THE BUCKINGHAM RESEARCH GROUP

Research Notes for February 5, 2003

Important disclosure information (relative to NASD Rule 2711) about The Buckingham Research Group's rating system, risks, and potential conflicts of interest appear at the end of this material (or contact your investment representative).

Allergan (AGN-$59.89)
STRONG BUY FY Ends Dec. Target: $80 (**Div./Yield:** $0.36/0.6%)
FY03 EPS From/To: $2.30E/**NC** vs. $1.88A LY (**Consensus:** $2.31E)
FY04 EPS From/To: $2.80E/**NC** (**Consensus:** $2.86E)
Next Q EPS (Mar-03) **From/To:** $0.53E/**NC** vs. $0.43A LY (**Consensus:** $0.53E)

**Estimates and Actuals Reflect Pharma-Only for 2002, 2003 & 2004.*
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AGN Shares Could Weaken on News of Botox-Related Lawsuit but Shares Remain Strong-Buy

- **Strong Buy-rated Allergan (AGN) announced that it has been sued along with an outside physician by a California couple alleging that use of Botox to treat migraines (an off-label use) caused a "chronic medical condition."** We have not seen the lawsuit; however, Allergan defended the safety profile for its Type A botulinum toxin product and vowed to defend itself and avoid settling what it termed a "frivolous" lawsuit. Botox remains an important driver of Allergan's growth. We expect the European Union to approve Vistabel (European name for Botox Cosmetic) shortly. We believe that some negative publicity including litigation was inevitable for a drug that grew 42% in 2002 to nearly $440 million. Allergan's insurance will cover litigation costs. Botox (34% of sales) should grow by 29% for 2003 based on geographic expansion and growth of both cosmetic use (40% of sales) and therapeutic use (70% of sales).
- **The April launch of Restasis for therapeutic dry and the second quarter filing of Diquafasol (dry eye) by Inspire Pharmaceuticals (to be marketed by Allergan) are upcoming catalysts.** For 2003, we expect Restasis revenues of $27 million (about 2% contribution to sales) while Allergan's combined dry eye franchise should generate nearly $50 million in 2004 revenues (2.5% of sales). We also expect Phase II data on oral Tazorac for acne in May followed by Phase III data for oral Tazorac in psoriasis in July. The acne and psoriasis markets represent conservatively $500 million in market potential for Tazorac which had 2002 revenues of $85 million as a topical cream.
- **Growth outlook and price target remains intact. Our target remains $80 per share, based upon a 35x multiple of our 2003 EPS estimate of $2.30.** At current prices, Allergan trades at just over 1x its growth rate, a discount to a historical PEG ratio of 2x for branded pharmaceutical companies. We see Allergan remaining a 22-25% growth company despite the likelihood that the Company will repurchase the Bardeen R&D vehicle, thereby eliminating R&D reimbursement revenues to Allergan and improving quality of earnings.

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Cisco Systems, Inc. (CSCO-$13.20)	
ACCUMULATE FY Ends July Target: $19 (From $18)	**(Div./Yield:** Nil/Nil**)**
FY03 EPS From/To: $0.57E/**$0.60E** vs. $0.39A LY	(**Consensus:** $0.54E)
FY04 EPS From/To: $0.70E/**$0.74E**	(**Consensus:** $0.60E)
Next Q EPS (Apr-03) **From/To:** $0.14E/**$0.15E** vs. $0.15A LQ	(**Consensus:** $0.13E)
FY03 Revenue (US$ B) **From/To:** $19.5E/**$19.1E** vs. 18.9A LY	(**Consensus:** $19.2B)
FY04 Revenue (US$ B) **From/To:** $21.8E/**$21.1E**	(**Consensus:** $20.9B)
Next Q Revenue (Apr-03) **From/To:** $4.84E/**$4.72E** vs. $4.71A LQ	(**Consensus:** $4.76B)

Calendar EPS: 2001A=$0.18; 2002A=$0.54; and 2003E=$0.64. The Buckingham Research Group makes a market in the securities of Cisco Systems (CSCO).
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EPS Ahead of Consensus; Raise EPS and Maintain Accumulate

