



**SciClone**  
**Pharmaceuticals, Inc.**  
**Buy**

**SCLN: \$3.90**

**Biotechnology**

**SCLN: 1Q10 Earnings Ahead Of Our Estimates**

**THINK ACTION:**

1Q10 earnings were just ahead of our estimates, with SciClone reporting GAAP net income of \$0.09 per share. We believe these results position the company to beat the top end of the current EPS guidance of \$0.31-0.35. We continue to see SCLN shares as undervalued given the increasing cash balance, continued top- and bottom-line growth and an EV that is around 1.8x forward sales.

**KEY POINTS:**

Zadaxin sales in China came in at \$18.0 million for the quarter, down slightly from 4Q09 in a seasonally weak quarter. Management reaffirmed guidance of \$82-85 million for full year sales. COGS were \$2.8 million, R&D was \$2.7 million and SG&A was \$8.1 million. Net income for the quarter was \$4.2 million, or \$0.09 per share. Management reiterated guidance of \$0.31-0.35 per share for full year EPS. We believe, based on confidence in the revenue numbers, that full year EPS guidance is likely to prove conservative. We currently project \$0.37 per share but believe there is enough leverage to generate up to \$0.40 per share. We believe SciClone will have approximately \$50 in cash and investments by the end of the year.

SciClone continues to expand Zadaxin sales through penetration into class 2 and 3 hospitals in tier 1 and 2 cities in China. SciClone is hoping to benefit from Chinese healthcare legislation which will, hopefully, drive an increase in sales volume. We believe the impact from broader reimbursement is unlikely to occur before 2011.

The company's precommercial pipeline continues to move along. The company now expects to receive approval to market DC Bead in China in 1H11, which is a slip from prior guidance of YE10. We believe there is no significant delay here and regulators are likely to grant approval in early 2011. We believe Odansetron RapidFilm will receive approval in 1H12. The company continues to look for other potential assets to complement the sales effort in China.

SciClone expects to report data from the phase 2 study of SCV-07 as a treatment for oral mucositis at an upcoming medical meeting in 2H11. We are somewhat disappointed that the company was not able to get the data into the upcoming ASCO meeting but look forward to getting a better read on the potential for this drug later in the year.

**Brian Skorney**

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Changes	Current	Previous
Rating	Buy	--
FY10E REV (M)	\$82.1E	\$84.1E
FY11E REV (M)	\$89.5E	\$91.6E
FY10E EPS	\$0.37E	\$0.34E
FY11E EPS	\$0.41E	\$0.40E

52-Week High:	\$5.33
52-Week Low:	\$1.64
Shares O/S-Diluted (M):	48.5
Market Cap (M):	\$189.2
Average Daily Volume:	562,185
Short Interest:	5.0%
Debt/Total Cap:	2.0%
Net Cash Per Share:	\$0.61
P/E (12-month forward):	10.0x
Est. Long-Term EPS Growth:	20.0%
P/E/G:	50%
Fiscal Year-End:	Dec

REV (M) \$	2009A	2010E	2011E
Mar	15.1A	18.0A	17.9E
Jun	21.9A	19.6E	22.4E
Sep	17.2A	21.3E	23.3E
Dec	<u>18.1A</u>	<u>23.3E</u>	<u>26.0E</u>
FY	72.4A	82.1E	89.5E
CY	NA	NA	NA
FY P/S	2.6x	2.3x	2.1x
CY P/S	2.6x	2.3x	2.1x

EPS \$	2009A	2010E	2011E
Mar	0.00A	0.09A	0.04E
Jun	0.16A	0.08E	0.11E
Sep	0.04A	0.09E	0.12E
Dec	<u>0.05A</u>	<u>0.10E</u>	<u>0.15E</u>
FY	0.26A	0.37E	0.41E
CY	NA	NA	NA
FY P/E	15.0x	10.5x	9.5x
CY P/E	15.0x	10.5x	9.5x

