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Small/Mid-Cap Research

Multi-Company Note

Biotechnology

Bar Is High But AMD Physician Survey Says Lucentis Could Be Better

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SUMMARY

- We conducted a survey of 26 retinal specialists to evaluate trends in the AMD market. Survey confirms our view that EYET's Macugen will post a strong launch and meet our $178M 2005 sales estimate vs. $135-$150M guidance. Macugen could become best-seller for minimally classic and occult lesions.
- However, we are reducing EYET's target price to $26 from $38 and still do not like the risk/reward profile since 85% of responders expect that Genentech's Lucentis will be superior on efficacy and equivalent on safety to Macugen. While the bar is high, the survey suggests that Lucentis can post 15% rate of >3 lines vision improvement and 82% rate of <3 lines vision loss.
- Results also suggest that Visudyne is tracking to meet our $507M estimate (in-line with QLT's guidance of $500-$530M). However, we are maintaining our Sell rating and reducing our target price to $10 from $14 since Lucentis might prove to be superior to Visudyne when the ANCHOR data is released in Q4.

United States

SUMMARY VALUATION AND RECOMMENDATION DATA

		Expected Returns								Earnings Per Share	
Company (Ticker)	Price	Price	Div.	Total		Rating	Div.(E)	Target	LTGR	Current Yr	Next Yr
Eyetech Pharmaceuticals, Inc (EYET)	**$22.54**	**15.4%**	**0.0%**	**15.4%**	**Curr**	**2S**	**$0.00**	**$26.00**	**42%**	**($0.75)E**	**$0.60E**
					Prev	2S	$0.00	$38.00	42%	**($0.75)**E	$0.60E
QLT Inc. (QLTI)	**$11.31**	**(11.6%)**	**0.0%**	**(11.6%)**	**Curr**	**3S**	**$0.00**	**$10.00**	**13%**	**$0.73E**	**$0.90E**
					Prev	3S	$0.00	$14.00	13%	$0.73E	$0.90E

OPINION

Given the strong investor interest in the market of wet age-related macular degeneration (AMD), we conducted a telephone survey of 26 high-prescribing retinal specialists to ascertain their experiences with Eyetech/Pfizer's Macugen, QLT/Novartis' Visudyne, and Genentech/Novartis' Lucentis.

We draw the following conclusions from the survey:

- ***Visudyne is expected to remain strong in predominantly classic lesions.*** The physicians we surveyed believe that Visudyne will remain the treatment of choice in predominantly classic lesions where the drug has shown equivalent efficacy to Macugen but can be dosed less frequently.
- ***Macugen should capture the rest of the market.*** Macugen is expected to become the first line therapy for minimally classic and occult lesions and garner some

market in predominantly classic lesions. Overall, we find that use of Visudyne could decrease by 9%, 17% and 17% in predominantly classic, minimally classic and occult lesions due to competition from Macugen.

- ***Macugen should quickly saturate the market opportunity.*** Macugen is expected to post a strong launch driven by pent-up demand and widespread physician awareness. Physicians expect to use Macugen in 27%, 72% and 74% of predominantly classic, minimally classic and occult lesions in 6-months' time. While the dull needle in Macugen's pre-filled syringe is a nuisance, it is unlikely to detract from use.

- ***Visudyne and triamcinolone might be better than Macugen.*** Physicians gave high remarks to the use of Visudyne with triamcinolone and believe that this approach yields superior efficacy and safety in all lesion types over Macugen. However, it remains to be seen whether this will translate into higher sales of Visudyne when data from pivotal trials testing this approach is released in 2006.

- ***Expectations for Lucentis are high, but respondents believe the drug is up to the challenge.*** In the survey, 85% of responders expressed the opinion that Lucentis will demonstrate superior efficacy and equivalent safety to Macugen. In order for Lucentis to be considered superior to Macugen, the drug will need to result in ≥3 lines of vision improvement in 15% of patients and <3 lines of vision loss in 82% of patients. Several physicians in the survey noted that this bar is high given that Macugen showed 6% and 70% rates on these parameters, respectively. However, the responders believe that Lucentis is up to the challenge. Of the 26 physicians in the survey, 88% have participated in Macugen's and 77% in Lucentis' clinical trials.

SEE FURTHER DOWNSIDE TO QLT (3S) – REDUCING TARGET PRICE TO $10 FROM $14

Results from our physician wet AMD survey support our view that Visudyne's market share will stabilize after initial loss to Macugen. In our view, Visudyne is on track to meet our $507 million sales estimate for the year (+3% from the annual run rate exiting 2004), in-line with management's guidance of $500-$530 million, only if strong ex-U.S. sales can compensate for the market share loss in the domestic market.

Nevertheless, we are maintaining our cautious view on the stock since participants in the survey suggest that Lucentis has the potential to capture significant market share from Visudyne if results from the head-to-head ANCHOR study are positive (expect approval of Lucentis in early 2007). In our view, the release of data from three Phase III studies of Lucentis (MARINA, ANCHOR and PIER) over the next 12 months will continue to be an overhang on QLT and drive further depreciation of the stock.

We are also maintaining our Sell rating on QLT since we believe that management's guidance for Eligard sales in 2005 ($160-$170 million) is too optimistic given the ongoing reimbursement and pricing concerns for the luteinizing hormone releasing hormone (LHRH) agonist class of drugs for prostate cancer. Instead, we model $128 million in sales.

As a result, we continue to be skeptical of management's ability to grow EPS by 20% and revenues by 25% on average over the next 5 years but model 13% EPS and 5% revenue annual growth.

STILL DO NOT LIKE RISK/REWARD PROFILE OF EYETECH (2S) – NEW TARGET PRICE IS $26 FROM $38

Our physician AMD survey also reaffirms our view that Macugen will post a strong launch and justifies our $178 million sales estimate, ahead of Eyetech's guidance of $135-$150 million. However, we are not able to recommend the stock given that Lucentis could prove

to be a formidable competitor to Macugen following its expected approval in early 2007 (*for full discussion please refer to our initiation note on Eyetech dated February 10th*). While the potential impact of Lucentis on Eyetech is well-appreciated by investors as is reflected in the 50% depreciation of Eyetech shares year-to-date, we caution that further downside in the stock is possible to around $18/share (-20%) by our estimates if Lucentis proves to be superior to Macugen.

Alternatively, our valuation analysis suggests that the stock could appreciate considerably to $37/share (+64%) if Lucentis is found to be equivalent to Macugen and only captures a smaller market share after approval. Nevertheless, we still do not like the risk/reward profile of the stock since 85% of responders in our survey expect that Lucentis will prevail based on their experiences with both products.

During the second quarter of 2005, Genentech (DNA-$74.40; 1H; covered by Elise Wang) is expected to release 12-months data from Lucentis' Phase III ***MARINA*** (Lucentis vs. placebo in minimally classic and occult AMD) and Phase I/II ***FOCUS*** (Lucentis+/-PDT) studies in a press release. Full data is expected to be presented on July 16-20 at the American Society of Retinal Specialists (ASRS) meeting.

In late 2005, we expect that 12-months data from the ongoing Phase III ***ANCHOR*** (Lucentis vs. PDT in predominantly classic AMD) study would become available. Based on these results, we would expect that Genentech and Novartis (NOVN.VX-$49.16; 2L; covered by Alistair Campbell) could file for regulatory approval in the U.S. and Europe targeting approval in 2007 and 2008, respectively.

Finally, we expect that data from the ***PIER*** study (testing dosing of Lucentis every 3 months) will be released during the second quarter of 2006. In our view, given this constant stream of news flow, we believe that Eyetech shares will be hard pressed to post consistent appreciation even while Macugen could surpass investor expectations.

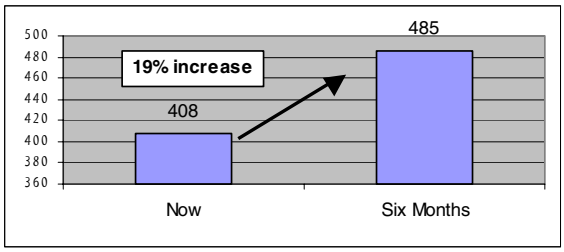
QUARTERLY ESTIMATES PER SHARE DATA

		Current Year		Next Year		Next Year + 1	
Ticker	**Period**	**Current**	Previous	**Current**	Previous	**Current**	Previous
EYET	1Q	**($0.30)A**	($0.20)E	**NA**	NA	**NA**	NA
(FYE Dec)	2Q	**($0.17)E**	($0.13)E	**NA**	NA	**NA**	NA
	3Q	**($0.14)E**	($0.10)E	**NA**	NA	**NA**	NA
	4Q	**($0.14)E**	($0.10)E	**NA**	NA	**NA**	NA
	Year	**($0.75)E**	($0.54)E	**$0.60E**	$0.60E	**$1.15E**	$1.08E
QLTI	1Q	**$0.19A**	$0.19A	**NA**	NA	**NA**	NA
(FYE Dec)	2Q	**$0.17E**	$0.17E	**NA**	NA	**NA**	NA
	3Q	**$0.19E**	$0.19E	**NA**	NA	**NA**	NA
	4Q	**$0.18E**	$0.18E	**NA**	NA	**NA**	NA
	Year	**$0.73E**	$0.73E	**$0.90E**	$0.90E	**$1.05E**	$1.05E

WET AGE-RELATED MACULAR DEGENERATION PHYSICIAN SURVEY

To evaluate the way in which the new wet AMD therapies will shape the market, we surveyed 26 high-volume retinal specialists by telephone over the past two months of which 65% were in academic and 35% in community practices. Physicians who participated in this survey were all practicing in group practices of which 73% are in dedicated retina subspecialist groups. In aggregate, these physicians are treating over 10,600 active wet AMD patients or approximately 5% of the 200,000 active wet AMD patients in the U.S. On average, each physician in this survey is treating 408 wet AMD patients and expects that their practice would grow by 19% to 486 patients over the next six months.

