



Health Care Sector As An Investment

Why



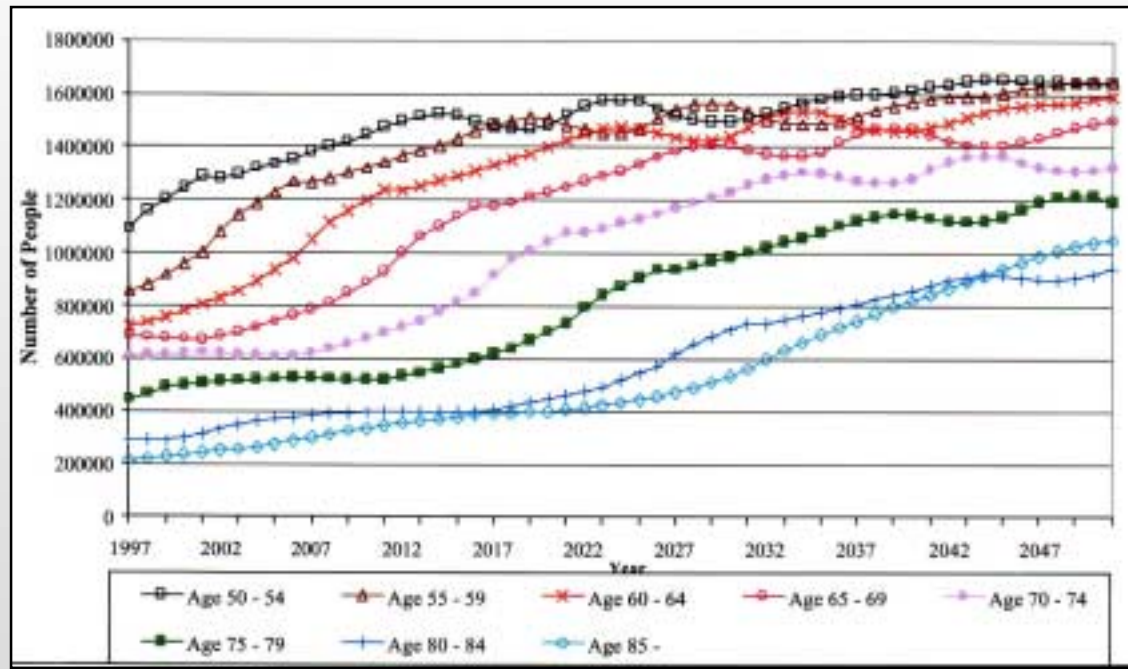
- ▲ Barriers to entry

- Intellectual property
- Management
- Capital

- ▲ Demographics

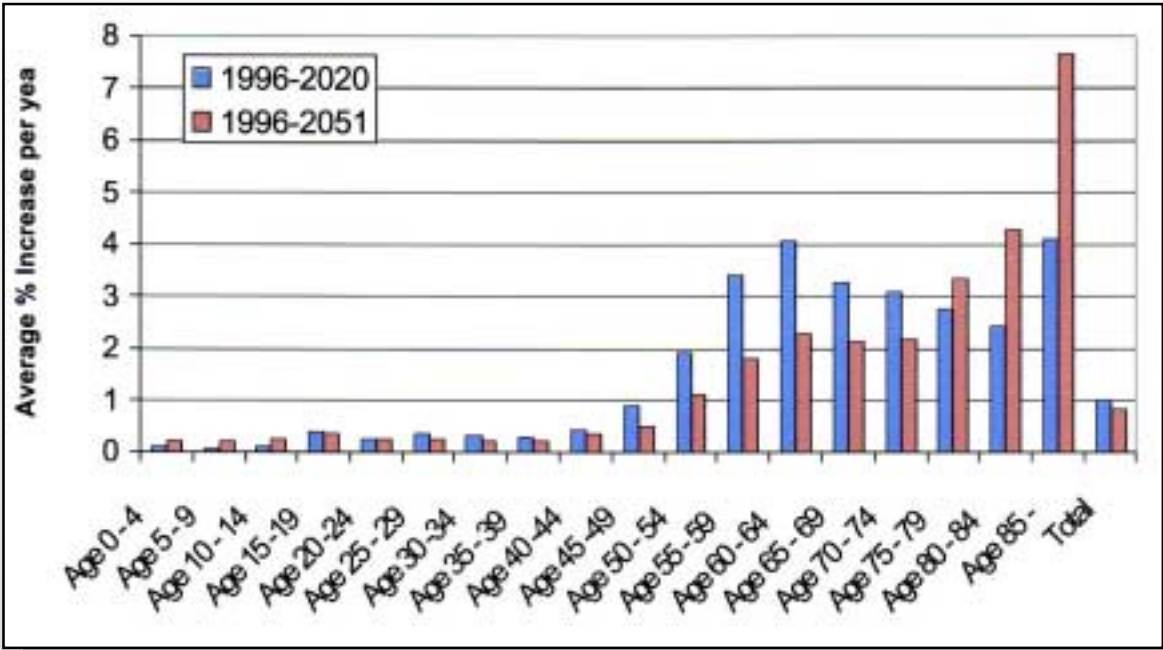
- Baby boomers are ageing
- Older people require more medical attention
- Governments recognise it's a worldwide problem

