

ViroPharma Incorporated (NASDAQ: VPHM)

Industry: Biotechnology

Analysts: Sabrina Liu, Amy Ma, Thongchai Rattanaengyot & Anand Sharma

Date: December 1, 2006

BUSINESS DESCRIPTION

ViroPharma Incorporated, along with its subsidiaries, engages in the development and commercialization of products that address serious diseases. It markets and sells Vancocin capsules for the treatment of antibiotic-associated pseudomembranous colitis; and HCl, the oral capsule formulation of vancomycin hydrochloride in the United States and its territories. The company's product pipeline includes Maribavir, a Phase 3 product for the treatment of cytomegalovirus infection; HCV-796, a Phase II product for hepatitis C virus infection; and Intranasal pleconaril, a Phase 2 product candidate for common cold and asthma exacerbations. It serves pharmacies, hospitals, clinics, and other facilities licensed to dispense prescription medications. The company was incorporated in 1994 and is based in Exton, Pennsylvania.

INVESTMENT THESIS

ViroPharma is trading at a significant discount for its value. The incredible success and speed of its pipeline drugs namely Maribavir and HCV-796, through the approval process creates a very potent atmosphere for future success. In addition to its pipeline, ViroPharma currently sells Vancocin whose revenues are booming and expected to grow in the future. The company has recently become cash flow positive and trades at an extreme discount on a multiple basis as well as a cash basis. Using the most conservative valuation assumptions, this company has very limited downside and tremendous upside.

STOCK PRICE PERFORMANCE



FINANCIAL SUMMARY

Results of Operations

FY Ended Dec 31,

	2003	2004	2005	LTM (1)	2007	Balance Sheet Data		Public Market Overview				
Revenue(2)	1,612	22,389	132,417	169,044	210,000	Total Debt	0.00	Share Price (11/24/06)	\$15.04			
<i>Growth</i>	(70.9%)	1288.9%	491.4%	27.7%	24.2%	Cash & Equivalents	103,236,000	<i>52 Week High</i>	23.44			
EBIT	(33,966)	(12,009)	88,145	102,033	193,100	Net Debt	-103,236,000	<i>52 Week Low</i>	7.07			
<i>EBIT Margin</i>	(2107.1%)	(53.6%)	66.6%	60.4%	92.0%	Credit Statistics		Diluted Shares Outstanding	70,234,288			
After-tax Earnings (3)	(36,942)	(19,534)	113,705	114,116	193,100	LTM		Market Value of Equity	\$1,056,323,684			
<i>Net Margin</i>	(2291.7%)	(87.2%)	85.9%	67.5%	92.0%	Total Debt/EBITDA	NM	Plus: Net Debt	-103,236,000			
D&A	2,287	1,176	5,537	6,289	8,400	EBITDA/Interest	NM	Enterprise Value	\$953,087,684			
CapEx	984	119,036	10,921	15,962	16,800	Valuation Multiples		Industry	2003	2005	LTM (1)	2007
Interest Expense	6,609	9,240	9,296	(5,644)	(10,032)	EV/Revenue	8.9x	591.2x	7.2x	5.6x	4.5x	
Diluted Shares	25,916	26,578	57,610	70,234	70,105	EV/EBITDA	6.3x	-30.1x	10.2x	8.8x	4.7x	
Diluted EPS	(\$1.43)	(\$0.73)	\$1.97	\$1.62	\$2.75	EV/EBIT	NM	-28.1x	10.8x	9.3x	4.9x	
<i>All number in thousands except per share</i>						P/E	40.2x	-10.6x	7.6x	9.3x	5.5x	
						PEG	1.3x	NM	0.7x	0.7x	0.69x	

(1) Figures as of 10/30/2006

(2) 2003 and 2004 revenues comprise mainly of license and milestone fees and grants as the products weren't fully marketed, so there were no sales

(3) In 2004, ViroPharma received tax benefits, causing after tax earnings to exceed EBIT

(4) ViroPharma's interest income exceeds interest expense in LTM, meaning that they paid back all their debt and have investment in bonds

(5) 2006 and 2007 projections from Piper Jaffray. 2006 earnings estimate is inaccurate considering that LTM already exceeded E2006