**Exhibit 1: Potential Catalysts For SciClone**

Product	Indication	Event	Timing	Significance
ZADAXIN®	Metastatic Melanoma	Partnership or Outlicense in Metastatic Melanoma	??	+
ZADAXIN®	H1N1	Additional data on vaccine enhancer	2Q10	++
DC Bead#	HCC	Obtain Approval and launch in China	1H11	++
Ondansetron RapidFilm	Nausea	Regulatory Approval in China	1H12	++
SCV-07	Hepatitis C	POC data in HCV, genotype I failures	2H10	+
SCV-07	Mucositis	Proof of Concept Data from Phase 2 study	1Q10	++
China	In license Product	TBD	2010	+

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

Source: ThinkEquity LLC estimates and company reports

**Exhibit 2: Comparison of Current and Prior 1Q10 Estimates**

	1Q10A	1Q10E	Variance \$	Variance %
<b>Revenues: (thousands)</b>				
ZADAXIN	\$ 17,962	\$ 19,219	(1,257)	-7%
<b>Gross Sales</b>	<b>17,962</b>	<b>19,219</b>	<b>(1,257)</b>	<b>-7%</b>
<b>Total Revenues</b>	<b>17,962</b>	<b>19,219</b>	<b>(1,257)</b>	<b>-7%</b>
COGS	2,759	3,267	(508)	-16%
<b>Gross Profit</b>	<b>15,203</b>	<b>15,952</b>	<b>(749)</b>	<b>-5%</b>
Operating expenses:				
SG&A	8,145	8,456	(311)	-4%
R&D	2,675	4,114	(1,439)	-35%
Total operating expenses	10,820	12,570	(1,750)	-14%
<b>Operating Income</b>	<b>4,383</b>	<b>3,382</b>	<b>1,001</b>	<b>30%</b>
Interest, other income (expense), net	8	94	(86)	-91%
<b>Pretax income (loss)</b>	<b>4,391</b>	<b>3,475</b>	<b>916</b>	<b>26%</b>
Tax provision (benefit)	198	348		
<b>Net income (loss)</b>	<b>\$ 4,193</b>	<b>\$ 3,128</b>	<b>1,065</b>	<b>34%</b>
<b>EPS</b>	<b>\$ 0.09</b>	<b>\$ 0.07</b>	<b>0</b>	<b>31%</b>
<b>Fully Diluted EPS</b>	<b>\$ 0.09</b>	<b>\$ 0.07</b>	<b>0</b>	<b>27%</b>
<b>Shares used in computation, basic (000)</b>	<b>47,255</b>	<b>47,242</b>	<b>13</b>	<b>0%</b>
<b>Shares used in computation, fully diluted (000)</b>	<b>49,134</b>	<b>47,942</b>	<b>1,192</b>	<b>2%</b>

**Margin Analyses**

Gross Margin as % product sales	85%	83%
Selling, Marketing, Administrative as % revs	45%	44%
R&D as % of revs	15%	21%
Operating Income as % of revs	24%	18%
Net Income as % of total revs	23%	16%

