



## First Take

### SciClone Pharmaceuticals (SCLN)

Price: \$3.25 (06/11/2010), Price Target: \$8.00, Market Cap(MM): \$153.9,  
Rating: Market Outperform

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#### Highlights from Meeting with Management – Moving Beyond a One-Product Company

**Growing into a Marketing/Commercial Powerhouse in the Fastest Growing Market in the World** Last week, we met with SciClone management to review the Zadaxin sales trajectory in China and the potential for new products such as DC Bead and RapidFilm to be launched into the Chinese market. As a reminder, DC Bead is currently being evaluated in a bioequivalency study in subjects in China. We anticipate that the company could receive marketing approval for DC Bead in 1H11 and launch the product in 2H11. Switching gears to RapidFilm, we are anticipating marketing approval and launch in China by YE11. As a reminder, an important step towards Chinese approval of RapidFilm was completed in March 2010, when BioAlliance Pharma S.A. (Privately Owned) received approval for the anti-nausea drug ondansetron RapidFilm in 16 major EU countries. SciClone is now preparing to file a clinical trial application in China to conduct a bioequivalency study of RapidFilm. Of additional significance, we learned from management that SciClone continues to evaluate opportunities to acquire or in-license additional products/and or cash flow positive companies in China. These business development efforts run the gamut from licensing individual products along the lines of Rapid Film or DC Bead, partnering with manufacturing and distribution companies in China to expand the Zadaxin sales footprint in China, and/or acquiring profitable China-based businesses whose products could potentially synergize well with SciClone's existing hospital-based sales force. Of note, we also learned from management that the sales force, which currently stands at 180 – 190 employees, is expected to grow to 220 – 240 employees to maintain Zadaxin's projected year-over-year revenue growth rate of 15% (i.e., 2010 guidance of \$82 - \$85 MM versus 2009 revenue of \$72.4 MM) as well as prepare for the launch of additional products.

**Government Reimbursement In China To Potentially Boost Sales** 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. Management reiterated that in their view, the specific level of reimbursement remains to be determined, though some level of reimbursement is expected for Zadaxin. As a reminder, SciClone's already has a strong sales presence in Tier 1 cities and the corresponding Class III hospitals. The potential to garner government reimbursement would be expected to drive higher sales volumes in the Tier 2 cities and Class II hospitals. Management did note that expansion of the Zadaxin sales effort into the inland and more rural Tier 3 cities and Class I hospitals is not a focus of the selling strategy.

**Valuation Driven Only by China Sales of Zadaxin, For Now** In our current financial projections for SciClone, our valuation is driven entirely by sales of Zadaxin. The potential for the biotech pipeline comprised of SCV-07 for oral mucositis and HCV, as well as future sales of RapidFilm and DC Bead, provide additional upside. 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 an increasing sales presence in Tier 2 cities and Class II hospitals, which could be fueled by the anticipated government reimbursement program for Zadaxin.

**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, solid and increasing cash position, and potential to secure additional in-licensing agreements and/or acquire profitable China-based healthcare businesses to further leverage the Zadaxin sales force's talents, could generate significant value for the risk-oriented, long-term investor.

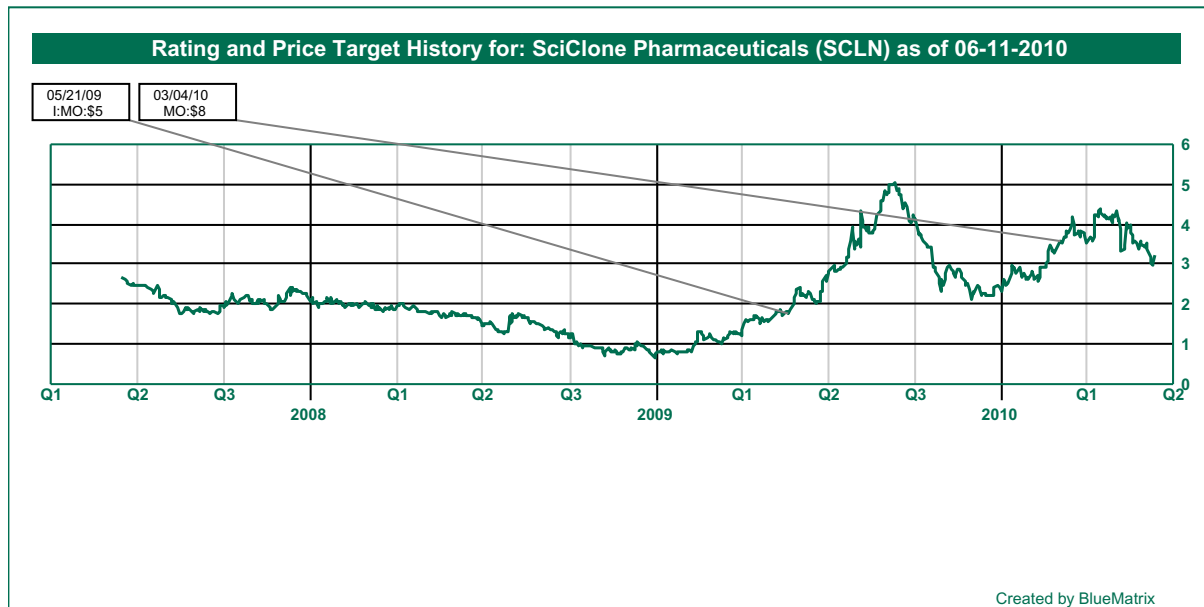
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- Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- Market Perform (Hold): The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- Market Underperform (Sell): The common stock of the company is expected to underperform 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)	125	66.80%	36	28.80%
Market Perform(MP)	41	21.90%	4	9.76%
Market Underperform(MU)	5	2.70%	0	0.00%
Under Review(UR)	16	8.60%	2	12.50%
Total	187	100%	42	100%

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