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An Amplified **BUY**: *“Beauty is in the Eye of the Merger”*

HEALTHCARE: **Pharmaceuticals**

Financial Highlights	S&P	MRX
Current Price		\$30.00
Exchange		NYSE
Beta		0.59
Market Cap		\$1.63B
Shares Outstanding		54.3M
52 Week Low		\$28.69
52 Week High		\$45.26
5-year EPS PEG		0.9
Receivable Turnover		7.2
Inventory Turnover		2.5
Projected 2005 P/E	21.6x	20.8x
LFY Gross Margin	46.0%	84.7%
LFY EBITDA Margin	21.7%	34.6%
Proj. Growth in EPS 5 Yrs	13.6%	22.4%

Qualitative Issues

- Diversified products and strong product pipeline
- Main product (Restalyne) provides stiff competition for Botox
- Products marketed to men as well as women
- Announced merger with Inamed will create aesthetics powerhouse
- Positive outlook for merger, which will double revenues in future
- Merger will create cost-saving and R&D synergies
- Aging baby boomers increase market for Inamed and Medicis products

Quantitative Issues

- Impressive historical EBITDA and Gross Margins
- High receivable and inventory turnover indicate efficiency
- Remarkable future EPS growth rate
- Future P/E Ratios are lower than comparable companies and aggregate
- Substantially low 5-year PEG
- Medicis DCF indicates undervaluation by 27.0%

COMPANY PROFILE

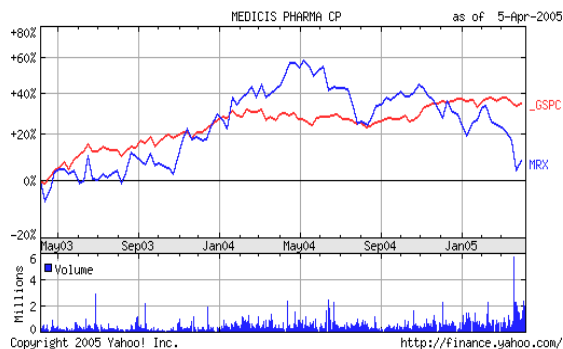


Figure 1: 2-Year Medicis v. S&P Return

Medicis Pharmaceutical Corporation is an independent specialty pharmaceutical company focusing primarily on helping patients attain a healthy and youthful appearance and self-image through the development and marketing of products in the United States for the treatment of dermatologic, aesthetic and podiatric conditions in the United States and Canada. The Company offers a broad range of products addressing various conditions, including acne, fungal infections, rosacea, hyperpigmentation, photoaging, psoriasis, eczema, skin and skin-structure infections, seborrheic dermatitis and cosmesis (improvement in the texture and appearance of skin).

Medicis offers branded products, including DYNACIN, LOPROX, OMNICEF, PLEXION, RESTYLANE and TRIAZ. During this fiscal year ended June 30, 2004 (fiscal 2004), core brands, including ORAPRED, accounted for approximately 87% of its total net revenues.

INVESTMENT THESIS

Based on our qualitative and quantitative analysis, Medicis seems to be a very attractive stock. Their product line, the expanding market for their products, and their recent merger announcement indicate substantial future growth potential. Additionally, Medicis exhibited strong comps, and our DCF revealed that the stock is undervalued. As a result of our thorough analysis, **we recommend that the Ann Rife Cox Portfolio buy Medicis.**

MEDICIS BUSINESS FUNDAMENTALS

Medicis Pharmaceutical Corporation is an independent specialty pharmaceutical company focusing primarily on helping patients attain a healthy, youthful appearance and self-image. Medicis develops and markets products for the treatment of dermatologic, aesthetic, and podiatric conditions in the United States and Canada. The Company offers a broad range of products addressing various conditions, including acne, fungal infections, rosacea, hyperpigmentation, photoaging, psoriasis, eczema, skin and skin-structure infections, seborrheic dermatitis and cosmesis (improvement in the texture and appearance of skin). Medicis offers 13 branded products.



In March 2003, Medicis expanded into the dermal aesthetic market through its acquisition of the exclusive United States and Canadian rights to market, distribute, and commercialize the dermal restorative products, known as RESTYLANE, PERLANE and RESTYLANE FINE LINES from Q-Med AB. RESTYLANE has been approved by the United States Food and Drug Administration (FDA) for use in the United States as a medical device. RESTYLANE, PERLANE and RESTYLANE FINE LINES have been approved for use in Canada.

DYNACIN: DYNACIN, an oral antibiotic available in tablet and capsule dosage forms, is prescribed as an adjunctive treatment for moderate to severe acne. Minocycline, is the active ingredient in DYNACIN.