Source: ThinkEquity LLC estimates and company reports

**Exhibit 3: Comparison of Current and Prior Full Year Financial Estimates**

	FY10E Current	FY10E Prior	Variance \$	Variance %	FY11E Current	FY11E Prior	Variance \$	Variance %
<b>Total Revenues</b>	<b>82,143</b>	<b>84,075</b>	<b>(1,932)</b>	<b>-2%</b>	<b>89,535</b>	<b>91,642</b>	<b>(2,107)</b>	<b>-2%</b>
COGS	12,617	13,848	(1,231)	-9%	14,326	14,663	(337)	-2%
<b>Gross Profit</b>	<b>69,525</b>	<b>70,227</b>	<b>(702)</b>	<b>-1%</b>	<b>75,210</b>	<b>76,979</b>	<b>(1,769)</b>	<b>-2%</b>
Operating expenses:								
SG&A	35,510	36,116	(606)	-2%	36,220	36,838	(618)	-2%
R&D	15,007	16,955	(1,948)	-11%	15,758	17,803	(2,045)	-11%
Total operating expenses	50,517	53,071	(2,554)	-5%	51,978	54,641	(2,663)	-5%
<b>Operating Income</b>	<b>19,008</b>	<b>17,156</b>	<b>1,852</b>	<b>11%</b>	<b>23,232</b>	<b>22,338</b>	<b>894</b>	<b>4%</b>
Interest, other income (expense), net	129	326	(197)	-60%	345	345	(0)	0%
<b>Pretax income (loss)</b>	<b>19,137</b>	<b>17,482</b>	<b>1,655</b>	<b>9%</b>	<b>23,576</b>	<b>22,683</b>	<b>893</b>	<b>4%</b>
Tax provision (benefit)	1,673	1,748	(75)	-4%	3,926	3,794	132	3%
<b>Net income (loss)</b>	<b>\$ 17,464</b>	<b>\$ 15,734</b>	<b>1,730</b>	<b>11%</b>	<b>\$ 19,650</b>	<b>\$ 18,889</b>	<b>761</b>	<b>4%</b>
<b>EPS</b>	<b>\$ 0.37</b>	<b>\$ 0.34</b>	<b>0</b>	<b>8%</b>	<b>\$ 0.41</b>	<b>\$ 0.40</b>	<b>0</b>	<b>3%</b>
<b>Fully Diluted EPS</b>	<b>\$ 0.35</b>	<b>\$ 0.37</b>	<b>(0)</b>	<b>-4%</b>	<b>\$ 0.43</b>	<b>\$ 0.43</b>	<b>(0)</b>	<b>-1%</b>
<b>Shares used in computation, basic (000)</b>	<b>47,368</b>	<b>46,598</b>	<b>770</b>	<b>2%</b>	<b>47,653</b>	<b>46,879</b>	<b>774</b>	<b>2%</b>
<b>Shares used in computation, fully diluted (000)</b>	<b>49,268</b>	<b>46,613</b>	<b>2,655</b>	<b>6%</b>	<b>49,553</b>	<b>46,894</b>	<b>2,659</b>	<b>6%</b>

**Margin Analyses**

Gross Margin as % product sales	85%	84%
Selling, Marketing, Administrative as % revs	43%	43%
R&D as % of revs	18%	20%
Operating Income as % of revs	23%	20%
Net Income as % of total revs	21%	19%

84%	84%
40%	40%
18%	19%
26%	24%
22%	21%

Source: ThinkEquity LLC estimates

**VALUATION:**

We value SciClone using a combination of metrics, including an FCFF model, discounted EPS model, and sum-of-the-parts model. Our key assumption is that Saxon will continue to grow in China. We are including DC Bead sales, in our model, in China and have always assumed a new trial will be required (now planned), with approval in mid 2010. We assume no other pipeline value (in our FCFF or EPS discounted model), but one could argue that we should include the anti-nausea medication, Ondansetron RapidFilm. Incorporating these assumptions into our model and averaging them derives a per-share fair value estimate around \$5.

**Discounted Cash Flow Valuation (In \$ Millions, Except Per-Share Data)**

units (millions - \$)	2010E	2011E	2012E	2013E	2014E	2015E
EBIT	17,157	22,339	25,331	26,908	26,858	26,777
Tax Rate	0%	17%	25%	28%	30%	30%
EBIT(1-t)	17,157	18,602	18,998	19,374	18,800	18,744
CapEx	(740)	(777)	(816)	(856)	(900)	(944)
Depreciation	600	624	649	675	702	730
FCFF	9,790	18,449	18,831	19,193	18,602	18,530
Discount Rate	11%					
Long Term Growth Rate	4%					

<b>NPV</b>	<b>218,336</b>
<b>NPV-Debt</b>	<b>217,357</b>
<b>Shares out (thousands)</b>	<b>47,218</b>
<b>NPV Per Share</b>	<b>\$ 4.60</b>

