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SPECIALTY  
PHARMACEUTICALS

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## DPP4 INHIBITOR JANUVIA VIABLE COMPETITOR VERSUS BYETTA AS ONCE DAILY ORAL PILL AND CHEAPER SUBSTITUTE; RECOMMENDING SWAPPING OUT OF AMLN AND INTO NKTR AND EMIS

**Investment Conclusion:** *DPP-4 inhibitor Januvia works metabolically within the same pathway for reducing blood glucose levels as GLP-1 (Byetta), although at different parts of the pathway with a differentiated mechanism from any other currently marketed diabetic drug. The result of Januvia's efficacy is disclosed through various trials and it met the FDA muster by obtaining the FDA approval this morning. Moreover, the safety profile of the drug is deemed high, where in clinical trials JANUVIA demonstrated an overall incidence of side effects comparable to placebo. The efficacy and the safety data is positive as seen from Phase 2 and 3 trials, but what we believe threatens Byetta directly are three factors, 1) it's an orally taken pill, 2) dosage is once a day, instead of twice a day injection, 3) it's priced at \$4.86, which is about 25% less than Byetta. In our opinion, it will not be easy to maintain Byetta growth rate with this competitive product. Also, AMLN, whose valuations calculate 2009 sales revenue at no discount compared to the peers, will most likely underperform. Our recommendation is to lighten up on AMLN and buy NKTR on expected improving Exubera visibility and buy EMIS on expected positive Phase 2 oral insulin data out by the end of this month. Nektar is currently down 30% from Q2 highs, with a known target base of 4 million diabetics who are already taking insulin. We estimate that Pfizer (Nektar's partner) only needs to convert one fourth of this base, who can not take Januvia, to hit our \$2B+ 2010 estimate, which is worth about \$2.00 EPS to NKTR. If Wall Street believed in Exubera the way they do Byetta, then NKTR would be valued around \$50 using current AMLN valuation methodology. And we know internal visibility is strong (manufacturing 24x7 PFE marketing plans including DTD (direct to diabetic) plans in early 2007) while external IMS Rx data is still not visible. This is an opportunity in our view and we recommend swapping out of AMLN and into NKTR or EMIS, two insulin stories that we view as undervalued and not impacted by today's news. We believe both should outperform AMLN over the balance of 2006 and likely 2007 as well.*

*Finally, in wake of today's announced LLY-ICOS deal, driven by LLY's desire to capture all the Cialis profits, it's worth noting that NKTR captures about half of Exubera profits at least through 2009 and LLY bought ICOS so it didn't have to pay half profits in 2007. So while it may be a bit premature for PFE to make a move on NKTR, if PFE continues to forecast \$2B+ Exubera revenue in the 2009-2010 timeframe and is planning a massive DTD campaign in early 2007 and has raised its production forecast from NKTR driving San Carlos into 24x7 mode, then just maybe PFE knows something that Wall Street doesn't. And just perhaps, if Wall Street doesn't value NKTR at our target price of \$30, then maybe PFE might.*

