

## SciClone

Ticker:

**SCLN**

Current Price:

\$3.90

Recommendation:

**BUY**

Price Target: \$6

Time Frame:

12 Months

Jason Kolbert

(212) 417-8287

[kolbert@nationalsecurities.com](mailto:kolbert@nationalsecurities.com)

LAST	\$3.90
ANNHIGH	\$5.33
ANNLOW	\$1.64
Shares O/S-Diluted (model)	46,451
Market Capitalization (mln)	\$181
100-Day Average Daily Volume	494
Short Interest	0%
Debt/Total Cap	0%
Net Cash/Share \$	0.75
P/E (12-month forward)	10.7



Source:BigCharts.com

### Investment Thesis

SciClone reported the quarter last night. Top line Zadaxin revenues (sales of ZADAXIN) were \$18.0 million, slightly below our forecast but up 19% versus the same period last year. SciClone, however, reported a strong bottom line quarter with COGS and R&D spending lighter than we expected, translating to \$0.09 cents in earnings and a cash balance just under \$40 million for a company with a \$181 mln market capitalization on track for \$81 million in revenues in 2010. Guidance for full year 2010 is unchanged.

### Highlights

**SciClone Reports its Best Quarter Yet !** SciClone reported financial results for the first quarter of 2010. While revenues were slightly below our forecast so were costs, (COGS, 85% GM versus prior at 82% & SG&A). The result was net income of \$4.2 million, or \$0.09 per share, compared with a net income of \$0.1 million, or \$0.00 per share for the same period last year, on both a basic and diluted basis. SciClone has come a long way over the past few years. The Company now has a cash balance of close to \$40 million, and several interesting clinical programs in motion, including SCV-07 (HCV and Mucositis), DC Bead (China), and Ondansetron (China) that have great potential

**Zadaxin Sales Now Expanding Deeper in China:** Management plans to expand ZADAXIN sales by penetrating deeper into class 3 and 2 hospitals in Tier 1 and 2 cities in China. For a little company SciClone's substantial sales infrastructure in China represents a terrific asset for a company looking for product distribution.

**Zadaxin Looks Promising as a Vaccine Enhancer:** Early data so far appears promising, but it is too early to know for sure. Data points at 3 weeks and 6 weeks in immuno-compromised patients suggest protection is being enhanced. There are many possible positive outcomes for such a vaccine enhancer which range from partnership with big pharma to BioDefense. Stay tuned.

**SCV-07 – Oral Mucositis (Head & Neck) & Hepatitis C :** Last month SciClone announced data for SCV-07 (gamma-D-glutamyl-L-tryptophan). This is a small molecule synthetic peptide. The top line data in mucositis is encouraging. Management again expressed excitement to begin a second Phase II study that will focus on higher doses and more patients, which sets the stage on good data for a partnership toward pivotal trials. 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. Enrollment is going well with data expected in late 2010.

**DC BEAD:** DC Bead appears to be a bit delayed as a result of slower than expected enrollment. We have not changed our modeling assumptions yet, which assume a Q3-2011 launch is possible, but they may shift into 2012.

**Fundamental Research:**  
**Biotechnology**  
**May 6, 2010**

**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 continues 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 (min):**

	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

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						
	5.0	20%	25%	30%	35%	40%	45%
Earnings Multiple	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
OnDansetron	5%	20%	2	90%	\$20	\$133
NPV						\$0.54
<b>Royalty Products</b>					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's 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.

