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DEPOMED INC. (NASDAQ:DEPO)

Strong sales growth and leading market position makes Depomed an attractive investment option

Investment Attractiveness

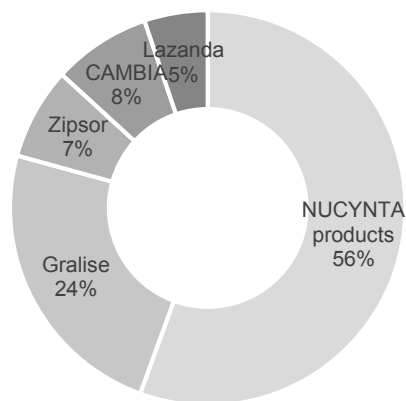
- **Large and Growing Market:** Pain and Neurology is the second biggest segment (€ 40 billion) in the US pharma market and is expected to grow at 3% CAGR through 2020
- **Strong Sales Growth:** 132% CAGR since 2012; recent acquisition of the Nucynta franchise to have a positive impact on sale, EBITDA and cash flows
- **Differentiated Brands and Lengthy Exclusivity:** Enjoys 6-16 years of exclusivity across its six brands
- **Leading Market Position:** Projected to be among the top three branded pain company in the US by 2018
- **Undervalued:** Starboard, the largest shareholder of Depomed (9.9%), feels that the company is undervalued and has significant potential to unlock the value. It is, therefore, seeking to remove and replace the current board

Business Overview

Depomed is a specialty pharmaceutical company focused on products to treat pain and other central nervous system conditions. The company markets six FDA-approved products in United States: Nucynta ER, Nucynta, Gralise, Cambia, Lazanda, Zipsor

Depomed continually seeks opportunities in pain, neurology and adjacencies. It made seven successful acquisitions during 2011-15, leading to 132% sales CAGR from 2012-15 and significant growth in EBITDA

Product-wise revenue (2015)



Product Patents

Product	Expected Exclusivity
Cebranopadol	2032+
Nucynta ER	2028
Gralise	2024
Lazanda	2024
Cambia	2023
Zipsor	2022

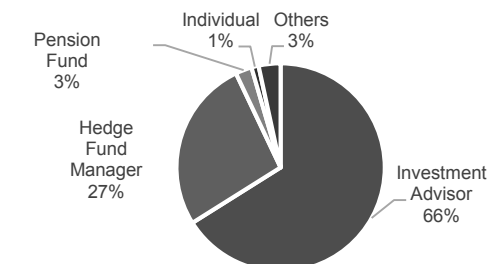
Short-Term Strategy

Depomed plans to make Nucynta a €900 million (US\$ 1 billion) franchise. In FY 2016, it plans to leverage its 250+ salesforce representatives to achieve the target

Key Facts

HQ	Newark, US
DoI	1995
Sector	Specialty Pharmaceuticals
CEO	James A. Schoeneck
CFO	August J. Moretti
BD	Thadd M. Vargas
CCO	R. Scott Shively
FY-end	December
Auditor	Ernst & Young LLP
Legal Counsel	Gibson, Dunn & Crutcher LLP and Baker Botts L.L.P.
Website	http://www.depomed.com/

Ownership Type



A hostile takeover bid by Horizon Pharma and Depomed's defence resulted in stock volatility

Key Financial KPIs/Ratios*

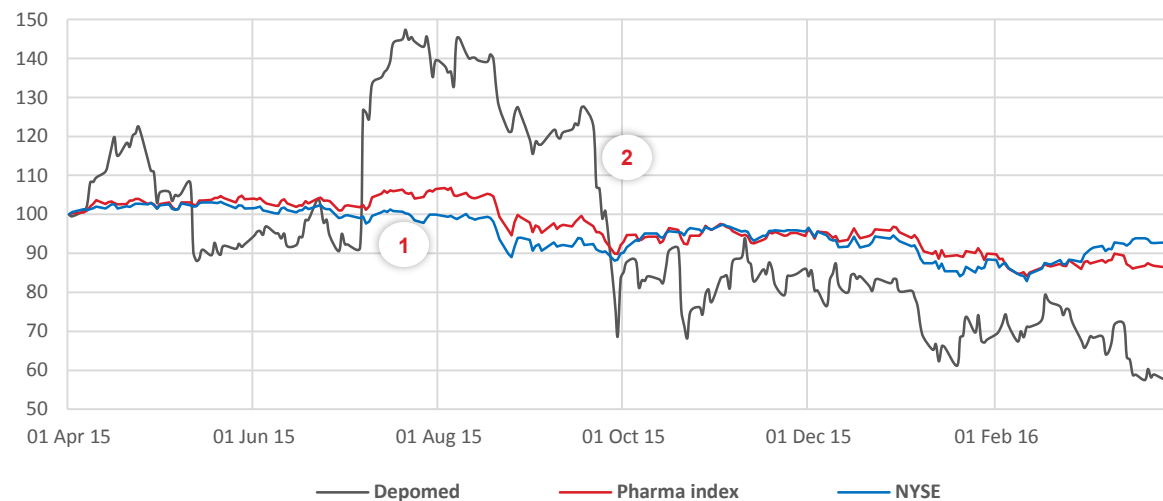
Particulars	2013	2014	2015	CAGR 2013-15
Revenue (EUR Mn)	101.1	294.3	309.0	74.8%
EBITDA (EUR Mn)	12.3	187.6	75.1	146.8%
EBITDA Margin	12.2%	63.7%	24.3%	-
OCF/EBITDA	0.6	-0.2	1.7	-
Capex/Net Sales	0.013	0.002	0.005	-
EV/EBITDA	19.2	2.7	20.8	-

