

EQUITY
RESEARCH:
UNITED STATES

2H In-line, High Risk
 (UNCHANGED)
LARGE-CAP
\$8.0 bil.

Specialty Pharmaceuticals

February 12, 2003

Angela Larson
 212-816-6928
 angela.larson@ssmb.com

Sanjay S. Valvani
 212-816-1828

Terry-Ann Burrell
 212-816-9922

United States

Allergan Pharmaceuticals

(AGN-\$60.95)

2003 Awaits

- ▶ **After a spin-off of Allergan’s non-pharmaceutical businesses in 2002, the spotlight is focused on product growth opportunities in 2003 and beyond.**
- ▶ **Interestingly, in 2003 we believe Allergan faces generic risk in two products (Alphagan and Acular) and the U.S. launch of three products (Restasis, Acular new formulation, Gatafloxacin).**
- ▶ **We believe the financial model offers flexibility but risks cloud this opportunity in the near term.**
- ▶ **We rate AGN In-line (2H), and our target of \$57 represents a 40% P/E premium to the industry.**
- ▶ **We have a Marketweight rating on the specialty pharmaceutical industry.**

FY December	2002A	2003E	2004E	S&P 500: 836	
Revenues (mil.)	\$1,420.8	\$1,588.1	\$1,775.0	52-Week Range	\$70-\$50
Current EPS	\$1.88	\$2.31	\$2.86	Dividend/Yield	Nil
Previous EPS	—	NC	NC	Shares Out (mil.)	131.2
P/E	32.4x	26.4x	21.3x	Float (mil.)	128.6
TEV/EBITDA	NA	NA	NA	Est. 5-Year EPS Growth	22%
Price Performance	2001	2002	YTD	L-T Debt/Capital	35.9%
Absolute	-22.5%	-23.2%	+3.9%	ROE (2003E)	NA
Relative	-9.4%	+0.1%	+7.9%	Current Book Value	NA
				Price/Book	NA

Allergan Pharmaceuticals

Angela Larson

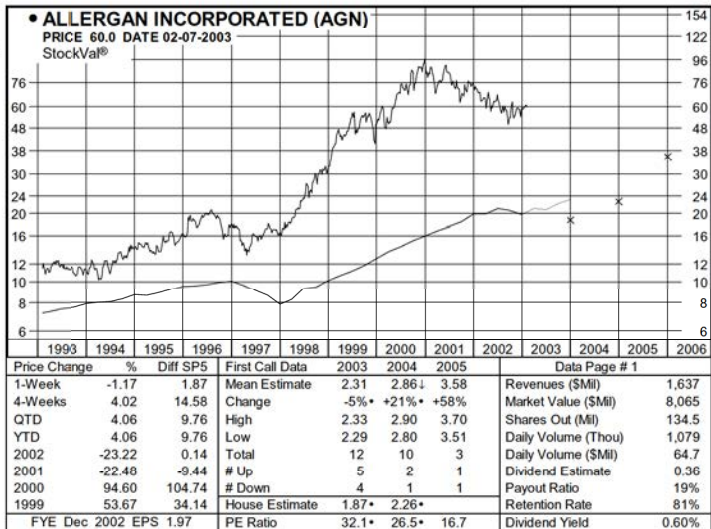
(AGN-NYSE)

212-816-6928

Rating:	Price (02/10/2003):	Price Target:	52-Week Range:	Dividend:	Yield:
2H (In-line, High Risk)	\$60.95	\$57.00	\$70-\$50	Nil	Nil

COMPANY DESCRIPTION

Allergan, Inc. is a global specialty pharmaceuticals company that currently has three core therapeutic focuses: ophthalmology (61% of 2002 sales), movement disorders (32% of 2002 sales), and dermatology (7% of 2002 sales). On July 1, 2002, the company announced a spin-off of its non-pharmaceutical franchises to become a pure-play pharmaceutical company. Allergan sells products in more than 100 countries and receives approximately 30% of corporate revenues from outside the United States. In 2002, Allergan reported pharmaceutical revenues of \$1.421 billion, up 19% year over year.

**SALES AND EARNINGS (\$ in millions, except per-share data)**

FY ends:	Revs.	EBITDA	Net Income	Shares (mil.)	EPS	CF/S	Div.
12/05(E)	NA	NA	NA	NA	NA	NA	NA
12/04(E)	\$1,775.0	\$578.8	\$375.4	132.0	\$2.86	NA	\$0.48
12/03(E)	\$1,588.1	\$431.7	\$305.5	132.0	2.31	NA	\$0.36
12/02(A)	\$1,432.1	\$380.3	\$243.90	131.4	1.85	NA	\$0.36
12/01(A)	\$1,668.1	\$353.3	\$197.84	134.0	1.48	NA	\$0.36

KEY RATIOS (%)

EBITDA Margin	Tax Rate	Net Margin	ROE
NA	NA	NA	NA
NA	NA	NA	NA
NA	NA	21.2%	29.8%
21.2%	NA	15.3%	NA

5-Year Growth Rates:

FY ends:	Revs.	EBITDA	Net Income	Shares	EPS	CF/S	Div.
03-07(E)	NA	NA	NA	NA	22.0%	NA	NA
98-02(A)	NA	NA	NA	NA	NA	NA	NA

QUARTERLY EPS

FY ends:	1Q	2Q	3Q	4Q	Total
12/05(E)	NA E	NA E	NA E	NA E	NA
12/04(E)	NA E	NA E	NA E	NA E	NA
12/03(E)	\$0.54 E	\$0.58 E	\$0.59 E	\$0.60 E	\$2.31
12/02(A)	\$0.43 A	\$0.43 A	\$0.48 A	\$0.54 A	\$1.88

BALANCE SHEET SUMMARY (\$ in millions, as of 12/2001)

Current assets	\$1,325.3	Current liabilities	\$490.0
Fixed assets	388.7	Long-term debt	520.6
Other assets	332.2	Other liabilities	58.2
		Equity	977.4
Total assets	2,046.2	Total liabilities & equity	2,046.2
		L-T debt/capital	34.8%

VALUATION

P/E 12/04(E)	21.3x	Price/BV	NA
P/E 12/03(E)	26.4x	TEV/EBITDA	NA
Rel P/E 2003(E)	1.6%	Beta	0.6
Price/revs 12/03(E)	NA	Technical rating	4

SHARE DATA

Market cap (mil.)	\$7,996.54	Convertible shares	No
Primary shares (mil.)	131.2	Institutional ownership	NA
Float (mil.)	NA	Insider ownership	NA
Avg. daily volume (mil.)	1.3	Weight in S&P 500	0.10%

RATING CHANGES

From	To	Date	Price
	2H	01/16/02	\$71.90

RECENT PUBLICATIONS

Title	Date	No.
-------	------	-----

Allergan has a history of consistent revenue and earnings growth and in 2002 because a “pure-play” pharmaceutical company. We believe growth can continue in 2004 with the launch of three new products in the U.S.: Restasis for dry eye, gatafloxacin for ocular infections, and a new formulation of Acular for ocular inflammation. However, Allergan’s 2003 risk (in our view) to Alphagan generic, Acular generics, the Botox lawsuit, and the stock’s current premium valuation weigh against our growth outlook.

Allergan beat our fourth quarter EPS estimate by \$0.01.

Allergan reported fourth quarter 2002 EPS of \$0.54, vs. our estimate and consensus of \$0.53. Total sales were slightly light, by 2% vs. our forecast, and we thus do not view the EPS upside as significant.

2003 appears to be an interesting year for Allergan’s pipeline.

In 2003, Allergan expects to launch three products (Restasis for dry eye, Epinastine for allergies, Gatafloxacin for eye infections); to file potentially three more (Botox for movement disorders, Tazorac oral for psoriasis, and combination Lumigan+Timolol for glaucoma); and to gain greater clarity on the generic risk for two products (Alphagan for glaucoma and Acular for inflammation).

Allergan is not riskless.

We believe risks for AGN are related to the patent challenges to Alphagan, the growth forecast for Botox (use of which we are concerned may prove to be a fad), and the continued development of the R&D pipeline. Allergan is one of our globally diversified covered companies, with 30% of sales from outside the United States, which implies foreign exchange concerns and lack of third-party data for product demand outside the United States.

AGN outperformed the specialty pharma sector in 2002.

For calendar 2002, the specialty pharmaceuticals sector was down 39%, the market (S&P 500) was down 13%, and AGN shares were down 20%. Year to date 2003, AGN is up 4% vs. the specialty pharmaceutical sector, which is up 9%, and the market, which is down 6%.

We rate Allergan 2H (In-line, High Risk), with a \$57 target.

Allergan’s \$57 price target reflects a 40% P/E premium on estimated calendar 2003 EPS relative to its peer group of specialty pharmaceutical companies (25x our estimated calendar 2003 EPS of \$2.31).

We rate the specialty pharmaceuticals industry Marketweight.

We believe the news flow and pipeline potential may support the specialty pharmaceutical industry’s valuation. We continue to remain selective in our individual company recommendations and focused on new product development/launches to drive growth.

Table of Contents

Executive Summary	3
Sector Valuation	5
A Few Valuation Comments.....	5
Growth Now, and Growth Beyond	9
Company Description	9
We Are Here	9
Products for Today	11
Expected 2003 Pipeline Products	15
Other Pipeline Products — Beyond 2003	16
Model Review.....	17
Don't Forget Bardeen.....	18
Model Sensitivity Analysis.....	19
Valuation	20
Investment Summary	22
Risks	22
Appendix	23
Calendar of Events — By Calendar Quarter	24
Events	24
Recent Publications	25
Year-to-Date Recent Research Notes/Reports	25
Product Summary Chart	26
Recent News Flow	28
January 2003	28
December 2002	28
November 2002	28
October 2002	29
September 2002	29
August 2002.....	29
July 2002.....	29
Allergan Board Review	30
Director Biographies.....	31
Allergan Financial Model	34
Allergan Prescription Model	38
Allergan Rx Model — Forecasts	39
Rx Data	39
Allergy — Eyedrop Market	41
Glaucoma Market	43
Table of Figures	46

Sector Valuation

- ▶ The specialty pharmaceutical sector is currently trading at a 17.0x multiple based on forward 2003 earnings estimates. The current multiple is significantly lower than the five-year average multiple of 29.9x and the ten-year average multiple of 31.2x. We believe this is more due to general market fears and war concerns than anything more industry-specific as the sector remains at a premium to the market (currently at 12% premium vs. the last-ten-year average of a 57% premium).
- ▶ AGN is currently trading at a 26.4x multiple based on forward 2003 earnings estimates. The current multiple is lower than the five-year average multiple for Allergan of 32.8x and is slightly higher than the ten-year average multiple of 24.7x.
- ▶ AGN is trading at a 53% premium to the sector although the five-year historical average is a 10% premium to the group.
- ▶ AGN's year-to-date performance has not matched that of the sector, up 4% versus up 9%, respectively (the S&P 500 is down 6%).
- ▶ We believe the specialty pharmaceutical stocks that have outperformed the sector have been driven by new product launches and pipeline news flow supporting revenue/earnings growth.
- ▶ We have a Marketweight rating on the specialty pharmaceutical industry.

A Few Valuation Comments

As brand companies have defined their business models, the range of multiples has contracted.

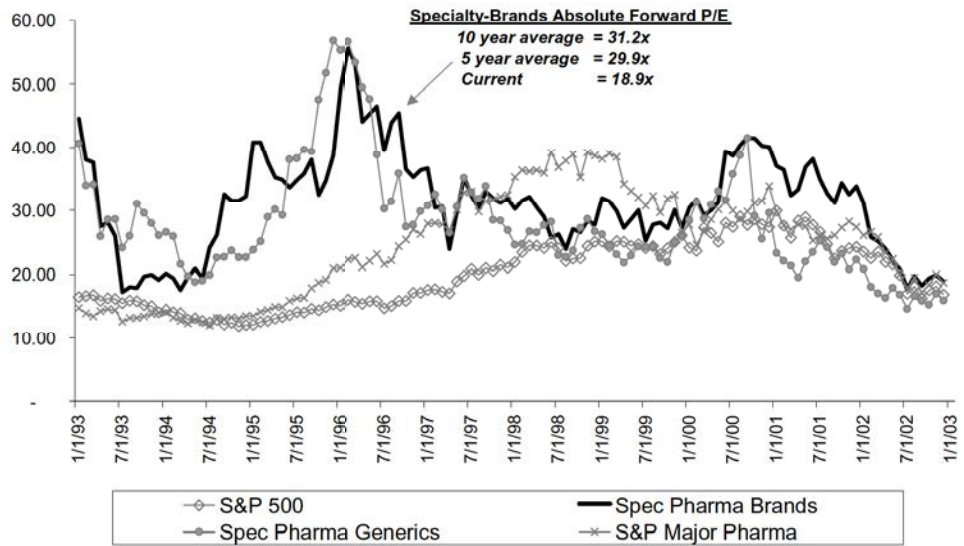
The brand-focused specialty pharmaceuticals sector has experienced quite a bit of volatility in its absolute forward P/E multiples in the past ten years, ranging from 17x to 52x. The range contracts only slightly, to 18x to 42x, if we reduce our analysis to just the past five years. We believe this consistently wide range is due to a variety of conditions/opportunities that have caused the companies in our composite to behave very independently of one another. These factors include the following:

- ▶ various business models in the sector, ranging from ones with a therapeutic focus supported by R&D activity to ones that without a therapeutic focus and with minimal R&D capabilities;
- ▶ different maturity levels of business strategies, including self-marketing of products (which offers greater self-control of the longer-term corporate destiny);
- ▶ a wide variety of representation of self-marketed products in total revenues in comparison with historical sources (i.e., generics, drug delivery, and non-pharmaceuticals);

- high, but not necessarily consistent, revenue/earnings growth due to young product portfolios;
- wide-ranging R&D commitments and pipeline visibility;
- varying exposure to negative industry concerns (such as generic risks); and
- diverse management backgrounds/track records (including entrepreneurs, scientists, professional managers, and seasoned pharmaceutical veterans).

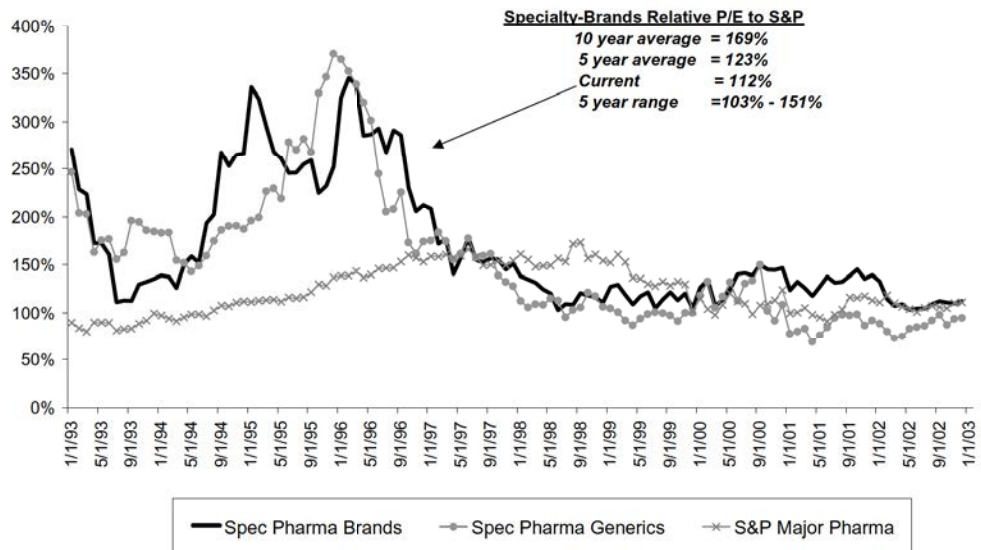
Figure 1. Specialty Pharmaceutical Brands — Absolute Forward P/E

Historically, Allergan has been a high-P/E stock in the sector.