- Accumulate-rated Cisco Systems (CSCO) reported above-consensus fiscal 2Q03 EPS of $0.15 on sequentially flat sales of $4.71 billion, due to a higher gross margin and lower operating expenses.
- CSCO's fiscal 3Q03 outlook was cautious, citing weakness in January, and management repeated the January 2003 quarter guidance of 0% to –3% for sales, lower gross margin and flat operating costs.
- We are raising our 12-month stock price target for CSCO to $19 per share (from $18), based on a P/E multiple of 30x, reflecting projected 30% annual EPS growth, and our revised estimate for calendar 2003 EPS of $0.64 (from $0.62).
- We are maintaining our Accumulate rating and raising our above-consensus EPS estimates from $0.14 to $0.15 for fiscal 3Q03; from $0.57 to $0.60 for the July 2003 fiscal year (FY2003) and from $0.70 to $0.74 for FY2004 to reflect a lower sales base offset by higher gross margin expectations.
- We estimate revenue at $19.1 billion in FY2003, up 1%, and $21.1 billion, up 10%, in FY2004 from $18.9 billion in FY2002 to take into account a $500 million run rate in Andiamo sales combined with pull-along sales of other switches and routers by the end of FY2004.
- See our full note for more details.

Crompton Corp. (CK-$5.97)	
ACCUMULATE FY Ends Dec. Target: $7 (From $8)	(**Div./Yield:** $0.20/3.4%)
FY03 EPS From/To: $0.60E/**$0.45E** vs. $0.48A LY	(**Consensus:** $0.58E)
FY04 EPS From/To: $0.60E/**NC**	(**Consensus:** $0.85E)
Next Q EPS (Mar-03) **From/To:** $0.10E/**$0.05E** vs. $0.06A LY	(**Consensus:** $0.10E)

EPS at last peak (1999) = $1.55 (pro forma). Analyst, associate or a member of household have a financial interest in any class of common equity securities, warrants or options of the subject company.
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CK Reports 4Q02 In Line; Reducing Estimates & Target

- Accumulate-rated Crompton Corp. (CK) reported 4Q02 EPS of $0.09 versus a loss of $0.10 per share last year, in line with expectations. We are, however, reducing our EPS estimates for 1Q03 from $0.10 to $0.05 and for the full-year 2003 from $0.60 to $0.45. We are also introducing a 2004 EPS estimate of $0.60 at this time.
- We maintain our Accumulate rating on CK. Our revised stock price target of $7 per share represents a 15.5x P/E multiple on our reduced estimate of $0.45 for 2003, which is in line with other peer

company stocks with economic- and petroleum-sensitive earnings. We note that CK's EPS reached $1.55 as recently as 1999.

- Ethylene-propylene diene-monomer rubber (EPDM, 11% of sales) is especially petroleum-sensitive. Polymer additives (32% of sales) are feeling inventory cycles of plastics in which they are used. Plastic processing equipment (7% of sales) is suffering from low customer capital spending.
- Volume grew 5% in 4Q02 versus 4Q01. Polymer additives grew 7%, polymers grew 6%, organosilicones grew 7%, crop protection grew 11%. Equipment sales volume declined 10%.
- Refined products remain in divestment discussions, and we believe this business will eventually be sold for near $100 million ($0.87 per share). We believe the company also continues to evaluate much larger divestments.

I-Many, Inc. (IMNY-$1.25)	
NEUTRAL FY Ends Dec. Target: $1	**(Div./Yield:** Nil/Nil)
FY02 EPS From/To: $(0.18)E/**($0.18)A** vs. $(0.12)A LY	(**Consensus:** $(0.17)E)
FY03 EPS From/To: $(0.08)E/**($0.17)E**	(**Consensus:** $(0.12)E)
Last Q EPS (Dec02) **From/To:** $(0.10)E/**($0.09)A** vs. $0.01A LY	(**Consensus:** $(0.09)E)
Next Q EPS (Mar03) **From/To:** $(0.04)E/**($0.07)E** vs. $0.01A LY	(**Consensus:** $(0.06)E)
FY02 Rev. ($ mil.) **From/To:** $54.5E/**$54.7A** vs. $56.1A LY	(**Consensus:** $55.9M)
FY03 Rev. ($ mil.) **From/To:** $54.6E/**$51.2E**	(**Consensus:** $54.7M)
Last Q Rev. (Dec02) **From/To:** $11.5E/**$11.7A vs.** $13.8A LY	(**Consensus:** $13.0M)
Next Q Rev. (Mar03) **From/To:** $12.2E/**$11.9E vs.** $15.0A LY	(**Consensus:** $13.3M)