- **Nucynta driving sales:** Growth in sales in 2015 was attributable to Nucynta's sale of €171 million. Depomed acquired Nucynta in April 2015. The acquisition also resulted in increased cost of sales and SG&A by 350% and 65% YoY respectively
- **License sale to PDL:** In Oct 2013, Depomed sold its interest in royalty under license agreements in the Type 2 diabetes therapeutic area to PDL for €183 million. Until Sept 2014, the transaction was accounted for as debt. Effective Oct 2014, the amount was recognised as non-cash revenue, which resulted in 191% increase in revenue in 2014 vs. 2013
- **Issue of €518 million Senior Notes:** In April 2015, the company issued senior secured notes and used its proceeds to fund the purchase of the Nucynta franchise. In April 2016, Depomed prepaid €90 million of the principal amount
- **Cash flow from operations impacted:** The difference in OCF in 2014 vs. 2013 was due to net income adjusted for income tax provision, non-cash interest expense on PDL liability, D&A expense and stock-based compensation expense, partially offset by non-cash PDL royalty revenue of €183 million, movements in working capital and net income tax payments of €44 million

* Percentage change in Financials have been calculated basis numbers converted in Euros. It varies from changes in \$US (reported currency)

Sources: Company website, SEC filings, NYSE website

Stock Price Movement



1

During the first week of July, Horizon Pharma made a hostile US\$ 3 billion offer to buy Depomed. Horizon made the offer on July 7 for an offer price of US\$ 29.25 per Depomed share in a stock transaction, 30% more than Depomed's closing price on July 6. Depomed stock continued its rally till the end of the month

2

Depomed initiated a poison pill defence to shield itself from a hostile takeover by Horizon Pharma. Depomed diluted the value of stock by flooding the market with additional shares, making it more difficult for an investor to acquire a controlling stake. The threat of a potential regulation on price curbs on rebranded drugs also led to a 10% drop in Depomed's stock

Shareholders are expected to vote on a replacement plan for the existing board to improve company's valuation

Recent Developments

- **Starboard LLP, largest shareholders of Depomed (9.9%) seeking to remove and replace current board** – May 2016
Depomed proposes to call special meeting of shareholders on Oct 28, 2016 to vote on Starboard's proposals (*management change*)
- **Depomed acquires US Rights to Cebranopadol from Grunenthal** – Nov 2015
Depomed added Cebranopadol, a phase 3-Ready, new chemical entity with patent coverage upto 2030s in its portfolio. Depomed anticipates advancing Cebranopadol into Phase III development for chronic lower back pain and other pain indications by 2017 (*license acquisition*)
- **Horizon withdraws US\$ 1 billion offer to acquire Depomed** - Nov 2015
Withdrawal follows a ruling by California Court enjoining Horizon Pharma's bid based on Horizon's misuse of Depomed's confidential information (*hostile takeover*)
- **Depomed listed among Deloitte's 2015 Technology Fast 500 List of Fastest Growing Companies in North America** – Nov 2015
Deloitte ranked the 500 fastest growing technology, media, telecommunications, life sciences, and energy technology companies in North America based on percentage revenue growth from 2011 to 2014; Depomed experienced a 178% growth in this period (*recognition*)
- **Depomed acquired US rights to Nucynta franchise from Janssen Pharmaceuticals for US\$ 1.05 billion** – Jan 2015
Deal expected to make Nucynta the flagship asset in Depomed's growing portfolio of pain and neurology specialty pharmaceuticals (*license acquisition*)

