

## View into the Future of Ophthalmology Treatments

Current ophthalmology treatments have only scratched the surface in eye care. The next generation of eye treatments holds the potential to reshape the industry. Our ophthalmology and drug analysts review the current treatments, possible breakthroughs, and Big Pharma's increasing interest in eye care. We also interviewed the president of Abbott Vascular for an update on market leader Xience, and our services analyst provides insights into the overlooked dental market.

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### Don't Miss the April Issue

We will be examining the ins and outs of the increasingly popular but often misunderstood health-care IT industry, with particular focus on clinical and revenue management services.

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# Pharmaceutical Treatments in Ophthalmology

by Jeff Viksjo

## Current Glaucoma Drugs Only Address Symptoms

Glaucoma is the single-largest market for ophthalmic pharmaceuticals with worldwide sales estimated at more than \$4.5 billion. Despite the large number of drugs already on the market, this degenerative eye disease remains a prime target for company research and development efforts, as current therapies work to lower elevated intraocular pressure (the key risk factor for glaucoma) but fail to address the root cause. In addition, glaucoma patients are notorious for poor compliance with their eye-drop medications, leaving an untapped market for new drug delivery technologies.

While glaucoma is associated with elevated intraocular pressure (IOP), the disease itself is marked by a progressive deterioration of optical nerves in the eye. The damage to these nerves can gradually erode a patient's field of vision, leading to possible blindness. Because the underlying cause of the disease is not known, the standard of care for glaucoma treatment is to treat elevated IOP, a key risk factor for nerve damage. Most drugs on the market today specifically affect the eye's aqueous humor, a waterlike substance found between the cornea and the lens. A buildup of aqueous humor has been shown to increase pressure in the eye.

The prostaglandin drug class is currently the gold standard for glaucoma treatments. These first-line therapies, including **Pfizer's** PFE (FV: \$31) Xalatan, **Alcon's** ACL (FV: \$128) Travatan, and **Allergan's** AGN (FV: \$57) Lumigan, work to increase the outflow of aqueous humor and have been shown to reduce IOP by an average of roughly 30%. While a 30% reduction in IOP will get most patients to their treatment goals, only about half hit this mark with prostaglandins alone, meaning they also take a beta-blocker, carbonic anhydrase inhibitor (CAI), or alpha-agonist as part of a combination therapy. While all three drug classes lower IOP, beta-blockers, such as timolol, and CAIs, such as Alcon's Azopt, have been shown to specifically reduce the formation of aqueous humor. Alpha-agonists, such as Allergan's Alphagan, have been shown to both reduce aqueous humor production and increase its outflow.

Below are the U.S. market shares for the branded glaucoma drugs on the market today. As prostaglandins serve almost exclusively as first-line therapies and thus do not compete directly with the adjunctive therapies, we've segregated the data into two distinct markets.

**Current Glaucoma Drugs: Prostaglandins**

Market Share (%)	Firm	2004	2005	2006	2007	2008
Xalatan	<b>Pfizer</b> PFE	61.5	55.5	51.0	48.8	48.3
Lumigan	<b>Allergan</b> AGN	22.1	22.8	24.7	24.6	22.9
Travatan	<b>Alcon</b> ACN	16.3	21.7	24.1	20.5	15.4
Travatan Z	<b>Alcon</b>	0.0	0.0	0.2	6.1	13.4
<b>Total</b>		<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Current Glaucoma Drugs: Adjunctive**

Market Share (%)	Firm	2004	2005	2006	2007	2008
Cosopt	<b>Merck</b> MRK	45.4	49.1	54.3	54.2	49.5
Alphagan P	<b>Allergan</b>	48.3	44.1	38.1	37.4	36.1
Azopt Ophthalmic	<b>Alcon</b>	6.4	6.8	7.6	8.4	9.5
Combigan	<b>Allergan</b>	0.0	0.0	0.0	0.1	4.9
<b>Total</b>		<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

We expect the glaucoma market to change drastically when Pfizer's leading drug Xalatan loses patent protection in early 2011. Xalatan will be the first of the three prostaglandins to lose patent protection, and we expect a rush of generics to enter the marketplace. While Travatan and Lumigan will remain branded, we expect total sales for these drugs to fall, as both existing and new patients opt for the cheaper generic Xalatan alternative.

03

**Market leader Xalatan loses patent protection in 2011, opening the door to a rush of generics.**

While Pfizer may still pursue a line extension for Xalatan, which would help keep the integrity of the prostaglandin market, we've already started to see the major firms shift their R&D efforts toward finding new drug classes within glaucoma. In addition, several projects aim to improve the delivery of drugs to the eye, making dosing more convenient for patients. Below is a summary of drug candidates now in development for glaucoma. We've segregated our analysis by near-term, intermediate, and long-range product opportunities.

**Unearthing the Next Generation of Glaucoma Drugs****Near-Term Pipeline (0–3 Years from Market)**

We think the real game-changers in glaucoma will not hit the market until well after Xalatan has lost patent protection. However, in the meantime, there are several new drugs on the market and in late-stage clinical trials that could significantly alter the prescribing habits of physicians.

**Glaucoma Near-Term Pipeline**

Name	Drug Class	Firm	Phase
Travatan Z	Prostaglandin	<b>Alcon</b>	Market
Combigan	Alpha-agonist/beta-blocker	<b>Allergan</b>	Market
Anecortave acetate	Steroid	<b>Alcon</b>	Phase II/III

*Travatan Z*

Alcon introduced Travatan Z in late 2006, and the drug now has almost an equal share of sales to its predecessor drug Travatan. While Travatan Z has the same active compound as Travatan (travoprost), the new drug is formulated without benzalkonium chloride (BAK), a preservative that has been linked to ocular surface disease. The prevalence of ocular surface disease in glaucoma patients has been reported at more than 40%. As the first and only BAK-free prostaglandin drug on the market today, we think Travatan Z will fare better than most after Xalatan loses patent protection. The trick for Alcon will be to convert as many patients as possible to Travatan Z from Travatan before Xalatan’s patent expires.

*Combigan*

Allergan won a rare approval for a fixed-combination glaucoma product with Combigan that puts Alphagan and beta-blocker timolol in one bottle. Patients that require adjunctive therapy can take up to three different drugs, meaning between four and six individual doses per day. Combigan requires just two doses per day, making it much more likely that patients will take their medicines. We think this will remain a big selling point with doctors, as even a temporary spike in IOP (from poor compliance) can lead to nerve damage.

*Anecortave acetate*

Alcon’s anecortave acetate is still undergoing Phase II/III clinical trials, but the drug’s ultimate approval could have significant ramifications for the treatment of glaucoma. While it will be difficult for anecortave acetate (a steroid) to beat a prostaglandin on IOP reduction, Alcon hopes its candidate’s unique delivery mechanism will lead to better patient compliance. Unlike common eye-drop medicines that are taken daily, anecortave acetate is injected into the eye by a physician, as infrequently as four times a year. If the drug candidate proves successful in clinical trials, we think it could fill a void in the marketplace, particularly for those patients that cannot administer their own eye drops and have a history of poor compliance.

**Intermediate Glaucoma Pipeline** (4-6 Years from Market)

Name	Drug Class	Firm	Phase
Punctal Plugs	Prostaglandin	QLT QLT1	Phase I/II
INS117548	Rho kinase inhibitor	Inspire ISPH	Phase I

*Punctal Plugs*

**QLT QLT1** (FV: \$5) is conducting Phase I/II trials for a novel drug delivery mechanism, whereby a small implanted plug delivers medicine continuously to the surface of the eye. While the device will be loaded with existing medicines (current tests for glaucoma involve Xalatan), we think the plug could offer substantial benefits to patients. For starters, the plug is inserted by a physician, and like anecortave acetate, would not require retreatment for many months. This could lead to better patient compliance versus daily eye drops. Also, QLT’s device could improve on IOP control by continuously keeping drug

concentrations at optimum levels. This would avoid the peaks and troughs associated with periodic eye drops, which can cause IOP to rise and fall substantially throughout the day. While QLT has lots left to prove with the device (particularly with the plug staying in place), we think its convenience factor could open up a significant market for the product.

### Inspire's Rho kinase inhibitor targets a cause of glaucoma.

*INS117548*

**Inspire Pharmaceuticals** ISPH (FV: \$4.50) is one of a few firms developing a Rho kinase inhibitor for glaucoma. While these programs are at the very early stages of development, they are believed to offer a completely new mechanism of action. Many current drugs, like prostaglandins, increase the outflow of aqueous humor through a secondary channel called uveoscleral outflow. While effective, the rate of uveoscleral outflow has been shown to be relatively independent of IOP, meaning it rarely causes the buildup in the first place. In contrast, Rho kinase inhibitors target the primary exit for aqueous humor (the trabecular meshwork), which is believed to directly regulate IOP. While these drugs are long shots at this point, their eventual success could put doctors one step closer to treating an underlying cause of the disease.

#### **Long-Term Pipeline** (7+ Years from Market)

##### *Neuroprotection*

Glaucoma can be thought of as a three-step process. First, a buildup of aqueous humor causes IOP to rise substantially. Next, elevated IOP puts a patient at risk for optical nerve damage. All drugs mentioned so far work to control IOP and prevent this initial nerve damage. However, in the third step, the initial nerve damage puts the patient at risk for further nerve damage, a vicious cycle that works irrespective of IOP. As a result, current medications have only limited efficacy at this third stage of the disease and may be unable to prevent further vision loss in patients. This is where neuroprotective agents may one day play a role. Instead of controlling IOP, these agents will be graded on their ability to prevent further cell death, measured by changes in a patient's field of vision. While this class has limited data available and already includes one notable failure (Allergan's memantine), it continues to claim a large portion of early stage glaucoma research. In particular Sirtris, now part of **GlaxoSmithKline** GSK (FV: \$49), is working on an early stage neuroprotective drug that could revolutionize glaucoma treatment.

#### **Age-Related Macular Degeneration**

##### **Treatment Options**

Age-related macular generation (AMD) involves the gradual loss of central vision and comes in two forms: dry or wet. Dry AMD affects every patient in the early stages of the disease (roughly 8 million people in the United States) and occurs when tissue in the macula (located at the center of the retina in the back of the eye) deteriorates due to aging. There are no current drug treatments for dry AMD. In the advanced form of the disease (1.7 million people), roughly two thirds of patients will develop wet AMD, which occurs when blood vessels grow abnormally in the back of eye and begin to leak. This damages the macula and can lead to complete vision loss if left untreated. Fortunately, several drugs exist to slow or even reverse this vision loss and many more are in development.

Just launched a few years ago, **Genentech's** DNA (FV: \$91) Lucentis is already established as the standard of care for wet AMD, with annual sales over \$1.5 billion. Unlike predecessor drugs, Lucentis has been shown to not only slow vision loss for patients, but also to reverse it in some cases. A derivative of Genentech's cancer drug Avastin, Lucentis works by inhibiting the function of vascular endothelial growth factor (VEGF), a protein associated with new blood vessel growth. In this way, Lucentis deters the formation of new blood vessels in the back of the eye and helps restore vision to patients.

### **Best Treatment Option for Wet AMD: Lucentis vs. Avastin**

Before Lucentis was approved by U.S. regulators, physicians first used cancer drug Avastin "off-label" to treat wet AMD. The drug was especially coveted, given its price; Avastin was priced for cancer indications that required large quantities, but wet AMD used just a small fraction of a single dose. This meant that wet AMD patients could get one treatment of Avastin for just \$45. While good for patients, this made it difficult for Genentech to extract value from the market, and the firm went to work on Lucentis. Genentech designed Lucentis from the same monoclonal antibody as Avastin but with slight alterations to tailor it for ocular use. In doing so, Lucentis was considered a new compound, and the drug underwent its own set of clinical trials. While its success in clinical trials gave physicians the go-ahead to use it in their practices for wet AMD, almost half today still use Avastin off-label because of its price. Genentech prices Lucentis at roughly \$2,000 per treatment—45 times the cost for a comparable dose of Avastin. For patients required to make drug copays, this can mean the difference of more than \$390 per treatment. However, in early 2008, Genentech stopped shipping Avastin to compounding pharmacies, adding a layer of complexity to using Avastin for wet AMD. While doctors can still obtain Avastin for wet AMD, the process is now more difficult, causing U.S. sales for Lucentis to increase, up 17% in the second half of 2008 versus down 3% in the first half of 2008.

### **CATT Study**

Given the large number of physicians using an off-label treatment for wet AMD, the National Eye Institute recently set out to directly compare Avastin to Lucentis in its Comparison of Age-Related Macular Degeneration Treatments Trials (CATT) study, and we think the results, which are expected in early 2011, could have huge implications for the market. If Avastin and Lucentis are shown to have similar profiles for both efficacy and safety, we would expect Lucentis sales to plummet (and the rest of the market with it), as most physicians opt for the cheaper alternative. This result could turn wet AMD from a \$1 billion market to a \$50 million market overnight. Besides being bad news for Genentech, this would make it extremely difficult for other firms to enter this market, since Avastin will be tough to beat, thanks to its rock-bottom price. While it's impossible to predict the outcome of the trial, we think the large number of physicians currently using Avastin means the drug is at least partly effective at treating the disease. However, we expect safety concerns to weigh in Lucentis' favor, since Avastin is a less-specific drug for optical treatment.

