



U.S. Specialty Pharmaceuticals

Allergan

Intermediate Term: Buy
Long Term: Buy

Company Description

Allergan is a fully integrated specialty pharmaceutical company with business in pharmaceuticals (ophthalmology, dermatology, neurology), surgical lenses and contact lens care. The company's largest drugs are **Alphagan**[®] (glaucoma) and **Botox**[®] (movement disorders). The company licenses technologies and products to supplement its internal research and development efforts.

Highlights

- We continue to believe Allergan should be a core holding for health-care investors.
- While the company has experienced a few quarters of sub-par sales growth, we expect top-line growth to re-accelerate into the double-digit range by early next year. With this acceleration should come price/earnings multiple expansion.
- **Lumigan**[®] continues to gain share at a slow, but steady, rate. Head-to-head data *versus* **Xalatan**[®] and the sales force power should result in continued market share gains.
- We believe the expected 1Q:02 brow furrow approval represents an incremental opportunity for **Botox**, as it will allow aggressive direct-to-consumer (DTC) marketing and physician education for the first time.

Forest Labs

Intermediate Term: Accumulate
Long Term: Buy

Company Description

Forest is a specialty pharmaceutical company that develops and markets branded pharmaceuticals. A key part of the Forest strategy has been to acquire U.S rights for products that have been marketed in Europe, but not yet developed for the U.S. **Celexa**[®], an anti-depressant licensed

Forest Labs (Continued)

from Lundbeck (Denmark), has quickly become Forest's main growth driver. Forest continues to license U.S. marketing rights for compounds at various stages of clinical development.

Highlights

- **Celexa** continues to gain share in the SSRI/SNRI class. As expected, the recent introduction of the generic version of **Prozac**[®] has not impeded **Celexa**'s growth.
- Next year's launch of escitalopram is an opportunity for the company to protect its anti-depressant franchise into the next decade. The transition is also an intermediate-term risk, as **Celexa** represents over two-thirds of company revenues.
- Investors should expect lower earnings per share growth in the quarters ahead as Forest invests ahead of a new product cycle that should begin in late 2002 with the launch of lercanidipine.
- We remain bullish in the long-term outlook.

IVAX

Intermediate Term: Neutral
Long Term: Buy

Company Description

IVAX is a global specialty pharmaceutical company focused on generics as well as proprietary pharmaceutical products. In addition, the company has established product and technology alliances with other pharmaceutical companies in order to maximize the value of its drugs, devices and technologies.

Highlights

- With the recent pricing pressure in generic **Taxol**[®], as well as the noise on additional competition we are likely to hear, sentiment surrounding the **Taxol** part of the IVAX story is likely to remain poor. However, we still believe the product can generate significant sales and profits for several years.
- The global asthma franchise is a key driver of our positive long-term investment thesis. IVAX recently acquired some branded allergy products that should help the U.S. sales force grow

IVAX (Continued)

to a few hundred reps ahead of the Easi-Breathe launch in 2003/2004.

- We remain bullish on the company's longer-term pipeline, which includes several interesting, late-stage clinical programs.

King Pharmaceuticals

Intermediate Term: Neutral
Long Term: Buy

Company Description

King is a specialty pharmaceutical company that acquires, manufactures and markets branded pharmaceutical products. The strategy has been to acquire products with exclusivity that could benefit from more focused marketing efforts. Over time, management intends to take more aggressive steps towards becoming a fully integrated pharmaceutical company.

Highlights

- King shares should benefit from strong sales and earnings per share growth, as well as a high level of sales and earnings predictability. The outstanding \$1.5 billion shelf is likely to constrain stock performance in the short term.
- **Altace**[®] has continued to gain share, albeit at a slower pace relative to earlier this year. A DTC campaign, in conjunction with American Home Products next year, could spur incremental growth.
- **Levoxyl**[®] has emerged as a second significant growth driver for the company. The product continues to gain share from Abbott's **Synthroid**[®], the market leader.
- The recently acquired Bristol-Myers products should strengthen King's core franchises and support a sales-force expansion.