



Wednesday 6th August 2008

DAILY COMPANY NOTE — Elan See page 2 for full details

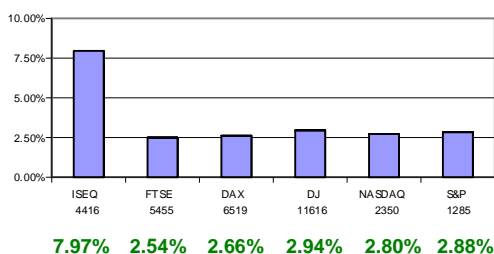
Daily Market Comment

Yesterday's Summary : The ISEQ had its largest one day gain since 1987, gaining 8%, boosted by financials and Ryanair. Ryanair added 17% as oil prices continued to tumble closing below the key psychological level of \$120 a barrel due to falling demand in the US and Europe. Financials continued to recover some ground with all of the major Irish banks gaining in excess of 10% as sentiment towards the sector improved and short covering resumed.

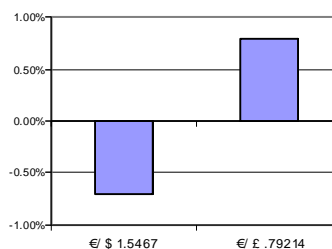
Overnight News: The Fed kept rates on hold last night which was the key catalyst for markets across the globe. The Dow finished up 332 points or 2.9%. The Nikkei closed up 2.6% as Asian markets expect to benefit from stronger exports following the dovish Fed stance.

Breaking News : Xstrata announced a takeover of Rival Lonmin for £33 per share in a bid to increase its platinum exposure. Lonmin is currently trading £1 above the offer price implying that the greater than 40% premium over yesterdays close may not be enough to get the deal done. Freddie Mac the US mortgage giant has announced a greater than expected Q2 loss of \$1.63 per share compared to \$0.54 expected. The news has sent the Dow into minus territory, although only slightly.

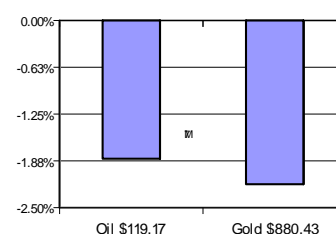
Equity Indices change on day



Currency daily % change



Oil/Gold daily % change



News

ISEQ Performers/Losers 05/08/08

- "Tax hikes on cards as revenue plunges €2bn"-(Irish Independent)
- "SocGen figures and oil price dip spark 8% rally" (Irish Independent)
- "US Central Bank highlights concern about weaker growth"-(Wall Street Journal)
- "StanChart cautions over Asia"-**Standard Chartered** (Irish Independent)

Market Themes and Movers

Fed keeps rates on hold : As expected the Fed kept rates on hold in its meeting last night. The Fed signaled that weak employment and financial instability would postpone rate increases. The market now believes that the Fed will be on hold for the rest of the year. Expectations are for inflation to slow as lower economic activity reduces price pressures, although predicting inflation is difficult. Fed member Richard Fisher voted for a rate increase, the fifth time he has done so this year. The Fed's actions yesterday show that while inflation is a concern, the recent weakening in the US economy is the greater of the two evils, at least for now. The ECB and the BOE are due to set their interest rates this week. No changes are expected to be made. The EU and the UK are beset by similar problems with slowing economies and stubbornly high inflation. Recent pullbacks in commodity prices does offer some hope for easing inflation in coming months, but inflation is likely to remain stubbornly high for some time to come.



Dolmen Securities
75 St. Stephen's Green, Dublin 2, Ireland.
45 South Mall, Cork, Ireland
Theatre Court, Mallow St, Limerick, Ireland.

Website : www.dolmenstockbrokers.ie
Tel : +353 1 633 3800/1890 400 300
Tel : +353 21 422 2122
Tel : +353 61 436 500

E-mail: info@dsl.ie
E-mail: cork@dsl.ie
E-mail: Limerick@dsl.ie

Elan

Nasdaq

Pharmaceutical

Company Profile

The Group's principal activity is discovering, developing, manufacturing and marketing advanced therapies in neurodegenerative diseases, autoimmune diseases and severe pain. The Group's operations are carried out through two divisions. Elan Drug Technologies focuses on product development, scale-up and manufacturing to address drug optimization challenges.