Note: Specialty Pharmaceuticals Brand Composite companies: Allergan, Elan Corp., Forest, King Pharma, Medicis, and Shire Pharmaceuticals.
 Source: StockVal

Figure 2. Specialty Pharmaceuticals Brand — Relative Forward P/E



Note: Specialty Pharmaceuticals Brand Composite companies: Allergan, Elan Corp., Forest, King Pharma, Medicis, and Shire Pharmaceuticals.
 Source: StockVal

We continue to believe the specialty pharmaceuticals sector can hold its premium to the market (and even the large-cap pharmaceuticals sector) due to our forecast for higher comparative revenue/earnings growth. In addition, we believe revenues and earnings are now of greater quality than in the past due to the increasing reliance on self-marketing and self-development efforts. The group is rather diverse in many aspects. We continue to prefer companies with the following attributes:

- ▶ earnings growth driven by new product/revenue growth;
- ▶ a diversified but consistent revenue base (i.e., more than one product but with tight end-market focus);
- ▶ late-stage R&D capabilities (phase 3 development capabilities);
- ▶ medium-stage R&D visibility (early phase 3 and phase 2 programs identified);
- ▶ buying opportunities for shares at a reasonable valuation; and
- ▶ a strong, experienced management team.

Our coverage universe and ratings are shown in Figure 3.

Figure 3. Specialty Pharmaceutical Coverage Universe

Company	(2/10/2003) Price	Rating	Price Target
Alcon Pharmaceuticals	\$37.57	2H (In-Line, High Risk)	\$40.00
Allergan Pharmaceuticals	\$60.95	2H (In-Line, High Risk)	\$57.00
Barr Labs	\$74.25	1H (Outperform, High Risk)	\$92.00
Biovail Corp	\$31.56	1H (Outperform, High Risk)	\$42.00
Elan Corp	\$3.84	3S (Underperform, Speculative)	\$2.90
Endo Pharmaceuticals	\$9.87	1S (Outperform, Speculative)	\$12.00
Forest Labs	\$50.10	2H (In-Line, High Risk)	\$53.00
King Pharmaceuticals	\$15.50	2H (In-Line, High Risk)	\$20.00
Medicis	\$47.05	2H (In-Line, High Risk)	\$46.00
Mylan Labs	\$27.11	3H (Underperform, High Risk)	\$24.00
Watson Pharmaceuticals	\$29.00	3H (Underperform, High Risk)	\$29.00

Source: Salomon Smith Barney

Figure 4. Specialty Pharmaceuticals — Valuation and Performance Data

Specialty Pharmaceuticals	Rating	2/10/03		Mkt. Cap. (\$ Mil)	P/E			CAGR	Price /Book	TEV/EBITDA			PEG Ratios			Stock Performance		
		Close			2001	2002A	2003E			2002E	2003E	2001	2002E	2003E	1 month	2003 YTD	2002	
Specialty Pharmaceuticals																		
Allergan Inc.	AGN	\$ 60.95	7,753	50.7	31.1	26.4	23%	9.6	18.5	16.5	1.99	1.25	1.06	4.0	4.1	-20.3		
Biovail Corp.	BVF	\$ 31.56	4,528	42.3	15.1	13.7	30%	5.3	12.6	10.1	0.75	0.48	0.44	10.5	17.9	-53.0		
Elian Corp.	ELN	\$ 3.84	1,370	23.5	N/A	N/A	8%	0.3	10.4	13.6	0.95	N/A	N/A	31.1	59.3	-94.5		
Endo Pharmaceuticals	ENDP	\$ 9.87	958	83.4	10.1	13.5	28%	2.8	6.0	5.7	(4.72)	N/A	(3.43)	10.7	22.0	-34.0		
Forest Labs	FRX	\$ 50.10	17,937	48.8	34.2	27.2	28%	9.3	23.8	22.6	0.72	0.48	0.98	-5.6	1.6	19.9		
King Pharma	KG	\$ 15.30	3,664	41.3	13.0	8.9	18%	1.9	5.5	4.9	1.09	0.44	0.30	-14.6	-11.9	-59.2		
Medicis	MRX	\$ 47.05	1,328	36.7	26.8	21.3	18%	3.1	13.2	9.7	2.12	5.25	1.09	-3.8	-2.7	-23.1		
Shire Pharmaceuticals	SHPGY	\$ 15.60	2,594	27.7	13.2	9.9	20%	1.7	5.7	4.9	1.25	1.52	1.07	-19.8	-17.8	-48.4		
Spec Pharma Avg		\$ 29.28	\$ 5,016	44.3	20.5	17.3	* 21%	4.2	13.7	12.1	1.75	1.11	1.09	1.6	9.1	-39.1		
Generic Pharmaceuticals																		
Alpha	ALO	\$ 15.85	794	37.3	13.3	13.7	15%	0.8	N/A	N/A	(0.65)	0.50	0.48	14.2	30.0	-55.0		
Andrx Corp.	ADRX	\$ 13.14	928	69.7	N/A	7.4	24%	1.5	N/A	N/A	22.77	N/A	(0.00)	-18.8	-10.6	-79.2		
Barr Laboratories	BRL	\$ 74.25	3,176	20.6	16.1	17.4	19%	4.1	11.4	9.5	0.14	3.45	3.05	0.5	11.1	-18.0		
IVAX Corp.	IVX	\$ 10.94	2,121	18.5	21.0	14.3	20%	3.4	N/A	N/A	0.30	(0.44)	0.45	-12.8	-10.1	-39.8		
Mylan Labs	MYL	\$ 27.11	4,912	34.7	24.9	18.1	16%	3.4	9.7	9.1	0.62	0.84	2.53	2.0	12.3	-6.9		
Teva Pharmaceuticals	TEVA	\$ 36.26	9,452	29.1	25.7	19.9	25%	6.5	17.1	14.7	0.59	0.62	0.92	-8.8	-7.4	25.3		
Watson Pharma	WPI	\$ 29.00	3,059	19.1	17.5	16.5	13%	1.7	9.2	8.4	0.44	(14.31)	1.91	-2.9	1.3	-9.9		
Generic Avg		\$ 29.51	\$ 3,492	32.7	19.7	15.3	19%	3.1	8.9	7.9	1.29	1.07	0.96	-3.8	3.8	-26.2		
Lg Cap U.S. Pharma																		
Bristol Myers Squibb	BMY	\$ 23.60	44,822	21.2	19.2	14.6	9%	4.2	10.8	8.3	1.83	(0.38)	0.42	-7.8	0.0	-54.6		
Eli Lilly & Co.	LLY	\$ 60.13	64,351	28.5	24.9	23.5	13%	8.1	16.6	14.3	6.86	(3.27)	74.21	-10.3	-5.9	-19.1		
Merck & Co.	MRK	\$ 54.40	120,505	18.7	17.9	16.0	8%	6.9	10.9	11.0	2.26	N/A	1.95	-9.4	-5.4	-3.7		
Pfizer	PFE	\$ 29.57	179,500	30.4	19.2	16.4	16%	9.5	15.8	13.2	1.07	0.90	1.23	-7.4	-4.2	-23.3		
Pharmacia	PHA	\$ 40.75	52,064	29.8	27.0	22.8	15%	6.9	11.0	10.7	(21.62)	3.19	1.51	-6.8	-3.4	4.0		
Schering Plough	SGP	\$ 18.25	26,388	22.7	15.6	18.1	8%	3.3	7.3	7.5	(6.19)	N/A	(0.63)	-21.2	-18.9	-38.0		
Wyeth	WYE	\$ 38.01	49,988	28.1	16.8	15.5	11%	7.4	10.2	9.2	1.91	9.18	1.53	-3.0	0.8	-39.0		
Lg Cap U.S. Pharma Avg		\$ 37.82	\$ 76,803	25.6	20.1	18.1	11%	6.6	11.8	10.7	1.01	1.09	1.14	-9.4	-5.3	-24.8		
Alcon	ACL	2H	\$ 37.57	\$ 11,553	25.1	21.0		18.7	16.5	16.5	-	0.49	1.50	3.2	-4.8	19.5%		
S&P 500	sp50		\$ 835.97	25.3	18.4	15.9		(1.30)	3.51	1.60	-10.1	-5.7	-13.0					

Source: First Call (for nonrated companies) and Salomon Smith Barney (for companies under our coverage)

Note: Comparisons based on calendar year estimates

Total Enterprise Value (TEV) = Classical definition of Market Cap + BV Debt (LT + ST) + BV Preferred Stock - Cash

SHPGY is covered by A. Campbell, TEVA is covered by R. Bonte-Freidheim, BMY, LLY, MRK, PFE, PHA, SGP, WYE are covered by G. Groffk.

* P/E averages for 2002 & 2003 do not include ELN

Source: First Call (for nonrated companies) and Salomon Smith Barney (for companies under coverage)

Growth Now, and Growth Beyond

Allergan's EPS excluding one-time items beat our estimate by \$0.01.

- ▶ On January 29, 2003, Allergan reported fourth quarter 2002 EPS of \$0.54 (excluding one-time items), \$0.01 above our estimate. Total sales reported were slightly light (by 2%) versus our forecast, and we thus do not view the EPS upside as significant.
- ▶ Allergan management outlined its guidance for 2003. While our sales forecast was in line with guidance, SG&A and gross margins were guided to lower-than-expected levels, and such revisions generally drive our estimate changes.
- ▶ We believe 2003 looks to be an interesting year for Allergan, with the potential of four U.S. launches (three brand new products), two European launches, the filing of potentially three more, and generic risk for two products likely to become reality.
- ▶ We rate AGN shares 2H (In-line, High Risk) and our price target remains \$57. We have a Marketweight rating on the Specialty Pharmaceutical sector.

We believe Allergan became a pure-play specialty pharmaceuticals company in 2002.

Company Description

Allergan, Inc. is a global specialty pharmaceuticals company that currently has three core therapeutic focuses: ophthalmology (61% of 2002 sales), movement disorders (32% of 2002 sales), and dermatology (7% of 2002 sales). On July 1, 2002, the company announced a spin-off of its non-pharmaceutical franchises and became a pure-play pharmaceutical company. Allergan sells products in more than 100 countries and receives approximately 30% of corporate revenues from outside the United States. In 2002, Allergan reported pharmaceutical revenues of \$1.421 billion, up 19% year over year.

We Are Here

Allergan reported fourth quarter EPS of \$0.54 excluding one-time charges, above our and consensus estimates of \$0.53. It also reported full year results. We tend to view product sales as the key indicator to a company's growth strength as nonoperating one-time items seldom affect product growth. On this front, Allergan reported total sales just slightly (2%) below our forecast (\$378 million versus \$383 million). Accordingly, we view the quarter reported as solid, although we are not overly impressed with the \$0.01 of EPS upside.

Figure 5. Fourth Quarter Historical EPS Comparison

(our best estimate of stand-alone pharma historicals)

The company's guidance is for earnings growth in the 22%–25% range.

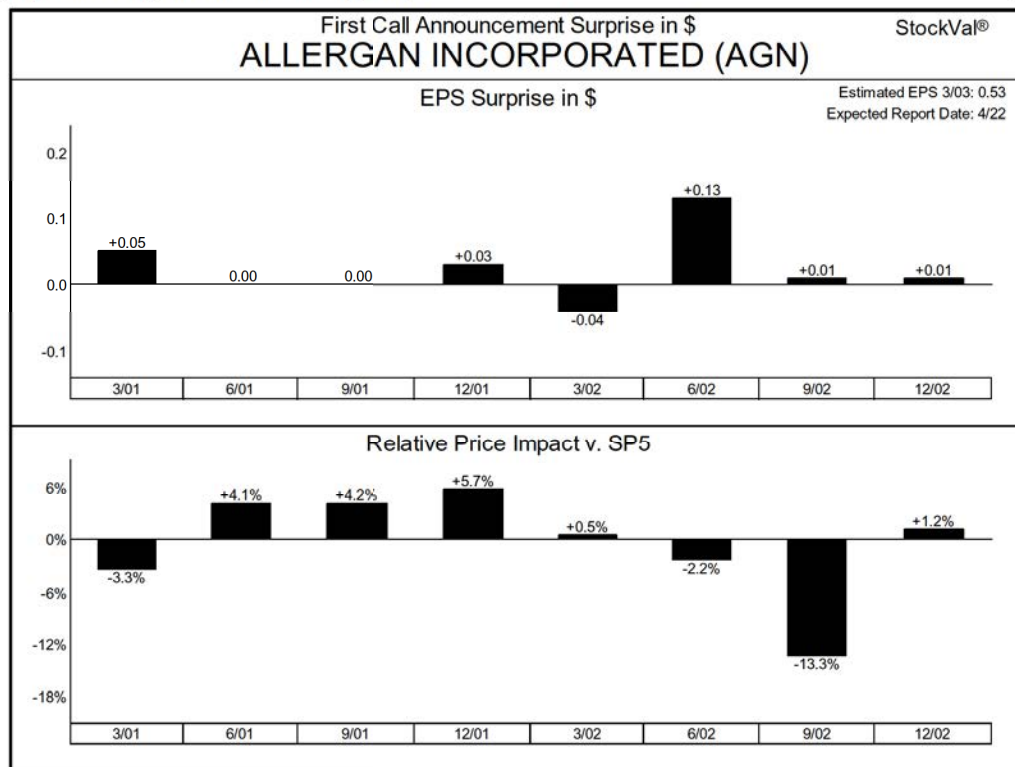


Source: Company reports and Salomon Smith Barney

Allergan has an extended history of meeting or beating consensus expectations, but recently results have been clouded by the reporting comparison post the spin-off of American Medical Optics (AMO), or non-pharmaceutical business. Because the spin-off has created a higher-growth, more nimble company, we expect upside surprises to continue, but Allergan's strong history of financial discipline makes us believe the upside surprises are likely to be a penny or two.

Figure 6. Allergan Historical Earnings Surprises

Recent upside earnings surprises have not always been rewarded by immediate stock moves.



Source: StockVal

Products for Today

Allergan reported total fourth quarter sales of \$378 million, which was 2% below our forecast of \$383 million. Growth in sales were reported by all three distinct franchises: ophthalmology, which made up 58% of sales; movement disorders, which consists of Botox and accounted for 38% of total sales; and dermatological products, which represented 6% of sales.

Botox (neurotoxin for movement disorders)

Sales of Botox were reported at \$128.2 million, above our forecast of \$120 million for the quarter. While we expect continued growth due to the launch of cosmetic approval in the U.S., the company also highlighted the potential growth from the cosmetic approvals outside North America. Specifically, Allergan continues to expect cosmetic approval in first quarter 2003 in France — which is to serve as the reference country for the EU approval/launch process. Botox is to have a separate brand name and price structure from the currently marketed Botox brand in Europe for therapeutic purposes. Botox has an interesting historical quarterly growth pattern: first quarter sales typically approximate fourth quarter sales, and second quarter sales typically exceed the first quarter's by about \$10–\$15 million. While this pattern has held consistent for the last few years, Allergan's Botox sales mix and promotional expenditures have not been consistent. For example, in early 2002, Botox received cosmetic approval in the U.S. but the free publicity as well as company efforts did not break sales trends. Allergan estimates 40% of Botox sales are now for cosmetic uses.

Looking forward to 2003, there are two possible diverging issues/opportunities:

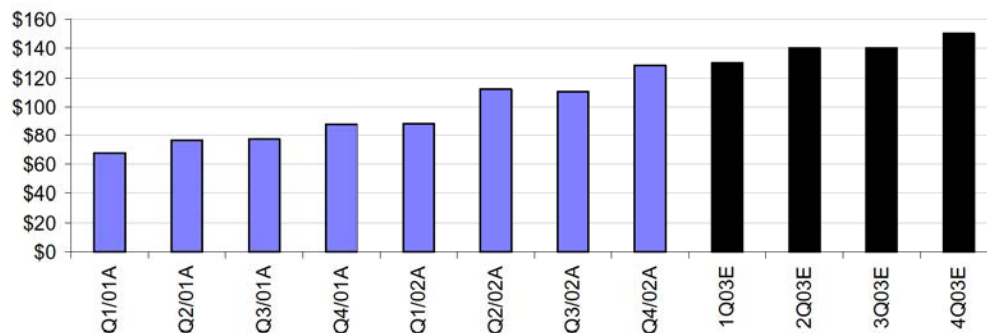
- ▶ *Continued international launches to support growth* — With Evistabel rolling out in Europe, we believe new users are likely to join the existing therapeutic users.
- ▶ *A lawsuit in the U.S. could bring adverse publicity* — In February, Allergan announced a lawsuit had been filed by a patient claiming chronic adverse reaction to use. Given the profile of the product, we believe Allergan's claim that the suit is frivolous. However, we worry the suit filer could seek public attention that may affect U.S. cosmetic trends.

