

ViroPharma Incorporated

(VPHM-NASDAQ)

VPHM: OGD Starting to See the Light? Advisory Committee to Discuss in July...

Current Recommendation	Buy
Prior Recommendation	Hold
Date of Last Change	05/04/2006
Current Price (06/23/08)	\$10.53
Target Price	\$14.00

UPDATE

The OGD's Advisory Committee will meet in late July to discuss 'bioequivalence methods for locally acting drugs that treat gastrointestinal conditions'. The discussion will almost certainly involve ViroPharma's Vancocin and Akorn/Stride's ADNA. Although we have yet to see an outline for the meeting, the fact that the OGD is prepared for an open discussion of the issues is a significant positive in our view. We expect ViroPharma to ensure that a number of points raised in its previously submitted submissions are brought forward to the committee. We remain confident that ViroPharma's position is strong.

At this level the stock remains incredibly cheap and we are optimistic that management will be able to add significant value in the coming years. We are maintaining our Buy rating with a price target of \$14.

SUMMARY DATA

52-Week High	\$14.88
52-Week Low	\$7.27
One-Year Return (%)	-21.48
Beta	2.28
Average Daily Volume (sh)	1,065,345

Risk Level	Above Average
Type of Stock	Mid-Blend
Industry	Med-Drugs
Zacks Rank in Industry	41 of 122

Shares Outstanding (mil)	70
Market Capitalization (\$mil)	\$737
Short Interest Ratio (days)	15.59
Institutional Ownership (%)	88
Insider Ownership (%)	4

Annual Cash Dividend	\$0.00
Dividend Yield (%)	0.00

5-Yr. Historical Growth Rates	
Sales (%)	218.5
Earnings Per Share (%)	36.4
Dividend (%)	N/A

P/E using TTM EPS	9.4
P/E using 2008 Estimate	11.8
P/E using 2009 Estimate	15.4

Zacks Rank	3
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ZACKS ESTIMATES

Revenue

(In millions of \$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2007	49.0 A	56.1 A	50.9 A	47.7 A	203.8 A
2008	50.9 A	55.5 E	55.5 E	58.0 E	219.9 E
2009					182.5 E
2010					167.5 E

Earnings per Share

(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2007	\$0.31 A	\$0.39 A	\$0.26 A	\$0.25 A	\$1.21 A
2008	\$0.22 A	\$0.23 E	\$0.22 E	\$0.24 E	\$0.90 E
2009					\$0.68 E
2010					\$0.68 E

Zacks Projected EPS Growth Rate - Next 5 Years %	5
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WHAT'S NEW

OGD to Discuss Bioequivalence of Locally-Acting GI Drugs...

On July 23, 2008 the FDA's Office of Generic Drugs (OGD) will hold an Advisory Committee for Pharmaceutical Science and Clinical Pharmacology to address several issues, including the discussion of "bioequivalence methods for locally acting drugs that treat gastrointestinal (GI) conditions." While the OGD notice does not specifically identify ViroPharma's Vancocin, we are certain that management will take this opportunity to ensure the points it has previously raised through its scientific Petition (filed June 2006) will be brought forward to the committee. The OGD's decision to allow the waiver of *in vivo* dissolution testing back in March 2006 was a shock and a complete change in policy without an open discussion. We are pleased that this discussion will now finally take place. *C. difficile* is a serious life-threatening disease, and ViroPharma contends that there are significant safety concerns with allowing a generic alternative without proving *in vivo* bioequivalence.

We are looking forward to the discussion and believe that an open dialogue will only help strengthen ViroPharma's case. We continue to believe that the FDA will not approve a generic Vancocin product until it has addressed ViroPharma's outstanding petition. Management met with the Office of Pharmaceutical Sciences (OPS) division of the FDA in January 2008 and commented that the meeting was "very positive" in their discussion of the new OGD standard and the issue of public safety. Our financial model assumes a generic Vancocin shows up sometime during the second half of 2009. Work continues with the exploratory study at Temple University. However, predicting a stay or reversal of the OGD's decision is a nearly impossible task, and at this point anything from a generic launch by Akorn tomorrow to no generic Vancocin until beyond 2011 is possible. What is important to note, however, is that every quarter we see no generic Vancocin, ViroPharma continues to generate and build cash and move closer towards the NDA/MAA filing on Camvia in the third quarter 2009.

INVESTMENT SUMMARY

First Quarter Results & Guidance – Right On With Expectations

On April 30, 2008 ViroPharma reported financial results for the first quarter 2008. Sales of Vancocin totaled \$50.9 million in the quarter, up 3% year-over-year. This was right-on with our \$50.5 million estimate. For 2008 management sees total revenues, comprised primarily of Vancocin, between \$210 and \$235 million. This guidance assumes no generic competition for Vancocin. We are in-line with this guidance, and currently model Vancocin sales of \$219.9 million.

