



Mossberg's Investor Digest

Best Idea Profile

Anika Therapeutics (Nasdaq: ANIK)

DESCRIPTION:

Founded in 1993, Massachusetts-based Anika Therapeutics develops and commercializes treatments for tissue protection, healing and repair. All of the company's products are based on Hyaluronic Acid (HA), which is a naturally occurring, biocompatible polymer found throughout the body. The company has been successful in commercializing the product for use in treating joint pain and in helping tissue recover after eye surgery. All sales are done through distribution partners such as J&J and Bausch & Lomb.

KEY INVESTMENT CONSIDERATION:

Stable ophthalmic business – The company's ophthalmic product is the "gold standard" for use in helping tissue recover after cataract eye surgery. This product category is over 20 years old, represents about 30% of sales, and generates a stable base of recurring revenue.

Growing joint health franchise – The company's joint health products, which represent about 50% of sales, are primarily used in relieving knee pain. According to the company, patients claim a 40% reduction in pain for a duration of up to (and maybe exceeding) six months. The product's localized treatment is becoming much more popular than

systemic treatments like pain medications, which offer similar efficacy. The treatment is also becoming more popular because it is less disruptive and less expensive than surgery or joint replacement. This product category has been the major growth driver for the company, which has now shown 7 consecutive quarters of growth. Continued growth will come from adding distribution partners in the U.S. and internationally. In addition to added distribution, the product has promise to be used in other joints, such as the ankle, shoulder and wrist.

POTENTIAL CATALYSTS:

Dermal Filler offers promise – The company recently introduced a new cosmetic filler (gets rid of wrinkles or make fuller lips) named ELEVESS, which is the first HA based product with a pain reliever (Lidocaine) approved in the U.S. The launch of the product has been disappointing due to difficulties and the ultimate bankruptcy of ANIK's distribution partner Artes Medical. The company is actively seeking a partner for the product in the U.S. and has identified several reasonable prospects.

RISK:

The company sells through its channel partners, which gives it less control over its success. The disappointing launch of its ELEVESS product is a good example. In addition, the company is competing against larger pharmaceutical companies that have greater resources to develop and bring competitive products to market.

VALUATION:

The company is trading below book value and has \$2.36 per share in net cash (cash – long term debt). The company is profitable and trades at less than 2x EV to trailing twelve months EBITDA. This is a puzzling valuation for a company that is profitable, has solid growth prospects, and a strong balance sheet. Most likely, shares are depressed due to the disappointing launch of ELEVESS and tax loss selling at the end of 2008.

(NYSE: ANIK)

Investment Data (as of 2/27/09)

| | |
|--------------------------------|---------------|
| Recent Price | \$3.42 |
| 52-Week Range | 2.96 - 12.94 |
| Fiscal Year End | December |
| Dividend | N/A |
| Yield | N/A |
| Shares Outstanding | 11.4 MM |
| Average Trading Volume (3 mos) | 38,000 |
| Market Capitalization | 39 MM |
| Cash | 35 MM |
| Long Term Debt | 8 MM |
| Enterprise Value (EV) | 12 MM |
| LT Debt/ Equity | 0.1 |
| BV/ Share | 5.22 |
| TTM Revenue | 36 MM |
| P/ Revenue | 1.1x |
| TTM EPS | 0.37 |
| P/ EPS | 9.2 |
| TTM adjusted EBITDA | 6.5 MM |
| EV/ TTM EBITDA | 1.8x |

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