

# SKY CAPITAL LLC

## Equity Research – Initiation



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## Savient Pharmaceuticals (SVNT)

### *Rheum (atology) to Grow* Outperform

*Savient is transitioning into a Specialty Pharmaceutical company focusing on the Rheumatology market.*

#### INVESTMENT HIGHLIGHTS

- **SUCCESSFUL TURNAROUND** – Savient has revamped its entire management team, pared assets, brought in new products, and now has a focused, intensive effort to penetrate the Rheumatology specialty market. With one product for osetoarthritis approved (Nuflexxa) and another soon to enter Phase III for refractory gout (Puricase) Savient is well on its way to a complete turnaround.
- **SUBSIDIARY SALE TO BRING IN CASH FOR NEW PRODUCTS** – In March 2005 Savient signed an agreement to sell its biologics business for \$80 million in cash to be paid over two years, and combined with \$26 million already on the books the Company will have plenty of resources available to grow its specialty rheumatology business, through product acquisitions, joint ventures or in-licensing.
- **GROWING UK BUSINESS MOVING TO US** – Savient seems to have a winner with its Rosemont oral liquids acquisition, which is profitable and growing 20%-30% annually. Following a December 2004 FDA filing, the Company is now set to enter the US market this year with its first oral liquid formulation of tamoxifen, Soltamox, and more products in the US and other countries could follow next year.

#### CONCLUSION

We are recommending the shares of Savient Pharmaceuticals for value-oriented investors seeking undiscovered, well-focused, well-capitalized specialty pharmaceutical companies with good operations and a good product pipeline. Currently trading at a discount to other specialty pharma firms, we feel that Savient shares could appreciate to \$6-\$7 over the next 12-18 months.

I, Robert Wasserman, certify that all of the views and recommendations expressed in this research report accurately reflect my personal views about the common stock of Savient Pharmaceuticals. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Important Disclosures can be found on pages 12-13 of this report

#### STOCK PROFILE

As of: 6/10/05

Share Price:	\$3.47
Price Target:	\$6.00 – \$7.00
52-week range:	\$1.77 – \$3.69
Shares outstanding:	60.6M
Market Cap:	\$210M
10-Day Avg. Trading Vol:	450,000
Short Interest:	1.4 million

#### ESTIMATES (DEC)

EPS	2004A:	(\$0.59)
	2005E:	(\$0.20)
	2006E:	(\$0.05)

P/E	2004A:	N/A
	2005E:	N/A
	2006E:	N/A

#### FINANCIAL DATA (3/31/05)

Dividend Rate:	\$0.00
Projected 3-yr. EPS Growth:	25%
Book Value:	\$2.50/share
Price/Book	1.4X
Net Cash/Share	\$0.44
LT Debt/Capital	3%





## COMPANY PROFILE

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### History/Capitalization

Savient Pharmaceuticals (“Savient”) was founded as Bio-Technology General in 1980 to develop, manufacture and market novel therapeutic products. Through new product development, acquisitions and licensing agreements Savient compiled its current roster of products and facilities. In 1990, Savient acquired the rights to Oxandrin, currently the Company’s largest product, from G.D. Searle and received FDA approval in December 1995 for the use of Oxandrin in AIDS-related involuntary weight loss. In September 2002, Savient acquired UK-based Rosemont Pharmaceuticals, a manufacturer and marketer of proprietary and generic pharmaceuticals in oral liquid form. In March 2005, Savient signed an agreement to sell its global biologics manufacturing business, which includes a number of products such as Biolon, Bio-Hep-B, Silkis, Nuflexxa and human growth hormone, to Ferring Holding SA of Switzerland. Savient is headquartered in East Brunswick, New Jersey with other facilities in the United Kingdom and Israel.

### PRODUCT PIPELINE/MARKET SIZE

#### *Oral Liquid Pharmaceutical Products (Rosemont)*

Savient’s Rosemont division manufactures oral liquid formulations of off-patent drugs for patients who prefer to take medication in oral liquid form. These patients are unable to take medications in pill form due to age or medical condition, or simply prefer liquid forms. Rosemont’s oral liquid products cover a wide range of therapeutic areas, including cardiovascular, central nervous system, opioids, diuretics, antibiotics, vitamins and oncology. Rosemont’s primary market for its oral liquid formulation is the United Kingdom, and its two main types of products are licensed products approved by the UK regulatory agencies and specials, which have limited regulatory approval and cannot be promoted by Rosemont. Of Rosemont’s approximately 90 products, 43 are specials, representing 21% of sales in 2004, with licensed products comprising the majority, or 79%, of sales.