LOPROX: LOPROX cream and topical suspension are both broad-spectrum prescription antifungal agents prescribed for the topical treatment of tinea pedis, tinea corporis, tinea cruris, tinea versicolor and cutaneous candidiasis. Additionally, Medicis markets LOPROX Gel for the treatment of seborrheic dermatitis and fungal infections. On August 6, 2004, FDA approved an abbreviated new drug application (ANDA) submitted by Altana, Inc. for its ciclopirox topical suspension.

OMNICEF: OMNICEF is used for the treatment of uncomplicated skin and skin-structure infections. Studies show that OMNICEF has superior pathogen eradication rates versus Cephalexin, its competitor.

PLEXION: PLEXION treats rosacea and acne-related conditions with internally developed cleanser and topical therapies. Rosacea is a chronic skin condition causing inflammation and redness of the face.

TRIAZ: TRIAZ, an internally developed topical therapy prescribed for the treatment of numerous forms and varying degrees of acne, is available as a gel, cleanser, or pad in three concentrations.

RESTYLANE, PERLANE and RESTYLANE Fine Lines: RESTYLANE, PERLANE and RESTYLANE Fine Lines are injectable, transparent, NASHA gels, which require no patient sensitivity tests in advance of product administration. These tissue-tailored, transparent, injectable products have varying gel particle sizes, which provide physicians with flexibility in treating fine lines and wrinkles, shaping facial contours and correcting deep facial folds. Pre-packaged, glass syringes provide physicians with various options to treat nasolabial folds, glabellar lines, periorbital lines, vermilion borders, chins, cheeks, smiles lines, worry lines and oral commissures.

FAVORABLE MARKET: LIKELY INCREASED MARKET SHARE

All studies show that the post-WWII baby boomers spend far more on caring for their bodies and appearance than previous generations. Among other things, the two companies treat facial wrinkles. Inamed is spending huge sums to compete with Allergan, the company that produces the Botox line of cosmetic injections. As Botox reaches maturity, Restylane is going to revolutionize this industry in the same way Botox did.

The length of time that a treatment works is an important consideration. It's generally better in aesthetic surgery to have something that goes away or can be removed. In this case, if a patient is unhappy with the result of a treatment, then the problem is only temporary.

Studies predict that men too also be trying to look younger. "Men are under more pressure at work because more women work, [so] more people are competing for the jobs," an analyst reported. Looking younger is considered a

major plus in today's job market and men may opt for facials and other light cosmetic procedures such as microdermabrasion to polish the skin or injections of Restalyne (**Figure 2**).



A success story from a man who chose *Restylane* as a solution...
"I had been having collagen since my late twenties and I am now in my mid-forties for my nasolabial folds. This was my first experience with *Restylane*. I am a man, so I am very wary of overcorrection and any obvious results. When I was first done within a few hours, I went home and was a little frightened. The area was a little swollen and there were a couple of small red needle marks. In one area it seemed like you could see the outline of the material. I simply put some ice on it for a while, and lay low for that night. The next morning-amazing!! No red marks, no outlines, just awesome results. Much better than any collagen treatment in the past. It just all looked natural and better corrected. 100% satisfied."
— *GHC*
Actual patient testimonial. Your experience may vary.

"This man isn't a model. He's an everyday man that used Restalyne"
-Medicis Website

Figure 2: Effects of RESTALYNE on a Male User

Because Medicis and Inamed focus on not only one-time treatments but return-trip propositions, the possibility for increased revenue is more than likely considering the increased market share and demand for these self-sustaining treatments. Continued FDA approval and availability paired with the clear ambition to look younger will work in the merger's favor.

BETTER THAN BOTOX

Although Restylane and Botox compete for consumers' beauty dollars, they work differently and are used on different parts of the face. Restylane, made from a naturally occurring acid in the body that draws water to itself and allows the skin to remain hydrated, is generally used to fill the lines and folds between the nose and mouth. Botox is a protein that is injected to relax muscles that cause wrinkles that are typically found on the frown lines between the eyebrows. The effects of Restylane generally last about six months, while Botox merely works up to four months.

Additionally, the profit potential for Restalyne is quite high considering that doctors are able to perform five or six procedures in an hour. At \$500 a syringe, the demand for the gel reflects the trend toward non surgical procedures that take no longer than a lunch break. While collagen used to be the standard procedure, it is falling out of favor to new, more efficient and effective products such as Restylane.

There also are virtually no allergic reactions to Restylane. So far, the injectible drug is known to have an excellent safety profile, to cause little, if any, allergic reaction.

EVIDENCE FAVORS RESYLANE

Investigators injected either Restylane or collagen into the faces of 134 people, with both doctors and patients unaware which substance was being used. After a year, an analysis of the results indicated the following about Restylane: It was just as safe as collagen (which has been on the market for about 20 years), it lasted much longer than collagen (six to 12 months vs. four to five months), and less of it was required to get the same result.