Net income for the first quarter totaled \$17.5 million, a decline of 21% from the first quarter 2007. This equated to earnings per share of \$0.22 in the quarter, one penny above our estimate of \$0.21. Upside came from a slightly stronger gross margin at 96.2% vs. our estimate of 95% and a slightly lower tax rate of 28.5% vs. our estimate of 29.5%. ViroPharma noted during the conference call that the tax rate varies greatly based on R&D credits associated with Camvia's orphan drug status, valuation allowances, and differences in local and foreign statutory rates. For 2008 management sees the tax rate between 27% and 31%, a significant improvement over the previous quarters. ViroPharma generated approximately \$15 million in cash flow in the first quarter 2008. As of the end of March 2008, ViroPharma held cash and equivalents of \$599.0 million. Based on the current price and number of (basic) shares outstanding, this is approximately 82% of the market value.

Camvia Development Pushing Forward...

Development plans with Camvia remain on track. The phase III stem cell transplant (SCT) study completed enrollment at 681 patients in May 2008. Six-month post-treatment data should be available in the first quarter of 2009. The phase III solid organ (liver) transplant (SOT) study also continues enrollment. Management should be in position to file for approval of Camvia – a potential \$500 million product – in both the U.S. and E.U. in 2009 for SCT. Management will seek a priority review in the U.S., potentially allowing for an approval and launch in early 2010. We see rapid uptake of the drug after approval. Finally, once approved, ViroPharma will file a supplemental application in both states for SOT.

Financial Situation Solid...

In the first quarter of 2008 ViroPharma reported its 13th consecutive quarter of positive EPS. Cash flow generated from operations in the quarter was roughly \$15 million. ViroPharma exited the March 2008 quarter with \$599 million in cash and equivalents. Working capital at the end of the quarter was \$619 million. Management should be in position to generate another \$100 million or more from operations in 2008.

With a current market capitalization of only \$735 million, value investors can take comfort in the solid – and growing – cash position making up over 82% the market value. Minus the \$250 million in debt, and the firms net cash position is still 45% of the stock price. This leaves only \$385 million assigned to Vancocin, Camvia, and NTCD. This is incredibly under-valued in our view considering that Vancocin still has significant upside via either a revision to the CDC guidelines or a stay on a generic alternative. Yet, regardless of the actual CDC guidelines, we believe that more and more physicians will begin earlier treatment with Vancocin specifically because it is a better drug than metronidazole. *C. difficile* infection is a life-threatening disease and the data is becoming clear that Vancocin is the best available option for treatment.

INVESTMENT OUTLOOK

The stock will most likely remain in the tight trading range until we get an update from the FDA/OGD on generic Vancocin. This could come in the form of a granting ViroPharma a stay while the FDA reviews its guidelines for dissolution bioequivalence testing, or it could be the final approval of Akorn-Strides product. Positive news will send the shares significantly higher. The launch of a generic product will probably cause a sell-off, although considering the current market value is \$735 million and ViroPharma is sitting on \$599 million in cash, we think the upside significantly outweighs the downside risk.

We are concerned about this generic risk but also remind investors that ViroPharma could be a dramatically different looking company in 2010 if pipeline candidate Camvia succeeds. ViroPharma has one of the best management's in the business. Anytime there has been a problem in the past the company has recovered and moved forward – pleconaril and the inventory issue with Vancocin are two examples. With an estimated \$599 million in cash, investors are making a big bet on the ability of management to once again move through past some major issues. We think that is a bet worth taking.



PRODUCT OVERVIEW

ViroPharma, Inc. is a pharmaceutical company engaged in the development and commercialization of products that address serious diseases treated by physician specialists and in hospital settings. The company is focusing product development activities on viral and bacterial diseases, including cytomegalovirus (CMV) infections related to hematopoietic stem cell (bone marrow) transplantation and antibiotic associated diarrhea (AAD). The company's chief product, Vancocin Capsules, is the only U.S. Food and Drug Administration (FDA) approved product to treat colitis caused by either *Staphylococcus aureus* or *Clostridium difficile*. ViroPharma acquired the U.S. rights to this product from Eli Lilly in November 2004 for an upfront payment of \$116 million and future royalty payments based on sales. Eli Lilly currently sells the intravenous product for systemic infections. However, IV vancomycin does not enter the GI tract, and is therefore ineffective against GI tract infections such as *Staphylococcus aureus* or *Clostridium difficile*. Vancocin sales were approximately \$204 million in 2007. ViroPharma is located in Exton, PA and currently employs roughly 115 professionals.

