

## First Take

### SciClone Pharmaceuticals (SCLN)

Price: \$2.66 (06/30/2010), Price Target: \$8.00, Market Cap(MM): \$125.9,  
Rating: Market Outperform

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### Zadaxin Boosts Vaccine Efficacy in Early Stages of Immune Response

**Extended Seroconversion with Zadaxin Not Evident at 84 and 168 Days Post-Vaccination** Yesterday, SciClone and partner Sigma-Tau (Privately Owned) reported final results from a clinical trial in Italy evaluating Zadaxin's ability to enhance the immune response to the MF59 adjuvanted H1N1 influenza monovalent vaccine, Focetria from Novartis (NVS, Not Rated). Unfortunately, the trial did not demonstrate statistically significant higher seroconversion rates with the addition of Zadaxin to Focetria versus Focetria alone at 84 and 168 days post-vaccination. At 84 days post-vaccination, the seroconversion rates were 46% for low-dose Zadaxin (3.2 mg) and 60% for high-dose Zadaxin (6.4 mg), as compared to 55% for the vaccine alone. At 168 days post-vaccination, the seroconversion rates were 23% for low-dose Zadaxin (3.2 mg) and 26% for high-dose Zadaxin (6.4 mg), as compared to 29% for the vaccine alone. It should be noted that the study was conducted in elderly and immune-compromised patients who may face difficulties in maintaining titers following vaccination, and may not be generalizable to the broader population. As a reminder, at 42 days post-vaccination, 93% of patients in the 3.2 mg Zadaxin arm achieved seroconversion and 94% of patients in the 6.4 mg Zadaxin arm achieved seroconversion, versus 77% of patients in the vaccine-only arm (p-value = 0.04). At 21 days post-vaccination, 89% of patients in the 3.2 mg Zadaxin arm achieved seroconversion and 88% of patients in the 6.4 mg Zadaxin arm achieved seroconversion, versus 56% of patients in the vaccine-only arm (p-value < 0.01). The final study results are summarized in the table below. Of note, we learned from management that absolute titers in Zadaxin patients whose seroconversion persisted at 84 and 168 days were higher than absolute titers for vaccine only patients achieving seroconversion at these longer time points.

#### FINAL STUDY RESULTS FOR ZADAXIN AS VACCINE ENHANCER

Days Post Vaccination	Low Dose Zadaxin + Vaccine	High Dose Zadaxin + Vaccine	Vaccine Only	p-value
21 Days	89%	88%	56%	< 0.01
42 Days	93%	94%	77%	0.04
84 Days	46%	60%	55%	Not significant
168 Days	23%	36%	29%	Not significant

Source: SciClone Press Releases

**Potential for Follow-On Studies in Avian Influenza** Present day H5N1 avian influenza vaccines are poorly immunogenic in the general population and may present an opportunity to demonstrate the potential of Zadaxin as an immune response enhancer. SciClone is considering the possibility of seeking funding from the US Biomedical Advanced Research and Development Authority (BARDA) to commence such a study. Additionally, the company may also consider applying for US governmental funds to support a second study evaluating Zadaxin as a vaccine enhancer in the immunocompromised patient setting using a boosting schedule for all patients, given the erosion in titers seen at longer time points in the current study.

**Quick Take** We are reiterating our Market Outperform / Speculative Risk rating and a 12-month target price of \$8. Our target price is derived based on a 2014 discounted earnings per share and revenues per share analysis. Despite the loss of statistical significance in seroconversion rates at 84 and 168 days, the trial supports the potential for Zadaxin to statistically significantly enhance immune responses up to 6 weeks following vaccination and affirms the established mechanism of action of Zadaxin as an immune enhancer. On a broader note, 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. As a reminder, the trial evaluating SCV#07 and ribavirin for the treatment of Hepatitis C infection has the potential to report data in 2H10. In our opinion, the mix of growing revenues, solid cash position, potential to in-license additional assets as well as report key data milestones from ongoing trials could generate significant value for the risk-oriented, long-term investor.

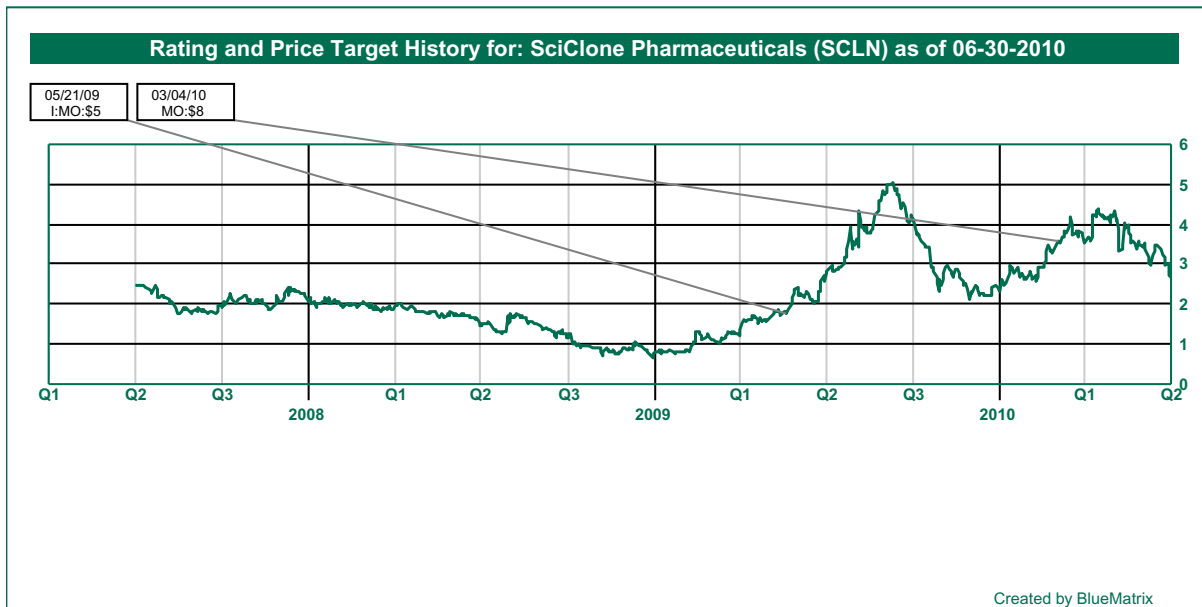
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- Market Perform (Hold): The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
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- 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)	135	68.50%	39	28.89%
Market Perform(MP)	39	19.80%	3	7.69%
Market Underperform(MU)	5	2.50%	0	0.00%
Under Review(UR)	18	9.10%	2	11.11%
Total	197	100%	44	100%

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