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AHA - Takeaways From Our Physician Dinner

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GUIDANT CORPORATION (GDT) "STRONG BUY"
MEDTRONIC INC. (MDT) "STRONG BUY"
ST. JUDE MEDICAL INC. (STJ) "BUY"
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Ticker	FY End	Price 11/12/2001	52-WK Price Range	Earnings Per Share 2000	2001	2002	3-5 Yr Growth	Est. Chg?
GDT	12	43.48	56-27	1.55A	1.65	1.93	18%	N
MDT	04	41.27	62-37	0.90R	1.05A	1.22	18%	N
STJ	12	70.30	75-44	1.82A	2.25	2.68	15%	N

HIGHLIGHTS:
· We hosted a dinner with five thought leaders in electrophysiology.
· Look for new statistically significant data from GDT's Contak CD trial to be presented tomorrow.
· CRT lead systems have room to improve
· MADIT II - physicians still optimistic for an early conclusion
· Separately on Day 2, Additional MIRACLE patient data presented on Monday was confirmatory rather than evolutionary. There are still more MIRACLE presentations slated for Tuesday, which could bring harder evidence of a mortality benefit and/or more patient follow-up.

[HI DETAILS:
-- We hosted a dinner with five thought leaders in electrophysiology yesterday. Among the attendees were Dr. Steven L. Higgins, Scripps Memorial Hospital and Dr. Richard Fogoros, Pittsburgh, PA, who focus primarily on patients and device implants, Dr. John Boehmer, Hershey Medical Center, who is a heart failure specialist, Dr. Joseph M. Smith, MD, PhD, The Cardiovascular Group, Annandale, VA, who is in private practice, spending half his time on ablation and the rest on implants, and Dr. Leslie A. Saxon, University of California, who spends most of her time on device therapy.

Companion - Will it finish? With the competition from ICDs, and the potential addition of high energy heart failure devices, there has been some concern that the critical COMPANION trial will not be able to complete full enrollment. As a reminder, the COMPANION trial will be the first large scale randomized controlled study to test for a mortality benefit with Cardiac Resynchronization Therapy (CRT). At the moment, this trial has enrolled about 1,100-1,200 patients out of an expected 2,500, and we've heard that enrollment of late has slowed significantly. The opinion of the physicians on our panels is that COMPANION is viewed by and large as an important trial to complete and that there is a fundamental commitment among both EPs and heart failure specialists to see that it is finished. Nevertheless, the challenge to enroll may get even harder once high energy CRT devices are approved, and even more so, once MADIT II concludes.

Current CRT lead systems have room to improve: The opinion of our panel (which we should mention were all good friends of the competition) is that Medtronic's left ventricular lead is somewhat difficult to use and that implant failures are not unusual. Importantly, they believed that this drawback could temper physician enthusiasm, since some physicians would eagerly try CRT but become discouraged if implants proved to be too lengthy or difficult. Additionally, referring physicians could lose enthusiasm if their patients were returned with unsuccessful procedures. At the end of the day, the technology is still very new and in its first generation form and both companies (e.g., Medtronic and Guidant) have next generation lead systems in the queue, suggesting that easier to place lead systems are in the offing.

MADIT II - Still optimistic for an early conclusion: Several of the panel participants continue to speculate that MADIT II will conclude early, specifically within the next several months. Just as a reminder, the official timeframe for the trial to end would be summer of 2003 (enrollment of the 1,200 patients finished in August, followed by 2 years of follow-up). While we are all well aware of the 5-fold increase in the potential patient pool that could result from an early end to this study, the less discussed, but potentially more meaningful benefit, may be the avoidance of an invasive EP study to qualify for a device implant. Several of the physicians on our panel emphasized the EP study as one of the key mental barriers to an ICD implant for both physicians and patients.

What the ICD market needs to get a jolt: We couldn't help but have the usual discussion about the fundamental reason for the recent slowing in the ICD market and potential avenues to accelerate referrals. One interesting point made by our physician panel was that although there are some very positive studies published thus far to support the utility of ICDs, the data is not exactly flawless. One physician pointed out that MADIT wasn't a big enough study and that the mortality benefit demonstrated by MUSTT was not a prospective primary endpoint. The bottomline seems to be that with the existing data, there is still some room for nay-sayers to question the utility of ICDs. MADIT II will go a long way toward delivering a well-designed, "unflawed" case supporting the benefit of ICDs.

New statistically significant Contak CD data: We also learned last night that 6-month data on a cohort of roughly 500 Contak patients will be presented tomorrow. This study includes a review on certain endpoints with an incremental 150 or so patients (as compared to data presented at NASPE and at the FDA panel). The exciting news is that with this additional patient set, Guidant has achieved statistical significance on both change in ejection fraction (percentage of blood that leaves the ventricle) and ventricular dimensions. While neither of these were primary or secondary endpoints of their FDA study, they do represent good objective measures of cardiac performance. Our understanding is that GDT's re-submitted data to the FDA included this new compelling data.

Separately, while Day 2 at AHA was relatively uneventful, Medtronic did present additional MIRACLE data, although the data proved to be more confirmatory than anything else. Specifically, while the data presented today included a much larger group of patients than the original presentation (453 versus 266), no specific new trend was identified. Of note, 67% of patients showed an improvement in their composite score versus 39% in the control group. We had been hoping to see some evidence of a mortality benefit, and while the control group showed a higher number of deaths (16 versus 12), the numbers are too small to draw any definitive conclusions. However, we could potentially see more compelling information at some of the MIRACLE substudy presentations

expected tomorrow. Stay tuned.

Additional Information Available Upon Request

The following stock(s) is (are) optionable: Guidant Corporation; Medtronic Inc.; St. Jude Medical Inc..
Within the past three years, Deutsche Banc Alex. Brown Inc. has managed or comanaged a public offering of Medtronic Inc..