



First Take

SciClone Pharmaceuticals (SCLN)

Price: \$3.58 (05/21/2010), Price Target: \$8.00, Market Cap(MM): \$169.5,
Rating: Market Outperform

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Additional Phase 2 Results of SCV-07 in Oral Mucositis Show Activity in High Dose Cohort

Trend Toward Delayed Onset of Severe Oral Mucositis Seen in High Dose Cohort Last week, SciClone reported additional results from a randomized, double-blind, placebo-controlled Phase 2 clinical trial evaluating SCV-07 for the prevention of severe (Grade 3 or 4) oral mucositis (OM) in 59 patients receiving standard chemoradiation therapy for treatment of head and neck cancer. Of note, the incidence of severe OM after 5 weeks of chemoradiation was 29% among 17 patients receiving high dose (0.1 mg/kg) SCV-07 versus 42% among 20 placebo patients. In the low dose cohort, the incidence of severe OM after 5 weeks of chemoradiation was 63% among 20 patients receiving 0.02 mg/kg SCV-07 versus 42% among 20 placebo patients. According to the company, the discrepancy in efficacy of SCV-07 seen in the high versus low dose cohorts may be attributable to the activation of different biochemical pathways at high versus low doses. Both doses of SCV-07 were considered safe and well tolerated, with no SCV-07-related serious adverse events observed at either dose. Investors should be aware that the trial was not powered to demonstrate a statistically significant effect and was primarily aimed as a proof-of-concept trial to guide the design of a future study.

Subset Analysis of Ulcerative Oral Mucositis Guides Design of Next Phase 2 Trial A subset analysis of patients graded with ulcerative oral mucositis, a broader measure of oral mucositis that includes Grade 2 lesions, demonstrated a stronger activity profile in delaying the natural history of the onset of ulcerative mucositis. The high dose of SCV-07 prevented the onset of any ulcerative mucositis in 24% of patients at doses of radiation up to 50Gy after approximately 5 weeks of treatment, whereas 100% of placebo patients suffered from ulcerative mucositis at 35Gy after approximately 3.5 weeks of treatment. Additionally, the low dose of SCV-07 prevented the onset of any ulcerative mucositis in 5% of patients at doses of radiation up to 50Gy, whereas 100% of placebo patients suffered from ulcerative mucositis at 35Gy. According to key opinion leaders, the extension of biological activity to the ulcerative oral mucositis setting is significant, as ulceration is the predominant cause of morbidity seen with oral mucositis, occurring in approximately 90% of oral mucositis cases. Given this exploratory analysis, SciClone intends to incorporate the delay of onset of ulcerative oral mucositis as a formal endpoint in a second Phase 2 study. Additionally, given the good safety profile, higher doses are to be evaluated in a trial powered appropriately to demonstrate a statistically significant treatment effect. In this regard, plans are being formulated to conduct a new Phase 2 trial to confirm the efficacy of the 0.10 mg/kg dose as well as to explore 2 additional, higher doses. SciClone is planning to meet with the FDA in 2Q10 to discuss plans for a new Phase 2 trial. Provided the FDA agrees to the design of a new study, SciClone intends to initiate the new Phase 2 study promptly.

Thesis Unchanged – Valuation Driven by China Sales of Zadaxin Investors should be aware that our valuation is driven entirely by sales of Zadaxin and that the potential for the biotech pipeline comprised of SCV-07 for oral mucositis and HCV provides additional upside not included in our valuation. Based on continued strong Zadaxin sales in 1Q10, the company has reiterated its revenue and EPS guidance for 2010 of \$82-\$85 MM and \$0.31 - 0.35, respectively, with a projected year-end cash balance greater than \$35 MM. We believe that continued sales growth of Zadaxin in China is expected to be derived from SciClone's increasing sales presence in Tier 2 cities for Class II and Class III hospitals. Additionally, we believe that one of the key drivers for continued sales growth of Zadaxin in China could be the 3Q10 approval of government reimbursement for Zadaxin. A reimbursement program would be expected to broaden the potential market to those unable to pay retail prices and should in our opinion enhance Zadaxin sales in China.