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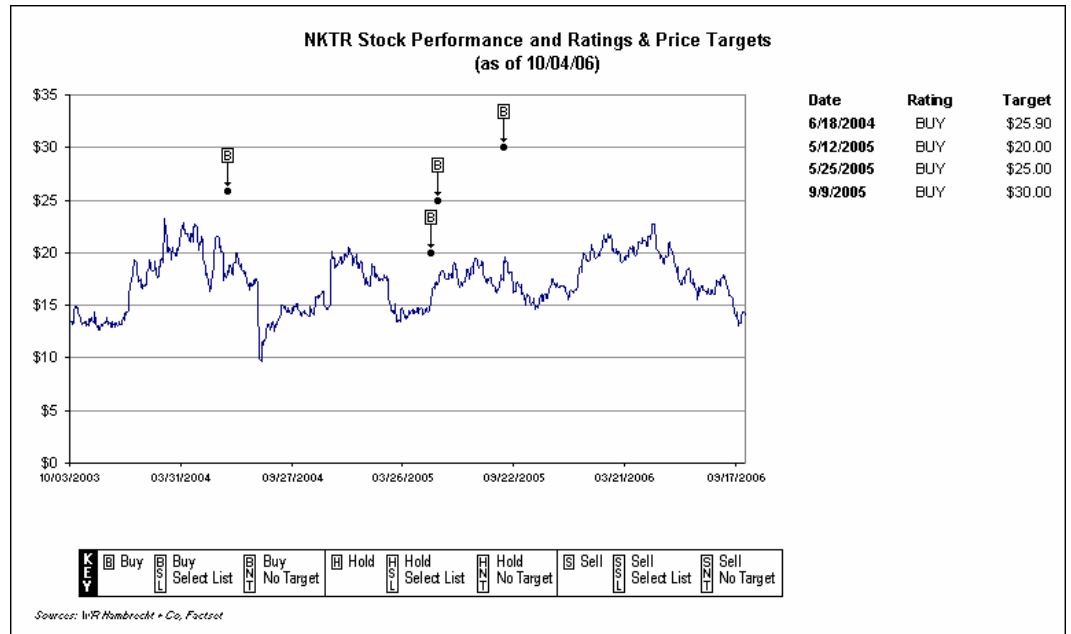
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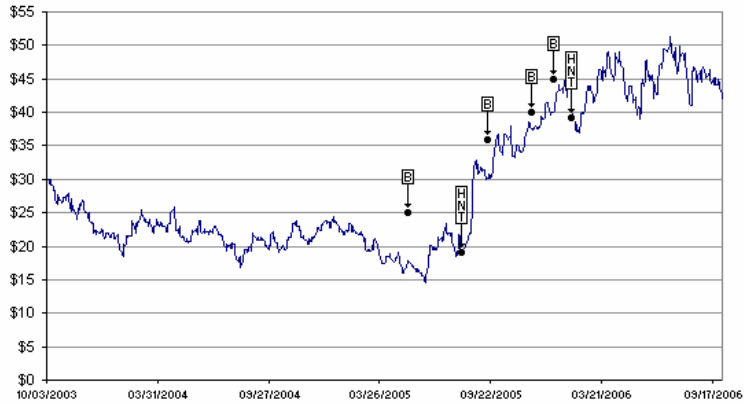
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**AMLN Stock Performance and Ratings & Price Targets  
(as of 10/04/06)**



Date	Rating	Target
5/12/2005	BUY	\$25.00
8/9/2005	HOLD	No Target
9/20/2005	BUY	\$36.00
11/30/2005	BUY	\$40.00
1/5/2006	BUY	\$45.00
2/2/2006	HOLD	No Target

<b>B</b> Buy	<b>S</b> Buy Select List	<b>N</b> Buy No Target	<b>H</b> Hold	<b>S</b> Hold Select List	<b>N</b> Hold No Target	<b>S</b> Sell	<b>S</b> Sell Select List	<b>N</b> Sell No Target
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*Sources: WR Hambrecht + Co, Factset*

**EMIS Stock Performance and Ratings & Price Targets  
(as of 10/04/06)**



Date	Rating	Target
6/30/2006	BUY	\$14.00

<b>B</b> Buy	<b>S</b> Buy Select List	<b>N</b> Buy No Target	<b>H</b> Hold	<b>S</b> Hold Select List	<b>N</b> Hold No Target	<b>S</b> Sell	<b>S</b> Sell Select List	<b>N</b> Sell No Target
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*Sources: WR Hambrecht + Co, Factset*

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SELL	Stocks rated Sell are those we would be actively selling; these stocks are expected to depreciate in absolute dollar terms at least 10% over the next 6 months.	3	0

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Investment risks associated with the achievement of the price target include, but are not limited to, the company's failure to achieve our earnings and revenue estimates, unforeseen macroeconomic and/or industry events that adversely impact demand for the company's products or services, product obsolescence, changes in investor sentiment regarding the specific company or industry, intense and rapidly changing competitive pressures, the continuing development of industry standards, the company's ability to recruit and retain competent personnel, and adverse market conditions. For a complete discussion of the risk factors that could affect the market price of the company's shares, refer to the most recent form 10-Q or 10-K that the company has filed with the SEC.

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## VALUATION METHODS TO DETERMINE PRICE TARGET

Our \$14 Emisphere Technologies (EMIS) price target is derived by applying a 30x P/E to our 2010 EPS estimate of \$1.00, discounted 30% per annum for three years.

Our 12-18 month \$30 target price for Nektar Therapeutics (NKTR) is 35x our 2008 EPS estimate of \$0.94, discounted back one year at 25%.

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