

Mossberg's Investor Digest

Best Idea Profile:

Isis Pharmaceutical (Nasdaq:ISIS)

DESCRIPTION:

Headquartered in Carlsbad, California; Isis Pharmaceuticals, Inc. is a leader in the discovery and development of drugs based upon antisense technology. Antisense technology enables the rapid design of novel drug candidates that have the potential to be safer and more effective than traditional drugs. The Company targets a wide variety of diseases, including infectious and inflammatory diseases, and cancer. Isis seeks to make alliances with larger partners for its late stage research thereby collecting royalties and licensing fees without incurring final development and distribution costs. Since 2007, Isis partnerships have generated an aggregate of more than \$840 million in payments from licensing fees, equity purchase payments, milestone payments and research and development funding.

KEY INVESTMENT CONSIDERATIONS:

Market Size – Since 2007 Isis has generated more than \$840 million in payments from licensing fees, equity purchase payments, milestone payments and research and development funding. The Company estimates that it's currently partnered drugs have the potential to earn more than \$3.5 billion in future milestone payments. Isis will share in the future commercial success of its inventions and drugs resulting from these partnerships through earn out, profit sharing, and/or royalty arrangements.

Cost Effective Business Model – Isis' strategy is to balance corporate collaborations and equity-based financing's that augment the Company's financial resources. This model reduces cost and risk while Isis retains commercial rights to its pipeline of products in development. Through collaborative agreements with major pharmaceutical companies, Isis broadens its target programs while obtaining funding for its existing programs. This approach also builds recurring revenue streams, a plus for investors. Isis intends to continue to pursue this strategy.

Leading Edge Biotechnology – Antisense technology represents an important breakthrough in disease treatment. When researchers discover a genetic sequence of a particular gene is related to a particular disease, they can synthesize a strand of nucleic acid that essentially turns that gene off. The end result is that antisense technology improves drug discovery and development by providing a direct route from genes to drugs.

Industry Partners – Isis partners with leading names in the Biotech Industry such as Boehringer Ingelheim, Novartis, The National Cancer Institute and Genzyme.

Pipeline – Isis has a diversified pipeline of 24 drugs covering a variety of areas such as cardiovascular diseases, metabolic disorders and neurodegenerative diseases. Genzyme plans to commercialize Isis' lead product, mipomerson in 2012. Isis retains a portfolio of strong and extensive patents.

Financial Strength – Isis has \$395 million in cash. The Company remains on track with its FY2011 guidance of Net Operating Loss in the low \$40 million range vs. \$36.2 million in FY2010.

VALUATION:

The Company is not without naysayers...10 million shares are short (10% of outstanding). However, Isis appears to be nearing an inflection point. The successful commercialization of its first drug, Mipomerson along with continued developments within its product portfolio could lead to short covering along with higher valuation.

(Isis Pharmaceuticals: NASDAQ) Investment Data (as of 9/27/11)

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|--------------------------------|------------------|
| Recent Price | \$7.31 |
| 52-Week Range | \$6.55 - \$10.63 |
| Fiscal Year End | Jun |
| Dividend | NA |
| Yield | NA |
| Shares Outstanding | 100MM |
| Average Trading Volume (3 mos) | 667k |
| Market Capitalization | \$729MM |
| Cash | \$395MM |
| Long Term Debt | \$206MM |
| Enterprise Value (EV) | \$538MM |
| BV/ Share | \$2.13 |
| TTM Revenue | \$101MM |
| P/ Revenue | 7x |
| TTM EPS | \$(0.65) |
| P/ EPS | NA |
| TTM EBITDA | \$(43)MM |
| EV/ EBITDA | NA |