Vancocin – Growing Share

The top-line at ViroPharma is currently driven by sales of Vancocin Capsules (Pulvules), a potent oral antibiotic treatment for enterocolitis caused by *Staphylococcus aureus* or antibiotic-associated pseudo-membranous colitis caused by *Clostridium difficile*. The product is the only FDA-approved drug to treat both gram-positive bacterial infections. Most of the use of Vancocin is in patients with *Clostridium difficile*-associated disease (CDAD), for which it is the antibiotic of last resort and remains the only antibiotic approved by the FDA for the treatment of this potentially life-threatening epidemic. *Clostridium difficile* is a spore-forming, gram-positive bacillus that produces pathogenic exotoxins. These toxins can cause mild diarrhea to fulminant colitis and death. The disease is rapidly approaching epidemic proportions and remains one of the most significant threats to hospital treated patients undergoing broad-spectrum antibiotics. CDAD remains a significant risk for elderly patients. In May 2006, the FDA, the CDC, and NIH held a joint public conference to define the research agenda to combat hypervirulent epidemic strains of *Clostridium difficile*. Late in 2007, management announced a new health initiative with several agencies such as the CDC and NIH to help better understand the epidemic risk and how to treat *C. difficile* infection. The company is expanding this with a new program called the Physician Practice Intervention (PPI) specifically designed to educate the medical community. PPI employs an interesting strategy of having active physicians familiar with Vancocin calling new physicians to increase awareness and proper use.

The PPI program got some excellent ammunition in September 2007 at the Interscience Conference on Antimicrobial Agents and Chemotherapy (ICAAC) when Genzyme's trial comparing tolevamer to metronidazole and Vancocin reported data strongly in ViroPharma's data. It is not often that a competitor's trial swings in your direction, but data from the phase III program showed that Vancocin was the best treatment options for patients with a 81% success rate vs. 72% for metronidazole and 47% for tolevamer. The data was even more impressive for the most severely infected patients, with 85% effective rate for Vancocin vs. 65% for metronidazole and 37% for tolevamer. ViroPharma has hired a specialty sales force of 5 representatives to promote the data in the Northeast corridor (where most outbreaks in the U.S. start). This sales force began actively promoting the drug in February 2008. Metronidazole is the CDC-guided first-line therapy and has a commanding market share over Vancocin. However, this data really has the potential to sway physician use patterns to start using Vancocin earlier, longer, and on a wider patient population. Genzyme has published the data for peer review. Published changes to the current IDSA/SHEA (Infectious Disease Society of America / Society for Healthcare Epidemiology of America) could be a meaningful driver of market share gains for Vancocin over metronidazole. Although metronidazole is far less expensive than Vancocin, efficacy usually takes precedence in life-threatening diseases such as CDAD, so we expect that once the new guidelines are published, and in-turn promoted by ViroPharma, Vancocin sales could see a re-acceleration.

Besides the heavy emphasis on education and promotion, sales of Vancocin are being driven by price increased. Management raised the price by 9% in January 2007 and 9% in February 2008. Net Vancocin sales in the first quarter were \$50.9 million, just above our estimate of \$50.5 million, and up 4% year-over-year. Guidance for sales in 2008 is between a range of \$210 and \$235 million. This guidance assumes no generic alternative, which we discuss in greater detail below. Our estimate for 2008 is for \$219.9 million, up 8% from 2007. We think this number is conservative, and could be substantially higher if the 5-person northeast sales force or the new published IDSA/SHEA guidelines really work to move Vancocin to an earlier position in the treatment paradigm.

Camvia – On Track for 2009 NDA/MAA

In 2003, ViroPharma acquired the worldwide rights (ex-Japan) to a potent and selective, oral inhibitor of cytomegalovirus (CMV) from GlaxoSmithKline. CMV is a member of the herpes virus group, which includes the viruses that causes chicken pox, mononucleosis, herpes labialis (cold sores) and herpes genitalis (genital herpes). CMV can cause serious complications in persons with weakened immune systems and has the ability to remain dormant in the body for long periods of time. Human CMV infection rates average between 60% and 85% of adults in the U.S. by 40 years of age. In most healthy individuals, CMV infection causes little to no apparent illness. However, in immuno-compromised individuals CMV can lead to serious disease or death. Unlike currently available anti-CMV agents that inhibit CMV DNA polymerase, Camvia (maribavir) inhibits viral DNA assembly and inhibits egress of viral capsids from the nucleus of infected cells (UL-97 kinase).

