

April 19, 2002

Pharmaceuticals, Specialty

United States

Medicis Pharmaceutical Corp. (MRX)[30]

Buy

Key Statistics

Price	\$54.00
52-Wk Range	\$65-42
Price Target	\$65.00
Return Pot'l.	20.4%
Mkt. Cap(MM)	\$1,631
Sh. Out.(MM)	30.2
Float	99%
Inst. Hldgs.	97.0%
Avg. Volume(K)	181
Curr.Div./Yield	None/NA
Sec.Grwth.Rate	NA
Convertible?	No

Quarterly Earnings Per Share (fiscal year ends June)

	2001A	2002E	Prev	2003E	Prev
1Q	\$0.38	\$0.44		\$0.53	
2Q	0.40	0.47		0.53	
3Q	0.42	0.50	0.49	0.54	
4Q	0.44	0.54		0.58	
Year	\$1.63	\$1.95	\$1.94	\$2.18	
FC Cons.:	\$1.64	\$1.94		\$2.25	
P/E:	33.1x	27.7x		24.8x	
Revs.(MM):	\$0	\$0		\$0	

Medicis Pharmaceutical Corp. develops and markets products for treatment of dermatologic conditions. Key products include Dynacin (for acne), Loprox for skin infections and Lustra (for skin discolor).

Source: UBS Warburg LLC and First Call consensus estimates

Medicis: Earnings Beat Estimates...Again

Summary

- **3Q02 EPS beat estimates by \$0.01** – Yesterday, Medicis announced EPS of \$0.50 (versus \$0.42 in 3Q01); this was \$0.01 ahead of the UBS Warburg estimate and Street consensus. This is the 35th consecutive quarter Medicis has met or beat Street estimates.
- **Strong top-line growth drives upside in quarter** –Sales grew 34% to \$56.6 million, nearly \$800,000 above our forecasts. Key brands' prescription trends showed strong growth in the quarter, up 75% over 3Q01 (12% excluding Orapred). Margins improved significantly, by 104 basis points, as a result of a favorable product mix (as seen with the shift to the higher margin Alustra and 100 mg dose of Dynacin). The tax rate came down 100 basis points sequentially, beating our expectations by 100 basis points. Total spending levels were almost \$700,000 higher than anticipated, driven entirely by higher than expected SG&A. R&D spending came in light; almost 40 basis points as a percent of sales below our estimate.

C.J. Sylvester

+1 212 713 1419

christopher.sylvester@ubsw.com

Christina Ghorban, Associate Analyst

+1 212 713 2364

christina.ghorban@ubsw.com

- **Key products should continue to support top-line growth in 2002** – We expect five key products to contribute significantly to top-line growth in 2002: the Plexion line, the Lustra line, Loprox, Omnicef and Orapred. Medicis' acquisition of Ascent Pediatrics, completed in November 2001, was immediately accretive to revenue growth. The acquisition has not only provided a foothold in the pediatric market, but also additional marketing opportunity for existing dermatology products in the pediatric realm. Medicis has already seen encouraging early results marketing both Loprox and Ovide in the pediatric market. We are currently forecasting 26% revenue growth in fiscal 2002 to approximately \$213 million.
- **Investment Summary** - Medicis is trading at a 20% relative premium to the S&P based on estimated 2003 earnings and a Mid-Cap Pharma Universe group multiple (a 17% premium to the UBS Large Cap Universe). Medicis continues to provide surprises on the acquisition and product licensing front. The Omnicef and Ascent deals are examples of that. We are beginning to see a solid strategic move to begin to broaden the company's therapeutic focus outside of the dermatology market. We believe the company's strong cash balance will enable it to continue to be acquisitive. If Medicis chooses to make acquisitions outside of the dermatology market, we believe the company will remain with the discipline it has successfully used to deal with product acquisitions in the dermatology market. We forecast Medicis' earnings to grow 19% in fiscal 2002, which does not include acquisition possibilities, strategic collaborations, or new introductions from the company's internal R&D pipeline. Medicis has established itself as one of the most consistent earnings growers in the industry.

Valuation

- We continue to rate MRX Buy with a 12-month price target of \$65, based on 28x our 2003 calendar EPS estimate of \$2.31.

Additional Information

Table 1: P&L GROWTH ANALYSIS (in thousands):

	3Q02A	3Q01A	Yr/Yr Change	Comments
Net Sales	56,623	42,346	34%	Beat expectations by \$773,000
COGS	9,397	7,470	26%	
SG&A	21,544	14,785	46%	
R&D	1,935	1,763	10%	\$187,000 below our estimate
Oper./Pretax Income	21,779	16,289	34%	
Tax	8,178	6,855	19%	
Net Income	15,875	13,300	19%	
Operating EPS	\$0.50	\$0.42	19%	Solid, \$0.01 ahead of our estimates

Source: Company Reports

Table 2: P&L MARGIN ANALYSIS:

	3Q02A	3Q01A	Yr/Yr Change	Comments
COGS	16.60%	17.64%	-104 bps	In-line with estimates
SG&A	38.05%	34.92%	+313 bps	Higher than our estimates by 105 bps
R&D	3.42%	4.16%	-74 bps	Target is for 5% of sales; recent variability may be due to timing of payments to contract research and development organizations
Tax Rate	34.00%	34.01%	-1 bps	100 basis points lower than our expectations

Source: Company Reports

Table 3: Key Products:

	TRx's (GrowthQ/Q)	Comments
Dynacin (acne)	-28%	Gains in higher priced 100mg dose should offset significant revenue erosion

Loprox (antifungal)	30%	Continued growth
Triaz (acne)	-4%	Up 30 basis points in total market share year-to-date
Lustra (skin discoloration)	-12%	Does not take into account 2oz size
Plexion (rosacea)	>100%	3.6% market share
Ovide (lice treatment)	25%	Solid gains
Orapred (steroid)	N/A	12% sequential quarterly growth
Key Brands Total	75%	Growth of 12% excluding Orapred

Source: IMS Health

Statement of Risk

- Risks generally applicable to the pharmaceutical sector include: development risk (uncertainty regarding the timing, efficacy and market potential of new products), commercial risk (threats from new/existing competition, pricing pressures), regulatory risk (timing/status of approvals, changes in labeling or new warnings on existing products), patent risk (products losing patent protection may face significant market share/price erosion, potential litigation) and foreign exchange risk (due to the large base of non-U.S. sales for these companies).

30. UBS Warburg is acting as a financial advisor to this company.

UBS Warburg LLC, 1285 Avenue of the Americas, New York, NY 10019 Phone: +1-212-713-2000

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