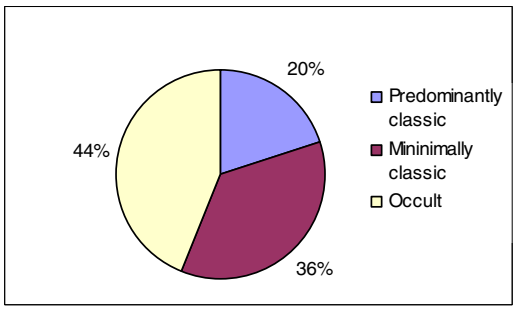
Figure 1: Number of Patients with Active Wet AMD Treated Per Physician



Source: Smith Barney

Physicians estimate that 20% of patients are suffering for predominantly classic lesions while 36% and 44% have minimally classic (MC) and occult (OC) lesions, respectively. There is a wide variability in the individual prevalence estimates of these lesion subtypes that demonstrates the differences in clinicians' interpretation of the diagnostic criteria of wet AMD.

Figure 2: Wet AMD By Lesion Types



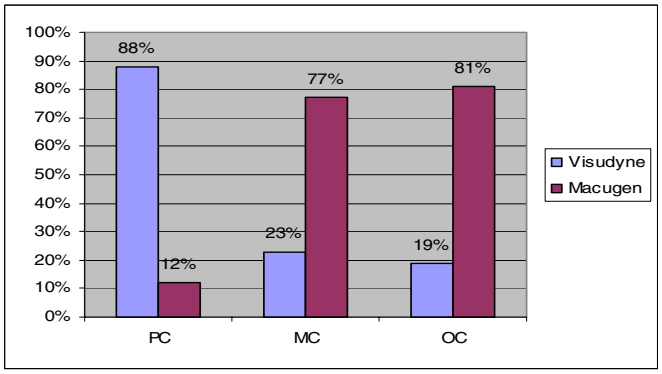
Source: Smith Barney

VISUDYNE EXPECTED TO REMAIN FIRST-LINE THERAPY IN PREDOMINANTLY CLASSIC LESIONS

The retinal practices surveyed have an average of 4 offices. All have dedicated photodynamic therapy (PDT) lasers for Visudyne at a central location but only a few lasers in satellite offices. The percentage of PDT-equipped offices is 67%. Therefore access to Visudyne therapy is available, but not always convenient. All physicians surveyed use Visudyne routinely in their practices.

In general, 88% of physicians opt to use Visudyne as the first choice therapy for predominantly classic (PC) lesions. However, the overwhelming majority of physicians were less impressed with Visudyne's activity in minimally classic (MC) and occult (OC) lesions. Since Macugen received a broad label approval for use in all three wet AMD subtypes in December 2004, physicians are expecting to rapidly adopt this therapy as first-line for these patients.

Figure 3: First-Line Drugs By Wet AMD Subtype



Source: Smith Barney

VISUDYNE EXPECTED TO CEDE MARKET SHARE TO MACUGEN

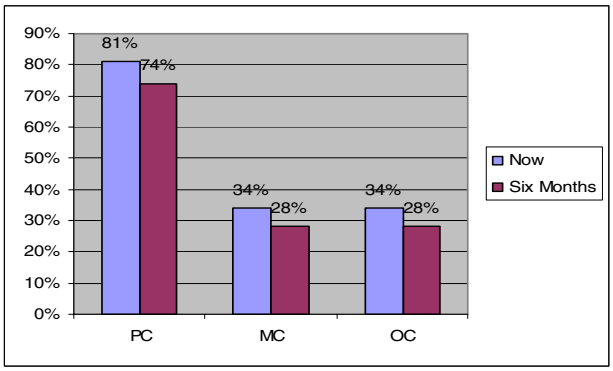
Participants in the survey opine that Macugen will detract from sales of Visudyne over the next 6 months, and recent QLT financial data suggest that this has already begun. In the first quarter, QLT and partner Novartis reported global Visudyne sales of $124 million, flat over the fourth quarter when sales reached $123 million. Prior to this, Visudyne sales had been growing at 8% quarter over quarter on average.

Over the next 6 months, physicians project that the proportion of patients treated with Visudyne in predominantly classic lesions will decline from 81% to 74% due to experimentation with Macugen. Importantly, physicians also predict that Visudyne will lose market share from 34% to 28% in both minimally classic and occult lesions due to Macugen's superior activity in these patients.

In total, use of Visudyne could decrease by an absolute 9%, 17% and 17% in predominantly classic, minimally classic and occult setting, respectively. In comparison, our model assumes that Visudyne will retain its market share in predominantly classic setting. We concede that this estimate might prove to be too optimistic, but are not changing our estimates at the present time until we gain more conviction in the predictive value of this survey.

In minimally classic and occult setting, our global wet AMD model is in-line with results from the survey and also predicts that Visudyne would cede 17% market share in both minimally classic and occult indication. As a result, we are not making changes to our model at this time.

Figure 4: Estimated Visudyne Market Share Now and In Six Months

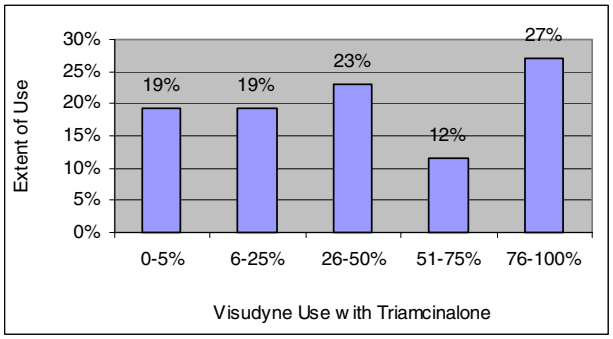


Source: Smith Barney

VISUDYNE IS ROUTINELY COMBINED WITH TRIAMCINOLONE

Given that the popularity of steroid injections is widely-known, it is not surprising that 81% of responders in our survey are using Visudyne routinely in combination with triamcinolone and only 19% of physicians are using triamcinolone in less than 5% of their patients who receive Visudyne. On average, our respondents estimate that the intravitreal steroid, triamcinolone acetate (TA), is used concomitantly in 46% of patients who receive Visudyne.

Figure 5: Visudyne Use Concomitantly with Triamcinolone

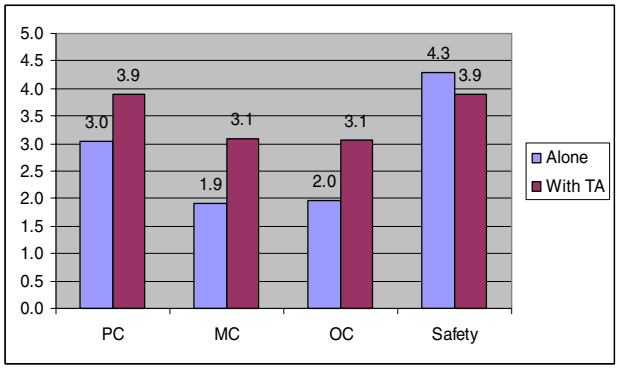


Source: Smith Barney

SURVEY SAYS TRIAMCINOLONE BOOSTS VISUDYNE'S EFFICACY

Physician participants in the survey believe that intravitreal triamcinolone injections boost the efficacy of Visudyne, adding approximately one point in efficacy (on a five point scale) in each wet AMD subtype. While they concede that this comes at a cost of additional side effects (namely cataract and glaucoma), they are not overly concerned with these issues. Glaucoma can be adequately managed with topical eye drops and most AMD patients are over 65 and are going to need a cataract operation eventually.

Figure 6: Visudyne Efficacy and Safety As Monotherapy or When Combined with Triamcinolone



Source: Smith Barney

MACUGEN IS MAKING FAST INROADS INTO THE MARKET

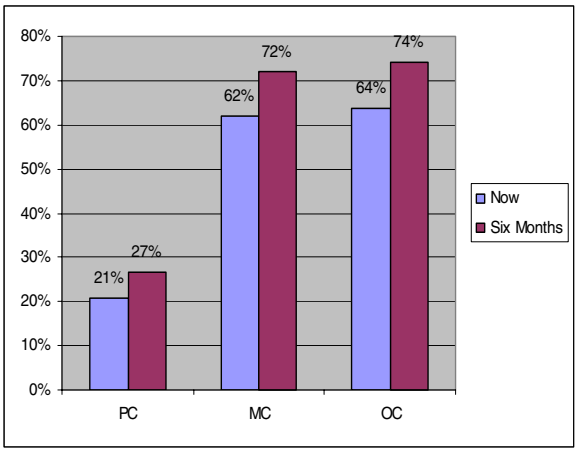
In December 2004, the Food and Drug Administration (FDA) approved Macugen for use in all three wet AMD lesion types. Our physician consultants have consistently predicted that Macugen will be adopted rapidly driven by its broad label, pent up demand, wide physician awareness, and ease of reimbursement. First quarter Macugen sales support this contention, posting $24 million and besting consensus $21 million. In 2005, we model $178 million in sales, ahead of Eyetech's guidance of $135-$150 million.

As noted in the Visudyne section of this survey, physicians expect to use Macugen as first-line therapy for minimally classic and occult patients due to the drug's superior activity over

Visudyne. Currently, responders state that they expect to use Macugen in 21%, 62%, and 64% of predominantly classic, minimally classic and occult patients, respectively. In six months, these market shares are expected to grow further albeit at a more moderate pace since Macugen is expected to rapidly saturate the market (see figure 7).

Again, while we are not changing our model at the present time until we gain more conviction in the predictive value of this survey, we note that our global AMD model projects significantly more modest penetration rate of 14%, 18% and 18% in predominantly classic, minimally classic and occult lesions, respectively.

Figure 7. Estimated Macugen Share Now and In Six Months



Source: Smith Barney

DULL NEEDLES APPEAR UNLIKELY TO IMPACT MACUGEN'S UPTAKE

Macugen's pre-filled syringe has a blunt-ended needle. This needle has a slightly larger gauge than the smaller, sharper instrument that is more commonly used by retinal surgeons for injecting triamcinolone. There have been concerns among investors that physicians will opt not to use Macugen due to lack of experience with these needles.

In our survey, 53% of ophthalmologists felt that Macugen needles are too dull but reported that this will not preclude using the product. However, some commented that the blunt needle causes more patients discomfort and therefore could detract from long-term compliance with the procedure (injection every 6 weeks).

Pfizer/Eyetech are planning on introducing a new syringe that could address these issues. We expect that the new formulation will become available in 2006 following a six months FDA review.

