YALE SCHOOL OF MANAGEMENT

Cubist (NASDAQ:CBST)

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Company Report

December 9, 2007

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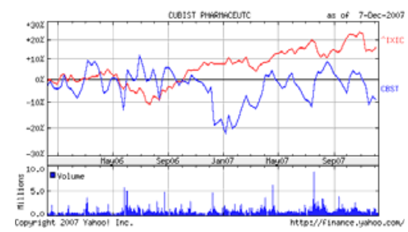
Recommendation: Buy

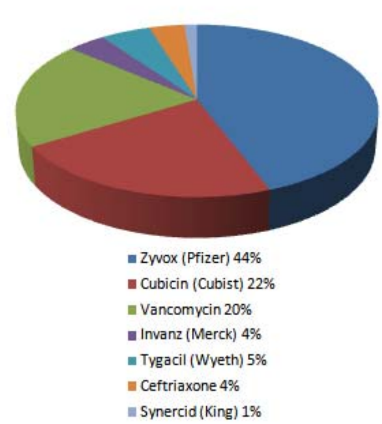
Share Price: $21.32
12 Month Target: $30.38
Change: ↑ 42.5%



Source: Yahoo Finance 24 month stock (blue) vs. NASDAQ (red) as of 12/07/2007

Ticker[1]	Market Value	P/E	Street View
CBST	1.2	26.58	2.2
PFE	166.7	11.55	2.6
WYE	63.7	14.60	2.6
KG	2.61	14.71	3.1

Current Market Share[2]



Summary

We initiate coverage of Cubist (CBST) with a **Buy** rating and a 12 month share price target of $30.38. In addition to favorable operational and risk profile, we view this company as a viable acquisition target. Given its valuation, its operational history, and precedent transactions, we forecast the acquisition to occur within the next 2-3 years at a price of up to $34.75.

Cubicin

Cubicin is the firm's main revenue driver. We forecast Cubicin to continue expanding, as it captures market share and improves penetration of this type of a treatment into the potential market. Cubist will continue capitalizing on superior sales and marketing staff, the superior qualities of the compound, and its better-than-average patent protection. We do not foresee any viable competition entering the market in the near future.

Other Drivers

CBST has demonstrated ability to expand Cubicin sales abroad. It will continue relying on strong partnerships to do so, eventually deriving a large per cent of its growth from international expansion. Cubist also derives a small revenue from sub-contracted R&D. We expect that revenue source to dry-up as the firm matures and focuses on its core products. Finally, although Cubist has not been actively researching new compounds, it has purchased an option to acquire Illumigen, which, if Illumigen's research is successful, will provide the firm with significant diversification.

M&A

We expect CBST to be taken over by one of its larger competitors. As early as 2H08, when current uncertainty about competition wanes, such firms as Pfizer will begin seriously considering buying Cubist in order to augment their own falling sales in the sector.

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[1] Source: Yahoo Finance as of closing 12/07/2007. Street view is the average analyst recommendation according to Yahoo, with 1.0 being a strong buy and 5.0 – a strong sell. Market value in billions of dollars.

[2] Source: CIBC World Markets research 10/30/2007, market share of cSSSi, gram-positive infections, and bacteremia segments, with total market size $2.4bn.

Company Description

Cubist Pharmaceuticals (CBST) is a mid-cap specialty pharmaceutical company that focuses on developing and marketing anti-infective and antibiotic drugs, especially for acute care treatment. It relies on Cubicin, the first lipopeptide antibiotic approved in the US for the treatment of complicated skin and skin structure infections (cSSSI) to generate 98% of its revenue. Founded in 1992, and gone public in 1996, CBST has been active in developing partnerships with larger pharmaceutical companies to market its products. It is headquartered in Lexington, MA, and has 409 employees. CBST's most recent development includes a research partnership with Ilypsa Pharmaceuticals to develop a non-antibiotic therapy for Clostridium difficile associated diarrhea (CDAD), and obtaining the exclusive right to acquire Illumigen.

Conclusions

Our analysis demonstrates that Cubist is significantly undervalued by the market, even in the conservative scenario. Two separate investment theses can be made:

1. Cubist as a stand-alone company is undervalued by 42.5% due to the market overestimation of company risk. Please refer to Appendix 1 for details of this model.
2. Cubist as an acquisition target is undervalued by as much as 63% due mostly to synergies between CBST and a potential buyer. Please refer to Appendix 2 for details of this model.

Stand-alone scenario

Cubist's beta is currently 0.645[1]. Using this beta in our model implies an underestimation of value by 136%, rather than 42.5%. Although it is likely that future beta will approach 1, it is unlikely that in the next 12 months beta will be 1 or even close to 1. However, in order to make a conservative buy recommendation, our base model uses a beta of 1.0. Certain factors in using this beta should be noted:

1. Our analysis has demonstrated that most analysts are recommending a buy on CBST with operational assumptions that are more optimistic than ours but a target price that is significantly lower than ours. Once we applied average analyst's assumptions to our model, our forecast was still well above the average estimate. However, changing beta from 0.645 to 1 got us closer to the forecasted number. A closer look at analyst reports revealed that analysts do not seem rely on CAPM and WACC but instead use a blended discount rate or, in some cases, multiples.[2] The analysts arrive at their discounts and multiples by averaging the industry statistics. In other words, analysts indirectly use a beta of 1, because of their using broad industry statistics, rather than company-specific analysis. We believe that such analysis overly conservative. Hence, the true future beta may be between 0.645 and 1.0. If an average of the two is taken for a beta of 0.82, the stock would be a strong buy, as it would be undervalued by 80%.
2. Observation of historical betas reveals that CBST's beta has trailed downward over the past few years:

2007 beta:	0.645
2006 beta:	1.112
2005 beta:	1.361
2004 beta:	1.949
2003 beta:	1.372

[1] Calculated based on 3 years of weekly data compared with Morgan Stanley Broad US Total Return Index.
[2] Analyst reports included those from Goldman Sachs, Jefferies, Thomas Weisel and CIBC World Markets.