Source: ThinkEquity LLC estimates

**Projected, Discounted EPS Valuation**

Current Year	2010
Year of EPS	2012
Earnings Multiple	15
Discount Factor	15%
<b>Selected Year EPS</b>	<b>\$ 0.44</b>
<b>NPV</b>	<b>\$ 5.01</b>

		Discount Rate and Earnings Multiple Varies, Year is Constant					
		2012 EPS					
		8%	10%	12%	14%	16%	18%
<b>Earnings Multiple</b>	0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$ -
	5	\$1.89	\$1.83	\$1.76	\$1.70	\$1.64	\$ 1.59
	10	\$3.79	\$3.65	\$3.52	\$3.40	\$3.28	\$ 3.17
	15	\$5.68	\$5.48	<b>\$5.28</b>	\$5.10	\$4.93	\$ 4.76
	20	\$7.58	\$7.30	\$7.04	\$6.80	\$6.57	\$ 6.35
	25	\$9.47	\$9.13	\$8.81	\$8.50	\$8.21	\$ 7.93
	30	\$11.36	\$10.95	\$10.57	\$10.20	\$9.85	\$ 9.52
	35	\$13.26	\$12.78	\$12.33	\$11.90	\$11.49	\$ 11.11

Source: ThinkEquity LLC estimates

**Sum-Of-The-Parts Valuation (In \$ Millions, Except Per-Share Data; Shares In Millions)**

	LT Gr	Discount Rate	Yrs. to Peak	% Success	Peak Sales MM's	Term Val
ZADAXIN - China & Curr Indications	4%	15%	4	100%	\$105	\$3.38
NPV						
SCV-07 Mucositis	4%	18%	9	25%	\$200	\$0.50
NPV						
SCV-07 HCV	4%	18%	10	5%	\$200	\$0.08
NPV						
DC Bead - China	4%	18%	5	85%	\$15	\$0.25
NPV						
Ondansetron RapidFilm	5%	18%	5	75%	\$15	\$0.23
NPV						
Net Margin						30%
MM Shrs OS						49
<b>Total</b>						<b>\$4.44</b>
Net Cash/Shr						\$0.61
<b>Grand Total</b>						<b>\$5.05</b>

Source: ThinkEquity LLC estimates



**INVESTMENT RISKS:**

The company risks fall into several categories around product development (clinical risks), commercial development, the competitive landscape, and financial risk around the company's balance sheet. Specifically, we expect the key risks in the near term to be around Zadaxin. The company may be unable to find a partner to develop Zadaxin (thymalfasin) for Multiple Myeloma. We expect DC Bead to require a trial in China, but this may not be fully reflected in the company's current market capitalization. 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.

**COMPANY DESCRIPTION:**

SciClone Pharmaceuticals completed its IPO in March 1992 and was created to develop Thymalfasin (Zadaxin), a TLR-9 immunomodulator that had been in development for the treatment of Hepatitis C, where it failed to show a significant advantage versus standard of care. Thymalfasin is also in development for Metastatic Melanoma where the company now hopes to partner out the indication. The company employs approximately 165 people with 26 in the United States and the balance (the majority in China) in foreign offices.

