Baird U.S. EQUITY RESEARCH

Biotechnology

Latest Oncologist Survey Provides Surprisingly Upbeat Reimbursement Outlook

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Please refer to "Appendix - Important Disclosures."

Action

In our first glimpse into practice dynamics in 2005 per CMS' ASP+6% fee-structure, we find a decidedly rosier outlook among surveyed oncologists. With outlooks improved dramatically since our last such survey (last fall), we see the most upside for supportive care agents – most directly because of CMS' Quality of Care Demonstration Project. In terms of our coverage, we believe this translates into meaningful upside for both AMGN and MOGN.

Summary

- With biotech's generally strong Q105 results, we believe investors may be experiencing some feelings of relief, given last year's concerns over CMS' 2005 reimbursement structure.
- To better understand the nature and sustainability of this strength, we fielded a ~200 oncologist survey in March to assess changing physician attitudes and use patterns after almost a full quarter under 2005's ASP-based fee structure.
- Despite significant fears voiced in our fall MMA survey, we see a surprisingly upbeat outlook for the duration of the year, possibly confirming that the Q105 strength may continue well into 2005.
- Most strikingly, oncologists appear increasingly optimistic relative to both patient care and their own economic situations – primarily as a result of recent adjustments to MMA such as the Quality of Care Demonstration Project.
- For example, only 50% of oncologists predict a sharp financial decrease relative to 81% in October. Indeed, now 26% of oncologists even predict an increase in revenue in 2005, primarily due to new Medicare coding.
- Augmenting this reimbursement upside, we find many oncology practices are optimizing their internal operations toward profitability, instituting strict treatment guidelines, reducing non-revenue generating services, and focusing more on co-pay collection, among other things.
- In terms of drug-prescribing patterns, oncologists indicate the following key trends:
- First, almost across the board, we see increases in the use of supportive care agents such as Aranesp, Neupogen/Neulasta, and Aloxi – primarily driven by the Quality of Care Demonstration Project.
- Second, oncologists indicate continued increased use of generic chemotherapy agents, to the detriment of many erstwhile stalwart brands like Ellence, Camptosar, and Doxil.
- Third, newer, higher-priced oral and biologic therapies like Avastin, Erbitux, Rituxan, and Velcade appear generally impervious to economics, and will likely be driven by efficacy.
- While these data would appear to be positive for biotech in general, we see the most upside for Outperform-rated AMGN and MOGN within our coverage universe.

Details

A New Era in CMS' History Has Begun... As of January 1, 2005, the Centers for Medicare and Medicaid Services (CMS) implemented the long-awaited Part B ASP (average sales price)+6% reimbursement algorithm for oncology drugs administered in the free-standing clinic setting, versus the 85% of AWP algorithm that defined reimbursement during 2004. As we have discussed in detail over the last year, this change in reimbursement has raised concerns with regard to continued growth prospects for oncology drugs and in turn the biotechnology sector. With drug therapy reimbursement generally assumed to be decreasing in the ASP+6% environment, and potentially negatively impacting drug use by practicing oncologists, it had been questioned as to how oncology drug companies would be able to continue to post substantial revenue growth looking forwards.

In December, we published the results of an earlier wave of our survey – fielded in October 2004 by Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company – pointing to expectations for striking changes in the practice of cancer care. While at that time only 59% of our surveyed oncologists had analyzed the financial impact of Part B changes on their practices, nonetheless, general physician sentiment pointed to expectations for alterations in their current practice dynamics, with decreasing practice revenues expected to lead to negative impact on access to and timeliness of care for patients, as well as diminishing use of expensive cancer drugs in combination with increasing use of more frequent therapy administration protocols and less expensive treatment regimens (i.e., generic therapies, oral therapies).

...And General Sentiment Is Increasingly Positive. In that late-2004 context, we have continued to assess the sentiment of the community oncologist population, the primary target of Part B reimbursement changes. For the first time in our series of surveys, we see a decidedly more optimistic outlook for 2005 – from both the practice and patient perspectives. In this research piece, we detail the data we have collected, highlighting the key take-away messages that are most relevant to the oncology arena and select biotech names from our universe:

1) While physicians increasingly project decreasing pharmacy revenue resulting from lower reimbursement rates, for the first time we also see positively trending expectations for professional service revenue, stemming directly from Medicare's newly instituted coding system;

2) Physicians also express more enthusiastic expectations for patient care, linked to their ability to accept Medicare patients and private-payer contracts aligned with Medicare rates;

3) Generally across the board, oncologist expectations for drug use in 2005 are not as pessimistic as we've seen before, with growing projections for stable or even increasing drug use relative to 2004 levels, generally across the board.

In line with such positive physician sentiment for 2005 outlook, we highlight below potentially actionable calls on names in our biotech universe.

- **Amgen (AMGN; Outperform, $73 price target):** We expect the Quality of Care demonstration project to remain a key factor in continued impressive uptake of supportive care agents, including AMGN's Aranesp and Neupogen/Neulasta, as evidenced by physician sentiment regarding their expected use of these drugs. With strong Q105 revenue performances already behind these key franchises, we continue to estimate 2005 revenues of $3.2B for Aranesp and $2.1B for Neulasta. See our detailed AMGN research note also published today.

- **MGI Pharma (MOGN; Outperform, $35 price target):** Again, with the positive boost in supportive care drug use expected to continue through 2005 (and perhaps beyond), we look for continued ramp-up in MOGN's anti-emetic Aloxi franchise. Indeed, our oncologist survey data point to a preference for increased use of Aloxi over all of its

5-HT3 competitors in 2005, confirming the market share growth we've already seen for the drug thus far this year. We continue to estimate 2005 Aloxi revenue of ~$260M. See our detailed MOGN research note also published today.

- **Genentech (DNA; Outperform, $80 price target):** While previous physician sentiment from our survey pointed to declining use of well-established biologics such as Rituxan and Herceptin in 2005, as well as newer therapies such as Avastin, our new survey data point to more uptake potential for these drugs this year. This outlook, combined with recent impressive clinical data points for both Herceptin (in adjuvant breast cancer) and Avastin (in advanced lung and breast cancer), point to continued strong revenue potential this year. For 2005, we estimate revenues of $1.98B for Rituxan, $562M for Herceptin, and $1.1B for Avastin.

- **Millennium Pharmaceuticals (MLNM; Neutral, $10 price target):** Velcade use expectations remain strong, and we would highlight expectations for essentially stable use of CELG's Thalomid as an additional factor supporting increased Velcade uptake. We see this sentiment as encouraging for Velcade, particularly as we look for the drug to grow its uptake in the 2nd- and 1st-line multiple myeloma setting this year. We estimate Velcade 2005 US sales of $216M.

- **Celgene Corporation (CELG; Neutral, $38 price target):** Unlike in our previous survey, our new results point to predominantly stable Thalomid use this year, although we would point out a slightly higher portion of physicians expecting to decrease Thalomid use, relative to our previous late-2004 survey. Given the positive sentiment we see for Velcade (detailed above), we believe we could be seeing impact on Thalomid expectations.

Medicare Backgrounder. In December 2003, the Medicare Modernization Act (MMA) was signed into law, setting up what appeared to be quite sweeping – and quite confusing – changes for the future face of healthcare in the US. As of 2001, estimates cite over 40M people enrolled in the US Medicare program, including both elderly and disabled patients. Such a growing population of covered patients was the instigator for the passage of the MMA, with a goal of reducing future Medicare spending. Last year, CMS began implementing changes in healthcare reimbursement, per the specifications of the MMA. However, given the apparent vagueness of many of these specifications, it had been and still remains somewhat difficult to grasp the absolute impact of these changes on the practice of medicine. Adding to the confusion is the fact that, as 2005 began, the medical community encountered another round of CMS changes, making any analysis of the MMA's impact more complex – both from the perspective of the treating physicians, as well as investor understanding of oncology company revenue potentials. Last year, we published findings from the first few installments of our survey of community oncologists and oncology practice managers, showing a high degree of uncertainty and confusion surrounding the proposed changes for 2005. Now, with the first several weeks of the year under our belt in the new reimbursement environment, we have been able to garner more clarity into the expectations of ~200 physicians, as they continue to evaluate how their practices are being and will continue to be impacted this year.

As we have described previously, and remains the case now, central to concerns in the investor community has been the impact of Medicare reform in the oncology sector, and in particular, on future commercial prospects for a number of high-profile cancer drugs. Reimbursement for cancer drugs used in the outpatient clinic setting – by the community oncologist in the clinic, rather than the hospital – is covered under Medicare Part B (Medical Insurance). In the past, an "AWP-based" (average wholesale price-based) methodology has been used for calculating reimbursements to doctors treating cancer patients, with profit margins the primary source of profitability to the practicing physician, rather than substantial reimbursement for services. In 2004, reimbursement was cut from 95% of AWP to 85% of AWP, and beginning January 1, 2005, reimbursement is determined on the basis of ASP, with reimbursement set at a rate of ASP+6%. Any significant reductions in reimbursement to the community oncologist due to this change in fee structure has been characterized as threatening to companies in the biotech space which rely heavily upon the performance of their cancer products. Concern with regard to the spending reductions that are happening now in Medicare reimbursement also instigated concern that similar reductions that could quickly follow in the private pay sector, given that sector's penchant for following the trends set by CMS.