**Fundamental Research:**  
**Biotechnology**  
**May 6, 2010**

**SciClone Pharmaceuticals, Inc. Income Statement (\$ '000)**

SCLN: YE Dec. 31	2007A	2008A	2009A	1Q10A	2Q10E	3Q10E	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
<b>Revenue (000's)</b>													
ZADAXIN (Mainly China) - Hep B & Prophylaxis	37,038	54,108	72,411	17,962	20,000	21,000	23,000	81,962	86,060	90,363	92,170	94,014	95,894
% Chg		46%	34%	-1%	11%	5%	10%	13%	5%	5%	2%	2%	2%
Contract Revenues	20	-	-	-	-	-	-	-	-	-	-	-	-
DC Bead China (Embollic 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%
<b>Total Product Sales</b>	<b>37,058</b>	<b>54,108</b>	<b>72,411</b>	<b>17,962</b>	<b>20,000</b>	<b>21,000</b>	<b>23,000</b>	<b>81,962</b>	<b>93,640</b>	<b>111,787</b>	<b>125,607</b>	<b>141,710</b>	<b>155,821</b>
% Chg		46%	34%	19%	-9%	22%	27%	13%	14%	19%	12%	13%	10%
Zadaxin MM Royalty - 15%												10,044	21,317
Collaborative revenue - partnerships - Zadaxin		5									10,000	10,000	10,000
<b>Total Revenues</b>	<b>37,058</b>	<b>54,113</b>	<b>72,411</b>	<b>17,962</b>	<b>20,000</b>	<b>21,000</b>	<b>23,000</b>	<b>81,962</b>	<b>93,640</b>	<b>111,787</b>	<b>135,607</b>	<b>161,754</b>	<b>187,138</b>
% Chg		46%	34%	19%	-9%	22%	27%	13%	14%	19%	21%	19%	16%
<b>Expenses</b>													
COGS	6,735	9,827	11,585	2,759	4,000	4,200	4,600	15,559	18,728	22,357	25,121	28,342	31,164
COGS % Sales	18%	18%	16%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
R&D	17,446	23,537	16,979	2,675	3,900	4,300	4,400	15,275	16,039	16,841	17,683	18,567	19,495
R&D % Rev's	47%	43%	23%	0	0	0	19%	19%	17%	15%	13%	11%	10%
SG&A	24,173	29,183	31,223	8,144	8,144	8,144	7,415	31,847	32,484	33,134	33,797	34,473	35,162
SG&A % Rev's	65%	54%	43%	45%	41%	39%	32%	39%	35%	30%	25%	21%	19%
Other	-	-	29	-	-	-	-	-	-	1,026	1,670	2,593	3,272
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
<b>Total expenses</b>	<b>48,354</b>	<b>62,547</b>	<b>59,816</b>	<b>13,578</b>	<b>16,044</b>	<b>16,644</b>	<b>16,415</b>	<b>62,681</b>	<b>67,251</b>	<b>73,358</b>	<b>78,271</b>	<b>83,975</b>	<b>89,094</b>
Oper. Inc. (Loss)	(11,296)	(8,434)	12,595	4,384	3,956	4,356	6,585	19,281	26,389	38,428	57,337	77,779	98,044
Oper Margin	NM	NM	17%	24%	20%	21%	29%	24%	28%	34%	42%	48%	52%
Int. Inc.	1,629	608	153	25	76	87	86	274	390	490	620	844	1,122
Int Exp.	(20)	(31)	(179)	(19)	(19)	(19)	34	(23)	(46)	(45)	(44)	(42)	(41)
Other	40	(16)	45	2	-	-	-	2	-	-	-	-	-
Total Net	1,649	561	18	8	57	68	120	253	345	446	577	802	1,081
<b>Pre-tax income</b>	<b>(9,647)</b>	<b>(7,873)</b>	<b>12,587</b>	<b>4,392</b>	<b>4,013</b>	<b>4,424</b>	<b>6,705</b>	<b>19,534</b>	<b>26,734</b>	<b>38,874</b>	<b>57,913</b>	<b>78,581</b>	<b>99,125</b>
Pretax Margin	NM	NM	17%	24%	20%	21%	29%	24%	29%	35%	43%	49%	53%
Disc't'd ops	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain Sale Disc't'd Ops	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes Provision (China)	301	475	641	198	198	198	198	792	950	1,236	1,606	2,088	2,714
Taxes Provision	-	-	-	-	-	-	-	-	4,010	8,552	14,478	24,360	35,685
Tax Rate	-	-	-	-	-	-	-	-	15%	22%	25%	31%	36%
Pref'r'd dividend	-	-	-	-	-	-	-	-	-	-	-	-	-
Pref'r'd div Acct'n	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>GAAP NI</b>	<b>(9,948)</b>	<b>(8,348)</b>	<b>11,946</b>	<b>4,194</b>	<b>3,815</b>	<b>4,226</b>	<b>6,507</b>	<b>18,742</b>	<b>21,773</b>	<b>29,086</b>	<b>41,829</b>	<b>52,133</b>	<b>60,726</b>
Net Margin	NM	NM	16%	23%	19%	20%	28%	23%	23%	26%	31%	32%	32%
<b>GAAP-EPS</b>	<b>(0.22)</b>	<b>(0.18)</b>	<b>0.25</b>	<b>0.09</b>	<b>0.08</b>	<b>0.09</b>	<b>0.13</b>	<b>0.39</b>	<b>0.45</b>	<b>0.60</b>	<b>0.85</b>	<b>1.05</b>	<b>1.22</b>
Non GAAP EPS (dil)	(0.16)	(0.14)	0.29	0.09	0.09	0.10	0.14	0.42	0.49	0.63	0.89	1.10	1.26
Wgtd Avg Shrs (Bas) - '000s	46,100	46,212	46,328	47,255	47,728	47,966	48,206	48,272	48,361	48,650	48,942	49,237	49,533
Wgtd Avg Shrs (Dil) - '000s	46,100	46,212	47,404	49,134	49,625	47,981	48,221	48,287	48,376	48,665	48,957	49,252	49,548