VISUDYNE WITH TRIAMCINOLONE RECEIVES SURPRISINGLY HIGH REMARKS

When comparing physician's perceptions of Macugen's efficacy and safety with Visudyne and with Visudyne when used in combination with triamcinolone, physicians tend to be most enthusiastic about the Visudyne/triamcinolone combination therapy even though they do not anticipate this to translate into higher Visudyne sales. This is likely due to the fact that definitive data from large randomized Visudyne/triamcinolone studies will not become available until 2006. In our view, if these ongoing studies are positive, then Visudyne could experience a resurgence in use that could detract from sales of Macugen even in minimally classic and occult lesions.

However, responders also note that Visudyne with triamcinolone could have the best efficacy in predominantly classic patients. In minimally classic and occult patients, adding triamcinolone to Visudyne boosts the efficacy to the same level as Macugen's.

At the Association for Research in Vision and Ophthalmology (ARVO) meeting in May 2005, data was presented lending further credence to this approach. Specifically, the data showed that Visudyne with triamcinolone results in reduction of macular edema and improvement in visual acuity when patients are treated every 6 months. However, it remains to be seen whether Visudyne will become more popular in these lesions once data from ongoing studies is released.

In our view, given that Macugen requires an intravitreal injection every 6 weeks, the fact that Visudyne and triamcinolone require less frequent dosing (every 3 months) could prove to be attractive and thwart competition from the new anti-VEGF therapies. However, our physician consultants have noted that since Visudyne has become the standard of care, they do not forecast that use will increase even if these studies are positive.

Figure 8. Combination Trials with PDT and Intravitreal Triamcinolone

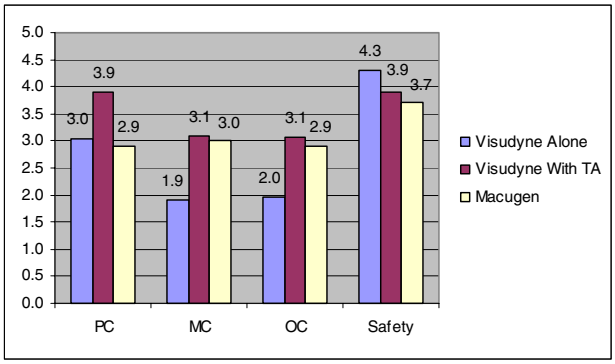
Name	Sponsor	Size	Subtypes	Analyses	Status/Data Timing
VISTA	Manhattan Eye and Ear Infirmary (Spaide)	120	All	12 months	60/120 patients enrolled Preliminary data end 2005
RETINA	Independent Canadian investigators	60	Predominantly classic	12 months	H2 2005
National Eye Institute	QLT/ NVS	300	All	12 and 24 months	Interim data H2 2006
VISIT	Novartis	300	All	6, 12 and 24 months	H2 2006
Johns Hopkins Trial	Johns Hopkins investigators	60	All	12 months	Subtenon administration H2 2006
VERITAS	QLT Inc	300	Predominantly classic	12 and 24 months	Start H2 2005, enrollment complete H2 06, first data H2 2007

Source: Company presentations and Smith Barney research

SURVEY SAFETY SCORES SHOW SOME SURPRISES

As expected from the clinical data, physicians report that Macugen's efficacy in predominantly classic lesions is on par with Visudyne's but give higher marks to Macugen for its activity in minimally classic and occult lesions. Surprisingly, physicians believe that Visudyne is safer than Macugen even though Visudyne can result in acute vision loss during the first week after therapy in upwards of 4% of patients. More so, physicians have also given higher scores to the combination of Visudyne with triamcinolone over Macugen in light of the well-known side effects of rise in intraocular pressure (that can cause glaucoma) and cataract formation. We attribute these responses to the fact that physicians have had more comfort with Visudyne since it has been on the market since 2000 (see figure 9).

Figure 9: Efficacy and Safety comparison of Three Options for Wet AMD

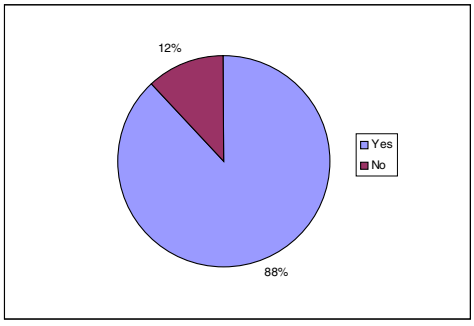


Source: Smith Barney

PHYSICIANS HAVE HIGH EXPECTATIONS FOR LUCENTIS

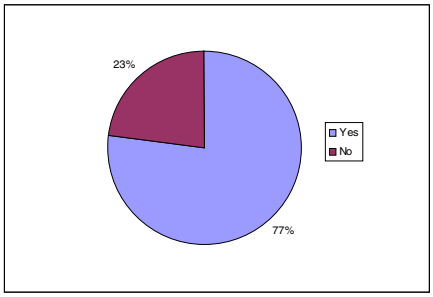
Physicians who participated in our survey were involved in clinical studies of both Macugen and Lucentis. While the distribution slightly favored involvement in Macugen's studies, the cohort was experienced using both products.

Figures 10: Participation in Macugen Studies



Source: Smith Barney

Figures 11: Participation in Lucentis Studies

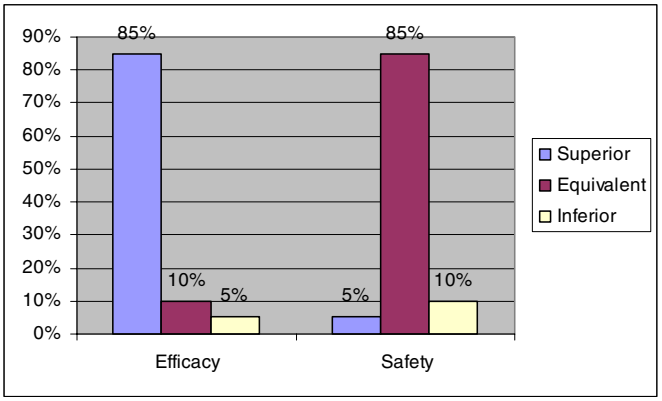


Source: Smith Barney

Results from our survey suggest that 85% of physicians expect that Lucentis will prove to be the superior anti-VEGF product for wet AMD. During the survey, we frequently heard of anecdotal cases where patients experienced long-lasting vision improvements in the Lucentis trials that were more noticeable and durable than improvements seen during the Macugen trials. While physicians were blinded in both studies, physicians commented that the magnitude of vision preservation was too large to be due to sham injections.

When comparing the experiences across both blinded studies and in cases where Macugen or Lucentis were definitively used, physicians expressed the opinion that Lucentis is a more effective anti-VEGF agent due to higher potency and faster onset of action than Macugen.

Figure 12: Efficacy and Safety of Lucentis Compared with Macugen



Source: Smith Barney

OPTICAL COHERENCE TOMOGRAPHY (OCT) DATA ALSO SUGGESTS LUCENTIS'S SUPERIORITY

Another clue to Lucentis' efficacy can be found in the retinal thickness measurements taken with optical coherence tomography (OCT), a non-invasive imaging technology that is used commonly by ophthalmologists. Several physicians who participated in the survey report that they have taken OCT measurements in open-label extensions of Macugen and Lucentis trials. Consensus opinion is that Lucentis reduces macular edema faster and more effectively than Macugen, sometimes as quickly as the first dose. As thinning of the swollen retina strongly correlates with improvements in vision, this supports the evidence that Lucentis may have better efficacy.

PHYSICIANS SEEM COMFORTABLE WITH LUCENTIS'S SAFETY PROFILE

In Phase II extension studies, 11% of patients who received Lucentis developed clinically significant inflammation. However, most patients who developed inflammation experienced only transient mild-to-moderate episodes. Responders in the survey commented that earlier clinical studies used a lyophilized formulation of Lucentis that required reconstitution before use.

In the current pivotal studies, a new liquid formulation is used that does not require mixing. In our survey, 85% of participants shared their opinion that Lucentis will be found to have equivalent safety to Macugen. In their view, the new formulation is likely to settle much of the concerns over severe inflammation. More so, physicians note that patients were followed several times after receive the intravitreal injection of Lucentis in early clinical trials. This contributed to the high rate of reporting of inflammation. In comparison, in the current Phase III trials, patients are only seen at monthly interval when injections are given. As a result, the reported incidence of inflammation could be lower since it is short-lived and could resolved between visits.

BAR FOR LUCENTIS TO ESTABLISH SUPERIORITY TO MACUGEN IS HIGH

While physicians were largely enthusiastic about Lucentis, several participants conceded that expectations for Lucentis are exceedingly high and cautioned that Macugen will have a 2-year lead to market. In general, physicians felt that Lucentis must show an 82% rate of <3 lines vision loss (standard primary endpoint of pivotal wet AMD studies) to be considered superior to Macugen's 70% rate in its pivotal VISION studies.

More so, they noted that vision improvement, as opposed to a reduction in vision loss, is the most important outcome especially given the need for chronic intravitreal injections. In this regard, physicians will like to see that Lucentis can result in a 16% rate of ≥3 lines vision improvement (secondary endpoint) to justify using over Macugen's 6% rate. Given that no

other drug has ever showed this magnitude of vision improvement in phase III, several physicians noted that the bar is indeed high for Lucentis. Nevertheless, the prevailing number of physicians expressed confidence that Lucentis can meet this hurdle.

Figure 13: Physician Reported Hurdles for Lucentis to be Considered Superior to Macugen

Patients with <3 Lines of Vision Loss		Patients with >3 Lines of Vision Improvement	
Macugen	Lucentis	Macugen	Lucentis
70%	82%	6%	15%

Source: Smith Barney

PHYSICIANS SEE FEW HURDLES TO A WIDESPREAD ADOPTION OF LUCENTIS

Our physician consultants have noted that while Macugen will have a considerable lead to market advantage over Lucentis, physicians' treatment choice between these therapies will be driven by Lucentis' efficacy and safety profile. While Lucentis is currently being dosed more frequently than Macugen (every 4 weeks versus every 6 weeks), Genentech has completed patient accrual late in the first quarter in the Phase III PIER study testing a once-every 3 months dosing schedule. We expect data during the second quarter of 2006.