The Rubber Hits the Road in the Clinic as 2005 Begins.

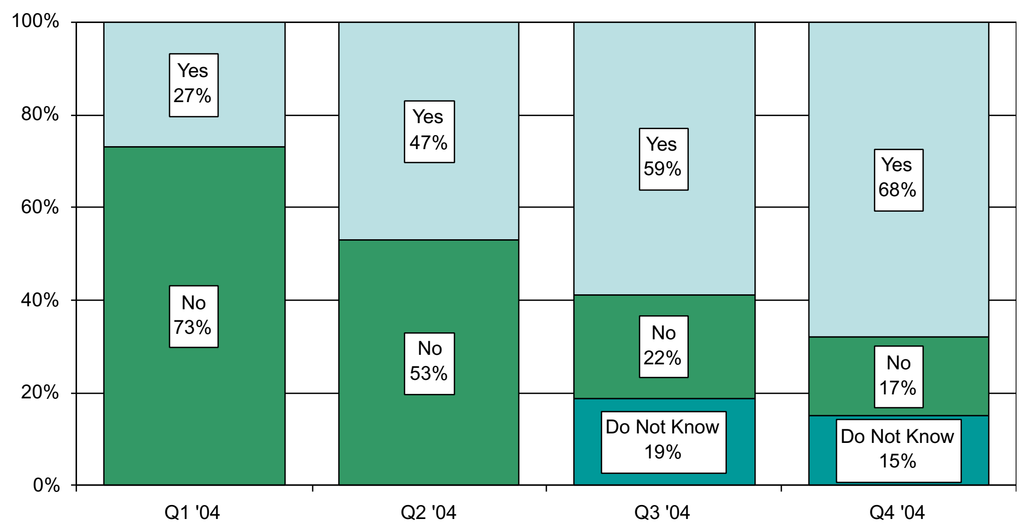
While we have previously detailed results from earlier waves of our survey conducted last year, the results we describe today represent our first look into physician sentiment in the new 2005 reimbursement environment. These data were collected from a survey fielded in early March 2005, polling community oncologists again with regard to expectations for this year. These new data points are taken from a poll of ~200 oncologists, fielded in early March by cancer market research firm Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company, and distributed across all major geographic regions of the US (Figure 1).

Figure 1: Demographics
Average Age: 48 years
Gender: 86% male / 14% female
Average Duration in Practice: 16 years
Geographic Representation:
Central: 20%
Mid-Atlantic: 17%
Northeast: 18%
Southeast: 21%
Southwest: 9%
West: 14%

Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Recall that our previous survey – conducted in October 2004, just three months ahead of the MMA 2005 reimbursement changes – saw that only a little more than half of surveyed community oncologists had analyzed the financial impact of this significant change on their practices next year. This number has now reached 68% of physicians having analyzed this metric (Figure 2).

Figure 2: Analysis of Financial Impact of MMA in 2005
"Has your clinic analyzed the financial impact of the MMA rules on your practice for 2005?"



Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

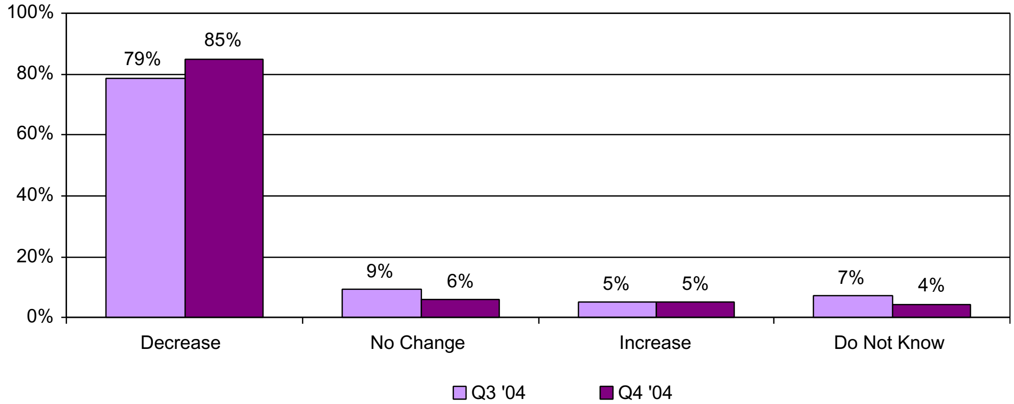
In addition, we would note that some uncertainty clearly still exists, with on average, physicians considering themselves only moderately knowledgeable about Medicare reimbursement for 2005 (Figure 3, following page).

Figure 3: Knowledge of Medicare Reimbursement for 2005
"How knowledgeable are you about the CMS' recent changes in Medicare reimbursement slated for 2005?"

RATING: Use a scale 1-5 where 1=Not at all knowledgeable, and 5=Very knowledgeable
Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

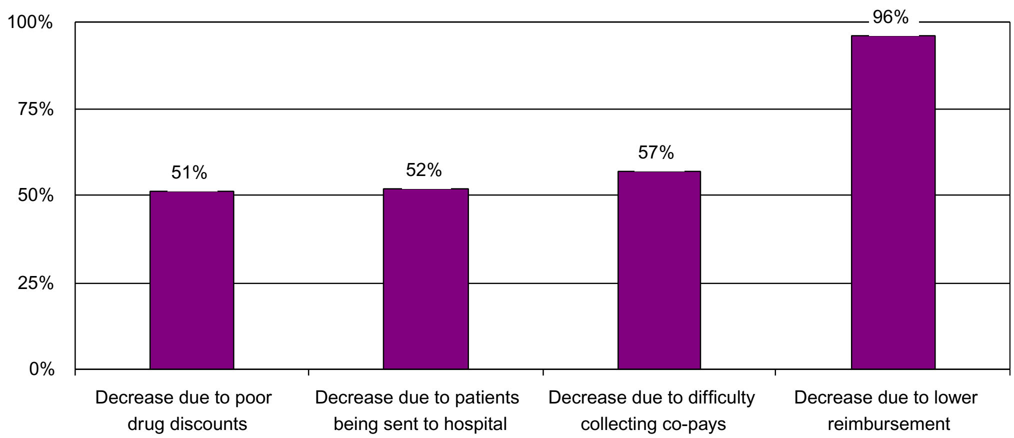
However, while a good percentage of oncologists have not analyzed the financial impact of MMA changes for next year, they nonetheless do continue to expect changes in terms of their ability to generate clinic revenues, and how this dynamic will impact their clinic operations looking forward. Importantly, revenue generation for these oncology clinics comes generally from two sources: pharmacy revenues (related to direct reimbursement for administered/purchased drugs) and professional service revenue (related to reimbursement for services rendered, such as patient injections). As we have seen for some time now, oncologists continue to modulate upwards their projections for decreasing pharmacy revenues, in line with general expectations for decreased profitability from direct drug reimbursement (Figures 4, 5, following page).

Figure 4: Pharmacy Revenue in 2005
"Even if your clinic did not analyze the financial impact of the MMA for 2005, what do you estimate will be the financial impact on your pharmacy revenue for 2005, relative to 2004?"



Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Figure 5: Reasons for Projected Decrease in Pharmacy Revenue in 2005
"Why do you expect this impact on your pharmacy revenue for 2005, relative to 2004? (select all that apply)"



Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

In contrast, and for the first time, we see a striking reversal in physician expectations with regard to professional service revenue, which is derived from fees paid to physicians for services rendered (i.e., IV injection, multiple dosing, etc.). On this measure, our most recent data suggest that oncologists expect to feel a positive impact on these revenues (Figure 6, following page) from the newly instituted Medicare codes that allow for additional revenue generation related to the practicalities of patient treatment (Figures 7, 8, following pages).

Figure 6: Professional Services Revenue in 2005

"Even if your clinic did not analyze the financial impact of the MMA for 2005, what do you estimate will be the financial impact on your professional service revenue for 2005 relative to 2004?"