We view Botox as a critical growth driver of the Allergan model. The company offered product sales guidance for 2003 of \$540–\$580 million. We estimate the \$40 million variance could represent a \$0.19 swing in 2003 EPS (see modeling sensitivity analysis to follow). We raised our 2003 sales forecast for Botox to \$560 million from \$520 million, still following historical quarterly growth trends.

Figure 7. Botox Quarterly Sales

(\$ in millions)

Botox for cosmetic use was approved on April 15, 2002.



Source: Company reports and Salomon Smith Barney

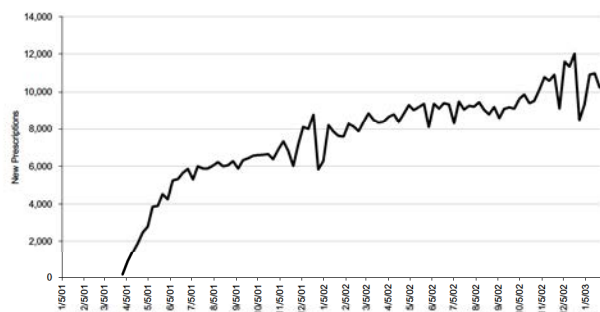
Lumigan (glaucoma)

Lumigan has launched in markets worldwide.

Sales of Lumigan were reported at approximately \$35 million, relatively in line with our forecast of \$38 million. Although it is not a significant revision, we lowered our 2003 outlook for the franchise to \$175 million from \$179 million. Still, we plan to watch trends carefully for potential upside opportunity, including promotional activity, as Allergan shifts throughout the year due to the many new product launches. *We continue to view Lumigan as an important product in our financial model and a critical factor in our corporate outlook, for our product sales forecast of \$175 million in 2003 is about 12% of total sales.*

Figure 8. Lumigan Weekly New Prescriptions

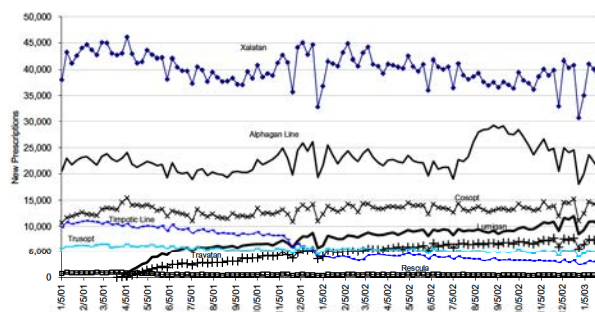
(NRxs in thousands)



Source: IMS America

Figure 9. Lumigan Weekly New Prescription Market

(NRxs in thousands)



Source: IMS America

Alphagan Line (glaucoma)

We no longer view Alphagan as a driver for Allergan.

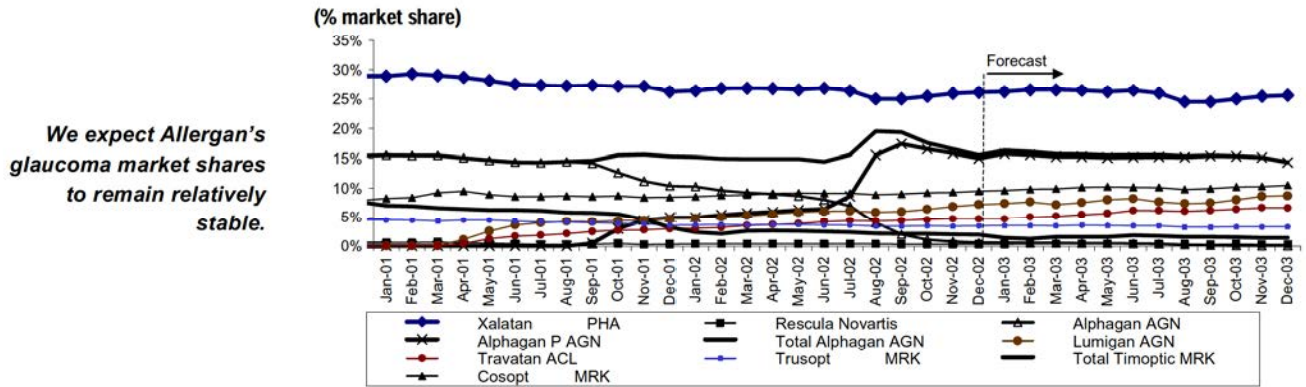
Sales of Alphagan franchise (Alphagan and Alphagan P) were reported at approximately \$65 million, relatively in line with our forecast of \$62 million. However, we are significantly lowering our 2003 outlook for the franchise, to \$206 million from \$248 million (17% drop), for a few reasons.

- Year-over-year growth trends for the franchise in the U.S. have slowed, coming in at down 1% in fourth quarter 2002 versus up 4% in third quarter 2002. We believe this is partially due to Allergan’s strong marketing support of its various prostaglandin products, which are viewed as a first-line therapy in treating glaucoma, leaving Alphagan in more of a second-line position.

- Allergan intends to shift its marketing resources away from the Alphagan line to the various new 2003 launches (Restasis, gatifloxacin, Acular), and this is very likely to hurt Alphagan’s growth.
- Finally, we recognize the risk that generic Alphagan emerges in the U.S. in the course of the next year, as we await a federal Circuit Court of Appeals ruling on this issue expected to come in the next few weeks.

We no longer view the Alphagan franchise as a significant growth driver for Allergan, but at \$206 million in 2003 revenues, or 14% of total sales, the franchises’ trends, be they steady or supported by new products, are still a critical factor in our corporate outlook.

Figure 10. Alphagan New Prescription Glaucoma Market Share

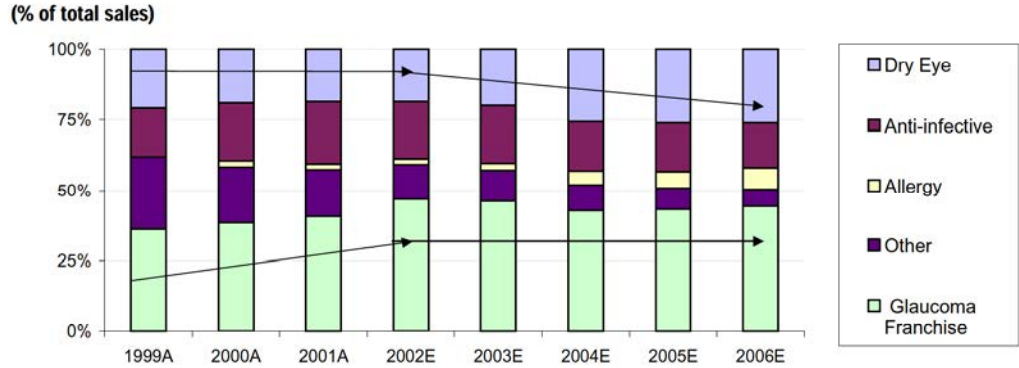


Source: IMS America

What is most fascinating to us in 2003 for Allergan’s eye care franchise is the inflection point in segment importance. While we forecast continued growth in total franchise supported by new product launches as well as strong demographic trends, the sales contribution from glaucoma, whose revenues grew for several years to make this area an important one for the company, has probably flattened, in our view. While we look for the drug eye franchise to become a more significant growth driver going forward, we are cautious as we may be underestimating the anti-infective and allergy segment growth in the face of new product launches in 2002. Suddenly, it appears that the Street’s myopic focus on the glaucoma franchise for eye care sales growth may need to change.

Figure 11. Allergan Segment Shifts

We believe Dry Eye is becoming the new growth driver.



Source: Company reports and Salomon Smith Barney

Tazorac (acne, psoriasis)

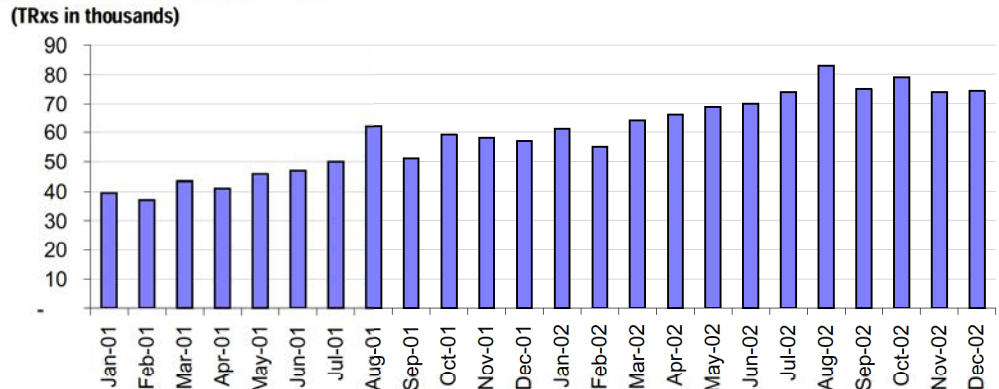
Sales of Tazorac were reported at \$15 million, significantly below our forecast of \$22 million for the quarter. This is partially due to the launch of Avage in first quarter 2003 rather than fourth quarter 2002, but we are lowering our 2003 outlook significantly for the combined Tazorac and Avage products significantly (by 21%), to \$88 million from \$111 million, for a few reasons:

- Slowing prescription trends for Tazorac in the U.S., which while up 31% year over year in fourth quarter 2002, slowed from up 42% in third quarter 2002. We believe this is partially due to the typically expected product launch/growth pattern, but may also reflect the economic sensitivity of the market and the continued strong competition overall.
- Avage to treat facial fine wrinkling, mottled hypo- and hyperpigmentation (blotchy skin discoloration), and benign facial lentiginos (flat patches of skin discoloration) was approved in October 2002. Some stocking began in early 2002, but the sales force promotion has yet to occur.

We view the Tazorac and Avage products as growth opportunities for Allergan, with a forecast of \$88 million in 2003, which represents 6% of total product sales — in our view not quite yet a critical factor to our modeling.

Figure 12. Tazorac Total Prescriptions

Rx trends continue to show strong growth, following slight seasonality.



Source: IMS America

Expected 2003 Pipeline Products

We believe 2003 is the year in which Allergan has the opportunity to prove the value of its R&D activities. Unlike many of its peers, Allergan has an extensive R&D program. However, it takes years for R&D investments to lead to products. After the launch of Lumigan in 2001, we were disappointed and had to lower our expectations. However, in light of the launches of 2003, we believe Allergan has been conservative on guidance and the year may prove very interesting.

Restasis (ocular inflammation or "dry eye")

Restasis first filed with the FDA in 1998 and received an "Approvable" letter in August 1999. Allergan recently completed a requested phase 3 confirmatory trial and was guiding toward a first half 2003 filing. However the company received a surprise early approval from the FDA in late December 2002. Given the timing delays the product had experienced, we, along with the company and the Street, were cautious and did not include the product in our forecast. This forecast perspective changed in 2002.

On the basis of our estimate that there may be 500,000 patients in the U.S. with severe dry eye who are using current wetting solution therapies that cost around \$0.75 a day, an obvious \$135 million annual market opportunity exists. However, the questions that are likely to drive our forecast over the course of the next year are the following:

- ▶ What kind of price premium may Allergan seek versus wetting solutions given the therapeutic benefits of Restasis?
- ▶ What type of cannibalization may Allergan's existing tears line face with Restasis? (We estimate the tears line had sales around \$150 million in 2002.)
- ▶ How quickly will the severe dry eye patients adopt Restasis?
- ▶ How aggressive will the moderate dry eye patient (possibly another 1 million patients) be in adopting Restasis?

Company guidance for Restasis is for sales of \$20–\$40 million in 2003. This \$20 million variance has the potential to swing EPS by \$0.09, we believe a significant swing. We also believe our forecast that product sales will reach \$33 million may prove conservative.

Gatifloxacin (eye infections)

Allergan licensed gatifloxacin for ophthalmic indications from Japan-based Kyorin Pharmaceutical in 2000. Allergan completed development for the treatment of eye infections and filed an NDA during second quarter 2002. Assuming a standard 12-month review, we expect a second quarter 2003 launch. We view gatifloxacin as important, for it is to replace Ocuflax whose patent expires in early 2004. We slightly raised by 7% our forecast for combined sales of Gatafloxacin and Ocuflax, to \$107 million from \$100 million, due to the greater-than-previously-anticipated promotion support Allergan seeks to give the products.

Acular new formulation (anti-inflammatory)

Allergan is expected to launch a new formulation of Acular in second quarter 2003. Originally licensed from Syntex, Acular is a non-steroidal, anti-inflammatory drug

for itchy eye relief. In 1998, Allergan launched a preservative-free formulation. As both marketed formulations are indicated for 4x daily use, we would expect a 2x or 1x daily product would be the obvious line extension, but we do not know actually what Allergan has filed at the FDA.

Vitrise (vitreous hemorrhage)

Ista Pharmaceuticals submitted an NDA for Vitrise (for vitreous hemorrhage — when white portion of eye or vitreous body ruptures and loses its substance) in October 2002, and the NDA was accepted in December 2002. Vitrise was granted “fast-track” status for its review; however, Ista is expected to have a panel meeting with the FDA in March. At that point, we expect to have more clarity on potential approval/launch timing. If Vitrise is approved, Allergan is to be responsible for its sales and marketing in the U.S. and all international markets, except Mexico and Japan. We have not built product forecasts into our model.

Epinastine (seasonal allergies)

Epinastine is already marketed (by Boehringer Ingelheim, under the trade name Alesion) in an oral formulation for seasonal allergies in Japan, where it is the most frequently prescribed allergy medication. Approval is expected in Europe during 2003 and in the U.S. in the first quarter 2004. *We view Epinastine as an important replacement product for Alocril (estimated to represent approximately 1% of Allergan’s 2002 total corporate sales), whose patent expires in 2007. However, given that Epinastine’s European launch is likely to miss the spring allergy season, the company believes sales in 2003 are likely to be “negligible.”*

Other Pipeline Products — Beyond 2003

Botox (movement disorders)

Allergan continues development activities on Botox for additional indications. The nearest potential filing is for hyperhidrosis, which is excessive sweating. Hyperhidrosis use is expected to file with the FDA in second quarter 2003. Other indications, such as spasticity, headaches, and Jr. Cerebral Palsy, are still being considered, but *we believe the likelihood and timeline for these additional indications being FDA approved may be beyond the realm of our current modeling.*

Tazorac oral (psoriasis and acne)

Allergan reported that clinical studies are on track for a third quarter 2003 filing of Tazorac oral for the treatment of Psoriasis. We expect Allergan to present the phase 3 data this July at the American Academy of Dermatology annual meeting. We expect phase 2 data for oral Tazorac for treatment of acne to be presented at the May International Investigative Dermatology (IID) meeting and that phase 3 studies will start in third quarter 2003.

Combigan (combination Alphagan+Timolol glaucoma product)

Allergan received an “Approvable” letter in second quarter 2002 with a request for additional clinical trial data. Allergan anticipates filing the supplement to the NDA in the first half of 2004. *Combigan remains in our forecast, although not until 2005, but it could provide an interesting 2005 opportunity.*

Combination Lumigan+Timolol glaucoma product

Allergan looks to file a combination product with the FDA in fourth quarter 2003. We do not currently include this product in our forecast, *but it could prove to be an interesting opportunity in 2005.*

INS365 (ocular inflammation or dry eye)

Inspire met with the FDA in October 2002 and announced plans to file an NDA for INS365 based on safety and efficacy data from the already-completed phase 2 and phase 3 trials of approximately 1,200 patients. Base 3b studies are ongoing. The company is guiding toward a first half 2003 filing. Allergan has a development and commercialization license agreement with Inspire. *We believe INS365 can be used in combination with Allergan's other dry eye therapies, as it addresses a different therapeutic need.*

Model Review

SG&A

Allergan has three potential significant product launches lined up for 2003, but its existing sales force already calls on the targeted key prescribing physicians and the company has no intention of increasing the sales force size. Accordingly, unlike in the case of our other new product launch stories, we are not expecting significant expansion in investment spending at Allergan. The company is guiding to SG&A spending of 39%–40% of total sales. We lowered our forecast to 39.3% of total sales for 2003 from our previous number of 40.6%.

R&D

For 2002, Allergan has numerous products in phase 3 (see those listed above), many in earlier stages of development, and the acquisition of Bardeen along with the continued development of its products to consider. Accordingly, we do not expect Allergan to hold back on the R&D expenditures. However, as products move through development, the costs are likely to rotate from one project to another and not face the fast-growing levels we see at younger companies. Allergan forecasts R&D expenditures will be 16%–17% of total sales; we raised our 2003 forecast to 16.3% from 16.0%.

