

VIROPHARMA INCORPORATED

VPHM (06/04/08): \$10.37

FDA Announces Advisory Meeting On Bioequivalence; Will Likely Provide Visibility Into Path For Generic Vancocin

MARKET WEIGHT

Flash Note

HEALTHCARE

Biotechnology

FAVORABLE

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Price is as of the close on the date indicated. All figures in U.S. dollars, unless otherwise noted.

Quick Take

FDA Advisory Committee to discuss bioequivalence: This morning (June 5), the FDA announced an upcoming (July 23, 2008) meeting of its Advisory Committee for Pharmaceutical Science and Clinical Pharmacology that will include discussions on the Office of Generic Drugs' (OGD) proposed bioequivalence (BE) markers for locally acting drugs that treat gastrointestinal (GI) conditions. Although the meeting itinerary does not specifically list ViroPharma (VPHM) or Vancocin as actionable items, our conversations with VPHM management indicate that the company will have a significant presence at the meeting and we anticipate panel discussions and public presentations to highlight the controversy surrounding the BE standard for generic Vancocin.

We view today's announcement positively for VPHM investors: This morning's announcement represents the first time the FDA has agreed to make the ongoing BE debate part of the public process. Although we do not believe the committee hearing will provide a final resolution to the BE guidelines, we do believe the event will increase visibility into the FDA's response to VPHM's compelling argument for a more stringent BE standard. We continue to believe the likelihood of generic Vancocin in FY08E is becoming increasingly slim and we maintain that Camvia and cash are the primary drivers supporting our valuation of VPHM shares.

Committee meeting agenda: The FDA's notice this morning mentions three key points that will be discussed during its July 23rd committee meeting. We see at least one of these as being relevant for VPHM: 1) discussion of OGD presentations on BE methodology for locally acting GI drugs. The advisory panel meeting will be held on July 23, 2008 from 8:30am to 5pm EDT in Rockville, Maryland. Background materials will be provided at least 2 business days prior to the meeting, and can be accessed at www.fda.gov/ohrms/dockets/ac/acmenu.htm.

Summarizing the controversy: In March 2006, the OGD disclosed that an abbreviated new drug application (ANDA) submission for generic Vancocin could be approved on the basis of *in vitro* dissolution testing; a standard typically reserved for demonstrating BE in rapidly dissolving, highly soluble, and systemically absorbed (Class 1) drugs. ViroPharma has diligently pursued the matter with several petitions and presentations to the OGD and FDA arguing against the validity of *in vitro* dissolution testing as an adequate metric for demonstrating BE. ViroPharma maintains that Vancocin does not behave like a Class 1 drug in the intestines of diseased patients and that clinical trials are required to demonstrate BE. The lack of FDA guidance regarding an appropriate BE standard to serve as the basis for generic approval has led to considerable uncertainty regarding the potential timing for a generic competitor. This uncertainty has remained an overhang on VPHM shares.

Valuation: Our 12-month price target range for VPHM shares is \$10 per share. Our \$10 price target is based on a P/E multiple of 30x our FY13E fully taxed and diluted, non-GAAP EPS estimate of \$1.23 discounted at 30% per year.

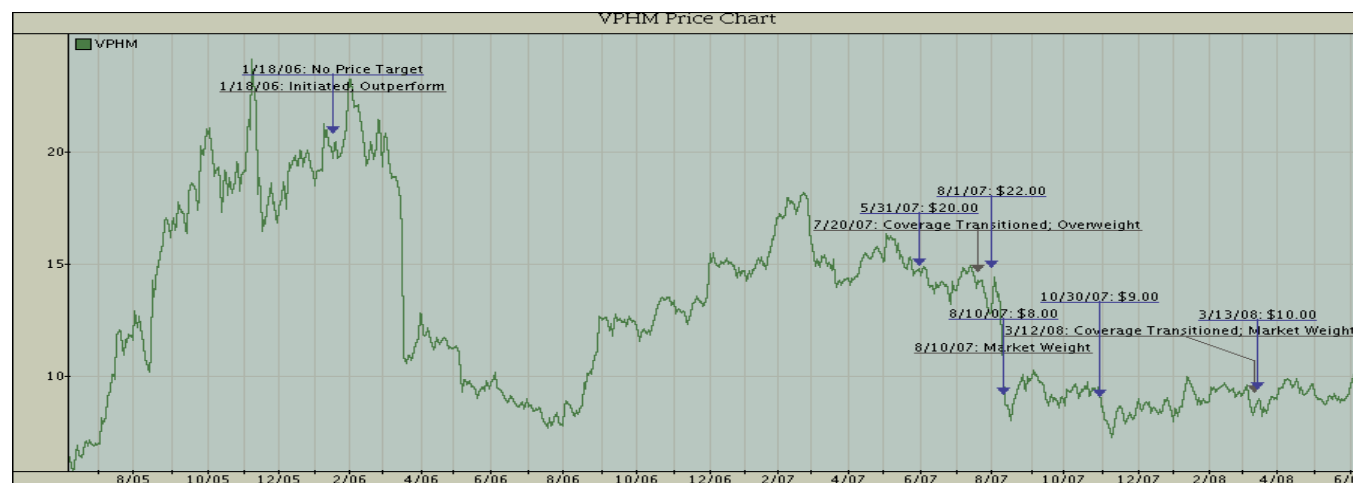
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Notes: Price chart updated as of 6/2/2008. All price targets displayed in the chart above represent either a specific price target or the midpoint of a range. Prior to November 16, 2006, Thomas Weisel Partners LLC used a three-tier rating system with different rating names and definitions: Outperform, Peer Perform and Underperform.