Because of the small and in many cases custom markets for its oral liquid products, Rosemont has limited competition in the UK, a market which has expanded with the increase in the UK elderly population, where as many as 22% of this group has been estimated to have swallowing difficulties in certain studies. In addition, Savient believes that government policy in the UK, which stresses method of administration in the decision to proscribe drugs, gives an advantage to oral formulations for elderly patients.

Savient is seeking expansion of its Rosemont business through registration in additional countries outside of the UK, including the United States, Japan and the European Union. In December 2004, Savient submitted a new drug application with the US FDA for Soltamox, an oral formulation of tamoxifen, which is an off-patent therapeutic for early stage and advanced breast cancer. Rosemont has patented its oral formulation of tamoxifen in the US and the European Union, and a patent is pending in Japan. Savient holds product registrations in Germany and Ireland in Europe, and is working to register the drug in other members of the EU. Recently, Savient signed a distribution agreement with German-based ORCAPHARMA to distribute Soltamox in that country.

## COMPANY PROFILE *(Continued)*

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### *Oxandrin*

Oxandrin, despite pending generic competition, is still Savient's largest product, providing 41% of sales in 2004. Approved in 1995, Oxandrin is a synthetic analogue of oxandrolone, a testosterone derivative, which is used to promote weight gain in immune-suppressed patients, particularly AIDS-related, following involuntary weight loss. Sales of Oxandrin have grown steadily due to the increase in AIDS patients, an April 2000 agreement with the Ross Products division of Abbott Labs (NYSE/ABT) to market Oxandrin to long-term care patients, and the introduction in 2002 of an easier to use 10mg dosage strength (previously patients had to take eight 2.5mg tablets). With the introduction of the 10mg tablet Savient also began to sell the drug directly to wholesalers, rather than through contract pharmaceutical firms as with the 2.5 mg version. Late in 2004 Savient also increased its promotional efforts to market Oxandrin to cancer patients who had experienced chemotherapy-induced involuntary weight loss.

Oxandrolone, the primary ingredient in Oxandrin, is off patent and several firms have filed abbreviated new drug application master files with the US FDA to market a generic version of Oxandrin. The earliest such a generic could have been launched was mid-2004, but in February of last year Savient filed a Citizen's Petition with the FDA stressing safety concerns with using oxandrolone in combination with anticoagulant drugs containing warfarin, as well as pointing out the difficulty of manufacturing drugs containing oxandrolone due to quality control issues. The petition seeks to categorize Oxandrin as a "problem drug" in terms of manufacturing, and also require potential generic manufacturers to conduct a clinical trial investigating the interaction between oxandrolone and warfarin. In August 2004, the FDA issued a letter to Savient stating that the agency would require extensive review of these issues, and since that time no further communication has been had.

### *Delatestryl*

Delatestryl is an injectable testosterone product used to treat male hypogonadism or testosterone deficiency. Savient's sales of Delatestryl have declined since March 2004, when the US FDA allowed the reintroduction of a competing generic injectable, originally pulled from the market in late 1998. Savient markets Delatestryl only in the US under a royalty agreement with Bristol-Myers Squibb (NYSE/BMY). Sales of this product declined from 10% of total in 2003 to 5% in 2004, due primarily to the new generic competitor.

### *Mircette*

Mircette is an oral contraceptive using Savient's patented dosing regimen, designed to reduce both the risk of pregnancy and bleeding and spotting experienced in many cases of women using low-dose contraceptives. Mircette has been sold in the US since FDA approval in 1998 by Organon, a division of Akzo Nobel (Nasdaq/AKZOY) of the Netherlands, under a license agreement with Savient. The introduction of a generic competitor to Mircette in 2002 by Duramed, now a subsidiary of Barr Labs (NYSE/BRL) has hurt sales of Mircette over the past several years.

## COMPANY PROFILE *(Continued)*

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### *Discontinued Products/Biologics*

On March 23, 2005, Savient announced the sale of its biologics products and related facilities to privately-held Ferring Holding SA of Switzerland after a period of searching for a buyer, and thus defined these products as discontinued operations. Products contained in this group include Bio-Tropin, a biologic growth hormone also marketed in the US as Tev-Tropin; Nuflexxa, a biologic sodium hyaluronate knee injectable used to treat osteoarthritis sold in Israel; BioLon, a biological sodium hyaluronate product used in ophthalmic surgery procedures; Bio-Hep B, a genetically engineered vaccine against Hepatitis B; Silkis, a vitamin-D derivative used in dermatology; and a recombinant form of insulin used to treat diabetic patients. Revenues from Savient's biologics business were approximately 22% of total in 2004.