Source: Company reports and National Securities

**Fundamental Research:**  
**Biotechnology**  
**May 6, 2010**

**REG AC ANALYST CERTIFICATION**

The research analyst named on this report, Jason Kolbert, certifies the following: (1) that all of the views expressed in this research report accurately reflect his personal views about any and all of the subject securities or issuers; and (2) that no part of his compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by him in this research report.

**IMPORTANT DISCLOSURES**

This publication does not constitute and should not be construed as an offer or the solicitation of any transaction to buy or sell any securities or any instruments or any derivatives of the securities mentioned herein, or to participate in any particular trading strategies. Although the information contained herein has been obtained from recognized services, and sources believed to be reliable, its accuracy or completeness cannot be guaranteed. Opinions, estimates or projections expressed in this report may make assumptions regarding economic, industry, company and political considerations, and constitute current opinions, at the time of issuance, which are subject to change without notice.

This report is being furnished for informational purposes only, and on the condition that it will not form a primary basis for any investment decision. Any recommendation(s) contained in this report is/are not intended to be, nor should it / they construed or inferred to be, investment advice, as such investments may not be suitable for all investors. When preparing this report, no consideration to one's investment objectives, risk tolerance and other individual factors was given; as such, as with all investments, purchase or sale of any securities mentioned herein may not be suitable for all investors. By virtue of this publication, neither the Firm nor any of its employees shall be responsible for any investment decisions. Before committing funds to ANY investment, an investor should seek professional advice. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice, or to be used by anyone to provide tax advice. Investors are urged to consult an independent tax professional for advice concerning their particular circumstances. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, either expressed or implied, is made regarding future performance.

National Securities Corporation (NSC) and its affiliated companies, shareholders, officers, directors and / or employees (including persons involved with the preparation or issuance of this report) may, from time to time, have long or short positions in, and buy or sell the securities or derivatives (including options) thereof, of the companies mentioned herein. One or more directors, officers, and / or employees of NSC and its affiliated companies, or independent contractors affiliated with NSC may be a director of the issuer of the securities mentioned herein. NSC and / or its affiliated companies may have managed or co-managed a public offering of, or acted as initial purchaser or placement agent for a private placement of any of the securities of any issuer mentioned in this report within the last three (3) years, or may, from time to time, perform investment banking or other services for, or solicit investment banking business from any company mentioned in this report.

