

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

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Closing Price: \$15.81

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Marketocracy Alert: The FDA Advisory Committee Speaks

We are issuing this alert because Elan Corp. (nyse: ELN) jumped 24.49% in about 30 minutes of trading today to close at \$15.81 when trading resumed on the NYSE after the FDA Advisory Committee meeting on Tysabri was concluded this afternoon. The recommendations and discussions coming out of the meeting were extremely positive for Tysabri and Elan. I expect that the stock will continue to rally tomorrow.

The meeting eliminated the final remaining doubt Wall St. had about whether Tysabri would be re-approved, which accounted for a large portion of today's price increase. However, several things discussed at the meeting lead me to believe that Tysabri's potential is now even larger than before.

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.

If ELN is already a big position: if ELN represents a lot more than 10% of your portfolio you may have an opportunity to trim the position back on this run up.

My Take on What Happened Today

As we expected, today the FDA Advisory Committee voted unanimously, to approve Tysabri's return to the market. The unanimous vote for mono-therapy was surprising (12 to 0) because it is rare that you could put twelve people in a room, especially twelve doctors, and have them ALL agree. After this unanimous vote, I think even Lehman Brothers (who put Tysabri's chance's of returning to market at 75%) will be coming around to our view that Tysabri will be back.

Now that the advisory panel has recommended approval, the FDA has the final say. The FDA does not have to follow the committee's recommendation, but in all the years I've been following drugs through this process I cannot recall a single case where the FDA's final decision was contrary to a unanimous committee recommendation. Under the rules for a priority review, the FDA has until March 26 to issue their decision. After receiving such an overwhelmingly positive recommendation from its advisory committee, I think the FDA may not wait until the last minute to make its decision.

For me, the biggest surprise came when the committee voted 7 to 5 in favor of allowing Tysabri to be used as a **first-line therapy**, and 11 to 1 against restricting Tysabri to only advanced MS patients. It means

that MS patients don't have to wait until they've failed all of the other drugs before they can use Tysabri. Tysabri can be their first drug of choice.

From an investment standpoint, the immediate potential market for Tysabri just quadrupled from 100,000 patients in the U.S. for whom all other drugs have failed, to all 400,000 U.S. multiple sclerosis patients. The additional 300,000 potential Tysabri patients are all currently on competing MS drugs that collectively generated about \$5 billion in sales last year for their manufacturers: Serono SA (nyse: SRA), Teva Pharmaceutical Industries Ltd. (nasdaq: TEVA), Schering AG (nyse: SHR) and Biogen IDEC (nasdaq: BIIB). Biogen gets 50% of the revenues from Tysabri, but the other companies see nothing but downside from Tysabri's return.

\$5 billion in sales supports a lot of the market capitalization for these companies. So don't be surprised at the lengths they will go to slow Tysabri's progress. Their problem is that Tysabri's efficacy is so compelling that none of them can argue their drug's superiority so instead they will argue that their drugs are safer. While the talk of additional deaths from PML (a potentially fatal complication) may scare investors, this argument did not sway any members of the advisor committee, and I don't think it will sway many patients.

No one really knows what the risk is of contracting PML from Tysabri alone, but the committee agreed the best estimate is 1 in a 1,000. It was a good move for Elan and Biogen to agree with this estimate because it means that after Tysabri is re-approved, the FDA will not consider revisiting the PML issue unless there are "substantially more" cases of PML associated with Tysabri than 1 in a 1,000. Since there have been no cases of PML associated with Tysabri in mono-therapy, this creates a high hurdle before PML might be revisited again by the FDA.

Elan jumped 24.49% to close up \$3.11 today. I think it's still a bargain. Wall Street may now agree that Tysabri will be re-approved, but they are not convinced of its blockbuster potential. The firms that follow Elan expect Tysabri to generate weak sales which peak at between \$490 million and \$1.2 billion by 2012. I think the big move in the stock will happen when Tysabri sales prove the Wall Street analysts wrong again. So, if you don't already own some Elan, there is still time to buy this stock.

Previous Articles/Reports/Alerts by Marketocracy on Elan:

[Marketocracy Alert: Elan 2/28/06 \(click here to read\)](#)

[Marketocracy Alert: Elan 1/23/06 \(click here to read\)](#)

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

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

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

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

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.