

SciClone

Ticker:
SCLN

Current Price:
\$3.71

Recommendation:
BUY

Price Target: \$6

Time Frame:
12 Months

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LAST	\$3.71
ANNHIGH	\$5.33
ANNLOW	\$1.21
Shares O/S-Diluted (model)	46,451
Market Capitalization (mln)	\$172
100-Day Average Daily Volume	421
Short Interest	4%
Debt/Total Cap	0%
Net Cash/Share \$	0.75
P/E (12-month forward)	10.2



Investment Thesis

SciClone announced top line data for SCV-07. This is a phase II proof of concept data in oral mucositis (OM). Patients receiving the study's higher dose (0.1 mg/kg) of SCV-07 showed a trend towards delay to onset of severe OM, the study's primary endpoint. Patients in the low dose treatment arm (0.02 mg/kg) appeared to do worse than placebo, suggesting that the treatment effect is sensitive to dose. Most importantly SCV-07 was shown to be both safe and well tolerated with no drug-related serious adverse events reported. As such there is an opportunity to investigate a higher doses of SCV-07 in future clinical studies. Additional data analysis did show a more pronounced clinical benefit for patients, (in the high dose treatment arm) when evaluating the delay to onset of ulcerative OM (WHO scale, grades 2 to 4), an expanded measure of OM. In this analysis, the low dose treatment arm appeared similar or slightly better than placebo. As such we are encouraged that SCV-07's development will continue forward.

Highlights

SCV-07 – Oral Mucositis (Head & Neck) & Hepatitis C : Data is here ...

SCV-07 (gamma-D-glutamyl-L-tryptophan) is a small molecule synthetic peptide. It has been demonstrated to stimulate the immune system, probably through a TLR pathway. It has been approved in Russia (sponsoring company: Verta Institute of St. Petersburg) for the treatment of secondary immune deficiency resulting from surgery and infectious disease process.

In Mucositis, SCV-07 has been (is being) evaluated in a U.S. based Phase II trial led by Dr Stephen T. Sonis (DMD, DMSc, Brigham and Women's Hospital, Boston, MA.). Top line data that is encouraging was reported yesterday. We spoke with management who expressed their excitement that the phase II results suggest a positive effect at the higher dose. Management now intends to initiate discussions with the FDA to design a new phase II trial (at higher dose). The trial will focus on the prevention of OM (oral Mucositis). SciClone has submitted a late-breaking abstract on results of this study for the 2010 American Society of Clinical Oncology Annual Meeting (ASCO).

Investors should also note that SCV-07 is also being investigated in Hepatitis C where a prior (small) proof of concept study successfully demonstrated that the compound is active. A larger proof of concept study (8 week trial in HCV patients) has now started.

Conclusion: Some may be disappointed but we are encouraged by what we see as good signals for SCV-07 and we expect its development to continue (given its safety). Mucositis is very much an unmet medical need. SCV-07 has always been a bit of a long-shot for the company and as such we have not been included in our models. The two key take-away points here are the safety and the positive signal seen at the higher dose with the compound. An additional Phase II trial does cost time and money but the rewards here are significant.

Fundamental Research:
Biotechnology
March 30, 2010

Exhibit 1. Catalyst Table

Product	Indication	Event	Timing	Significance
ZADAXIN®	Hepatitis C	Phase III Topline Data for HCV in EU	4Q08	completed
ZADAXIN®	Metastatic Melanoma	Partnership or Outlicense in Metastatic Melanoma	1H-2010	+
ZADAXIN®	Metastatic Melanoma	Start of phase III Study in N=1000 patients, SPA, Mortality endpoint	1H-2010	+
DC Bead™	HCC	Obtain Approval and launch in China	2H-2010	+
SCV-07	Hepatitis C	Complete enrollment for oral mucositis trial	YE 2009	+
SCV-07	Hepatitis C	POC data in HCV, genotype I failures	2H-2010	+
SCV-07	Mucositis	Proof of Concept Data from P11/IIB	1H-2010	completed
SCV-07	Mucositis	Additional Phase II Study Designs	2H-2010	+
Ondansetron	Nausea	Phase III EU trial	1H-2010	completed
Ondansetron	Nausea	Approval in EU member countries	1H-2010	completed
Ondansetron	Nausea	File in China	2H-2010	+
China	In license Product	TBD	2010	+

Stock Significance Scale: + of moderate importance; ++ higher level; +++ highly

Source: National Securities Forecasts and Company reports.

Valuation: We have updated our income statement to include Ondansetron. The result is our DCF (FCFF) valuation metric) climbs to \$8. We triangulate this with our discounted eps model (2011) and our sum of the parts model which provides an average of \$6 per share target, Our model includes the key assumption that Zadaxin continue to grow in China. We are also including DC Bead sales in our model in China. Beyond DC Bead and Ondansetron we assume no other pipeline value (in our FCFF or EPS Discounted model). We do expect results for SCV-07 proof of concept data in HCV and Mucositis this quarter and that could be a significant event if the data is positive.

