $625.0 |
| *% Royalty* | *1.5%* | *1.4%* | *0.5%* | *0.2%* | *0.4%* | *0.7%* | *0.6%* | *0.5%* | *0.3%* |
| R&D | $998.2 | $436.2 | $725.8 | $247.8 | $448.0 | $1,857.7 | $1,815.0 | $1,644.0 | $1,445.0 |
| *% R&D* | *2.0%* | *2.4%* | *4.6%* | *1.6%* | *1.9%* | *2.6%* | *1.7%* | *1.2%* | *0.8%* |
| Dep & Amort | $1,238.8 | $493.3 | $594.0 | $603.5 | $588.0 | $2,278.8 | $1,756.0 | $1,105.0 | $1,105.0 |
| Operating Income | $9,620.5 | $1,728.3 | $2,419.2 | $2,953.9 | $3,577.0 | $10,678.5 | $23,696.2 | $42,214.5 | $69,544.5 |
| *Operating Margin* | *29.0%* | *17.1%* | *20.1%* | *17.3%* | *23.1%* | *19.5%* | *32.8%* | *42.9%* | *50.4%* |
| Interest income, net | $5.6 | ($30.2) | ($62.5) | ($37.3) | ($24.0) | ($154.0) | $75.0 | $150.0 | $270.0 |
| Other income | $287.3 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| Pre-Tax Income | $10,795.4 | $1,698.2 | $2,356.8 | $2,916.6 | $3,553.0 | $10,524.6 | $23,771.2 | $42,364.5 | $69,814.5 |
| Taxes (benefit) | $1,486.0 | $723.0 | $855.0 | $922.0 | $1,350.1 | $3,850.1 | $7,963.2 | $14,284.9 | $26,529.5 |
| *Tax Rate* | *13.8%* | *42.6%* | *36.3%* | *37.0%* | *38.0%* | *36.6%* | *38.0%* | *38.0%* | *38.0%* |
| Income to non-controlling interest | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| *% of total* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* |
| Net Income | 9,309.4 | $975.2 | $1,501.8 | $1,994.6 | $2,202.9 | $6,674.4 | $15,808.0 | $28,079.5 | $43,285.0 |
| *Net Margin* | *28.0%* | *9.7%* | *12.5%* | *11.7%* | *14.2%* | *12.2%* | *21.9%* | *28.5%* | *31.4%* |
| EPS | $0.40 | $0.04 | $0.07 | $0.08 | $0.08 | $0.27 | $0.60 | $1.07 | $1.65 |
| *YOY Growth* | *-10.0%* | *-82.5%* | *861.2%* | *-18.9%* | *27.7%* | *-31.3%* | *119.9%* | *77.6%* | *54.2%* |
| Diluted Shares O/S | 23,399 | 23,142 | 23,043 | 25,168 | 26,300 | 24,413 | 26,300 | 26,300 | 26,300 |

*Brian Marckx, CFA*

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

## 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 1027 companies covered: Buy/Outperform- 17.3%, Hold/Neutral- 74.9%, 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.