ViroPharma presented phase II data from a 12-week (n=111) phase II study with Camvia used as a prophylaxis treatment in CMV-seropositive patients with allogenic bone marrow ("stem cell") transplant in December 2006 at the American Society of Hematology (ASH) meeting. Management also recently published this data in *Blood*, the official journal of ASH. We present the data below:

	Infection Rate	CMV Disease	GvHD Disease
<i>100mg BID</i>	15%	-	14%
<i>400mg QD</i>	30%	-	29%
<i>400mg BID</i>	15%	-	23%
<i>placebo</i>	57%	11%	46%

ViroPharma initiated the first of two phase III programs on Camvia in September 2006. The trial will study the drug in 500 allogeneic stem cell transplants (SCT) patients. The goal of the trial will be to evaluate the efficacy, safety and tolerability of prophylactic use of Camvia administered orally for up to 12 weeks for the prevention of cytomegalovirus (CMV) disease. This is a superiority study vs. the current standard of care – which is a placebo “nothing”. The primary efficacy endpoint will be the incidence of CMV disease within 180 days post-transplant, which is predicted to be approximately 10-12% in the control arm (ganciclovir) based on data from the phase II study. Following extensive dialogue with FDA, a number of key secondary endpoints associated with CMV reactivation have been identified and assessment of these endpoints will play an important part in assessing the clinical benefit of Camvia. These key secondary endpoints include incidence of initiation of preemptive anti-CMV therapy, incidence of graft-versus-host disease, mortality and CMV disease-free survival. The study also will evaluate the pharmacokinetics of Camvia in this subject population. The trial completed enrollment in May 2008 and will offer data in the first quarter of 2009.

In July 2007 Viropharma initiated the second phase III trial in solid organ (liver) transplant (SOT) patients. This study will enroll 300 subjects who are at high-risk of developing CMV disease (i.e., donor CMV seropositive / recipient CMV seronegative) post transplant. Patients will be randomized to receive Camvia 100mg BID or oral ganciclovir 1,000mg TID in a 1:1 allocation ratio for up to 14 weeks in a non-inferiority study. The primary efficacy endpoint is the incidence of CMV disease (either symptomatic CMV infection or CMV organ disease) within 6 months post transplantation. Similar to the stem cell trial, we expect this rate to be about 12% for ganciclovir. A number of key secondary endpoints have been identified and assessment of these endpoints will play an important part in assessing the clinical benefit of the drug. These secondary endpoints include time to onset of CMV infection and disease; the incidence and time to onset of anti-CMV therapy; and survival without CMV infection or disease; in addition to the incidence of adverse effects that limit the use of current therapies, including suppression of bone marrow function. The trial continues to enroll patients and should be in position to offer data in the first half of 2009.

The current filing strategy is to compile the data from the SCT phase III trial and submit a New Drug Application (NDA) / Marketing Authorization Application (MAA) filing in 2009. We expect a priority (six-month) review from the U.S. FDA, thus approval and the subsequent launch could take place in early 2010. Once approved in SCT, ViroPharma will file a supplemental application in both the U.S. and EU for SOT. Camvia has already been designated an Orphan Drug by the FDA and EMEA, as well as Fast Track development status. Camvia is patent protected until 2015, and with additional pediatric extension and Hatch-Waxman filings the drug could have exclusivity until 2018 or beyond. In July 2007, the company hired two experienced vice presidents to lead European commercial and clinical operations. This followed the announcement in May 2007 that the company will establish a wholly-owned subsidiary in Europe and sell the drug on its own.

The market for stem cell and solid organ transplants in Europe is a similar size to the U.S., but more concentrated. We note that over 70% of the procedures are done by the top 100 facilities, allowing for easy targeting with fewer sales representatives. Management believes the potential pricing in Europe may be superior to the U.S., although we do note the duration of treatment is shorter. The EMEA designated Camvia an Orphan Drug in November 2007. The net effect should be a similar opportunity to the U.S. with only modest added cost. Assuming the European review is the standard twelve months, ViroPharma could launch the drug mid-2010 overseas. ViroPharma also controls the rights to the drug outside Europe. Management may out-license for upfront cash and a royalty on sales in Asia or South America at any time.

Back in the U.S., we are expecting rapid uptake of Camvia for SCT. Right now the current standard of care is “nothing”. Camvia should gain significant use if the phase III trial hits the primary and secondary end points. There are 25,000 patients with stem cell transplants done around the world each year. ViroPharma should be able to actively target this market considering the ongoing phase III 500+ person program has already involved some of the top transplant physicians. This should help awareness and familiarity after approval. We estimate there are roughly 30,000 solid organ transplants in the U.S. annually. The current standard of care is Roche’s Valcyte (valganciclovir), a prodrug of Cymevene (ganciclovir). Sales of Valcyte/Cymevene in the U.S. in 2006 were \$207 million, up 27%. We believe that Camvia offers better absorption at the oral dose than valganciclovir and ganciclovir, as well as less resistance and fewer side-effects.

We believe that Camvia has peak sales potential of \$500 million. We see Camvia ramping to \$275 million in 2012 – this should allow ViroPharma to remain both profitable and cash-flow positive regardless of the introduction of potential generic oral vancomycin.

NTCD – Phase I in 2008

In 2006 ViroPharma licensed the rights to develop a non-toxigenic strain of *C. difficile* from Dr. Dale Gerding at the Hines VA Hospital. The company will seek to use these non-toxigenic, orally dosed, spores to colonize post-Vancocin treated patients, thus replacing toxigenic *C. difficile* in the GI track, in an effort to prevent recurrent infections from the toxigenic strain. Management notes that approximately 25% of the 400k cases of *C. difficile* infections become recurrent after treatment stops. About half of these recurrent cases are chronic, representing a large market opportunity for a NTCD product designed to inhibit recurrent infection.