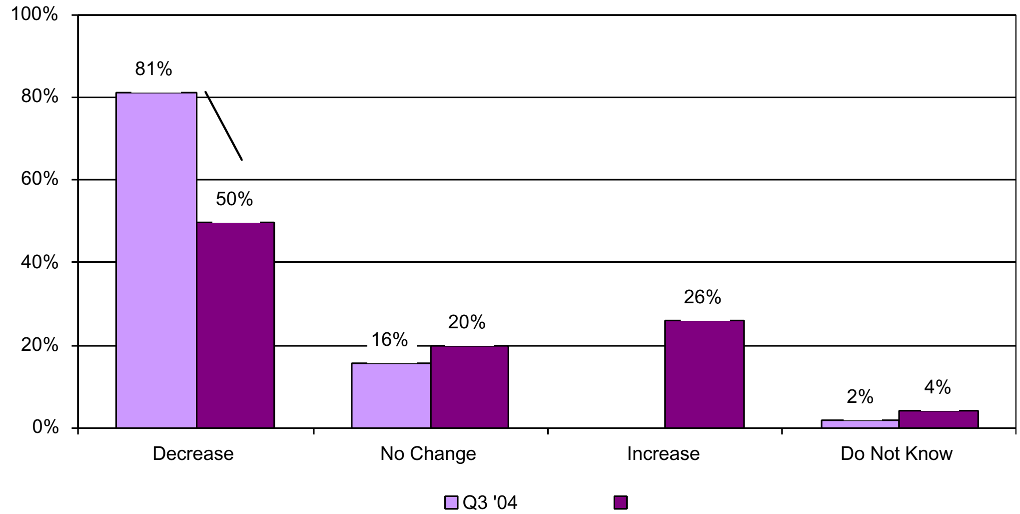
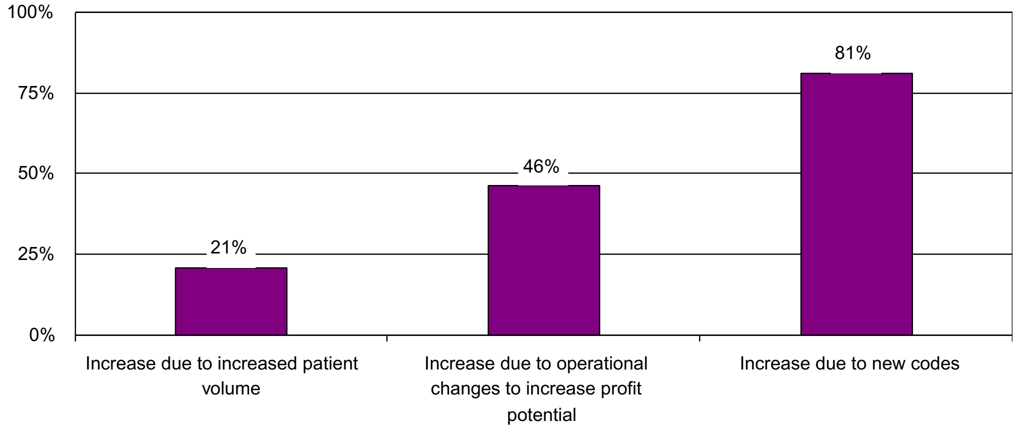


Figure 7: Reasons for Projected Increase in Professional Service Revenue in 2005
"Why do you expect this impact on your professional service revenue for 2005, relative to 2004? (select all that apply)"



Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

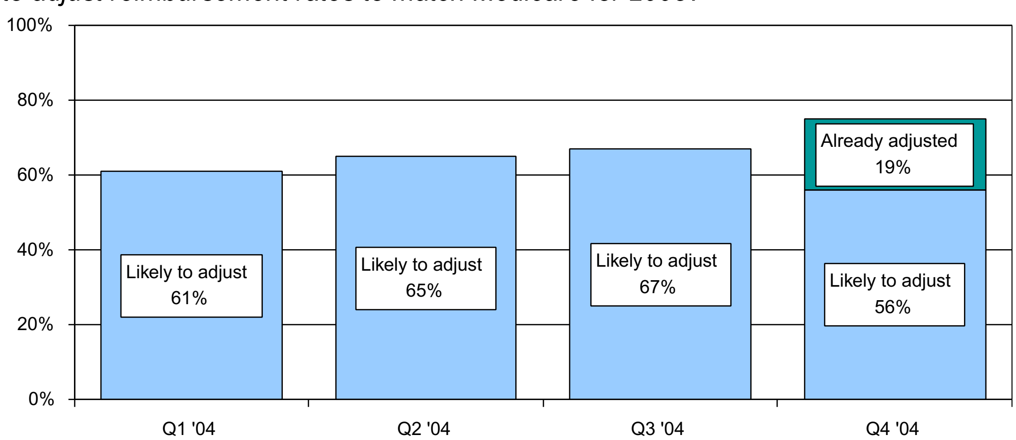
Figure 8: New CMS Coding for 2005

1. New codes for billing drug administration in the categories of hydration, non-chemotherapy/diagnostic injections or infusions of drugs other than hydration, and chemotherapy injections/infusions including biologic agents and monoclonal antibodies.
2. Unbundling: Payment for multiple injections performed on the same day as any other fee schedule service.
3. Payment for multiple injections administered during same encounter.
4. Payment for multiple infusions when drugs are administered simultaneously via IV.
5. Payment for flushing of a venous access device if only service provided that day.
6. Payment for management of significant side effects when follow-up visits or prolonged services are necessary.

Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Finally, a key question that we now have initial visibility into centers on how private payers have planned to react to CMS' reimbursement changes. An overlying concern has been that these private payers would migrate towards reimbursement levels in line with Medicare's, and for the first time we see initial signs of this trend indeed, with 19% of private insurance carriers having already adjusted their rates per CMS levels as of March 2005 (Figure 9).

Figure 9: Private Payer Reimbursement Changes in 2005
"What percentage of non-Medicare insurance carriers have tried or do you expect will try to adjust reimbursement rates to match Medicare for 2005?"

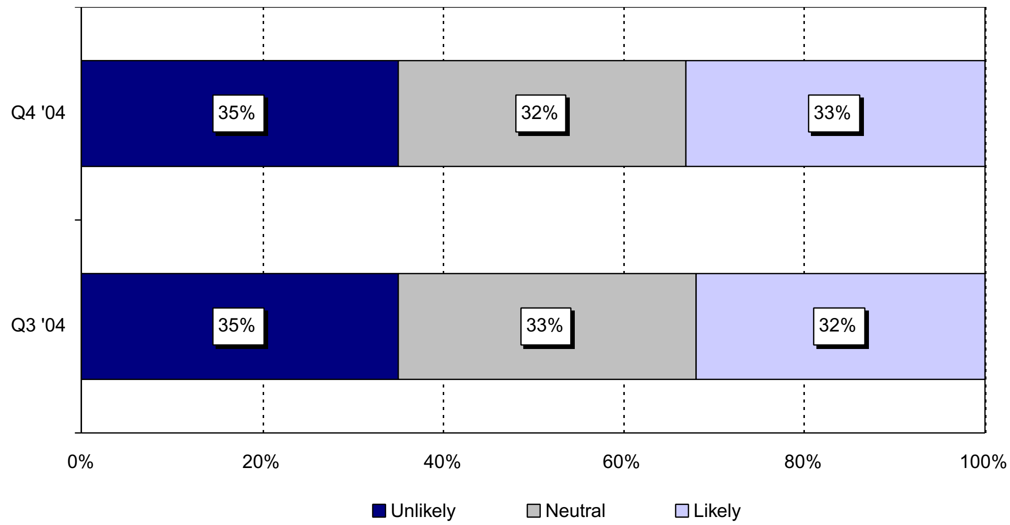


Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

However, despite the growing trend in private payers adopting Medicare reimbursement rates, physicians across our surveyed population appear to vary with regard to their plans to accept such Medicare-equivalent contracts (Figure 10), similar to what we saw in our prior survey.

Figure 10: Contracts with Private Payers

"How likely is your clinic to accept contracts with non-Medicare insurers who plan to reimburse at Medicare rates in 2005?"



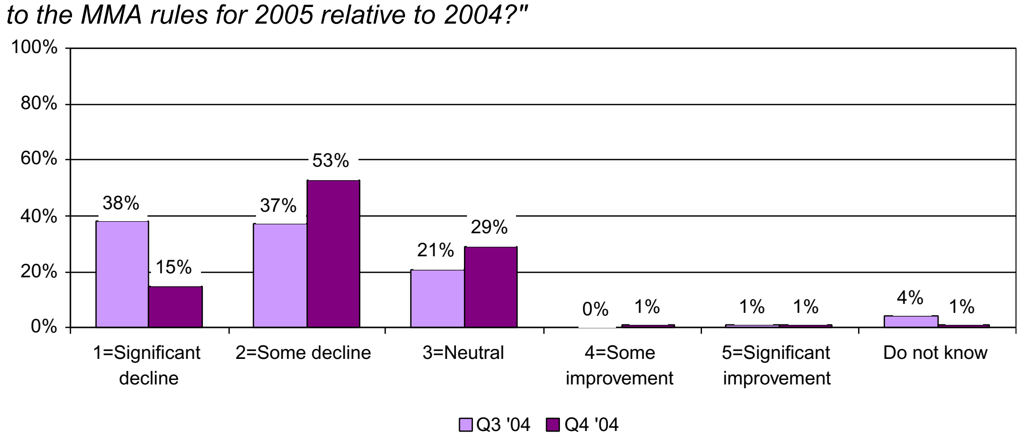
Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Patient-Care Outlook Shows Signs of Life.

As we've noted previously, expectations for decreased profitability led to general consensus in the oncology community that patient care was bound to suffer. However, in this most recent wave of our survey, we find that in the context of the actual implementation of the 2005 CMS changes, oncologists appear more optimistic as to the ultimate impact on patient care. For example, relative to responses we garnered when we last conducted this survey in October 2004, physicians' patient care outlook is improving, with regard to access to (Figure 11), timeliness of (Figure 12, following page), and quality of (Figure 13, following page) care.

