

## Questcor Pharmaceuticals (QCOR) Strong 2011 Execution Should Continue In 2012

**BUY**

Price target \$50.00

Price \$43.63

EQUITY RESEARCH AMERICAS

### Key Takeaway

**We had an opportunity to host investor meetings with Questcor management, and are confident mgmt will continue to execute in the last 6 weeks of 2011, and into 2012. One of the leading indicators that sales have not peaked is mgmt intention to expand both the MS and nephrology sales forces in 2012. If the short-term decline in MS prescriptions for October (vs Sept) were durable, we believe mgmt would not be discussing these plans.**

**Confidence In Q4 Numbers:** We maintain our 4Q11 estimates for new paid Rx's of 986 for MS, 112 for NS, and 95 for IS. Based on these estimates, we arrive at net sales of \$66M (+125% y/y) for Q4 and GAAP EPS of \$0.35 vs. St estimates of \$67M and \$0.35. While Oct MS prescriptions declined (~14% vs Sept), we estimate Nov new paid Rx of ~345 (or equivalent to Sept new paid Rxs) must be reported (on Dec 12/13 around an investor conference) to remain in line with our Q4 MS estimates. Mgmt stated there is no holiday impact on new paid MS prescriptions based on prior years, therefore, we believe Nov prescriptions should rebound. In nephrotic syndrome, we remain confident that our new paid Rx est in Q4 is achievable based on the 40 new paid Rxs in Oct, and the holiday period should have little/no impact. Again, we are expecting a >40 new paid Rx for Nov. Vials per paid Rx in NS may improve in 2012 because of initiation of a program to ensure patient compliance.

**Mix of New/Old Initiatives May Help Grow 2012 Acthar MS Sales:** Mgmt would not disclose the timing nor number of new salespeople it would hire in 2012 for its MS sales force, but believes ultimately the MS sales force could peak ~ 150 (from the current 77). Expansion will allow the sales force to spend quality time re-educating physicians, and currently believes of the 1,000 physicians it adequately targets, only 450 prescribers have prescribed Acthar in the most recent qtr. The company would like to expand the target to 4,000 physicians but believe the most effective mode would be sales expansion. QCOR is also starting a marketing campaign targeting patients, and has initiated small patient speaker programs to educate patients on proper treatment of flares related to MS.

**High Prescribers Dominate MS Market:** Investor interest has remained on the numbers of prescribers generating MS prescriptions, and with the thought that it's a fairly concentrated group of prescribers. Mgmt disclosed of the 450 MS prescribers in Q3, eleven prescribers fell in the greater than 10 Rx/qtr category and generated 20-25% of the 886 MS Rxs in Q3. Additionally, the top salesperson generated 80 Rxs in Q3 (~9% of total Rxs). QCOR's initiatives in 2012 should expand the prescriber base to diversify from the top prescribers, in our view, and is a necessary step for sustainable growth. Lastly, mgmt emphasized compliance/ethics programs it has in place to prevent its salespeople from gaming the system.

**Lupus Update:** To date, QCOR has only disclosed an intent to pursue promotional activities in systemic lupus erythematosus (maintenance and/or flares; both on-label indications). Mgmt announced it convened an advisory board recently, and several physicians may commence studies. Mgmt continued to guide towards 2013/2014 as a goalpost for possibly generating sales from lupus. Currently, lupus represents upside to our estimates.

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## Company Description

Questcor is a biopharmaceutical company dedicated to the commercialization of Acthar Gel in the U.S. Acthar is currently approved for 19 indications. Questcor generates a majority of its revenues by focusing on three indications: exacerbations related to multiple sclerosis, infantile spasms, and nephrotic syndrome.

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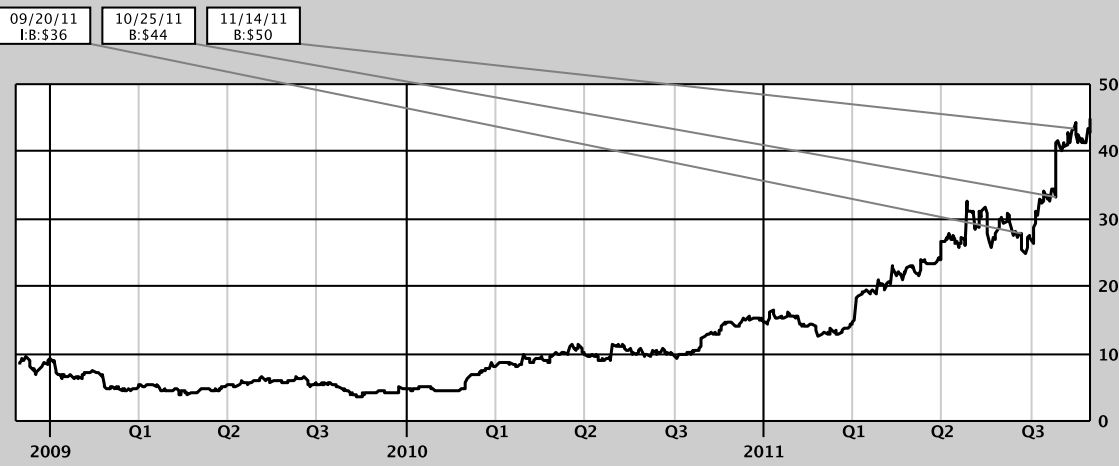
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**Rating and Price Target History for: Questcor Pharmaceuticals (QCOR) as of 11-30-2011**



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			Count	Percent
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