At the ARVO meeting in May 2005, second-year follow-up from the Phase I/II study showed that the efficacy was not compromised when patients received Lucentis only upon evidence of vascular leakage. The results showed that patients receive on average 0.2 injections of Lucentis every month versus 1 injection during the initial protocol without change in visual acuity.

Several of our physician consultants are encouraged by these results and expect that Lucentis is sufficiently potent to afford this infrequent dosing schedule. However, others remain skeptical as to whether this will be sufficient given the rapid progression of the disease.

Nevertheless, there is consensus among physicians that Lucentis will be used extensively, regardless of Macugen's lead to market, if it results in better outcomes or can be used less frequently with equivalent outcomes.

OUR BASE CASE GLOBAL WET AMD MARKET MODEL REMAIN UNCHANGED

We note that we have not made any changes to our baseline models for Eyetech and QLT and our revenues and EPS estimates remain unchanged as well as our launch timelines.

Figure 14: Launch Timings

Drug	US	EU	Japan	Comments
Visudyne	Q2 2000	Q2 2000	Q4 2004	Pivotal trials ended 1999
Macugen	Q1 2005	Q1 2006	2007	Approved US Dec 17 2004 Filed with EMEA Q4 2004 Pfizer led Japan bridging study (Nov 04)
Lucentis	Early 2007	2008	2008	File US and EU based on 12 month data from ANCHOR and MARINA

Source: Smith Barney

The base case model assumes that Lucentis will be found to be equivalent to Macugen and will share the market.

Figure 15: Our Base Case AMD Market Model

	2004A	2005E	2006E	2007E	2008E	2009E	CAGR
US							
Visudyne	$208,960	$207,434	$197,500	$201,450	$197,743	$194,794	-2%
Macugen		$176,814	$289,080	$336,466	$371,649	$393,058	22%
Lucentis				$130,920	$219,557	$289,455	49%
EU							
Visudyne	$233,948	$269,227	$249,912	$254,910	$260,008	$265,208	0%
Macugen			$103,618	$220,459	$315,309	$369,203	53%
Lucentis					$142,813	$241,177	69%
Japan							
Visudyne	$4,422	$30,774	$60,404	$58,125	$53,359	$50,797	13%
Macugen				$27,377	$54,209	$74,355	65%
Lucentis					$28,977	$53,028	83%
Worldwide Totals							
Visudyne (QLTI/NVS)	**$447,330**	**$507,435**	**$507,816**	**$514,485**	**$511,110**	**$510,800**	0%
y/y growth	*24%*	*13%*	*0%*	*1%*	*-1%*	*0%*	
Macugen (EYET/PFE)		**$176,814**	**$392,698**	**$584,302**	**$741,168**	**$836,616**	47%
y/y growth			*122%*	*49%*	*27%*	*13%*	
Lucentis (DNA/NVS)				**$130,920**	**$391,348**	**$583,660**	111%
y/y growth					*199%*	*49%*	
Total AMD Sales	**$447,330**	**$684,249**	**$900,514**	**$1,229,707**	**$1,643,626**	**$1,931,077**	30%

Source: Smith Barney

In this scenario, we project that Macugen will retain the predominant market share due to its first-mover advantage and less frequent dosing compared with Lucentis. We also forecast that both anti-VEGF therapies will erode Visudyne's market share modestly in the U.S. and Europe but that Visudyne will retain the predominant share in Japan due to the late entry by the newer therapies.

Figure 16: Assumptions of the Base Case AMD Market Model

	Visudyne	Macugen	Lucentis	Comment
U.S. Launch	2000	2005	2007	
Price (per treatment)	$1,295	$995	$995	Assume Lucentis priced on par with Macugen
No. treatments (1st year)	2.4	6	7	Treatment rates decline in the second year
No. treatments (2nd year)	1.4	2	3	by 50% similar to case with Visudyne
Patients receiving 2nd yr therapy	70%	70%	70%	
Global sales ($MMs)				
2005	$507	$177	$0	Visudyne loses sales mostly in
2006	$508	$393	$0	minimally classic and occult lesions
2007	$514	$584	$131	due to entrance of anti-VEGF therapies
2008	$511	$741	$391	
2009	$511	$837	$584	
Sales CAGR (2005-09)	**0%**	**47%**	**111%**	
Sales growth rates by geographic location and indication (CAGR)				
US	**2005-09**	**2005-09**	**2007-09**	
Predominantly classic	-2%	17%	34%	Visudyne loses share to Macugen and
Minimally classic	-7%	12%	34%	Lucentis until later years when
Occult	-8%	13%	34%	combination treatment causes stabilization
EU	**2005-2009**	**2006-2009**	**2008-2009**	
Predominantly classic	-2%	37%	40%	Visudyne loses share to Macugen and
Minimally classic	-2%	30%	50%	Lucentis until later years when
Occult	-4%	42%	50%	combination treatment causes stabilization
Japan	**2005-2009**	**2007-2009**	**2008-2009**	
Predominantly classic	10%	58%	50%	Visudyne has no competition in Japan
Minimally classic	11%	58%	50%	until 2007 after which growth declines
Occult	5%	58%	50%	
Overall	**0%**	**47%**	**111%**	Overall modest decline in Visudyne sales while Macugen and Lucentis post solid growth

Source: Smith Barney

OUR ASSUMPTIONS IF LUCENTIS MEETS ITS HIGH EXPECTATIONS – DOWNSIDE GLOBAL WET AMD MODEL

The results of our survey highlight the high likelihood that Lucentis, despite being two-years behind Macugen, could dominate the market due to superior efficacy. Therefore, in this scenario, we analyze the potential impact of Lucentis on sales of Macugen and Visudyne to ascertain the imputed value of Eyetech and QLT.

Figure 17: Our Downside Case AMD Market Model

	2004A	2005E	2006E	2007E	2008E	2009E	CAGR
US							
Visudyne	$208,960	$207,434	$197,500	$182,490	$166,801	$134,137	-10%
Macugen		$176,814	$289,080	$269,876	$226,205	$213,426	5%
Lucentis				$232,351	$416,113	$568,816	56%
EU							
Visudyne	$233,948	$269,227	$249,912	$254,910	$222,777	$199,218	-7%
Macugen			$103,618	$220,459	$189,025	$169,299	18%
Lucentis					$330,400	$558,523	69%
Japan							
Visudyne	$4,422	$30,774	$60,404	$58,125	$48,912	$45,052	10%
Macugen				$27,377	$40,596	$47,858	32%
Lucentis					$47,450	$79,814	68%
Worldwide Totals							
Visudyne (QLTI/NVS)	**$447,330**	**$507,435**	**$507,816**	**$495,525**	**$438,490**	**$378,407**	-7%
y/y growth	*24%*	*13%*	*0%*	*-2%*	*-12%*	*-14%*	
Macugen (EYET/PFE)		**$176,814**	**$392,698**	**$517,713**	**$455,825**	**$430,582**	25%
y/y growth			*122%*	*32%*	*-12%*	*-6%*	
Lucentis (DNA/NVS)				**$232,351**	**$793,964**	**$1,207,153**	128%
y/y growth					*242%*	*52%*	
Total AMD Sales	**$447,330**	**$684,249**	**$900,514**	**$1,245,589**	**$1,688,278**	**$2,016,142**	31%

Source: Smith Barney

In the downside model, we project that Lucentis takes significant share from both Macugen and Visudyne after approval in the U.S. in 2007 and Europe and Japan in 2008. In line, we project that peak market share in the U.S. will increase from 30% in the base case to 57% in this scenario. This market share gain will be at the expense of Macugen whose U.S. market share will be reduced from 34% to 23%. At the same time, we will expect that Visudyne's U.S. market share will decrease from 28% to 20% due to this competitive threat. We project similar trends in Europe and Japan (*please see our global wet AMD model*).

Figure 18 Assumptions of the Downside AMD Market Model

	Visudyne	Macugen	Lucentis	Comment
U.S. Launch	2000	2005	2007	
Price (per treatment)	$1,295	$995	$995	Assume Lucentis priced on par with Macugen
No. treatments (1st year)	2.4	6	7	Treatment rates decline in the second year
No. treatments (2nd year)	1.4	2	3	by 50% similar to case with Visudyne
Patients receiving 2nd yr therapy	70%	70%	70%	
Global sales ($MMs)				
2005	$507	$177	$0	Visudyne loses sales mostly in
2006	$508	$393	$0	minimally classic and occult lesions
2007	$496	$518	$232	due to entrance of anti-VEGF therapies
2008	$438	$456	$794	Macugen loses share to Lucentis starting
2009	$378	$431	$1,207	in 2007 due to Lucentis' superior efficacy
Sales CAGR (2005-09)	**-7%**	**25%**	**128%**	
Sales growth rates by geographic location and indication (CAGR)				
US	**2005-09**	**2005-09**	**2007-09**	
Predominantly classic	-12%	-3%	35%	Lucentis takes share from both Macugen and
Minimally classic	-10%	-5%	39%	Visudyne across the board from launch
Occult	-14%	-1%	35%	in 2007
EU	**2005-2009**	**2006-2009**	**2008-2009**	
Predominantly classic	-8%	9%	59%	Lucentis takes share from both Macugen and
Minimally classic	-8%	3%	37%	Visudyne across the board from launch
Occult	-11%	9%	42%	in 2008
Japan	**2005-2009**	**2007-2009**	**2008-2009**	
Predominantly classic	6%	32%	42%	Visudyne has no competition in Japan
Minimally classic	4%	22%	29%	until 2007 after which growth declines; Lucentis
Occult	3%	12%	38%	takes share from both when launched in 2008
Overall	**-7%**	**25%**	**128%**	Overall modest decline in Visudyne sales while Lucentis gets majority of the market

Source: Smith Barney

According to this scenario analysis, Macugen sales will be reduced from $837 million to $431 million in 2009. During the same year, sales of Visudyne will be $378 million, falling short of the $511 million projection in our base case model. Concurrently, we project that Lucentis will post $1.2 billion in sales in 2009 driven by superior vision improvement as opposed to $584 million if it only provides equivalent vision control to Macugen.