## Industry Pipeline

The wet AMD industry pipeline is relatively mature, with several new chemical entities in late-stage trials. While these drugs probably won't beat Lucentis or Avastin on efficacy alone, they may offer dosing advantages that would limit the cost for patients, especially if Lucentis is proved superior in the CATT study. For instance, Lucentis has been shown to produce visual acuity gains only when dosed monthly, with those patients who switched to quarterly dosing returning to pretreatment levels. As a result, we think a large market will exist for those drugs that can prove similar efficacy to Lucentis but with quarterly dosing, saving patients up to \$3,200 per year in copays. Also, the less-frequent dosing should be very appealing to elderly patients who are having a hard time recovering from monthly eye injections.

### Intermediate Glaucoma Pipeline (4-6 Years from Market)

Name	Drug Class	Firm	Phase
Visudyne Combination	anti-VEGF/photosensitizer	QLT	Phase IV
Bevasiranib	siRNA anti-VEGF	OPKO	Phase III
VEGF trap	anti-VEGF	Regeneron/Bayer	Phase III

## Visudyne Combination

Visudyne was the standard of care for wet AMD before the advent of the anti-VEGF therapies, with peak annual sales of more than \$200 million in the United States. Today, the drug pulls in only one fifth of that amount. Visudyne is a light-activated drug that works to seal off the leaking blood vessels in the back of the eye. While it slows the rate of vision loss in most patients, it does nothing to reverse it. However, because it works differently than Avastin/Lucentis, the drug could play a role in combination therapy. QLT and its partner, **Novartis** NVS (FV: \$73), are currently conducting three clinical trials to test Visudyne with Lucentis. We expect the results by the end of 2009. While it's doubtful that combination therapy will lead to greater efficacy, QLT believes that Visudyne may extend the effect of Lucentis, lowering the overall cost of treatment. While Visudyne will remain a niche drug either way, we think its sales potential could roughly double with successful trial results. We expect final data from the first of these trials by mid-2009.

### Bevasiranib

Bevasiranib, a small, interfering RNA drug, is probably the most differentiated from Lucentis, giving it the highest upside potential of any pipeline candidate. While it still targets VEGF, Bevasiranib works by silencing the genes that produce VEGF in the first place, in contrast to Lucentis, which intercepts VEGF once it's already produced. This positions Bevasiranib to one day work in concert with Lucentis, whereby Lucentis will be injected first to clean up the existing VEGF, followed by continued injections of Bevasiranib to prevent the genes from producing any more. OPKO believes its drug will work for a full eight to 12 weeks, which would give it a leg up versus Lucentis for long-term care or maintenance therapy. OPKO has enrolled Bevasiranib in a Phase III trial, which will primarily measure whether Bevasiranib injections every eight to 12 weeks produce equivalent efficacy to Lucentis dosed every four weeks. We expect results from the trial in mid-2009.

*VEGF Trap*

**Regeneron's** REGN (FV: \$23) VEGF trap works in much the same way as Lucentis and will therefore need to prove either higher efficacy or less-frequent dosing in its pivotal Phase III trial. The drug intercepts VEGF by creating dummy receptors that attract the protein and eventually turn it into a harmless substance. While VEGF trap has some advantages to Lucentis on paper—mainly that it attracts all forms of VEGF, including placental growth factor—these have yet to translate in clinical trials. In the drug's Phase II trial, while it produced some benefit at quarterly dosing, the results were much more robust at fixed monthly dosing, which is similar to Lucentis. That said, the drug's Phase III trial is the first to pit VEGF trap head to head against Lucentis, so the results could end up on either side of the spectrum. We expect the trial data to be released in 2010.

**Dry Eye**

Dry eye is highly prevalent in the United States, with roughly 9 million people suffering from the disease. However, Allergan's Restasis remains the only prescription drug to treat the condition, now marking a six-year drought for new product approvals in the dry eye market. In addition, Restasis treats dry eye associated with inflammation, only a subset of the overall population. Based on the number of patients with severe dry eye, we estimate that the prescription dry eye market could support more than \$1.5 billion in annual sales, versus Restasis pulling in just \$450 million last year. Part of the problem is that dry eye and its symptoms are not well-understood by researchers. This makes it difficult for firms to navigate the clinical trial process, where objective treatment endpoints are needed to prove efficacy. While this has led to a low success rate for drug candidates, industry firms remained undeterred, recently advancing several dry eye projects to late-stage clinical trials. With such a huge market at stake, we think firms will only continue taking more shots on goal.

**Nine million people suffer from dry eye in the United States, creating a major market.**

**Intermediate Glaucoma Pipeline** (4-6 Years from Market)

Name	Drug Class	Firm	Phase
Prolacria	Mucin secretagogue	<b>Inspire</b> ISPH/ <b>Allergan</b> AGN	Phase III
Rebamipide	Mucin secretagogue	Acucela/Otsuka	Phase III
Ecabet Sodium	Mucin secretagogue	ISTA	Phase II

**Mucin Secretagogues**

Mucin secretagogues work to directly stimulate the production of lubricants in the eye, such as mucins, lipids, and fluids. Aside from keeping the eye moist, these lubricants also coat and slow down the evaporation rate of the eye's natural tears. We have listed three drug candidates from this class now in late-stage clinical development. Because these new drugs work differently than Restasis, which targets inflammation, we think they hold the potential to greatly increase the overall size of the market. In the same way, we think one or two product approvals from this class will actually be a net benefit for Restasis, as physicians become more comfortable prescribing dry eye drugs and more patients enter the treatment population.

Prolacria represents a high risk and high reward drug for treating dry eye.

#### *Prolacria*

Inspire's Prolacria is probably the most-advanced drug candidate in this class. The drug has been tied up in the regulatory process for years, having received approvable letters from the U.S. Food and Drug Administration in both 2003 and 2005. Despite promising results, Prolacria wasn't able to meet the FDA's definition for efficacy in dry eye. However, now, under a special protocol assessment with the FDA that pre-establishes a mutually agreeable primary endpoint, Inspire has initiated another Phase III trial—this time to prove clearing of the central region of the cornea, a marker of dry eye. Prolacria has met this specific endpoint in the past as a secondary endpoint. While we still consider the drug a long shot to hit the market due to past inconsistent efficacy, we're encouraged by the now-more-straightforward path toward its regulatory approval. Therefore, we view the drug with a high degree of skepticism in reaching the market, but holding a high degree of sales potential if approved. We expect initial results from this trial by the end of 2010.

#### *Rebamipide and Ecabet Sodium*

Rebamipide and ecabet sodium both aim to treat dry eye through the increased production of mucin. Like Prolacria, rebamipide holds a long history in dry eye treatment, with Novartis once in-licensing the compound but later terminating its development. Nevertheless, Otsuka has advanced the drug into Phase III trials, and we expect results by late 2010. Also, ISTA recently announced positive Phase II results for ecabet sodium, and we expect that drug to enter Phase III trials by 2010. ■■

# Surgical Treatments in Ophthalmology

by Jeff Viksjo

## Removing the Cloud from Cataract: Core Treatment of Intraocular Lenses

Intraocular lenses (IOLs) are a key component of cataract surgery and generate more than \$1.6 billion in sales worldwide. A cataract involves a clouding of the natural lens of the eye, a usually transparent disk that moves to change the focal point of the eye, similar to a camera lens. A cataract impedes this natural lens and makes it difficult for patients to see clearly. In cataract surgery, the natural lens is broken into tiny pieces, removed, and then replaced by an IOL, which is essentially an artificial lens. While IOLs cannot yet replicate the exact focusing mechanism of a natural lens, they are still able to greatly improve vision quality for cataract patients.

## Next Generation Lenses: Monofocal IOLs vs. Multifocal IOLs

Until a few years ago, monofocal IOLs were the only choice for cataract patients. Unlike a natural lens, monofocal IOLs are capable of focusing light from only one focal point, either near or far. For instance, most patients opt for a monofocal IOL with a distance focal point and then need to wear glasses for reading and other up-close tasks. Monofocal IOLs are considered necessary for cataract surgery and are fully reimbursed by Medicare and private insurance companies.

In contrast, multifocal IOLs are able to produce both near and distance vision, meaning that patients will have a full range of vision, with some no longer needing contacts or eyeglasses. While certainly a more advanced technology, multifocal IOLs have a few drawbacks that have limited their adoption so far. For starters, since multifocal IOLs have both a necessary purpose (replacing a cataract) and an unnecessary purpose (a LASIK-like outcome), they are only partly covered by Medicare and private insurance. Typically, patients will pay about \$2,000 per eye for a multifocal IOL. Also, multifocal IOLs are still a relatively new technology, with most of the current products approved within the last few years. As a result, current generations of multifocal IOLs have a high incidence rate for side effects, and only a fraction of patients are able to achieve 20/20 vision.

We estimate that monofocal IOLs still make up more than 85% of total lens sales and an even higher share of patient volumes, given their much lower price point. **Alcon** ACL (FV: \$128) dominates the market for monofocal IOLs with its Acrysof IQ lens and holds a more than 2-to-1 market share advantage over its nearest competitor. We expect Alcon's market share to stay intact longer term, given that monofocal IOLs are relatively mature products with only evolutionary changes expected. In addition, monofocal IOL share tends to piggyback on cataract equipment sales, where Alcon holds a sizable advantage. In contrast, we expect multifocal IOL share to swing wildly in the years to come, as revolutionary technological changes take shape and surgeons readily adopt new products.

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We estimate that Alcon holds the top spot in multifocal IOLs, with Bausch & Lomb a close second, and Advanced Medical Optics (AMO), which is currently being acquired by **Abbott** ABT (FV: \$63), a distant third.

**Diffractive Multifocal IOLs**

Unlike a natural lens that moves to change focal points, diffractive multifocal IOLs provide a full range of vision by splitting light and delivering several images to the retina at once. Alcon’s Acrysof Restore +4D and AMO’s Rezoom were two of the first lenses approved in this class, but both have disadvantages that limit their uptake. While Alcon’s Restore +4D delivers strong near and far vision, the lens is not well-suited for intermediate tasks, such as computer work. This contrasts to AMO’s Rezoom, which performs well at intermediate tasks but provides relatively poor near and far vision. Although Alcon and AMO recently launched next-generation IOLs (Alcon’s Restore +3D for better intermediate vision, and AMO’s Tecnis Multifocal for better near and far vision), both still produce unwanted side effects. In particular, diffractive IOL patients often complain of night halos or double vision (from the near and far images not lining up properly), and a loss of contrast sensitivity (each image is produced with only a fraction of the light used by a natural lens). As a result, we think these lenses have only limited upside longer term and will remain niche products in the current market.

**Diffractive Multifocal IOLs at a Glance**

Name	Lens	Notes
<b>Alcon</b> ACL	Acrysof Restore +4D	First approved 2005; aspheric version approved 2007
<b>Alcon</b>	Acrysof Restore +3D	Approved 2008; better intermediate vision than +4D
<b>Advanced Medical Optics</b>	Rezoom	Approved 2005
<b>Advanced Medical Optics</b>	Tecnis Multifocal	Approved 2009; better near and far vision than rezoom

**Accommodating IOLs**

The newest version of Bausch & Lomb’s Crystalens (Crystalens HD) was approved in mid-2008; five years after the first Crystalens hit the market. Despite this, the Crystalens remains the only accommodating IOL on the market today. Similar to a natural lens, accommodating IOLs actually move in the eye to change focal points and therefore do not need to split light or deliver more than one image to the retina at once. As a result, Crystalens mostly avoids the common shortfalls of diffractive IOLs, including night halos, double vision, and a loss of contrast sensitivity.

That said, the Crystalens IOL is not a perfect lens. Despite some accommodative power, Crystalens has been shown to move much less than a natural lens (and in some patients not at all, depending on the shape of their eye), leading to perfect outcomes in only a fraction of cases. In addition, Crystalens is not well-suited for up-close tasks, given the level of accommodation needed to focus on near images for long periods of time.

**Accommodating IOLs hold huge upside due to their similarity to natural lenses.**

Still, we think Crystalens' accommodative power gives the lens the most upside longer term, particularly against diffractive IOLs, whose design is naturally more prone to side effects. While the lens may be a generation or two away from being more widely adopted, we think it will continue to gain share in the current market, particularly with those patients who favor intermediate or distance vision.

