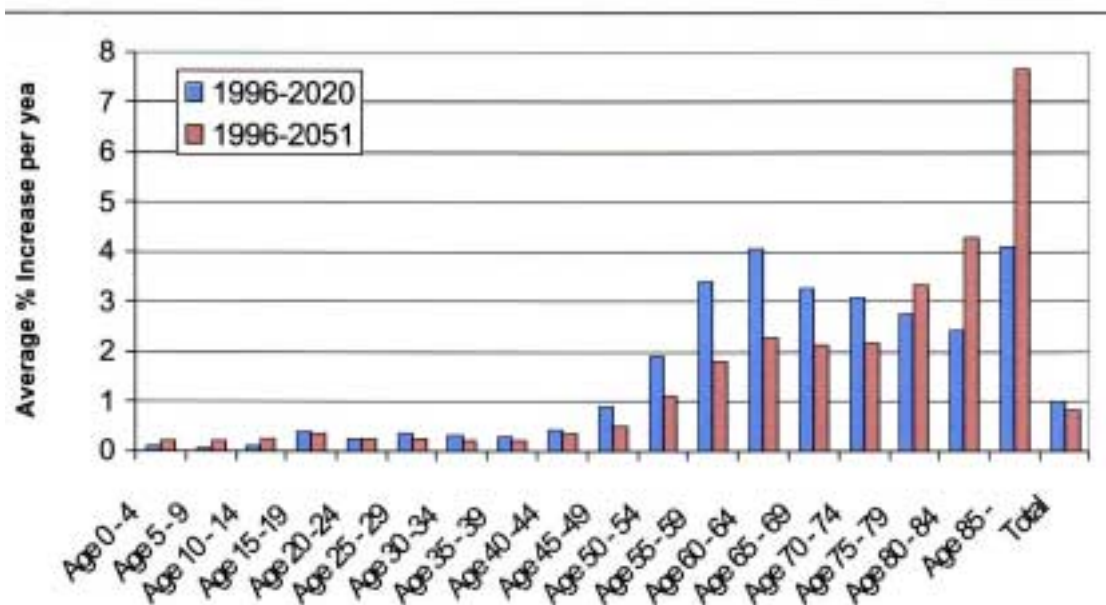
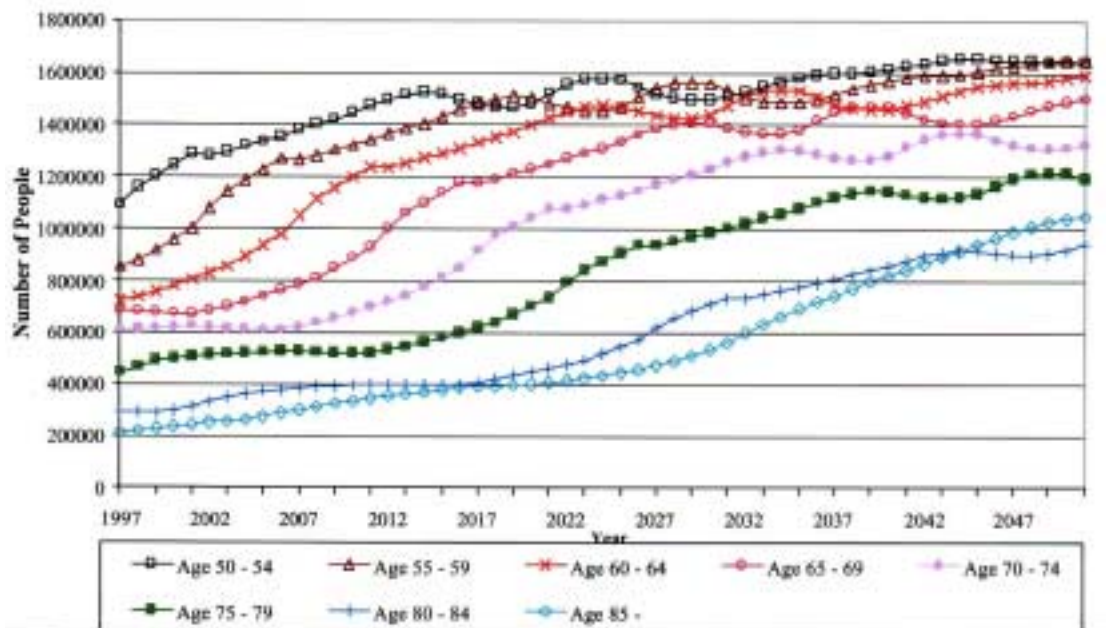


HEALTH CARE SECTOR AS AN INVESTMENT

WHY:

