

## Alert: Elan Corporation, plc ADR (nyse: ELN)

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Closing Price: \$14.10

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### Marketocracy Alert: A Gift from Wall Street

We are issuing this alert because Wall St. gave us another great opportunity to buy shares in Elan Corp. (nyse: ELN). Lehman Brothers downgraded ELN on Thursday, Jan. 19th to Underweight and sent ELN shares tumbling from Wednesday's high of \$16.83 to a low of \$13.10 on Friday the 20th before closing the week at \$13.66. ELN has rebounded a bit closing at \$14.10 on Monday the 23rd but is still a great buying opportunity.

Lehman Brothers joins Citibank, Bank of America, and Merrill Lynch in their negative stance on Elan. It is rare that you see a situation where so many Wall St. analysts are lined up with such a different opinion from what my research says. This is the time to back up the truck and load up.

The Wall St. analyst expects only a 75% probability of FDA approval of Tysabri. If approved they don't expect any sales until 2007 and for sales to peak at only \$490 million in 2012. That equates to 21,304 patients at peak.

Contrast that with what Elan's CEO, Kelly Martin, said at the recent Morgan Stanley Pharmaceutical CEOs Unplugged Conference. He claims he has 25,000 patients waiting to use Tysabri as soon as it is approved early this year.

Someone is going to be proven right and the other wrong. We don't have to wait that long. Soon the FDA will approve Tysabri and we'll find out whether the Wall St. analysts or Kelly Martin is right.

### Recommendation: (based on your portfolio)

**If you do not already own ELN:** Buy some at the current price.

**If you currently have a small position in ELN:** Add to your position on this current weakness.

**If ELN is already a big position:** if ELN represents more than 10% of your portfolio you have my congratulations. You made a good buy and I would sit tight.

### Why the Wall St. Analysts are Wrong

1. Wall St. is basing their Tysabri opinion on Biogen management
2. Wall St. is overly fearful of PML
3. Wall St. is not giving MS patients enough credit

### Wall St. is Basing Their Tysabri Opinion on Biogen Management

The analysts proudly claimed their opinion on Tysabri and Elan was based on a meeting with Biogen management – not Elan. Biogen is Elan's partner in selling and marketing Tysabri and has been conservative in their estimates regarding Tysabri. Why?

Biogen currently has the leading MS drug, Avonex. Biogen took the unusual step of trying to get approval for Tysabri in combination with Avonex from the outset. In a perfect world for Biogen, they hoped MS patients would give up competing MS drugs to use Tysabri but could continue to use Avonex.

Unfortunately for Biogen, the cases of PML have shown up ONLY when Tysabri was used in combination with Avonex. There is a good chance that most patients that use Tysabri will do so in mono-therapy, without any other drug. That will hurt all other MS drug companies but particularly the leader, Biogen and that is why they aren't pumping up expectations of Tysabri in mono-therapy. In fact, Biogen is still making their case for Tysabri in combination with Avonex, which is why there is so much discussion about monitoring for PML.

Biogen needs Tysabri to be a success because Avonex is coming off patent next year. However, Biogen is in a difficult position and doesn't want to pump up expectations with Wall St. that Tysabri will replace Avonex either.

## Wall St. is Overly Fearful of PML

In our Research Report on Elan we explained why we thought the concerns about PML (Progressive Multifocal Leukoencephalopathy) are overblown. We think Wall St. is overly focused on this because they are listening to Biogen (and other MS drug companies) and Biogen is still making their case for combination therapy with Avonex.

Every drug you take has a long list of potential side effects yet millions of us take these drugs every day. So far, the risk of PML in combination therapy is less than the risk of dying from taking aspirin. And there are many other drugs that have a risk of PML that are approved by the FDA that patients use every day. J&J's Remicade is a good example of a drug that has a risk of PML that nevertheless generates over \$1.5 billion in annual sales. Rituxan (from Biogen) has also been associated with PML when used in combination with some chemo-therapy drugs, yet Rituxan also generates sales in excess of \$1.5 billion.

Doctors, patients, and the FDA have to weigh the risk of PML against Tysabri's benefits. What the analysts fail to recognize is that PML has appeared in 0.1% of patients taking Tysabri only in combination with Avonex and has not been found in a single patient using Tysabri in mono-therapy. Based on all the data available to date, the risk-benefit profile is looking like this:

Tysabri	Patients with PML	Benefit
Combination Therapy	3	66% reduction in relapse
Mono-therapy	0	66% reduction in relapse

If you were an MS patient, how would you feel if the FDA (or your doctor) prevented you from getting a drug that would reduce your relapse risk by 66% because of the risk of PML when there is no evidence that the drug causes PML when used alone? Expect these issues to be aired at the FDA's Advisory Committee meeting on March 7. In the end, however, the data shows that the risk of PML does not justify the FDA or doctors withholding Tysabri in mono-therapy from MS patients.