### **Dual-Optic IOLs**

While not yet approved by the FDA, dual-optic IOLs, such as Visiogen's Synchrony, may represent the next wave of IOL technology. Like Crystalens, dual-optic IOLs are accommodative, meaning their movement mimics a natural lens. However, unlike Crystalens, dual-optic IOLs utilize two individual lenses, a design meant to provide greater focusing power with less accommodation. With less accommodation needed, the dual-optic IOL could be better suited for up-close tasks, a main drawback of the Crystalens. While more research is needed for the dual-optic design, we think accommodative IOLs in general continue to hold the most promise longer term. ■■

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# Big Pharma Moves into Ophthalmology

by Damien Conover, CFA

Over the past year, the ownership of two major ophthalmology companies has shifted into the hands of Big Pharma companies. In mid-2008, Novartis acquired a majority position in **Alcon** ACN and, in early 2009, **Abbott** ABT (FV: \$63) announced the acquisition of Advanced Medical Optics (AMO). We believe both of these deals will increase the speed of development of new ophthalmology treatments and contribute meaningful growth for the acquiring pharmaceutical companies.

In the **Novartis** NVS (FV: \$73) and Alcon deal, Novartis purchased 25% of Alcon from **Nestle** NSRGY (FV: \$48). Further, we expect Novartis to purchase Nestle's remaining 52% stake in Alcon in 2010, as Novartis wanted to purchase Nestle's entire Alcon stake in 2008, but Nestle refused—a decision Nestle surely regrets, given Alcon's share price fall. We expect Novartis to operate much differently than Nestle as a majority shareholder of Alcon. As opposed to Nestle's hands-off approach, we believe Novartis will collaborate with Alcon due to Novartis' large presence in eye-care products through CIBA vision and its wet AMD drug Lucentis, which it markets in collaboration with **Genentech** DNA (FV: \$91). Regarding the most significant outcome of Alcon's new parent company, we believe Novartis' deep pockets will give Alcon the green light to acquire smaller ophthalmology companies, arrange partnership agreements, and increase development efforts. With funding support from Novartis, we believe Alcon will significantly increase its development efforts in bringing new eye treatments to the market.

Turning to Abbott and AMO, we have felt that AMO relatively underfunded its development efforts in the past and always played second fiddle to Alcon in the intraocular lens (IOL) industry. We felt that AMO's concerns about tripping financial covenants reduced the pool of capital for development efforts, especially in the cataract field. We expect Abbott to properly fund the development of the next generation of IOLs, bringing new multifocal lenses to the market over the next several years. Further, while Abbott paid more than a 200% premium for AMO, we believe it obtained the business at a good value. As a reminder, Abbott's \$22 purchase price matched AMO's price before the market melted down in the fall of 2008. We believe Abbott's opportunistic purchase will yield faster development of new eye-care products and generate strong results for shareholders over the long term. ■■

# Interview with Chip Hance, President of Abbott Vascular

by Damien Conover, CFA

Following up on our November issue on the stent market, we interviewed Chip Hance, president of Abbott Vascular, to provide further background on the firm's leading drug-coated stent (DES) Xience and the future of the stent market.

**Morningstar Healthcare Observer:** Xience V appears to be off to a very strong start. What characteristics have driven the successful launch?

**Chip Hance:** Yes, Xience V is off to a great start. It became the number-one drug-eluting stent in the United States just a few months after our July 2008 launch. It's also the number-one DES in Europe. It has done as well as it has based on its best-in-class product profile, strong clinical data, and impressive execution by our sales organization.

Xience V is built on the most-used metallic stent in the world, the Multi-Link Vision. Its design results in outstanding flexibility and conformability, allowing an interventional cardiologist to easily deliver it into a patient's vessel. Xience V also uses the well-proven drug, everolimus, which has generated consistent and impressive clinical results.

Our clinical trial results for Xience V demonstrated superiority in the primary endpoint over another DES, **Boston Scientific's** BSX (FV: \$18) Taxus, which was the market leader at the time of the Xience V launch. We've now presented two-year clinical trial results that reinforced the early clinical data and demonstrate the long-term safety and efficacy profile of Xience V.

The product attributes, clinical data, and outstanding execution by our experienced sales organization have led to a very successful launch of the product in a short period of time, confirming that physicians are viewing Xience V as a truly next-generation drug-eluting stent.

**MHO:** How high are the barriers to entry in the drug-eluting stent market? While we don't see any other major players coming into the market in the near term, what are the major hurdles stopping medical device companies such as **C.R. Bard** BCR (FV: Not Rated) and **Becton Dickinson** BDX (FV: \$93) from entering the market in the next few years?

**CH:** As you would expect, the barriers to entry in this market are high. Companies not in the market today don't have the research and development expertise, key intellectual property, large-scale manufacturing capabilities, and a well-established salesforce to participate in a competitive way.

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**Abbott** ABT (FV: \$63) entered this market more than a decade ago, building a comprehensive vascular business over time. In 2006, we acquired Guidant's vascular business, which created a leading vascular organization with a broad commercial product portfolio, tenured sales organization, manufacturing and R&D capabilities, and an industry-leading pipeline. It also brought us Xience V, which we launched last year in the United States, and quickly became the market-leading drug-eluting stent.

**Hance:** there is nothing on the near-term horizon that looks better than Xience V.

Going forward, the barrier to entry in this market continues to increase, including new standards for regulatory approvals for future drug-eluting stents. Clinical trials must be well-designed, include thousands of patients, and deliver robust results. For example, we will be studying thousands of patients in total in our Xience V pre- and postmarket trials. Based on our assessment of the competitive landscape, there is nothing on the near-term horizon that looks better than Xience V.

**MHO:** Looking ahead to the next generation of drug-eluting stents, new structural advancements will likely occur. What structural changes offer the most potential for advancement? What direction is Abbott taking toward those changes, and when will those changes likely occur?

**CH:** This market has been characterized by consistent, steady innovation, beginning with balloon angioplasty, and transitioning to metallic stents and, most recently, drug-eluting stents. We think the market could eventually shift again to bioabsorbable drug-eluting stents, which are currently in development. We have the [industry's] most advanced program [for] evaluating a fully bioabsorbable drug-eluting stent.

In addition, our industry also continues to work on improving technology, such as new stent sizes for smaller, longer, and more complex vessels. We're capitalizing on the proven clinical benefit of the Xience V polymer and drug to develop a Xience next-generation DES platform to further improve deliverability, especially in longer vessel lengths. We expect to launch this new platform in Europe by the end of the year.

**MHO:** As you mentioned, advancements such as bioabsorbable stents offer a significant step forward in stent technology. How is it different from a drug-eluting stent? What are the major hurdles left to overcome before submitting bioabsorbable stents to regulatory agencies?

**CH:** Drug-eluting stents, such as Xience V, represent a major advance in treating cardiovascular disease. They have made the procedure predictable and, with the advent of drug elution, much more efficacious. A drug-eluting stent is used to treat an acute condition, restoring blood flow by propping open a clogged vessel and providing support while the blood vessel heals. But it's permanently left in the vessel.

Our bioabsorbable everolimus-eluting stent addresses this acute treatment need and then disappears. The stent is made of polylactic acid, a material commonly used in medical implants such as dissolvable sutures. It's naturally absorbed into the vessel wall within approximately two years. We've seen good early data in a small patient set, but more clinical experience is needed, including larger-scale trials to obtain more experience in more patients. You can imagine that technology such as a fully bioabsorbable stent could provide new alternatives and significant appeal to patients with cardiovascular disease and the physicians who care for them. ■■

# Dental Industry Snapshot

by Bill Buhr

The dental industry has long been considered a relatively safe haven for investors in times of economic weakness and uncertainty. After the drubbing that the share prices of many industry players took in 2008, this theory is certainly being tested.

However, the dental industry benefits from a stable long-term outlook and positive supporting trends. Total dental expenditures are on the rise, as the Centers for Medicare and Medicaid (CMS) estimates a 6%–7% increase in annual spending, with total expenditures approaching \$160 billion by 2015. Other favorable long-term industry trends abound, from people keeping their teeth longer to rising demand for cosmetic procedures and increased awareness of dental health in emerging markets.

We continue to believe that the four firms we cover in this space are undervalued. Furthermore, while not recession-proof, we see some signs that the industry could be recession-resistant and ready to rebound faster than the broader market. Given our current fair value estimates and the strong long-term prospects of the space, we think these four firms may not be down for much longer.

## **Dentsply XRAY** (FV: \$40): A Brand Name in Consumables

Dentsply is a pure-play manufacturer and the world leader in dental products. This firm sells everything from consumables, such as sealants, paste, and fluorides, to more technical and high-end offerings, such as restorative systems. Dentsply prides itself on innovation and consistently feeds its research and development budget to unleash 20 to 30 new products every year. The company has one of the more recognizable brand names in the industry, which gives it some pricing power over its end-market customers. However, Dentsply sells the majority of its products through distributors and focuses its marketing efforts on increasing brand awareness among dental schools and laboratories.

Dentsply specializes primarily in consumable offerings, which are commodity like products that have their benefits and drawbacks. Consumables typically provide the company with little to no pricing power over the supplier middlemen, so margins are relatively low. At the same time, these products face less spending pressure during economic downturns, as dentists continue to purchase day-to-day necessities of running a practice. The recession-resistant nature of consumables, coupled with Dentsply's diverse product portfolio, might allow the company to rebound ahead of other firms once the current economic recession subsides. Dentsply is also in strong financial shape, with cash on hand and access to additional liquidity that will allow the company to overcome any potential hiccups that pop up in the short term.

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**Sirona Dental SIRO** (FV: \$17): The Dental Systems Innovator

Sirona Dental sits on the other end of the manufacturing spectrum. While the company has a long history stretching back to the 1800s, Sirona's technology sits squarely on the cutting edge. Sirona has developed a variety of dental systems, including its computer-aided design and manufacturing systems (CAD/CAM) that enable restorative procedures. Out-of-mouth restorations to implant veneers or crowns, which are typically performed off-site and later implanted during a second office visit, are growing into a lucrative market. While the costs are typically not covered by insurance and are completely elective, we think out-of-mouth procedures represent a sweet spot for dentist practices.

**Sirona holds cutting-edge technology in restorative procedures.**

Sirona's CEREC system also looks well-positioned to benefit from the growing demand for cosmetic dentistry and has several design attributes that benefit both dentist practices and patients. The system streamlines the restorative process by digitally scanning the patient's tooth, generating a three-dimensional impression, and then creating the restoration on-site using its milling technology. Ultimately, the process cuts down on treatment time, eliminates multiple patient visits, and allows dentists higher patient throughput.

While the long-term economics for dental practices are positive and sustainable, the short-term economic outlook for Sirona is far less certain. Not surprisingly, high-tech dental equipment is getting hit on several fronts during the current global recession. Some dentists have gone into survival mode, only spending money on the essentials they need to run daily operations of their practices and leaving no room for big-ticket purchases. At the same time, patients are certainly not shelling out for elective dental procedures, which could put a damper on the demand for Sirona's systems in the short run.

We think there is a slight glimmer of hope for Sirona, however, since **Patterson PDCO** (FV: \$36), the exclusive supplier of Sirona's CEREC system, reported a strong increase in units placed during its fiscal third quarter (ended in January 2009). There is no doubt that the next 12 months could be choppy, but overall, we continue to believe the long-term picture for Sirona is fairly bright. After a roughly 68% decline in Sirona's share price over the last year, investors are getting a business well-positioned for strong growth at a relatively cheap price.

**And One Step Up the Dental Supply Chain****Henry Schein HSIC** (FV: \$56) and **Patterson Companies PDCO** (FV: \$36)

Schein and Patterson distribute everything from flu vaccines and medical equipment to veterinary supplies, but dental products remain the sweet spot for both companies and contribute the majority of sales. The dental distributor business model has proved quite advantageous for Schein and Patterson. With the majority of dental supplies consisting of commoditylike consumables, these firms face little to no bargaining power from their manufacturing suppliers. At the same time, both firms continue to forge ahead with their private-label businesses, which carry higher margins due to the limited sales and marketing expense associated with generics. These products serve as cheaper substitutes for branded products offered by the firm, which diminishes manufacturers' power in the industry.

Schein and Patterson's customers are a highly fragmented group, including roughly 160,000 dentist practices that are not represented by a purchasing organization typical in other avenues of health care. This ensures that Schein and Patterson won't face pricing pressure from its end customers, who lack the bargaining power to effectively negotiate prices.