Quick Take We are reiterating our Market Outperform / Speculative Risk rating and our 12-month target price of \$8. Our target price is derived based on a 2014 discounted revenues and earnings per share projections of approximately \$113 MM and diluted EPS of \$0.58, respectively. SciClone's revenues are driven by the flagship immunomodulatory agent Zadaxin, which is marketed in China and a variety of other foreign countries. SciClone has a promising pipeline of products including SCV-07 for oral mucositis and Hepatitis C infection, DC Bead™ for liver cancer, and RapidFilm™ for nausea. In our opinion, the mix of growing revenues, proven execution on guidance and corporate strategy, solid and increasing cash position, and potential to secure additional in-licensing agreements and report key data milestones from ongoing trials could generate significant value for the risk-oriented, long-term investor.

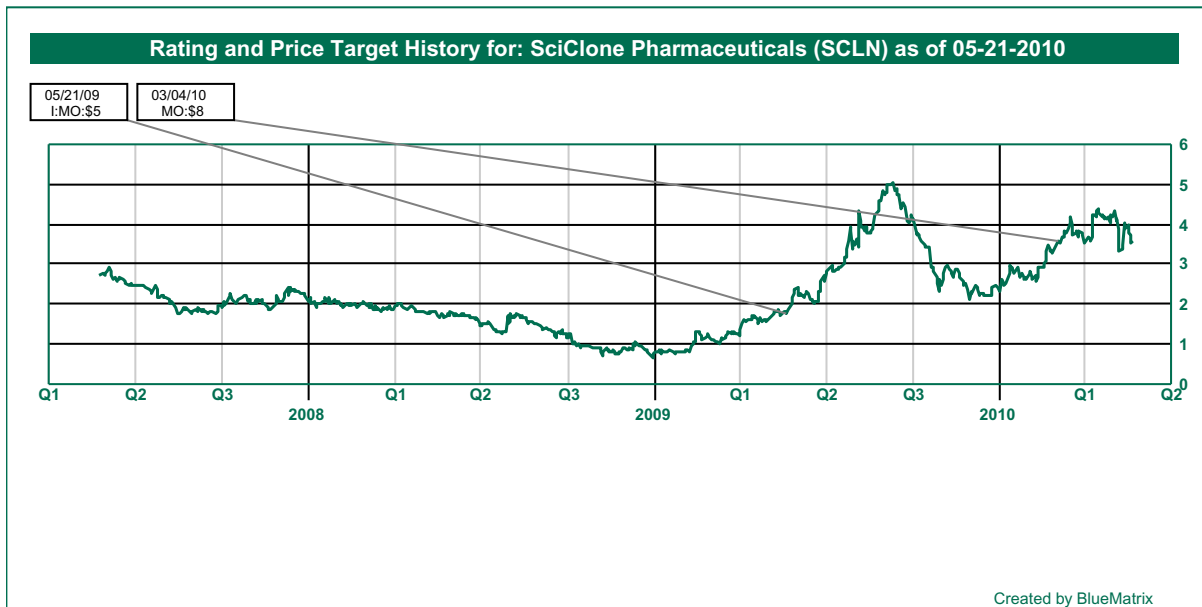
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- Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
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- Speculative - The common stock risk level is significantly greater than market risk. The stock price of these equities is exceptionally volatile.
- Aggressive - The common stock risk level is materially higher than market level risk. The stock price is typically more volatile than the general market.
- Moderate - The common stock is moderately risky, or equivalent to stock market risk. The stock price volatility is typically in-line with movements in the general market.



RATING SUMMARY

Rating	Count	Percent	IB Serv./Past 12 Mos	
			Count	Percent
Market Outperform(MO)	119	64.00%	39	32.77%
Market Perform(MP)	43	23.10%	4	9.30%
Market Underperform(MU)	5	2.70%	0	0.00%
Under Review(UR)	19	10.20%	1	5.26%
Total	186	100%	44	100%

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