ViroPharma plans to enter clinical testing perhaps in 2008. Management met with the FDA in the first quarter 2008 to outline a path forward for the product candidate. The discussions focused around manufacturing and scale up for preparation of human clinical trials. Although we currently do not model sales of NTCD, it is possible that management could be in position to file for approval in the 2010 / 2011 timeframe. This would present upside to our 2012 financial forecasts.

GENERIC VANCOCIN

Background Info:

A joint venture between Akorn-Strides announced in November 2005 it would seek approval for a generic oral vancomycin (Vancocin). On March 17, 2006 the Office of Generic Drugs (OGD) noted guideline changes pertaining to bioequivalence (BE) testing for locally acting GI drugs. The OGD noted that “Waivers of *in-vivo* bioequivalence testing can be requested in abbreviated new drug applications (ANDAs), provided that the test product is rapidly dissolving at the conditions specified in the guidance *Waiver of in vivo BA and BE studies for IR solid oral dosage forms based on a bio-pharmaceutics classification system (BCS Guidance)*.” Essentially, this means that *in vivo* (human clinical bio-equivalent) testing may no longer be necessary if *in vitro* (test tube) dissolution testing meets guidelines. This news came as a significant surprise to both investors and ViroPharma management, and sent VPHM shares tumbling from above \$22 to below \$12.

The OGD states that these *in vitro* test conditions significantly limit the risk of missing a bio-inequivalent generic drug because they provide a close approximation of the *in vivo* environment in which the drug would be used. That may be true for healthy patients. However, we agree with ViroPharma that the GI characteristics of a CDAD patient are vastly different, and thus simple *in vitro* dissolution testing should not be sufficient for bio-equivalent verification. In fact, our research concludes that the GI profile of a CDAD patient varies significantly between each other, let alone healthy patients or an *in vitro* test tube model.

The removal of *in vivo* clinical testing for Vancocin removes significant barriers for a generic manufacturer – namely a costly two year clinical trial. Akorn announced on its third quarter 2007 conference call in early November that it anticipated FDA approval and a launch before the end of the year. Obviously this did not happen, but the waiting game continues. In the meantime, ViroPharma has set forth a multi-pronged response petition to the FDA.

- The first, made public on May 31, 2006, contains the legal protocol challenge to the apparent OGD change. This submission notes several laws violated by the OGD, including: the Freedom of Information Act, the Data Quality Act, the Administrative Procedure Act, and the FDA’s own Standards of Conduct. The 39 page document outlines rather well the perplexing decision making process of the OGD.
- Then, on June 30, 2006 ViroPharma filed the second leg in its approach, the scientific petition. The 52 page document scientifically attacks the OGD decision based on three key measures: 1) The health risk is too great because Vancocin is a life-saving drug, 2) Proving *in vitro* bioequivalence for locally acting GI molecule would be extremely difficult, and 3) the product does not meet the OGD’s own criteria of being highly soluble, rapidly dissolving, and highly permeable.

Since the two above petitions, ViroPharma has supplemented with additional docket filings. Specifically, in May 2007, ViroPharma submitted a docket discussing the bioequivalence issue in more detail and clarifying the types of testing management believes are required to demonstrate bioequivalence. The docket also discusses the adequate basis for determining whether a BCS-based biowaiver to establish bioequivalence for Vancocin results offer an acceptable level of risk to patients and public health. In August 2007, ViroPharma submitted a docket commenting on the FDA's new Draft Guidelines for Industry on Bioequivalence Recommendations for Specific Products. Finally, in December 2007, ViroPharma submitted a docket requesting the FDA take appropriate action to address and correct the problems noted in the previous dockets regarding dissolution bioequivalence testing for locally acting GI drugs such as Vancocin. Slides outlining ViroPharma's approach can be accessed on the company's website via the current address link: <http://www.viopharma.com/OGDpetition/>.

In January 2008, management met with the Office of Pharmaceutical Sciences (OPS) division of the FDA in January 2008 and commented on the fourth quarter call that the meeting was "very positive" in their discussion of the new OGD standard and the issue of public safety. Recently, the OGD announced it would hold an Advisory Panel meeting on July 23, 2008 to discuss the "bioequivalence methods for locally acting drugs that treat gastrointestinal (GI) conditions." While the OGD notice does not specifically identify ViroPharma's Vancocin, we are certain that management will take this opportunity to ensure the points it has previously raised through its scientific Petition (filed June 2006) will be brought forward to the committee.