### Clinical Pipeline Programs

#### *Puricase*

Puricase is a polyethylene glycol (PEG) modified recombinant porcine uricase intended for the treatment of patients with symptomatic gout who have not responded to conventional therapy, or refractory cases. Symptomatic or unresponsive gout, or gout tophi, affects approximately 50,000 mostly middle-aged or elderly patients in the US, and is characterized by large nodules developing under the skin of the hands and feet. Gout tophi can take decades to develop, and because of the relatively small patient population Puricase has received orphan drug status from the FDA. Gout is commonly treated with allopurinol, a xanthine oxidase inhibitor which is sold in generic form or as branded drugs such as Zyloprim from Prometheus Labs, a division of DSM Pharmaceuticals. The science behind Puricase involves uricase, an enzyme not typically found in the human body which can eliminate excess uric acid from the body, which accumulates in the tissues and joints in gout sufferers. Savient's PEG-modified uricase enzyme has a longer circulating lifetime and is less likely to induce immune reactions, thus allowing longer treatment regimens than existing drugs.

Savient has completed Phase II trials with Puricase and is currently planning on holding an "end of Phase II" regulatory meeting with the FDA by the end of July 2005 to determine timing and trial design for a Phase III study of Puricase. Depending on the outcome of the meeting, Savient hopes to initiate a Phase III trial by November 2005. A potential Phase III trial could cost between \$10-\$15 million, needing under 200 patients at 20-30 sites with a 6-8 month timeframe per patient, allowing a possible filing schedule in the first half of 2007. Preliminary results of the 41-patient, 12-week open label Phase II trials showed "anecdotal evidence" of measurable clinical improvement of symptoms with a promising safety profile, according to a press release on May 12<sup>th</sup>, 2005. These data have been submitted for consideration of presentation at the November 2005 Annual Meeting of the American College of Rheumatology.

Further down the road, Savient feels that there are opportunities for Puricase beyond the initial orphan drug indication, for example, in kidney dialysis and kidney transplant patients and into international markets, most likely through an international marketing partner. Savient feels that the initial market for Puricase could be \$45-\$50 million per year in the US, if only 10% of the target refractory gout patients are treated at an average cost of \$9,000-\$10,000 per treatment, similar to the cost of treatments for severe rheumatoid arthritis, such as J & J's (NYSE/JNJ) Remicade.

## COMPANY PROFILE *(Continued)*

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### *Nuflexxa*

In December 2004, Savient received approval from the US FDA for its premarket approval application for Nuflexxa (1% Sodium Hyaluronate) for the treatment of pain in osteoarthritis of the knee. Nuflexxa is the first and only non-avian derived product of its type approved in the US. The US market for hyaluronic acid injections for osteoarthritis is approximately \$350 million annually (growing at an approximate rate of 10% per year), and is led by established products such as Synvisc from Genzyme (Nasdaq/GENZ), Hyalgan from Sanofi-Aventis (NYSE/SNY), Orthovisc from Johnson & Johnson's Ortho Biotech division, and Supartz from Smith & Nephew (NYSE/SNN). Nuflexxa's clinical studies compared Savient's product head-to-head with the largest product in the market Synvisc, showing comparable efficacy but with higher patient satisfaction and fewer side effects such as joint effusions or the need for rescue medication.

Along with the March 2005 agreement to sell its biologics division, which included facilities in Israel for Nuflexxa manufacture, Savient signed a further pact with Ferring to co-market Nuflexxa in the US. Under the agreement, which is contingent on the closing of the biologics sale, Ferring will market Nuflexxa to the US orthopedic surgeon community while Savient will market the treatment to both orthopedic surgeons and rheumatologists. Savient will establish a new rheumatology-oriented sales force (which could also come into play for Puricase, if approved) and provide financial support (up to \$20 million) and receive 50% of the global revenue of Nuflexxa above agreed upon sales thresholds. The US launch for Nuflexxa is expected sometime in the second half of this year, after a label supplement to support room temperature storage rather than refrigeration is approved by the FDA and commercial quantities can be manufactured.