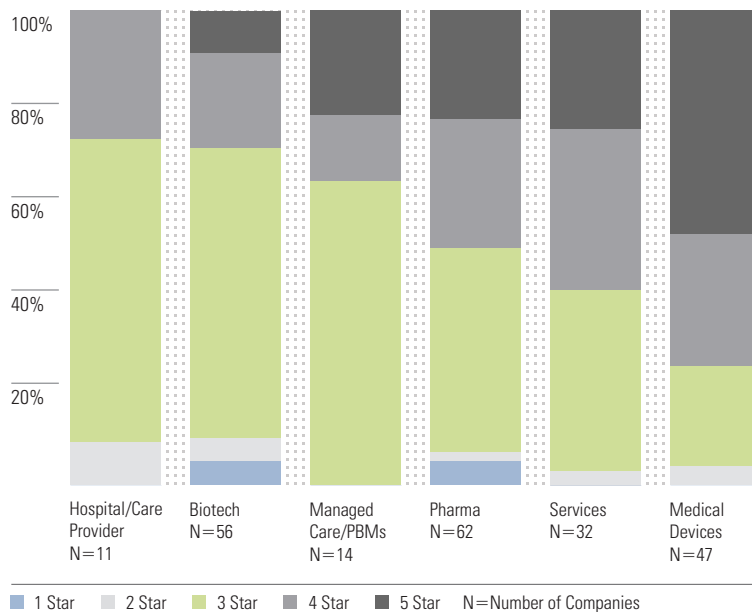
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**Dental distributors hold strong pricing power as buyers lack bargaining power.**

With a combined market share of almost 70%, Schein and Patterson have several obvious advantages over their competition. Their sheer size provides them with economies of scale over smaller players because both companies can leverage their vast distribution networks to operate and compete more efficiently. This duopoly has created fairly onerous barriers to entry, as new entrants would be hard-pressed to create a sales infrastructure from scratch that could effectively compete with either firm.

We would be remiss if we didn't mention the short-term issues that could hamper these companies. Like every other firm in the dental space, Patterson and Schein will face significant uncertainty over the next 12 months, and short-term spending is likely to be volatile. However, we think Patterson and Schein's business model and industry position are simply too strong to keep down for very long. ■■■

## Outlook for Industries in Health Care



Data through Feb. 19, 2009.

Over the past two months, our Morningstar Ratings for stocks by industry have stayed relatively stable. In the previous issue, we reviewed a few of our top picks in the medical device industry, which remains our top industry pick. In this issue, however, we are highlighting the second-best-rated industry, the services companies. Top-rated companies in the services group include the dental distributors **Henry Schein** HSIC (FV: \$56) and **Patterson** PDCO (FV: \$36). We also like the teleradiology companies **Virtual Radiologic** VRAD (FV: \$12) and **NightHawk** NHWK (FV: \$12). Also, we remain bullish on the contract research organizations. We expect all of these companies should hold up well in the market slowdown. Further, we believe the market has lumped these names into the economically sensitive bucket, cutting share prices well below our estimated fair values. Outside of the services space, we like the big drug firms with strong balance sheets and the diversified managed care companies like **WellPoint** WLP (FV: \$95) and **UnitedHealth** UNH (FV: \$48). As an entire sector, we continue to expect earnings multiples on health-care companies to hold up and expand because the area represents one of the few groups that should post stable earnings results throughout 2009.

## Health-Care Focus List

Company Name	Star Rating	Moat	Risk	Price to Fair Value	Analyst
<b>WellPoint</b> WLP	★★★★★	Narrow	Medium	0.42	Coffina
<b>Boston Scientific</b> BSX	★★★★★	Wide	Medium	0.47	Wang
<b>Zimmer</b> ZMH	★★★★★	Wide	Medium	0.51	Stralow
<b>Thermo Fisher Scientific</b> TMO	★★★★★	Narrow	Medium	0.52	Morozov
<b>Covidien</b> COV	★★★★★	Narrow	Medium	0.57	Morozov
<b>Novartis</b> NVS	★★★★★	Wide	Low	0.57	Conover
<b>Mylan Laboratories</b> MYL	★★★★	Narrow	High	0.63	Laegeler
<b>Schering-Plough</b> SGP	★★★★★	Wide	Medium	0.64	Conover
<b>Novo Nordisk</b> NVO	★★★★★	Wide	Medium	0.68	Coffina
<b>Laboratory Corp</b> LH	★★★★	Narrow	Medium	0.71	Stafford

Data through Feb. 19, 2009.

Since its August 2008 inception, our focus list has outperformed the **iShares Dow Jones US Healthcare ETF Index** IYH by 14% and the S&P 500 by 35%. While on an absolute basis the focus list declined 3%, we still feel the list generated respectable performance in light of the major market downturn. Among stocks that have performed well, **Biogen Idec** BIIB (FV: \$65) has held up in a tough market. However, the stock is now rated 4 stars, and we feel other opportunities could offer better returns. Although we don't have many wide-moat 5-star stocks in the biotechnology industry, pharmaceutical company **Novo Nordisk** NVO (FV: \$75) offers some exposure to the biotechnology industry with its diabetes drugs. Further, we believe Novo Nordisk offers strong upside with a price/fair value estimate of 0.68. Additionally, the company's large diabetes franchise should hold up well in a slowing economy as patients critically depend on their medications.

## March 2009 Events

<b>FDA Advisory Meeting for Puricase (Savient Pharma)</b> We project a mixed outlook for Puricase and put the odds of approval at 60%.	March 4	—
<b>Society of Gynecological Oncologists Annual Meeting (SGO)</b>	March 5–8	Squaw Valley, CA
<b>The Society of Surgical Oncology Annual Meeting (SSO)</b>	March 5–8	Phoenix, AZ
<b>American Academy of Dermatology Annual Meeting (AAD)</b> Likely data on Reloxin (Medicis)/likely to be approved later in the year.	March 6–10	San Francisco, CA
<b>Society of Interventional Radiology Annual Scientific Meeting (SIR)</b>	March 7–12	San Diego, CA
<b>PITTCON</b> Updates on scientific instruments; Morningstar plans to attend.	March 8–13	Chicago, IL
<b>National Comprehensive Cancer Network Annual Conference (NCCN)</b>	March 11–15	Hollywood, FL
<b>American Academy of Allergy, Asthma &amp; Immunology Annual Meeting (AAAAI)</b>	March 13–17	Washington, DC
<b>Multaq FDA advisory committee meeting</b> Poor prospects, as Multaq has checkered past with poor side-effect profile (Sanofi).	March 18	—
<b>International Symposium on Viral Hepatitis and Liver Disease (ISVHLD)</b> Updates on protease inhibitors (Schering-Plough, Vertex, J&J, Merck).	March 20–24	Washington, DC
<b>American Chemical Society National Meeting &amp; Expo (ACS)</b>	March 22–26	Salt Lake City, UT
<b>National Kidney Foundation 2009 Spring Clinical Meetings</b>	March 25–29	Nashville, TN
<b>American College of Cardiology Annual Scientific Session (ACC)</b> Possible updates on TRA (Schering), Rivaroxaban (J&J), Apixaban (Pfizer and Bristol), and Ticagrelor (AstraZeneca).	March 28–31	Orlando, FL
<b>Pivotal Phase III data on obesity drug lorcaserin by Arena Pharmaceuticals ARNA</b> Risky prospects that could make or break the firm.	End of March	—
<b>Casopitant PDUFA for CINV (GlaxoSmithKline)</b> Descent prospects, but relatively low market potential for Glaxo	End of March	—

## April 2009 Events

<b>FDA Advisory Meeting for Liraglutide (Novo Nordisk)</b> We expect a favorable review and an 80% chance of approval.	April 2–3	—
<b>World Vaccine Congress</b>	April 13–16	Washington , DC
<b>World Healthcare Conference</b>	April 14–16	Washington , DC
<b>American Association for Cancer Research Annual Meeting (AACR)</b>	April 18–22	Denver, CO
<b>International Society for Heart and Lung Transplantation (ISHLT)</b>	April 22–25	Paris, France
<b>European Association for the Study of Liver Disease Annual Meeting (EASL)</b> Likely updates on protease inhibitors (Vertex, J&J, Schering-Plough).	April 22–26	Copenhagen, Denmark
<b>American Urological Association Annual Meeting (AUA)</b>	April 25–30	Chicago, IL
<b>American Academy of Neurology Annual Meeting (AAN)</b>	April 25–May 2	Seattle, WA
<b>Society for Biomolecular Sciences Annual Meeting (SBS)</b>	April 26–30	Lille, France
<b>Golimumab PDUFA for Rheumatoid Arthritis (Johnson &amp; Johnson)</b> Strong likelihood of approval based on favorable clinical data.	Late April	—
<b>Puricase PDUFA for gout (Savient Pharma)</b> We project a mixed outlook for Puricase and put the odds of approval at 60%.	Late April	—
<b>Onglyza PDUFA for diabetes (Bristol-Myers and AstraZeneca)</b> Good prospects, but we expect a delay similar to Takeda's alogliptin.	Late April	—
<b>Approval of osteoarthritis drug Synvisc-One: a follow-on to Synvisc (Genzyme)</b> A more convenient injection schedule should make this a slam dunk.	1 <sup>st</sup> Quarter 2009	—

## May 2009 Events

<b>American College of Obstetricians and Gynecologists Annual Meeting (ACOG)</b>	May 2–3	Chicago, IL
<b>American College of Radiology Annual Meeting (ACR)</b>	May 2–6	Washington , DC
<b>American Association of Neurological Surgeons Annual Meeting (AANS)</b>	May 2–7	San Diego , CA
<b>Association for Research in Vision and Ophthalmology Annual Meeting (ARVO)</b>	May 3–7	Fort Lauderdale, FL
<b>International Conference on Antiviral Research (ICAR)</b>	May 3–7	Miami, FL
<b>Avastin PDUFA Date for Brain Cancer (Genentech)</b> Good prospects based on favorable clinical data and poor alternative treatments.	May 5	—

## May 2009 (cont'd)

<b>American Pain Society Annual Scientific Meeting (APS)</b>	May 7–9	San Diego, CA
<b>European Congress on Obesity</b>	May 6–9	Amsterdam, Netherlands
<b>American Thoracic Society International Conference (ATS)</b>	May 15–20	San Diego, CA
<b>American Society for Microbiology General Meeting (ASM)</b>	May 17–21	Philadelphia, PA
<b>American Society of Gene Therapy Annual Meeting (ASGT)</b>	May 27–31	San Diego, CA
<b>American Society of Clinical Oncology Annual Meeting (ASCO)</b> Possible Late Breaker on Avastin in Adjuvant Colon Cancer (Genentech); Morningstar plans to attend.	May 29–June 2	Orlando, FL
<b>Digestive Disease Week (DDW)</b>	May 30–June 4	Chicago, IL
<b>Xarelto PDUFA for Deep Vein Thrombosis (DVT) (Johnson &amp; Johnson, Bayer)</b> Risk-averse FDA has been slow to approve DVT drugs, and we expect delays.	Late May	—
<b>Top-line data from Phase 3 trial of hypertension drug darusentan (Gilead)</b> An uphill battle to generate solid data in a highly drug-resistant patient population.	2 <sup>nd</sup> Quarter 2009	—
<b>Phase 3 data for Vectibix in first-line colorectal cancer (Amgen)</b> Odds of achieving strong enough data to overcome safety concerns and outshine Erbix are slim.	1 <sup>st</sup> Half 2009	—
<b>Clolar (sNDA for adult AML) approval if it gets priority review (Genzyme)</b> Good prospects based on clinical data.	1 <sup>st</sup> Half 2009	—
<b>RNA-based cholesterol drug mipomersen: top-line data from the first Phase 3 trial (Genzyme)</b> Previous data point to good odds for success in this hereditary niche of the cholesterol market.	Mid 2009	—

## Health-Care Stocks: All Industries

Company Name	Market Cap (\$Bil)	Price/Fair Value %	2008 Enterprise Value/EBITDA	5-Yr. Sales CAGR %	5-Yr. EPS CAGR %	Change in Gross Margin ('08E-'12E) bp	Change in Operating Margin ('08E-'12E) bp	ROIC 2008E %
<b>Biotechnology</b>								
<b>Affymetrix, Inc.</b> AFFX Viksjo, Jeff	0.2	38	—	9	—	631	2095	-4
This genetic research equipment maker benefits from a large base of installed instruments.								
<b>Alexion Pharmaceuticals, Inc.</b> ALXN Venu, Meera	3.1	101	24	41	69	20	1005	29
Alexion's orphan drug presents a great commercial opportunity.								
<b>Alkermes, Inc.</b> ALKS Venu, Meera	1.1	74	17	10	44	564	1664	32
As Alkermes looks ahead to pipeline products, Risperdal Consta still drives results.								
<b>Alnylam Pharmaceuticals, Inc.</b> ALNY Andersen, Karen	0.9	42	—	22	—	-561	3502	88
Alnylam's RNA-based technology could lead to an entirely new class of therapeutics.								
<b>Amgen, Inc.</b> AMGN Andersen, Karen	60.1	88	10	4	8	-100	149	22
Amgen is emerging from anemia drug woes with a leaner structure and an advancing pipeline.								
<b>Amylin Pharmaceuticals</b> AMLN Coffina, Matthew	1.6	114	—	18	—	-17	1681	-18
If approved, exenatide once-weekly promises to be a blockbuster diabetes drug.								
<b>Biogen Idec, Inc.</b> BIIB Andersen, Karen	15.1	78	10	9	9	-72	141	22
Solid pipeline and industry-leading drugs support Biogen Idec's strong growth potential.								
<b>Biomarin Pharmaceutical, Inc.</b> BMRN Andersen, Karen	1.8	48	41	28	47	-5	1602	29
This rare-disease-focused firm looks like a young Genzyme.								
<b>Celgene Corporation</b> CELG Andersen, Karen	24.3	108	18	17	30	105	888	72
Global sales of cancer drug Revlimid are pushing Celgene's profitability even higher.								
<b>Cephalon, Inc.</b> CEPH Venu, Meera	5.1	102	10	14	13	50	259	16
Cephalon's sales prowess is impressive, but future drug launches may not succeed.								
<b>Crucell N.V.</b> CRXL Andersen, Karen	1.3	139	—	15	—	700	1727	-4
Crucell's technology could make biologics manufacturing more efficient.								
<b>Cubist Pharmaceuticals, Inc.</b> CBST Venu, Meera	1.0	UR	8	13	17	100	1080	103
Cubist still relies on its sole drug, Cubicin, to drive growth, but it is attempting to diversify.								
<b>Exelixis, Inc.</b> EXEL Andersen, Karen	0.5	61	—	17	—	-551	—	-683
Its novel cancer drug pipeline could benefit from the trend toward personalized medicine.								
<b>Genentech, Inc.</b> DNA Conover, Damien	89.1	93	14	9	11	50	165	38
New indications should propel Genentech's industry-leading product portfolio.								
<b>Genzyme Corporation</b> GENZ Andersen, Karen	19.3	80	14	12	33	28	447	16
This rare-disease expert has proven its ability to find growth in new segments of its business.								