Nevertheless, the drop from 2006 to 2007 has been too large to be taken at face value and the increase from 2003 to 2004 indicates that the recent declining trend may reverse in the future. This would support using a market beta of 1.0 as a reliable benchmark. As an additional note, we would recommend a buy on CBST with a beta value of up to 1.24, double the current value.

Much of the implied risk of CBST is derived from the investor fear of competition and lack of diversification of the firm's products. As the following research will demonstrate, competition is a minor concern that will likely subside by the second half of 2008. Our industry research has demonstrated that diversification is not necessarily a value-adding factor for a pharmaceutical company. Nevertheless, Cubist has made specific steps towards expanding its revenue base.

Acquisition target scenario

CBST is a prime acquisition target. Details of the potential M&A are outlined in the Potential M&A section below. A potential buyer could pay a premium significantly above the current market price and well above what we have indicated as the fair market price (compare premium of 42.5% as a stand-alone with 63% as a takeover target).

Cubicin Drivers

We forecast healthy revenue growth for Cubicin, which accounts for almost 98% of the firm's revenues. The growth is attributable to two sources:

1. Improved market share at the expense of competition in general and Pfizer's Zyvox in particular.
2. Improved penetration of Cubicin, as well as its competitors, in treating cSSSi, gram-positive infections, and bacteremia. Our model shows that the market potential is currently in excess of $8bn (See Figure 1). However, according to CIBC World Markets, the total revenues for the segment are $2.4bn.

Figure 1: Cubicin Revenue Build-up

Cubicin US Build-up	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
cSSSI Patients (mm)	2.20	2.23	2.25	2.28	2.31	2.34	2.36	2.39	2.42	2.45	2.48	2.51
Growth rate	NM	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Bacteremia Patients (mm)	0.90	0.91	0.92	0.93	0.94	0.96	0.97	0.98	0.99	1.00	1.01	1.03
Growth rate	NM	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Cost of treatment	$ 2,752.0	$ 2,752.0	$ 2,752.0	$ 2,752.0	$ 2,752.0	$ 2,752.0	$ 2,752.0	$ 2,752.0	$ 2,752.0	$ 2,752.0	$ 2,752.0	$ 2,752.0
Segment Size (mm)	$ 8,531.2	$ 8,633.6	$ 8,737.2	$ 8,842.0	$ 8,948.1	$ 9,055.5	$ 9,164.2	$ 9,274.1	$ 9,385.4	$ 9,498.1	$ 9,612.0	$ 9,727.4
Cubicin Penetration	2.2%	3.1%	4.0%	4.9%	5.8%	6.7%	7.6%	8.5%	9.4%	10.3%	11.2%	12.1%
Total Revenue (mm)	**$ 189.5**	**$ 268.3**	**$ 350.1**	**$ 433.9**	**$ 519.6**	**$ 607.4**	**$ 697.1**	**$ 789.0**	**$ 882.9**	**$ 979.0**	**$ 1,077.2**	**$ 1,177.7**

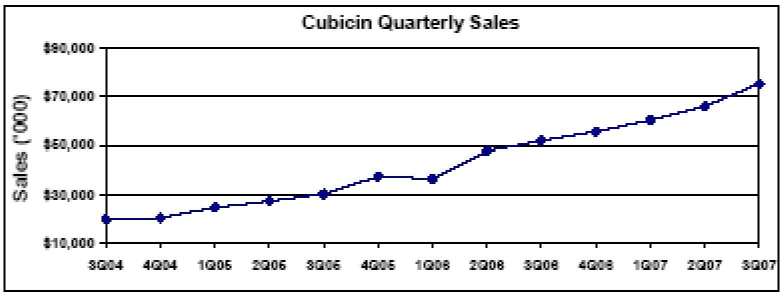
Source: Our model with data from company 10-K and CIBC World Markets, 2007

Our model assumes that Cubicin will continue to penetrate the market at its historical rate, adding 0.9% to the penetration every year. In 2006 3.1mm Americans were potential clients. We assume that number to increase in line with population growth at 1.2% per year. Although many analysts forecast an increase of the cost of medication from the current $2,752 in annual per person treatment, our position is that in the long-run the industry as a whole will not be able to increase prices as much as analysts currently believe. Therefore, we hold the price constant. If CBST is to be acquired, there is a chance that sales growth will pick-up due to access to larger resources of the buyer. However, as some of that growth will occur at the expense of the buyer's own drug, we forecast the real growth of Cubicin revenues to remain unchanged.

Superior Marketing

Historically, Cubist has demonstrated a significant revenue growth trajectory (See Figure 2). There is no reason for Cubist to cease capturing market share, as the company has demonstrated ability to make strategic partnerships, receive FDA approvals for expanded applications of its core drug, and market the drug to doctors and consumers. Recently, the company hired 30 new sales reps, who will concentrate on domestic distribution of Cubicin. Such a move underscores the company's commitment to expanding its sales.

Figure 2: Cubicin Historic Sales Trends



Source: CIBC World Markets, 2007

Superior Intellectual Property

FDA studies have shown that Cubicin is superior to its completion.[1] The drug has shown better efficacy and milder side effects than Zyvox and Tygacil. In this case, that is material, since the side effects include vomiting and severe nausea. Cubicin has also shown less drug resistance development than Vancomycin, another competitor. Cubicin compound has also been shown to have a high dosage agility. In other words, minor changes in dosage allow for treatment of a wider array of diseases and a shorter duration of treatment. For example, it is possible to reduce the duration of cSSSI treatment from 10 days to 4 days.

Another benefit of the compound is its versatility. Originally released in 4Q03, in 2Q06, it was approved for treating bacteremia. Cubist is currently conducting two Phase II R&D projects that intend to expand Cubicin's application further. It is unlikely that competition will be able to match or mimic this competitive advantage.

The drug is well protected against generic entry. First, only a small proportion of patents, which protect Cubicin expire in 2014, with the majority expiring after 2017. Second, Cubicin's price is highly competitive, and is lower than that of its chief branded competitors Zyvox (PFE) and Tygacil (WYE).