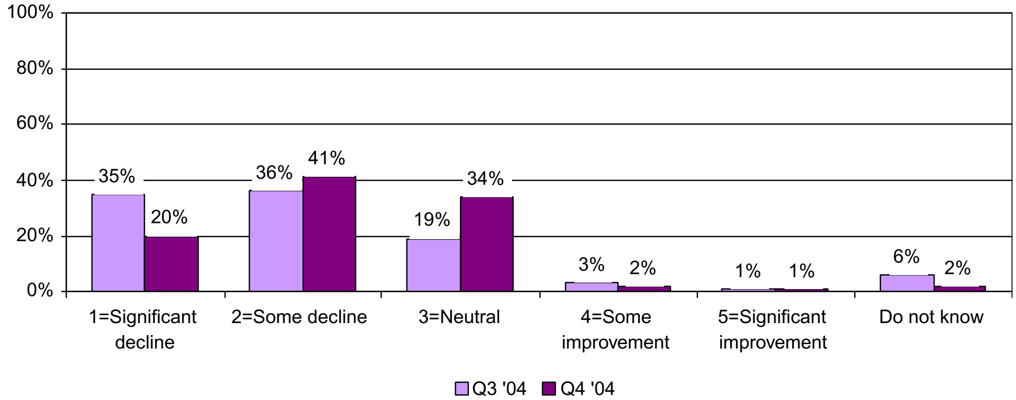
Figure 11: MMA Impact on Access to Care

"What do you expect to be the clinical impact on your patients' access to care in response to the MMA rules for 2005 relative to 2004?"



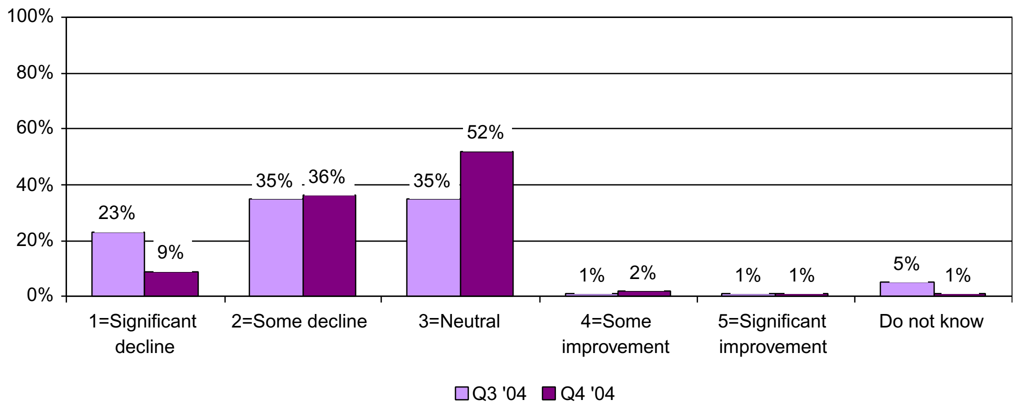
Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Figure 12: MMA Impact on Timeliness of Care
"What do you expect to be the clinical impact on your patients' timeliness of care in response to the MMA rules for 2005 relative to 2004?"



Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Figure 13: MMA Impact on Quality of Care
"What do you expect to be the clinical impact on your patients' quality of care in response to the MMA rules for 2005 relative to 2004?"

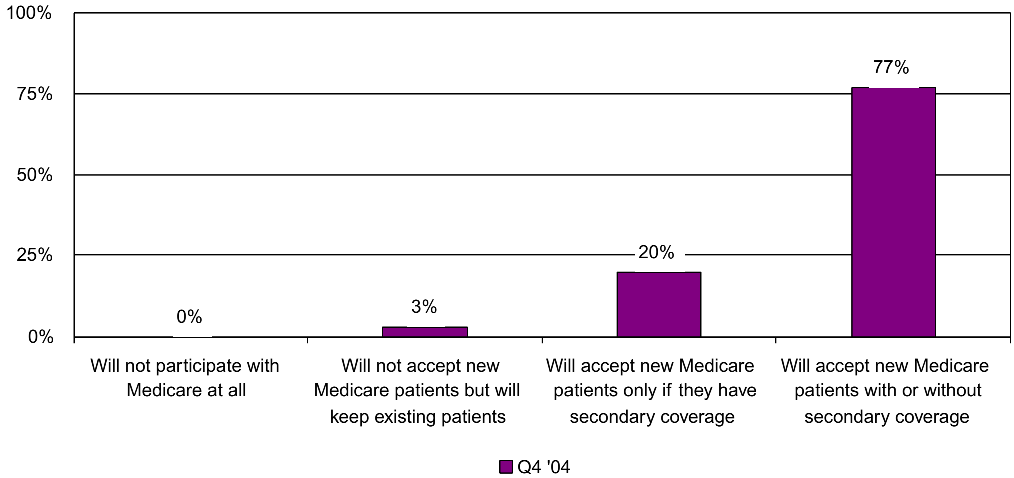


Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

In addition, overall, we find that all of the oncologists we surveyed indicated that they were planning to participate to some degree in Medicare programs this year (Figure 14, following page), while in our previous survey, only 82% of physicians indicated plans to participate.

Figure 14: Medicare Participation

"What participation level will your clinic have with Medicare in 2005? (select one)"

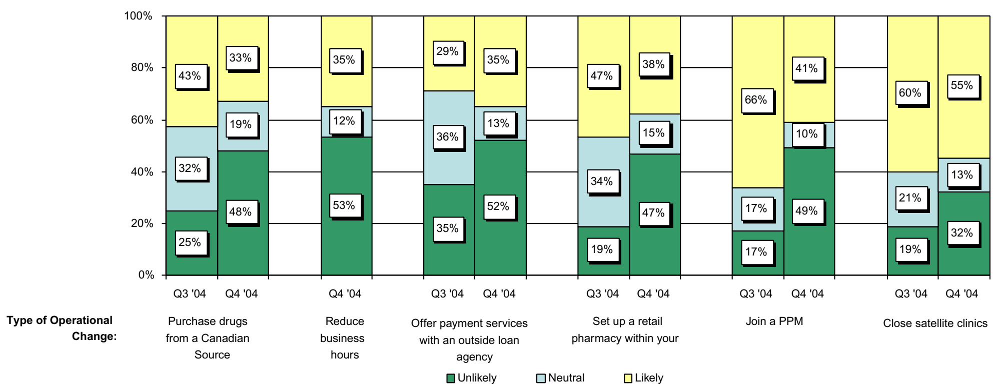


Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

But Profitability Remains a Key Focus. While the increasingly positive outlook for overall patient care is encouraging, we would note that this outlook remains in the context of sharp attention to profitability metrics. While oncologists do appear less likely to see the need for extreme operational changes in their clinics (Figure 15), they nonetheless continue to see key changes as necessary for maximizing profitability in the face of reduced pharmacy revenues and increasing difficulty collecting patient co-pays.

Figure 15: Operational Changes

"How likely is your clinic to implement operational changes in reaction to the MMA rules for 2005?"

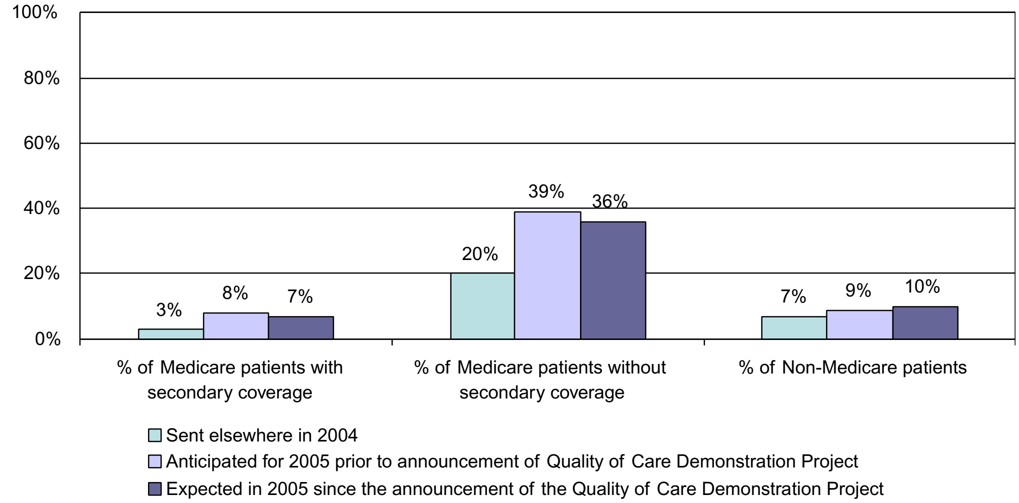


Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Indeed, we actually see a slightly lowered expectation for patient shifting – while a certain percent of patients are still likely to be redirected to the hospital setting (away from the community clinic), the projected percentage has fallen slightly (Figure 16, following page).

Figure 16: Patient Shifting

"What percent of your chemotherapy patients were or will be sent elsewhere for treatment because of inadequate reimbursement?"