### *Prosaptide*

Prosaptide is an amino acid peptide derived from naturally occurring proteins. Savient acquired Prosaptide in March 2001 as part of the acquisition of privately-held Myelos. Prior to the acquisition, Myelos had conducted single-dose and multiple dose tolerance and safety Phase 1 trials and a Phase 2a trial in Type I and Type II diabetes mellitus patients who suffered from pain associated with diabetic peripheral neuropathy. Following the Myelos acquisition, Savient initiated a dose-ranging and efficacy Phase 2 trial in July 2003 using Prosaptide in the treatment of peripheral neuropathic pain in HIV-patients. On March 11, 2005, Savient announced that this trial would be terminated after a regular interim analysis showed little chance of ultimate efficacy. The Company plans to analyze all the available data to date for Prosaptide and later determine whether additional indications for the drug will be pursued. Under the terms of the original acquisition agreement, in the event of the filing of an NDA for Prosaptide, Savient would be required to pay \$30 million in cash and/or stock to former shareholders of Myelos.

### **Other Clinical Programs**

In addition, Savient has other clinical programs which have been included in the potential sale of its global biologics business to Ferring and classified as discontinued operations. These include Fibrimage, a thrombus-imaging agent targeted at the diagnosis of deep-vein thrombus licensed to Draxis Health, which has completed a Phase 3 trial in Canada and is awaiting regulatory approval to begin a Phase 3 trial in the US, and two pre-clinical product candidates, one of which is BTG-271.



## FINANCIAL DISCUSSIONS AND PROJECTIONS

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### Recent Results

Savient reported several positive developments in its first quarter results, despite lingering uncertainty regarding sales of Oxandrin as potential generic competition looms. Overall revenues were down to \$23.0 million from \$33.4 million, primarily due to a large drop in sales of Oxandrin from \$18.4 million to \$8.3 million in the current year. While prescription demand for Oxandrin fell only 7%, a \$4.2 million decrease in wholesale inventories and a \$4.8 million reserve for outdated product contributed to the lower revenues for Oxandrin. Sales of Rosemont's oral liquid products rose 26% during the quarter to \$9.1 million, or nearly 40% of total sales, offset partially by a decrease in sales of Delatestryl of \$1.6 million to \$1.1 million due to increased generic competition. Sales of global biologics remained essentially flat year-over-year at \$4.1 million. Gross margins fell to 61.4% from 73.2% one year ago reflecting the lower Oxandrin sales, although overhead expenses were reduced during the quarter with the exception of general & administrative costs, which rose 15% (to 26.9% of revenues) due to increased costs from Sarbanes-Oxley compliance. After a boost to other income from a patent litigation settlement, Savient lost \$3.9 million, or (\$0.06) per share versus earnings of \$1.2 million or \$0.02 in the prior year. The table below outlines operating results for Savient for Q1/2005 versus Q1/2004.

<b>Operating Results</b>	<b>Q1/2004</b>	<b>Q1/2005</b>
<b>Revenues (\$Millions)</b>	\$33.6	\$23.0
<b>Net Income (Loss) (\$Millions)</b>	\$1.3	(\$3.9)
<b>Shares Out (Millions)</b>	60.3	60.5
<b>Earnings (Loss)/Share</b>	\$0.02	(\$0.06)

### Balance Sheet and Cash Flow

Savient's balance sheet is currently strong and should be made even stronger with the closing of the sale of its global biologics business, expected by July 2005. At quarter end March 31<sup>st</sup>, 2005 Savient held over \$26.6 million in cash on its balance sheet with only \$4.1 million in long-term debt, most of which is with Bank Hapoalim and related to Israeli-based manufacturing facilities, which are slated to be sold as part of the biologics business. Cash on hand increased in the most recent quarter despite a net loss for the period, due to non-cash depreciation and amortization expenses, some non-cash charges, and a gain in sale from a small investment in an outside company.

Savient's March 2005 agreement with Ferring Holding, when closed, will provide up to \$80 million in additional cash, spread out between \$55 million at closing, \$15 million after one year, and \$10 million after another year. After repayment of debt, fees, and taxes, Savient expects to net \$70 million in cash, the majority of which will accrue in the next 30-60 days.

Savient expects to be cash flow neutral or slightly negative following the transaction, although a concurrent agreement with Ferring to invest up to \$20 million over the next several years in sales force development and other marketing efforts for Nuflexxa could whittle away at operating cash flow and cash resources.