Chief Risk: New Competition

Although direct generic entry is a small risk, Cubist faces a constant risk of a new drug approval. Several competitors are currently researching potentially competing compounds in Phase II and III.[2] Given the low probabilities of success of Phase II and III R&D projects in general, we forecast those projects to be of little competitive concern at least of a number of years. Also, Pfizer is expected to file a generic drug with FDA that could potentially compete with Cubicin as early as 1H08. Given the intrinsic strengths of the drug, we do not see generics as a potent threat.

[1] Source: CIBC World Markets research 10/30/2007.
[2] Source: CIBC World Markets research 10/30/2007.

Secondary Risk: Unexpected Side-Effects

Unexpected side-effects could be uncovered by FDA or though independent studies. Track record of this drug suggests that this risk is minimal. To contrast with Pfizer's Zyvox, in March 2007, FDA issued a warning that death rates among patients who use Zyvox are higher than those who do not.

Other Revenue Drivers

Several non-core revenue sources were considered in our valuation. Those are:

1. Royalties on international sales of Cubicin
2. Revenues from sub-contracted R&D
3. Revenues from future product releases

International Sales of Cubicin

We anticipate that royalties received from Cubicin sales outside of the US will in the worst case scenario grow as fast as in the domestic sales. The model assumes that international growth trails US growth pattern by exactly one year. As we argue in our pharmaceutical industry analysis of 10/13/2007:

1. International demand for pharmaceuticals will significantly outpace domestic
2. Only these few companies that can effectively manage barriers to international entry, will be able to capitalize on the international growth
3. Expansion abroad will require high investments, which may minimize bottom-line effect of international expansion

Cubist is positioned well to expand internationally and to benefit from such an expansion due to the following factors:[1]

1. Cubist receives net profit from the sales of Cubicin between 7% and 9%, a highly beneficial arrangement for the company
2. Expenses associated with production and marketing of Cubicin abroad are handled by Cubist's strategic partners
3. CBST has already begun marketing its flagship drug in Japan and Europe with China, Middle East and Africa to follow shortly
4. The firm has partnered with industry leaders in each market:
    a. Europe – Novartis
    b. Japan – Merck
    c. China, Middle East and Africa – AstraZeneca
5. With recent approvals in South Korea and Canada, more strategic alliances in the next 6-12 months are to be expected

Contracted R&D

Cubist derives close to 1% of its revenue from subcontracted research work. We forecast that revenue to be $5.5mm in 2007 and to slowly disappear by 2014, as the company matures and shifts its focus entirely to internal development. If CBST is acquired, we forecast this revenue to disappear entirely immediately following the merger, as the larger company would find no reason to expand resources on such a marginal activity.

[1] Factual data from Goldman Sachs, 10/18/2007

R&D Pipeline

Sales from CBST's new products to be developed in the future are not accounted for in the model. Currently CBST is conducting research only on expanded uses and new dosages of Cubicin.[1] Although discussions are underway to decide whether to proceed or not with Phase I research of two new drug compounds, even if such research were to commence in 2008, no marketable product would be available till at least 2014. Moreover, probability of success of such research is so low that we cannot forecast revenues from future developments with any confidence.

Illumigen[2]

In October 2007 Cubist purchased an exclusive option to buy Illumigen, Inc. (a privately-held company). Illumigen is currently involved in research of two compounds, one of which focuses on Hepatitis treatment. We expect CBST to complete the purchase of Illumigen only if research shows potential. In the worst case scenario, therefore, CBST will break-even on the investment, as the firm will either not proceed with the purchase or will buy Illumigen when the transaction will be only marginally profitable. In our model, we consider that worst-case scenario and ignore any potential upside from Illumigen.

Expense Forecast

CBST has a history of cost containment. However, 2007 will be a year of substantial cost increases across the board, due mostly to staff increases. For instance, the firm has just announced hiring 30 sales reps. This move is expected to help drive long-term sales growth, but will negatively impact short-term profitability. Our forecast is as follows:

- COGS has been falling in the past few years. In 2006 COGS were 25.7% of revenues, while the average COGS in 2007 (Q1-Q3) has been 24%. Since production is expanding, it is highly likely that COGS will continue falling as a per cent of revenues. In fact, most analysts are forecasting small decreases in COGS through 2009. In order to account for potential inflationary pressures and unexpected events, **we keep COGS constant and assume it to be the average of 2006 and 2007**.
- No clear pattern exists in growth rates of SG&A and R&D expenses. The average growth of these items in the past several years (change from 2006 to 2007 due to new hires notwithstanding) has been around 15%-20%. As a result, in 2007 both SG&A and R&D will account for a higher per cent of expenses than one could expect from an average pharmaceutical firm. **We expect aggressive growth in these expense items in the future – to average 15% per year.** However, we expect revenue growth to outpace expense growth, as the firm realizes economies of scale. **If CBST is acquired, we expect R&D budget growth to remain at 15% but, due to synergies, SG&A growth to slow by 1/3 to 10%.**
- **We do not forecast unusual items on the expense (as well as revenue) side.**
- **We expect operational statistics (AP, Inventory, AR as per cent of revenues) to remain equal to the 2006 levels on average**, as no substantial changes in operations are foreseen.
- **We assume a conservative 3% per year interest earned on short-term assets.** Historically, the firm has held minimum cash and invested the rest in interest-bearing securities. However, company's 10-K reports do not outline expected interest income from those securities.
- **The company currently holds $350mm in debt at a remarkably low 2.3% interest per year.** The

[1] Source: Cubist 10-K, 10-Q reports and press releases.
[2] Source: Cubist press releases and Goldman Sachs 10/18/2007

debt matures in 2014. **We expect the firm to refinance its debt at a much higher rate of 8.2%**, which is current 3 month LIBOR plus 300bps, to reflect the firm risk due to its size and industry. If CBST is acquired, we expect debt to be paid off when the deal closes, with a subsequent 0 debt on the books, as the acquiring corporation is likely to use its internal or corporate-wide capital structure for the deal.

