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Healthcare Update

February 18–24

Drug Manufacturers & Big Pharmaceuticals

Merck & Co. (MRK)

- On Wednesday, Merck & Co. opted to suspend the aggressive lobbying campaign for its vaccine against cervical cancer, Gardasil that it has undertaken over the past few months. Merck's campaign was aimed at getting state legislatures to require 11 and 12-year old girls to get the vaccine as a requirement, much like the vaccines for measles, mumps and hepatitis are currently required. Recently, there has been a backlash from doctors and parents about the lobbying campaign, particularly from parents who are concerned that the promotion of the vaccine is an endorsement of promiscuous behavior. There are roughly 20 state legislatures that have drafted such a proposal, but none have passed as of yet. Merck's lobbying campaign was being funded through a third-party.

Sanofi-Aventis (SNY)

- French-owned Sanofi-Aventis has developed an experimental vaccine for bird flu, H5N1. The Food and Drug Administration will be meeting on Tuesday, February 27 to vote on the safety and efficacy of the potential vaccine. The recent human mortalities from bird flu have been localized in Asia, although there is rising alarm since the virus has moved to Moscow. Although bird flu can only be transmitted from birds to humans and not from person-to-person contact, there is concern that the virus could mutate and cause a larger outbreak. Currently, Swiss drug company Roche Holdings Ltd. is the only other company that has an anti-viral drug, Tamiflu, specifically targeted to treat bird flu.

Biotechnology

Dyax Corporation (DYAX) & Genzyme Corporation (GENZ)

- On Wednesday, Dyax announced that it was terminating an agreement with Genzyme that involved Dyax's drug candidate DX-88, a potential treatment of the rare hereditary condition angioedema. Angioedema causes rapid swelling underneath the skin in the mucosa and submucosal tissues, particularly in the hands, feet, and face, and can lead to airway obstruction. DX-88 is still in Phase III FDA trials and the termination of the agreement between the two biotech firms should not delay the further reviews of the potential drug. Dyax stock fell 30% when the news reached the market.

Gilead Sciences Inc. (GILD)

- Gilead is preparing to present new clinical data on experimental HIV drugs at the **annual Conference on Retroviruses and Opportunistic Infections**. The company's drug is innovative because, unlike other HIV drugs currently available, it targets integrase, the enzyme that facilitates the entrance of DNA into host cells, which the virus utilizes when it enters the cell in

which it will replicate itself. Gilead's integrase inhibitor is called GS 9137 and it currently in phase IIb trials; it will start phase III studies later this year. The treatment's efficaciousness is measured according to its ability to reduce the viral load to undetectable (50 copies per milliliter or less). GS 9137 only has to be taken once a day, although it must be taken with another drug to boost its efficacy. Merck is also developing an integrase-inhibiting HIV treatment that is slightly farther along in clinical trials.

Generic Drug Producers

Mylan Laboratories Inc. (MYL)

- After winning a number of court cases giving it the right to sell generic versions of brand-name drugs like Johnson & Johnson's pain patch Duragesic and Inderal LA, a blood-pressure medicine manufactured by Wyeth, Mylan is preparing to challenge pharmaceutical giant Pfizer. The company is challenging Pfizer's patent on Norvasc, which, like Inderal, is also used to treat blood-pressure. In 2006, Pfizer's sales of Norvasc totaled to \$2.5 billion. If Mylan were to succeed, it would have a 6-month period in which it could exclusively sell its generic type of Norvasc. The nature of the debate revolves around whether or not Pfizer's patent expires March 25 or September 25, because of pediatric exclusivity that was allegedly granted to Pfizer that would extend patent protection for an additional six months.

Hospitals

Health Management Associates (HMA)

- Health Management swung a fourth quarter loss that amounted to \$56.2 million; however on an adjusted basis, the company matched expectations. Bad debt costs and one-time charges were the cause of the company's fourth quarter losses. Excluding those, earnings per share were 29 cents a share in comparison to the 31 cents per share earnings that were posted during the fourth quarter of 2005. In 2006, revenue grew 15 percent from \$917.2 million to \$1.05 billion. For the first quarter of 2007, HMA is planning to introduce a new plan that will discount billing charges to uninsured patients for non-elective procedures up to 60 percent. This new policy, however, is not expected to significantly affect operating income because reduced income will be offset by lower bad debt costs, such as those incurred during the 4Q of 2006.

Medical Instruments & Suppliers

Corin Group Plc (CRG) & Stryker Corp. (SYK)

- On Thursday, a U.S. advisory panel recommended FDA approval for Cormet, a hip restructuring device that would offer a less-invasive alternative to patients considering total joint replacement manufactured by British-owned Corin Group. Stryker Corp. would be responsible for marketing Cormet. The FDA will make the final decision shortly about whether or not Cormet can be considered a safe and viable alternative for patients; however, the FDA usually follows the recommendations put forth by the advisory boards. Currently, British firm Smith & Nephew is the only company to manufacture a hip resurfacing implant.

Medtronic Inc. (MDT)

- Although Medtronic, the world's largest medical device producer, posted better-than-expected quarterly profit, shares have been either fallen or stagnated in recent weeks due to news about lower sales of its best-selling products. This week, the company reported quarterly earnings of

\$710 million or 61 cents a share, up from \$670 million or 55 cents in comparison to a year earlier. Revenue also rose 10 percent to \$3.05 billion. However the shareholders have been particularly concerned by the 2 percent drop in sales of implantable defibrillators (ICDs). These devices are surgically implanted to shock irregular heartbeats back to normal. Since Medtronic's competitor, Boston Scientific Corp. recalled ICDs in recent years, there has been a drop in the market demand despite Medtronic's recent launching of a public ad campaign.