## FINANCIAL DISCUSSIONS AND PROJECTIONS, CONT'D.

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### Growth Drivers/Catalysts

1. **Expansion of Rosemont's Oral Liquid Pharmaceuticals** – With a steady stream of new products and potential capacity expansion in the UK, Savient's Rosemont group now is its largest revenue center and should continue its solid 20%+ per year growth in the UK. What's more, Savient has filed for FDA approval of its first product, Soltamox, in the US, and if approved could be launched sometime next year. Efforts to receive approval for Soltamox in other European countries are progressing as well, as is a patent registration in Japan.
2. **Major push into Rheumatology Specialty market** – With the proceeds of the sale of its biologics business, Savient plans to invest significant time and resources into its own rheumatology-oriented specialty sales force. First up will be Nuflexxa, a lower side effect entry into the \$350 million (and growing) osteoarthritis injectable market. Savient will target the physician specialist market while Ferring will focus on the orthopedic surgeon community in the US; the two will split revenues after certain milestones are reached. Further down the road could lay Puricase, soon set to begin Phase III clinical trials for refractory gout, and potentially for other rheumatology-oriented therapeutic areas later. Potential approval for Puricase could come in the 2007-2008 timeframe, after Nuflexxa has become established.
3. **Plenty of resources for more product licensing or acquisitions**– Using existing cash resources plus the net proceeds from the pending sale of the biologics business, Savient will have plenty of financial resources to add to its product offerings, most likely in the rheumatology area or in oral liquids products (particularly outside of the UK). Savient could sign product marketing or development partnerships (such as with Nuflexxa) or even acquire smaller product lines or manufacturers (as was the case with Rosemont).

### Outlook

We estimate that Savient will gradually improve its operating performance on a quarterly basis this year, as new products such as Nuflexxa and growth at Rosemont offset flat or declining sales of Oxandrin. For upcoming Q2/2005, we project a slight increase in revenues over Q1/2005 to \$23.9 million including a potential moderate bounce back in Oxandrin shipments. Combined with level operating expenses and slightly higher gross margins, we project a net loss of (\$0.04) per share for Savient in Q2/2005, versus a loss of (\$0.06) in Q1/2005. For the year, we project quarterly revenues to remain in the \$22 - \$23 million range and net losses to stay steady in the (\$0.03)-\$(0.06) range as revenues from Nuflexxa and higher interest income are offset by new promotional costs for Nuflexxa, eventually bringing revenues to \$92.3 million and loss per share to (\$0.20) for 2005.

For 2006, we foresee revenues for Rosemont rising 30% year-over-year to \$55 million, including some estimated revenues from the US for oral liquids. Combined with \$6 million in revenues from other, smaller and new products (including Nuflexxa) this will offset a decline in Oxandrin revenues to \$22 million, which could vary considerably depending on the timing of potential generic launch. With improved gross margins as Rosemont grows and with proprietary Nuflexxa, lower administrative costs without the biologics business, and higher interest income, we estimate net losses per share will decrease to (\$0.05) for 2006. Contributions from newly acquired or in-licensed products could allow net revenue growth in 2006 and even break-even or profitability.



## FINANCIAL DISCUSSIONS AND PROJECTIONS, CONT'D.

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### Management

**Chris Clement** is President and CEO of Savient, having joined the firm in May 2002 as Chief Operating Officer and moving up to CEO in July 2004. Clement joined the firm after serving in management positions at Epicyte Pharmaceutical, Ares-Serono Group, and Searle Pharmaceutical (now Pfizer) in both operations and marketing. **David Fink** is Senior VP for Commercial Operations, with 20 years experience in pharmaceutical sales and marketing with such firms as Bristol-Myers Squibb and Med Pointe. **Dov Kanner, Ph.D.**, is Executive VP and Chief Technical Officer, a position he has held since June 2003. Dr. Kanner has been with BTG-Israel, a subsidiary of Savient, since 1981. **Lawrence Gyenes** joined Savient in August 2004 as Chief Financial Officer and Treasurer following a 30-year career in financial positions with firms including Searle, Reliant Pharmaceuticals, Rand McNally, CompuServe and Helene Curtis. **Zeb Horowitz, M.D.** joined Savient in March 2003 as Senior VP and Chief Medical Officer, following positions in research at Novartis and Proctor & Gamble, and with academic institutions including New York University and the University of Cincinnati. **Philip Yachmetz**, was appointed Senior VP, General Counsel and Secretary of Savient in May 2004 after positions with Progenics Pharmaceuticals, Cytotherapeutics (now StemCells Inc.) and Hoffman-La Roche.

Board members include **Jeremy-Hayward-Surry**, Chairman of the Board and former President of Pall Corporation (NYSE/PLL), **Stephen Jaeger**, former CEO of eBT International, **Herbert Conrad**, former President of Roche Pharmaceuticals, **Carl Kaplan**, a Senior Partner at Fulbright & Jaworski, **David Tandler**, former CEO of Phibro-Salomon, **Virgil Thompson**, CEO of Angstrom Pharmaceuticals, **Faye Wattleton**, former President of Planned Parenthood, and **Dr. Herbert Weissbach**, former Vice President and Director of the Roche Institute of Molecular Biology.