## Wall St. is Not Giving MS Patients Enough Credit

The MS community is very organized, knowledgeable, and networked together and I have not seen any Wall St. analyst recognize the power or importance of that. No matter how much Wall St. thinks the FDA will fret over what the label should say, when MS patients that have used Tysabri say things like, "I felt so good I forgot what it was like to have MS" and Kelly Martin says, MS patients on Tysabri have gotten out of their wheelchair and gone on 10 mile hikes, the word spreads like wildfire and MS patients will demand to use Tysabri. The FDA cares about that. That's why they approved Tysabri for Priority Review and have sought patient comments.

Of course physicians will respond to a survey that they would like to know more about the risks of PML and have their liability reduced before prescribing it. That is always the case. However, when your MS patient is willing to

give up all other drugs and suffer the painful effects of MS so that they can be ready to take Tysabri as soon as it is re-approved, will you tell them to wait for more data? I don't think so.

Kelly Martin, the CEO of Elan, presented a strong case for the success of Tysabri at the Morgan Stanley Pharmaceutical CEO's Unplugged Conference on January 5, and the JP Morgan 24th Annual Healthcare Conference on January 10. That's all he can do for Wall St. Now he has to get FDA approval for Tysabri and deliver on the results he is predicting. If Wall St. doesn't believe him, that creates the buying opportunity for us.

It is unusual to have lots of Wall St. analysts lined up with an opposite opinion against what our research and the company are telling us. In my experience, that's when it is time to back up the truck and load up.

## Previous Articles/Reports/Alerts by Marketocracy on Elan:

[Betting On Elan's Second Resurrection - Forbes 6/17/05 \(click here to read\)](#)

[Monotherapy will Double Elan - Forbes 9/28/05 \(click here to read\)](#)

[Marketocracy Alert: Elan 1/4/06 \(click here to read\)](#)

[Marketocracy Research Report: Elan 12/16/05 \(click to read\)](#)

## Explanations and FAQs

### What is Marketocracy's Research Process?

We look for stocks that we think can double within the next 2 to 3 years. For most stocks, there are only a handful of big issues that can drive a double and even great investors rarely have all the pieces of the investment puzzle. The secret to good stock research is to frame the right questions and then ask the people best qualified to answer them.

At Marketocracy, our m100 members -- those with the 100 best investment track records -- help us pick stocks, identify the issues, and frame the right questions. Recently, I asked the broader Marketocracy community if they could help me understand a piece of the investment puzzle on Elan and Tysabri. I heard back from members that were physicians, multiple-sclerosis patients, nurses, lab technicians, industry executives, scientists, etc. Together, they helped give me a 360 degree view and made me comfortable making Elan the largest position in the portfolio.

This research process is a concept that has worked well for me at Firsthand Funds and I am confident it will work even better at Marketocracy where the talent base is broad enough to research and find great investments in every corner of the market. I invite you to join Marketocracy and contribute to our team research process.

### What's your Target Price?

We don't have a target price. If you want one you can double the current price as a proxy. We don't use a target price to indicate a "true value" or "sell price." We expect a price range with a stock *likely* to double within a 2-3 year window.

### What's your Buy Price?

Our opinion is based on the current price and situation of the company and the market at the time we issue it. Things change. If the price drops below the current price is it because it is a better buy or did something change to cause the price to drop in value? We don't believe in setting a static buy price.

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## Our Investment Philosophy

*Always Field the Best Team*

### *No One Style Works all of the Time...*

The sectors and styles that did well last year are unlikely to do as well this year. Why? Because opportunities to outperform the market come to fruition when the market finds them and starts to put capital into them. This causes prices to go up, thereby delivering above-market returns to early investors, while at the same time reducing the opportunity to outperform in the future. Opportunities to outperform the market are always temporary – at least you hope so, otherwise your excess returns would never materialize.

### *...But There's Always Something Outperforming*

The market is never uniformly bad. It is often the case

that the same factors that hurt one group of companies benefit others. No matter what the future brings, some areas of the economy will do better than average and some will do worse.

### *The Right Team at the Right Time*

The key to outperforming the market over the long-term is the ability to adapt as sectors and styles come in and out of favor. The m100 are the most skilled stock pickers we can find for the areas of the market that are performing well. By reevaluating the m100 each month, the group constantly adapts to take advantage of the best opportunities to outperform the market.