Among the arguments, ViroPharma notes that the risk is unacceptably high given the emergence of new, highly toxic, *C. difficile* strains and that a poor performing generic may go unnoticed for months at the risk of patients lives. ViroPharma management noted that Vancocin is not rapidly dissolving at varying pH concentrations as described by the OGD's standard of 85% dissolution after 30 minutes. The company has conducted solubility and permeability studies with the 250mg and 125mg tablet, concluding that pH levels play a key role in Vancocin's dissolution characteristics. We believe the varying pH levels found with the GI tracks of sick and elderly patients would be nearly impossible to replicate through *in vitro* testing. Drug on drug *in vivo* interactions, such as with proton pump inhibitors, make it extremely difficult to test a generic alternative without a large-scale human trial.

Exploratory Study

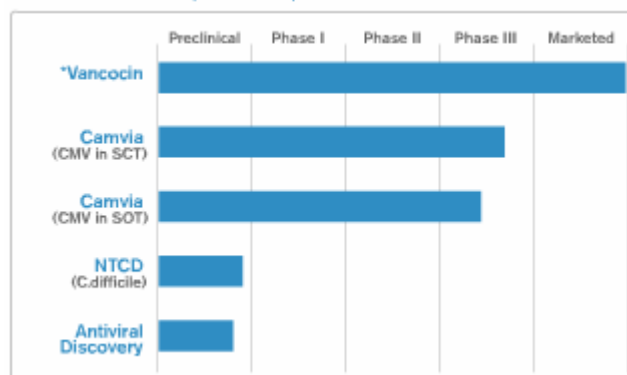
In March 2007 ViroPharma sent a letter to the Food and Drug Administrations Office of Generic Drug (OGD) notifying the agency they intend to conduct an exploratory study to characterize the intestinal track of patients infected with *C. difficile*. The goal of the study is two-fold:

1. To compare the pH and temperature within the stomach, small intestine and colon in patients with *C. difficile* Associated Diarrhea (CDAD) and healthy volunteers. ViroPharma will employ the use of the FDA SmartPill (a GI monitoring system that includes an ingestible capsule that transmits information such as pH, pressure and temperature to a monitor receiver) to ascertain this data.
2. Compare gastroenterocolonic motility in both study groups. ViroPharma will perform a whole gut transit scintigraphy (WGTS - a diagnostic test in which a two-dimensional picture of a body radiation source is obtained through the use of radioisotopes) to ascertain this data.

ViroPharma is hoping to demonstrate that the GI track of patients with CDAD is vastly different from healthy patients with GI tracks similar to what can be recreated *in vitro*. Management believes that CDAD results in significant changes in the physiology of the GI tract including altered motility (ranging from ileus to hypermotility), pH and volume conditions, as well as the presence of various abnormal intraluminal constituents and inflammatory mediators. As of yet, this has not been proven via a clinical study. The study is being conducted at Temple University Hospital in patients 18-75 with newly infected CDAD.

PRODUCT PIPELINE

Clinical Development Pipeline



Source: ViroPharma, Inc.

VALUATION

We see several driving forces in 2008 that lead us to believe it will be another solid year for Vancocin. Management raised the price of the drug by 9% in February 2008 – similar to what it has done the past several years, and updated guideline / recommendations from the IDSA/SHEA should help drive earlier and longer use of Vancocin over metronidazole. The newly hired 5-person sales force is now actively promoting the drug as of February 2008. We estimate that metronidazole is still being used at the first-line agent in over 75% of CDAD cases. We see significant opportunity for Vancocin to gain share in the most severely infected patients thanks to Genzyme's phase III tolevamer study. Although not the data that Genzyme would have hoped for, it clearly demonstrates Vancocin as the most effective agent on the market to combat this life-threatening disease.

ViroPharma exited the first quarter 2008 with \$599 million in cash on hand. This is 82% of the current market value of only \$735 million. The net cash position (minus \$250 million in debt) is still over 40% of the stock value. Management is actively seeking opportunities to put this cash to work. We are anxiously awaiting an announcement. That being said, ViroPharma is one of the best managed companies in biotech. We are very confident in the financial and strategic position of the company – it is key to our recommendation.

At this level ViroPharma stock is too attractive to ignore. Our 2008 revenue forecast of \$219.9 million yields a price to sales ratio of 3.3x. This is significantly below the biotechnology peer-group average of around 6.5x. We forecast 2008 EPS at \$0.90 (including option expense). The price to earnings ratio is only 11.8x. ViroPharma's stock sank in March 2006 on fears of generic Vancocin. Since that time the company has continued to deliver solid results and progressed with Camvia to the point where we now include it in our long-term model. We think the candidate offers a significant growth opportunity over the long-term. As a result, our rating is buy and our price target of \$14 is based on 15.5x our 2008 EPS estimate of \$0.90.