In the past several weeks several key members of management and the Board have purchased between 7,500 and 20,000 shares of Savient in the open market.

### Comparable Companies/Stock Valuation

It is most accurate to compare Savient with other pharmaceutical companies with products in the rheumatology area such as Genzyme (Nasdaq/GENZ) maker of Remicade, or products for osteoarthritis such as those made by Genzyme again, Sanofi, Smith & Nephew, and Johnson & Johnson, due to the Company's new focus on products such as Nuflexxa and potentially Puricase. However, these larger competitors are more diversified, established manufacturers and thus oftentimes command higher valuations and attract a wider range of investors. Thus, we are using smaller specialty pharmaceutical firms in our comparable company analysis which are focused on one typically narrow medical specialty (not, for example cardiology or oncology). These include Connetics and Medicis (dermatology), Noven (OB/GYN) and Endo (pain relief). All four of the comparables are larger in terms of market capitalization, revenues (except Noven when not including its Novogyne joint venture), and are profitable, with average price/earnings multiples of 23X this year's and 17X next year's estimated earnings per share. While Savient has strayed from profitability while it restructures and refocuses, we believe they will return to profitability in 2007 after new products are approved. However, in terms of price/revenues or price/book value (after Savient's pending gain from the sale of its biologics business) these comparables are 2X-4X the price of Savient,

## VALUATION/COMPARABLES, CONT'D.

and thus we feel more justified in our \$6-\$7 long-term price target for SVNT shares, which would still only value SVNT at 4X-5X revenues and at 2X book value.

The table below compares specialty pharmaceutical companies with Savient with ratios for price/earnings, (2005E and 2006E), price/revenues (2005E), and price/book value:

**Table 2. Specialty Pharmaceuticals Comparable Company Analysis**

Company	Symbol	Price	Shares		Market Cap		Calendar Year		Revenues	Book Value	Calendar Year		Price/Revs	Price/	Notes
			(millions)	(\$Millions)	EPS '05E	EPS '06E	2005E	/Share	P/E '05E	P/E '06E	2005E	Book			
Connetics	CNCT	\$20.77	34.8	722.6	0.82	1.44	197	\$2.75	\$2.75	25.3	14.4	3.67	7.6	Strong dermatology focus	
Endo Pharmaceuticals	ENDP	\$25.08	131.9	3,308.8	1.14	1.41	\$ 680	\$5.10	\$5.10	22.0	17.8	4.87	4.9	Strong pain franchise	
Noven	NOVN	\$18.02	23.6	424.5	0.71	1.01	67	\$5.53	\$5.53	25.4	17.8	6.34	3.3	Primarily OB/GYN	
Medicis	MRX	\$29.84	54.3	1,619.2	1.45	1.65	380	\$8.50	\$8.50	20.6	18.1	4.26	3.5	Strong dermatology focus	
Average										23.3	17.0	4.78	4.8		

Savient Pharmaceutical SVNT \$3.47 60.8 \$ 210.9 \$ (0.20) \$ (0.05) \$ 92 \$3.31 N/A N/A 2.28 1.0 Focusing on rheumatology

\*Assumes the sale of global biologics manufacturing business in July 2005

Source: Sky Capital; Thomson Analytics

## Risks

We believe an investment in Savient Pharmaceuticals involves the following risks:

- FDA and Regulatory Risks** – While Savient does have approved products and has a long history of FDA approvals both in the US and internationally, much of the Company's future success will depend on new product approvals in the US, including Puricase and Soltamox, and in the United Kingdom for new oral liquid formulations. In particular, the Puricase development program is an extensive and expensive (\$10-\$15 million and 1-2 years) undertaking for a proposed Phase III trial, and the success of the Soltamox filing may determine the ultimate growth of Rosemont's business in the US.
- Chance of potential generics** – Oxandrin has been Savient's leading product for several years, and recently two Abbreviated New Drug Applications (ANDA) were filed by smaller generic firms with the FDA to market generic versions of oxandrolone, the key ingredient in Oxandrin. However, Savient filed a Citizen's Petition in February 2004 and a more recent supplement to the application stressing the difficulty of manufacturing the product and the potential need for a study of the drugs interaction with warfarin, a common medication used to prevent blood clots.
- Availability of acquisitions and/or new products** – Savient expects to close the sale of their biologics business by early July 2005, and if completed then the Company will have even more financial resources available for new product acquisitions, product in-licensing, or even whole company purchases. However, if acquisition opportunities do not open up for Savient in the near future, investor interest in the Savient story may wane.