Average	\$	6
Price Target	\$	8
Year		2009

DCF Valuation Using FCFF (mln):

	2009	2010	2011	2012	2013	2014	2015
units (millions - \$)	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBIT	12,595	18,143	26,069	38,092	56,957	77,352	97,567
Tax Rate	0%	0%	15%	22%	25%	31%	36%
EBIT(1-t)	12,595	18,143	22,159	29,712	42,717	53,373	62,443
CapEx	(261)	(266)	(272)	(277)	(283)	(288)	(294)
Depreciation	537	591	614	639	664	691	719
Change in NWC	3,914	(1,804)	(9,031)	-	-	-	-
FCFF	8,957	20,271	31,533	30,074	43,099	53,776	62,867
PV of FCFF	8,957	17,627	23,843	19,774	24,642	26,736	27,179
Discount Rate	15%						
Long Term Growth Rate	2%						
Terminal Cash Flow	493,267						
Terminal Value YE2009	213,253						
NPV	362,012						
NPV-Debt	907						
Shares out (thousands) 2Q-09E	46,266						
NPV Per Share	\$ 8						

Source: National Securities estimates

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Valuation: (continued);

Current Year	2009
Year of EPS	2011
Earnings Multiple	15
Discount Factor	20%
Selected Year EPS	\$ 0.48
NPV	\$ 5.00

Source: National Securities estimates

		Discount Rate and Earnings Multiple Varies, Year is Constant						
		2011 EPS						
Earnings Multiple		5.0	20%	25%	30%	35%	40%	45%
10		\$3.33	\$3.07	\$2.84	\$2.63	\$2.45	\$ 2.28	
15		\$5.00	\$4.60	\$4.26	\$3.95	\$3.67	\$ 3.42	
20		\$6.66	\$6.14	\$5.67	\$5.26	\$4.89	\$ 4.56	
25		\$8.33	\$7.67	\$7.09	\$6.58	\$6.12	\$ 5.70	
30		\$9.99	\$9.21	\$8.51	\$7.89	\$7.34	\$ 6.84	
35		\$11.66	\$10.74	\$9.93	\$9.21	\$8.56	\$ 7.98	
40		\$13.32	\$12.28	\$11.35	\$10.52	\$9.79	\$ 9.12	
45		\$14.99	\$13.81	\$12.77	\$11.84	\$11.01	\$ 10.26	

SCLN-Sum of the Parts	LT Gr	Discount Rate	Yrs. to Mkt	% Success	Peak Sales MM's	Term Val
ZADAXIN - China & Curr Indications	3%	25%	0	100%	\$97	\$441
NPV						\$2.86
ZADAXIN - MM, US Royalty Rate 15%	3%	50%	5	25%	\$100	\$213
NPV						\$0.05
SCV-07 Mucositis	3%	20%	6	25%	\$200	\$1,176
NPV						\$0.64
SCV-07 HCV	3%	20%	6	25%	\$200	\$1,176
NPV						\$0.64
DC Bead - China	2%	50%	1	85%	\$27	\$57
NPV						\$0.21
OnDasetron	5%	20%	2	90%	\$20	\$133
NPV						\$0.54
Royalty Products					Peak Royalty/ Milestones (MM's)	
Zadaxin Collaboration Milestone	3%	50%	4	25%	\$100	\$213
NPV						\$0.07
Net Margin						30%
MM Shrs OS						46
Total						\$5
Net Cash/Shr						\$0.47
Grand Total						\$5.5

Source: National Securities estimates

Risks to Price Target: The company risks fall into several categories around product development (clinical risks), commercial development and the competitive landscape, and financial risk around the company's balance sheet. Specifically, we see the key risks near-term around Zadaxin. The company may be unable to find a partner to develop Zadaxin (thymalfsin) for Multiple Myeloma. Zadaxin sales remain at risk for generic erosion which could occur at a more significant level. SCV-07 may fail to demonstrate proof of concept in the current Mucositis and Hepatitis C Studies.