VALUATION DISCUSSION

We are not making any changes to our Eyetech and QLT models that are using revenues estimates for Macugen and Visudyne from our base case global wet AMD market model. However, we are reducing our target prices for both Eyetech and QLT since we are incorporating the probability-adjusted downside scenario into our valuation analyses (see valuation discussion).

Eyetech Pharmaceuticals (EYET; 2S - $22.54)

We are reducing our target price on the stock from $38 to $26. To understand the impact of competitive dynamics on the stock, we evaluated two scenarios.

- Our base case scenario assumes that Macugen and Lucentis are similar and share the market.
- Our second scenario considers that Lucentis is superior to Lucentis and captures the lion's share of the market.

Previously, we have also used a third scenario projecting that Macugen will be superior to Lucentis. However, we are no longer including that since we believe that this outcome is unlikely.

Based on our discussions with physicians who have used both Macugen and Lucentis, we attribute a 40% probability to the base case and 60% probability to the downside case. Previously, we attributed a 50% probability to the first and 30% probability to the second scenario. The change in our opinion is due to the bullish comments on Lucentis discussed in this survey.

HOW WE ASSIGNED P/E MULTIPLES TO THE STOCK

In our valuation analysis, we typically use an average of three different valuation metrics (P/E multiples, Enterprise value-to-revenue multiples and discounted cash flows) to neutralize the effects on any single parameter on the value of the business. In Eyetech's case, we employ 2007 financial projections since at which point the financials begin to accurately mirror the future prospects of this business (second year of profitability).

Mid-cap, emerging biotech companies that are turning profitable are trading at average 22x price-to-forward 12-months earnings multiples once achieving stable profitability. At present, Eyetech is trading at roughly 20x our 2007 EPS projection of $1.15 (unchanged from previous estimate).

In our valuation analysis, we attribute a different multiple to each scenario. We employ a 30x price-to-earning multiple to our base case analysis. This is justified since Eyetech should be trading at a premium to the group given its potential to post strong revenue and EPS growth if Macugen and Lucentis are found to be similar.

Alternatively, we apply a 15x price-to-2007 EPS multiple (from 30x previously) to our projection of $1.11 (from $0.61 previously) in the scenario in which Macugen is inferior to Lucentis. We now project higher EPS due to aggressive expenses controls and not stemming from higher sales. This multiple is lower than the prior multiple due to the contraction of the biotech group. We chose a 15x multiple to apply a discount to Eyetech's peer group reflecting the competitive threat to Macugen.

HOW WE ASSIGNED EV/REVENUES MULTIPLES TO THE STOCK

We typically also employ an enterprise value-to-revenues multiple approach in valuating mid-cap, emerging biotech companies since this technique values stocks that have not yet achieved profitability. We find emerging biotech companies that are turning profitable are trading at an average 4x enterprise value-to-forward 12-months revenues multiples (range: 2x-8x) based on the second year of profitability. At present, Eyetech is trading at 3x our base case 2007 revenues projection of $267 million (unchanged from previously) (accounting for only 50% of U.S. Macugen revenues corresponding to Eyetech's portion of sales). Again we argue that Eyetech should trade at 5x multiple, a premium to its peer group. This is due to the potential to post significant revenue acceleration that will surpass that of its peer group if Macugen and Lucentis are found to be equivalent.

Alternatively, if Lucentis is found to be superior to Macugen, we would expect that Eyetech will trade a discount to its peer group. In this scenario, we apply a 3x EV-to-2007 revenues multiple to our projection of $234 million (accounting for only 50% of U.S. Macugen revenues corresponding to Eyetech's portion of sales).

OUR DISCOUNTED CASH FLOW ANALYSIS

In our ten-year discounted cash flow (DCF) analysis, we use Eyetech's 12% discount rate. This discount rate reflects Eyetech's cost of equity without any debt. In our calculation, we conservatively project a 5% terminal growth rate. Since Eyetech has only been public since early 2004, its beta does not accurately reflect the risks inherent in this stock. As a result, we use the average five-year, weekly-adjusted betas of Eyetech's comparable group of companies since this value more accurately reflects the risk of mid-cap, emerging biotech stocks. We note that this calculation yield an average beta of 1.25 that is lower than Eyetech's published beta of 1.18. Inherently, a higher beta results in a lower target price.

DERIVING OUR PROBABILITY-ADJUSTED TARGET PRICE

To derive our target price, we took the imputed target price of both scenarios and applied a probability-adjustment to the likelihood that this scenario will take place (see figure 19). Our base case analysis projects that Macugen and Lucentis would prove to be equivalent. If that occurs, our valuation analysis would impute a $37 target price.

Under the second scenario, we forecast that Lucentis is superior to Macugen yielding an $18 target price. To arrive at our $26 probability-adjusted target price (the basis for our Hold rating on the stock), we attributed a 60% probability to the first and 40% probability to the second scenario.

Figure 19: Eyetech Valuation Scenarios and Target Price

	Macugen at Par (Base Case)	Macugen Inferior (Downside Case)
Peak Shares (2009) US		
Predominantly classic	19%	9%
Minimally classic	25%	13%
Occult	26%	13%
Macugen Sales		
2005	$176.8	$176.8
2006	$392.7	$392.7
2007	$584.3	$517.7
2008	$741.2	$455.8
2009	$836.6	$430.6
CAGR (2007 to 2009)	20%	-9%
Earnings per Share (Fully Diluted and Taxed)		
2005	-$0.75	-$0.75
2006	$0.60	$0.60
2007	$1.15	$1.11
2008	$1.48	$0.69
2009	$1.75	$0.72
CAGR (2007 to 2009)	24%	-20%
Return on Equity		
2005	-12%	-12%
2006	10%	10%
2007	18%	17%
2008	20%	10%
2009	21%	9%
Average Return on Equity (2007-2009)	20%	12%
Cash Flows		
2005	-$39.9	-$39.9
2006	$1.3	$1.3
2007	$73.0	$80.7
2008	$94.3	$52.1
2009	$112.4	$43.3
CAGR (2007 to 2009)	24%	-27%
Imputed Target Stock Price	$37	$18
Estimated Total Return	65%	-23%
Risk adjustment	**40%**	**60%**
Target Stock Price	**$26**	
Estimated Total Return	**15%**	

Source: Smith Barney

Risks

We rate the stock Speculative due to the following reasons. We note that if the risks to the stock prove to be higher than we currently project, then the stock might not meet our target price. Conversely, the stock might exceed our target price if our analysis overstates the risks to our investment thesis.

EYETECH'S FORTUNES ARE TIED TO MACUGEN FOR THE FORESEEABLE FUTURE

As we see it, Eyetech's prospects over the next several years are exclusively dependent on Macugen sales. We caution that companies that are exclusively dependent on a single product in competitive markets are highly volatile. Therefore any material problem with Macugen sales, launch of competitors, inability to supply ample product for the demand, or obtain reimbursement could result in wide fluctuations in the stock.

OUR LONG-TERM EPS CAGR MIGHT NOT BE REACHED DUE TO STRONG LAUNCH

We note that one of the challenges to single product companies whose products have the potential to achieve rapid market saturation is the ability to sustain long-term earnings growth. It is possible that due to a strong launch, Eyetech would exceed our Street high sales projections in 2005/06. Since we do not see substantial potential for upside over the longer-term (due to market saturation of Macugen), if that occurs, the 2005-09 EPS CAGR might be lower than we currently project.

Typically, biotech stocks are afforded a premium over the broader market due to superior long-term EPS growth prospects. We caution that companies whose products quickly

saturate the market often find their multiples contract as investors begin to discount decelerations of growth once market opportunities are exhausted.

Alternatively, it is also possible that Lucentis might prove to be superior to Macugen. If that occurs, our financial estimates might prove to be overly optimistic for Macugen. At present, our base case model assumes that Macugen and Lucentis would be equivalent and would largely share the market globally.

MACUGEN'S EFFICACY IS GOOD BUT NOT AS GOOD AS HOPED

Macugen has shown an ability to reduce the progression of vision loss, but the ability to cause vision improvement in 25-60% of patients that was seen in early clinical studies was not duplicated in the Phase III VISION trials where only 6% of patients reported an improvement from baseline (similarly Visudyne showed a modest rate of vision improvement). While Macugen is the best available option for wet AMD patients, the vast majority of patients are expected to continue to lose vision while on treatment.

Our physician consultants also note that it is highly unlikely that patients would receive injections every 6 weeks (Macugen label recommends 17 injections over the first 2 years of treatment), leading us to model that patients would receive 6 injections during the first year and 2 injections during the second year. Given the lack of compliance of Visudyne, we predict that only 70% of patients would opt to receive treatment with Macugen during the second year. In our view, the issue of poor compliance is well appreciated by the Street and accounted for in consensus projections. However, the need for frequent injections with only a reduction in vision loss certainly leaves room for the entrance of new therapies that could be more effective.

MARKET IS PROMISING TO BECOME MORE COMPETITIVE

Since the wet AMD market is large and under-developed, it is not surprising that numerous drug candidates have active programs in this area. Currently, there are more than 16 programs in the clinic for AMD and related ocular conditions. Most of these programs are either targeting the VEGF pathway or are different permutations of steroid drugs employing various modes of administrations including sustained release formulation. In our view, Genentech's Lucentis and combination therapy between QLT's Visudyne with intravitreal triamcinolone injections provides the most significant threats to the uptake of Macugen. We expect data for Lucentis and data for the combination approach over the next 18 months.

MANUFACTURING CREATES ADDITIONAL LONG-TERM RISK

The ability to successfully scale-up production to meet demand is a bar that all commercial companies must meet. Before approval, there were concerns that Eyetech might face manufacturing challenges that would delay product launch. However, on January 21st, Eyetech launched Macugen after successfully completing production scale up at the current Raylo Chemicals plant. One risk to the stock is that Eyetech must coordinate between Nektar Therapeutics that makes the pegylation reagents used to pegylate the aptamer, Raylo the active pharmaceutical ingredient (API) producer, and Gilead that provides fill/finish services. Any issues along this production chain could restrict drug supply.