**SciClone Pharmaceuticals, Inc. Income Statement ( \$thousands except per-share data)**

	2009A	1Q10A	2Q10E	3Q10E	4Q10E	2010E	1Q11E	2Q11E	3Q11E	4Q11E	2011E	2012E
<b>Revenue (000's)</b>												
ZADAXIN (Mainly China) - Hep B & Prophylaxis	72,411	17,962	19,579	21,341	23,261	82,143	17,907	22,384	23,279	25,965	89,535	94,907
<b>Total Product Sales</b>	<b>72,411</b>	<b>17,962</b>	<b>19,579</b>	<b>21,341</b>	<b>23,261</b>	<b>82,143</b>	<b>17,907</b>	<b>22,384</b>	<b>23,279</b>	<b>25,965</b>	<b>89,535</b>	<b>94,907</b>
% Chg	34%	-1%	9%	9%	9%	13%	0%	14%	9%	12%	9%	6%
<b>Expenses</b>												
COGS	11,585	2,759	3,007	3,278	3,573	12,617	2,865	3,581	3,725	4,154	14,326	15,185
COGS % Sales	16%	15.4%	15%	15%	15%	15%	16%	16%	16%	16%	16%	16%
R&D	16,980	2,675	3,611	4,153	4,568	15,007	3,939	3,939	3,939	3,939	15,758	16,546
SG&A	31,223	8,145	8,419	9,176	9,770	35,510	9,055	9,055	9,055	9,055	36,220	36,945
<b>Total expenses</b>	<b>59,817</b>	<b>13,579</b>	<b>15,037</b>	<b>16,607</b>	<b>17,911</b>	<b>63,135</b>	<b>15,860</b>	<b>16,576</b>	<b>16,719</b>	<b>17,149</b>	<b>66,304</b>	<b>68,676</b>
Oper. Inc. (Loss)	12,594	4,383	4,541	4,733	5,350	19,008	2,047	5,808	6,560	8,816	23,232	26,232
Oper Margin	17%	24%	23%	22%	23%	23%	11%	26%	28%	34%	26%	28%
<b>Other income (expense)</b>												
Int. Inc.	153	25	38	42	46	150	87	96	101	106	390	490
Int Exp.	(179)	(19)	(19)	(19)	34	(23)	(11)	(11)	(11)	(11)	(46)	(45)
Other	18	2	-	-	-	2	-	-	-	-	-	-
<b>Total Net</b>	<b>(8)</b>	<b>8</b>	<b>19</b>	<b>23</b>	<b>80</b>	<b>129</b>	<b>76</b>	<b>85</b>	<b>89</b>	<b>95</b>	<b>345</b>	<b>446</b>
<b>Income before taxes</b>	<b>12,586</b>	<b>4,391</b>	<b>4,560</b>	<b>4,756</b>	<b>5,430</b>	<b>19,137</b>	<b>2,123</b>	<b>5,893</b>	<b>6,649</b>	<b>8,911</b>	<b>23,576</b>	<b>26,678</b>
Taxe Provision	641	198	456	476	543	1,673	255	825	1,064	1,782	3,926	6,336
Tax Rate	5.1%	5%	10%	10%	10%	9%	12%	14%	16%	20%	17%	25%
<b>Net income (loss)</b>	<b>11,945</b>	<b>4,193</b>	<b>4,104</b>	<b>4,280</b>	<b>4,887</b>	<b>17,464</b>	<b>1,869</b>	<b>5,068</b>	<b>5,585</b>	<b>7,129</b>	<b>19,650</b>	<b>20,342</b>
Net Margin	16%	23%	21%	20%	21%	21%	10%	23%	24%	27%	22%	21%
<b>GAAP-EPS</b>	<b>\$0.26</b>	<b>\$0.09</b>	<b>\$0.08</b>	<b>\$0.09</b>	<b>\$0.10</b>	<b>\$0.37</b>	<b>\$0.04</b>	<b>\$0.11</b>	<b>\$0.12</b>	<b>\$0.15</b>	<b>\$0.41</b>	<b>\$0.42</b>
<b>Pro forma EPS (dil)</b>	<b>0.29</b>	<b>0.09</b>	<b>0.09</b>	<b>0.09</b>	<b>0.11</b>	<b>0.38</b>	<b>0.05</b>	<b>0.11</b>	<b>0.12</b>	<b>0.16</b>	<b>0.43</b>	<b>0.44</b>
Wgtd Avg Shrs (Bas), in thousands	46,574	47,255	47,289	47,525	47,763	47,368	47,526	47,573	47,811	48,050	47,653	47,939
Wgtd Avg Shrs (Dil) - in thousands	47,404	49,134	49,189	49,425	49,663	49,268	47,541	47,588	47,826	48,065	49,553	49,839