A four-year retrospective analysis of patients treated with **Restylane** found that the dermal filler is predictable in its duration, well-tolerated and associated with mild to transient side effects, according to research reported at the annual meeting of the American Society for Dermatologic Surgery. More than eight years after **Restylane** was introduced in Europe, dermatologists examined the safety, duration, and most common sites of injection of four hyaluronic acid fillers: Restylane Fine Lines, Restylane, Perlane and SubQ. In the United States, Restylane is the only agent of the four approved by the U.S. Food and Drug Administration. The retrospective chart analysis

included patients treated from June 2000 through June 2004. Of the 1,611 treatments in 540 patients examined by investigators, 97 percent were with Restylane and Perlane.

Dr. Lowe says. "Generally, our findings are similar to other studies that show Restylane lasts at least eight months, and the duration of Perlane ranges from 12 to 18 months." Dr. Lowe, who has been studying hyaluronic acid fillers for nearly a decade, adds that, "we suspect that SubQ lasts significantly longer, possibly several years, but we don't know yet until we have more experience with the agent and more studies are conducted."

Side effects evaluated: All dermal fillers, even the newer hyaluronic acid agents, are associated with some adverse events. Adverse events associated with dermal fillers may include inflammatory responses, hypersensitivity reactions, nodule formation, granulomas, discoloration and migration.

More serious complications were rare with both Restylane and Perlane. One case of vascular occlusion was associated with the use of Restylane in the glabellar region. No allergic reactions to Restylane were reported in 430 treatments, and only one in 1,139 treatments with Perlane. Because these agents are non-animal products, hyaluronic acid is believed to pose no risk of disease transmission or allergies and is safe to use without hypersensitivity testing.

"The take-away for dermatologists from this analysis is that Restylane is safe; associated with mild, transient side effects; and does not cause any serious complications when appropriately administered," Dr. Lowe says.

Botox Falling out of Favor: A University of Kentucky ophthalmologist indicted for promoting a wrinkle treatment that paralyzed four Floridians, posted a \$200,000 bond and walked out of federal court in Fort Lauderdale on Tuesday, March 30.

Dr. Robert Baker is among four people so far indicted for promoting at medical seminars botulinum toxin type A, an unlicensed version of the active ingredient in Botox, the popular wrinkle treatment. Botulinum toxin, in its pure form, is not approved for human use. Baker pleaded not guilty during a 45-minute hearing before U.S. District Judge Lurana Snow.

Last November, four South Floridians were paralyzed and nearly died after receiving multiple facial injections of the toxin at an Oakland Park clinic, Advanced Integrated Medical Center. One of those four is osteopath Bach McComb, who may have given the injections to his girlfriend and clinic employee A.J. Hall and to a Palm Beach County couple, Bonnie and Eric Kaplan. McComb was indicted in February on several counts of mail and wire fraud and misbranding a drug. Also indicted at that time were the owners of Arizona-based Toxin Research International, a firm that bought and distributed the toxin nationwide.

MEDICIS + INAMED: A SYNERGETIC MERGER

RESULT: AN "AESTHETICS POWERHOUSE"

On Monday, March 28th, Medicis announced its coming merger with Inamed., a company specializing in breast aesthetics. This merger will form what Medicis Chairman and Chief Executive Officer Jonah Shacknai called an **"aesthetics powerhouse."** The deal, expected to be completed by the end of the year, was publicized as coming at a time of growing demand by aging baby boomers looking for ways to maintain a youthful appearance. More recently, though, the company has become a significant player in the growing market for facial aesthetics and has developed a profitable surgical device, the Lap-Band, to manage morbid obesity. Both companies see it as a merger of equals and stressed the complementary nature of their products which are mostly aimed at consumers who want to look and feel better. "This is a merger about growth," said Shacknai. The combination of a leading plastic surgery company and the leading dermatology company, **"will create a company with a global growth platform, an incredibly strong financial position and greater resources for increasing (research and development), which is the mother's milk of all business"** (Business Wire). The combined annual sales of the two companies would top \$700 million, more than twice Medicis' figures alone. The annual sales will soar to an estimated \$900 million the first year after the merger in 2006. The merger would amplify Medicis' sales force to more than 1,500 hawking products in 60 countries.