## Health-Care Stocks: All Industries

Company Name	Market Cap (\$Bil)	Price/Fair Value %	2008 Enterprise Value/EBITDA	5-Yr. Sales CAGR %	5-Yr. EPS CAGR %	Change in Gross Margin ('08E-'12E) bp	Change in Operating Margin ('08E-'12E) bp	ROIC 2008E %
<b>Gilead Sciences, Inc.</b> GILD Andersen, Karen	<b>45.2</b>	<b>110</b>	<b>14</b>	<b>13</b>	<b>15</b>	<b>-210</b>	<b>-310</b>	<b>64</b>
Gilead is expanding its drug portfolio beyond its lucrative HIV franchise.								
<b>Human Genome Sciences</b> HGSI Stralow, Julie	<b>0.3</b>	<b>34</b>	—	<b>91</b>	—	<b>-2165</b>	<b>7777</b>	<b>-34</b>
Human Genome Sciences has taken on a lot of debt to fund its risky programs.								
<b>Illumina, Inc.</b> ILMN Viksjo, Jeff	<b>4.2</b>	<b>135</b>	<b>13</b>	<b>22</b>	<b>36</b>	<b>208</b>	<b>847</b>	<b>27</b>
In just a few years, this genetic research firm has transformed from upstart to industry leader.								
<b>Incyte Corporation</b> INCY Buhr, Bill	<b>0.3</b>	<b>39</b>	—	<b>25</b>	—	<b>-1959</b>	—	<b>197</b>
Incyte hopes that one of its numerous drug candidates in clinical trials will make it to market.								
<b>InterMune, Inc.</b> ITMN Migliore, Lauren	<b>0.7</b>	<b>78</b>	—	<b>34</b>	—	<b>1054</b>	—	<b>-2594</b>
With ailing Actimmune sales, InterMune's future rests on its development-stage pipeline.								
<b>Martek Biosciences Corp</b> MATK Transitioning Coverage	<b>0.7</b>	<b>79</b>	<b>9</b>	<b>13</b>	<b>20</b>	<b>350</b>	<b>470</b>	<b>11</b>
Martek must diversify and look abroad for further growth.								
<b>Medarex, Inc.</b> MEDX Andersen, Karen	<b>0.7</b>	<b>72</b>	—	<b>41</b>	—	<b>-631</b>	—	<b>-628</b>
Prospects for Medarex's lead drug candidate are dim, but partnered programs look promising.								
<b>Medicines</b> MDCO Buhr, Bill	<b>0.7</b>	<b>55</b>	<b>10</b>	<b>5</b>	<b>42</b>	<b>-45</b>	<b>698</b>	<b>115</b>
The Medicines Company has a significant drug, Cleviprex, that just gained FDA approval.								
<b>Myriad Genetics, Inc.</b> MYGN Andersen, Karen	<b>4.0</b>	<b>109</b>	<b>24</b>	<b>24</b>	<b>24</b>	<b>-109</b>	<b>1014</b>	<b>93</b>
After Flurizan's failure, Myriad's profitable diagnostics business is set to take center stage.								
<b>Onyx Pharmaceuticals, Inc.</b> ONXX Migliore, Lauren	<b>1.8</b>	<b>98</b>	<b>24</b>	<b>0</b>	<b>46</b>	<b>0</b>	—	<b>229</b>
Use of cancer drug Nexavar is expanding, but market demographics and trial failures add uncertainty.								
<b>OSI Pharmaceuticals, Inc.</b> OSIP Migliore, Lauren	<b>2.3</b>	<b>89</b>	<b>19</b>	<b>12</b>	<b>16</b>	<b>20</b>	<b>517</b>	<b>25</b>
Over the next few years, OSI's growth depends largely on international Tarceva sales.								
<b>PDL BioPharma, Inc.</b> PDLI Andersen, Karen	<b>0.7</b>	<b>67</b>	<b>0</b>	<b>46</b>	—	<b>-720</b>	—	<b>-38</b>
PDL BioPharma is rewarding investors with dividends, and its antibody royalty stream is undervalued.								
<b>Qiagen NV</b> QGEN Viksjo, Jeff	<b>3.4</b>	<b>123</b>	<b>11</b>	<b>12</b>	<b>16</b>	<b>-20</b>	<b>246</b>	<b>7</b>
This firm's recent climb in molecular diagnostics should create lasting growth opportunities.								
<b>Regeneron Pharmaceuticals</b> REGN Viksjo, Jeff	<b>1.5</b>	<b>80</b>	—	<b>32</b>	—	<b>-1507</b>	<b>4846</b>	<b>53</b>
This cash-rich biotech boasts a strong pipeline and a strategic collaboration with Sanofi-Aventis.								
<b>Vertex Pharmaceuticals</b> VRTX Transitioning Coverage	<b>5.0</b>	<b>112</b>	—	<b>32</b>	—	<b>-600</b>	—	<b>929</b>
Vertex's lead hepatitis C drug candidate continues to march toward FDA approval.								
<b>ViroPharma, Inc.</b> VPHM Andersen, Karen	<b>0.5</b>	<b>74</b>	<b>17</b>	<b>9</b>	—	<b>0</b>	<b>2316</b>	<b>5</b>
ViroPharma is counting on Cinryze's commercial success to reinvigorate top-line growth.								

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<b>XenoPort, Inc.</b> XNPT Buhr, Bill	<b>0.6</b>	<b>77</b>	—	<b>21</b>	—	<b>-696</b>	<b>4094</b>	<b>4462</b>
XenoPort hopes it has a winner in XP13512 for restless legs syndrome.								
<b>Health-Care Services</b>								
<b>AMAG Pharmaceuticals, Inc.</b> AMAG Buhr, Bill	<b>0.6</b>	<b>98</b>	—	<b>119</b>	—	<b>-216</b>	—	<b>-165</b>
AMAG Pharmaceuticals awaits final regulatory approval for ferumoxytol, a potential growth driver.								
<b>AmersourceBergen</b> ABC Coffina, Matthew	<b>5.5</b>	<b>69</b>	<b>9</b>	<b>4</b>	<b>12</b>	<b>0</b>	<b>2</b>	<b>14</b>
Drug distribution pure-play, attractive but shrinking independent pharmacy customer base.								
<b>Amsurg Corporation</b> AMSG Stafford, Jeffrey	<b>0.6</b>	<b>71</b>	<b>9</b>	<b>10</b>	<b>13</b>	<b>-26</b>	<b>187</b>	<b>7</b>
Amsurg is well-positioned to take advantage of the highly fragmented ASC industry.								
<b>Brookdale Senior Living, Inc.</b> BKD Buhr, Bill	<b>0.5</b>	<b>59</b>	<b>10</b>	<b>11</b>	—	<b>168</b>	<b>610</b>	<b>2</b>
Acquisitions and favorable industry dynamics should drive growth for Brookdale.								
<b>Cardinal</b> CAH Coffina, Matthew	<b>13.2</b>	<b>71</b>	<b>8</b>	<b>5</b>	<b>10</b>	<b>-4</b>	<b>-5</b>	<b>13</b>
PBMs, consolidating customers, and reliance on Walgreen/CVS pressure Cardinal's margins.								
<b>Charles River Laboratories Int'l</b> CRL Stafford, Jeffrey	<b>1.8</b>	<b>45</b>	<b>12</b>	<b>8</b>	<b>11</b>	<b>82</b>	<b>326</b>	<b>9</b>
Charles River benefits from growing demand for clinical outsourcing.								
<b>Covance, Inc.</b> CVD Stafford, Jeffrey	<b>3.0</b>	<b>54</b>	<b>12</b>	<b>12</b>	<b>14</b>	<b>10</b>	<b>172</b>	<b>17</b>
Covance holds leading position in rapidly growing preclinical testing.								
<b>Emergency Medical Serv Corp</b> EMS Migliore, Lauren	<b>1.5</b>	<b>116</b>	<b>8</b>	<b>6</b>	<b>11</b>	<b>-22</b>	<b>86</b>	<b>13</b>
EMS leads the fragmented emergency services market, but still faces a few impediments going forward.								
<b>Gen-Probe, Inc.</b> GPRO Stafford, Jeffrey	<b>2.4</b>	<b>75</b>	<b>15</b>	<b>14</b>	<b>17</b>	<b>10</b>	<b>340</b>	<b>30</b>
Gen-Probe is looking overseas to propel its future growth.								
<b>Healthways, Inc.</b> HWAY Stafford, Jeffrey	<b>0.4</b>	<b>66</b>	<b>7</b>	<b>5</b>	<b>6</b>	<b>-30</b>	<b>68</b>	<b>10</b>
Healthways is susceptible to competition from large managed care organizations.								
<b>Henry Schein, Inc.</b> HSIC Buhr, Bill	<b>3.3</b>	<b>66</b>	<b>12</b>	<b>8</b>	<b>15</b>	<b>0</b>	<b>183</b>	<b>11</b>
Schein's national distribution infrastructure creates a significant barrier to entry.								
<b>ICON PLC</b> ICLR Stafford, Jeffrey	<b>1.4</b>	<b>76</b>	<b>12</b>	<b>12</b>	<b>14</b>	<b>-10</b>	<b>103</b>	<b>18</b>
ICON's robust backlog growth should allow it to capture an increasing share of the CRO industry.								
<b>Kendle International, Inc.</b> KNDL Stafford, Jeffrey	<b>0.3</b>	<b>46</b>	<b>10</b>	<b>10</b>	<b>9</b>	<b>-80</b>	<b>-4</b>	<b>15</b>
Kendle's ability to attract qualified personnel is key to its ambitious plans.								
<b>Laboratory Corp of America Hld</b> LH Stafford, Jeffrey	<b>6.7</b>	<b>71</b>	<b>10</b>	<b>6</b>	<b>8</b>	<b>4</b>	<b>141</b>	<b>18</b>
LabCorp is looking to expand its complex testing menu to fuel growth.								