Source: First Call, FactSet and Thomas Weisel Partners LLC

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ViroPharma Incorporated: Our 12-month price target range for VPHM shares is \$10 per share. Our \$10 price target is based on a P/E multiple of 30x our FY13E fully taxed and diluted, non-GAAP EPS estimate of \$1.23 discounted at 30% per year. The utilization of FY13E as a base earnings year eliminates year-to-year variation in profitability and also supports our thesis that Camvia ultimately drives the valuation of VPHM shares. There are always risks that the price target for any security may not be realized. In addition to general market and macroeconomic risks, these risks for VPHM include development and regulatory risk associated with the Camvia clinical development program, headline risk from the approval of a generic Vancocin, and failure to successfully leverage the company's significant cash reserves.

The following table outlines the Thomas Weisel Partners LLC stock rating system, along with the relevant definitions, effective November 16, 2006.

STOCK RATING	STOCK RATINGS DEFINITIONS	PCT. OF SECURITIES RATED IN EACH CATEGORY	PCT. FOR WHICH IB SERVICES HAVE BEEN PROVIDED
Overweight (O)	When an analyst rates a stock Overweight, he/she is advising our clients to carry a position in the stock that is in excess of its weighting relative to the stocks either in that analyst's coverage or an index identified by the analyst that includes, but is not limited to, stocks covered by that analyst.	54.6%	30.5%
Total Buy		54.6%	30.5%
Market Weight (M)	When an analyst rates a stock Market Weight, he/she is advising our clients to carry a position in the stock that is in line with its weighting relative to the stocks either in that analyst's coverage or an index identified by the analyst that includes, but is not limited to, stocks covered by that analyst.	42.0%	11.7%
Total Hold		42.0%	11.7%
Underweight (U)	When an analyst rates a stock Underweight, he/she is advising our clients to carry a position in the stock that is below its weighting relative to the stocks either in that analyst's coverage or an index identified by the analyst that includes, but is not limited to, stocks covered by that analyst.	3.4%	0.0%
Total Sell		3.4%	0.0%
Suspended Rating (S)	The stock rating has been suspended.		
Not Rated (NR)	The stock is not rated, but it is covered by a Thomas Weisel Partners LLC analyst.		
Not Covered (NC)	The stock is not covered by a Thomas Weisel Partners LLC analyst.		

Notes: The percentage of investment banking services is calculated as of 3/31/2008. The percentage of securities rated in each category is calculated as of 6/5/2008. The new rating system is effective 11/16/2006. An analyst's coverage universe is defined as all of the stocks within the analyst's industry that reasonably are part of his/her potential coverage, not necessarily the stocks specifically covered. "Buy", "Hold" and "Sell" are not ratings categories defined by Thomas Weisel Partners LLC and should not be interpreted as investment opinions. We show these categories for illustrative purposes in accordance with NASD and NYSE regulations. The above table includes Thomas Weisel International stocks.

Source: FactSet and Thomas Weisel Partners LLC

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INDUSTRY RATINGS	INDUSTRY RATINGS DEFINITIONS
Favorable	When an analyst assigns a Favorable rating to an industry that means he/she believes that, generally, the industry's fundamentals or stock prospects are improving.
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Unfavorable	When an analyst assigns an Unfavorable rating to an industry that means he/she believes that, generally, the industry's fundamentals or stock prospects are deteriorating.

Source: Thomas Weisel Partners LLC

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Outperform (O)	The stock is expected to outperform the median performance of the Analyst's coverage universe over the next six to 12 months.
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Underperform (U)	The stock is expected to underperform the median performance of the Analyst's coverage universe over the next six to 12 months.
Suspended Rating (S)	The stock rating has been suspended.
Not Rated (NR)	The stock is not rated, but it is covered by a Thomas Weisel Partners LLC analyst.
Not Covered (NC)	The stock is not covered by a Thomas Weisel Partners LLC analyst.

SECTOR RATING	SECTOR RATING DEFINITION
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Underweight (UW)	The Analyst's coverage universe is expected to underperform the S&P 500 over the next six to 12 months.

Source: Thomas Weisel Partners LLC

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