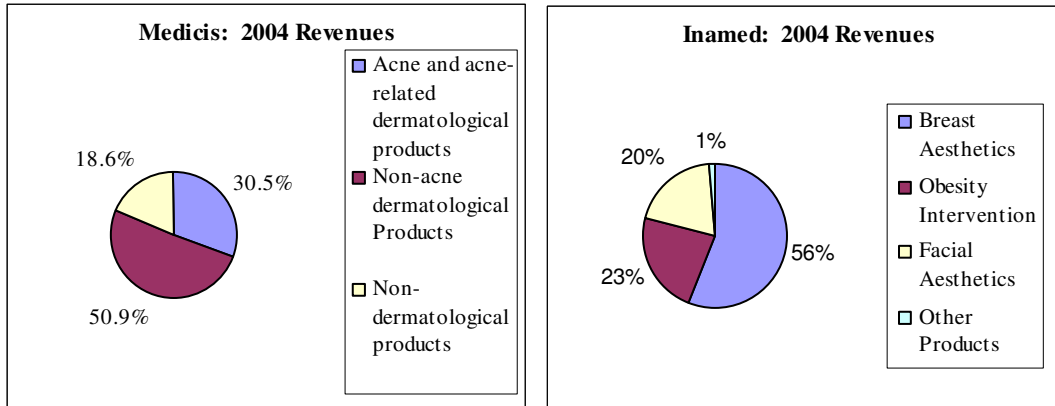


Figure 3: Medicis and Inamed Revenue Breakdown

DEMOGRAPHICS TRENDS INDICATE “BOOMING” FUTURE

The aging Baby Boomer generation, increasing average life expectancy, and rising frequency of chronic diseases promises pharmaceutical consumption over the coming years.

The positive demographic trends are specifically important to Medicis and Inamed as they are expected to dominate the niche market of cosmetic surgery. One doctor described this trend as "fighting the inevitable." According to the American Society for Aesthetic Plastic Surgery, the number of surgical and non-surgical cosmetic procedures in the U.S., increased 44% in 2004, to nearly 11.8 million. The number of non-surgical procedures grew 51% from the previous year. It is estimated that the market for lifestyle therapies and surgery will quadruple to almost \$100 billion in 10 years. According to the American Society for Aesthetic Plastic Surgery, the number of non surgical procedures alone grew 471% over the past five years, reinforcing the positive market outlook for Medicis.

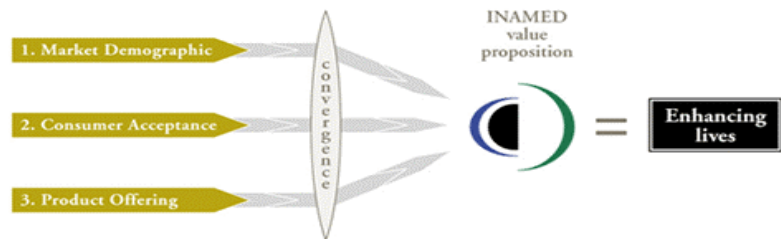
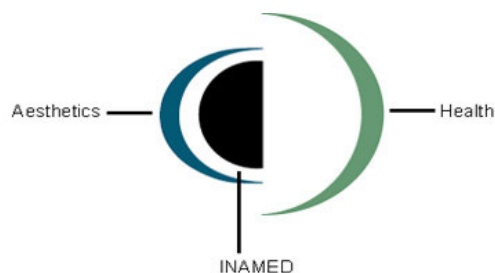


Figure 4: Inamed's Value Proposition

INAMED BUSINESS FUNDAMENTALS

Inamed Corporation is a global healthcare company, which develops, manufactures, and markets a diverse line of products that enhance the quality of people's lives. These products include breast implants for aesthetic augmentation and reconstructive surgery following a mastectomy. They also offer a range of dermal products to correct facial wrinkles, as well as the BioEnterics LAP-BAND System and BioEnterics IntraGastric Balloon systems used to treat severe and morbid obesity. The Company has three main product lines: breast aesthetics products and facial aesthetics products marketed under Inamed Aesthetics and obesity intervention products marketed under Inamed Health.



BREAST AESTHETICS: The Company develops, manufactures, and markets a line of breast implants of a variety of shapes, sizes and textures. The breast implants consist of a silicone elastomer shell filled with either a saline solution or silicone gel with varying degrees of cohesivity. It also sells saline-filled breast implants in the United States and internationally for use in breast augmentation for cosmetic reasons and for reconstructive surgery. The United States market is the primary consumer of saline-filled breast implants. Silicone gel-filled breast implants are sold primarily in Europe, the Middle East, Latin America, Australia, New Zealand

and Asia. **More than 90% of the breast implant sales outside the United States are silicone gel filled.** There are a variety of silicone filled breast implants available in these markets based upon the varying degrees of cohesivity of the silicone gel filler material. Certain silicone gel-filled implants are available in the United States under a clinical study protocol for use in breast reconstruction.

FDA Regulation: In January 2002, Inamed began submitting the first of several modules to the FDA for the pre-market approval seeking approval of its silicone gel-filled breast implants. The final module and application for the pre-market approval process of its silicone gel-filled breast implants, was submitted December 30, 2002. In October 2003, the General and Plastic Surgery Advisory Panel of the US FDA recommended, with conditions, approval of the Company's pre-market approval application to market gel-filled breast implants in the United States. The Panel approval, with conditions, was for all indications-breast augmentation, reconstruction and revision. **In January 2004, it received a non-approvable letter from the FDA.** Next month Inamed goes back before the Food and Drug Administration's advisory panel in a bid to win approval for the reintroduction of silicone gel implants, a move that could substantially boost the breast implant business.

