
Global Biotechnology

Amgen

Intermediate Term: Buy

Long Term: Buy

Investment Opinion

- We believe that Amgen's EPS growth rate is likely to re-accelerate to almost 20%, driven by three new product launches — **Aranesp**[®], **Neulasta**[®] and **Kineret**[®] — and through the re-launch of **Enbrel**[®] as capacity constraints diminish.
- Neulasta sales are likely to beat expectations, but there could be some near-term volatility related to slower than expected ramp of Aranesp sales, continued capacity constraints related to Enbrel and an overhang of stock from WYE.
- However, we believe that much of the risk has been discounted by the market, and investors with a 12-month investment horizon will be rewarded as EPS growth accelerates and leads to multiple expansion, which should push the stock higher.

Biogen, Inc.

Intermediate Term: Reduce

Long Term: Neutral

Investment Opinion

- Sales of **Avonex**[®], Biogen's flagship product for multiple sclerosis (MS) and its main earnings driver have been slowing as the MS market matures. With the recent launch of **Rebif**[®] from Serono/Pfizer, we expect Avonex's sales to slow further.
- In addition, we believe **Amevive**[®], Biogen's psoriasis drug that was recently recommended for FDA approval, will not accelerate EPS growth beyond 11% to 12%. We also believe that Amevive expectations are too high.
- Based on a likely slowdown in Avonex growth, we project a long-term EPS growth of less than 10%, even assuming that Amevive is launched for psoriasis in 2003.

Genentech, Inc.

Intermediate Term: Neutral
Long Term: Buy

Investment Opinion

- Despite our belief that Genentech remains a biotech powerhouse in the long term, we believe that the company is likely to experience a decelerating growth rate for the next several years as the company awaits approval of three product candidates.
- With delays in **Xolair**[®] for asthma and **Raptiva**[®] for psoriasis, as well as a slowdown in sales of its core products, Genentech has become increasingly dependent on **Avastin**[®] for future growth. We remain cautiously optimistic regarding the Avastin phase III breast cancer data to be released in 3Q02.
- With future growth heavily dependent on Avastin and its launch not expected until 2004, we believe that Genentech is fairly valued. We would await better visibility regarding the Avastin breast cancer study before buying the stock.

Gilead Sciences

Intermediate Term: Buy
Long Term: Strong Buy

Investment Opinion

- **Viread**[®] sales for HIV are likely to continue surpassing expectations, which, coupled with sustainable growth driven by the 2002 launch of Adefovir for HBV, should push the stock higher.
- We expect the company to experience its first full year of profitability during 2002 and generate a long-term growth rate of 28% by Viread for the treatment of HIV, with sustainable growth powered by the launch of Adefovir for HBV.
- We believe that upside to our current 2002 and 2003 Viread estimates exists, as HIV specialists are increasing usage in treatment-experienced and treatment-naive HIV patients, and in the hepatitis B setting, as well.

ICOS Corp.

Intermediate Term: Neutral
Long Term: Buy

Investment Opinion

- Although **Cialis**[®] is likely to provide long-term value, we do not expect significant near-term upside until clarity is gained regarding the timing of Cialis' approval.
- We believe that Cialis, for erectile dysfunction, will be a blockbuster drug and compete effectively with **Viagra**[®], but the FDA recently informed ICOS that approval is contingent on additional pharmacologic studies, labelling discussions and inspections of Eli Lilly's manufacturing facilities. These developments effectively push back the eventual approval of Cialis until the second half of 2003, or about a year later than expected.
- A significant portion of the current market value of the stock is from Cialis, but if any other pipeline products, such as **Pafase**[®] for sepsis, or **Sitaxsentan**[®] for pulmonary hypertension, prove effective, there could be significant upside for patient investors.

IDEC Pharmaceuticals

Intermediate Term: Buy
Long Term: Strong Buy

Investment Opinion

- We expect a long-term EPS growth of almost 30% driven by continued growth of **Rituxan**[®] and sustainability of growth driven by **Zevalin**[®].
- We project 2002 and 2003 Rituxan sales of \$1.03 billion and \$1.18 billion driven by deeper penetration of the front-line CLL market, re-treatment of patients previously treated with Rituxan, and an increase in the number of infusions used in each aggressive NHL patient. For the longer term, we expect maintenance therapy and potential use in RA to re-accelerate Rituxan's growth by expanding the market by as much as \$1 billion.
- Although expected to be a slow launch, Zevalin should drive EPS growth of 28% given the drug's strong profitability of \$3 MM equaling \$0.01 of EPS. We project 2002 and 2003 US Zevalin sales of \$22 MM and \$110 MM, respectively.

MedImmune, Inc.

Intermediate Term: Buy
Long Term: Buy

Investment Opinion

- Although MEDI is highly dependent on **FluMist**[®] for future growth and we believe that the drug will not be launched until 2003, we believe that the stock price adequately reflects this risk.
- **Synagis**[®], for the prevention of RSV, continues to drive EPS growth for MedImmune. But with the product maturing and the pipeline still early, MEDI's future growth rate has become highly dependent on FluMist, the nasal live attenuated vaccine for the prevention of influenza, obtained as part of the Aviron acquisition.
- We continue to believe that FluMist will not be approved in time to be launched for the 2002-2003 influenza season. We estimate that MEDI should trade at \$30 per share if FluMist does not enter the market in time for the 2002-2003 flu season, but we believe that this possibility is already reflected in the current stock price.

NPS Pharmaceuticals

Intermediate Term: Strong Buy
Long Term: Strong Buy

Investment Opinion

- NPS has two potential blockbusters in phase III, **Preos**[®] for osteoporosis and AMG-073 for secondary hyperparathyroidism (HPT), which address large markets and should reach peak sales of more than \$500 million.
- The sleeper drug in the NPS pipeline could be ALX-0600, for the treatment of small bowel syndrome (SBS). NPS currently plans to market the drug on its own, which could be extremely profitable for the company. We estimate EPS potential for the drug of \$3.50 to \$4.00 on projected peak sales of \$350 to \$400 million.
- Based on an NPV analysis, we believe that the current pipeline represents \$990 MM of value or about \$33 per share, excluding the company's cash (\$175 million), in light of projected operating losses over the next several years. [CPM](#)

Source: Merrill Lynch Reports