- **We forecast the firm's Capital Expenditures to equal the average of the past two years.** This may be a high estimate, as the average of the past two years is substantially larger than the average of the years preceding 2007. We do not think that the 2007 year's capital expenditure levels will repeat, but we take the conservative stance of predicting higher-than-normal capital expenditures to compensate for high sales growth.
- **We expect that in the long-run depreciation will be equal to capital expenditures.**

Potential M&A

We expect one of the large competitors to attempt a takeover of CBST in the near future, with Pfizer as the most likely acquirer. As a result, we expect CBST's stock price to increase significantly. The following are factors that make Cubist an attractive target:

1. According to our estimates, CBST is currently undervalued by 42.5%.
2. A larger competitor will be able to extract substantial value from Cubist, even if it pays a premium that is higher than that implied by the stand-alone analysis. The value will be realized in part due to current undervaluation, and in part due to synergies. Our base case shows that CBST is undervalued by 63% in the eyes of a strategic buyer.
3. CBST is currently taking market share from competitors. Once competing products are released on the market in 2008, uncertainty regarding Cubicin's future growth will dissolve, allowing potential buyers to evaluate the stock with greater certainty. A competitor will be keen on taking over CBST in order to protect its own market share.
4. Similarly to the previous point, Cubicin is poised to penetrate untapped market better than competition, due to its relative effectiveness, hence, eroding competition's market share.
5. Cubicin currently has long-term IP protection, which almost guarantees a future revenue stream.
6. The majority of CBST's stock is owned by institutional investors, with the largest holding 14.4% and the second largest – 5.6%. Buyers can expect a positive reaction to a tender offer, as institutions' main goal is to maximize returns.

In our view, although Wyeth and King are good buyers, Pfizer is the most likely suitor for the following reasons:

1. Of the three, Pfizer has the largest capitalization, making it easily capable of such a transaction. King, for example, would have a hard time completing a merger that could be considered a merger of equals.
2. Of the three, Pfizer is the only one who could pay for the whole transaction in cash. Not only does Pfizer have enough cash on hand (short-term investments are in excess of $25bn), but it also has little debt and could easily raise sufficient funds to finance the merger.
3. Pfizer stands to lose the most, as Cubicin has been gaining share primarily at the expense of Pfizer's Zyvox. With recent FDA concerns over Zyvox side-effects, Pfizer now stands to lose a lucrative market.

The fair value of CBST would be approximately 63% over the current market value, according to our valuation analysis. That means that a very healthy premium can be expected by the current shareholders. Please refer to Figure 3 for a list of recent comparable transactions and premiums paid. Even if Pfizer were to pay a premium in line with the average of 54%, Pfizer would be purchasing Cubist at a price that is 9% below its fair value to Pfizer.

Figure 3: Comparable Acquisitions in 2006

Buyer	*Seller*	*Premium (%)*	*Seller's P/E*	*Seller's Price/Sales*
MLNM	ANOR	129%	N/A	1,716
LLY	ICOS	34%	N/A	29
GILD	MYOG	45%	N/A	357
MRK	RNAI	134%	N/A	224
DNA	TNOX	60%	N/A	21
ABT	KOSP	63%	32	5
IDEV	VLRX	66%	N/A	4
Average[1]		**54%**	**N/A**	**83**
CBST (based on Appendix 2)		**63%**	**128**	**10**

Source: M&A Sourcebook, 2007 Edition. Published by NVST Private Equity Network. Premium reflects the difference between seller's market value one month before the announcement and the purchase price.

We expect that the potential for acquisition will become clear within the next 12 months as IP and competitive concerns wane. Furthermore, if CBST's growth continues as forecasted, Pfizer's market share will contract in the next year enough to make a material impact on Zyvox's performance. Even if the tender offer comes in 2009, it is probable that significant appreciation in CBEST's stock price will occur earlier.

We also expect that the probability of the acquisition is high. Based on M&A Sourcebook, 5-15 comparable acquisitions have occurred in this space annually since 2003. According to Yahoo Finance, this industry space consists of slightly over 100 companies. Additional 30-40 companies comprise the 'major' drug manufacturers space. In other words, every year between 3% and 15% of companies in the industry are acquired by larger competitors. Given the attractiveness of CBST as a target, the probability of it being acquired is even higher.

Antitrust concerns should be considered in light of Pfizer acquisition only, as any other acquirer would not have a combined share of drugs in CBST's space to arouse anti-trust worries. If PFE were to take-over, an argument could be made that the combined firms would reach no more than 15% of the total potential market and that the combination is made based on cost synergies (as analyzed in Appendix 2).

[1] Excluding the two outliers: MLNM and MRK acquisitions.

Additional Considerations

Our valuation methodology involves the following:

- **We use APV methodology of valuing a firm.** Our assumptions include: 4.4% risk-free rate; 7% market premium; base case beta of 1.0. **That yields cost of equity of 11.4%**. **We use actual debt interest as the cost of debt.**
- We forecast **terminal growth rate at 4%** to reflect the long-term economy growth. We performed sensitivity analysis of the terminal growth rate. A buy recommendation holds if the rate is higher than 1.2%, which we forecast to be the long-term US population growth rate (International rate is significantly higher; please refer to our Pharmaceutical Industry analysis for more information).
- **If CBST is acquired, we use potential acquirer's beta. Pfizer's beta is 1.06.**

Appendix 1: Base-case stand-alone model

Revenue Forecasts

(US dollars in millions)

Cubicin US	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues	$ 189.5	$ 268.3	$ 350.1	$ 433.9	$ 519.6	$ 607.4	$ 697.1	$ 789.0	$ 882.9	$ 979.0	$ 1,077.2	$ 1,177.7
Growth	NM	41.5%	30.5%	23.9%	19.8%	16.9%	14.8%	13.2%	11.9%	10.9%	10.0%	9.3%
COGS	25.7%	24.0%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%

Cubicin International	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues	$ 0.8	$ 5.5	$ 7.7	$ 10.1	$ 12.5	$ 15.0	$ 17.5	$ 20.1	$ 22.8	$ 25.5	$ 28.2	$ 31.1
Growth	NM	592.0%	41.5%	30.5%	23.9%	19.8%	16.9%	14.8%	13.2%	11.9%	10.9%	10.0%
COGS	25.7%	24.0%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%

Illumigen	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Growth	NM	NM	NM	NM	NM	NM	100.0%	50.0%	25.0%	12.5%	5.4%	5.4%
COGS	25.7%	24.0%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%

