



Tuesday 29th April 2008

**DAILY COMPANY NOTE — Elan Corp** See page 2 for full details

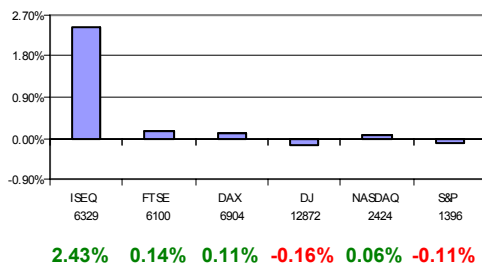
## Daily Market Comment

**Yesterday's Summary :** With strong first and second quarter results for Verizon and Visa respectively, the ISEQ consolidated its early morning gains to outperform European markets, finishing 2.43% higher at 6,306.41. Irish financials had a strong performance as news that a group of clients of Anglo Irish Bank has plans to set up a large investment fund to buy shares in the troubled bank, boosted the sector. Anglo Irish soared 7.1% to €8.68, AIB gained 2.25% to €13.65 and Irish Life & Permanent ended 1.56% higher at €11.07. CRH reversed some of its recent loses, rising 2.1% to €24.4, while Dragon Oil climbed 3.42% to finish at €6.65.

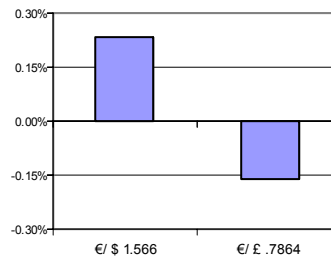
**Overnight News :** In China, the benchmark Shanghai Composite Index closed up 1.40% at 3,523.41 led by power firms on hopes that the government will aid the industry after it posted heavy losses in the past few months due to high coal prices. In Australia, the S&P/ASX 200 closed up 0.07% at 5,606.9, as investors stayed on the sidelines ahead of the U.S. Federal Reserve's next interest rate move and an update on the US economy.

**Breaking News :** British oil major BP has posted very strong first quarter net profit of \$7.62bn, or 40 cents a share, which is compared with \$4.66bn or 23.9 cents a share for the year earlier and well above analyst expectations for a net profit of \$5.16bn. Royal Dutch Shell has reported first quarter net income of \$9.08bn, or \$1.46 a share, which is 25% higher than the \$7.28bn, or \$1.15 per share, posted last year. Britain's largest mortgage lender HBOS, has announced that it will undergo a £4bn rights issue to rebuild its capital base. Deutsche Bank has reported a first quarterly net loss €131m, which is its first quarterly loss for five years. Friends Provident have reported an 11% rise in total life and pensions new business first quarter sales.

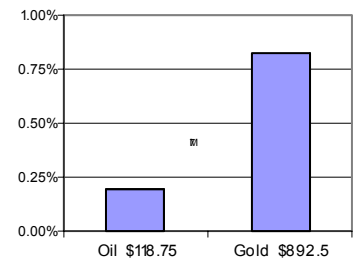
### Equity Indices change on day



### Currency daily % change



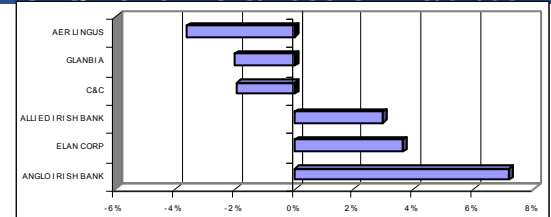
### Oil/Gold daily % change



## News

- "Eureko walks away from FBD takeover after rebuff"-**FBD**-(Irish Independent)
- "Waterford Wedgwood announces further shake-up of managers"- (I.T)
- "Magners ready to tap into Britain"-**C&C**-(Irish Examiner)
- "Inflation biggest threat, warns EU commission"-(Irish Examiner)
- "Mars & Buffet buy Wrigley"-**Mars**-(Irish Examiner)

## ISEQ Performers/Losers 28/04/08



## Market Themes and Movers

**UK Mortgage Approvals :** UK Mortgage approvals fell in March to the lowest level in nine years as credit market woes have significantly impacted on the market. The Bank of England announced that it granted 64,000 loans for house purchase in March, which is compared to 72,000 in February and below economist's expectations of 66,000. The Bank of England also reported that net lending on homes fell to £6.9bn in March, the lowest in three years, from £7.3bn the previous month. The value of customer owned lenders fell to £2.9bn, the least since September 2004.

**European Retail Sales :** European retail sales declined the most in four years in April as rising fuel and food prices has reduced the purchasing power of euro consumers. Retail sales growth in the euro region fell for a second month to a seasonally adjusted 41.8 from 48.2 in March. Meanwhile, the European Commission has also announced European consumer confidence has declined to the lowest level in more than two years in March.