Gross Margins

Allergan is forecasting a pharmaceutical-only gross profit of approximately 85%. This would be a significant improvement over the 2002 margin (81.2%) and a very impressive level within the pharmaceutical industry.

Sales Forecasts

Figure 13 shows a summary of changes in our total 2003 sales forecasts for Allergan products based on new information during the fourth quarter conference call.

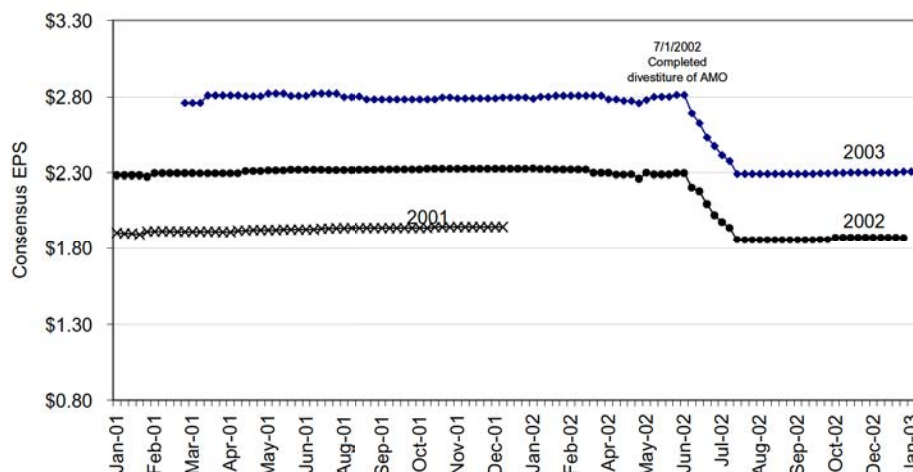
Figure 13. Changes to Sales Projections

Product	SSB 2003 old	SSB 2003 New	SSB Change	2003 Co. Guidance
Alphagan line	\$248 mil	\$206 mil	-17%	\$205-215 mil
Lumigan	\$179 mil	\$175 mil	-2%	\$175-195 mil
Tazorac	\$111 mil	\$75 mil	-33%	\$75-85 mil
Botox	\$520 mil	\$560 mil	+8%	\$540-580 mil
Restasis	\$30 mil	\$33 mil	+10%	\$20-40 mil
Epinastine	\$16 mil	\$9 mil	-50%	None given
Gatafloxacin & Ocuflax	\$100 mil	\$107 mil	+7%	None given
Total Product sales	\$1,563 mil	\$1,521 mil	-3%	\$1,550-1,610 mil

Source: Company reports and Salomon Smith Barney

EPS Estimates

Allergan generally has a history of meeting its guidance and of consistent growth. Accordingly, there have been only limited revisions to estimates over time. The most significant change was driven by the summer 2002 spin-off of the non-pharmaceutical businesses. Going forward, we believe the pipeline and Botox are likely to be the revision drivers.

Figure 14. Allergan Historical EPS Estimate Changes

Source: FactSet and Salomon Smith Barney

Don't Forget Bardeen...

Bardeen, an off-balance sheet vehicle, was founded back in April 2001. At the time of formation, Allergan contributed the rights to certain compounds and research projects, including the following: memantine, Androgen Tears, Tazorac in oral form for acne, AGN 195795, AGN 197075, a hypotensive lipid timolol combination, a photodynamic therapy project, tyrosine kinase inhibitors for the treatment of ocular neovascularization, and a vision-sparing project and a retinal disease program.

Several of these have moved along in development, notably the following:

- ▶ memantine is expected to be halfway through phase 3 by the end of 2003 for neuroprotection of the back of the eye;
- ▶ Tazorac oral for acne has completed phase 2 and is expected to move into phase 3 this year,

- ▶ hypotensive lipid timolol combination (or Lumigan plus timolol) is completing phase 3 and expected to file later this year, and
- ▶ Androgen tears is just finishing phase 2 in treatment of dry eye.

We expect Allergan to buy out (or acquire) Bardeen in April/May of 2003. Under the terms of the charter, the buyout can occur only if:

- ▶ the portfolio had resulted in at least three instances of “research success” and two years had passed since the effective date of the option agreement (April 2003);
- ▶ the money provided fell below either \$15 million or an amount required to fund Bardeen’s anticipated R&D activities during the next 90-day period; or
- ▶ a change of law, regulation, or interpretive legal or accounting principles that could materially affect Allergan’s relationship with Bardeen had occurred.

Allergan disclosed in its last 10Q that it expects the buyout to cost \$250 million if it acquires Bardeen in April/May as it plans to. If Allergan waits until December 31, 2003, by contract the cost would be \$350 million. As the price incurred escalates with time, we expect Allergan to buy out the company as soon as the conditions have been met that allow it to do so. We have included in our 2003 forecast the acquisition of Bardeen, which:

- ▶ lowers cash balances and interest income,
- ▶ assumes all R&D projects, which in a step-wide manner raises our R&D expenditures estimate, and
- ▶ increases amortization, (we assume the maximum \$250 million over 20 years).

While the noise surrounding Bardeen may cause some nervousness in AGN stock, the event has been well anticipated and really should not cause major changes to our modeling.

Model Sensitivity Analysis

Model Sensitivity

Our Allergan model has a history of frequent changes, and we believe that in light of the many product launch opportunities in 2003 it is likely to continue experiencing change. We therefore provide a bit of sensitivity analysis.

Sales

For every 1%, or \$15 million, in sales change from our forecast — and assuming the cost structure is already in place, gross margin and tax rate are typical (approximately 85% and 28%, respectively), and shares outstanding remains constant with forecast (132 million shares) — we would expect an EPS change of approximately \$0.07. Probable sources would include different-than-forecasted sales from key products: Lumigan (glaucoma), Avage (dermatology), and/or Botox (movement disorder/cosmetic) and/or Restatis (dry eye).

SG&A/R&D Savings

For every 10-basis-points (bps) change in SG&A or R&D as a percentage of sales (or approximately \$15 million), and holding gross margin, other expenses, tax rate,

and shares outstanding constant, we would anticipate about \$0.08 upside/downside. In light of the acquisition of Bardeen expected to occur in 2003, changes to R&D rates are a distinct possibility.

Changes in Gross Margin

For every 10 bps decrease in gross margin (or approximately \$15 million), and holding expenses, tax rate, and shares outstanding constant, we would anticipate approximately a \$0.08 EPS upside.

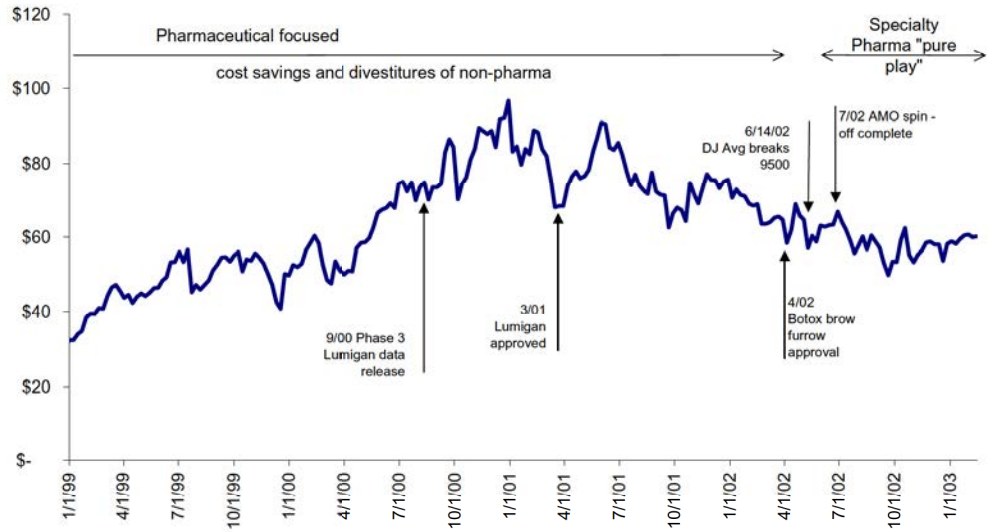
The numbers illustrated in the above examples (i.e., 1% sales change, 10 bps expenditure change) are quite small, in our view, but they create a notable 3% change in the EPS line.

Valuation

We chose to compare Allergan's absolute P/E with the absolute P/Es of its peer group, as this is a common parameter for valuing specialty pharmaceutical companies. In addition, we chose 2003 as our reference year because the specialty pharmaceutical stocks typically trade on a one-year-forward basis (due to their well-regulated FDA product development path's leading to earnings visibility).

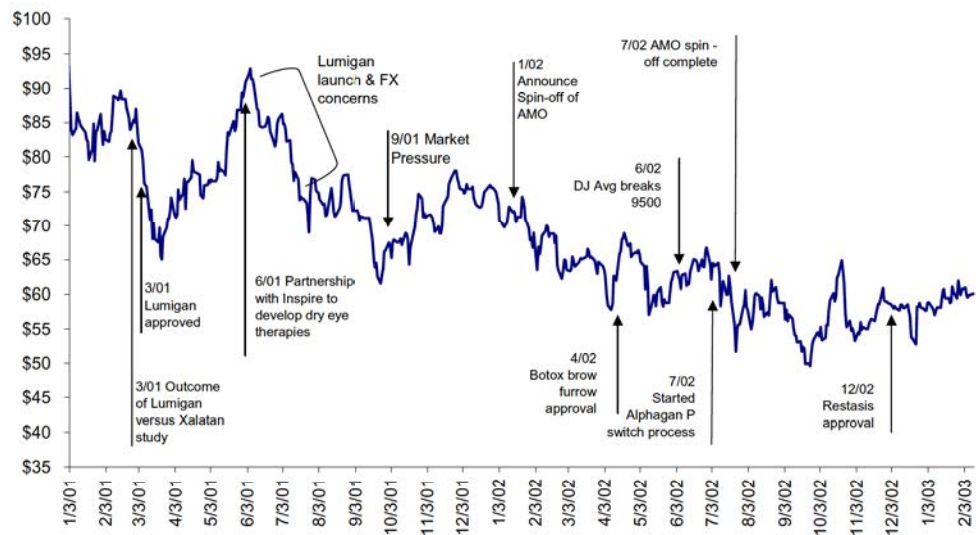
As of market close on February 10, 2003, AGN traded at a 53% premium to the specialty pharmaceuticals industry average (at 26.4x our 2003 EPS estimate versus 17.3x) and at a 66% premium to the S&P 500 (at 15.9x), by our analysis. Given the depth and breadth of the company's current products, management's track record, and Allergan's multiyear earnings visibility, we believe the stock can merit a 40% premium to the group. However, we feel constrained from assigning a greater premium because 1) the company's projected revenue growth level (18%–20%) is below its projected earnings growth level (22%–25%), which we believe creates a model that is more sensitive to product sales trends, and 2) the newness of the pharmaceutical-only business strategy offers the company less diversified revenue source than historical trends. A revenue wild card may exist in the launch of Restasis for dry eye. Therefore, we set a P/E valuation target of a 40% premium to the industry based on estimated calendar 2003 EPS; marking to current market prices yields a price target of \$57. Although the current stock price is below our target price, we do not have an Underperform rating as we do not view the price differential as substantial or significant given the stock's historical price volatility and solid fundamentals.

Figure 15. AGN Weekly Stock Price



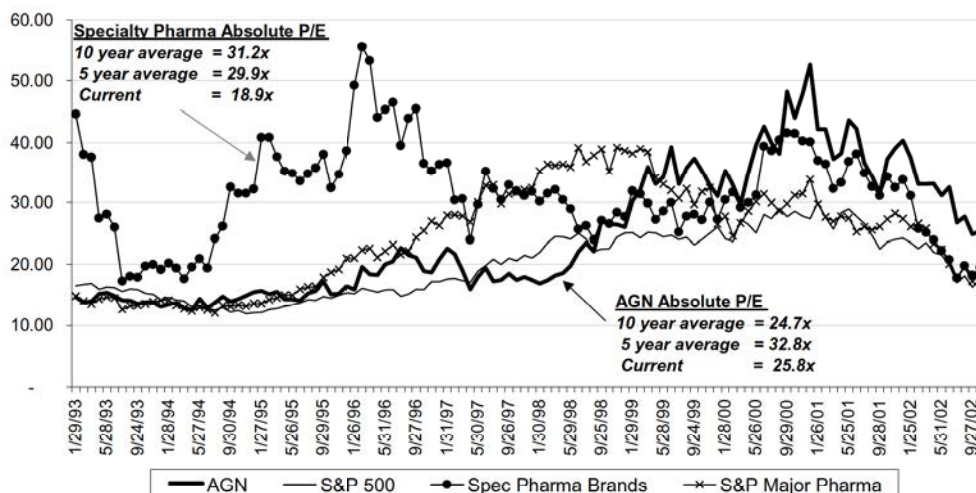
Source: FactSet and Salomon Smith Barney

Figure 16. AGN Daily Stock Price



Source: FactSet and Salomon Smith Barney

Figure 17. Allergan Absolute P/E Chart



Source: Salomon Smith Barney

Investment Summary

We believe Allergan’s clear focus on niche therapeutic markets, in which it can establish itself as a market leader, is a good model. Allergan’s earnings growth rate is in the top tier of the sector. Allergan has a track record for revenue/earnings consistency. Actually, we believe the top-drawer management team remains one of Allergan’s greatest assets. Near-term growth drivers include the international launches of Lumigan (glaucoma) and increased consumer/cosmetic use for Botox (cosmetic uses). A revenue wild card may exist in the launch of Restasis for dry eye, but at this time our perception of launch cost holds our enthusiasm at bay. Valuation, the potential for “faddish” Botox sales patterns, and near-term generic risk also hold our enthusiasm in check. We rate Allergan 2H (In-line, High Risk) and assign a price target that represents a 40% premium based on estimated 2003 EPS, or a \$57 target (25x our 2003 EPS estimate of \$2.31).

Risks

We believe risks for the stock relate to the patent challenges to Alphagan, the growth forecast for Botox (use of which we are concerned may prove to be a fad), and the continued development of the R&D pipeline. Allergan is one of our globally diversified covered companies, with 30% of sales from outside the United States, which implies foreign exchange concerns and lack of third-party product demand data outside the United States. General risks applicable to the specialty pharmaceuticals industry include product development risk, commercial risk from new or existing competition, regulatory risk, patent risk, personnel retention risk, and product delays or overestimating abilities. If the impact to Allergan from any of these factors proves to be greater than we anticipate, the stock will likely have trouble achieving our price target. If pipeline products are more successful than we anticipate, our price target may prove to be conservative.

Risk of product delays must be considered.

[REDACTED]

[REDACTED]

[REDACTED]

Appendix

[REDACTED]

Calendar of Events – By Calendar Quarter

- ▶ The key event for Allergan over 2002 has been the approval of Botox for cosmetic use in the United States.
- ▶ We anticipate 2003 will be an active year for Allergan. In the second quarter, we expect the European approval/launch of Botox cosmetic and the launch of Restasis (dry eye), Gatifloxacin (eye infection), and a new formulation of Acular. Later in the year, we expect the European launch of Epinastine (allergy).