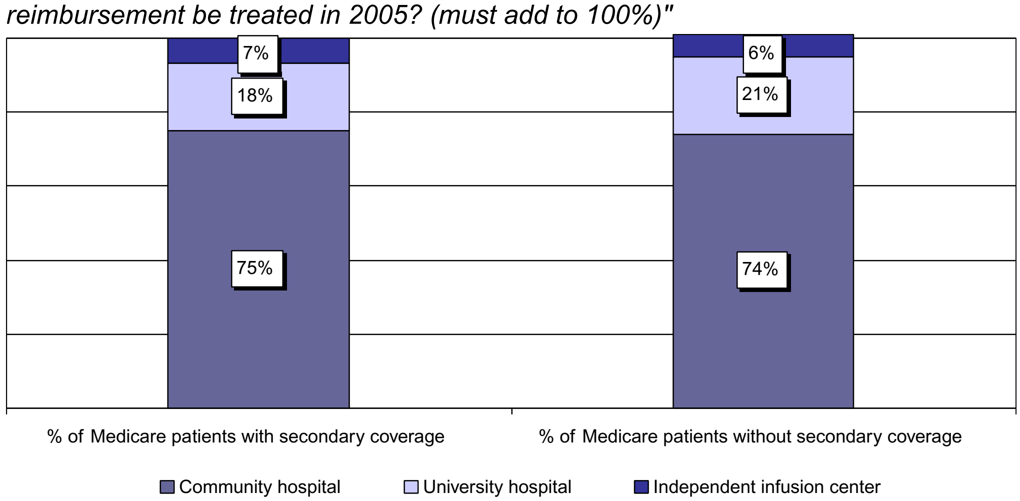


Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Community and university hospitals remain the primary targets of these referred patients (Figure 17), validating previous concerns that resources at these centers may not be sufficient to treat this kind of patient-flow in a rapid manner.

Figure 17: Patient Shifting Locations

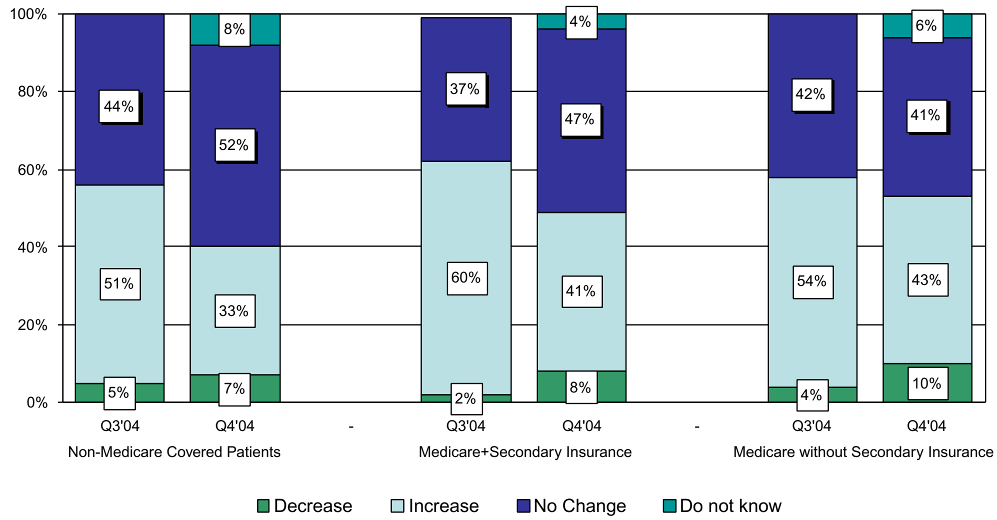
"Where will your Medicare patients who are sent elsewhere due to inadequate reimbursement be treated in 2005? (must add to 100%)"



Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

With these kinds of factors contributing less to the oncologist response to Medicare reimbursement changes this year, we see continued focus on the fundamentals of cancer treatment as a means by which clinics can remain profitable. For example, as we've seen before, the implementation of strict treatment programs (i.e. treatment guidelines) is projected to increase by a substantial portion of physicians (Figure 18, following page).

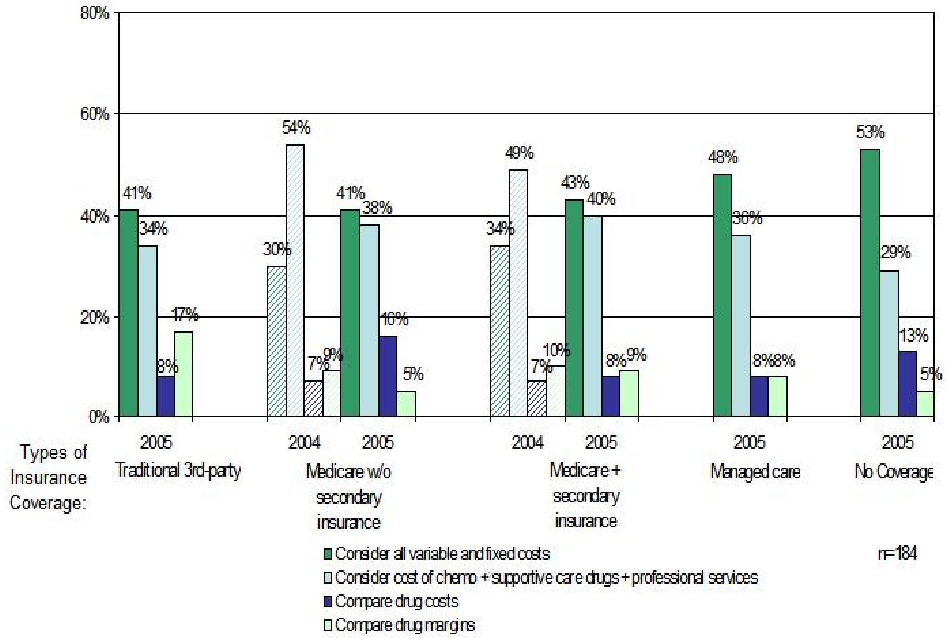
Figure 18: Implementation of Strict Treatment Programs (Guidelines)
"How is your clinic likely to respond to the MMA rules for 2005 in terms of clinical use of strict treatment protocols for your chemotherapy patients?"



Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

In making treatment decisions, oncologists are taking into account all variable and fixed costs to the clinic in the majority of patient cases, and particularly, as would be expected, for those patients lacking any coverage (Figure 19, following page).

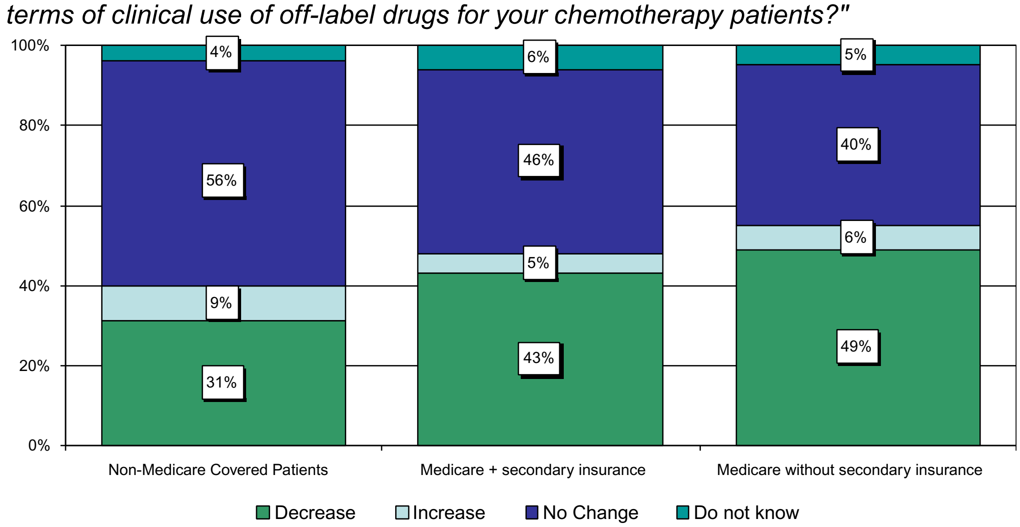
Figure 19: Treatment Plan Decisions
"Which method will your clinic use to evaluate the financial impact when selecting chemotherapy regimens for your patients in 2005 relative to 2004? (select one method for each type of insurance coverage)"



Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

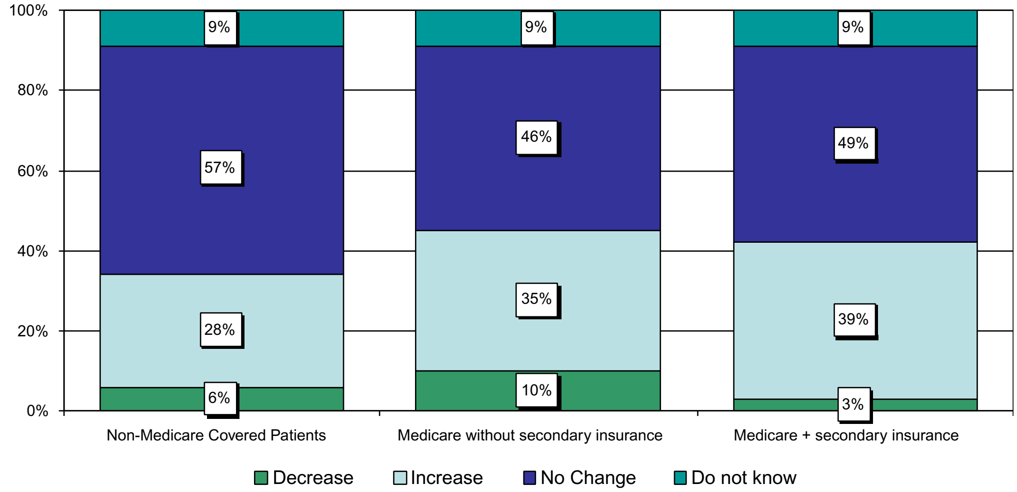
Along these lines, physicians continue to project certain use trends in patient treatment that appear for the most part directed along the lines of maximizing profitability, including decreasing off-label drug use (Figure 20), more frequent chemotherapy treatments (Figure 21, following page), and the administration of multiple injections per encounter (Figure 22, following page) as allowed by the new Medicare coding.