Other products	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10.0	$ 20.0	$ 30.0	$ 37.5
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	100.0%	50.0%	25.0%
COGS	25.7%	24.0%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%

Research Revenue	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues	$ 4.4	$ 5.5	$ 5.5	$ 5.5	$ 5.5	$ 2.8	$ 1.4	$ 0.7	$ -	$ -	$ -	$ -
Growth	NM	24.9%	0.0%	0.0%	0.0%	-50.0%	-50.0%	-50.0%	-100.0%	0.0%	0.0%	0.0%
COGS	25.7%	24.0%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%

Cost Forecasts

(US dollars in millions)

R&D	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Expenditure	$ 57.4	$ 76.5	$ 88.0	$ 101.2	$ 116.3	$ 133.8	$ 153.9	$ 176.9	$ 203.5	$ 234.0	$ 269.1	$ 309.5
Growth	NM	33.3%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%

Selling and Marketing	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Expenditure	$ 56.9	$ 68.8	$ 79.1	$ 91.0	$ 104.7	$ 120.4	$ 138.4	$ 159.2	$ 183.1	$ 210.5	$ 242.1	$ 278.4
Growth	NM	21.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%

General Administrative	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Expenditure	$ 26.8	$ 32.5	$ 37.4	$ 43.0	$ 49.5	$ 56.9	$ 65.4	$ 75.3	$ 86.6	$ 99.5	$ 114.5	$ 131.6
Growth	NM	21.6%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%

Income Statement

(US dollars in millions)

	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Net Revenues	$ 194.8	$ 279.3	$ 363.4	$ 449.5	$ 537.7	$ 625.1	$ 716.0	$ 809.8	$ 915.7	$ 1,024.4	$ 1,135.5	$ 1,246.3
COGS	$ 50.1	$ 67.0	$ 90.3	$ 111.7	$ 133.6	$ 155.3	$ 177.9	$ 201.2	$ 227.5	$ 254.6	$ 282.2	$ 309.7
Gross Profit	$ 144.7	$ 212.2	$ 273.1	$ 337.8	$ 404.1	$ 469.8	$ 538.1	$ 608.5	$ 688.1	$ 769.9	$ 853.3	$ 936.6
R&D	$ 57.4	$ 76.5	$ 88.0	$ 101.2	$ 116.3	$ 133.8	$ 153.9	$ 176.9	$ 203.5	$ 234.0	$ 269.1	$ 309.5
Selling and Marketing	$ 56.9	$ 68.8	$ 79.1	$ 91.0	$ 104.7	$ 120.4	$ 138.4	$ 159.2	$ 183.1	$ 210.5	$ 242.1	$ 278.4
General Administrative	$ 26.8	$ 32.5	$ 37.4	$ 43.0	$ 49.5	$ 56.9	$ 65.4	$ 75.3	$ 86.6	$ 99.5	$ 114.5	$ 131.6
Unusual Items	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Amortization	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
EBIT	$ 3.7	$ 34.4	$ 68.5	$ 102.6	$ 133.6	$ 158.7	$ 180.4	$ 197.1	$ 215.0	$ 225.8	$ 227.6	$ 217.0
Interest Expense (Net)	$ 5.0	$ (0.9)	$ (1.3)	$ (2.4)	$ (4.2)	$ (6.6)	$ (9.5)	$ (12.9)	$ 23.3	$ 9.4	$ 5.7	$ 1.8
Income Before Taxes	$ (1.3)	$ 35.3	$ 69.8	$ 105.0	$ 137.8	$ 165.3	$ 189.9	$ 210.0	$ 191.7	$ 216.3	$ 222.0	$ 215.3
Income Tax	$ (0.5)	$ 13.8	$ 27.2	$ 41.0	$ 53.7	$ 64.5	$ 74.0	$ 81.9	$ 74.8	$ 84.4	$ 86.6	$ 84.0
Net Income	**$ (0.8)**	**$ 21.5**	**$ 42.6**	**$ 64.1**	**$ 84.1**	**$ 100.8**	**$ 115.8**	**$ 128.1**	**$ 116.9**	**$ 132.0**	**$ 135.4**	**$ 131.3**

As % ofNet Revenues	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Net Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	25.7%	24.0%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%
Gross Profit	74.3%	76.0%	75.2%	75.2%	75.2%	75.2%	75.2%	75.2%	75.2%	75.2%	75.2%	75.2%
R&D	29.5%	27.4%	24.2%	22.5%	21.6%	21.4%	21.5%	21.9%	22.2%	22.8%	23.7%	24.8%
Selling and Marketing	29.2%	24.6%	21.8%	20.2%	19.5%	19.3%	19.3%	19.7%	20.0%	20.5%	21.3%	22.3%
General Administrative	13.7%	11.7%	10.3%	9.6%	9.2%	9.1%	9.1%	9.3%	9.5%	9.7%	10.1%	10.6%
Unusual Items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT	1.9%	12.3%	18.9%	22.8%	24.8%	25.4%	25.2%	24.3%	23.5%	22.0%	20.0%	17.4%
Interest Expense (Net)	2.5%	-0.3%	-0.4%	-0.5%	-0.8%	-1.1%	-1.3%	-1.6%	2.5%	0.9%	0.5%	0.1%
Amortization	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income Before Taxes	-0.7%	12.6%	19.2%	23.4%	25.6%	26.4%	26.5%	25.9%	20.9%	21.1%	19.5%	17.3%
Income Tax	-0.3%	4.9%	7.5%	9.1%	10.0%	10.3%	10.3%	10.1%	8.2%	8.2%	7.6%	6.7%
Net Income	**-0.4%**	**7.7%**	**11.7%**	**14.3%**	**15.6%**	**16.1%**	**16.2%**	**15.8%**	**12.8%**	**12.9%**	**11.9%**	**10.5%**

Balance Sheet

(US dollars in millions)