Industry Comparables

	P/E (2008 E)	EPS Gr. 4-Yr Est.	Price / Sales
ViroPharma, Inc.	11.8x	5%	3.3x
Biotech Mean	20.3x	16%	6.5x
S&P 500	15.3x	6%	3.1x
Acambis, Inc.	N/A	N/A	17.2x
Array BioPharma	N/A	N/A	6.2x
VaxGen, Inc.	N/A	N/A	9.3x
Cubist Pharma	N/A	N/A	8.2x

PROJECTED FINANCIALS

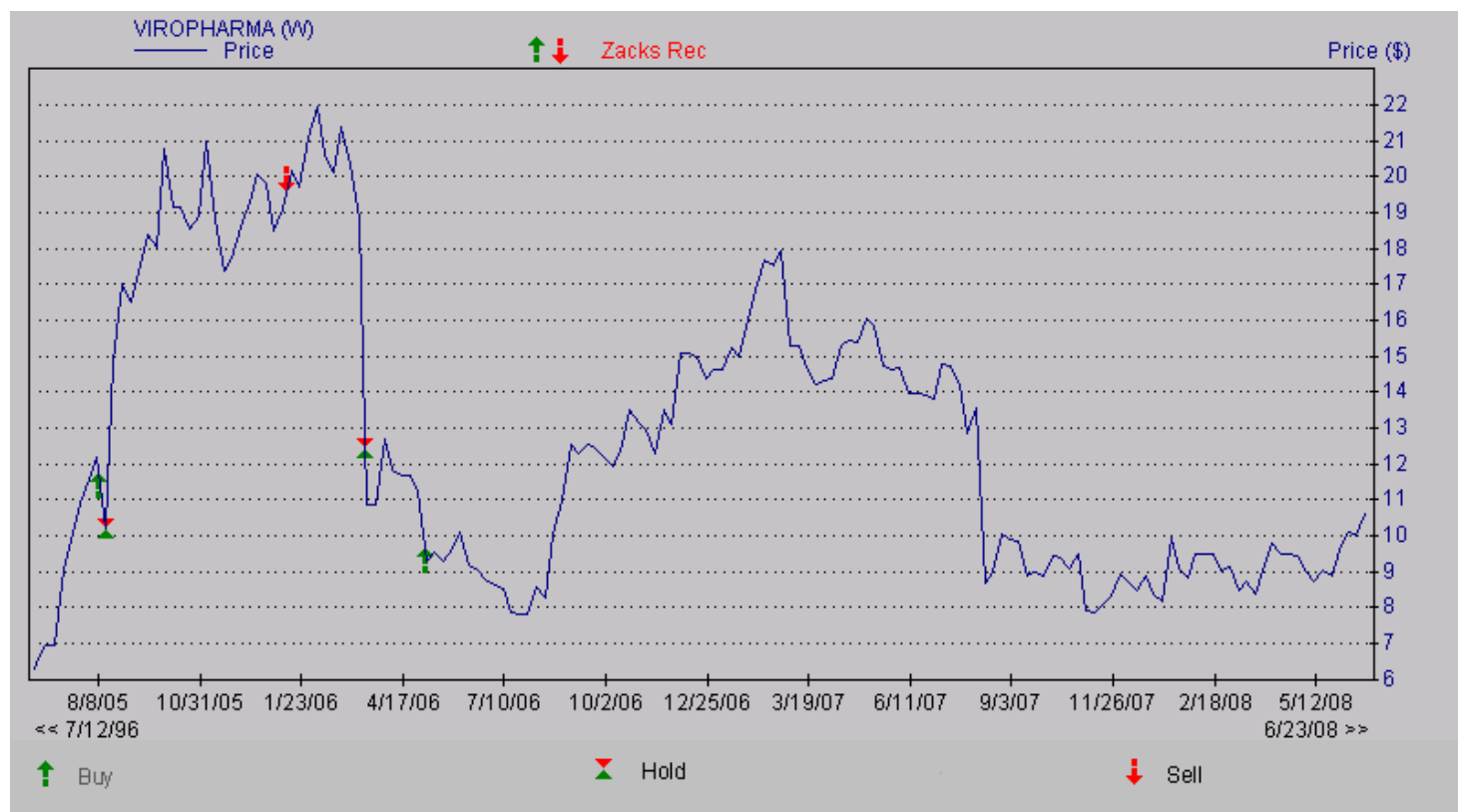
ViroPharma, Inc. - Income Statement

	2006 A	2007 A	Q1 A	Q2 E	Q3 E	Q4 E	2008 E	2009 E	2010 E	2011 E	2012 E
Vancocin	\$166.6	\$203.8	\$50.9	\$55.5	\$55.5	\$58.0	\$219.9	\$182.5	\$72.5	\$34.0	\$26.0
YOY Growth	32.3%	22.3%	3.9%	-1.1%	8.9%	21.6%	7.9%	-17.0%	-60.3%	-53.1%	-23.5%
Camvia	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$95.0	\$185.0	\$275.0
YOY Growth	-	-	-	-	-	-	-	-	-	94.7%	48.6%
Milestone + Fees	\$0.6	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
YOY Growth	-91.4%	-100.0%	-	-	-	-	-	-	-	-	-
Total Revenues	\$167.2	\$203.8	\$50.9	\$55.5	\$55.5	\$58.0	\$219.9	\$182.5	\$167.5	\$219.0	\$301.0
YOY Growth	26.2%	21.9%	3.9%	-1.1%	8.9%	21.6%	7.9%	-17.0%	-8.2%	30.7%	37.4%
Cost of Good Sold	\$19.0	\$8.9	\$1.9	\$2.3	\$2.2	\$2.3	\$8.7	\$8.2	\$15.4	\$20.7	\$29.2
Gross Income	\$148.2	\$194.8	\$49.0	\$53.2	\$53.3	\$55.7	\$211.3	\$174.3	\$152.1	\$198.3	\$271.8
Product Gross Margin	88.6%	95.6%	96.2%	95.9%	96.0%	96.1%	96.1%	95.5%	90.8%	90.5%	90.3%
SG&A	\$24.6	\$37.1	\$12.8	\$13.0	\$13.3	\$13.8	\$52.9	\$48.5	\$45.0	\$49.5	\$55.0
% SG&A	14.7%	18.2%	25.2%	23.4%	24.0%	23.8%	24.1%	26.6%	26.9%	22.6%	18.3%
R&D	\$19.2	\$35.9	\$15.0	\$16.0	\$16.5	\$17.0	\$64.5	\$58.0	\$44.0	\$50.0	\$55.0
% R&D	11.5%	17.6%	29.4%	28.8%	29.7%	29.3%	29.3%	31.8%	26.3%	22.8%	18.3%