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# Elan Corp

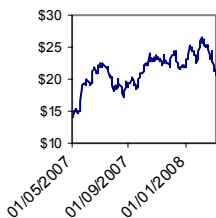
**Current**
**\$26.59**
**ISEQ**
**Nasdaq**

## 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.

## Statistics

### Price Performance



### Revenue by Region



- US 80%
- Ireland 12%
- Rest of World 9%

**Fundamental view :** Last week Elan released its 2008 first quarter results. The company posted an \$86m loss for the first three months of 2008, compared to \$93m for the same period in 2007. Revenue was up 22%, driven by continuing strong performance of its Tysabri drug. First quarter loss per share of \$0.18 was \$0.02 better than consensus estimates. During the first quarter the company added an additional 5,000 Tysabri patients, bringing the total number of patients receiving Tysabri to 26,000. The company believes it is still on track for treating 100,000 Multiple Sclerosis patients by 2010. Elan's available cash has declined by \$56m to \$664m over the quarter. This is of particular concern, as Elan needs these funds to cover operating losses and R&D until the company becomes profitable. Elan's cash balance is expected to decline by \$300-400m during 2008, with increased R&D costs as well as a scheduled \$75m payment to Elan's Tysabri partner Biogen. This leaves Elan in a precarious position if estimated revenue growth fails to materialise, or if any negative medical reports emerge on Elan's drugs, Tysabri in particular. Our view is that consensus estimates significantly underestimates the probability of new cases of PML occurring. There is a significant probability that the company will fall well short of its goal of treating 100,000 MS patients, if new cases of PML occur. A significant part of consensus valuations is based on the pipeline Alzheimer treatment AAB-001. Current market assumptions assume up to a 50% probability of AAB-001 being successfully commercialized. Our view is that these assumptions are overly optimistic and there is considerable downside from a negative test result for this drug.

**Next catalyst :** The next catalyst for the company will be the "Elan company day" on May 7th where the company will be expected to provide additional insights into its early stage pipeline. There is ongoing speculation of M&A around Elan, a divestment of a non-core business is possible, as is the sale of some of its pipeline drugs. Any of these would be interpreted positively by the market. Elan is likely to move significantly on any results from clinical trials, regulatory decisions, or adverse patient reactions. The company is expected to release more news throughout the second half of 2008 on Elan's proposed Alzheimer treatment AAB-001, as the company seeks regulatory approval. The current stock price assumes forecasted revenue growth rates are met, that the company breaks even by 2009, and still leaves the stock trading at a hefty multiple to expected earnings. Given the alternative risk/reward opportunities amongst its peers and the Irish market in general, we are reiterating our sell recommendation on the stock. Any trading shorts in Elan should be initiated with stop-losses. Historically the best time to short Elan has been in the wake of a positive news event.

### Chart view: Elan

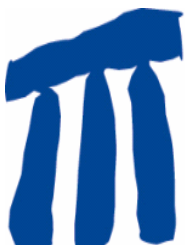
Support Primary: \$25.00  
 Support Secondary: \$23.81  
 Resistance Primary: \$27.19  
 Resistance Secondary: \$30.45

Stock has performed very well of late but is now facing strong resistance which dates back to Q4 2004/Q1 2005. This resistance area (\$26-\$30) coupled with the size of recent gains (Elan is up 49% from its March low) suggests that the stock will struggle to sustain any further gains in the short-term. Good area to take some money off the table.

| Major Shareholders      | %     | Peer Group Multiples. |        |        |                  |
|-------------------------|-------|-----------------------|--------|--------|------------------|
|                         |       | Company name          | P/E 08 | P/E 09 | EPS Growth 08-09 |
| Susquehanna             | 1.82% | <b>Elan</b>           | N/A    | N/A    | N/A              |
| Bellevue                | 1.05% | Amgen                 | 10.0   | 9.4    | 6.38%            |
| Capital Research & Mgt. | 0.85% | Genetec               | 21.0   | 18.5   | 13.51%           |
| Barclays Global         | 0.52% |                       |        |        |                  |
| Norges Bank Inv. Mgt.   | 0.49% |                       |        |        |                  |

Shares Outstanding 472.32m

| Share Data         |                 | Financial Data | 2007   | 2008e  | 2009e   |
|--------------------|-----------------|----------------|--------|--------|---------|
| Current Price (\$) | 26.59           | Revenue (\$m)  | 759    | 1,027  | 1,376   |
| Mkt Cap (\$m)      | 12,661          | PBT (\$m)      | -398   | -246   | -45     |
| Reuters            | ELN.N           | EPS (c)        | -0.87  | -0.48  | -0.14   |
| Bloomberg          | ELN US          | P/E(x)         | -30.56 | -55.40 | -189.93 |
| Sector             | Pharmaceutical  | DPS (c)        | 0.00   | 0.00   | 0.00    |
| CFO                | Shane Cooke     | Dividend Yield | 0.00%  | 0.00%  | 0.00%   |
| CEO                | G. Kelly Martin |                |        |        |         |
| Website            | www.elan.com    |                |        |        |         |





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