This research may be distributed by affiliated entities of National Securities Corporation (NSC). Affiliated entities of NSC may include, but are not limited to, vFinance Investments, Inc., Equity Station, National Asset Management and other subsidiaries of our parent company, National Holdings Corporation.

The securities mentioned in this document may not be eligible for sale in some states or countries, nor be suitable for all types of investors; their value and the income they produce if any, may fluctuate and/or be adversely affected by exchange rates, interest rates or other factors. Furthermore, NSC may follow emerging growth companies whose securities typically involve a higher degree of risk and more volatility than the securities of more established companies. This report does not take into account the particular investment objectives, financial situation or needs of individual investors. Before acting on any advice or recommendation in this material, the investor should exercise independent judgment as to whether it is suitable in light of his/her particular circumstances and, if necessary, seek professional advice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Additional information relative to securities, other financial products, or issuers discussed in this report is available upon request. Neither this entire report, nor any part thereof, may be reproduced, copied or duplicated in any form or by any means without the prior written consent of National Securities Corporation. All rights reserved. NSC is a member of both the Financial Industry Regulatory Authority (FINRA) and the Securities Investors Protection Corporation (SIPC).

For disclosures inquiries, please call us at 1-800-417-8000 and ask for your NSC representative, or write us at National Securities Corporation, Attn. Rhonda Jungquist - Compliance Department, 1001 Fourth Avenue, 22nd Floor, Seattle, WA 98154, or visit our website at [www.nationalsecurities.com](http://www.nationalsecurities.com).

Research "Possible" Disclosures Legend	
	Relevant Disclosures - None
1	National Securities (NSC) is a market maker in the securities of the subject company
2	In the past twelve (12) month period, NSC and / or its affiliates have received compensation for investment banking for services from the subject company
3	In the past twelve (12) month period, NSC and / or its affiliates have received compensation from the subject company for services other than those related to investment banking.
4	In the past twelve (12) month period, NSC was a manager or co-manager of a public offering of one or more of the securities of the issuer.
5	In the past twelve (12) month period, NSC was a member of the selling group of a public offering of the security (ies) of the issuer.
6	One or more directors, officers, and / or employees of NSC and / or its affiliated companies is / are a director (S) of the issuer of the security which is the subject of this report.
7	NSC and / or its affiliates expects to receive or intends to seek compensation for investment banking services from the subject company at some point durring the next three (3) months.
8	A research analyst or a member of his / her household has a financial interest in the securities if the subject company as follows a) long common stock; b) short common stock;c)long calls; d) short calls; e) long puts f) short puts; g) long rights; h)short rights; i)long warrants; j) short warrants; k)long futures; l)short futures m)long preferred stock; n) short preferred stock.
9	As of the end of the month immediately preceeding the date of publication of this report, or the end of the prior month if the publication is within ten (10) days following the end of the month, NSC and / or its affiliates beneficially owned one per cent (1%) or more of any class of common equity securities of the subject company.
10	Please see below for other relevant disclosures

Shares of this security may be solicited in the following states AK, AL, AR,AZ, CA, CO,CT,DC,DE,FL,GA,HI,IA,IS,IL, IN,KS,KY,LA,MA,MD,ME,MI, MN,NC,ND, NE,NJ,NM,NV,NY,OH,OK,OR,PA,RI,SC,SD,TN,UT,VA,VI,VT,WA,WI,WV,WY

Rating	Companies Covered	Rating Distribution	Investment Banking Clients	Investment Banking Clients %
BUY	9	100%	3	33%
NEUTRAL	0	0%	0	0%
SELL	0	0%	0	0%
Total	9	100%	3	0%

**FIRM-WIDE RATING DISTRIBUTION: MEANING OF RATINGS**

**BUY:** the total return of the investment strategy is likely to appreciate at least 15% over the next 12 months.

**NEUTRAL:** the stock price is likely to consolidate over the next 12 months.

**SELL:** the stock price is likely to decline in value at least 15% over the next 12 months.

**RATING AND PRICE TARGET HISTORY: SCLN as of May 6, 2010**