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<b>Lincare Holdings Inc.</b> LNCR Buhr, Bill	1.9	80	6	6	3	-58	-384	16
Lincare will be challenged by declining reimbursements and increased price competition.								
<b>Magellan Health Services</b> MGLN Buhr, Bill	1.5	78	7	8	15	-43	193	19
The termination of several managed care contracts will put severe pressure on Magellan.								
<b>McKesson</b> MCK Coffina, Matthew	12.2	68	9	6	13	-4	8	20
Switching costs in software business and economies of scale in drug distribution.								
<b>MDS, Inc.</b> MDZ Morozov, Alex	0.7	42	18	6	—	306	573	8
MDS can unlock shareholder value by selling its contract research business.								
<b>Medco</b> MHS Coffina, Matthew	22.9	121	9	6	15	25	20	14
Renewed UNH contract shows value of independent PBMs.								
<b>NightHawk Radiology Hid</b> NHWK Migliore, Lauren	0.1	31	10	10	31	50	389	11
NightHawk's growth and profitability will suffer in the near term, thanks to management slipups.								
<b>Odyssey HealthCare, Inc.</b> ODSY Buhr, Bill	0.3	150	6	6	7	-121	-98	12
Odyssey hopes its acquisition of a rival will turn the tide in a declining market.								
<b>Omnicare, Inc.</b> OCR Buhr, Bill	3.4	129	11	4	5	79	40	5
Omnicare hopes to overcome management missteps, growing competitive threats, and new regulation.								
<b>Omniceil, Inc.</b> OMCL Coffina, Matthew	0.3	85	9	6	9	149	399	8
The economy is pressuring the budgets of Omnicell's hospital customers.								
<b>Owens &amp; Minor, Inc.</b> OMI Stafford, Jeffrey	1.5	97	9	4	8	10	33	13
O&M distributes medical supplies to acute-care hospitals, a business with limited growth opportunities.								
<b>Parexel International Corp</b> PRXL Stafford, Jeffrey	0.6	53	8	10	13	-40	73	13
Parexel's overhaul of its domestic operations is starting to bear fruit.								
<b>Patterson Companies, Inc.</b> PDCO Stafford, Jeffrey	2.3	46	12	8	11	-20	99	18
Patterson's vast dental distribution networks gives it a cost advantage over smaller competitors.								
<b>Pharm Prod Development</b> PPDI Stafford, Jeffrey	3.1	63	12	12	13	-30	75	29
PPD's industry-leading margins are a result of the firm's reliance on lucrative late-stage clinical trials.								
<b>PSS World Medical, Inc.</b> PSSI Stafford, Jeffrey	0.9	97	8	8	12	12	69	14
PSS has carved out a niche distributing medical supplies to small physician offices.								
<b>Quest Diagnostics, Inc.</b> DGX Stafford, Jeffrey	9.6	78	10	6	9	16	106	12
Quest's vast infrastructure gives it scale advantage over smaller regional labs.								
<b>RehabCare Group</b> RHB Buhr, Bill	0.3	90	6	6	12	44	110	9
The future for RehabCare remains cloudy, as the company faces a weak reimbursement environment.								

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<b>VCA Antech, Inc.</b> WOOF Wang, Debbie	1.8	58	12	12	16	130	94	13
VCA Antech tail-wagging business could run into near-term bumps.								
<b>Virtual Radiologic Corporation</b> VRAD Migliore, Lauren	0.1	59	9	14	22	150	352	46
Despite near-term head winds, VRAD is well-positioned to expand its finals business.								
<b>Hospitals</b>								
<b>Community Health Systems, Inc.</b> CYH Stafford, Jeffrey	1.8	64	9	5	11	0	55	6
Community Health is focused on its integration of Triad hospitals.								
<b>Health Management Associates</b> HMA Stafford, Jeffrey	0.4	77	8	5	5	0	-1	6
HMA operates in rural markets with less competition, but is highly levered.								
<b>Kindred Healthcare, Inc.</b> KIND Stafford, Jeffrey	0.6	78	6	5	15	-10	136	4
Government-determined pricing puts Kindred's fate largely outside of its control.								
<b>LifePoint Hospitals, Inc.</b> LPNT Stafford, Jeffrey	1.2	73	8	4	3	0	182	5
LifePoint operates more attractive rural hospitals, but still faces industry head winds.								
<b>MedCath Corporation</b> MDTH Stafford, Jeffrey	0.2	88	5	5	9	0	292	3
Medcath's specialty hospitals could come under regulatory scrutiny.								
<b>Tenet Healthcare Corporation</b> THC Stafford, Jeffrey	0.5	66	12	6	—	0	308	3
Tenet is making progress in its turnaround efforts.								
<b>Universal Health Services</b> UHS Stafford, Jeffrey	2.1	81	7	9	13	13	102	8
Universal's behavioral division adds an attractive dimension to this hospital operator.								
<b>Managed Care</b>								
<b>Aetna</b> AET Coffina, Matthew	13.8	49	12	5	10	-296	24	30
Best operator among commercial MCOs; apparently immune to industry woes.								
<b>Amerigroup Corporation</b> AGP Coffina, Matthew	1.5	96	4	10	6	-100	-49	-36
A weak economy creates short-term funding pressure but long-term opportunity for Medicaid MCOs.								
<b>Centene Corporation</b> CNC Coffina, Matthew	0.9	93	5	6	—	-133	-93	23
Government contracting and competition make Medicaid MCOs risky.								
<b>Cigna Corporation</b> CI Coffina, Matthew	5.6	79	8	4	15	43	3	33
Tight on cash and overleveraged to the market, but the core managed care business looks cheap.								
<b>Coventry Health Care, Inc.</b> CVH Coffina, Matthew	2.4	40	11	1	7	135	147	10
Struggling with economy and managed care downturn, but risks more than priced into the stock.								

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<b>Health Net, Inc.</b> HNT Coffina, Matthew	<b>1.7</b>	<b>99</b>	<b>36</b>	<b>1</b>	<b>10</b>	<b>80</b>	<b>137</b>	<b>0</b>
California is one of the nation's worst markets for health insurers, especially in current economy.								
<b>Healthspring, Inc.</b> HS Coffina, Matthew	<b>0.9</b>	<b>74</b>	<b>4</b>	<b>-3</b>	<b>—</b>	<b>-276</b>	<b>-505</b>	<b>18</b>
Medicare pure-play with solid record of execution, but Congress and President likely to cut funding.								
<b>Humana</b> HUM Coffina, Matthew	<b>7.0</b>	<b>91</b>	<b>2</b>	<b>-2</b>	<b>—</b>	<b>-7</b>	<b>-72</b>	<b>18</b>
Concentration of government business increases risk. Exposed to potential Medicare cuts.								
<b>Molina Healthcare, Inc.</b> MOH Coffina, Matthew	<b>0.6</b>	<b>72</b>	<b>6</b>	<b>12</b>	<b>2</b>	<b>-50</b>	<b>-44</b>	<b>27</b>
Economy creates enrollment growth but funding pressure for Medicaid MCOs.								
<b>Psychiatric Solutions, Inc.</b> PSYS Migliore, Lauren	<b>1.5</b>	<b>77</b>	<b>9</b>	<b>12</b>	<b>16</b>	<b>-75</b>	<b>84</b>	<b>8</b>
Psychiatric Solutions is well-positioned for growth in the behavioral health-care segment.								
<b>Skilled Healthcare Group, Inc.</b> SKH Viksjo, Jeff	<b>0.4</b>	<b>59</b>	<b>7</b>	<b>13</b>	<b>16</b>	<b>-285</b>	<b>-243</b>	<b>8</b>
We think higher labor costs will eat into this nursing home operator's future returns.								
<b>United Health</b> UNH Coffina, Matthew	<b>34.4</b>	<b>53</b>	<b>11</b>	<b>3</b>	<b>12</b>	<b>54</b>	<b>126</b>	<b>17</b>
Suffering from customer service problems and cyclical downturn, but UNH looks cheap.								
<b>WellPoint</b> WLP Coffina, Matthew	<b>20.8</b>	<b>43</b>	<b>11</b>	<b>4</b>	<b>11</b>	<b>35</b>	<b>101</b>	<b>12</b>
Best brand name in health insurance; cyclical downturn creates a buying opportunity.								

## Medical Devices

<b>Abiomed, Inc.</b> ABMD Stralow, Julie	<b>0.3</b>	<b>54</b>	<b>—</b>	<b>39</b>	<b>—</b>	<b>349</b>	<b>4163</b>	<b>-22</b>
Abiomed looks poised to make a big splash with the recently approved Impella 2.5.								
<b>Angiotech Pharmaceuticals</b> ANPI Stralow, Julie	<b>0.0</b>	<b>33</b>	<b>9</b>	<b>9</b>	<b>—</b>	<b>906</b>	<b>390</b>	<b>21</b>
Angiotech faces an uncertain future.								
<b>Baxter International Inc.</b> BAX Stralow, Julie	<b>36.1</b>	<b>92</b>	<b>12</b>	<b>6</b>	<b>8</b>	<b>18</b>	<b>18</b>	<b>28</b>
Baxter's diverse product lineup helps insulate it from problems with pumps and heparin.								
<b>Beckman Coulter, Inc.</b> BEC Stafford, Jeffrey	<b>3.1</b>	<b>68</b>	<b>9</b>	<b>6</b>	<b>9</b>	<b>10</b>	<b>150</b>	<b>12</b>
Beckman's prospects in immunoassay and molecular diagnostics look promising.								
<b>Becton, Dickinson and Co</b> BDX Morozov, Alex	<b>16.7</b>	<b>75</b>	<b>11</b>	<b>5</b>	<b>7</b>	<b>25</b>	<b>94</b>	<b>22</b>
Becton's predictable surgical business is a safe harbor for an investor seeking to recession-proof portfolio.								
<b>Boston Scientific, Inc.</b> BSX Wang, Debbie	<b>12.7</b>	<b>47</b>	<b>35</b>	<b>6</b>	<b>52</b>	<b>300</b>	<b>1739</b>	<b>3</b>
Boston is taking advantage of its newly enlarged stent portfolio.								

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<b>Cooper Companies</b> COO Viksjo, Jeff	1.0	49	11	9	37	167	495	6
Despite new product offerings, this contact lens maker remains in catch-up mode.								
<b>Covidien, Ltd.</b> COV Morozov, Alex	18.7	57	13	6	12	149	327	16
Covidien's investment in R&D and marketing should pay off over the long run.								
<b>DENTSPLY International, Inc.</b> XRAY Buhr, Bill	3.8	64	12	9	10	23	-10	18
Dentsply hopes the momentum generated last year will continue in 2008.								
<b>Digirad Corporation</b> DRAD Buhr, Bill	0.0	33	8	7	—	360	652	-5
Low reimbursement, increased competition, and pricing issues continue to negatively affect Digirad.								
<b>Edwards Lifesciences Corp</b> EW Wang, Debbie	3.4	121	10	9	20	289	894	18
Edwards maintains its leadership position in the slow-growing heart value business.								
<b>EnteroMedics, Inc.</b> ETRM Wang, Debbie	0.0	29	—	1729	—	-3200	—	-316
EnteroMedics holds much potential with its novel application of neuromodulation for obesity.								
<b>ev3, Inc.</b> EVVV Buhr, Bill	0.6	55	80	16	—	50	2186	1
Ev3 continues to deal with growing pains from the FoxHollow integration.								
<b>Fresenius Medical Care Corp</b> FMS Buhr, Bill	12.6	73	10	8	12	93	103	10
Fresenius will look to overseas markets to help drive growth in dialysis.								
<b>Given Imaging, Ltd.</b> GIVN Wang, Debbie	0.2	45	186	11	34	0	1800	-3
Given's PillCam COLON product remains key to the company's future.								
<b>Haemonetics Corporation</b> HAE Stafford, Jeffrey	1.5	116	8	9	13	52	275	17
Haemonetics may struggle to stay one step ahead of its competitors.								
<b>Hansen Medical, Inc.</b> HNSN Venu, Meera	0.1	50	—	42	—	1783	—	-89
System sales are increasing at Hansen Medical, but the firm is still bleeding cash.								
<b>Hologic, Inc.</b> HOLX Stafford, Jeffrey	3.4	67	10	5	—	297	379	5
Hologic is the largest pure-play women's health company, led by its breast health division.								
<b>Insulet Corporation</b> PODD Transitioning Coverage	0.2	47	—	71	—	2231	—	-110
Insulet's convertible debt issuance could keep company afloat until it achieves manufacturing scale.								
<b>Intuitive Surgical, Inc.</b> ISRG Stralow, Julie	4.2	53	21	17	18	-162	-62	83
Intuitive Surgical continues to dominate its robotic surgery niche with strong sales and profit growth.								
<b>Kinetic Concepts, Inc.</b> KCI Stralow, Julie	1.8	68	6	5	11	-75	-248	16
Competitors are focused on disrupting KCI's V.A.C. dominance.								
<b>LeMaitre Vascular, Inc.</b> LMAT Wang, Debbie	0.0	82	—	11	—	114	1743	-3
LeMaitre occupies a solid vascular device niche but lacks an internal development ability.								