Source: Company reports and ThinkEquity LLC estimates

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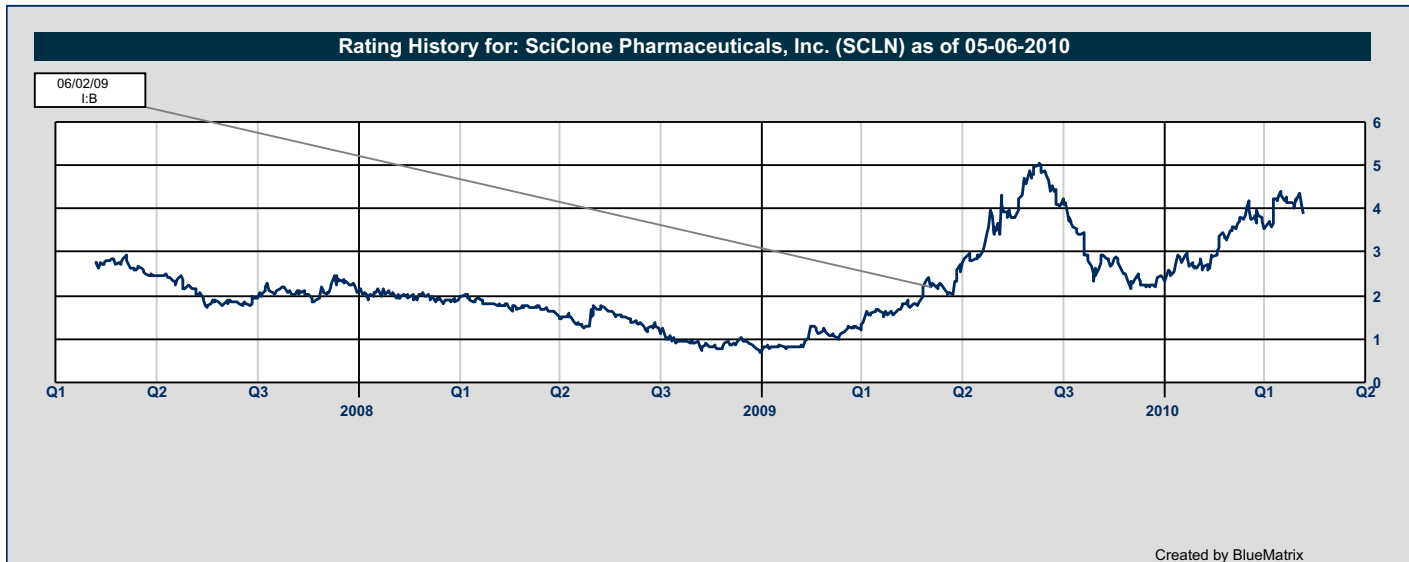
## Important Disclosures

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Effective October 7, 2009, ThinkEquity LLC moved from a four-tier Buy/Accumulate/Source of Funds/Sell rating system to a three-tier Buy/Hold/Sell system. The new ratings appear in our Distribution of Ratings, Firmwide chart. To request historical information, including previously published reports or statistical information, please call: 866-288-8206, or write to: Director of Research, ThinkEquity LLC, 600 Montgomery Street, San Francisco, California, 94111.

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<b>Distribution of Ratings, Firmwide</b>				
<b>ThinkEquity LLC</b>				
<b>Rating</b>	<b>Count</b>	<b>Percent</b>	<b>IB Serv./Past 12 Mos.</b>	
			<b>Count</b>	<b>Percent</b>
<b>BUY [B]</b>	<b>131</b>	<b>68.20</b>	<b>15</b>	<b>11.45</b>
<b>HOLD [H]</b>	<b>60</b>	<b>31.20</b>	<b>1</b>	<b>1.67</b>
<b>SELL [S]</b>	<b>1</b>	<b>0.50</b>	<b>0</b>	<b>0.00</b>

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