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SciClone Pharmaceuticals, Inc. Income Statement (\$ '000)													
SCLN: YE Dec. 31	2007A	2008A	2009A	1Q10E	2Q10E	3Q10E	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
Revenue (000's)													
ZADAXIN (Mainly China) - Hep B & Prophylaxis	37,038	54,108	72,411	19,000	20,000	21,000	23,000	83,000	87,150	91,508	93,338	95,204	97,108
% Chg		46%	34%	5%	5%	5%	10%	15%	5%	5%	2%	2%	2%
Contract Revenues	20	-	-	-	-	-	-	-	-	-	-	-	-
DC Bead China (Embolis Therapy-Oncology)		-	-	-	-	-	-	5,580	11,160	16,740	21,762	27,203	
% Chg		-	-	-	-	-	-	-	100%	50%	30%	25%	
SCV07 (Mucositis & HCV)		-	-	-	-	-	-	-	-	-	-	-	-
% Chg		-	-	-	-	-	-	-	-	-	-	-	-
RP-101 (Pancreatic Cancer) - Chemosensitizer		-	-	-	-	-	-	-	-	-	-	-	-
% Chg		-	-	-	-	-	-	-	-	-	-	-	-
Ondansetron™		-	-	-	-	-	-	2,000	10,263	16,697	25,934	32,724	
% Chg		-	-	-	-	-	-	-	413%	63%	55%	26%	
Total Product Sales	37,058	54,108	72,411	19,000	20,000	21,000	23,000	83,000	94,730	112,931	126,775	142,901	157,035
% Chg		46%	34%	26%	-9%	22%	27%	15%	14%	19%	12%	13%	10%
Zadaxin MM Royalty - 15%	-	-	-	-	-	-	-	-	-	-	-	10,044	21,317
Collaborative revenue - partnerships - Zadaxin	-	5	-	-	-	-	-	-	-	-	10,000	10,000	10,000
Total Revenues	37,058	54,113	72,411	19,000	20,000	21,000	23,000	83,000	94,730	112,931	136,775	162,945	188,352
% Chg		46%	34%	26%	-9%	22%	27%	15%	14%	19%	21%	19%	16%
Expenses													
COGS	6,735	9,827	11,585	3,800	4,000	4,200	4,600	16,600	18,946	22,586	25,355	28,580	31,407
COGS % Sales	18%	18%	16%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
R&D	17,446	23,537	16,979	3,810	3,900	4,300	4,400	16,410	17,231	18,092	18,997	19,946	20,944
R&D % Rev's	47%	43%	23%	0	0	0	19%	20%	18%	16%	14%	12%	11%
SG&A	24,173	29,183	31,223	7,962	7,962	7,962	7,962	31,847	32,484	33,134	33,797	34,473	35,162
SG&A % Rev's	65%	54%	43%	42%	40%	38%	35%	38%	34%	29%	25%	21%	19%
Other	-	-	29	-	-	-	-	-	-	-	1,026	1,670	2,593
Stk Optn's	2,243	1,843	1,875	357	520	429	429	1,735	1,822	1,895	1,970	2,049	2,131
Non-GAAP, Adj.	2,243	1,843	1,875	357	520	429	429	1,735	1,822	1,895	1,970	2,049	2,131
Total expenses	48,354	62,547	59,816	15,572	15,862	16,462	16,962	64,857	68,661	74,839	79,818	85,593	90,785
Oper. Inc. (Loss)	(11,296)	(8,434)	12,595	3,428	4,138	4,538	6,038	18,143	26,069	38,092	56,957	77,352	97,567
Oper Margin	NM	NM	17%	18%	21%	22%	26%	22%	28%	34%	42%	47%	52%
Int. Inc.	1,629	608	153	100	76	87	86	349	390	490	620	844	1,122
Int Exp.	(20)	(31)	(179)	(6)	(6)	(6)	(6)	(23)	(46)	(45)	(44)	(42)	(41)
Other	40	(16)	45	-	-	-	-	-	-	-	-	-	-
Total Net	1,649	561	18	94	70	81	80	326	345	446	577	802	1,081
Pre-tax income	(9,647)	(7,873)	12,587	3,522	4,208	4,619	6,118	18,468	26,414	38,538	57,533	78,154	98,648
Pretax Margin	NM	NM	17%	19%	21%	22%	27%	22%	28%	34%	42%	48%	52%
Disct'd ops	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain Sale Disct'd Ops	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes Provision (China)	301	475	641	160	160	160	160	640	768	998	1,298	1,687	2,193
Taxes Provision	-	-	-	-	-	-	-	-	3,962	8,478	14,383	24,228	35,513
Tax Rate	-	-	-	-	-	-	-	-	15%	22%	25%	31%	36%
Prefr'd dividend	-	-	-	-	-	-	-	-	-	-	-	-	-
Prefr'd div Acct'n	-	-	-	-	-	-	-	-	-	-	-	-	-
GAAP NI	(9,948)	(8,348)	11,946	3,362	4,048	4,459	5,958	17,828	21,684	29,061	41,852	52,239	60,941
Net Margin	NM	NM	16%	18%	20%	21%	26%	21%	23%	26%	31%	32%	32%
GAAP-EPS	(0.22)	(0.18)	0.25	0.07	0.08	0.09	0.12	0.36	0.44	0.59	0.84	1.05	1.22
Non GAAP EPS (dil)	(0.16)	(0.14)	0.29	0.08	0.09	0.10	0.13	0.40	0.48	0.63	0.88	1.09	1.26
Wgtd Avg Shrs (Bas) - '000s	46,100	46,212	46,328	47,680	48,157	48,398	48,640	48,449	48,796	49,087	49,383	49,679	49,978
Wgtd Avg Shrs (Dil) - '000s	46,100	46,212	47,404	49,015	49,505	48,413	48,655	48,464	48,811	49,102	49,398	49,694	49,993

Source: Company reports and National Securities

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Biotechnology
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RATING AND PRICE TARGET HISTORY: SCLN as of March 30, 2010