Figure 20: Off-Label Drug Use
"How is your clinic likely to respond to the MMA rules this year versus the prior year in terms of clinical use of off-label drugs for your chemotherapy patients?"



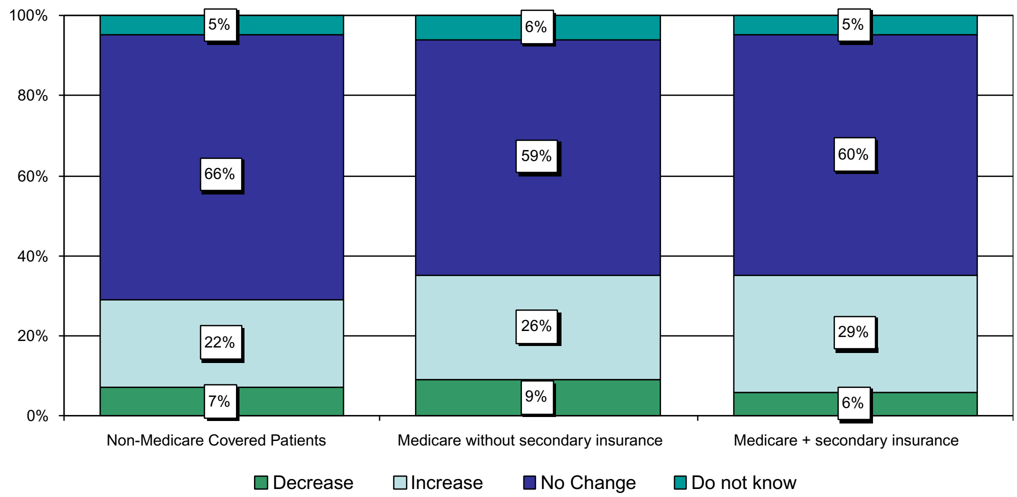
Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Figure 21: Weekly Chemotherapy Regimen Use
"How is your clinic likely to respond to the MMA rules this year versus the prior year in terms of clinical use of weekly chemotherapy regimens for your chemotherapy patients?"



Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Figure 22: Use of Multiple Injections per Encounter
"How is your clinic likely to respond to the MMA rules this year versus the prior year in terms of clinical use of multiple injections per encounter for your chemotherapy patients?"



Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

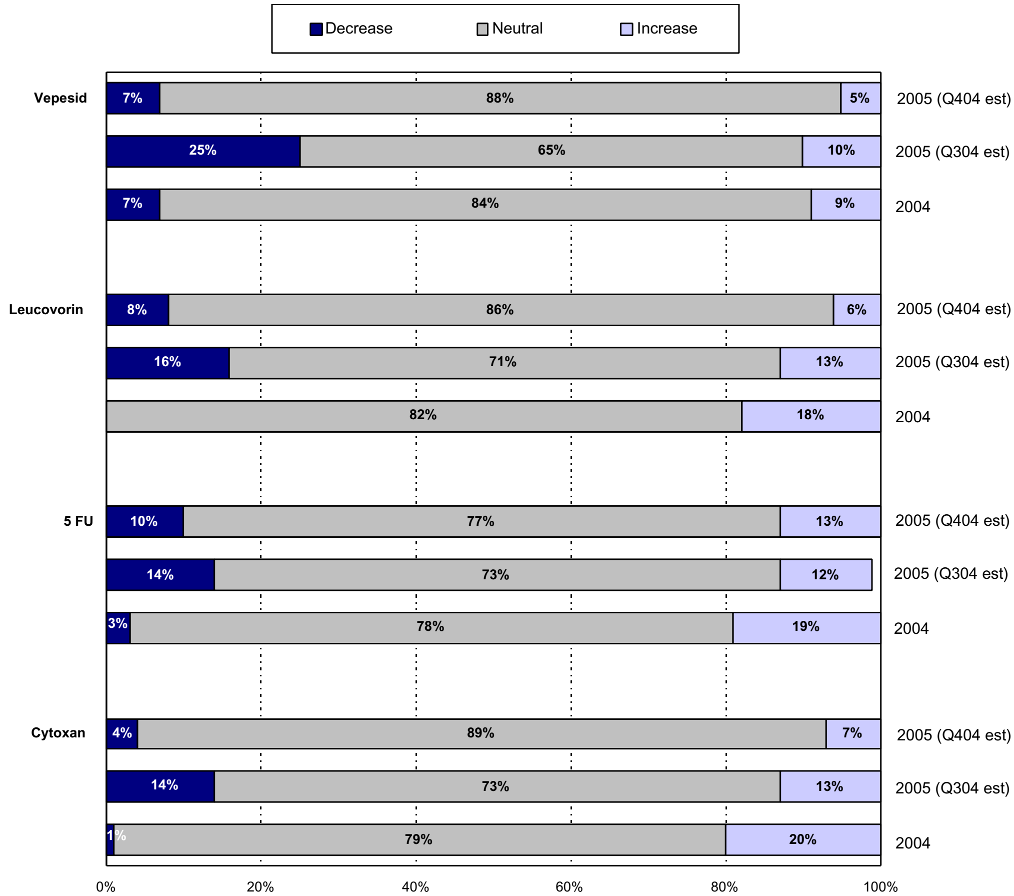
Cancer Drug Use-Patterns Take a Turn for the Better.

In our October 2004 survey, we saw – generally across the board – expectations for decreasing use of cancer therapies, including more expensive drugs, biologics, newer chemotherapy agents, other non-generic chemotherapy agents, and even generic chemotherapy agents. In this context, therefore, we are encouraged – and surprised – to see that in our most recent survey, fielded just a few months later in early-March 2005, the outlook for drug use is considerably less dreary, with more positive expectations for either stable or even increasing drug use this year.

For example, the oncologists surveyed generally plan to continue stable use of generic drugs, with fewer doctors expecting to decrease generic drug use than we saw in October (Figure 23, following page).

Figure 23: Generic Chemotherapy Drug Use

"How is your clinic likely to respond to the MMA rules this year versus the prior year in terms of clinical use of these IV chemotherapy drugs for your chemotherapy patients?"

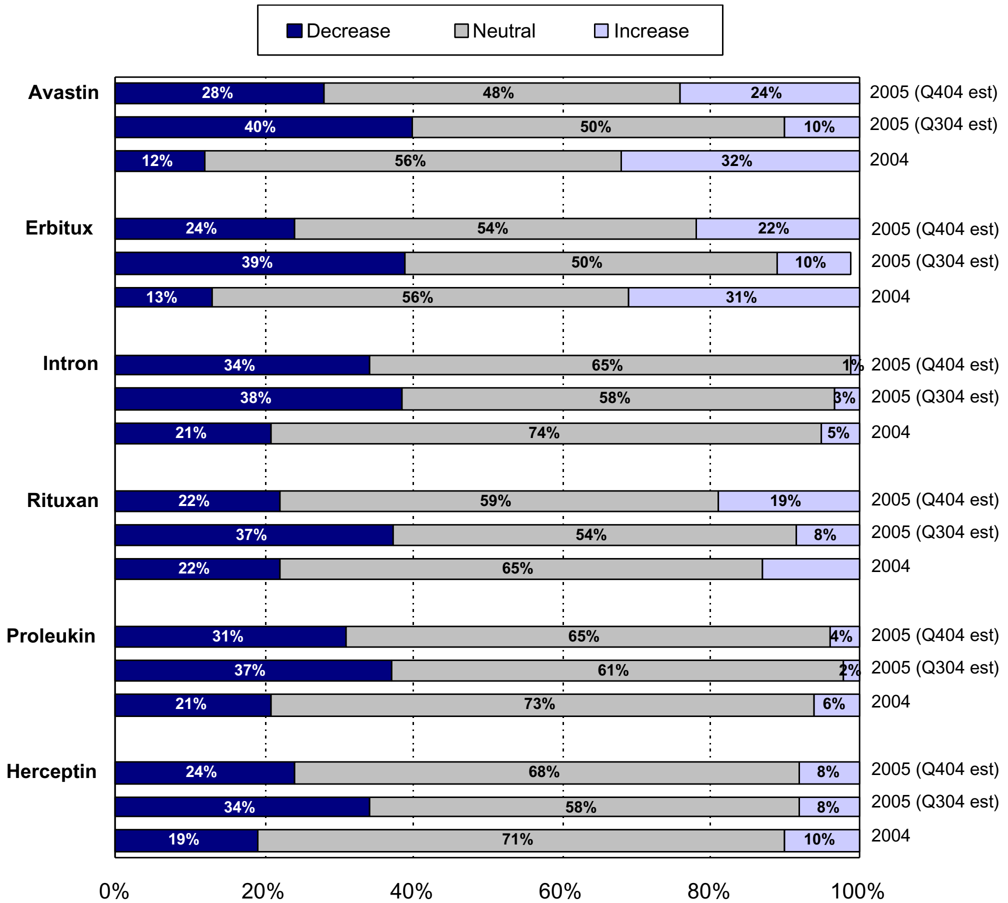


Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Even more striking are changing expectations for use of biologic therapies, including newer agents such as DNA's Avastin and IMCL's Erbitux, as well as more well-established agents such as DNA's Rituxan. Across all biologics surveyed, we see fewer expectations for decreasing use, and more physicians now anticipate increasing their use of Avastin, Rituxan, and Erbitux (Figure 24).