Demographics

- Baby boomers are ageing
- Older people require more medical attention
- Governments recognise around the world this is a problem that is only going to get worse.
- The following charts show how trends are going
- Examples of the sort of areas that will be in demand are:



Hospital Care
Medicines
Psychological Care
Rehabilitation

What Stocks:

- Stocks should be sorted according to risk
- Break them up into four categories

Blue Chip: Consistent revenue and profit
eg CSL , Cochlear, Mayne

Midcap/Small Cap: Revenue and generally profitable
eg Sonic, Healthscope, Sigma, Clover, Novagen, Arrow

Emerging: About to move into production, yet to have revenue but due within twelve months and likely to be profitable within two years:
Eg Unitract, Chemeq

Speculative: Some or no revenue, no profit
eg: Ventracor , Anadis, Solgran.

Match the stocks invested in with the level of risk that suits your circumstances and have a portfolio of stocks to reduce overall risks

Be careful of companies with inflated market capitalisation and no revenue. Also be mindful of how long trials will take to complete , their costs and what competing technologies are around.

STOCKS WORTHY OF CONSIDERATION FOR A LOWER RISK PORTFOLIO BUT SEEKING POTENTIALLY HIGH RETURNS.

ARROW:

- Australia's second largest generic pharmaceutical company
- Major marketer and distributor of pharmaceuticals
- Formed in January 2000 by David Duchon the founder of Alphapharm, his son Paul Duchon, several key managers and 30 ex-Alphapharm employees
- Now employs 120 people, Sales of \$250 mill and a profit of \$9 mill, @\$7.85 market cap is \$474mill
- Generics are products that are out of patent/non branded medications

- Arrow's generic sales are expected to grow from \$20million in 2001 to \$140 million by 2005
- Arrow manages the sales and marketing function of Sigma's generic portfolio, totalling 48 products
- Has 42 products under licence from a number of Australian and international companies
- Is developing its own generic range though its access to world class R&D facilities owned by its 39.7% shareholder Arrow group.
- IP is owned by the parent and licensed to Arrow
- Arrow is responsible for registration and the cost of the biostudies (\$300,000 per product). A 5% royalty based on net sales revenue is paid to the parent
- Research facility has developed 2 products that have been approved and launched into the Australian market. There are 32 new products in the pipeline which are expected to be registered in the next two years.
- Austock believes the generic market share in Australia is as currently as follows:

Alphapharm 75%
 Arrow 13%
 4 others 12%

Drugs to come off patent in Australia:

2004- 3 products Revenue \$100 mill
 2005- 7 products Revenue \$400 mill
 2006 12 products Revenue \$330 mill
 2007 8 products Revenue \$90 mill
 2008 7 products Revenue \$160 mill
 2009 3 products Revenue \$90 mill
 2010 3 products Revenue \$90 mill
 2011 2 products Revenue \$40 mill
 2012- 7 products Revenue \$450 mill
 2013- 12 products Revenue \$175 mill
 2014- 4 Products Revenue \$150 mill

Total revenue \$2.075 bill

Major upside for Alpha is picking up a percentage of the \$2bill in products

Recent deal with Merk is an example of how Arrow can get the jump on its competitors

Company is expensive on traditional valuations
pe of 34 for 2004 and 28 for 2005 no dividend

Growth rates far exceed normal companies- 33% eps growth forecast for 2004 and 22% for 2005

SIGMA

- Largest Australian contract manufacturer for Australian and International pharama companies
- Leading Australian antibiotic manufacturer
- Recently acquired Herron brand and manufacturing facility
- Manufactures Sigma brand products
- Wholesaler and distributor of prescription and OTC products to 3500 pharmacies
- Banner management of Amcal and Guardian groups
- Development and provision of private label products for Amcal and Guardian
- Market cap @ \$6.78 is \$959mill
- Austock 12 month target \$7.50

PEG ratio target \$10.00 (Value of 1)

	2003A	2004F	2005F	2006F
Sales\$	1.7 bil	1.9 bil	2bil	2.17bil
NPAT\$	32mil	44.7mil	55.5	66
EPSc	23.1	31.5	39.1	46.5
Div c	14	18	23	27
EPS				
Growth%	40	35	25	20
Div				
Growth%	40	29	28	17
ROE%	11.2	15.2	18.8	21.8

Key to Sigma is long term increase in the use of OTC and prescription medicines as the population ages.

- Management focused on cost control and return on equity
- Recent problems at PAN and Cottee going into administration make Sigma one of the few manufacturers that multinationals can chose from
- Sigma's relationship with Arrow gives it enormous long term leverage to the generics market