Fundamental View: In previous notes we highlighted certain risks to Elan's business model that we felt the market was ignoring. Last week saw some dramatic negative moves in Elan's share price relating to the market appraisal of these risks. On Tuesday, Elan released additional details on its Phase 2 Bapineuzumab trials. The side effects from the drug were a little worse than expected, with 12 of the 234 test patients developing a brain swelling condition called vasogenic edema. As previously reported the drug didn't achieve statistical significance in treating the overall group. However it did achieve statistical significance for a sub-group of Alzheimer that doesn't carry a particular genetic marker. While this was not new news, details of the trial were released that suggested that the drug was less effective than may have been expected. The drug did slow the onset of the disease but didn't stop its development or reverse its progress. Patients receiving treatment for the drug recorded -6 on a scale used to measure the progression of Alzheimer's, compared to -11 for the placebo group. The reading for this particular test group is at the bottom end of the expected range implying that the drugs true effectiveness may be less than 5 points improvement suggested. Additionally the drug was not more effective in treating patients in higher dosages which is unusual. However it is difficult to draw conclusions from the data due to the small size of the testing population. The stock price sold off aggressively on the news, in the region of 40%.

On Thursday Elan and partner Biogen released details of two new cases of PML related to its MS treatment Tysabri. These are the first cases since the drug was reintroduced as monotherapy 2 years ago. The drug was reintroduced with a warning that 1 in 1,000 cases could develop the disease. Over 31,800 patients use the drug, and given that the two new cases were receiving treatment for 14 and 17 months, the probability for additional cases is great. The company has guided for 100,000 users by 2010, a goal that is essential for the company's financial future, given that earnings are likely to be negative for 2008 and 2009. Given the importance of future PML cases on the valuation of Elan, we find it frustrating that management have refused to disclose how many more patients are currently suspected of having contracted PML.

Next catalyst: Despite the market reaction to the Bapineuzumab trial data, the drug may well reach marketability, although not before 2011, and then possibly only to non-carriers of the ApoE4 genetic marker. As of 31st June, Elan had \$1.77bn in outstanding long term debt, of which \$1.15bn matures in 2011 and the remainder in 2013. Elan had at this time \$607m in available cash. Elan is due to pay \$75m to partner Biogen later in the year, further depleting cash reserves. We estimate an end of year cash balance of roughly \$430m, a cash shortfall of \$200m per year at current levels of R&D and revenues. However we expect Elan to sell its EDT business for approximately \$1bn in 2008, this would provide additional breathing room for the company. Assuming a 2011 EPS of \$0.52 based on slower take-up of the Tysabri treatment, the current market price suggests a multiple of over 22x this futures earnings figure. We are maintaining our neutral rating and assigning a price target of \$10.00. This takes into account future revenues from Tysabri, and the potential for Bapineuzumab to reach the market. We note that given the lack of clarity on possible additional PML cases and the affect this could have on our valuation, the stock carries a large amount of risk. The company is expected to release third quarter data in early October. However the next catalyst for the company is likely to relate to further details of the PML cases.

Statistics

Price Performance

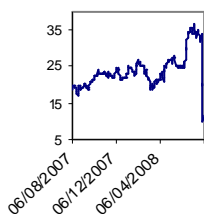


Chart view: Elan

Primary Support: \$5.69
 Primary Resistance: \$14.58
 Secondary Resistance: \$16.44

With the stock having recently gapped 50%, current price levels lie close to support at 5.69. Should price begin to rise from this support level a favourable buy opportunity exists with target resistance substantially higher at 14.58.

Revenue by Division



■ Product Revenue 97%
 ■ Contract Revenue 3%

Major Shareholders	%	Peer Group Multiples.			
Susquehanna Int. Group	1.81%	Company name	P/E 08	P/E 09	EPS Growth 08-09
Norges Bank Inv. Mgt.	1.44%	Elan	N/A	N/A	N/A
BelleVue Asset Mgt.	0.76%				
Barclays Global Investors	0.50%				
Vanguard	0.50%				
Shares Outstanding	472.86m				

Share Data	Financial Data	2007	2008	2009e
Current Price (\$)	Revenue (\$m)	516	1,038	1,293
Mkt Cap (\$m)	PBT (\$m)	-661	-254	-42
Reuters	EPS (\$)	-0.87	-0.52	-0.29
Bloomberg	P/E(x)	-13.01	-21.77	-39.03
Sector				
CEO	Pharmaceuticals			
Cfo	Kelly Martin			
Website	Shane Cooke			
	www.elan.com			





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