Figure 24: Biologic Therapy Use

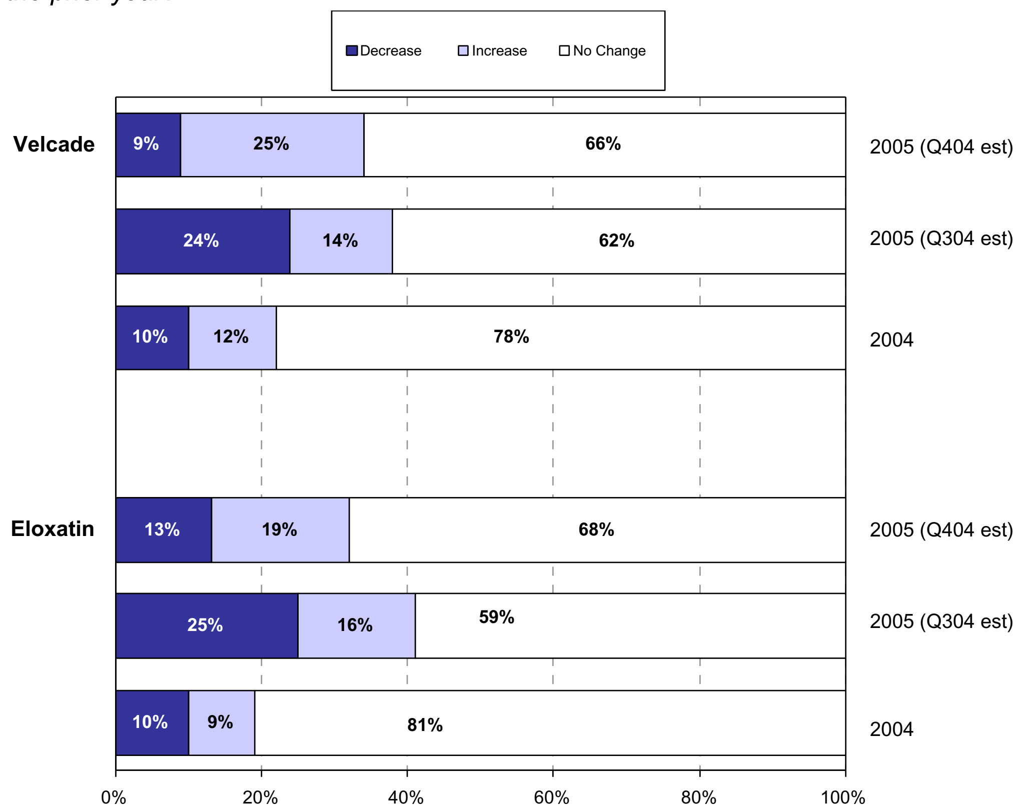
"How is your clinic's use of these biologic therapy drugs likely to change this year versus the prior year?"



Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Again, when considering newer chemotherapy agents such as MLNM's Velcade (for treatment of multiple myeloma) and SNY's Eloxatin (for treatment of colorectal cancer), we see more physicians planning to increase their use of these drugs, and fewer planning to decrease use (Figure 25).

Figure 25: Newer Chemotherapy Use
"How is your clinic's use of these IV chemotherapy drugs likely to change this year versus the prior year?"

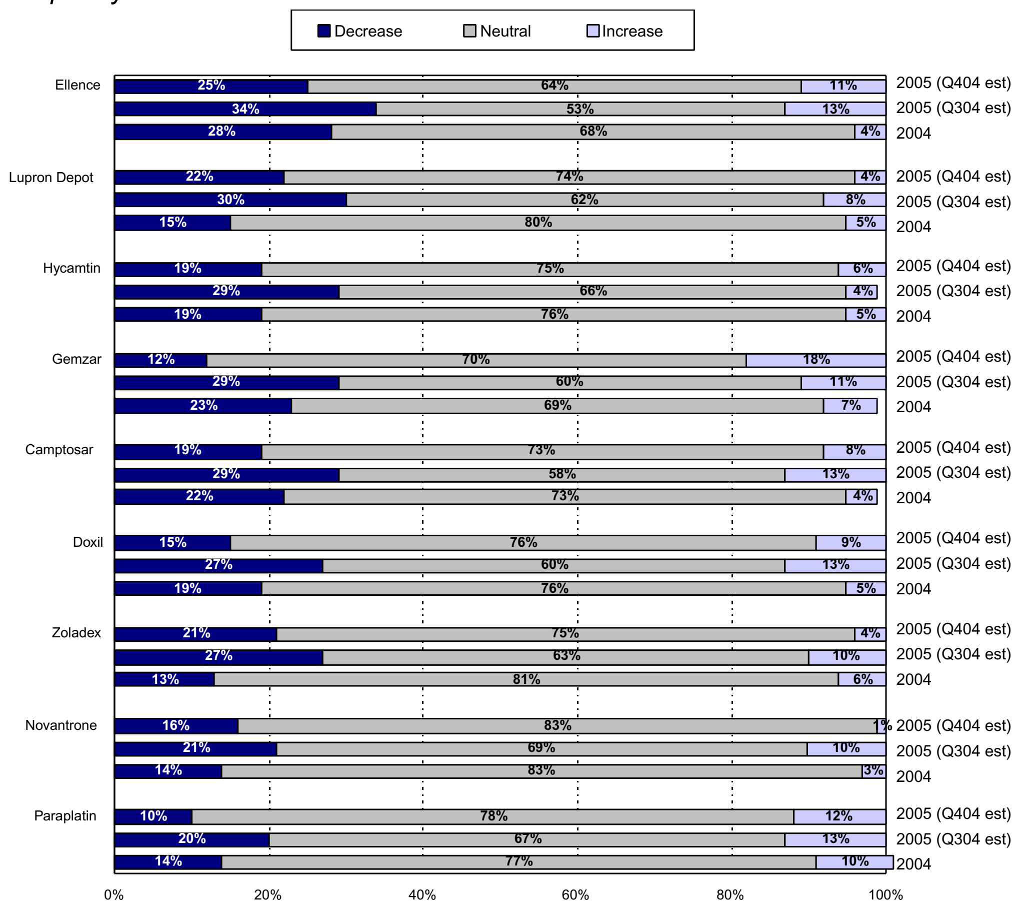


Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

With respect to other non-generic chemotherapy drugs, the general sentiment in our oncologist population is that use of these drugs will be relatively stable to slightly decreasing this year, compared to last year (Figure 26).

Figure 26: Other Non-Generic Chemotherapy Use

"How is your clinic's use of these IV chemotherapy drugs likely to change this year versus the prior year?"

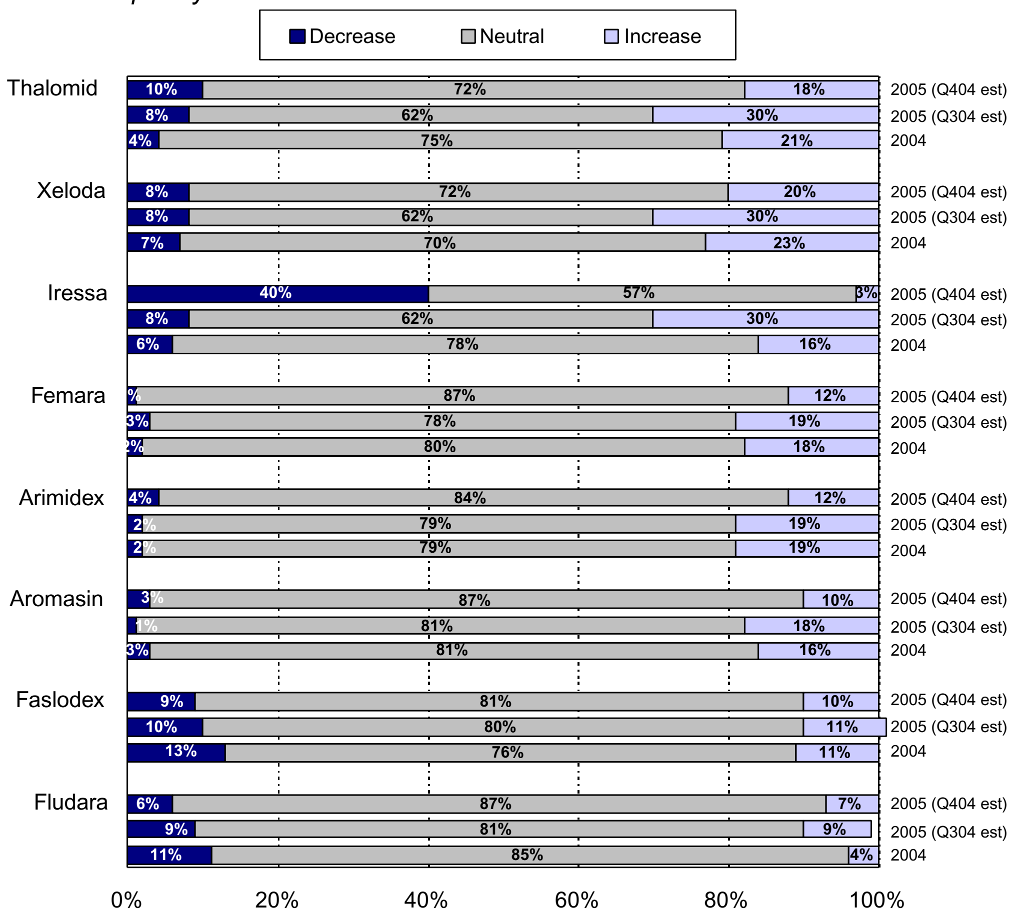


Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Our October survey suggested that oral chemotherapy drugs were relatively safe from the negative impact of the MMA, in the context of CMS' ongoing Replacement Drug Demonstration Project which included reimbursement of these kinds of previously non-reimbursed therapies. Our new survey results suggest that while use of these drugs generally is likely to remain stable, oncologists do describe expectations for slightly decreasing use of drugs like Thalomid or Xeloda (Figure 27).