Recent PE Activity

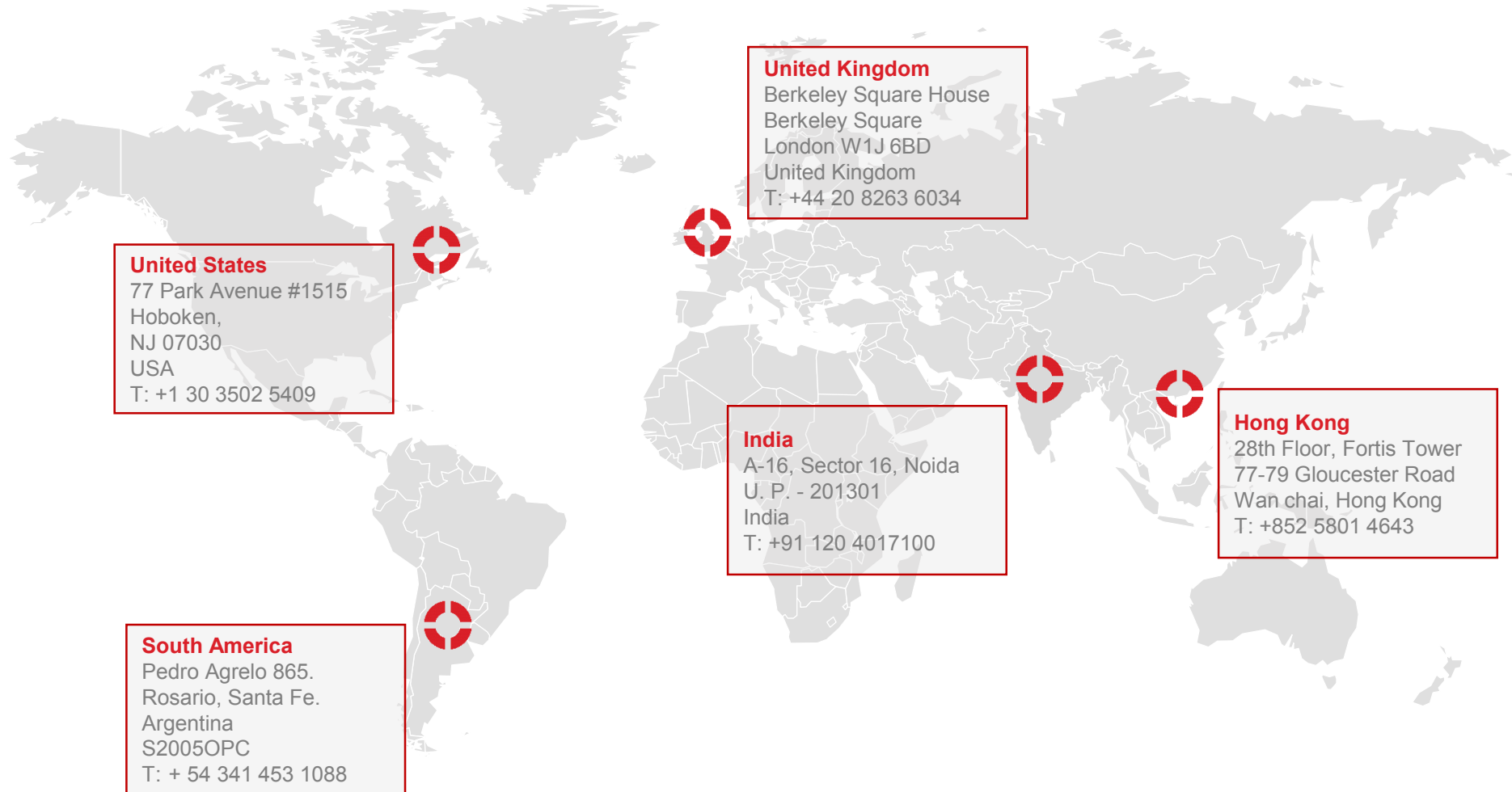
Announcement Date	Target company	Target Sub-sector	Bidder company
20-Jun-2016	Epiphany Dermatology PA	Health institutions	CI Capital Partners LLC
10-Jun-2016	Forum Plastics	Medical equipment	Squadron Capital, LLC
08-Jun-2016	Wedgewood Pharmacy	Drug development & supply	New Harbor Capital, LLC
03-Jun-2016	ISTO Technologies	Biotechnology related research, medical equipment	TSCP IV

Industry View

"We believe that Depomed is deeply undervalued and significant opportunities exist within the control of management and board of directors to unlock substantial value"
– Starboard, Depomed's largest shareholder

2015 was an exceptional year for Depomed as the company executed on its key growth strategies, delivered record sales and integrated two important acquisitions (Cebranopadol and Nucynta), creating one of the most differentiated pain portfolios in the industry"

- CEO, Depomed



United States
77 Park Avenue #1515
Hoboken,
NJ 07030
USA
T: +1 30 3502 5409

South America
Pedro Agrelo 865.
Rosario, Santa Fe.
Argentina
S2005OPC
T: + 54 341 453 1088

United Kingdom
Berkeley Square House
Berkeley Square
London W1J 6BD
United Kingdom
T: +44 20 8263 6034

India
A-16, Sector 16, Noida
U. P. - 201301
India
T: +91 120 4017100

Hong Kong
28th Floor, Fortis Tower
77-79 Gloucester Road
Wan chai, Hong Kong
T: +852 5801 4643

Business Enquiries – sales@rocsearch.com | General Enquiries – info@rocsearch.com | Webpage – www.rocsearch.com



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