Events

Figure 18. Calendar of Events by Calendar Quarter

1Q02A	<ul style="list-style-type: none"> ▶ European approval of Lumigan (glaucoma); received positive opinion 11/28/01 ▶ European approval of Botox for hyperhidrosis and spasticity
2Q02A	<ul style="list-style-type: none"> ▶ "Approvable" of Avage (Tazorac cream for photo damage) ▶ INS365 (dry eye) phase 3 data release; additional studies ongoing ▶ U.S. approval of Botox for brow furrow — 4/15/02 ▶ Gatifloxacin (antibiotic) filed with FDA — 5/30/02 ▶ Combigan (glaucoma) "Approvable" in the U.S.— additional study required
3Q02A	<ul style="list-style-type: none"> ▶ Conversion U.S. Alphagan users to Alphagan P –7/02 ▶ Alphagan generic win in court – 7/23/02)
4Q02A	<ul style="list-style-type: none"> ▶ Tazorac cream (Avage for photo damage) approved – 10/1/02 ▶ Swiss approval of Vistabel (Botox Cosmetic – brow furrow) – 10/02 ▶ Prostaglandin settlement with PHA – 10/24/02 ▶ Restasis (dry eye) approval – 12/24/02 ▶ Lumigan head-to-head data with Xalatan to be published in American Journal of Ophthalmology – December
1Q03E	<ul style="list-style-type: none"> ▶ Expect Acular (allergy) paragraph 4 challenge by Apotex — 2/03 ▶ Avage (photo damage) sales force launch
2Q03E	<ul style="list-style-type: none"> ▶ Expect France (EU representative country) Evistabel (Botox cosmetic) approval/launch ▶ Expect Restasis (dry eye) marketing launch in U.S. ▶ Expect European (hyperhidrosis) approval ▶ Expect Acular new formulation (anti-inflammatory) approval/launch in U.S. ▶ Expect Botox filing for hyperhidrosis (excessive sweating) in U.S. ▶ Expect Gatifloxacin (eye infection) approval/launch in U.S. ▶ Expect Botox hyperhidrosis data at March IID meeting ▶ Expect Tazorac oral acne phase 2 data at May AAD meeting
3Q03E	<ul style="list-style-type: none"> ▶ Expect Tazorac oral psoriasis NDA filing in U.S. ▶ Expect Tazorac oral psoriasis phase 3 data at July AAD meetings
4Q03E	<ul style="list-style-type: none"> ▶ Expect Epinastine (seasonal allergy) approval/launch in Europe, approval in U.S. ▶ Expect combination Lumigan+Timolol (glaucoma) combination product NDA filing

Source: Company reports and Salomon Smith Barney

Recent Publications

Year-to-Date Recent Research Notes/Reports

“Hot Topics in the Sector Lately — Second Half January 2003” — 1/31/03 industry series

AGN: “4Q Reports: Looking out to 2003” – 1/29/03

Report: *Rx Diagnosis (December Prescription Data)*, 144 pages — 1/24/03, series; order no. US01L113

AGN: “December Monthly Rx Data” — 1/15/03, series

AGN: “No Dry eye for Christmas” – 12/24/03

AGN: “Third Quarter 2002 Earnings” — Pharma Forward — 11/27/02

Report: “Allergan Pharmaceuticals: 3Q02 — Forward Looking” — 11/17/02, 36 pages

AGN: “3Q02 Earnings — Solid but not Exceptional” — 10/25/02, series

AGN: “Adjusting 3Q to exclude all one time items” – 10/25/02

Report: “Specialty Pharmaceuticals: Second Quarter Roundup” — 8/30/02, 120 pages

AGN: “Fine-tuning EPS Estimated Based on Historical Update” — 7/24/02

AGN: “Strong Sales Today, Earnings Tomorrow”

“Beyond Executives — A Board Review” — 7/18/02, industry note

AGN: “Protecting the Alphagan Franchise?” — 7/2/02

Product Summary Chart

Figure 19. Product Background

Product Name Brand (Generic) – Indication	Status — launch date	History
Dermatology Products		
Azelex (Azelaic acid) – Acne	marketed — 12/95	In-licensed from Schering AG, which markets drug in Europe.
** Avage (Tazarotene) — cream (fine wrinkles and discoloration)	approved 9/30/02	Same product and formulation as Tazorac, but new name as reimbursement for cosmetic use is unlikely. Patent through 2011.
** Tazorac (Tazarotene) — Gel (plaque psoriasis & acne) cream (psoriasis)	marketed — 1997; 3Q03 filing expected for oral	Gel approved 6/97 and cream approved in 10/00. Allergan developed product; 10/02 line extension approval (Avage). Patent through 2011.
Movement Disorder Products		
** Botox (Botulinum toxin A) — Cervical dystonia, blepharospasm (contraction of eyelid), strabismus (alignment of the eyes), brow furrow	marketed; launched 1991; CD approval 2000; cosmetic approved 4/02; hyperhydrosis filing expected in 2Q03	Licensed in 1987 from Ocklinum; hyperhydrosis filing expected in 2Q03. No patent as a naturally occurring material, but highly toxic with stringent manufacturing requirements.
** Evistabel (Botulinum toxin A) — Europe Trade name for Botox Cosmetic	Expects 1Q03 approval in France which is to serve as reference country for EU approval process	
Ophthalmology Products		
Acular (Ketorolac tromethamine) — Anti-inflammatory/pain	marketed — 1992	Licensed from Syntex; first topical non-steroidal, anti-inflammatory drug available in U.S. for itchy eye relief. Method of use patent — 3/02 Formulation patent — 2009.
Acular PF (preservative-free) — Anti-inflammatory/pain	marketed — 1/98	Reformulation of Acular used for post-operative inflammation and causes less stinging when administered then regular Acular.
Alocril (Nedocormil) — Seasonal & Year Around Allergies	marketed — Feb 2000	Licensed from Aventis (Rhone Poulenc). Exclusivity data expires December 2002. Two additional patent expires: July 2005 and October 2006.
** Alphagan (Brimonidine tartrate) — Glaucoma	marketed — 9/96	First compound in a class of drugs that both reduces fluid entering the eye and increases drainage of fluid from eye. Marketed by Santen Pharmaceutical in Japan. 5-yr exclusivity ended 11/01; ped exclusivity ended March 2002; Matter patent thru 2007; European patent expires 2007-2010 (depending on country).
**Alphagan P (preserved with Purite) – Glaucoma	marketed — 3/01	Reformulation of Alphagan with Purite, reduces the incidence of ocular allergy in glaucoma patients. 3-yr Waxman-Hatch plus ped ext. thru 9/04.
ATX-S10 — Macular Degeneration	in development	Light-activated modified porphyrin compound used for photodynamic therapy of AMD from Photochemical Co., Ltd.
Betagan (Levobunolol HCl) — Glaucoma — Beta Blocker	marketed — 3/86	Already fully generic.
** Combigan (Alphagan+Timolol) – Glaucoma	7/02 received approvable but additional study required; expect resubmission in 2004	Combination product (Alphagan+Timolol); 7/02 "Approvable" received; expected 1H04 SNDA.
Epinastine — Seasonal Allergies	phase 3 — file in US/EU in 4Q02; expect 2003 European launch and 1Q04 U.S. launch	Licensed from Boehringer Ingelheim in 12/99. Marketed as an oral formulation by Boehringer. AGN reformulating into eye drop.

Product Name Brand (Generic) – Indication	Status — launch date	History
Gatifloxacin — antibiotic — quinalone	phase 3 — filing in 2Q02/ launch 2Q03	Licensed from Kyorin Pharmaceuticals (Japan) in 2000; gatifloxacin to replace Ocuflax, whose patent is expected to expire in late 2003/early 2004.
INS365 (ophthalmic 1.0% and 2.0% eye drops) — Dry eye	phase 3 — ongoing 3b trials	Development and commercialization agreement with Inspire; anticipate towards a 1H03 filing.
** Lumigan (bimatoprost) — Glaucoma — Prostaglandin	marketed — 3/01	Exclusivity through March 2006.
Memantine — Glaucoma — MND Inhibitor	phase 3	Product potentially lowers intra-ocular pressure and protect the cells of the ocular nerve. Phase 3 studies began in 1Q99 expected to last 3-4 yrs; endpoint is visual preservation.
Ocuflax (ofloxacin) — Anti-infective	marketed — 1993	In-licensed from Diachi Pharmaceuticals & Santan. McNeil Consumer (JNJ) marketing partner in pediatric and selected general practitioner markets for inner ear infections. Nov 2003 (received ped extension to May 2004).
Restasis(cyclosporine) — Dry eye	Approved 12/24/02; expect 2Q03 launch	Licensed form Novartis; "Approvable" letter 8/99; 12/24/02 approval
Tears Line — Dry eye		Products available without a prescription in most major markets.

** Indicates by financial driver/modeling.

Source: Company reports and Salomon Smith Barney

Recent News Flow

January 2003

Allergan Reported Fourth Quarter 2002 Earnings — January 29, 2003

Allergan reported fourth quarter and full year 2002 results. EPS for the quarter were \$0.54 (excluding one-time charges), above our and consensus estimates of \$0.53. Total revenues were more-or-less in line with our model, coming in at \$378 million versus our forecast of \$383 million (2% differential). Individual products were more-or-less in-line with our forecast. Expenses were as expected, just slightly light in the SG&A line. The company is offering 2003 guidance in line with its historical growth guidance goal of mid- to high-teens revenue growth and 22%–25% earnings growth. While our revenue forecast is in line with these goals, our EPS estimate is slightly below them. The new product, Restasis (dry eye), is expected to launch in second quarter 2003. Allergan offered sales guidance of \$20–\$40 million, in line with our forecast. *For further detail, see our note “4Q reports: Looking out to 2003,” published on January 29, 2003.*

December 2002

Allergan announced FDA approval of Restasis for treatment of chronic dry eye disease — December 24, 2002

Allergan announced a pre-holiday approval by the FDA of Restasis, the first and only prescription therapy for the treatment of chronic dry eye disease. This news was a surprise to us! AGN received an “Approvable” back on August 8, 1999, and we expected AGN to file another phase 3 study with the FDA in early 2003, with potential for an FDA decision in mid-late 2003. There is no change in company guidance: still mid-teens revenue growth and 22%–25% earnings growth. We believe the lack of change in guidance is most likely due to 1) launch cost, 2) unknown market uptake pattern, and 3) timing of launch (second quarter 2003). However, we believe adding Restasis to our model may add upward flexibility to the out years of our forecast. We believe annual sales of \$300–\$500 million is a reasonable early assumption for the sales range but note that the caution within modeling is that there are no prescription products currently available; accordingly, 1) the market will have to be built and 2) the true size is relatively unknown.

Allergan completes tender offer of subordinated notes — Dec. 17, 2002

Allergan has accepted for purchase its liquid yield option zero coupon convertible subordinated notes due 2020, at a purchase price of \$647.50 per \$1,000 principal amount at maturity of the tender offer. The cash payment required to complete the tender is approximately \$381 million. Payment for the notes accepted for purchase is expected to occur on or about December 20, 2002.

November 2002

- ▶ Allergan Sold \$450 Million of Convertible Notes — November 1, 2002

October 2002

- ▶ Allergan Reported Third Quarter 2002 Earnings — October 24, 2002
- ▶ Allergan Presents Lumigan Study Results — October 21, 2002
- ▶ Allergan Receives FDA Approval for Avage — October 1, 2002

September 2002

- ▶ Allergan Comments on September 9 FDA Letter — September 12, 2002

August 2002

- ▶ Study Reports Botox Can Help Some Stroke Victims Recover — August 7, 2002

July 2002

- ▶ Allergan Announces Plans to Discontinue Alphagan — July 2, 2002
- ▶ Allergan Reports Second Quarter 2002 Earnings — July 24, 2002

Allergan Board Review

- ▶ The average tenure on the Allergan board is nearly 12 years; however, several members joined in 1998–99, when there was a change in the executive management of Allergan.
- ▶ This board of ten members has two current Allergan employees and one former Allergan executive.
- ▶ Allergan’s board members are busy; we estimate that, on average, each member sits on three and a half different boards or advisory committees.
- ▶ The board offers some impressive resumes, including two senior scientific officers; three former chairmen and/or CEOs of other leading health care companies; two senior financial executives; and the former administrator of the U.S. Health Care Financing Administration (HCFA).

Figure 20. Allergan at a Glance

Company Name	Average Tenure (Years)	Average Age	Average # Boards Participated On	# Board Members	# Employees on Board	% Board Stock Ownership	Base Non-Employee Stipend/Retainer	Annual Stock Options Grants
Allergan	11.9	60	3.6	10	2	3%	\$25,000	1,800
Group Average	7.9	57	2.8	9	2	14%	\$24,991	6,103

Source: Salomon Smith Barney

Director Compensation

Allergan’s board is composed of ten members; two are company officers that do not receive extra compensation for board or committee service. Each director who is not an employee of Allergan is reimbursed for travel and other expenses related to attending board meetings, and is paid a \$25,000 retainer. In addition, all nonemployee directors receive \$2,000 for each board meeting attended, \$1,000 for each committee meeting attended, and \$1,500 for each committee meeting presided over as a committee chair. The vice chairman (Herbert W. Boyer) was paid a retainer of \$141,250 in 2001. Aside from cash compensation, each nonemployee director is entitled to 1,800 shares of AGN stock per year under the Nonemployee Director Stock Plan.

Other Relationships and Transactions

In Allergan’s 2001 proxy statement, we found no fees paid beyond the \$25,000 base retainer fee and board meeting–related fees, and we found no other relationships or transactions between Allergan and its board members.

Director Biographies

Herbert W. Boyer, Ph.D.

Dr. Boyer served as chairman of the board for Allergan from 1998 to 2001.

Dr. Boyer has been vice chairman of the board since 2001 and served as chairman from 1998 to 2001. He has been a board member since 1994. Dr. Boyer is a founder of Genentech, Inc. and has been a director at that company since 1976. A former professor of biochemistry at the University of California at San Francisco, Dr. Boyer is a recipient of the 1993 Helmut Horten Research Award; the National Medal of Science from President George H. W. Bush; the National Medal of Technology; and the Albert Lasker Basic Medical Research Award. He is an elected member of the National Academy of Sciences and a Fellow in the American Academy of Arts and Sciences.

Ronald M. Cresswell, Hon. D.SC. and F.R.S.E.

Mr. Cresswell, Hon. D.SC. and F.R.S.E., was elected to the board of directors of Allergan in 1998. Professor Cresswell retired in 1999 as senior vice president and chief scientific officer for Warner-Lambert Company. He was formerly vice president and chairman of Parke-Davis Pharmaceutical Research, which is a Warner-Lambert company. Professor Cresswell served as chief operating officer of Laporte Industries and in a broad range of research and development positions at Burroughs Wellcome, ultimately becoming the main board member for global research and development. He is a Fellow of the Royal Society of Edinburgh, a member of the American Chemical Society and the New York Academy of Sciences, and the former chairman of the Science and Regulatory Executive Committee of the Pharmaceutical Research and Manufacturers of America (PhRMA). Effective in January 2002, Professor Cresswell became chairman of the board of Albachem Ltd., a Scottish company.

Handel E. Evans

Mr. Evans was elected to the board of directors of Allergan in 1989. He is chairman of Equity Growth Research Ltd., a company providing financial services in Europe. Mr. Evans has 40 years of experience in the pharmaceutical industry, and was the founder and former executive chairman of Pharmaceutical Marketing Service Inc. and Walsh International Inc., companies providing marketing services to the pharmaceutical industry. He was also a cofounder of IMS International Inc., a leading pharmaceutical information supplier. Mr. Evans is a director of Cambridge Laboratories Ltd. and a trustee of the British Urological Foundation.

Michael R. Gallagher

Mr. Gallagher was elected to the board of directors of Allergan in 1998. He is currently chief executive officer and a director of Playtex Products, Inc. Previously, Mr. Gallagher was chief executive officer/North America for Reckitt & Colman plc; president and executive officer of Eastman Kodak's subsidiary, L&F Products; and president of the Lehn & Fink Consumer Products Division at Sterling Drug. He is a director of AMN Healthcare; the Grocery Manufacturers Association; the Association of Sales and Marketing Companies; and the Haas School of Business at the University of California, Berkeley.

Mr. Herbert is a former CEO of Allergan (1968–98) and former chairman of the board (1977–96).

Gavin S. Herbert

Mr. Herbert is the founder of Allergan, Inc. and has been Chairman Emeritus since 1996. He was elected to the board in 1950. He served as chief executive officer for 30 years and as chairman from 1977 to 1996. Mr. Herbert is chairman and founder of Regenesis Bioremediation Products, and a director of Beckman Coulter, Inc., Research to Prevent Blindness, and the Doheny Eye Institute. He is chairman of Rogers Gardens, vice chairman of the Beckman Foundation, and a Life Trustee of the University of Southern California.

Lester J. Kaplan, Ph.D.

Dr. Kaplan was elected to the board of Allergan in 1994. He is corporate vice president and president for research and development and global Botox for Allergan, Inc. Dr. Kaplan is a director of Acadia Pharmaceuticals Inc., Oculex Pharmaceuticals, and Bardeen Sciences Company, L.L.C.

Karen R. Osar

Ms. Osar was elected to the board of Allergan in 1998. She has been chief financial officer of MeadWestvaco Corporation — a producer of packaging, paper, school and office supplies, and specialty chemicals — since the merger of the Mead Corporation and Westvaco Corporation in January 2002. Prior to the merger, she served as senior vice president and chief financial officer of Westvaco Corporation beginning in November 1999. She formerly served as vice president and treasurer of Tenneco, Inc., a global packaging and auto parts manufacturer, and as managing director of the investment banking group at J.P. Morgan & Company. She is a director of BNY Hamilton Funds and AGL Resources, Inc.