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IMNY 4Q02 Results Inline With Pre-Announced Range – Maintain Neutral

- Yesterday, after the close, Neutral-rated I-Many, Inc. (IMNY) reported fourth quarter and year-end 2002 results inline with the pre-announced range. Revenue of $11.7 million was 1.2% above our estimate of $11.5 million, 12.2% below our prior estimate of $13.3 million and within the pre-announced range of $11.3-$12.5 million. December quarter EPS of $(0.09) was a penny better than our estimate, $0.03 per share worse than our original estimate and within the pre-announced range of $(0.08)-$(0.11) per share.
- Guidance for 1Q03 calls for revenue of $11-$13 million and a loss of ($0.09)-($0.04) per share. No guidance was given for the full 2003 year (FY03). When IMNY pre-released its 4Q02 results several weeks ago, we suspended our estimates, pending the release of final results. After reviewing our model, we have decided to be very conservative in our estimates, and we have lowered our revenue estimates for 1Q03 and FY03 from $12.2 million and $54.6 million, respectively, to $11.9 million and $51.2 million, respectively. We are also lowering our 1Q03 EPS estimate from ($0.04) to ($0.07), and our FY03 estimate to ($0.17) from our prior (under review) estimate of $(0.08).
- Although we believe there is limited downside to the stock from current levels, there is also little to get excited about in the near-term, as we believe I-many will continue to face a challenging environment. We are maintaining our Neutral rating.

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Jones Apparel Group (JNY - $29.50)
ACCUMULATE **FY Ends Dec.** **Target:** $40 (**Div./Yield:** Nil/Nil)
FY02 EPS From/To: $2.80E/**$2.81A** v.s. $2.31A LY (**Consensus:** $2.80)
FY03 EPS From/To: $3.05E/**NC** (**Consensus:** $3.07)
Next Q EPS (Mar-03) **From/To:** $0.84E/**NC** vs. $0.77A LY (**Consensus:** $0.86)
Reported Q EPS (Dec-02) **From/To:** $0.49E/**$0.50A vs**. $0.25A LY (**Consensus:** $0.50)

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Remain With Accumulate Based On Valuation Although License Dispute Could Weigh On The Stock Near Term; JNY Reported On Plan 4Q02 EPS Of $0.50, Confirmed FY03 EPS Of $3.05

- We continue to rate the shares of Jones Apparel Group (JNY) at Accumulate, although we acknowledge that the dispute between Ralph Lauren and JNY could weigh on the stock until there is some settlement. With the stock at this level however, we believe that any resolution of the dispute will be a positive for the stock. Even if JNY loses the Lauren line after December 31, 2003 (a scenario that we believe is unlikely), the stock is currently selling at a multiple of about 10X the resulting EPS estimate for 2004. We believe that the dispute will probably be resolved with JNY paying a higher royalty fee for the Lauren line after December 31, 2003. Our 2003 EPS estimate of $3.05 would remain intact under any circumstances. If for some reason the issue is not settled so that JNY retains the Lauren line after the end of this year, our 2004 EPS estimate of $3.30 would probably have to be reduced but we would expect that there are certainly other businesses that could fill at least part of the void (the worst case scenario would be a 2004 EPS reduction of $0.50). A higher royalty rate starting next year (the more likely scenario) we estimate would impact next year by no more than $0.10 per share.
- JNY is a diversified company, Lauren represents approximately 13% of sales and an estimated 17% of operating profits. JNY has been very successful in growing earnings through accretive acquisitions. We expect that JNY will continue to use their very high cash flow ($449 million or $3.18 per share in 2003) to make additional acquisitions.