Future Trends



Source: The Ageing Australian Population and Future Health Costs 1996-2051 Clive Cooper & Philip Hagan Commonwealth Dept of Health & Age Care 1999

Future Trends Cont'd



Source: The Ageing Australian Population and Future Health Costs 1996-2051 Clive Cooper & Philip Hagan Commonwealth Dept of Health & Age Care 1999



Areas That Will Be In Demand

- ▲ 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:
CSL, Cochlear, Mayne
 - Mid Cap/Small Cap: Revenue , generally profitable :
Sonic, Healthscope, Sigma, Novagen, Arrow
 - Emerging : Unitract, Chemeq
 - Speculative : Ventracor, Anadis, Solagran

What Stocks Cont'd

- ▲ Match the stocks with risk and circumstances
- ▲ Management is crucial
- ▲ Be careful of inflated market caps.
- ▲ How long trials will take to complete?
- ▲ Cost?
- ▲ Sufficient capital for R&D?
- ▲ What competing technologies are around?



Stocks For Low Risk & High Returns

Arrow

- ▲ Australia's second largest generic pharma company
- ▲ Generics : products that are out of patent/non branded medications
- ▲ Major marketer and distributor of pharmaceuticals
- ▲ Formed in January 2000 by experienced management
- ▲ Now employs 120 people, sales of \$250 million and a profit of \$9 million
- ▲ At \$7.85 market cap is \$474 million

Stocks For

Low Risk & High Returns Cont'd

- ▲ Generic sales are \$20 million in 2001 grow to \$140 million by 2005
- ▲ Manages the sales and marketing function of Sigma's generic portfolio, totalling 48 products
- ▲ 42 Products under license from a number of Australian and International companies
- ▲ Access to world class R&D facilities owned by its 39.7% shareholder Arrow group
- ▲ Products to be launched and have been launched
- ▲ IP is owned by the parent and licensed to Arrow

Stocks For Low Risk & High Returns Cont'd

- ▲ Arrow is responsible for registration and the cost of the biostudies
- ▲ A 5% royalty based on net sales revenue is paid to the parent
- ▲ Austock believes the generic market share in Australia is:
 - Alphapharm 75%
 - Arrow 13%
 - Four others 12%



Stocks For Low Risk & High Returns Cont'd

▲ Drugs to come off patent in Australia

– 2004 Three products	\$100 million
– 2005 Seven products	\$400 million
– 2006 Twelve products	\$330 million
– 2007 Eight products	\$90 million
– 2008 Seven products	\$160 million
– 2009 Three products	\$90 million
– 2010 Three products	\$90 million
– 2011 Two products	\$40 million
– 2012 Seven products	\$450 million
– 2013 Twelve products	\$175 million
– 2014 Four products	\$150 million
– Total revenue	\$2.075 billion



Stocks For Low Risk & High Returns Cont'd

- ▲ Upside \$2 billion in products coming off patent
- ▲ Recent deal with Merck
- ▲ 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



Stocks For

Low Risk & High Returns Cont'd

Sigma

- ▲ Contract manufacturer for Australian and International pharma 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



Stocks For Low Risk & High Returns Cont'd

Sigma Cont'd

- ▲ Banner management of Amcal and Guardian groups
- ▲ Development and provision of private label products for Amcal and Guardian
- ▲ Market cap @ \$6.78 is \$959 million
- ▲ Austock 12 month target \$7.50
- ▲ PEG ratio target \$10.00 (Value of 1)



Stocks For Low Risk & High Returns Cont'd

Sigma Cont'd

	2003A	2004F	2005F	2006F
Sales \$	1.7b	1.9b	2b	2.1b
NPAT \$	32 m	44.7m	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



Stocks For Low Risk & High Returns Cont'd

Sigma Cont'd

- ▲ 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 give Sigma an edge
- ▲ Sigma's has long term leverage to the generics market