



## HEALTHCARE STOCK PERFORMANCE *Volatility from 2007 carries into 2008 ...*

DCAT Week (12 March 2008)

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Performance Matters™

## A few words about Corporate Advisory Services



- 200 analysts helping more than 1200 companies around the globe ...
  - ... monitor and explain the factors affecting the performance and valuation of their stock
  - ... assess investors' opinions of their management, strategy, and communications
  - ... understand the buy/sell decisions made by their share/debt holders
  - ... forecast investors' reactions to changes in corporate results or structure
  - ... analyze cross-border ownership for tax purposes
  - ... define and adjust their outreach to the investment community


Here's what we see



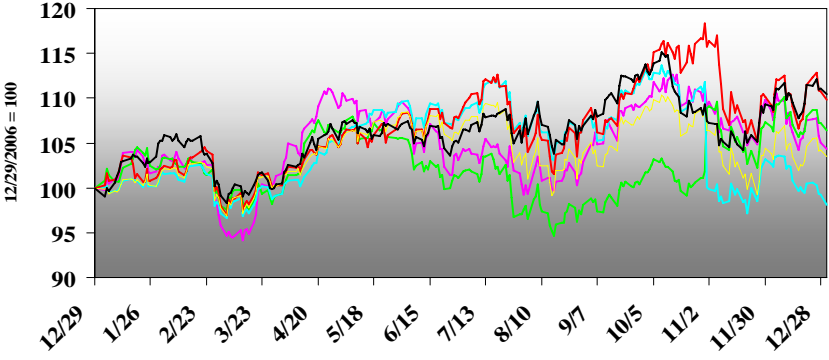
- Wall Street doesn't look at healthcare as a whole; subsectors have their own traits
- Subsector and stock performance is determined by a constant clash between macro (eg, politics, GDP growth) and micro factors (eg, R&D productivity, sales growth)
- With macro and micro uncertainty, investors' opinions differ
- Generally, there has been a shift away from the traditional healthcare favorites (big pharma and big biotech) to smaller niche players (medtech and services)

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Despite volatility, healthcare performed well in 2007



DJAMD: +10.4%; NASDAQ: +9.8%; DRG: +6.4%; BTK: +4.3%; S&P: +3.5%; DOW: (1.9%)



12/29/2006 = 100

12/29 1/26 2/23 3/23 4/20 5/18 6/15 7/13 8/10 9/7 10/5 11/2 11/30 12/28

— BTK — DRG — DOW — NASDAQ — S&P — DJAMD

- Primary subsectors suffered the same summer and year-end selloffs as the broader averages

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## Pharma ... saving and returning cash

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- Few significant positive clinical developments
- Cutting sales and R&D expenses
  - Examples: PFE (\$4.5b-\$5.0b in 2007 savings), WYE (cut workforce by 10% over the next three years)
- Repurchasing stock and raising dividends
  - Big buy-backs: JNJ (+\$10b), WYE (+\$5b), PFE (+\$10b)
  - Higher yields: PFE (+10.0%), WYE (+7.7%), LLY (+10.6%)
- Making small acquisitions aimed at specific therapies or technology
  - Examples: PFE/COLY; SGP/Organon; comments from MRK's CEO

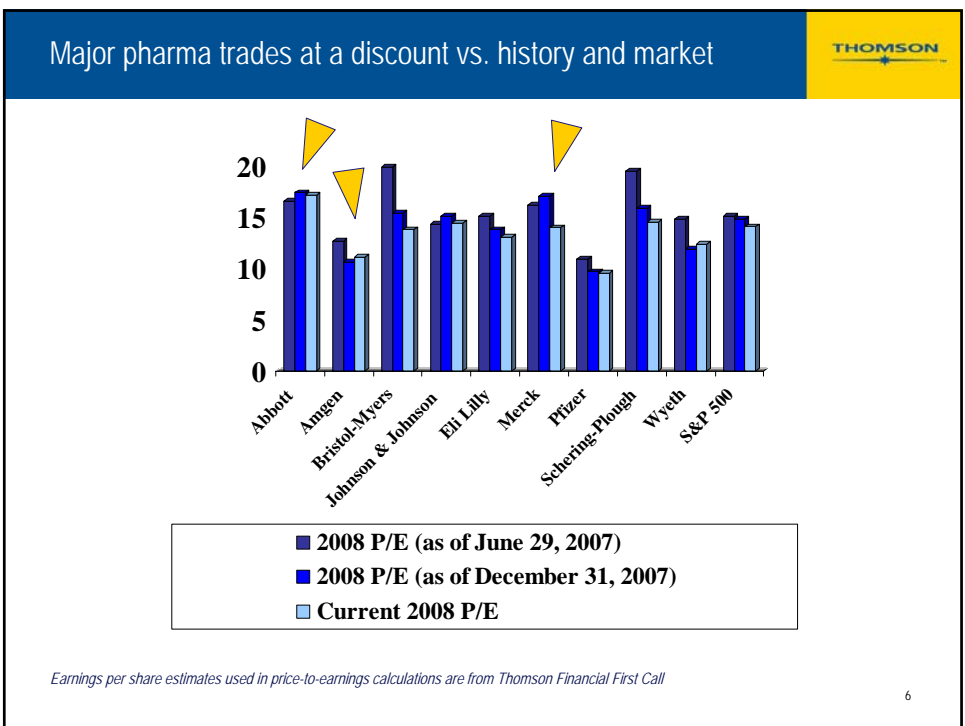
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## Biotech ... still seeking capital ... and finding it in pharma