SIGNIFICANT INSIDER OWNERSHIP COULD LEAD TO VOLATILITY IN THE STOCK

Insider ownership of Eyetech is extensive. In total, management owns approximately 9-10% and other insiders own an estimated 35% of the outstanding shares of the company. While this is a strong vote of confidence in the company, significant insider ownership also implies that selling could occur over the upcoming quarters that could contribute to stock volatility. Since October of 2004, there has been insider-selling activity that is oftentimes related to a pre-specified 10b5-1 plan. In several cases, insiders opted to sell a large portion of their

vested stock while at others more modest portions were sold. In total, the selling has amounted to greater one percent of all shares outstanding.

EYETECH PHARMACEUTICALS QUARTERLY P&L

Fiscal Year ended December 31
Dollars in millions, except per share data

	Q1:04A	Q2:04A	Q3:04A	Q4:04A	Q1:05A	Q2:05E	Q3:05E	Q4:05E
Macugen sales - U.S.					$23.7	$44.6	$51.0	$57.5
Macugen sales - E.U.								
Macugen sales - Japan								
Total Macugen sales					$23.7	$44.6	$51.0	$57.5
Revenues:								
Macugen sales - U.S.	0.0	0.0	0.0	0.0	23.7	44.6	51.0	57.5
License Fees/milestones payment	1.3	1.3	1.4	2.0	3.1	3.5	3.5	3.5
Reimbursement of Development Costs	10.5	11.3	12.1	9.6	7.2	8.0	9.0	10.0
Total Revenue	**11.7**	**12.5**	**13.5**	**11.6**	**34.6**	**56.1**	**63.5**	**71.0**
Expenses:								
COGS	0.0	0.0	0.0	0.0	4.7	8.9	10.2	11.5
Gross Margin	*0%*	*0%*	*0%*	*0%*	*80%*	*80%*	*80%*	*80%*
R&D	21.9	33.9	25.9	21.0	21.3	23.0	24.0	25.0
% of Revenue	*187%*	*270%*	*192%*	*181%*	*62%*	*41%*	*38%*	*35%*
S&M	3.8	6.2	9.3	14.0	10.4	11.0	12.0	14.0
% of Macugen sales	*32%*	*49%*	*69%*	*121%*	*44%*	*25%*	*24%*	*24%*
G&A	1.6	4.3	4.0	7.5	3.0	4.0	4.5	5.0
% of Revenue	*14%*	*34%*	*29%*	*65%*	*9%*	*7%*	*7%*	*7%*
Settlement payment to Pfizer	0.0	0.0	0.0	0.0	9.5	17.8	20.4	23.0
Total Expenses	**27.4**	**44.4**	**39.2**	**42.5**	**49.0**	**64.8**	**71.1**	**78.5**
Net Interest	0.6	0.8	1.0	1.0	1.6	1.6	1.5	1.5
Income/(Loss) Before Taxes	(15.0)	(31.0)	(24.7)	(29.9)	(12.7)	(7.1)	(6.1)	(6.0)
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Provision for Income Taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income/(Loss)	**(15.0)**	**(31.0)**	**(24.7)**	**(29.9)**	**(12.7)**	**(7.1)**	**(6.1)**	**(6.0)**
Net Income/(Loss)	**(15.8)**	**(31.0)**	**(24.7)**	**(29.9)**	**(12.7)**	**(7.1)**	**(6.1)**	**(6.0)**
GAAP EPS, Basic	**($0.57)**	**($0.77)**	**($0.60)**	**($0.72)**	**($0.30)**	**($0.17)**	**($0.14)**	**($0.14)**
GAAP EPS, Diluted	**($0.44)**	**($0.77)**	**($0.60)**	**($0.72)**	**($0.30)**	**($0.17)**	**($0.14)**	**($0.14)**
Pro Forma EPS Diluted					**($0.30)**	**($0.17)**	**($0.14)**	**($0.14)**
Shares Outstanding, Basic	27.5	40.4	40.9	41.4	42.2	42.7	43.2	43.7
Shares Outstanding, Diluted	35.8	40.4	40.9	41.4	42.2	42.7	43.2	43.7

Source: Company reports and Smith Barney

EYETECH PHARMACEUTICALS ANNUAL P&L

Fiscal Year ended December 31
Dollars in millions, except per share data

	2003A	2004A	2005E	2006E	2007E	2008E	2009E	CAGR
Macugen sales - U.S.			176.8	289.1	336.5	371.6	393.1	**22%**
Macugen sales - E.U.			0.0	103.6	220.5	315.3	369.2	**53%**
Macugen sales - Japan			0.0	0.0	27.4	54.2	74.4	**65%**
Total Macugen sales			**176.8**	**392.7**	**584.3**	**741.2**	**836.6**	**47%**
Revenues:								
Macugen sales - U.S.	0.0	0.0	176.8	289.1	336.5	371.6	393.1	22%
ex-U.S. royalties - E.U.	0.0	0.0	0.0	15.5	33.1	47.3	55.4	53%
ex-U.S. royalties - Japan	0.0	0.0	0.0	0.0	2.7	5.4	7.4	65%
License Fees/milestones payment	4.6	5.9	13.6	17.0	38.0	38.0	38.0	29%
Reimbursement of Development Costs	36.8	43.4	34.2	30.0	25.0	20.0	20.0	-13%
Total Revenue	**41.4**	**49.3**	**224.6**	**351.6**	**435.3**	**482.4**	**513.9**	**23%**
Expenses:								
COGS			35.4	57.8	67.3	74.3	78.6	22%
Gross Margin			*80%*	*80%*	*80%*	*80%*	*80%*	
R&D	70.9	102.7	93.3	80.0	80.0	80.0	75.0	-5%
% of Revenue	*170%*	*208%*	*44%*	*23%*	*18%*	*17%*	*15%*	
S&M	4.6	33.3	47.4	45.0	45.0	40.0	35.0	-7%
% of Macugen sales	*11%*	*68%*	*29%*	*16%*	*13%*	*11%*	*9%*	
G&A	6.8	17.4	16.5	26.0	30.0	33.0	36.0	22%
% of Revenue	*16%*	*36%*	*7%*	*7%*	*7%*	*7%*	*7%*	
Settlement payment to Pfizer	0.0	0.0	63.7	115.6	134.6	148.7	157.2	25%
Total Expenses	**82.4**	**153.5**	**263.3**	**324.4**	**356.9**	**376.0**	**381.8**	10%
Net Interest	1.9	3.5	6.2	7.2	10.4	15.0	20.7	
Income/(Loss) Before Taxes	(39.0)	(100.7)	(31.9)	34.3	88.8	121.4	152.7	
Tax Rate	*4%*	*0%*	*0%*	*20%*	*38%*	*38%*	*38%*	
Provision for Income Taxes	1.7	0.0	0.0	6.9	33.8	46.1	58.0	
Net Income/(Loss)	**(49.9)**	**(101.5)**	**(31.9)**	**27.5**	**55.1**	**75.3**	**94.7**	51%
GAAP EPS, Diluted	**($1.77)**	**($2.56)**	**($0.74)**	**$0.60**	**$1.15**	**$1.48**	**$1.75**	43%
Pro Forma EPS Diluted			**($0.75)**	**$0.60**	**$1.15**	**$1.48**	**$1.75**	
GAAP EPS, Diluted - Fully Taxed (38%)	**($1.77)**	**($2.56)**	**($0.75)**	**$0.46**	**$1.15**	**$1.48**	**$1.75**	56%
Shares Outstanding, Basic	4.0	37.6	43.0	45.7	47.7	49.7	51.7	4%
Shares Outstanding, Diluted	28.1	39.6	43.0	46.0	48.0	51.0	54.0	0%
Free Cash Flow	**($116.5)**	**($199.3)**	**($39.9)**	**$1.31**	**$73.0**	**$94.3**	**$112.4**	
Return on Equity	**-63%**	**-61%**	**-12%**	**10%**	**18%**	**20%**	**21%**	

Source: Company reports and Smith Barney

QLT (QLTI; 3S - $11.31)

We are reducing out target price to $10 from $14. To understand the impact of competitive dynamics on the stock, we evaluated two scenarios whereas previously we only employed the base case scenario. In our evaluation, our base case scenario remains unchanged that Macugen and Lucentis are similar and, as a result, Visudyne's market share is not affected when Lucentis enters the market. This is appropriate since we expect Macugen will have already eroded whatever market share is at risk due to entrance of the new class of anti-VEGF therapies.

Our second scenario considers that Lucentis is superior to Lucentis and captures furthers market share from Visudyne. Based on our discussions with physicians who have used both Macugen and Lucentis, we attribute 40% probability to the base case and 60% probability to the downside case.

HOW WE ASSIGNED P/E MULTIPLES TO THE STOCK

In our valuation analysis, we typically use an average of three different valuation metrics (P/E multiples, Enterprise value-to-revenue multiples and discounted cash flows) to neutralize the effects on any single parameter on the value of the business. In QLT's case, we employ 2006 financial projections given to account for our 12-months price target.

We find mid-cap, emerging biotech companies that are profitable are trading at average 22x price-to-forward 12-months earnings multiples once achieving stable profitability. At present, QLT is trading at 13x our 2006 EPS projection of $0.90 (unchanged from previously).

In our valuation analysis, we attribute a different multiple to each scenario. In our base case scenario, we apply a 15x price-to-2006 EPS multiple to our $0.90 projection (unchanged from before) since QLT's multiple is unlikely to change given the overhang of the upcoming FOCUS and ANCHOR studies of Lucentis and competition from Macugen on Visudyne.

Alternatively, we apply a 10x price-to-2006 EPS multiple to our $0.90 projection in second scenario in which Lucentis has the potential to directly take market share from Visudyne (Lucentis will not be approved before 2007). This magnitude of discount is appropriate since Lucentis can capture significant market share from Visudyne if results from the ANCHOR study (head-to-head study) in the fourth quarter are positive.

HOW WE ASSIGNED EV/REVENUES MULTIPLES TO THE STOCK

We typically also employ an enterprise value-to-revenues multiple approach in valuating mid-cap biotech companies. Emerging biotech companies that are profitable or are expected to become profitable are trading at a 4x enterprise value-to-revenues multiple (range: 2x-8x) based on 2006 revenues. At present, QLT is trading at 3x our base case 2006 EPS projection of $303 million (unchanged from previously). Again we argue that QLT should be trading below the average for its peer group given the encroaching competition to Visudyne. In our valuation analysis, we attribute a 3x enterprise value-to-revenue multiple suggesting that QLT's multiple is unlikely to expand.

