

Equity Research
North America

Industry

Pharmaceuticals, Major

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Industry Overview

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Highlights from Dinner with Expert Cardiologists

GICS SECTOR	HEALTH CARE
US Strategist Weight	17.0%
S&P 500 Weight	15.5%

- We had the opportunity to host a dinner at this year's ACC w/ 6 expert clinicians
Key topics included cholesterol management, heart failure, hypertension, anti-thrombosis, and estrogens.
- Cholesterol lowering drugs poised to reaccelerate from the FDA approvals of Heart Protection Study (HPS) and AZN's Crestor. Panelists were enthusiastic about Crestor and SGP/MRK's Zocor/Zetia.
- PFE/PHA's Inspra most exciting in heart failure
Hypertension indication could be a tougher sell given multiple generics that work just as well.
- WYE's Prempro WHIMs cognition study expected to be published in April in JAMA. Cognition affects thought to be caused by stroke, not by estrogen levels in the brain.
- Industry call remains Attractive
Improving ROIC and EPS outlook bodes well for group outperformance.

Highlights from Dinner with Expert Cardiologists

Summary and Investment Conclusion

We hosted a dinner last night with six prominent cardiologists in conjunction with this year's American College of Cardiology in Chicago. Our guests included Dr. Eric Topol of the Cleveland Clinic, Dr. Antonio M. Gotto of the Weill Medical College of Cornell University, Dr. Michael Davidson of the Radiant Research Company, Dr. Christie Ballantyne of Baylor College, Dr. William Frishman of Westchester Medical Center, and Dr. Alexander Graham Turpie of McMaster's University. A replay of tonight's dinner will be available throughout the week. Dial in # is 888-286-8010. International # 617-801-6888. Passcode: 8641093. We highlight the following key points:

1. The panelists were optimistic that despite the recent slowdown in growth in the statin class, prescribing is likely to pick up again with two near-term events: the addition of the Heart Protection Study (HPS) to Zocor's label and the launch of AZN's Crestor. HPS, which examined the effect of cholesterol lowering therapy with MRK's Zocor in the largest number of high risk individuals, is expected to receive FDA approval by mid-year. The doctors emphasized that MRK has NOT been actively promoting the data, so the noise level accompanying HPS should open the door for much more active prescribing in higher-risk patient groups.
2. We continue to sense a high level of enthusiasm for both Crestor and the SGP/MRK Zetia-Zocor combination. One of our panelists projected that the market share within the statin market would likely settle at 20%, 20% and 40% for Crestor, Zetia-Zocor and Lipitor post-2006. Clearly, the Zetia story seems to be catching on extremely well given the concerns about muscle toxicities.
3. Our panelists discussed the potential for IVUS (ultrasound data) to drive increasing statin usage by demonstrating melting of coronary plaques. AZN's ASTEROID study to report 2005, Pfizer's REVERSAL due to report 2004.
4. Though we won't see the detailed data on PFE/PHA's Inspra (epleronone) in post-MI heart failure until later this morning, it's clear the debate continues on the role the drug will play in hypertension. While some highlight the fact there are multiple generic hypertension drugs that work equally as well as Inspra, a favorable profile in CHF could help differentiate the drug from the pack — particularly as an add-on therapy in certain segments of the hypertensive population. We continue to believe that the primary opportunity for Inspra resides in CHF, with peak sales estimated in the \$1.0-\$1.5 billion range.
5. We understand from one of our panelists who is an investigator of the WHIMS trial that the cognition subanalysis for WYE's Prempro is expected to be published this month in JAMA. While there was a great deal of concern about the results of this study, our speaker drew a linkage between the potential cognitive side effects and the effects of the drug on the vascular system, (i.e., there is a linkage between stroke and dementia). This is in contrast to some concerns that estrogen in the brain could be a cause of dementia. In addition, our panelist emphasized that the Prempro arm was stopped not because of safety concerns but because it showed no cardiovascular benefit.
6. Concerns about interaction between Plavix and Lipitor may be overstated. Analysis of CREDO shows no evidence of any clinical interaction.
7. ReoPro remains the gold standard GP IIb/IIIa inhibitor in the cath lab, but cost issues continue to erode its share.
8. Angiomax has significant potential in the cath lab, but uptake will be gradual over next 1-2 years. Debates continue on the appropriate interpretation of the REPLACE Part 2 study.
9. SYNERGY trial data due Q2 2004 and ENOX monitoring test should drive increasing penetration of Lovenox in the interventional setting. On the flip side the panel expected Pfizer to re-energize Fragmin on the CLOT data.
10. Outlook for Sanofi's Arixtra clouded in cardiovascular indications given long half-life. ARTEMIS study in medical indications to be presented at '03 Isth meeting, but compared to placebo not Lovenox.
11. Panel upbeat over commercial prospects for AZN's Exanta in AF but caution expressed given potential hepatotoxicity profile. We expect positive efficacy data from ROW SPORTIF III study to be presented on Wednesday.

Global Stock Ratings Distribution

(as of Feb 28, 2003)

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight	616	33%	239	38%	39%
Equal-weight	883	47%	289	46%	33%
Underweight	390	21%	104	16%	27%
Total	1,889		632		

Data include common stock and ADRs currently assigned ratings. For disclosure purposes (in accordance with NASD and NYSE requirements), we note that Overweight, our most positive stock rating, most closely corresponds to a buy recommendation; Equal-weight and Underweight most closely correspond to neutral and sell recommendations, respectively. However, Overweight, Equal-weight, and Underweight are not the equivalent of buy, neutral, and sell but represent recommended relative weightings (see definitions below). An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

ANALYST STOCK RATINGS

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

More volatile (V). We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

Ratings prior to March 18, 2002: SB=Strong Buy; OP=Outperform; N=Neutral; UP=Underperform. For definitions, please go to www.morganstanley.com/companycharts.

ANALYST INDUSTRY VIEWS

Attractive (A). The analyst expects the performance of his or her industry coverage universe to be attractive vs. the relevant broad market benchmark over the next 12-18 months.

In-Line (I). The analyst expects the performance of his or her industry coverage universe to be in line with the relevant broad market benchmark over the next 12-18 months.

Cautious (C). The analyst views the performance of his or her industry coverage universe with caution vs. the relevant broad market benchmark over the next 12-18 months.

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