## Conclusion

With a revamped management team, a new focus on the rheumatology market, and plenty of financial resources for future growth, investors may soon discover newly renamed Savient Pharmaceuticals from the midst of the pharmaceutical crowd. News flow on divestitures, acquisitions, and new product clinical progress as well as organic growth for its Rosemont oral liquid division may reward value-oriented investors over the near term, and with focused specialty pharmaceutical firms awarded strong valuations by the market we feel these shares can appreciate to \$6-\$7 over the next 12-18 months.



Robert M. Wasserman

**Savient Pharmaceuticals, Inc.**  
**Statement of Operations**  
**(in \$000s, except EPS)**

Calendar Year	2001	2002	2003	1Q04	2Q04	3Q04	4Q04	2004	1Q05	2Q05E	3Q05E	4Q05E	2005E	2006E
<b>Revenues:</b>														
Product sales, net	87,106	96,107	124,846	32,371	14,262	23,476	35,873	105,982	22,615	23,500	21,500	23,000	90,615	86,000
Contract fees	1,656	1,804	1,340	230	220	222	251	923	291	300	310	360	1,261	1,000
Royalties	3,817	3,891	3,227	932	2,872	1,044	504	5,352	0	0	0	0	0	0
Other	2,195	1,164	3,112	40	254	697	0	991	75	75	125	175	450	500
Total revenues	94,774	102,966	132,525	33,573	17,608	25,439	36,628	113,248	22,981	23,875	21,935	23,535	92,326	87,500
<b>Expenses:</b>														
Cost of sales	12,388	14,148	24,745	8,663	7,570	9,550	11,335	37,118	8,721	8,580	7,740	8,050	33,091	25,800
Research and development	27,778	32,783	31,797	8,664	6,882	6,265	5,989	27,800	6,282	6,200	6,250	6,300	25,032	24,000
Marketing and sales	17,006	22,144	23,303	6,666	5,868	5,175	5,889	23,598	5,154	5,290	5,160	5,290	20,894	21,500
General & administrative	13,252	17,581	26,744	5,372	7,395	5,999	11,531	30,297	6,177	5,880	5,910	6,100	24,067	19,350
Amortization of intangibles	(2,961)	1,013	4,050	1,013	1,012	1,013	1,012	4,050	1,013	1,013	1,013	1,013	4,052	4,000
Other & one-time	47,575	2,159	5,439	1,403	3,617	1,620	1,773	8,413	1,224	500	400	300	2,424	1,000
Total operating expenses	115,038	89,828	116,078	31,781	32,344	29,622	37,529	131,276	28,571	27,463	26,473	27,053	109,560	95,650
Income (loss) from operations	(20,264)	13,138	16,447	1,792	(14,736)	(4,183)	(901)	(18,028)	(5,590)	(3,588)	(4,538)	(3,518)	(17,234)	(8,150)
Interest & other, net	(4,929)	1,642	3,635	73	(769)	13	(2,035)	(2,718)	2,057	1,000	1,200	1,400	5,657	5,000
Income (loss) before tax	(25,193)	14,780	20,082	1,865	(15,505)	(4,170)	(2,936)	(20,746)	(3,533)	(2,588)	(3,338)	(2,118)	(11,577)	(3,150)
Income tax expense (benefit)	4,733	5,063	6,161	577	16,409	1,150	(3,583)	14,553	332	0	0	0	332	0
Net income (loss)	(29,926)	9,717	13,921	1,288	(31,914)	(5,320)	647	(35,299)	(3,865)	(2,588)	(3,338)	(2,118)	(11,909)	(3,150)
Basic income per share	(\$0.52)	\$0.17	\$0.24	\$0.02	(\$0.53)	(\$0.09)	\$0.01	(\$0.59)	(\$0.06)	(\$0.04)	(\$0.06)	(\$0.03)	(\$0.20)	(\$0.05)
Diluted income per share	(\$0.52)	\$0.17	\$0.23	\$0.02	(\$0.53)	(\$0.09)	\$0.01	(\$0.59)	(\$0.06)	(\$0.04)	(\$0.06)	(\$0.03)	(\$0.20)	(\$0.05)
Basic shares outstanding	57,230	58,479	59,191	59,734	59,962	60,182	60,381	60,065	60,545	60,595	60,645	60,695	60,620	60,600
Diluted shares outstanding	57,230	58,610	59,766	60,331	59,962	60,182	60,390	60,216	60,545	60,595	60,645	60,695	60,620	60,600
<b>Key ratios:</b>														
Product sales growth		10.3%	29.9%	20.1%	-49.2%	-26.9%	-4.9%	-15.1%	-30.1%	64.8%	-8.4%	-35.9%	-14.5%	-5.1%
Gross margin	85.8%	85.3%	80.2%	73.2%	46.9%	59.3%	68.4%	65.0%	61.4%	63.5%	64.0%	65.0%	63.5%	70.0%
Marketing/Product sales	17.9%	21.5%	130.1%	20.6%	41.1%	22.0%	16.4%	408.7%	22.8%	22.5%	24.0%	23.0%	23.1%	25.0%
G & A/ Revenues	14.0%	17.1%	4.1%	16.0%	42.0%	23.6%	31.5%	7.4%	26.9%	25.0%	27.5%	26.5%	26.1%	22.5%
R&D/Revenues	29.3%	31.8%	24.0%	25.8%	39.1%	24.6%	16.4%	24.5%	27.3%	26.0%	28.5%	26.8%	27.1%	27.4%
Tax Rate	-18.8%	34.3%	30.7%	30.9%	-105.8%	-27.6%	N/A	-70.1%	N/A	0.0%	0.0%	0.0%	-2.9%	0.0%
Cash Flow/share	\$0.26	\$0.18	\$0.30	\$0.04	(\$0.52)	(\$0.07)	\$0.03	(\$0.52)	(\$0.05)	(\$0.03)	(\$0.04)	(\$0.02)	(\$0.13)	\$0.01
EBITDA/share	\$0.43	\$0.24	\$0.34	\$0.05	(\$0.23)	(\$0.05)	\$0.00	(\$0.23)	(\$0.08)	(\$0.04)	(\$0.06)	(\$0.04)	(\$0.22)	(\$0.07)