	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
ASSETS												
Current Assets:												
Cash & Equivalents	$ 16.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0
Short-Term Investments	$ 278.0	$ 295.4	$ 333.7	$ 393.5	$ 473.1	$ 569.6	$ 680.9	$ 454.2	$ 915.9	$ 1,042.4	$ 1,172.2	$ 1,298.0
Accounts Receivable	$ 21.1	$ 30.2	$ 39.3	$ 48.6	$ 58.2	$ 67.6	$ 77.5	$ 87.6	$ 99.1	$ 110.8	$ 122.8	$ 134.8
Inventories	$ 18.1	$ 26.0	$ 33.8	$ 41.8	$ 50.0	$ 58.1	$ 66.5	$ 75.3	$ 85.1	$ 95.2	$ 105.5	$ 115.8
Other Current Assets	$ 5.2	$ 7.4	$ 9.7	$ 12.0	$ 14.3	$ 16.7	$ 19.1	$ 21.6	$ 24.4	$ 27.3	$ 30.3	$ 33.2
Total Current Assets	$ 338.3	$ 369.0	$ 426.5	$ 505.9	$ 605.6	$ 722.0	$ 853.9	$ 648.7	$ 1,134.4	$ 1,285.7	$ 1,440.8	$ 1,591.9
Long-Term Investments	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2
PP&E, Net	$ 41.1	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0
Intangible Assets	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6
Deferred Costs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Assets	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3
Total Assets	**$ 430.5**	**$ 467.1**	**$ 524.6**	**$ 604.0**	**$ 703.7**	**$ 820.1**	**$ 952.0**	**$ 746.8**	**$ 1,232.5**	**$ 1,383.8**	**$ 1,538.9**	**$ 1,689.9**
LIABILITIES AND EQUITY												
Current Liabilities:												
Accounts Payable	$ 34.6	$ 49.6	$ 64.6	$ 79.9	$ 95.5	$ 111.1	$ 127.2	$ 143.9	$ 162.7	$ 182.0	$ 201.7	$ 221.4
Accrued Expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Current Liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Current Liabilities	$ 34.6	$ 49.6	$ 64.6	$ 79.9	$ 95.5	$ 111.1	$ 127.2	$ 143.9	$ 162.7	$ 182.0	$ 201.7	$ 221.4
Notes Payable & cap lease	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5
Debt	$ 350.0	$ 350.0	$ 350.0	$ 350.0	$ 350.0	$ 350.0	$ 350.0	$ -	$ 350.0	$ 350.0	$ 350.0	$ 350.0
Total Liabilities	**$ 398.1**	**$ 413.1**	**$ 428.0**	**$ 443.3**	**$ 459.0**	**$ 474.5**	**$ 490.7**	**$ 157.3**	**$ 526.2**	**$ 545.5**	**$ 565.2**	**$ 584.9**
Stockholders' Equity	$ 32.4	$ 54.0	$ 96.6	$ 160.6	$ 244.7	$ 345.5	$ 461.3	$ 589.4	$ 706.4	$ 838.3	$ 973.7	$ 1,105.1
Total Liabilities and Equity	**$ 430.5**	**$ 467.1**	**$ 524.6**	**$ 604.0**	**$ 703.7**	**$ 820.1**	**$ 952.0**	**$ 746.8**	**$ 1,232.5**	**$ 1,383.8**	**$ 1,538.9**	**$ 1,689.9**

Free Cash Flows

(US dollars in millions)

	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Net Income	$ (0.8)	$ 21.5	$ 42.6	$ 64.1	$ 84.1	$ 100.8	$ 115.8	$ 128.1	$ 116.9	$ 132.0	$ 135.4	$ 131.3
Add depreciation	$ 12.3	$ 13.5	$ 14.0	$ 14.0	$ 14.0	$ 14.0	$ 14.0	$ 14.0	$ 14.0	$ 14.0	$ 14.0	$ 14.0
Less Capital Expenses	$ (7.4)	$ (19.4)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)
Add Interest (after-tax)	$ 4.8	$ 4.8	$ 4.8	$ 4.8	$ 4.8	$ 4.8	$ 4.8	$ 4.8	$ 22.7	$ 22.7	$ 22.7	$ 22.7
Free Cash Flows	**$ 8.9**	**$ 20.4**	**$ 47.4**	**$ 68.9**	**$ 88.9**	**$ 105.6**	**$ 120.6**	**$ 132.9**	**$ 139.6**	**$ 154.7**	**$ 158.1**	**$ 154.0**

Discounted Cash Flow Analysis - APV Methodology

(US dollars in millions)

		2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	Terminal
Nominal Value		$ 20.4	$ 47.4	$ 68.9	$ 88.9	$ 105.6	$ 120.6	$ 132.9	$ 139.6	$ 154.7	$ 158.1	$ 154.0	$ 2,962.7
Discount		1.00	1.09	1.20	1.31	1.43	1.57	1.71	1.88	2.05	2.25	2.46	2.46
Present Value		$ 20.4	$ 43.3	$ 57.5	$ 67.8	$ 73.7	$ 77.0	$ 77.5	$ 74.4	$ 75.3	$ 70.4	$ 62.7	$ 1,205.8
Interest Expense		$ 7.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9	$ 7.9	$ 37.2	$ 37.2	$ 37.2	$ 37.2	$ 326.5
Nominal Tax Shield		$ 3.1	$ 3.1	$ 3.1	$ 3.1	$ 3.1	$ 3.1	$ 3.1	$ 14.5	$ 14.5	$ 14.5	$ 14.5	$ 127.3
Discount		1.00	1.04	1.09	1.13	1.18	1.23	1.28	1.34	1.39	1.45	1.51	1.51
Present Value of Tax Shield		$ 3.1	$ 2.9	$ 2.8	$ 2.7	$ 2.6	$ 2.5	$ 2.4	$ 10.9	$ 10.4	$ 10.0	$ 9.6	$ 84.3
NPV	**$ 2,050.2**												

Projected Equity Value	$ 1,710.2
Different from the market by	$ 510.2
Difference in %	42.5%

Appendix 2: Acquisition target scenario

Revenue Forecasts

(US dollars in millions)

Cubicin US	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues	$ 189.5	$ 268.3	$ 350.1	$ 433.9	$ 519.6	$ 607.4	$ 697.1	$ 789.0	$ 882.9	$ 979.0	$ 1,077.2	$ 1,177.7
Growth	NM	41.5%	30.5%	23.9%	19.8%	16.9%	14.8%	13.2%	11.9%	10.9%	10.0%	9.3%
COGS	25.7%	24.0%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%