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<b>MAKO Surgical Corporation</b> MAKO Buhr, Bill	<b>0.2</b>	<b>94</b>	—	<b>125</b>	—	<b>249</b>	—	<b>-105</b>
MAKO faces strong competition from DePuy's Ci and other computer-assisted surgery systems.								
<b>Medtronic, Inc.</b> MDT Wang, Debbie	<b>38.4</b>	<b>69</b>	<b>13</b>	<b>7</b>	<b>7</b>	<b>-50</b>	<b>327</b>	<b>20</b>
Medtronic plans to invest more R&D in neuromodulation, an emerging application for electrical devices.								
<b>Mettler-Toledo International</b> MTD Morozov, Alex	<b>1.9</b>	<b>49</b>	<b>15</b>	<b>4</b>	<b>5</b>	<b>268</b>	<b>375</b>	<b>17</b>
Mettler's cash flows are robust and predictable.								
<b>Millipore Corporation</b> MIL Stafford, Jeffrey	<b>3.2</b>	<b>77</b>	<b>12</b>	<b>8</b>	<b>20</b>	<b>60</b>	<b>363</b>	<b>11</b>
Millipore stands to benefit from expected growth in biologics.								
<b>NuVasive, Inc.</b> NUVA Stralow, Julie	<b>1.4</b>	<b>100</b>	<b>32</b>	<b>29</b>	—	<b>-250</b>	<b>2037</b>	<b>8</b>
NuVasive is moving closer to free cash flow, as its spine products gain favor in more geographies.								
<b>NxStage Medical, Inc.</b> NXTM Stralow, Julie	<b>0.2</b>	<b>59</b>	—	<b>26</b>	—	<b>2475</b>	<b>3664</b>	<b>-12</b>
Liquidity concerns pushed NxStage into unattractive dilution.								
<b>PerkinElmer, Inc.</b> PKI Morozov, Alex	<b>1.6</b>	<b>52</b>	<b>14</b>	<b>4</b>	<b>7</b>	<b>125</b>	<b>314</b>	<b>8</b>
Emphasis on genetic screening is key to PerkinElmer's success.								
<b>ResMed, Inc.</b> RMD Stralow, Julie	<b>3.1</b>	<b>87</b>	<b>12</b>	<b>15</b>	<b>17</b>	<b>50</b>	<b>87</b>	<b>18</b>
New product launches are accelerating growth at ResMed, a leader in sleep apnea treatment.								
<b>SenoRx, Inc.</b> SENO Buhr, Bill	<b>0.0</b>	<b>25</b>	—	<b>27</b>	—	<b>200</b>	<b>2131</b>	<b>-10</b>
SenoRx will count on its innovative streak to compete in the crowded breast-care market.								
<b>Smith &amp; Nephew PLC</b> SNN Stralow, Julie	<b>7.2</b>	<b>65</b>	<b>10</b>	<b>8</b>	<b>20</b>	<b>-16</b>	<b>143</b>	<b>19</b>
Success in hip resurfacing and wound therapy could help Smith & Nephew overcome Plus problems.								
<b>SonoSite, Inc.</b> SONO Buhr, Bill	<b>0.3</b>	<b>63</b>	<b>26</b>	<b>18</b>	<b>37</b>	<b>0</b>	<b>589</b>	<b>7</b>
SonoSite has several new products that will drive growth in the hand-carried ultrasound market.								
<b>Spectranetics Corporation</b> SPNC Buhr, Bill	<b>0.1</b>	<b>43</b>	<b>78</b>	<b>23</b>	—	<b>200</b>	<b>1217</b>	<b>-3</b>
Spectranetics is counting on its TURBO-Booster to launch growth.								
<b>St. Jude Medical, Inc.</b> STJ Wang, Debbie	<b>13.1</b>	<b>81</b>	<b>12</b>	<b>9</b>	<b>26</b>	<b>100</b>	<b>120</b>	<b>20</b>
St. Jude continues to gain on its competitors in cardiac rhythm management.								
<b>Stereotaxis, Inc.</b> STXS Venu, Meera	<b>0.1</b>	<b>75</b>	—	<b>46</b>	—	<b>304</b>	—	<b>-142</b>
Stereotaxis has overcome manufacturing issues and now needs to work toward gaining profitability.								
<b>Stryker Corporation</b> SYK Stralow, Julie	<b>16.9</b>	<b>58</b>	<b>15</b>	<b>10</b>	<b>11</b>	<b>0</b>	<b>-66</b>	<b>37</b>
Stryker ranks among the top diversified medical device providers.								
<b>Thermo Fisher Scientific, Inc.</b> TMO Morozov, Alex	<b>15.9</b>	<b>52</b>	<b>16</b>	<b>4</b>	<b>12</b>	<b>130</b>	<b>472</b>	<b>8</b>
Thermo Fisher has positioned itself as a one-stop shop for its research customers.								

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<b>Thoratec Laboratories Corp</b> THOR Stralow, Julie	<b>1.5</b>	<b>113</b>	<b>14</b>	<b>22</b>	<b>42</b>	<b>300</b>	<b>721</b>	<b>12</b>
The recently approved HeartMate II is opening up new heart failure patient pools to Thoratec.								
<b>TomoTherapy, Inc.</b> TOMO Buhr, Bill	<b>0.1</b>	<b>UR</b>	<b>—</b>	<b>21</b>	<b>—</b>	<b>1718</b>	<b>3449</b>	<b>-119</b>
Slower sales in Europe and a tough economy in the U.S. could make it a hard year for TomoTherapy.								
<b>Varian Medical Systems, Inc.</b> VAR Buhr, Bill	<b>4.4</b>	<b>62</b>	<b>16</b>	<b>11</b>	<b>11</b>	<b>150</b>	<b>240</b>	<b>48</b>
Current demographic trends, coupled with emerging opportunities overseas, will drive growth for Varian.								
<b>Varian, Inc.</b> VARI Morozov, Alex	<b>0.7</b>	<b>56</b>	<b>11</b>	<b>5</b>	<b>15</b>	<b>148</b>	<b>349</b>	<b>12</b>
Burgeoning Chinese and Indian economies should fuel Varian's growth for the next several years.								
<b>Waters Corporation</b> WAT Morozov, Alex	<b>3.7</b>	<b>56</b>	<b>16</b>	<b>6</b>	<b>13</b>	<b>-108</b>	<b>42</b>	<b>35</b>
Waters' technological prowess enables the firm to generate returns on capital well above those of peers.								
<b>Zimmer Holdings, Inc.</b> ZMH Stralow, Julie	<b>9.0</b>	<b>51</b>	<b>11</b>	<b>6</b>	<b>8</b>	<b>-100</b>	<b>292</b>	<b>14</b>
Zimmer continues to lead attractive orthopedic device niches.								
<b>Pharmaceuticals</b>								
<b>Abbott Laboratories</b> ABT Conover, Damien	<b>84.1</b>	<b>86</b>	<b>13</b>	<b>9</b>	<b>8</b>	<b>-17</b>	<b>-11</b>	<b>21</b>
Abbott's strength in diverse operating lines outweighs mild patent exposure.								
<b>AstraZeneca PLC</b> AZN Conover, Damien	<b>51.4</b>	<b>72</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>50</b>	<b>-67</b>	<b>24</b>
A wide portfolio of drugs, combined with acquired drugs, should counterbalance patent losses.								
<b>Bristol-Myers Squibb Company</b> BMY Conover, Damien	<b>41.4</b>	<b>75</b>	<b>8</b>	<b>0</b>	<b>1</b>	<b>-58</b>	<b>-305</b>	<b>29</b>
Management was smart to walk away from overpriced Imclone. Lots of cash makes BMY ripe for another deal.								
<b>Eli Lilly &amp; Company</b> LLY Conover, Damien	<b>39.1</b>	<b>64</b>	<b>10</b>	<b>3</b>	<b>47</b>	<b>-55</b>	<b>329</b>	<b>27</b>
Lilly overpaid for Imclone, although the deal bolsters an otherwise weak pipeline.								
<b>GlaxoSmithKline PLC</b> GSK Conover, Damien	<b>89.1</b>	<b>69</b>	<b>10</b>	<b>4</b>	<b>5</b>	<b>-80</b>	<b>35</b>	<b>28</b>
Slow and steady growth wins the race for Glaxo with its strong pipeline and diverse operations.								
<b>Johnson &amp; Johnson</b> JNJ Conover, Damien	<b>154.9</b>	<b>70</b>	<b>12</b>	<b>4</b>	<b>4</b>	<b>-158</b>	<b>-70</b>	<b>24</b>
JNJ's strength across diverse health-care niches should offset head winds in pharmaceuticals.								
<b>Merck &amp; Co., Inc.</b> MRK Conover, Damien	<b>60.6</b>	<b>62</b>	<b>8</b>	<b>-3</b>	<b>—</b>	<b>-69</b>	<b>337</b>	<b>39</b>
Looming competition and major patent losses create cracks in Merck's growth potential.								
<b>Novartis AG</b> NVS Conover, Damien	<b>94.9</b>	<b>57</b>	<b>14</b>	<b>6</b>	<b>5</b>	<b>-152</b>	<b>143</b>	<b>18</b>
Novartis should see strong growth from diverse businesses and a robust drug and vaccine pipeline.								

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<b>Pfizer Inc.</b> PFE Conover, Damien	<b>95.5</b>	<b>46</b>	<b>9</b>	<b>-2</b>	<b>—</b>	<b>-270</b>	<b>-158</b>	<b>25</b>
Pfizer's treasure chest of cash provides ample opportunities to offset limited growth potential.								
<b>Sanofi-Aventis</b> SNY Conover, Damien	<b>78.8</b>	<b>63</b>	<b>8</b>	<b>2</b>	<b>—</b>	<b>-45</b>	<b>-141</b>	<b>15</b>
Sanofi's strong lineup of new pipeline drugs should offset weakness from drugs losing patents.								
<b>Schering-Plough Corporation</b> SGP Conover, Damien	<b>30.3</b>	<b>64</b>	<b>13</b>	<b>8</b>	<b>8</b>	<b>-20</b>	<b>158</b>	<b>14</b>
Overreaction to ENHANCE data, strong pipeline, and minor patent exposure create a top pharma pick.								
<b>Wyeth</b> WYE Conover, Damien	<b>57.1</b>	<b>86</b>	<b>9</b>	<b>4</b>	<b>4</b>	<b>-140</b>	<b>220</b>	<b>22</b>
New products and a concentration of biologics insulate Wyeth from patent expirations.								

## Specialty Pharmaceuticals

<b>Alcon, Inc.</b> ACL Viksjo, Jeff	<b>26.7</b>	<b>70</b>	<b>15</b>	<b>8</b>	<b>5</b>	<b>-30</b>	<b>-84</b>	<b>84</b>
A behemoth in eye care, this firm dominates the cataract and contact-lens-care markets.								
<b>Allergan, Inc.</b> AGN Viksjo, Jeff	<b>12.5</b>	<b>72</b>	<b>14</b>	<b>7</b>	<b>15</b>	<b>-45</b>	<b>326</b>	<b>21</b>
This Botox maker holds leading positions in plastic surgery and eye-care pharmaceuticals.								
<b>Auxilium Pharmaceuticals</b> AUXL Laegeler, Brian	<b>1.3</b>	<b>100</b>	<b>—</b>	<b>50</b>	<b>—</b>	<b>200</b>	<b>4374</b>	<b>714</b>
Specialty pharma targeting rare conditions.								
<b>Biovail Corporation International</b> BVF Laegeler, Brian	<b>1.7</b>	<b>60</b>	<b>11</b>	<b>2</b>	<b>—</b>	<b>0</b>	<b>389</b>	<b>16</b>
High-dividend-paying specialty pharma stock—strategic shift, proxy war.								
<b>Dr. Reddy Laboratories, Ltd.</b> RDY Laegeler, Brian	<b>1.5</b>	<b>55</b>	<b>12</b>	<b>14</b>	<b>23</b>	<b>50</b>	<b>245</b>	<b>13</b>
One of the best-positioned generic drug manufacturers in our coverage universe.								
<b>Elan Corporation PLC</b> ELN Conover, Damien	<b>3.3</b>	<b>54</b>	<b>230</b>	<b>21</b>	<b>—</b>	<b>435</b>	<b>2755</b>	<b>-2</b>
Elan remains highly dependent on Tysabri and Bapineuzumab faces many risks.								
<b>Endo Pharmaceutical Holdings</b> ENDP Viksjo, Jeff	<b>2.9</b>	<b>78</b>	<b>5</b>	<b>-5</b>	<b>—</b>	<b>-261</b>	<b>-1242</b>	<b>98</b>
This pain market leader relies too heavily on its top drug Lidoderm for growth.								
<b>Forest Laboratories, Inc.</b> FRX Laegeler, Brian	<b>7.5</b>	<b>96</b>	<b>—</b>	<b>-3</b>	<b>—</b>	<b>-265</b>	<b>-720</b>	<b>26</b>
Two largest products facing generic competition around 2012.								
<b>Hospira, Inc.</b> HSP Laegeler, Brian	<b>4.1</b>	<b>57</b>	<b>12</b>	<b>4</b>	<b>5</b>	<b>100</b>	<b>233</b>	<b>13</b>
Dominant but slow-growth hospital supplier.								
<b>Idexx Laboratories</b> IDXX Wang, Debbie	<b>2.0</b>	<b>69</b>	<b>14</b>	<b>9</b>	<b>11</b>	<b>100</b>	<b>200</b>	<b>20</b>
Idexx remains the cat's meow in animal health care.								
<b>King Pharmaceuticals, Inc.</b> KG Laegeler, Brian	<b>2.1</b>	<b>84</b>	<b>8</b>	<b>7</b>	<b>—</b>	<b>-63</b>	<b>-100</b>	<b>22</b>
Significant near-term generic competition; may overpay for acquisitions.								