**Balance Sheets**

	(SMill)	
	12/31/04	3/31/05
<b>Assets:</b>		
Cash and equivalents	\$25,282	\$26,668
Accounts receivable	6,118	1,185
Inventories	15,317	12,870
Prepaid expenses & other	3,444	2,492
Assets held for sale	79,268	75,616
Total current	129,429	118,831
Property & equip., net	6,985	6,851
Intangibles & goodwill	111,809	110,796
Other	2,946	1,365
TOTAL ASSETS	251,169	237,843
<b>Liabilities:</b>		
Accounts payable	\$9,972	\$9,749
Other current liabilities	18,938	12,732
Liabilities held for sale	12,742	11,954
Current portion of LTD	6,992	5,212
Total current	48,644	39,647
Long-term debt	0	0
Other long-term liabilities	47,857	47,313
Stockholders' equity	154,668	150,883
TOTAL LIAB & EQ	251,169	237,843

**Quarterly Earnings Comparisons**

	March	June	Sept	Decem	Total
<b>Revenues (in \$000s)</b>					
2002	\$20,848	\$25,100	\$26,233	\$30,785	102,966
2003	27,976	30,936	33,781	39,832	132,525
2004	33,573	17,608	25,439	36,628	113,248
2005E	22,981	23,875	21,935	23,535	92,326
<b>Earnings per Share</b>					
2002	0.02	0.04	0.10	0.01	0.17
2003	0.05	0.04	0.07	0.07	0.23
2004	0.02	(0.53)	(0.09)	0.01	(0.59)
2005E	(0.06)	(0.04)	(0.06)	(0.03)	(0.20)

**Sales Breakdown (By Product)**

(S000s)	2001	2002	2003	2004	2005E	2006E
Oxandrin	\$47,150	\$45,861	\$57,641	\$43,151	\$35,000	\$22,000
BioTropin	23,863	20,564	20,490	16,200	7,000	0
Biolon	8,227	6,696	5,964	5,486	2,500	0
Delatestryl	7,253	15,595	12,343	5,630	2,500	3,000
Oral liquid (Rosemont)	-	6,346	27,146	34,023	42,300	55,000
Other/New	613	1,045	1,262	1,519	1,300	6,000
Total	\$87,106	\$96,107	\$124,846	\$106,009	\$90,600	\$86,000



## **Important Disclosures**

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### **Rating Scale**

Outperform (Buy) - expected to outperform the S&P 500 by more than 10% within 12 months.

Market Performer (Hold) - expected to perform in line with the S&P 500, plus or minus 10% within 12 months.

Underperform (Sell) - expected to underperform the S&P 500 by more than 10% within 12 months.

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## IMPORTANT DISCLOSURES

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<b>COMPANY</b>	<b>TICKER SYMBOL</b>	<b>6/10/05 STOCK PRICE</b>	<b>DISCLOSURE</b>
Savient Pharmaceuticals	SVNT	\$3.47	

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