Figure 27: Oral Chemotherapy Use

"How is your clinic's use of these oral chemotherapy drugs likely to change this year versus the prior year?"

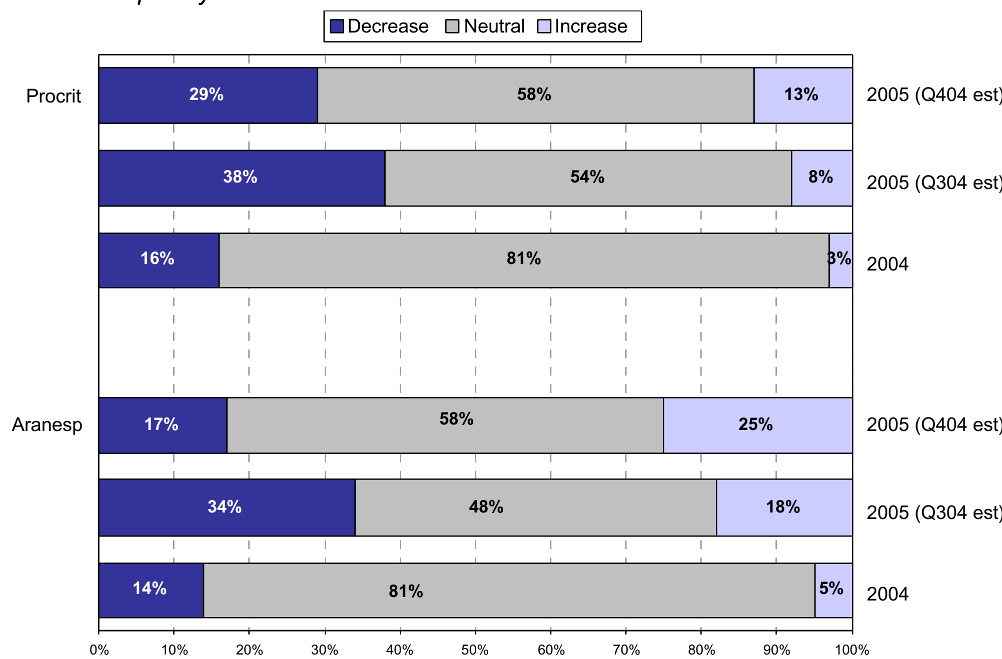


Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Finally, we would touch on the Quality of Care demonstration project instituted by CMS for calendar-year 2005. As we've detailed previously, this project directed $300M to oncologists for the documentation of three key cancer therapy side effects in treated patients: pain, nausea and vomiting, and fatigue. For each patient encounter during which these three measures are documented using the new Medicare G-coding system, physicians receive a $130 payment. When this project was announced in early November 2004, we saw it as a key opportunity for oncologists to recoup losses incurred via traditional Part B reimbursement rate cuts, and a key opportunity for biotechnology companies focused on supportive care agents treating these side effects. Earlier this year we heard from companies such as Amgen, documenting the positive impact of this demonstration project, and our new survey data confirm this positive impact. In particular, with respect to erythropoietin (EPO) products such as AMGN's Aranesp and JNJ's Procrit, we now see higher expectations for increasing use in 2005 versus last year (Figure 28, following page), relative to our last survey.

Figure 28: EPO Use

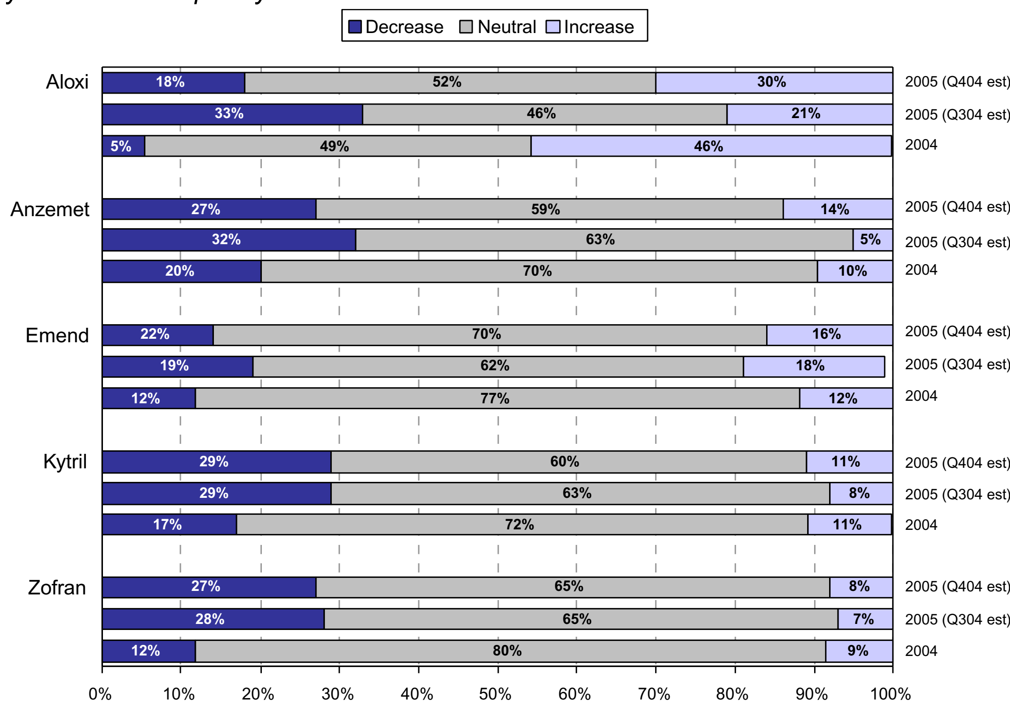
"How is your clinic's use of these supportive care drugs likely to change due to this year versus the prior year?"



Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

In addition, while we generally see the same trend in the anti-emetic group, we'd note that expectations for increasing use are primarily limited to MOGN's Aloxi and MRK's Emend, versus the other 5-HT3 receptor antagonists (Figure 29).

Figure 29: Anti-Emetic Use
"How is your clinic's use of these supportive care drugs likely to change due to MMA this year versus the prior year?"



Source: Interactive Clinical Intelligence, Inc., a CancerConsultants, Inc. company

Cancer Care's Demise Has Been Greatly Exaggerated. All-in, we are quite encouraged by the new results from our most recent survey of US-based community oncologists, pointing to increasingly positive expectations for both patient care and drug utilization. We believe this outlook confirms the strong Q105 we've already seen from several oncology companies – including AMGN and MOGN, for example – and we look for future operating results this year to continue to reflect this sentiment. That said, given that the oncologist community in full has yet to analyze the financial impact of the CMS changes this year on their practices, we would not be surprised to see this sentiment continue to evolve as experience with the new regulations grows, and we will continue to monitor these dynamics as the year continues.

Risks:
Amgen, Inc. (AMGN):

- Challenges from newer entrants on Aranesp's dominant EPO product position
- Impact of Medicare reimbursement in 2005 still not completely understood

Genentech, Inc. (DNA):

- Rituxan's commercial potential – particularly in light of Medicare reimbursement concerns – may be slowing

MGI Pharma, Inc. (MOGN):

- Three well-funded competitors in the CINV market (GSK, Sanofi-Aventis, Roche)
- Increasing clinical risk with growing late-stage pipeline
- As an organization, MOGN has not launched a major drug prior to Aloxi

Millennium Pharmaceuticals (MLNM):

- Velcade may be losing early launch momentum, and solid tumor opportunity remains in question
- Still viewed in many circles as a genomics company
- Looking for meaningful clinical data elsewhere in pipeline

Celgene Corporation (CELG):

- Revlimid is key to future growth, but its regulatory timing may disappoint
- Our survey work indicates potential near-term competitive pressure on Thalomid

"Appendix - Important Disclosures"

1 Baird maintains a trading market in the securities of Amgen Inc.

1 Baird maintains a trading market in the securities of MGI Pharma, Inc.

1 Baird maintains a trading market in the securities of Biogen Idec Inc.

1 Baird maintains a trading market in the securities of Celgene Corporation.

1 Baird maintains a trading market in the securities of Millennium Pharmaceuticals, Inc.

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