David E.I. Pyott

Mr. Pyott is the current chairman of the board, president, and chief executive officer of Allergan.

Mr. Pyott is chairman of the board, president, and chief executive officer of Allergan, Inc. Mr. Pyott served as head of the Novartis Nutrition Division and as a member of the executive committee of the Switzerland-based Novartis AG. He is a member of the board of directors of Avery Dennison Corporation, Edwards Lifesciences Corporation, and Advanced Medical Optics, Inc. He also represents Allergan as a member of the board of directors of the Pharmaceutical Research and Manufacturers of America (PhRMA). Mr. Pyott is vice chairman of the California Healthcare Institute; a member of the Los Angeles Business Advisors; a board member of the Director's Board of the University of California (Irvine) Graduate School of Management as well as its Executive Committee; and a vice chair of the Chief Executive Roundtable for the University of California (Irvine). In addition, he serves as president of the Pan-American Ophthalmological Foundation and is a member of the board of the Foundation of the American Academy of Ophthalmology.

Louis T. Rosso

Mr. Rosso was elected to the board of Allergan in 1989. He is Chairman Emeritus and former chairman of the board of Beckman Coulter, Inc., a manufacturer of laboratory instruments. Mr. Rosso also served as chairman and chief executive officer of Beckman Instruments, Inc. and vice president of SmithKline Beckman Corporation. He is a member of the board of trustees of the St. Joseph Heritage Healthcare Foundation and the Keck Graduate Institute of Applied Life Sciences at the Claremont Colleges.

Leonard D. Schaeffer

Mr. Schaeffer was elected to the board of Allergan in 1993. Since 1992, he has served as chairman of the board and chief executive officer of WellPoint Health Networks Inc., an insurance organization that owns Blue Cross of California, Blue Cross Blue Shield of Georgia, and Unicare. Mr. Schaeffer was the administrator of the U.S. Health Care Financing Administration (HCFA). He is the chairman of the board of the National Health Foundation and of the National Institute for Health Care Management, and a member of the Institute of Medicine.

Allergan Financial Model

Figure 21. Quarterly Product Sales, 2001–2006E

(\$ in millions)

	2001A	Q1/02A	Q2/02A	Q3/02A	Q4/02A	2002E	1Q03E	2Q03E	3Q03E	4Q03E	2003E	2004E	2005E	2006E	CAGR 01-06E
Eye Care											107.0				
Alphagan	233.8	55.4	45.6	14.2	14.0	129.2	14.0	14.0	14.0	14.0	56.0	50.0	45.0	40.0	-29.8%
Alphagan P	17.1	19.4	14.3	35.0	50.7	119.4	45.0	40.0	35.0	30.0	150.0	110.0	85.0	70.0	32.6%
Combigan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.0	25.0	NA
Alphagan Line	250.9	74.8	59.9	49.2	64.7	248.6	59.0	54.0	49.0	44.0	206.0	160.0	145.0	135.0	-11.7%
Lumigan	35.4	21.1	31.9	35.0	35.1	123.1	40.0	42.0	45.0	48.0	175.0	225.0	280.0	335.0	56.8%
Glaucoma Franchise	286.3	95.9	91.8	84.2	99.8	371.7	99.0	96.0	94.0	92.0	381.0	385.0	425.0	470.0	10.4%
Betagan	20.0	4.5	4.5	3.5	3.0	15.5	3.0	2.5	2.5	2.0	10.0	7.0	5.5	5.0	-24.2%
Acular	77.0	19.0	17.0	18.0	17.0	71.0	17.0	16.0	16.0	15.0	64.0	55.0	50.0	45.0	-10.2%
Ocuflox	89.0	23.0	23.0	24.0	25.0	95.0	25.0	24.0	22.0	20.0	91.0	70.0	50.0	45.0	-12.8%
Gatifloxacin	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	4.0	7.0	16.0	35.0	70.0	80.0	NA
Tears Lines	140.0	38.0	38.0	38.0	40.0	154.0	40.0	35.0	32.0	30.0	137.0	120.0	110.0	100.0	-6.5%
Alocril	15.5	5.0	5.0	3.0	4.0	17.0	4.0	3.5	3.5	3.0	14.0	12.0	10.0	8.0	-12.4%
Epinastine	0.0	0.0	0.0	0.0	0.0	0.0	3.0	2.0	2.0	2.0	9.0	35.0	50.0	75.0	NA
Memantine	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA
Restasis	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0	8.0	15.0	33.0	115.0	150.0	180.0	NA
Other	126.0	22.4	26.9	31.8	22.0	103.1	20.0	24.0	29.0	20.0	93.0	85.0	75.0	65.0	-12.4%
Eye Care Total	753.8	207.8	206.2	202.5	210.8	827.3	211.0	218.0	213.0	206.0	848.0	919.0	995.5	1,073.0	7.3%
Skin Care											88.0				
Tazorac (Zorac)	45.4	12.2	14.5	20.2	15.2	62.1	16.0	18.0	20.0	19.0	73.0	85.0	95.0	100.0	17.1%
Avage	0.0	0.0	0.0	0.0	0.0	0.0	4.0	2.0	4.0	5.0	15.0	45.0	70.0	85.0	NA
Tazorac oral	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	50.0	80.0	NA
Azelex	18.5	5.0	2.5	2.5	2.5	12.5	2.5	2.5	2.5	2.5	10.0	6.0	5.0	5.0	-23.0%
Other	15.0	4.6	2.6	4.2	4.2	15.6	4.2	2.5	4.2	4.2	15.1	15.0	15.0	15.0	0.0%
Skin Care Total	78.9	21.8	19.6	26.9	21.9	90.2	26.7	25.0	30.7	30.7	113.1	156.0	235.0	285.0	29.3%
Botox	309.5	88.6	112.2	110.7	128.2	439.7	130.0	140.0	140.0	150.0	560.0	675.0	750.0	800.0	20.9%
Total Pharmaceuticals	1,142.2	318.2	338.0	340.1	360.9	1,357.2	367.7	383.0	383.7	386.7	1,521.1	1,750.0	1,980.5	2,158.0	13.6%

Source: Company reports and Salomon Smith Barney

Figure 22. Quarterly Product Sales Growth Analysis, 2001–2006E

(year-over-year growth)

	2001A	Q1/02A	Q2/02A	Q3/02A	Q4/02A	2002E	1Q03E	2Q03E	3Q03E	4Q03E	2003E	2004E	2005E	2006E
Eye Care														
Alphagan	1%	-17%	-20%	-74%	-75%	-45%	-75%	-69%	-1%	0%	-57%	-11%	-10%	-11%
Alphagan P	N/A	N/A	N/A	438%	378%	599%	131%	180%	0%	-41%	26%	-27%	-23%	-18%
Combigan	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	67%
Alphagan Line	8%	13%	5%	-20%	-1%	-1%	-21%	-10%	0%	-32%	-17%	-22%	-9%	-7%
Lumigan	N/A	N/A	232%	230%	131%	248%	90%	32%	29%	37%	42%	29%	24%	20%
Glaucoma Franchise	24%	44%	37%	17%	24%	30%	3%	5%	12%	-8%	2%	1%	10%	11%
Betagan	-26%	-10%	-10%	-30%	-40%	-23%	-33%	-44%	-29%	-33%	-35%	-30%	-21%	-9%
Acular	10%	6%	-23%	0%	-11%	-8%	-11%	-6%	-11%	-12%	-10%	-14%	-9%	-10%
Ocuflox	31%	15%	5%	9%	0%	7%	9%	4%	-8%	-20%	-4%	-23%	-29%	-10%
Gatifloxacin	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	119%	100%
Tears Lines	9%	9%	9%	9%	14%	10%	5%	-8%	-16%	-25%	-11%	-12%	-8%	-9%
Alocril	0%	25%	-9%	0%	33%	10%	-20%	-30%	17%	-25%	-18%	-14%	-17%	-20%
Epinastine	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	289%	43%	50%
Memantine	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Restasis	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	248%	30%	20%
Other	-7%	-46%	2%	1%	-18%	-18%	-11%	-11%	-9%	-9%	-10%	-9%	-12%	-13%
Eye Care Total	12%	10%	13%	9%	8%	10%	2%	6%	5%	-2%	2%	8%	8%	8%
Skin Care														
Tazorac (Zorac)	39%	45%	44%	80%	-3%	37%	31%	24%	-1%	25%	18%	16%	12%	5%
Avage	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	200%	56%	21%
Tazorac oral	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	900%	60%
Azelex	-3%	0%	-44%	-38%	-50%	-32%	-50%	0%	0%	0%	-20%	-40%	-17%	0%
Other	-12%	0%	-37%	31%	35%	4%	-9%	-4%	0%	0%	-3%	-1%	0%	0%
Skin Care Total	15%	21%	5%	46%	-8%	14%	22%	28%	14%	40%	25%	38%	51%	21%
Botox	29%	31%	47%	43%	45%	42%	47%	25%	26%	17%	27%	21%	11%	7%
Total Pharmaceuticals	16%	16%	22%	21%	18%	19%	16%	13%	13%	7%	12%	15%	13%	9%

Source: Company reports and Salomon Smith Barney

Figure 23. Quarterly Income Statement, 2001–2006E

(\$ in millions, except per-share data)

	2001A	Q1/02A	Q2/02A	Q3/02A	Q4/02A	2002E	1Q03E	2Q03E	3Q03E	4Q03E	2003E	2004E	2005E	2006E	CAGR 01-06E
Product Sales	1,142.2	318.2	338.0	340.1	360.9	1,357.2	367.7	383.0	383.7	386.7	1,521.1	1,750.0	1,980.5	2,158.0	13.6%
Contract Revenue	75.2	17.9	17.9	10.5	17.3	63.6	17.5	17.0	16.5	16.0	67.0	25.0	0.0	0.0	-100.0%
Total Revenue	1,217.4	336.1	355.9	350.6	378.2	1,420.8	385.2	400.0	400.2	402.7	1,588.1	1,775.0	1,980.5	2,158.0	12.1%
Cost of Goods Sold	266.2	62.7	62.0	60.7	69.5	254.9	71.7	65.1	57.6	56.1	250.4	280.0	307.0	334.5	4.7%
Gross Profit	951.2	273.4	293.9	289.9	308.7	1,165.9	313.5	334.9	342.6	346.6	1,337.7	1,495.0	1,673.5	1,823.5	13.9%
Research Services Revenues	60.3	9.5	8.7	9.4	12.7	40.3	9.5	9.5	0.0	0.0	19.0	0.0	0.0	0.0	NA
Cost of Research services	56.1	8.6	7.9	8.6	11.5	36.6	8.5	8.5	0.0	0.0	17.0	0.0	0.0	0.0	NA
Gross Profit Research Services	4.2	0.9	0.8	0.8	1.2	3.7	1.0	1.0	0.0	0.0	2.0	0.0	0.0	0.0	NA
SG&A	503.3	144.0	159.1	148.4	148.0	599.5	150.8	157.0	157.3	158.5	623.7	638.8	713.0	766.1	8.8%
R&D	186.8	51.2	57.9	59.0	62.8	230.9	64.3	70.9	74.8	74.2	284.3	332.5	366.4	399.2	16.4%
Operating Income	265.3	79.1	77.7	83.3	99.1	339.2	99.4	108.0	110.5	113.8	431.7	523.8	594.2	658.2	19.9%
Interest Income	36.6	5.1	4.8	3.7	5.1	18.7	5.1	4.0	3.0	3.0	15.1	20.2	25.8	32.6	-2.3%
Interest Expense	-21.3	-5.3	-5.5	-4.0	-4.6	-19.4	-5.6	-5.6	-5.6	-5.6	-22.5	-22.5	-22.5	-22.5	1.1%
Other Oper. Inc./(Exp.)	-0.6	-0.7	1.7	0.6	-0.4	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA
Pretax Income	280.0	78.2	78.7	83.6	99.2	339.7	98.9	106.4	107.9	111.2	424.3	521.5	597.5	668.3	19.0%
Taxes	81.6	21.9	22.1	23.4	27.7	95.1	27.7	29.8	30.2	31.1	118.8	146.0	167.3	187.1	18.0%
Minority interest expense	0.6	0.0	0.3	0.4	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	NA
Net Income	197.8	56.3	56.3	59.8	71.5	243.9	71.2	76.6	77.7	80.1	305.5	375.4	430.2	481.2	19.5%
Operating Earnings	\$1.48	\$0.43	\$0.43	\$0.46	\$0.54	\$1.85	\$0.54	\$0.58	\$0.59	\$0.61	\$2.31	\$2.84	\$3.26	\$3.65	19.8%
Non-recurring adj. To Carve-out	0.08	0.02	0.02			0.04					0.00				NA
Carve-out Pharma Operating EP	\$1.56	\$0.45	\$0.45	\$0.46	\$0.54	\$1.89	\$0.54	\$0.58	\$0.59	\$0.61	\$2.31				NA
Non-recurring EPS items	-0.28	-0.15	-0.47	-0.76	-0.05	-1.43					0.00				NA
Reported EPS	\$1.28	\$0.30	(\$0.02)	(\$0.30)	\$0.48	\$0.46	\$0.54	\$0.58	\$0.59	\$0.61	\$2.31	\$2.84	\$3.26	\$3.65	23.4%
EPS - Disc. Ops (adj AMO)	0.40	0.03	0.05			0.08					0.00				NA
AGN+ AMO Reported EPS	\$1.68	\$0.33	\$0.03	(\$0.30)	\$0.48	\$0.54	\$0.54	\$0.58	\$0.59	\$0.61	\$2.31	\$2.84	\$3.26	\$3.65	16.8%
Avg. Shares Outstanding (in millions)	134.0	131.9	130.9	129.3	133.6	131.4	132.0	132.0	132.0	132.0	132.0	132.0	132.0	132.0	-0.3%

Growth Analysis

	2001A	Q1/02A	Q2/02A	Q3/02A	Q4/02A	2002E	1Q03E	2Q03E	3Q03E	4Q03E	2003E	2004E	2005E	2006E
Sales	16%	16%	22%	21%	18%	19%	16%	13%	13%	7%	12%	15%	13%	9%
COGS	-15%	-5%	-1%	-10%	-1%	-4%	14%	5%	-5%	-19%	-2%	12%	10%	9%
Gross Profit	24%	20%	26%	24%	21%	23%	15%	14%	18%	12%	15%	12%	12%	9%
SG&A	16%	8%	25%	23%	21%	19%	5%	-1%	6%	7%	4%	2%	12%	7%
R&D	53%	35%	22%	16%	24%	24%	26%	22%	27%	18%	23%	17%	10%	9%
Operating Inc.	24%	36%	28%	32%	19%	28%	26%	39%	33%	15%	27%	21%	13%	11%
Pretax Inc.	26%	19%	19%	23%	24%	21%	26%	35%	29%	12%	25%	23%	15%	12%
Net Inc.	25%	21%	20%	26%	25%	23%	26%	36%	30%	12%	25%	23%	15%	12%
Operating EPS - fully diluted	25%	23%	24%	30%	25%	26%	26%	35%	27%	13%	25%	23%	15%	12%
Avg. Shares Outstanding	0%	-2%	-3%	-3%	0%	-2%	0%	1%	2%	-1%	0%	0%	0%	0%
		15	18	25										

Margin Analysis

	2001A	Q1/02A	Q2/02A	Q3/02A	Q4/02A	2002E	1Q03E	2Q03E	3Q03E	4Q03E	2003E	2004E	2005E	2006E
Cost of Goods Sold/sales	23.3%	19.7%	18.3%	17.8%	19.3%	18.8%	19.5%	17.0%	15.0%	14.5%	16.5%	16.0%	15.5%	15.5%
Gross Margin/sales	83.3%	85.9%	87.0%	85.2%	85.5%	85.9%	85.3%	87.4%	89.3%	89.6%	87.9%	85.4%	84.5%	84.5%
SG&A/sales	44.1%	45.3%	47.1%	43.6%	41.0%	44.2%	41.0%	41.0%	41.0%	41.0%	41.0%	36.5%	36.0%	35.5%
R&D/sales	16.4%	16.1%	17.1%	17.3%	17.4%	17.0%	17.5%	18.5%	19.5%	19.2%	18.7%	19.0%	18.5%	18.5%
Operating Margin	23.2%	24.9%	23.0%	24.5%	27.5%	25.0%	27.0%	28.2%	28.8%	29.4%	28.4%	29.9%	30.0%	30.5%
Pretax Margin	24.5%	24.6%	23.3%	24.6%	27.5%	25.0%	26.9%	27.8%	28.1%	28.8%	27.9%	29.8%	30.2%	31.0%
Tax Rate	29.2%	28.0%	28.0%	28.1%	27.9%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
Net Margin	17.3%	17.7%	16.7%	17.6%	19.8%	18.0%	19.4%	20.0%	20.2%	20.7%	20.1%	21.5%	21.7%	22.3%