FACIAL AESTHETICS: Inamed develops, manufactures and markets dermal filler products designed to improve facial appearance by smoothing wrinkles and scars and enhancing the definition of facial structure. Its primary facial aesthetics products are Zyderm and Zyplast, Cosmoderm and Cosmoplast, and the Hylaform range of hyaluronic acid-based dermal fillers. In July 2002, it acquired the exclusive rights in the United States, Canada and Japan to sell Ipsen Ltd.'s botulinum toxin Type A product for all cosmetic indications. In January 2004, it acquired the exclusive rights to sell Juvederm in the US, Canada and Australia, and the non-exclusive rights to sell the product in various other countries.

ZYDERM and ZYPLAST implants are injectable formulations of bovine collagen. Zyderm implants are formulated especially for people with fine line wrinkles or superficial facial contour defects. Zyplast implants are designed to treat deeper depressions and can be used for more pronounced contour problems, such as deeper scars, lines and furrows, and for areas upon which more force is exerted, such as the corners of the mouth. **HYLAFORM** gel implants are an avian-based hyaluronic acid injectable product for the treatment of facial wrinkles and scars. The product does not require a skin test, so patients can be treated immediately. **COSMODERM** and **COSMOPLAST** implants are a line of injectable human skin-cell derived collagen products that Inamed licenses from Smith & Nephew, Inc. FDA approval for CosmoDerm and CosmoPlast were received in March 2003.

In July 2002, Inamed and Ipsen Limited signed a definitive agreement, which provides that Inamed will develop, distribute and market Ipsen Limited's botulinum toxin Type A for all cosmetic indications, including wrinkles, in the United States, Canada and Japan. The product is a sterile, freeze-dried, purified form of botulinum toxin A and it will be the exclusive distributor of all existing and future formulations in the United States, Canada and Japan. The product is marketed under the trade name Dysport in Europe and elsewhere.

Figure 5: Inamed's Lap-Band



OBESITY INTERVENTION: Inamed develops, manufactures and markets several devices for the treatment of obesity. Its principal product in this market area, the BioEnterics LAP-BAND System (**Figure 5**), is designed to provide minimally invasive long-term treatment of severe obesity and is used as an alternative to gastric bypass surgery or stomach stapling. The BioEnterics LAP-BAND System is an adjustable silicone elastomer band distributed only outside the United States, which is laparoscopically placed around the upper part of the stomach through a small incision, creating a small pouch at the top of the stomach. It also markets the BIB,

System, which is a short-term therapy designed for patients who must reduce weight in preparation for surgery or for moderately obese patients in conjunction with a long-term comprehensive diet and exercise program., The Company also sells the BioEnterics Gastric Balloon Suction Catheter, containing a durable silicone balloon used by surgeons to facilitate pouch sizing and provide gastric suction during laparoscopic gastric bypass procedures.

OTHER PRODUCTS: Contigen is a collagen product used for treatment of urinary incontinence due to intrinsic sphincter deficiency. Inamed obtained approval from the FDA to market this in September 1993. C. R. Bard, Inc.

licensed from the Company exclusive worldwide marketing and distribution rights to Contigen, and it also provides other collagen products for use by other medical manufacturers.

MAKING A BET ON THE DROOPY UNKNOWNNS

FDA APPROVAL

Possible “Perks:” The advisory panel's ruling on the approval of reintroducing Silicone Implants to the market could have significant earnings implications for both Inamed and competitor, Mentor, in the 12 to 18 months following the FDA's final decision. Although the FDA isn't bound by advisory panels' suggestions, it usually follows their recommendations. In January 2004, the FDA rejected an Inamed application even though an advisory panel voted 9-6 a few months earlier to support the Inamed implant. The approval represents a risk associate with Inamed and the acquisition by Medicis. However, a bullish Medicis representative said the numbers underpinning the transaction do not include any new products and regardless of the outcome of the April hearing, Medicis is committed to going ahead with this deal therefore still moving the merged company forward as this desired aesthetics powerhouse.

Possible “Downfalls:” While simultaneous approval would help both companies, each silicone implant would represent a 50% increase in revenue -- \$1,200 vs. \$800 -- over each saline implant because most U.S. breast augmentation procedures use saltwater-filled implants.

However, if only one company's petition for silicone gel implants is approved by the FDA, the adjustment in each company's earnings outlook could be dramatic. Many consider silicone implants superior because of their more natural look and feel. Because of the demand, they have the possibility of replacing up to 50% of a company's saline implants within one quarter of an FDA ruling *if only one implant maker received FDA approval*. A delay and then a resubmission of a rejected application could take up to a year to process.