MEDTRONIC, INC. (MDT-$43.10)
STRONG BUY **FY Ends April** **Target: $60** (**Div./Yield:** $0.25/0.58%)
FY03 EPS From/To: $1.40E/**NC** vs. $1.21A LY (**Consensus:** $1.41E)
FY04 EPS From/To: $1.68E/**NC** (**Consensus:** $1.64E)
Next Q EPS (Jan-03) **From/To:** $0.36E/**NC** vs. $0.30A LY (**Consensus:** $0.35E)

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Strong Buy Reiterated Despite Reimbursement Concerns

- On Monday, February 3, the Center for Medicare and Medicaid Services (CMS) posted information to be discussed on Wednesday, February 12, at a meeting of the Medicare Coverage Advisory Committee (MCAC).
- On that day, the MCAC will discuss the possibility of granting a national Medicare reimbursement code for the prophylactic use of implantable cardioverter defibrillators (ICDs) for heart attack survivors (the MADIT II population). There will be a public review period following the Feb. 12, 2003, meeting prior to any MCAC decision being implemented.
- The CMS analysis posted February 3 takes issue with the exclusion criteria in the MADIT II trial

advanced left ventricular dysfunction, prophylactic implantation of a defibrillator improves survival and should be considered as a recommended therapy."

- **Neutral-rated Guidant Corp.** (GDT-$32.65) will respond to the CMS analysis, and the issue will be discussed at the MCAC meeting on February 12, 2003.
- To us, no argument that the CMS reasoning is flawed will offset the reality, it seems to us, that CMS is heading in a direction to not fully reimburse for MADIT II patients. Moreover, the CMS concern may discourage device implantation in MADIT II patients and lead to less state-by-state coverage. Investors would be well suited, in our judgment, to somewhat moderate their projected sales growth rate assumptions for all ICDs suppliers.
- We cover both **Guidant** and **Medtronic**. We view GDT as much more leveraged to the MADIT II argument as compared to MDT. We reiterate our STRONG BUY rating on MDT, based on the following.
  - We project FY2004 aggregate sales growth for MDT of 15%.
  - Embedded in our projection is our estimate (unchanged) of FY2004 ICD sales growth of 18% (to $1.4 billion).
  - Were ICD sales growth in FY2004 to only equal 7% (about the market growth rate prior to the report of MADIT II trial results), our Medtronic ICD sales projection for FY2004 becomes about $1.3 billion and our aggregate sales growth projection about 13.5%. More likely, ICD sales growth for MDT in FY2004 will be somewhere between 7% and 18%, depending on what the MCAC says on February 12, 2003.
  - We are attracted to MDT shares, in large part, based on the company's well-diversified growth portfolio, as indicated in table below.

Monsanto Co. (MON-$17.65)
NEUTRAL FY Ends Dec. Target: $17 (From $19) (**Div./Yield:** $0.48/2.7%)
FY03 EPS From/To: $1.45E/**$1.20E** vs. $1.10A LY (**Consensus:** $1.43E)
FY04 EPS From/To: $1.50E/**NC** (**Consensus:** $1.75E)
Next Q EPS (Mar-03) **From/To:** $0.30E/**$0.15E** vs. $0.33A LY (**Consensus:** $0.32E)

Analyst, associate or a member of household have a financial interest in any class of common equity securities, warrants or options of the subject company.
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Reducing Estimates for MON; Neutral Rating Maintained

- Neutral-rated Monsanto Co. (MON) reported 4Q02 EPS of $0.31 versus $0.09 last year, essentially in-line with expectations. However, we are reducing our EPS estimates for 1Q03 from $0.30 to $0.15, and for the full year 2003 from $1.45 to $1.20. We also are introducing a 2004 EPS estimate of $1.50 at this time.
- We have revised our stock price target to $17 per share (from $19), based on a 14x P/E multiple on our lowered estimate for 2003 EPS of $1.20 and in line with many other stocks in our Specialty Chemicals coverage universe. We believe that MON's book value near $19 per share, and near 10% free cash flow yield, should support the stock near current prices.
- Sales declined 14% from 4Q01 for Roundup products, and declined 7% for other non-seed products (other herbicides, milk growth hormone, etc.). The Roundup decline reflects increased generic competition in the U.S., and reduced sales in Latin America due to credit risk management.
- Seed & Genomics revenues rose 16% from 4Q01. This helped overall North American and Latin

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