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- Private placements in US in 2007
  - 53 deals with an average of just \$20.6m raised and at a 5.2% discount
- Follow-on offerings
  - 40 deals average of \$71.1m, but with an average loss of 7% after the announcement
- Convertible debt
  - 19 deals raise average of \$114.9m with an average coupon of 4.42%
- Initial public offerings
  - 22 deals in 2007; four IPOs postponed so far this year
- Partnering with major pharma
  - Examples: GSK/SNTA (\$1b); MRK/ARIA (\$452m); SGP/NOVC (\$380m)

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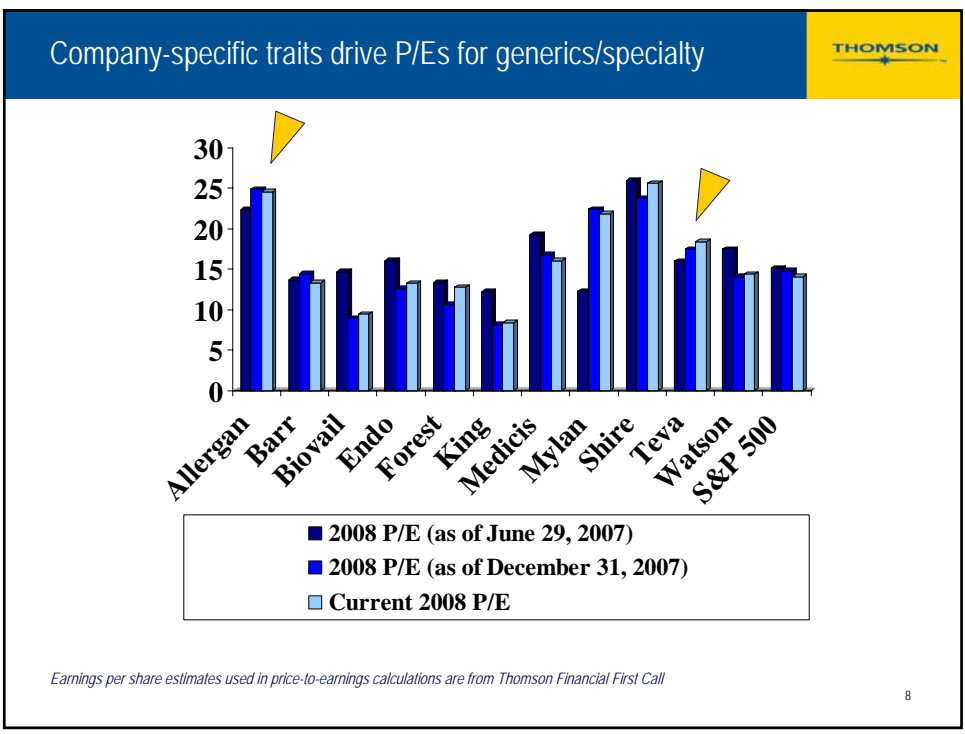
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### Pharma P/Es are dropping because growth has slowed

- A couple of years ago, most of pharma was expected to deliver double-digit earnings growth
- Current three- to five-year forecasts for many are in single digits – and falling
- Not surprisingly, 2007 price performance was correlated

	2006 LTG	2007 LTG	2007 % Price Change
ABT	10%	12%	15%
AMGN	15%	9%	-32%
JNJ	10%	8%	1%
LLY	10%	7%	2%
MRK	3%	10%	33%
WYE	9%	5%	-13%