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<b>Medicis Pharmaceuticals Corp</b> MRX Viksjo, Jeff	<b>0.7</b>	<b>49</b>	<b>4</b>	<b>4</b>	—	<b>-677</b>	<b>-202</b>	<b>33</b>
Looming patent concerns in dermatology overshadow this firm's strong plastic surgery franchise.								
<b>Novo Nordisk A/S</b> NVO Coffina, Matthew	<b>31.9</b>	<b>67</b>	<b>15</b>	<b>10</b>	<b>15</b>	<b>200</b>	<b>399</b>	<b>38</b>
GLP-1 analog liraglutide promises to be a blockbuster, but faces competition.								
<b>Par Pharmaceutical Companies</b> PRX Laegeler, Brian	<b>0.5</b>	<b>95</b>	<b>16</b>	<b>1</b>	—	<b>1011</b>	<b>1140</b>	<b>4</b>
Small-cap generic drug firm with broken business model.								
<b>Perrigo Company</b> PRGO Laegeler, Brian	<b>2.2</b>	<b>71</b>	<b>11</b>	<b>6</b>	<b>3</b>	<b>24</b>	<b>-126</b>	<b>19</b>
Dominant supplier of over-the-counter drugs.								
<b>Savient Pharmaceuticals</b> SVNT Laegeler, Brian	<b>0.3</b>	<b>78</b>	—	<b>167</b>	—	<b>579</b>	—	<b>-199</b>
Specialty pharma with revolutionary treatment for severe gout.								
<b>Sepracor, Inc.</b> SEPR Viksjo, Jeff	<b>1.8</b>	<b>81</b>	<b>7</b>	<b>0</b>	<b>8</b>	<b>0</b>	<b>76</b>	<b>1323</b>
This pharmaceutical firm is actively pursuing acquisitions to combat slowing sales for its top drug.								
<b>Shire PLC</b> SHPGY Viksjo, Jeff	<b>8.0</b>	<b>91</b>	<b>11</b>	<b>1</b>	—	<b>-180</b>	<b>23</b>	<b>23</b>
This specialty drug firm will suffer a major setback when Adderall XR faces generics in early 2009.								
<b>Teva Pharmaceutical Industries</b> TEVA Laegeler, Brian	<b>37.4</b>	<b>88</b>	<b>11</b>	<b>15</b>	<b>12</b>	<b>-160</b>	<b>35</b>	<b>12</b>
Number-one maker of generic drugs; bold objective to double sales in five years.								
<b>Theravance, Inc.</b> THRX Stralow, Julie	<b>0.8</b>	<b>107</b>	—	<b>78</b>	—	<b>-215</b>	—	<b>27</b>
Theravance still awaits word from the FDA regarding telavancin.								
<b>Trubion Pharmaceuticals</b> TRBN Migliore, Lauren	<b>0.0</b>	<b>83</b>	—	<b>23</b>	—	<b>0</b>	<b>3298</b>	<b>-62</b>
Strong competition and costly trials make Trubion's road to market even more perilous.								
<b>Valeant Pharmaceuticals Intl</b> VRX Viksjo, Jeff	<b>1.8</b>	<b>96</b>	<b>10</b>	<b>4</b>	<b>632</b>	<b>266</b>	<b>1195</b>	<b>33</b>
As operational changes take shape, we think this drug firm's prospects will improve dramatically.								
<b>Warner Chilcott Limited</b> WCRX Laegeler, Brian	<b>3.2</b>	<b>90</b>	<b>9</b>	<b>1</b>	<b>11</b>	<b>-150</b>	<b>423</b>	<b>18</b>
Venture capital exit strategy—spinning wheels due to generic competition in older drugs.								
<b>Watson Pharmaceuticals Inc.</b> WPI Laegeler, Brian	<b>3.0</b>	<b>74</b>	<b>9</b>	<b>4</b>	<b>5</b>	<b>3</b>	<b>116</b>	<b>11</b>
Average generic drug firm at attractive 6.5 times 2009 EBITDA; takeout candidate.								

## Small-Cap Stocks: Pharmaceuticals and Biopharmaceuticals

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<b>Affymax, Inc.</b> AFFY Migliore, Lauren	<b>202</b>	<b>73</b>	<b>168.3</b>	<b>96</b>	<b>-108</b>	<b>221</b>	<b>-0.67</b>
Affymax hopes that lead drug candidate Hematide could compete with Amgen's anemia franchise.							
<b>Alexza Pharmaceuticals, Inc.</b> ALXA Conover, Damien	<b>73</b>	<b>56</b>	<b>69.4</b>	<b>74</b>	<b>2</b>	<b>14</b>	<b>-0.58</b>
Alexza's prospects rest on its early stage inhaled drug technology, which carries very high risks.							
<b>Amicus Therapeutics, Inc.</b> FOLD Andersen, Karen	<b>206</b>	<b>83</b>	<b>161.5</b>	<b>68</b>	<b>-72</b>	<b>82</b>	<b>-0.91</b>
Amicus hopes its rare-disease drugs will someday compete with those of Genzyme.							
<b>Arena Pharmaceuticals, Inc.</b> ARNA Stralow, Julie	<b>434</b>	<b>73</b>	<b>823.2</b>	<b>100</b>	<b>-108</b>	<b>648</b>	<b>0.88</b>
Arena hopes to produce the next miracle obesity pill.							
<b>ARYx Therapeutics, Inc.</b> ARYX Laegeler, Brian	<b>48</b>	<b>77</b>	<b>124.5</b>	<b>55</b>	<b>-15</b>	<b>1045</b>	<b>9.9</b>
Speculative play on a unique approach to drug development.							
<b>Biodel, Inc.</b> BIOD Conover, Damien	<b>100</b>	<b>423</b>	<b>80.0</b>	<b>6</b>	<b>-41</b>	<b>6</b>	<b>-0.48</b>
Biodel's drug formulation technology faces major hurdles on the development path.							
<b>BioForm Medical, Inc.</b> BFRM Viksjo, Jeff	<b>62</b>	<b>38</b>	<b>70.2</b>	<b>11</b>	<b>-18</b>	<b>152</b>	<b>0.43</b>
Fresh off its IPO, this plastic surgery firm has enough cash to withstand the weak economic climate.							
<b>Cardiome Pharma Corporation</b> CRME Stralow, Julie	<b>255</b>	<b>47</b>	<b>298.1</b>	<b>105</b>	<b>-131</b>	<b>203</b>	<b>0.62</b>
Cardiome has little to fall back on if its pipeline drug, Kynapid, isn't successful.							
<b>CV Therapeutics, Inc.</b> CVTX Venu, Meera	<b>920</b>	<b>108</b>	<b>179044.0</b>	<b>556909</b>	<b>4221</b>	<b>293698</b>	<b>0.51</b>
CV Therapeutics' angina drug continues to face significant selling hurdles.							
<b>Cytokinetics, Inc.</b> CYTK Migliore, Lauren	<b>99</b>	<b>67</b>	<b>92.1</b>	<b>10</b>	<b>-45</b>	<b>0</b>	<b>-0.05</b>
Cytokinetics will need partners to bring its full pipeline to market.							
<b>deCODE Genetics, Inc.</b> DCGN Buhr, Bill	<b>14</b>	<b>0</b>	<b>12.0</b>	<b>305</b>	<b>-81</b>	<b>67</b>	<b>-0.19</b>
DeCODE Genetics faces a worsening liquidity situation.							
<b>Flamel Technologies</b> FLML Viksjo, Jeff	<b>143</b>	<b>54</b>	<b>41.1</b>	<b>45</b>	<b>22</b>	<b>131</b>	<b>2.28</b>
A royalty stream tied to Coreg CR and two viable drug formulation platforms make Flamel attractive.							
<b>GTx, Inc.</b> GTXI Venu, Meera	<b>364</b>	<b>62</b>	<b>110.0</b>	<b>72</b>	<b>-28</b>	<b>205</b>	<b>1.27</b>
GTx's lead drug candidate carries many risks.							
<b>Helicos BioSciences Corporation</b> HLCS Viksjo, Jeff	<b>13</b>	<b>0</b>	<b>52.7</b>	<b>16</b>	<b>-26</b>	<b>86</b>	<b>-1.03</b>
This tiny upstart has the potential to shake things up in the DNA sequencing market.							
<b>Inspire Pharmaceuticals, Inc.</b> ISPH Viksjo, Jeff	<b>199</b>	<b>78</b>	<b>205.0</b>	<b>80</b>	<b>-55</b>	<b>236</b>	<b>0.79</b>
This early stage drug firm's lead clinical candidate just passed Phase III trials.							
<b>Keryx Biopharmaceuticals, Inc.</b> KERX Andersen, Karen	<b>7</b>	<b>0</b>	<b>64.7</b>	<b>37</b>	<b>-27</b>	<b>73</b>	<b>-0.59</b>
Sulonex's failure leaves little of value at Keryx.							

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<b>Lexicon Pharmaceuticals, Inc.</b> LXRK Andersen, Karen	<b>159</b>	<b>39</b>	<b>333.8</b>	<b>100</b>	<b>-132</b>	<b>112</b>	<b>-0.31</b>
Despite promising technology, Lexicon is still waiting for data to validate its pipeline.							
<b>MannKind Corporation</b> MNKD Andersen, Karen	<b>342</b>	<b>61</b>	<b>368.3</b>	<b>219</b>	<b>-275</b>	<b>192</b>	<b>-1.39</b>
MannKind's Technosphere insulin is still kicking, despite the uncertain future of inhaled insulins.							
<b>Maxygen, Inc.</b> MAXY Andersen, Karen	<b>286</b>	<b>192</b>	<b>145.8</b>	<b>30</b>	<b>-22</b>	<b>60</b>	<b>-0.19</b>
Maxygen's patent woes and poor pipeline track record highlight the risk in its shares.							
<b>Nektar Therapeutics, Inc.</b> NKTR Migliore, Lauren	<b>444</b>	<b>80</b>	<b>482.4</b>	<b>454</b>	<b>-129</b>	<b>299</b>	<b>-0.11</b>
Exubera's high-profile failure hit Nektar hard, but we see value in its PEGylation technology.							
<b>Neurocrine Biosciences, Inc.</b> NBIX Laegeler, Brian	<b>143</b>	<b>93</b>	<b>104.0</b>	<b>130</b>	<b>-21</b>	<b>126</b>	<b>0.85</b>
Vulnerable specialty pharma company in recovery mode.							
<b>Orexigen Therapeutics, Inc.</b> OREX Conover, Damien	<b>189</b>	<b>367</b>	<b>85.5</b>	<b>28</b>	<b>-84</b>	<b>11</b>	<b>-0.34</b>
Orexigen faces several challenges in the clinical development of obesity drugs.							
<b>Progenics Pharmaceuticals</b> PGNX Stralow, Julie	<b>233</b>	<b>77</b>	<b>130.4</b>	<b>35</b>	<b>-71</b>	<b>191</b>	<b>-0.82</b>
Progenics hopes to get formulation expansions for its first approved drug.							
<b>QLT, Inc.</b> QLTI Viksjo, Jeff	<b>149</b>	<b>40</b>	<b>443.2</b>	<b>133</b>	<b>24</b>	<b>43</b>	<b>0.14</b>
In the midst of a restructuring, this firm's value hinges on the future of legacy eye drug Visudyne.							
<b>Replidyne, Inc.</b> RDYN Venu, Meera	<b>20</b>	<b>146</b>	<b>47.6</b>	<b>14</b>	<b>-44</b>	<b>151</b>	<b>0</b>
Replidyne's proposed merger shifts risks to a new firm facing tough competition.							
<b>Telik, Inc.</b> TELK Migliore, Lauren	<b>21</b>	<b>49</b>	<b>92.1</b>	<b>10</b>	<b>-45</b>	<b>0</b>	<b>-0.05</b>
With Telcyta out of the picture, Telik's future rests on early stage drug Telintra.							
<b>Trimeris, Inc.</b> TRMS Viksjo, Jeff	<b>28</b>	<b>21</b>	<b>5.0</b>	<b>25</b>	<b>16</b>	<b>15</b>	<b>0.7</b>
A potential acquisition candidate, this firm's value is tied solely to its HIV drug Fuzeon.							
<b>Vanda Pharmaceuticals, Inc.</b> VNDA Viksjo, Jeff	<b>22</b>	<b>117</b>	<b>135.2</b>	<b>13</b>	<b>2</b>	<b>19</b>	<b>-0.01</b>
Vanda struck out with its first (and possibly last) attempt at an FDA product approval.							
<b>Vical Incorporated</b> VICL Stralow, Julie	<b>81</b>	<b>80</b>	<b>176.8</b>	<b>12</b>	<b>-39</b>	<b>95</b>	<b>0.1</b>
Vical's vaccines have potential, but future profitability is not guaranteed.							
<b>ZymoGenetics, Inc.</b> ZGEN Migliore, Lauren	<b>359</b>	<b>75</b>	<b>170.9</b>	<b>194</b>	<b>-3</b>	<b>298</b>	<b>0.05</b>
Lead drug Recothrom entered a competitive market, but we're bullish on the firm's pipeline.							

# Healthcare Observer

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