Cubicin International	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues	$ 0.8	$ 5.5	$ 7.7	$ 10.1	$ 12.5	$ 15.0	$ 17.5	$ 20.1	$ 22.8	$ 25.5	$ 28.2	$ 31.1
Growth	NM	592.0%	41.5%	30.5%	23.9%	19.8%	16.9%	14.8%	13.2%	11.9%	10.9%	10.0%
COGS	25.7%	24.0%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%

Illumigen	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Growth	NM	NM	NM	NM	NM	NM	100.0%	50.0%	25.0%	12.5%	5.4%	5.4%
COGS	25.7%	24.0%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%

Other products	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10.0	$ 20.0	$ 30.0	$ 37.5
Growth	NM	NM	NM	NM	NM	NM	NM	NM	NM	100.0%	50.0%	25.0%
COGS	25.7%	24.0%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%

Research Revenue	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Revenues	$ 4.4	$ 5.5	$ 5.5	$ 5.5	$ 5.5	$ 2.8	$ 1.4	$ 0.7	$ -	$ -	$ -	$ -
Growth	NM	24.9%	0.0%	0.0%	0.0%	-50.0%	-50.0%	-50.0%	-100.0%	0.0%	0.0%	0.0%
COGS	25.7%	24.0%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%

Cost Forecasts

(US dollars in millions)

R&D	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Expenditure	$ 57.4	$ 76.5	$ 88.0	$ 101.2	$ 116.3	$ 133.8	$ 153.9	$ 176.9	$ 203.5	$ 234.0	$ 269.1	$ 309.5
Growth	NM	33.3%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%

Selling and Marketing	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Expenditure	$ 56.9	$ 68.8	$ 75.7	$ 83.3	$ 91.6	$ 100.8	$ 110.8	$ 121.9	$ 134.1	$ 147.5	$ 162.3	$ 178.5
Growth	NM	21.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%

General Administrative	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Expenditure	$ 26.8	$ 32.5	$ 35.8	$ 39.4	$ 43.3	$ 47.6	$ 52.4	$ 57.6	$ 63.4	$ 69.8	$ 76.7	$ 84.4
Growth	NM	21.6%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%

Income Statement

(US dollars in millions)

	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Net Revenues	$ 194.8	$ 279.3	$ 363.4	$ 449.5	$ 537.7	$ 625.1	$ 716.0	$ 809.8	$ 915.7	$ 1,024.4	$ 1,135.5	$ 1,246.3
COGS	$ 50.1	$ 67.0	$ 90.3	$ 111.7	$ 133.6	$ 155.3	$ 177.9	$ 201.2	$ 227.5	$ 254.6	$ 282.2	$ 309.7
Gross Profit	$ 144.7	$ 212.2	$ 273.1	$ 337.8	$ 404.1	$ 469.8	$ 538.1	$ 608.5	$ 688.1	$ 769.9	$ 853.3	$ 936.6
R&D	$ 57.4	$ 76.5	$ 88.0	$ 101.2	$ 116.3	$ 133.8	$ 153.9	$ 176.9	$ 203.5	$ 234.0	$ 269.1	$ 309.5
Selling and Marketing	$ 56.9	$ 68.8	$ 75.7	$ 83.3	$ 91.6	$ 100.8	$ 110.8	$ 121.9	$ 134.1	$ 147.5	$ 162.3	$ 178.5
General Administrative	$ 26.8	$ 32.5	$ 35.8	$ 39.4	$ 43.3	$ 47.6	$ 52.4	$ 57.6	$ 63.4	$ 69.8	$ 76.7	$ 84.4
Unusual Items	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Amortization	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
EBIT	$ 3.7	$ 34.4	$ 73.6	$ 114.0	$ 152.8	$ 187.6	$ 221.0	$ 252.0	$ 287.1	$ 318.6	$ 345.2	$ 364.2
Interest Expense (Net)	$ 5.0	$ (0.9)	$ (1.3)	$ (10.4)	$ (2.1)	$ (4.8)	$ (8.1)	$ (12.2)	$ (16.9)	$ (22.3)	$ (28.4)	$ (35.0)
Income Before Taxes	$ (1.3)	$ 35.3	$ 74.9	$ 124.4	$ 154.9	$ 192.3	$ 229.1	$ 264.2	$ 304.0	$ 340.9	$ 373.6	$ 399.2
Income Tax	$ (0.5)	$ 13.8	$ 29.2	$ 48.5	$ 60.4	$ 75.0	$ 89.4	$ 103.0	$ 118.6	$ 132.9	$ 145.7	$ 155.7
Net Income	**$ (0.8)**	**$ 21.5**	**$ 45.7**	**$ 75.9**	**$ 94.5**	**$ 117.3**	**$ 139.8**	**$ 161.2**	**$ 185.4**	**$ 207.9**	**$ 227.9**	**$ 243.5**

As % ofNet Revenues	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Net Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	25.7%	24.0%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%	24.9%
Gross Profit	74.3%	76.0%	75.2%	75.2%	75.2%	75.2%	75.2%	75.2%	75.2%	75.2%	75.2%	75.2%
R&D	29.5%	27.4%	24.2%	22.5%	21.6%	21.4%	21.5%	21.9%	22.2%	22.8%	23.7%	24.8%
Selling and Marketing	29.2%	24.6%	20.8%	18.5%	17.0%	16.1%	15.5%	15.1%	14.6%	14.4%	14.3%	14.3%
General Administrative	13.7%	11.7%	9.9%	8.8%	8.1%	7.6%	7.3%	7.1%	6.9%	6.8%	6.8%	6.8%
Unusual Items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT	1.9%	12.3%	20.3%	25.4%	28.4%	30.0%	30.9%	31.1%	31.4%	31.1%	30.4%	29.2%
Interest Expense (Net)	2.5%	-0.3%	-0.4%	-2.3%	-0.4%	-0.8%	-1.1%	-1.5%	-1.8%	-2.2%	-2.5%	-2.8%
Amortization	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Income Before Taxes	-0.7%	12.6%	20.6%	27.7%	28.8%	30.8%	32.0%	32.6%	33.2%	33.3%	32.9%	32.0%
Income Tax	-0.3%	4.9%	8.0%	10.8%	11.2%	12.0%	12.5%	12.7%	12.9%	13.0%	12.8%	12.5%
Net Income	**-0.4%**	**7.7%**	**12.6%**	**16.9%**	**17.6%**	**18.8%**	**19.5%**	**19.9%**	**20.3%**	**20.3%**	**20.1%**	**19.5%**