Alternatively, if Lucentis is found to be superior to Visudyne in the ANCHOR study, we believe that QLT's EV/revenues multiple could further contract due to concerns that Visudyne will cede further market share to Lucentis after approved in 2007. In this scenario, we apply a 2x EV-to-revenues multiple to our 2006 revenue projection of $303 million.

OUR DISCOUNTED CASH FLOW ANALYSIS

In our ten-year discounted cash flow (DCF) analysis, we use QLT's 11.0% discount rate. This discount rate reflects QLT's 11% cost of equity, 11% weighted average cost of capital (WACC), and a 1.20 five-year, weekly, adjusted beta. In our calculation, we conservatively project a 5% terminal growth rate.

DERIVING OUR PROBABILITY-ADJUSTED TARGET PRICE

To derive our target price, we took the imputed target price of both scenarios and applied a probability-adjustment to the likelihood of the scenario (see figure 20). Our base case analysis projects that Lucentis will not capture further market share from Visudyne over that ceded to Macugen. If that occurs, our valuation analysis would impute a $12 target price.

Under the second scenario, we forecast that Lucentis is superior to Visudyne, yielding a $9 target price. To arrive at our $10 probability-adjusted target price (the basis for our Sell rating on the stock), we attributed 60% probability to the first and 40% probability to the second scenario.

Figure 20. QLT Scenarios and Target Price

	Visudyne Base Case	Visudyne Downside
Peak Shares (2009) US		
Predominantly classic	55%	35%
Minimally classic	8%	7%
Occult	8%	6%
Visudyne Sales		
2005	$507.4	$507.4
2006	$507.8	$507.8
2007	$514.5	$495.5
2008	$511.1	$438.5
2009	$510.8	$378.4
CAGR (2007 to 2009)	0%	-13%
Earnings per Share (Fully Diluted and Taxed)		
2005	$0.73	$0.73
2006	$0.90	$0.90
2007	$1.05	$1.03
2008	$1.13	$1.03
2009	$1.20	$1.02
CAGR (2007 to 2009)	7%	0%
Return on Equity		
2005	8%	8%
2006	9%	9%
2007	10%	10%
2008	10%	9%
2009	10%	8%
Average Return on Equity (2007-2009)	10%	9%
Cash Flows		
2005	$71.8	$71.8
2006	$91.4	$91.4
2007	$105.6	$100.9
2008	$111.4	$95.0
2009	$116.4	$90.2
CAGR (2007 to 2009)	5%	-5%
Imputed Target Stock Price	$12	$9
Estimated Total Return	10%	-19%
Probability adjustment	**40%**	**60%**
Target Stock Price	**$10**	
Estimated Total Return	**-9%**	

Source: Smith Barney

Risks

We rate the stock Speculative due to the following reasons. We note that if the risks to the stock prove to be higher than we currently project, then the stock might not meet our target price. Conversely, the stock might exceed our target price if our analysis overstates the risks to our investment thesis.

VISUDYNE VULNERABLE TO NEW COMPETITION

In the U.S., Visudyne is only indicated for the predominantly classic subtype. While in 2004, the drug also received reimbursement in minimally classic and occult lesions, use in those indications is modest. In January, Eyetech/Pfizer's Macugen entered the U.S. market and European approval is expected in 2006. Macugen is approved for all wet AMD subtypes and is expected to quickly become the standard of care for minimally classic and occult disease.

Compounding this threat, Genentech/Novartis's Lucentis is in late stage development and data is expected to released continually over the next 18 months. If these trials were positive, we would expect that Lucentis would reach the U.S. and European markets in 2007 and 2008, respectively.

Our physician consultants expect that Visudyne will lose market share to these new anti-VEGF therapies, but do not expect that the therapy would disappear completely.

CMS TAKING CLOSER LOOK AT AMD THERAPIES

Over the balance of the year, we expect that CMS would hold an educational forum to discuss therapies for wet AMD. Given the close reimbursement scrutiny for Visudyne in the past, there is a risk that CMS might be considering fine-tuning reimbursement for the various therapies to most closely promote cost-conscious utilization. If that occurs, we would envision that CMS might restrict usage of Visudyne in combination with Macugen given the lack of supportive evidence for this approach. If that occurs, this could be a risk to Visudyne given that Macugen could become the drug of choice for predominantly classic and occult lesions by virtue of its approval in that setting (Visudyne was not approved for these lesions).

ELIGARD IS COMPETING IN A TOUGH MARKET

The global LHRH agonist market is mature and highly competitive since there is little differentiation between the various preparations. Eligard is currently the least entrenched product that is facing significant barriers to capturing market share from existing formulations. The fact that CMS has also been decreasing reimbursement is placing pricing pressure in the market that should further detract from sales.

QLT DOES NOT HAVE ITS OWN SALES INFRASTRUCTURE AND DEPENDS ON PARTNERS FOR REVENUES

QLT does not have its own independent commercial infrastructure and is dependent on partners for royalty revenues. For Visudyne, QLT has a joint venture with Novartis that is governed by a steering committee. This relationship has had frictions in the past and Novartis now own ex-U.S. right to Lucentis. Lucentis is in late stage development and could prove to be superior to Visudyne. If that occurs, there might be risk to QLT's relationship with Novartis. QLT is also dependent on royalty revenues from partners Sanofi-Aventis and Yamanouchi on sales of Eligard. There is a risk that the interests of these partners and QLT might not always be aligned.

THERE ARE SEVERAL RISKS TO OUR SELL RATING

In our view, QLT shares have been weak for sometime, as investors have come to appreciate the above-mentioned factors. The biggest risk to our Sell rating that can drive significant share price appreciation is that Genentech's Lucentis will disappoint in clinical studies. This

will lift an important competitive threat to Visudyne. Additionally, it is possible that ongoing studies testing the combination of Visudyne with triamcinolone will be successful and reinvigorate utilization of Visudyne.

QLT QUARTERLY P&L ($MMS)

Dollars in millions, except per share data

	Q1:04A	Q2:04A	Q3:04A	Q4:04A	Q1:05A	Q2:05E	Q3:05E	Q4:05E
Visudyne sales - U.S.	45.6	52.5	54.4	56.4	51.0	52.4	52.7	51.3
Visudyne sales - Europe	55.4	57.3	57.6	63.7	69.4	66.3	66.6	66.9
Visudyne sales - Japan	0.0	0.0	1.7	2.7	3.6	4.9	9.7	12.6
Total Visudyne sales - WW	**101.0**	**109.8**	**113.8**	**122.7**	**124.1**	**123.6**	**129.0**	**130.8**
Eligard sales - U.S.	21.3	30.0	23.8	1.5	10.6	16.0	20.1	24.2
Eligard sales - ex-U.S.	0.0	0.0	0.8	6.6	7.3	12.3	17.3	19.8
Total Eligard sales - WW	**21.3**	**30.0**	**24.6**	**8.1**	**17.9**	**28.3**	**37.4**	**44.1**
Revenues:								
Visudyne	40.5	43.1	45.7	48.1	49.4	49.3	51.9	52.8
% royalty of sales	*40%*	*39%*	*40%*	*39%*	*40%*	*40%*	*40%*	40%
Net sales & royalties	0.0	0.0	0.0	4.2	11.5	11.3	16.3	19.5
Licensing, marketing rights and milestone	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Contract research and development	0.8	1.3	0.8	1.5	3.0	3.0	3.0	4.0
Total revenues	**41.3**	**44.4**	**46.6**	**53.8**	**64.0**	**63.7**	**71.2**	**76.4**
Expenses:								
COGS	6.9	7.5	7.9	11.1	14.5	14.3	15.7	16.4
Gross margin	*83%*	*83%*	*83%*	*79%*	*77%*	*78%*	*78%*	*79%*
R&D	9.4	11.3	12.2	17.2	16.4	17.8	20.6	24.4
% of revenue	*23%*	*25%*	*26%*	*32%*	*26%*	*28%*	*29%*	*32%*
SG&A	4.8	3.6	3.0	6.1	5.4	4.5	5.7	6.9
% of revenue	*12%*	*8%*	*6%*	*11%*	*8%*	*7%*	*8%*	*9%*
Depreciation	0.8	0.9	0.8	1.2	1.7	2.3	2.3	2.3
Total expenses	**21.9**	**23.2**	**23.9**	**272.4**	**42.4**	**39.9**	**45.6**	**51.5**
Net interest	1.0	0.7	1.0	1.2	0.9	1.2	1.3	1.4
Income/(loss) before taxes	20.6	22.2	25.3	(216.9)	23.1	24.9	26.9	26.3
Tax rate	*34%*	*34%*	*34%*	*NA*	*34%*	*34%*	*34%*	*34%*
Provision for (recovery of) income taxes	7.0	7.5	8.6	6.3	7.9	8.5	9.1	8.9
GAAP net income	**$24.0**	**$14.7**	**$16.7**	**($221.1)**	**$15.2**	**$16.4**	**$17.8**	**$17.3**
Pro forma net income	**$13.6**	**$14.7**	**$16.7**	**$11.4**	**$18.1**	**$17.5**	**$19.1**	**$18.8**
GAAP EPS	**$0.35**	**$0.21**	**$0.24**	**($2.62)**	**$0.16**	**$0.18**	**$0.19**	**$0.18**
Pro forma EPS, Basic	**$0.20**	**$0.21**	**$0.24**	**$0.13**	**$0.19**	**$0.19**	**$0.20**	**$0.20**
Pro forma EPS, Diluted	**$0.19**	**$0.18**	**$0.24**	**$0.13**	**$0.19**	**$0.17**	**$0.19**	**$0.18**
Basic shares outstanding	69.3	69.6	69.6	84.5	93.3	93.8	94.3	94.8
Diluted shares outstanding	69.9	80.0	69.9	84.5	94.9	102.4	102.9	103.4

Source: Company reports and Smith Barney

QLT ANNUAL P&L ($MMS)