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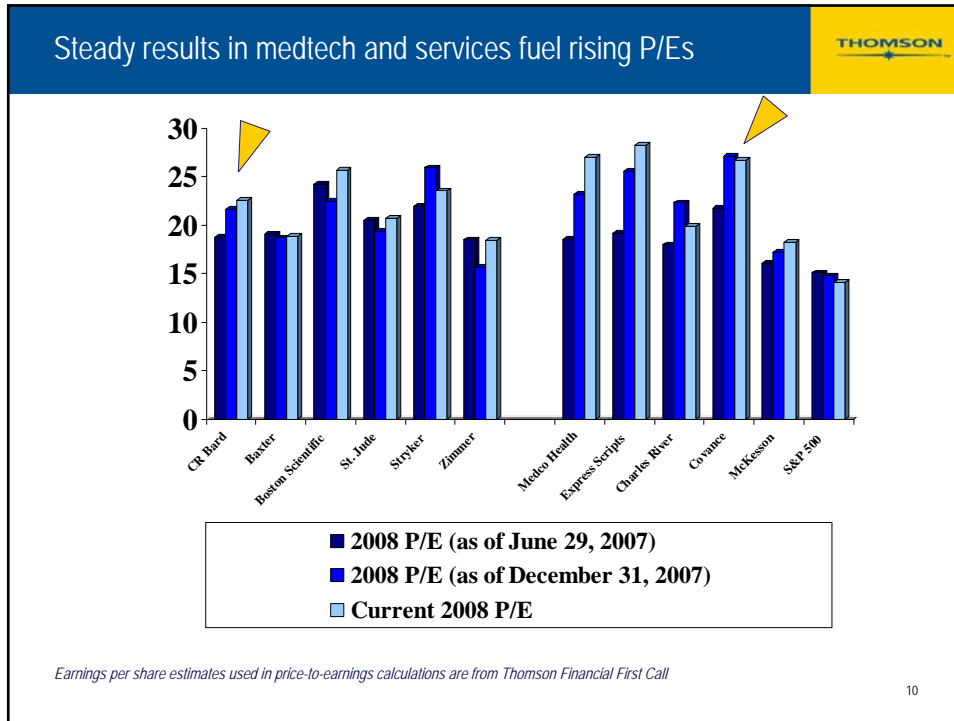
### Larger biotech players lose value or are acquired

	12/31/06 Market Cap	12/31/07 Market Cap	Change
Genentech	\$85,511	\$70,631	(\$14,880)
Amgen	\$79,685	\$50,510	(\$29,175)
Gilead Sciences	\$29,857	\$42,825	\$12,968
Celgene	\$20,276	\$17,831	(\$2,445)
Biogen IDEC	\$16,583	\$16,699	\$115
Genzyme	\$16,187	\$19,799	\$3,613
Chiron	Acquired by Novartis		
Serono SA	Acquired by Merck KgaA		
MedImmune	Acquired by AstraZeneca		
Sepracor	\$6,746	\$2,932	(\$381)

- A look at the smaller players tells an even more grim story
- On average, diagnostics/tools-oriented stocks gained value while pure drug developers fell

*Earnings per share estimates used in price-to-earnings calculations are from Thomson Financial First Call*

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### Investment dollars are moving in different directions

- Overall, the ten active US investors with the most money invested in healthcare held steady during 2007 (\$395b or 11.5% of equity assets)
- All ten are value or GARP investors, not growth
- Collectively, these firms bought pharma and medtech, but sold biotech (despite gains)
- Five increased their healthcare exposure; five trimmed their holdings
- In biotech, hedge funds and sector-specific firms were among the top ten movers

Healthcare Subsector	2006 Total Value (\$)	% of Total Sector Assets (2006)	2007 Total Value (\$)	% of Total Sector Assets (2007)	(\$ Change)	% Change	Sector Index	2007 % Price Change
Pharma	\$195,909	49%	\$207,847	52%	\$11,937	6%	DRG	6%
Biotech	\$71,621	18%	\$69,601	18%	(\$2,020)	-3%	BTK	4%
MedTech	\$52,265	13%	\$57,472	15%	\$5,206	10%	DJAMD	10%

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## Questions surrounding economic data and Washington, DC

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- Economic slowdown ... *will healthcare be seen as a defensive sector?*
  - Have clinical set-backs and patent expirations erased the downside protection?
  - Are we in a recession, facing one, or about to come out of a slump?
  
- Regulatory and political landscape ... *Democrats up = healthcare down?*
  - Will PDUFA and the FDA increase the speed or frequency of approvals?
  - Will the threat of generic biologics loom larger?
  - Will the presidential campaign rhetoric keep investors on the sidelines?

Macro- and micro- factors could both be 'bad' for healthcare in 2008, so volatility will continue ... but which factors will dominate?

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