Source: Company reports and Salomon Smith Barney

Figure 24. Cash Flow, 2001–2006E

(\$ in thousands)

	<u>2001A</u>	<u>2002E</u>	<u>2003E</u>	<u>2004E</u>	<u>2005E</u>	<u>2006E</u>
Normalized Cashflow						
Oper. Inc from cont. ops	197.8	243.9	305.5	375.4	430.2	481.2
Deprecation/Amort.	85.5	41.1	0.0	55.0	55.0	55.0
Net Working Cap.	-11.6	-161.1	0.0			
Other (def. taxes, etc.)	19.9	27.6	0.0			
Cash from Cont. Ops.	291.6	151.5	305.5	430.4	485.2	536.2
Capital Expenditures	-89.9	-51.4	-48.0	-50.0	-50.0	-50.0
Dividends	-47.5	-47.0	-48.0	-63.4	-63.4	-63.4
Discretionary Cash Flow	154.2	53.1	209.5	317.1	371.8	422.8
Other Investment Act.						
Asset Disposals	5.2	7.8	0.0			
Divestitures		0.0	0.0			
Investments		0.0	0.0			
Acquisitions	-70.2	0.0	-250.0			
Other assets/intangibles	-21.9	-1.5	0.0			
Net - Other Invest. Activity	-86.9	6.3	-250.0	0.0	0.0	0.0
Financing Activity						
Share Repurchase	-130.9	-115.0	-115.0	-115.0	-115.0	-115.0
Equity Offerings/option sales	30.9	23.0	0.0			
Change in ST debt	-19.9	-56.2	0.0			
Change in LT debt	-3.2	22.6	0.0			
Other		0.0	0.0			
Net- Financing Activity	-123.1	-125.6	-115.0	-115.0	-115.0	-115.0
Other Cash Adj.		0.0	0.0			
Net cash from Disc. Ops		174.7	0.0			
Gain/(loss) one-time chgs		0.0	0.0			
Other, net (FX)	-5.8	-15.8	0.0			
Net Cash Flow	-61.6	92.7	-155.5	202.1	256.8	307.8

Source: Company reports and Salomon Smith Barney

Figure 25. Balance Sheet, 2001–2006E

(\$ in millions)

	2001A	Q1/02A	2Q02E	Q3/02A	Q4/02A	2002E	1Q03E	2Q03E	3Q03E	4Q03E	2003E	2004E	2005E	2006E
Assets														
Cash & Securities	781.9	679.7	820.0	754.3	774.0	774.0	845.2	659.9	726.2	794.9	794.9	997.0	1,253.8	1,561.6
Accounts Receivable	279.4	286.3	304.1	223.8	220.6	220.6	224.8	234.1	234.5	236.4	236.4	271.9	307.8	335.3
Inventory - net	120.2	127.8	135.8	70.2	70.4	70.4	71.7	74.7	74.8	75.4	75.4	86.8	98.2	107.0
Other Current Assets	143.8	126.4	6.2	121.1	135.2	135.2	126.8	382.9	383.9	385.6	385.6	640.5	895.5	1,146.3
Total Current Assets	1,325.3	1,220.2	1,266.1	1,169.4	1,200.2	1,200.2	1,268.4	1,351.6	1,419.5	1,492.3	1,492.3	1,996.2	2,555.3	3,150.3
Investments and other assets	205.3	259.9	259.9	220.4	254.4	254.4	254.4	254.4	254.4	254.4	254.4	254.4	254.4	254.4
Net PP&E	388.7	378.8	378.8	320.8	352.0	352.0	352.0	352.0	352.0	352.0	352.0	352.0	352.0	352.0
Goodwill and intangibles, net	126.9	127.4	127.4	24.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	2,046.2	1,986.3	2,032.2	1,735.1	1,806.6	1,806.6	1,874.8	1,958.0	2,025.9	2,098.7	2,098.7	2,602.6	3,161.7	3,756.7
Liabilities & Shareholder Equity														
Current Liabilities	490.0	469.3	469.3	483.2	403.6	403.6	411.2	428.3	429.1	432.5	432.5	497.5	563.1	613.5
Long-Term Debt	520.6	593.4	593.4	445.3	526.4	526.4	526.4	526.4	526.4	526.4	526.4	526.4	526.4	526.4
Other Liabilities	58.2	75.9	75.9	68.9	68.3	68.3	68.3	68.3	68.3	68.3	68.3	68.3	68.3	68.3
Total Liabilities	1,068.8	1,138.6	1,138.6	997.4	998.3	998.3	1,005.9	1,023.0	1,023.8	1,027.2	1,027.2	1,092.2	1,157.8	1,208.2
Shareholders' Equity	977.4	847.7	893.6	737.7	808.3	808.3	868.9	935.0	1,002.1	1,071.6	1,071.6	1,510.4	2,003.9	2,548.4
Total Liabilities & S/E	2,046.2	1,986.3	2,032.2	1,735.1	1,806.6	1,806.6	1,874.8	1,958.0	2,025.9	2,098.7	2,098.7	2,602.6	3,161.7	3,756.7
Financial Ratio Analysis														
Book value per share	\$7.29	\$6.43	\$6.83	\$5.71	\$6.05	\$6.15	\$6.58	\$7.08	\$7.59	\$8.12	\$8.12	\$11.44	\$15.18	\$19.31
Cash per share	\$5.83	\$5.15	\$6.26	\$5.83	\$5.79	\$5.89	\$6.40	\$5.00	\$5.50	\$6.02	\$6.02	\$7.55	\$9.50	\$11.83
Net working capital (\$ mil)	835.3	750.9	796.8	686.2	796.6	796.6	857.2	923.3	990.4	1,059.9	1,059.9	1,498.7	1,992.2	2,536.7
Liquidity														
Current ratio (x)	2.7	2.6	2.7	2.4	3.0	3.0	3.1	3.2	3.3	3.5	3.5	4.0	4.5	5.1
Quick ratio (x)	2.2	2.1	2.4	2.0	2.5	2.5	2.6	2.1	2.2	2.4	2.4	2.6	2.8	3.1
Cash ratio (cash/current liab.)	1.6	1.4	1.7	1.6	1.9	1.9	2.1	1.5	1.7	1.8	1.8	2.0	2.2	2.5
Current assets/Total assets	64.8%	61.4%	62.3%	67.4%	66.4%	66.4%	67.7%	69.0%	70.1%	71.1%	71.1%	76.7%	80.8%	83.9%
Solvency														
Total debt to capital (assets)	52.2%	57.3%	56.0%	57.5%	55.3%	55.3%	53.7%	52.2%	50.5%	48.9%	48.9%	42.0%	36.6%	32.2%
Total debt to equity	109.4%	134.3%	127.4%	135.2%	123.5%	123.5%	115.8%	109.4%	102.2%	95.9%	95.9%	72.3%	57.8%	47.4%
Long-term debt to equity	53.3%	70.0%	66.4%	60.4%	65.1%	65.1%	60.6%	56.3%	52.5%	49.1%	49.1%	34.9%	26.3%	20.7%
Asset Utilization														
Sales to Cash	1.46	1.74	1.52	1.73	1.75	1.75	1.66	2.20	2.06	1.91	1.91	1.76	1.58	1.38
Sales to Receivables	4.09	4.14	4.09	5.82	6.15	6.15	6.26	6.20	6.38	6.44	6.44	6.44	6.44	6.44
Sales to Inventory	9.50	9.27	9.17	18.56	19.28	19.28	19.61	19.43	19.98	20.16	20.16	20.16	20.16	20.16
Cost of Sales to Inventory	2.21	2.06	1.93	3.70	3.62	3.62	3.68	3.57	3.53	3.32	3.32	3.23	3.13	3.13
Sales to Current Assets	0.86	0.97	0.98	1.08	1.13	1.13	1.11	1.07	1.05	1.02	1.02	0.88	0.78	0.69
Sales to Working Capital	1.37	1.58	1.56	1.90	1.70	1.70	1.64	1.57	1.51	1.44	1.44	1.17	0.99	0.85
Sales to Common Equity	1.17	1.40	1.39	1.77	1.68	1.68	1.62	1.55	1.49	1.42	1.42	1.16	0.99	0.85
Sales to Total Assets	0.56	0.60	0.61	0.75	0.75	0.75	0.75	0.74	0.74	0.72	0.72	0.67	0.63	0.57
Days Sales in Receivables	88.1	87.0	87.9	61.8	58.5	58.5	57.5	58.1	56.5	55.9	55.9	55.9	55.9	55.9
Days Sales in Inventory	37.9	38.8	39.3	19.4	18.7	18.7	18.4	18.5	18.0	17.9	17.9	17.9	17.9	17.9
DuPont Model														
Tax burden (Net/Pretax)	70.6%	70.9%	71.2%	71.5%	71.8%	71.8%	71.8%	71.9%	72.0%	72.0%	72.0%	72.0%	72.0%	72.0%
Interest burden (Pretax/EBIT)	1.06	0.99	1.01	1.00	1.00	1.00	0.99	0.98	0.98	0.98	0.98	1.00	1.01	1.02
EBIT margin (EBIT/Sales)	23.2%	24.2%	24.4%	24.8%	25.0%	25.0%	25.6%	26.9%	27.9%	28.4%	28.4%	29.9%	30.0%	30.5%
Asset turnover (Sales/Assets)	0.56	0.60	0.61	0.75	0.75	0.75	0.75	0.74	0.74	0.72	0.72	0.67	0.63	0.57
Financial leverage (Assets/Equity)	2.09	2.18	2.21	2.26	2.30	2.24	2.25	2.20	2.12	2.05	1.96	1.72	1.58	1.47
Return on Equity	20.2%	22.0%	23.8%	30.2%	31.0%	30.2%	30.8%	31.0%	30.7%	29.7%	28.5%	24.9%	21.5%	18.9%

Source: Company reports and Salomon Smith Barney

Allergan Prescription Model

Figure 26. Prescription Model
(Total Prescriptions)

	Dec-01	4Q01	Jan-02	Feb-02	Mar-02	1Q02	Apr-02	May-02	Jun-02	2Q02	Jul-02	Aug-02	Sep-02	3Q02	Oct-02	Nov-02	Dec-02	4Q02
Eye Care Products																		
Total Alphagan	320	945	317	288	311	916	314	319	299	932	320	316	300	936	313	301	322	936
Lumigan	80	213	83	81	94	258	102	111	108	321	118	119	115	352	125	125	138	388
Total Acular	86	276	87	83	92	262	103	103	92	298	92	91	87	270	88	81	79	248
Alocril	21	70	21	20	26	67	42	41	34	117	30	28	26	84	24	20	19	63
Betagan	11	34	10	8	9	27	8	8	8	24	8	7	7	22	7	6	7	20
Ocuflox	167	500	182	169	182	533	190	191	171	552	179	176	166	521	182	183	184	549
Total Eye Care	685	2,038	700	649	714	2,063	759	773	712	2,244	747	737	701	2,185	739	716	750	2,205
Skin Care																		
Tazorac	57	174	61	55	64	180	66	69	70	205	74	83	75	232	79	74	74	227
Avage	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	0
Azelex	29	90	31	26	28	85	27	27	25	79	24	23	19	66	21	18	18	57
Total Skin Care	86	264	92	81	92	265	93	96	95	284	98	106	94	298	100	92	92	284
Botox/Neurology	0.927	3	1.188	1.119	1.208	4	1.460	1.441	1.416	4	1.339	1.471	1.465	4	1.722	1.688	1.574	5
Total Key Brands	772	2,305	793	731	807	2,332	853	870	808	2,532	846	844	796	2,487	841	810	843	2,494

Source: IMS America

Figure 27. Prescription Model
(year-over-year growth)

	Dec-01	4Q01	Jan-02	Feb-02	Mar-02	4Q01	Apr-02	May-02	Jun-02	2Q02	Jul-02	Aug-02	Sep-02	3Q02	Oct-02	Nov-02	Dec-02	4Q02
Eye Care Products																		
Total Alphagan	0%	1%	-1%	-1%	-5%	-2%	2%	0%	-2%	0%	4%	2%	5%	4%	-2%	-2%	1%	-1%
Lumigan	N/A	N/A	N/A	N/A	>1000%	>1000%	>1000%	437%	244%	435%	188%	138%	121%	146%	92%	84%	73%	82%
Total Acular	-4%	-1%	-5%	-2%	-10%	-6%	-2%	-17%	-9%	-10%	-5%	-11%	-6%	-8%	-12%	-10%	-9%	-10%
Alocril	31%	32%	32%	23%	14%	22%	34%	-14%	11%	7%	7%	-3%	-4%	0%	-11%	-9%	-8%	-10%
Betagan	-42%	-39%	-42%	-47%	-43%	-44%	-44%	-42%	-38%	-42%	-33%	-42%	-36%	-37%	-42%	-45%	-38%	-42%
Ocuflox	1%	1%	-2%	-4%	-8%	-5%	3%	-1%	-3%	0%	6%	4%	11%	7%	7%	12%	10%	10%
Total Eye Care	12%	12%	11%	11%	7%	10%	16%	7%	9%	11%	14%	10%	13%	12%	7%	8%	9%	8%
Skin Care																		
Tazorac	63%	67%	54%	49%	47%	50%	61%	51%	49%	53%	48%	34%	47%	42%	34%	28%	30%	31%
Avage	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Azelex	-35%	-34%	-37%	-39%	-41%	-39%	-38%	-41%	-38%	-39%	-29%	-36%	-34%	-33%	-32%	-40%	-38%	-37%
Total Skin Care	8%	10%	4%	2%	2%	2%	10%	5%	9%	8%	17%	8%	18%	14%	11%	5%	7%	8%
Botox/Neurology	20%	28%	21%	29%	40%	30%	52%	42%	62%	52%	35%	34%	71%	45%	40%	78%	70%	60%
Total Key Brands	12%	12%	10%	10%	7%	9%	16%	7%	9%	10%	14%	10%	14%	13%	7%	8%	9%	8%
Sales Weighted Prescription Analysis																		
Total Key Brands	97	288	104	95	104	302	88	90	84	262	92	92	87	271	86	83	88	257
Y/Y Change	1%	1%	4%	5%	1%	3%	-4%	-8%	-7%	-7%	0%	-2%	2%	0%	-12%	-11%	-9%	-11%

Source: IMS America

Allergan Rx Model -- Forecasts

- ▶ We present a review of the methodology we used in forecasting prescription trends.
- ▶ Our revenue assumptions are often driven by Rx trends.

Rx Data

The key variables in understanding specialty pharmaceutical market dynamics are prescription data. We view prescription reporting as a standard tool for understanding and forecasting product revenues.

We begin building our forecast from new prescriptions (NRxs), as it is in the NRx market that doctors and patients make the therapeutic decisions. We believe that in writing or filling a prescription, the physician or patient is forced to decide, "From all the currently available products, which do I choose?" *Therefore, the NRx market is an early indicator of prescription trends, or will reflect changes in prescription trends and market share earlier than the TRx market, which includes refills.*

Continuing across the market, trends in the NRx market drive trends in the total prescription (TRx) market, as the product matures and builds its refill prescription base. Over time, the TRx market share comes in line with the early trends seen in the NRx market. *Therefore, the trends in the NRx market are a leading indicator of trends taking place in the TRx market.*

Key Considerations in Building an NRx Forecast

In forecasting a new product launch from a prescription point of view, the following factors must be addressed:

- ▶ market maturity (year-over-year growth of the total therapeutic market);
- ▶ the number of competing products;
- ▶ the maturity (year-over-year growth) of competing products;
- ▶ clinical/marketing differential between products; and
- ▶ target/forecasted market share for the key competing brands.