Dollars in millions, except per share data

	2003A	2004A	2005E	2006E	2007E	2008E	2009E	CAGR
Visudyne sales - U.S.	177.6	209.0	207.4	197.5	197.5	197.5	197.5	-1%
Visudyne sales - Europe	181.8	233.9	269.2	249.9	249.9	249.9	249.9	1%
Visudyne sales - Japan		4.4	30.8	60.4	58.1	53.4	50.8	63%
Total Visudyne sales - WW	**359.4**	**447.3**	**507.4**	**507.8**	**505.5**	**500.8**	**498.2**	2%
Eligard sales - U.S.	43.0	76.6	70.9	115.3	134.4	137.1	139.9	13%
Eligard sales - ex-U.S.	0.0	7.4	57.0	80.8	92.6	104.8	106.8	17%
Total Eligard sales - WW	**43.0**	**84.0**	**127.9**	**196.1**	**227.0**	**241.9**	**246.6**	24%
Revenues:								
Visudyne	142.1	177.5	203.4	205.7	208.4	209.6	209.4	3%
% royalty of sales	*39%*	*40%*	*40%*	*41%*	*41%*	*41%*	*41%*	
Net sales & royalties	0.0	4.2	42.2	82.7	96.9	105.8	111.4	93%
Licensing, marketing rights and milestone	0.0	0.0	0.1	0.0	0.0	0.0	0.0	#NUM!
Contract research and development	4.6	4.4	13.0	15.0	15.0	15.0	15.0	28%
Total revenues	**146.8**	**186.1**	**275.2**	**303.4**	**320.3**	**330.4**	**335.8**	13%
Expenses:								
COGS	24.3	33.4	60.9	60.7	60.9	59.5	57.1	11%
Gross margin	*83%*	*82%*	*78%*	*80%*	*81%*	*82%*	*83%*	
R&D	44.9	50.1	78.9	81.9	73.7	72.7	70.5	7%
% of revenue	*31%*	*27%*	*29%*	*27%*	*23%*	*22%*	*21%*	
SG&A	16.8	17.5	22.3	24.3	25.6	26.4	26.9	9%
% of revenue	11%	9%	8%	8%	8%	8%	8%	
Depreciation	3.1	3.7	8.5	6.1	6.4	6.6	6.7	13%
Total expenses	**88.8**	**341.5**	**179.4**	**177.9**	**171.5**	**170.2**	**166.2**	-13%
Net interest	6.2	3.9	4.7	7.2	9.2	11.5	13.9	
Income/(loss) before taxes	68.8	(148.8)	101.2	132.6	157.9	171.7	184.5	
Tax rate	*35%*	*34%*	*34%*	*33%*	*33%*	*33%*	*33%*	
Provision for (recovery of) income taxes	24.0	29.4	34.4	43.8	52.1	56.7	60.9	
GAAP net income	**$44.8**	**($165.7)**	**$66.8**	**$88.9**	**$105.8**	**$115.0**	**$123.6**	
Pro forma net income	**$44.4**	**$56.9**	**$73.6**	**$93.9**	**$110.8**	**$120.0**	**$128.6**	18%
GAAP EPS	**$0.65**	**($2.26)**	**$0.71**	**$0.93**	**$1.09**	**$1.18**	**$1.25**	
Pro forma EPS, Basic	**$0.64**	**$0.54**	**$0.78**	**$0.98**	**$1.14**	**$1.23**	**$1.30**	
Pro forma EPS, Diluted	**$0.64**	**$0.54**	**$0.73**	**$0.90**	**$1.05**	**$1.13**	**$1.20**	17%
Basic shares outstanding	69.0	105.1	94.1	95.8	96.8	97.8	98.8	
Diluted shares outstanding	69.0	105.1	100.9	104.4	105.4	106.4	107.4	
Free cash flow	**$34.3**	**$13.8**	**$71.8**	**$91.4**	**$105.6**	**$111.4**	**$116.4**	53%
Return on Equity	**12%**	**-39%**	**8%**	**9%**	**10%**	**10%**	**10%**	

Source: Company reports and Smith Barney

Companies mentioned:
Genentech, Inc. (DNA-$74.40; 1H; covered by Elise Wang)
Novartis (NOVN.VX-$49.16; 2L; covered by Alistair Campbell)
Pfizer (PFE-$27.83; 2M; covered by George Grofik)

ANALYST CERTIFICATION — APPENDIX A-1

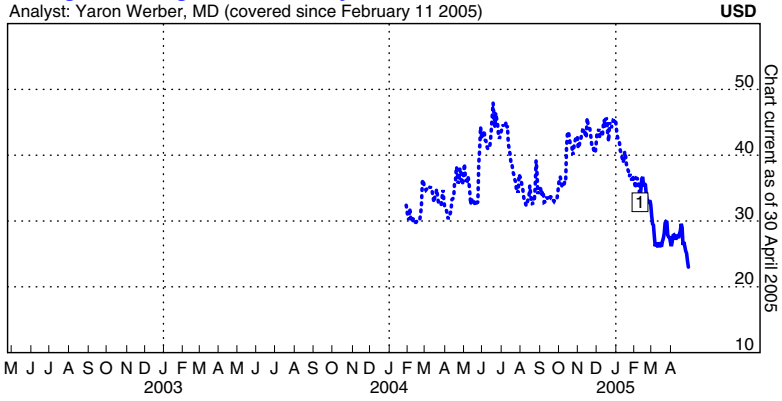
I,Yaron Werber, the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

Eyetech Pharmaceuticals, Inc (EYET)

Ratings and Target Price History - Fundamental Research

Analyst: Yaron Werber, MD (covered since February 11 2005)



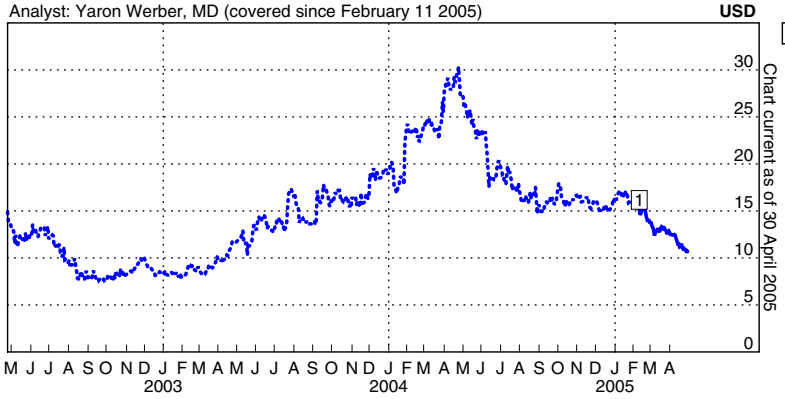
#	Date	Rating	Target Price	Closing Price
1:	10 Feb 05	2S	38.00	33.56

*Indicates change.

QLT Inc. (QLTI)

Ratings and Target Price History - Fundamental Research

Analyst: Yaron Werber, MD (covered since February 11 2005)



#	Date	Rating	Target Price	Closing Price
1:	10 Feb 05	3S	14.00	15.21

*Indicates change.

Customers of the Firm in the United States can receive independent, third-party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at http://www.smithbarney.com (for retail clients) or http://www.citigroupgeo.com (for institutional clients) or can call (866) 836-9542 to request a copy of this research.

Citigroup Global Markets Inc. or its affiliates holds a long position in any class of common equity securities of Eyetech Pharmaceuticals, Inc and QLT Inc.

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Smith Barney Equity Research Ratings Distribution

Data current as of 7 April 2005	**Buy**	**Hold**	**Sell**
Smith Barney Global Fundamental Equity Research Coverage (2592)	38%	43%	19%
% of companies in each rating category that are investment banking clients	54%	58%	41%
Biotechnology -- North America (20)	45%	40%	15%

% of companies in each rating category that are investment banking clients	56%	0%	0%

Guide to Fundamental Research Investment Ratings:
Smith Barney's stock recommendations include a risk rating and an investment rating.
Risk ratings, which take into account both price volatility and fundamental criteria, are: Low [L], Medium [M], High [H], and Speculative [S].
Investment ratings are a function of Smith Barney's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.
For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are: Buy [1] (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold [2] (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell [3] (negative total return).
Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in risk rating, or a change in target price. At other times, the expected total returns may fall outside of these ranges because of price movement and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

Between September 9, 2002, and September 12, 2003, Smith Barney's stock ratings were based upon expected performance over the following 12 to 18 months relative to the analyst's industry coverage universe at such time. An Outperform (1) rating indicated that we expected the stock to outperform the analyst's industry coverage universe over the coming 12-18 months. An In-line (2) rating indicated that we expected the stock to perform approximately in line with the analyst's coverage universe. An Underperform (3) rating indicated that we expected the stock to underperform the analyst's coverage universe. In emerging markets, the same ratings classifications were used, but the stocks were rated based upon expected performance relative to the primary market index in the region or country. Our complementary Risk rating system -- Low (L), Medium (M), High (H), and Speculative (S) -- took into account predictability of financial results and stock price volatility. Risk ratings for Asia Pacific were determined by a quantitative screen which classified stocks into the same four risk categories. In the major markets, our Industry rating system -- Overweight, Marketweight, and Underweight -- took into account each analyst's evaluation of their industry coverage as compared to the primary market index in their region over the following 12 to 18 months.

Prior to September 9, 2002, the Firm's stock rating system was based upon the expected total return over the next 12 to 18 months. The total return required for a given rating depended on the degree of risk in a stock (the higher the risk, the higher the required return). A Buy (1) rating indicated an expected total return ranging from +15% or greater for a Low-Risk stock to +30% or greater for a Speculative stock. An Outperform (2) rating indicated an expected total return ranging from +5% to +15% (Low-Risk) to +10% to +30% (Speculative). A Neutral (3) rating indicated an expected total return ranging from -5% to +5% (Low-Risk) to -10% to +10% (Speculative). An Underperform (4) rating indicated an expected total return ranging from -5% to -15% (Low-Risk) to -10% to -20% (Speculative). A Sell (5) rating indicated an expected total return ranging from -15% or worse (Low-Risk) to -20% or worse (Speculative). The Risk ratings were the same as in the current system.

OTHER DISCLOSURES

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