Amortization + Fees	\$5.7	\$6.1	\$1.7	\$1.6	\$1.6	\$1.6	\$6.5	\$5.3	\$2.0	\$0.9	\$0.7
% Other	3.4%	3.0%	3.3%	2.9%	2.9%	2.8%	2.9%	2.9%	1.2%	0.4%	0.2%
Operating Income	\$98.8	\$115.8	\$19.5	\$22.6	\$21.9	\$23.3	\$87.4	\$62.5	\$61.2	\$97.9	\$161.2
Operating Margin	59.1%	56.8%	38.3%	40.8%	39.4%	40.2%	39.7%	34.2%	36.5%	44.7%	53.5%
Interest & Other Net	\$9.7	\$19.9	\$4.9	\$4.5	\$4.6	\$4.9	\$18.9	\$19.3	\$20.2	\$21.7	\$23.4
Pre-Tax Income	\$108.5	\$135.7	\$24.4	\$27.1	\$26.5	\$28.2	\$106.3	\$81.8	\$81.4	\$119.6	\$184.6
Taxes	\$41.9	\$40.3	\$7.0	\$7.7	\$7.7	\$8.2	\$30.6	\$23.7	\$23.6	\$34.7	\$53.5
Tax Rate	38.6%	29.7%	28.5%	28.5%	29.0%	29.0%	28.8%	29.0%	29.0%	29.0%	29.0%
Net Income	\$66.7	\$95.3	\$17.5	\$19.4	\$18.8	\$20.0	\$75.7	\$58.1	\$57.8	\$84.9	\$131.0
YOY Growth	1.1%	43.0%	-20.9%	-38.7%	-7.7%	-1.6%	-20.6%	-23.3%	-0.5%	47.1%	54.3%
Net Margin	39.9%	46.8%	34.3%	34.9%	33.9%	34.6%	34.4%	31.8%	34.5%	38.8%	43.5%
Reported EPS	\$0.95	\$1.21	\$0.22	\$0.23	\$0.22	\$0.24	\$0.90	\$0.68	\$0.68	\$0.99	\$1.51
YOY Growth	-16.5%	27.7%	-28.6%	-41.2%	-14.5%	-5.3%	-26.0%	-23.7%	-1.1%	46.2%	53.4%
FAS-123 R	\$5.0	\$7.6	\$2.1	\$2.4	\$2.5	\$2.6	\$9.6	\$10.5	\$11.0	\$11.5	\$11.5
EPS (w/o) ESO	\$1.02	\$1.27	\$0.23	\$0.26	\$0.25	\$0.27	\$1.01	\$0.81	\$0.80	\$1.12	\$1.65
Shares Outstanding	70.3	80.891	84.3	84.5	84.6	84.7	84.5	85.0	85.5	86.0	86.5
Cash & Equivalents	\$255.4	\$584.3	\$599.0	\$622.4	\$645.8	\$671.0	\$671.0	\$746.9	\$819.6	\$918.9	\$1,064.1

Source: Zacks Investment Research, Inc.

Jason Napodano, CFA

HISTORICAL ZACKS RECOMMENDATIONS



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