Balance Sheet

(US dollars in millions)

	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
ASSETS												
Current Assets:												
Cash & Equivalents	$ 16.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0	$ 10.0
Short-Term Investments	$ 278.0	$ 295.4	$ 336.8	$ 58.4	$ 148.5	$ 261.4	$ 396.6	$ 553.1	$ 733.2	$ 935.7	$ 1,158.0	$ 1,396.0
Accounts Receivable	$ 21.1	$ 30.2	$ 39.3	$ 48.6	$ 58.2	$ 67.6	$ 77.5	$ 87.6	$ 99.1	$ 110.8	$ 122.8	$ 134.8
Inventories	$ 18.1	$ 26.0	$ 33.8	$ 41.8	$ 50.0	$ 58.1	$ 66.5	$ 75.3	$ 85.1	$ 95.2	$ 105.5	$ 115.8
Other Current Assets	$ 5.2	$ 7.4	$ 9.7	$ 12.0	$ 14.3	$ 16.7	$ 19.1	$ 21.6	$ 24.4	$ 27.3	$ 30.3	$ 33.2
Total Current Assets	$ 338.3	$ 369.0	$ 429.6	$ 170.8	$ 280.9	$ 413.8	$ 569.7	$ 747.5	$ 951.8	$ 1,179.0	$ 1,426.6	$ 1,689.8
Long-Term Investments	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2	$ 15.2
PP&E, Net	$ 41.1	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0	$ 47.0
Intangible Assets	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6	$ 25.6
Deferred Costs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Assets	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3	$ 10.3
Total Assets	**$ 430.5**	**$ 467.1**	**$ 527.7**	**$ 268.9**	**$ 379.0**	**$ 511.9**	**$ 667.8**	**$ 845.6**	**$ 1,049.8**	**$ 1,277.1**	**$ 1,524.7**	**$ 1,787.9**
LIABILITIES AND EQUITY												
Current Liabilities:												
Accounts Payable	$ 34.6	$ 49.6	$ 64.6	$ 79.9	$ 95.5	$ 111.1	$ 127.2	$ 143.9	$ 162.7	$ 182.0	$ 201.7	$ 221.4
Accrued Expenses	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Current Liabilities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Current Liabilities	$ 34.6	$ 49.6	$ 64.6	$ 79.9	$ 95.5	$ 111.1	$ 127.2	$ 143.9	$ 162.7	$ 182.0	$ 201.7	$ 221.4
Notes Payable & cap lease	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5	$ 13.5
Debt	$ 350.0	$ 350.0	$ 350.0	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Liabilities	**$ 398.1**	**$ 413.1**	**$ 428.0**	**$ 93.3**	**$ 109.0**	**$ 124.5**	**$ 140.7**	**$ 157.3**	**$ 176.2**	**$ 195.5**	**$ 215.2**	**$ 234.9**
Stockholders' Equity	$ 32.4	$ 54.0	$ 99.7	$ 175.5	$ 270.0	$ 387.3	$ 527.1	$ 688.3	$ 873.7	$ 1,081.6	$ 1,309.5	$ 1,553.0
Total Liabilities and Equity	**$ 430.5**	**$ 467.1**	**$ 527.7**	**$ 268.9**	**$ 379.0**	**$ 511.9**	**$ 667.8**	**$ 845.6**	**$ 1,049.8**	**$ 1,277.1**	**$ 1,524.7**	**$ 1,787.9**

Free Cash Flows

(US dollars in millions)

	2006A	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
Net Income	$ (0.8)	$ 21.5	$ 45.7	$ 75.9	$ 94.5	$ 117.3	$ 139.8	$ 161.2	$ 185.4	$ 207.9	$ 227.9	$ 243.5
Add depreciation	$ 12.3	$ 13.5	$ 14.0	$ 14.0	$ 14.0	$ 14.0	$ 14.0	$ 14.0	$ 14.0	$ 14.0	$ 14.0	$ 14.0
Less Capital Expenses	$ (7.4)	$ (19.4)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)	$ (14.0)
Add Interest (after-tax)	$ 4.8	$ 4.8	$ 4.8	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Free Cash Flows	**$ 8.9**	**$ 20.4**	**$ 50.5**	**$ 75.9**	**$ 94.5**	**$ 117.3**	**$ 139.8**	**$ 161.2**	**$ 185.4**	**$ 207.9**	**$ 227.9**	**$ 243.5**

Discounted Cash Flow Analysis - APV Methodology

(US dollars in millions)

		2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	Terminal
Nominal Value		$ 20.4	$ 50.5	$ 75.9	$ 94.5	$ 117.3	$ 139.8	$ 161.2	$ 185.4	$ 207.9	$ 227.9	$ 243.5	$ 3,951.5
Discount		1.00	1.10	1.22	1.35	1.49	1.64	1.81	2.00	2.21	2.44	2.69	2.69
Present Value		$ 20.4	$ 45.7	$ 62.2	$ 70.2	$ 78.9	$ 85.2	$ 89.0	$ 92.7	$ 94.2	$ 93.5	$ 90.5	$ 1,467.9
Interest Expense		$ 7.9	$ 7.9	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Nominal Tax Shield		$ 3.1	$ 3.1	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Discount		1.00	1.01	1.01	1.02	1.02	1.03	1.03	1.04	1.05	1.05	1.06	1.06
Present Value of Tax Shield		$ 3.1	$ 3.1	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
NPV	**$ 2,296.6**												

Projected Equity Value	$ 1,956.6
Different from the market by	$ 756.6
Difference in %	63.0%

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