Despite the current restrictions and delays on FDA approval, the American Society of Plastic Surgeons says the number of cosmetic breast procedures by its members nearly doubled between 1998 and 2004. Last year, they performed 264,041 augmentations and 35,208 implant removals. A federal advisory committee will soon recommend if silicone gel-filled breast implants should return to the U.S. market, 13 years after they were blocked for all uses except a few procedures such as reconstructive surgery for women who have undergone mastectomies.

"Don't let the silicone implant industry mislead Congress and the FDA into approving silicone implants for general use," says the National Organization for Women, in a recent message posted on its Web site. "They are simply too risky."

ANTI TRUST WOES

The companies said they expected the deal to close late this year and to dilute Medicis's earnings slightly this year. Analysts expressed concerns that the deal could face antitrust problems at the Federal Trade Commission if the agency decided to define the market for anti-wrinkle treatments fairly narrowly. Although it is unlikely that this will be of material concern as both companies are aware of the marketing implications, it is still something to consider as this niche market begins to define itself.

COMPARABLE ANALYSIS

Each of our comparable companies (**Figure 1**) currently attains the majority of its revenue from products meant to improve or enhance a person's physical appearance. At the moment, only one other public company (Allergan) deals in the same niche market as Medicis. Allergan produces Botox, which is the prime competitor of Restalyne, Medicis' main product. We also decided to include Inamed, the company that Medicis intends to acquire, and its main competitor, Mentor, in our comparable analysis. Inamed and Mentor both exhibit revenues and market caps that are similar to those of Medicis. Our comparable analysis indicates that Medicis is a definite buy.

The Highlights Include:

- **Impressive Gross Margins:** Last year, Medicis exhibited the highest gross margin (84.7%) and EBITDA margin (34.6%) in comparison to each of the comparable companies. This impressive past performance could indicate a profitable future.
- **High Turnover Ratios:** Medicis' receivable turnover and inventory turnover were the second highest of the group, revealing that the company is quite efficient.
- **Notable Past Revenue Growth:** Amgen boasts the highest 3-year historical revenue growth rate.
- **EPS Growth:** Medicis has the highest projected 5-year EPS growth rate (22.4%) among its competitors, while Inamed follows closely behind (22.1%).
- **Favorable P/E Ratios:** Medicis' past and projected P/E ratios are each lower than the comp aggregate. While Medicis' 2004 historical P/E was higher than two competitors, it's estimated P/E's for 2005 and 2006 are the lowest among each of the comps.
- **Substantially Low 5-year PEG:** Medicis displays the lowest 5-year PEG (.9), which is impressive. This ratio captures our belief that Medicis will be a good future investment.

Exhibit 1: Comparable Analysis

Healthcare - Biotechnology (Dollars in Millions)					
Company Name: Medicis Ticker: MRX	Medicis MRX	Comp Aggregate	Allergan AGN	Mentor MNT	Inamed IMDC
(Stock Data): 3/29/2005					
Stock Price	\$30.00		\$70.41	\$32.38	\$70.00
Common Shares Outstanding	54.25		134.26	40.52	36.08
Market Capitalization (MV of Equity)	\$1,628	\$13,291	\$9,453	\$1,312	\$2,526
Total Mkt. Capitalization (Tot. Net Debt+MV of Equity)	\$2,081	\$14,055	\$10,036	\$1,471	\$2,548
(Financial Ratios excl. debt ratios-see Risk Section)					
LFY Gross Margin	84.7%		81.1%	61.9%	74.5%
LFY EBITDA Margin	34.6%		29.1%	23.7%	20.3%
ROE	14.7%	32.2%	33.8%	36.0%	14.1%
ROA	6.7%	31.0%	16.7%	13.2%	11.1%
Receivable Turnover	7.2		8.8	5.1	5.8
Inventory Turnover	2.5		3.7	2.1	1.7
Current Ratio	7.94		2.99	2.17	3.36
(Growth/Return):					
Historical 3 Year Revenue Growth Rate	21.9%		19.4%	16.2%	17.3%
Historical 3 Year EPS Growth Rate	-6.6%		29.7%	20.4%	39.6%
Projected ROE (NFY)	14.1%		37.8%	36.3%	18.6%
CFY - NFY EPS Growth Rate	12.5%	16.9%	16.2%	15.0%	21.3%
Proj. Growth in EPS 5 Years	22.4%	18.5%	18.7%	12.2%	22.1%
Dividend Yield	0.4%		0.6%	2.1%	0.0%
(Risk):					
Beta	0.59	0.54	0.28	0.85	1.03
LT Debt / Market Capitalization (MV of Equity)	0.28	0.06	0.06	0.12	0.01
LT Debt / Common Equity (BV of Equity)	0.27	0.12	0.11	0.12	0.18
(Valuation):					
MV of Equity / Book Value	2.9	7.7	8.5	7.7	5.7
LTM Price / EPS Ratio ("P/E")	25.4	27.0	24.7	24.3	40.0
CFY Price / EPS Ratio ("P/E")	20.8	23.8	22.4	21.2	30.4
NFY Price / EPS Ratio ("P/E")	18.5	20.4	19.3	21.2	25.1
Total Market Capitalization / EBITDA	19.8	18.2	16.8	14.7	32.7
CFY P/E to CFY-NFY EPS Growth Rate	1.7	1.4	1.4	1.4	1.4
CFY P/E to Proj. Growth in EPS 5 Years	0.9	1.3	1.2	1.7	1.4

