

VIVUS, Inc

Qsymia Added to Medco Formulary... Product Accessibility Continues to Gain Momentum - ALERT

We are reiterating OW this morning following news (via an 8K) that Qsymia has been added to the Medco Health Solutions (now part of Express Scripts, covered by JPM analyst Lisa Gill) national formulary in a tier 3 position. Tier 3 coverage results in patient co-pays of \$50-\$60 per month, depending on benefit design. We believe that ~100M lives (~32% of Rx managed/filled in US) are covered between MHS and Express Scripts alone (pre merger was ~90M for ESRX and ~65M for MHS). Our prevailing thesis on this controversial launch is that driving sales will be a function of 1) accessibility and 2) education/experience. In our view, the company has made undeniable progress on the accessibility front. This month alone we've seen a less obstructive REMS, positively updated AACE treatment guidelines, and now another major victory on the reimbursement front. To be clear, we do still anticipate the jury will remain out until these promising developments translate into clear-cut evidence of script and sales acceleration. Nevertheless, we are optimistic that this launch can come together and see today's announcement as yet another positive development and credibility boost for Vivus.

- **Qsymia added in a tier 3 position with prior authorization.** The prior auth is in line with others so far, consisting of previous attempts to lose weight with diet and exercise, and having tried phentermine. Tier 3 coverage is also in line with the starting point we anticipate for all obesity therapies, but we expect the positioning to improve over time as PBMs collect real world data.
- **Covered patient co-pays will be in the \$50-\$60/month range, depending on benefit design.** The tier 3 co-pay represents a drastic improvement over the retail price of ~\$160 (excluding early product promotions/discounts), which translates into a \$4-\$6.15 cost per day depending on dose level.
- **Continued reimbursement progress should lead to a significant drop in retail Rx abandonment.** Discussions are ongoing, and we expect similar progress with additional payors (eg. Caremark CVS, United) over the course of the year. As more patients are covered, we expect the retail abandonment rate to continue to drop: as of the 4Q update, ~22% of written Qsymia prescriptions were not filled at the pharmacy, an improvement from 30% at the 3Q update.
- **Separately, Robert Wilson is a potentially valuable addition to VVUS Board of directors.** This was also announced today. Mr. Wilson currently serves as chairman of Mevion Medical Systems and was previously the vice chairman of the Board of Directors of Johnson & Johnson (covered by JPM analyst Mike Weinstein). Mr. Wilson was affiliated with J&J over 1983-2003, when he played a key role in the growth of the company's pharmaceutical, diagnostic, and device businesses. The bottom line is that we think his commercial experience could be very important as Vivus continues to execute on the Qsymia launch.

See page 2 for analyst certification and important disclosures.

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Overweight

VVUS, WVUS US

Price: \$13.03

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Biotechnology

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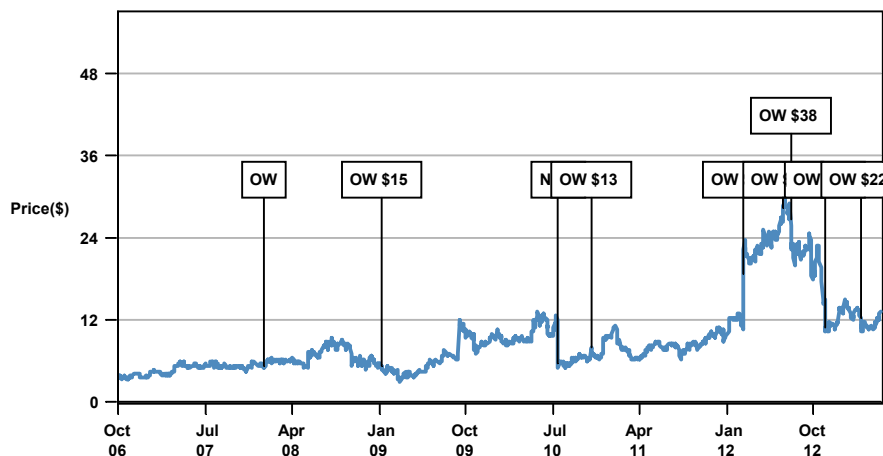
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VIVUS, Inc (VVUS, VVUS US) Price Chart



Date	Rating	Share Price (\$)	Price Target (\$)
03-Jan-08	OW	5.26	-
06-Jan-09	OW	5.32	15.00
16-Jul-10	N	5.41	6.00
29-Oct-10	OW	7.75	13.00
23-Feb-12	OW	18.73	30.00
27-Jun-12	OW	28.33	35.00
18-Jul-12	OW	26.46	38.00
06-Nov-12	OW	10.96	25.00
26-Feb-13	OW	12.41	22.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. Initiated coverage Jan 03, 2008.

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