DISCOUNTED CASH FLOW ANALYSIS

We performed a discounted cash flow (**Exhibit**) analysis in order to determine the intrinsic value of Medicis' stock. Our DCF calculated the intrinsic value by averaging the results of five different methods – Unlevered Value, Adjusted Present Value, Flow to Equity, WACC with FCF and AT WACC with UFCF. The average of the results

of each method revealed that the intrinsic value of Medicis' stock is **\$41.09 per share**. Thus, according to our DCF, Medicis is undervalued by **27%**, which supports its status as a **buy**.

Exhibit 2: Discounted Cash Flow Analysis

Valuation model used	Summary	
	Equity \$M	\$ Per Share
Unlevered value	\$1,579	\$29.11
Adjusted Present Value	\$2,435	\$44.88
Flow to Equity	\$1,872	\$34.51
WACC with FCF	\$2,193	\$40.42
AT-WACC with UFCF	\$2,418	\$44.56
Average across models	\$2,229	\$41.09
Current Market Price Per Share		\$30.00

ASSUMPTIONS

Beta

We consulted Reuters to find Medicis' 2-year historical beta of .59. We believe that this is appropriate based on our feelings regarding the future risk level of Medicis.

Revenue Growth Percentage

Medicis' average growth from 2001-2004 has been 21.4%. Analysts estimate that revenue growth for 2005 will be 23.6%. In an estimate to be conservative, we estimated the 2005 growth rate to be 12%. This rate declines each year by .7% until it reaches the terminal growth rate of 5%.

Capital Expenditures to Depreciation Ratio

Based on last year's value, we used a capital expenditure to depreciation ratio of 103.4%. We assumed that this ratio was constant for purposes of growing capital expenditures in forecasted years.

Depreciation

We calculated depreciation in forecasted years as 11.0% of PP&E from the previous year. Our 8.0% growth rate reflects our expectations for future depreciation based on the continual growth of the depreciation percentage in the past five years.

Other Estimates

Other estimates used to calculate the intrinsic value of the firm include:

Risk Free Rate	3.60%
Equity Market Risk Premium	7.00%
Long Term Inflation	2.50%
Cost of Equity Capital	8.85%
Weighted Average Cost of Capital	7.73%
Terminal Growth Rate	5.00%

STRONG FINANCIALS

Medicis boasts strong financials that we find to be indicative of their solid fundamentals. In analyzing the income statement (**Exhibit 3**), one can see that revenue has consistently grown each year, and the average revenue growth rate for the past 4 years has been 21.6%. In their annual report, Medicis revealed that revenue growth in most recent years has been largely due to their key product, Restalyne. Based on our favorable predictions for the increasing popularity of this product, we feel that annual revenue growth will continue to increase. In addition, net income has continually grown each year, with the exception of 2004. However, this anomaly is due to an unusual expense consisting of a \$58.7m payment of long term debt. Thus, we predict that their net income in 2005 will substantially exceed net income in 2004. In addition, Medicis reports continued increases in research and development expenses.

In 2004 alone, “research and development expenses increased 50%, absent special charges” (Annual Report). Considering the nature of their business, it is extremely important that they devote substantial resources to innovation. Since 1991, twenty-two products have been launched, and currently, they have eleven products in the R&D pipeline.

The balance sheet also seems to display a healthy past (**Exhibit 4**), which we believe will continue into the future. As of 2004, the company surpassed \$1 billion in assets. Medicis will double in size upon the completion of the merger, which will substantially increase their assets. In addition, we predict continued growth based upon access to increased R&D capabilities.

TRANSACTION: CAPTURING PART OF THE TARGET PREMIUM

We recommend that the Ann Rife Cox Portfolio purchase 1000 shares of Medicis (MRX) at \$28.67 per share. Since we anticipate a successful merger between Inamed and Medicis, we additionally suggest purchasing a portion of Inamed’s stock, too. The target price for Inamed is expected to reach \$75 per share. Since Inamed (IMDC) is currently trading at \$65.92 per share, we recommend buying 200 shares in order to capture the target premium.

Exhibit 3: Annual Historical and Projected Income Statement

(Dollars in Millions)

	Year										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Revenue	\$139.1	\$167.8	\$212.8	\$247.5	\$303.7	\$340.1	\$378.6	\$418.7	\$460.2	\$502.5	\$545.2
Total Cost of Goods Sold	30.8	56.2	50.9	67.9	63.1	70.3	78.0	86.1	94.4	102.9	111.4
Gross Profit	108.3	111.6	161.9	179.6	240.6	269.9	300.5	332.6	365.7	399.6	433.8
SG&A (SHOULD EXCLUDE DEPR.)	45.4	59.5	77.3	91.6	118.3	131.8	146.3	161.4	177.0	192.9	208.9
Depreciation and Amortization	7.4	8.3	7.9	10.1	16.8	37.8	43.4	43.0	43.2	43.3	43.4
Total Operating Expenses	52.8	67.8	85.2	101.7	135.1	169.6	189.7	204.4	220.2	236.2	252.3
Operating Income	55.5	43.8	76.7	77.9	105.5	100.2	110.8	128.2	145.6	163.4	181.5
Other (non-operating) Income / (Expense)	0.0	0.0	-6.2	0.0	-58.7	0.0	0.0	0.0	0.0	0.0	0.0
EBIT, Earnings Before Interest and Taxes	55.5	43.8	70.5	77.9	46.8	100.2	110.8	128.2	145.6	163.4	181.5
Interest Expense	-11.9	-15.5	-8.5	0.3	0.8	24.9	26.4	20.4	21.2	21.8	23.8
Other (non-recurring) Charges (pretax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBT, Earnings Before Taxes	67.4	59.3	79.0	77.6	46.0	75.3	84.4	107.8	124.4	141.7	157.7
Income Taxes (payable)	24.4	18.9	29.0	26.4	15.3	25.9	29.1	37.1	42.8	48.7	54.3
Tax Rate	36.2%	31.9%	36.7%	34.0%	33.3%	34.4%	34.4%	34.4%	34.4%	34.4%	34.4%
Net Income	\$43.0	\$40.4	\$50.0	\$51.2	\$30.7	\$49.4	\$55.4	\$70.7	\$81.6	\$92.9	\$103.4

Exhibit 4: Annual Historical and Projected Balance Sheet

(Dollars in Millions)

	Year										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Cash and Equivalents	\$ 286	\$ 334	\$ 578	\$ 499	634	739	822	910	1,000	1,092	1,184
Accounts Receivable	33	38	45	52	48	71	79	87	96	105	114
Inventories	10	9	12	14	20	21	23	25	28	30	33
Other Current Assets	22.4	19.1	23.9	81.1	32.4	55.9	62.2	68.8	75.6	82.6	89.6
Total Current Assets	351.3	400.3	638.6	645.6	733.8	886.5	986.6	1,091.2	1,199.2	1,309.6	1,420.9
PPE and Intangibles, Net	144.1	149.9	217.8	287.2	344.4	395.3	391.0	392.9	394.1	395.5	396.8
Investments											
Other Long Term Assets											
Total Long Term Assets	144.1	149.9	217.8	287.2	344.4	395.3	391.0	392.9	394.1	395.5	396.8
Total Assets	495.4	550.2	876.4	932.8	1,078.2	1,281.7	1,377.6	1,484.1	1,593.4	1,705.0	1,817.7
Accounts Payable and Accrued Liabilities	17.0	25.3	35.7	50.1	48.5	54.6	60.8	67.2	73.9	80.7	87.5
Other Current Liabilities	22.0	16.4	11.5	18.8	18.6	30.4	33.9	37.4	41.2	44.9	48.8
Notes and LT Debt due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Current Liabilities	39.0	41.7	47.2	68.9	67.1	85.0	94.6	104.7	115.0	125.6	136.3
Other Long Term Liabilities	18.9	4.8	0.0	2.9	2.9	12.6	14.1	15.6	17.1	18.7	20.3
Long Term Debt	0.0	0.0	400.0	400.0	453.1	507.5	416.4	460.6	506.2	552.7	599.7
Total Long Term Liabilities	18.9	4.8	400.0	402.9	456.0	520.1	430.5	476.1	523.3	571.4	620.0
Total Stockholders' Equity	437.5	503.7	429.2	461.0	555.1	676.6	852.4	903.3	955.1	1,008.0	1,061.4
Total Liabilities and Stockholders' Equity	495.4	550.2	876.4	932.8	1,078.2	1,281.7	1,377.6	1,484.1	1,593.4	1,705.0	1,817.7
Total Debt for leverage calculations	0.0	0.0	400.0	400.0	453.1	507.5	416.4	460.6	506.2	552.7	599.7
Total Debt and Stock	437.5	503.7	829.2	861.0	1,008.2	1,184.1	1,268.9	1,363.9	1,461.2	1,560.7	1,661.1