The Larger TRx Market

The TRxs are derived from the NRxs and a multiplier reflective of the average number of refills given with each prescription. The multiplier, which equals the number of TRxs/NRxs, gives us a lever from which to forecast TRx growth. The multiplier grows over time to the average of the more mature products (as physicians gain comfort with a product's reliability and efficacy, they may write more refills and require fewer check-ins with the patient). However, in the beginning, as the new prescriptions approximate the total prescriptions, the multiplier is very close to one. As refills grow, adding to total prescriptions but not to new prescriptions, the multiplier grows. We generally forecast the multiplier from an average of the trends seen with new product launches. However, the assumption of continued growth

greatly drives TRx growth, and we model the multiplier to reach the market average in about three years.

The multiplier differs across therapeutic classes depending on the refill rate, which may also be viewed as an indication of the chronic-versus-acute nature of the market. For the glaucoma market, the therapeutic class multiplier is approximately 2.9x and for the allergy eyedrop market about 1.5x; for the quinolone market (antibiotics, which is a highly acute market), the multiplier is approximately 1.0x; and for the very chronic market of oral contraceptives, the market multiplier is approximately 3.5x.

Allergy -- Eyedrop Market**Figure 28. Monthly Prescription Market**

(TRxs in thousands)

TRXs (000s)		Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
Total Market		409	394	521	836	830	695	612	600	579	525	455	477
% YIY Change													
Acular line	AGN	-4%	-2%	-10%	-2%	-16%	-9%	-5%	-10%	-7%	-12%	-9%	-9%
Alocril	AGN	29%	24%	14%	33%	-15%	10%	6%	-3%	-3%	-10%	-7%	-7%
Patanol	ACL	19%	18%	19%	41%	-7%	31%	26%	17%	24%	15%	18%	20%
Key Brands		12%	11%	10%	31%	-9%	20%	16%	9%	14%	5%	8%	9%
Other		21%	19%	14%	31%	-3%	19%	19%	12%	16%	5%	6%	37%
Total Market		14%	14%	11%	31%	-8%	20%	17%	10%	15%	5%	7%	18%
% Market Share													
Acular line	AGN	21.4%	21.0%	17.7%	12.3%	12.5%	13.2%	15.1%	15.3%	15.0%	16.8%	18.0%	16.5%
Alocril	AGN	5.0%	5.1%	5.0%	5.0%	4.9%	4.8%	4.8%	4.7%	4.5%	4.6%	4.5%	4.0%
Patanol	ACL	41.9%	42.8%	48.5%	57.9%	57.1%	55.1%	51.1%	51.0%	52.1%	48.6%	46.5%	42.7%
Key Brands		68.3%	68.8%	71.3%	75.2%	74.4%	73.2%	71.0%	71.0%	71.6%	70.0%	69.0%	63.3%
Other		31.7%	31.2%	28.7%	24.8%	25.6%	26.8%	29.0%	29.0%	28.4%	30.0%	31.0%	36.7%
Total Market		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
NRXs (000s)													
Total Market		265	261	359	637	617	487	408	398	385	339	284	258
% YIY Change													
Acular line	AGN	-5%	-3%	-12%	-2%	-20%	-9%	-4%	-11%	-7%	-13%	-10%	-10%
Alocril	AGN	20%	16%	9%	30%	-23%	6%	1%	-6%	-9%	-17%	-14%	-12%
Patanol	ACL	20%	17%	18%	42%	-13%	32%	25%	15%	22%	12%	16%	16%
Key Brands		10%	10%	8%	32%	-15%	21%	15%	7%	12%	2%	5%	5%
Other		23%	19%	13%	33%	-9%	18%	17%	8%	14%	2%	5%	2%
Total Market		14%	12%	9%	32%	-13%	20%	16%	7%	13%	2%	5%	4%
% Market Share													
Acular line	AGN	22.7%	21.9%	17.7%	11.5%	11.9%	13.1%	15.5%	15.8%	15.5%	17.9%	19.6%	19.7%
Alocril	AGN	4.8%	4.9%	4.9%	4.9%	4.8%	4.7%	4.7%	4.5%	4.2%	4.4%	4.2%	4.2%
Patanol	ACL	40.0%	41.5%	48.8%	59.3%	58.2%	55.5%	50.6%	50.5%	51.8%	47.3%	44.3%	44.3%
Key Brands		67.5%	68.4%	71.4%	75.8%	74.9%	73.3%	70.7%	70.8%	71.6%	69.6%	68.1%	68.2%
Other		32.5%	31.6%	28.6%	24.2%	25.1%	26.7%	29.3%	29.2%	28.4%	30.4%	31.9%	31.8%
Total Market		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: IMS America

Figure 29. Monthly Prescription Market Forecast

(TRxs in thousands)

		Forecast											
TRXs (000s)		Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03
Total Market		477	459	597	1,003	937	777	666	669	665	588	495	450
% Y/Y Change													
Acular line	AGN	-5%	-4%	-4%	-1%	-2%	-4%	-5%	-5%	-5%	-4%	-5%	-10%
Alocril	AGN	-4%	1%	6%	18%	14%	8%	1%	-1%	-2%	-3%	-7%	-12%
Patanol	ACL	9%	6%	2%	7%	-5%	-4%	-8%	-1%	6%	0%	-5%	-10%
Key Brands		4%	3%	1%	6%	-3%	-3%	-6%	-2%	3%	-1%	-5%	-10%
Other		44%	46%	49%	62%	59%	52%	46%	45%	45%	42%	40%	2%
Total Market		17%	16%	15%	20%	13%	12%	9%	12%	15%	12%	9%	-6%
% Market Share													
Acular line	AGN	17.5%	17.3%	14.8%	10.2%	10.8%	11.4%	13.1%	13.1%	12.4%	14.3%	15.6%	15.7%
Alocril	AGN	4.2%	4.4%	4.6%	4.9%	5.0%	4.7%	4.5%	4.2%	3.9%	4.0%	3.8%	3.8%
Patanol	ACL	39.1%	39.1%	43.1%	51.5%	48.2%	47.5%	43.4%	45.0%	48.0%	43.6%	40.7%	40.7%
Key Brands		60.7%	60.8%	62.6%	66.5%	64.0%	63.6%	61.0%	62.3%	64.3%	61.9%	60.2%	60.2%
Other		39.3%	39.2%	37.4%	33.5%	36.0%	36.4%	39.0%	37.7%	35.7%	38.1%	39.8%	39.8%
Total Market		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
NRXs (000s)													
Total Market		270	267	362	648	627	495	402	392	379	333	279	254
% Y/Y Change													
Acular line	AGN	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%	-10%
Alocril	AGN	-12%	-12%	-12%	-12%	-12%	-12%	-12%	-12%	-12%	-12%	-12%	-12%
Patanol	ACL	10%	10%	5%	5%	5%	5%	0%	0%	0%	0%	0%	0%
Key Brands		2%	2%	0%	2%	2%	1%	-3%	-3%	-3%	-3%	-4%	-4%
Other		2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Total Market		2%	2%	1%	2%	2%	1%	-1%	-1%	-1%	-2%	-2%	-2%
% Market Share													
Acular line	AGN	20.0%	19.3%	15.8%	10.2%	10.5%	11.6%	14.1%	14.4%	14.1%	16.4%	17.9%	18.0%
Alocril	AGN	4.1%	4.3%	4.3%	4.3%	4.2%	4.1%	4.2%	4.0%	3.8%	4.0%	3.8%	3.8%
Patanol	ACL	43.2%	44.8%	50.9%	61.2%	60.1%	57.4%	51.3%	51.3%	52.6%	48.1%	45.1%	45.1%
Key Brands		67.3%	68.3%	71.0%	75.7%	74.7%	73.1%	69.6%	69.7%	70.5%	68.4%	66.8%	66.9%
Other		32.7%	31.7%	29.0%	24.3%	25.3%	26.9%	30.4%	30.3%	29.5%	31.6%	33.2%	33.1%
Total Market		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: IMS America

Glaucoma Market**Figure 30. Monthly Prescription Market**

(TRxs in thousands)

TRxs (000s)		Jan-02	Feb-02	Mar-02	Apr-02	May-02	Jun-02	Jul-02	Aug-02	Sep-02	Oct-02	Nov-02	Dec-02
Total Market		2,175	1,974	2,147	2,184	2,238	2,123	2,266	2,221	2,107	2,205	2,111	2,256
% Y1Y Change													
Xalatan	PHA	-4%	-6%	-8%	-3%	-5%	-6%	-2%	-4%	-2%	-6%	-4%	-1%
Rescula	Novartis	10%	-2%	-16%	-11%	-7%	-2%	9%	-5%	-3%	-12%	-3%	-8%
Total Alphagan	AGN	-1%	-1%	-5%	1%	-1%	-2%	4%	2%	5%	-2%	-2%	1%
Lumigan	AGN	N/A	N/A	>1000%	>1000%	437%	244%	188%	138%	121%	92%	84%	73%
Travatan	ACL	N/A	N/A	>1000%	>1000%	637%	412%	329%	249%	206%	155%	126%	107%
Trusopt	MRK	-17%	-16%	-18%	-11%	-12%	-11%	-7%	-10%	-8%	-10%	-11%	-7%
Total Timoptic	MRK	-71%	-75%	-70%	-67%	-67%	-67%	-64%	-65%	-63%	-63%	-54%	-27%
Cosopt	MRK	15%	14%	11%	22%	18%	15%	17%	13%	16%	9%	9%	11%
Key Brands		-5%	-6%	-8%	-2%	-5%	-7%	-5%	-12%	-14%	-18%	-15%	-11%
Other		15%	16%	13%	22%	20%	19%	27%	34%	47%	39%	33%	28%
Total Market		1%	1%	-1%	5%	3%	1%	5%	2%	5%	0%	1%	3%
% Market Share													
Xalatan	PHA	30.8%	30.5%	30.6%	30.6%	30.5%	30.7%	30.6%	30.2%	30.0%	29.9%	29.8%	29.7%
Rescula	Novartis	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Total Alphagan	AGN	14.6%	14.6%	14.5%	14.3%	14.2%	14.1%	14.1%	14.2%	14.2%	14.2%	14.3%	14.3%
Lumigan	AGN	3.8%	4.1%	4.4%	4.7%	5.0%	5.1%	5.2%	5.4%	5.5%	5.7%	5.9%	6.1%
Travatan	ACL	2.3%	2.5%	2.7%	3.0%	3.1%	3.4%	3.6%	3.8%	3.9%	4.0%	4.2%	4.2%
Trusopt	MRK	3.9%	3.9%	3.8%	3.8%	3.8%	3.7%	3.7%	3.7%	3.6%	3.7%	3.6%	3.6%
Total Timoptic	MRK	2.1%	1.8%	2.1%	2.1%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.1%	2.1%
Cosopt	MRK	8.9%	9.0%	9.0%	9.1%	9.1%	9.2%	9.2%	9.4%	9.4%	9.5%	9.5%	9.6%
Key Brands		63.6%	63.0%	63.4%	63.5%	63.4%	63.4%	62.5%	59.5%	57.2%	56.5%	56.2%	56.1%
Other		36.4%	37.0%	36.6%	36.5%	36.6%	36.6%	37.5%	40.5%	42.8%	43.5%	43.8%	43.9%
Total Market		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
NRxs (000s)													
Total Market		777	704	746	747	753	701	745	753	708	739	703	736
% Y1Y Change													
Xalatan	PHA	-2%	-3%	-7%	-1%	-4%	-2%	2%	-3%	0%	-6%	-7%	-2%
Rescula	Novartis	-40%	-32%	-43%	-27%	-12%	-4%	30%	21%	3%	-24%	3%	-5%
Total Alphagan	AGN	6%	2%	-4%	5%	4%	1%	16%	44%	46%	13%	4%	-1%
Lumigan	AGN	N/A	N/A	>1000%	433%	136%	67%	61%	47%	56%	47%	50%	51%
Travatan	ACL	N/A	N/A	>1000%	850%	228%	151%	149%	115%	94%	68%	66%	54%
Trusopt	MRK	-13%	-13%	-16%	-12%	-17%	-15%	-8%	-12%	-8%	-12%	-11%	-5%
Total Timoptic	MRK	-63%	-67%	-60%	-56%	-57%	-60%	-59%	-60%	-59%	-62%	-58%	-40%
Cosopt	MRK	12%	10%	-4%	2%	5%	7%	13%	9%	15%	6%	8%	10%
Key Brands		-1%	-3%	-8%	-3%	-7%	-9%	-6%	-14%	-15%	-20%	-17%	-12%
Other		24%	23%	15%	23%	20%	18%	29%	48%	60%	36%	22%	12%
Total Market		8%	6%	0%	6%	2%	0%	6%	6%	10%	0%	-2%	-2%
% Market Share													
Xalatan	PHA	26.3%	26.8%	26.8%	26.7%	26.5%	26.8%	26.4%	25.0%	25.0%	25.4%	25.9%	26.1%
Rescula	Novartis	0.3%	0.4%	0.4%	0.4%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Total Alphagan	AGN	15.2%	14.9%	14.9%	14.8%	14.9%	14.4%	15.5%	19.5%	19.4%	17.6%	16.5%	15.5%
Lumigan	AGN	4.8%	5.0%	5.2%	5.5%	5.8%	6.0%	6.0%	5.8%	5.9%	6.4%	6.8%	7.2%
Travatan	ACL	3.0%	3.2%	3.5%	3.7%	3.9%	4.2%	4.3%	4.3%	4.4%	4.5%	4.7%	4.7%
Trusopt	MRK	3.6%	3.7%	3.6%	3.7%	3.7%	3.6%	3.6%	3.4%	3.4%	3.5%	3.4%	3.4%
Total Timoptic	MRK	2.4%	2.1%	2.6%	2.7%	2.6%	2.5%	2.4%	2.2%	2.1%	2.1%	2.0%	1.9%
Cosopt	MRK	8.5%	8.7%	8.8%	9.0%	9.1%	9.1%	9.1%	8.8%	8.9%	9.2%	9.3%	9.4%
Key Brands		59.2%	59.3%	60.1%	60.6%	60.6%	60.5%	59.1%	53.8%	52.0%	52.4%	53.1%	53.6%
Other		40.8%	40.7%	39.9%	39.4%	39.4%	39.5%	40.9%	46.2%	48.0%	47.6%	46.9%	46.4%
Total Market		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: IMS America

Figure 31. Monthly Prescription Market Forecast

(TRxs in thousands)

		Forecast											
TRXs (000s)		Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03	Sep-03	Oct-03	Nov-03	Dec-03
Total Market		2,334	2,123	2,253	2,256	2,277	2,123	2,260	2,299	2,160	2,254	2,142	2,243
% Y1Y Change													
Xalatan	PHA	4%	6%	4%	1%	-1%	-2%	-4%	-5%	-5%	-3%	-1%	-2%
Rescula	Novartis	-1%	10%	4%	2%	4%	-4%	0%	-8%	-10%	-7%	-10%	-5%
Total Alphagan	AGN	8%	10%	9%	10%	8%	3%	2%	4%	4%	3%	0%	-7%
Lumigan	AGN	76%	71%	46%	42%	40%	37%	24%	21%	19%	23%	25%	20%
Travatan	ACL	98%	95%	78%	70%	65%	62%	54%	49%	45%	46%	45%	40%
Trusopt	MRK	0%	1%	-1%	-1%	-2%	-4%	-4%	-7%	-6%	-5%	-4%	-5%
Total Timoptic	MRK	-22%	-20%	-16%	-16%	-21%	-7%	-13%	-18%	-20%	-22%	-25%	-29%
Cosopt	MRK	17%	18%	16%	17%	15%	12%	11%	9%	9%	11%	11%	10%
Key Brands		-6%	-3%	-6%	-6%	-7%	-7%	-8%	-4%	-1%	3%	5%	3%
Other		30%	25%	23%	19%	16%	11%	12%	15%	7%	2%	-2%	-6%
Total Market		7%	8%	5%	3%	2%	0%	0%	4%	3%	2%	1%	-1%
% Market Share													
Xalatan	PHA	29.8%	30.2%	30.2%	30.1%	29.8%	30.1%	29.5%	27.8%	27.8%	28.4%	28.9%	29.1%
Rescula	Novartis	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.3%	0.2%	0.3%
Total Alphagan	AGN	14.6%	15.0%	15.1%	15.3%	15.2%	14.5%	14.5%	14.3%	14.4%	14.2%	14.1%	13.3%
Lumigan	AGN	6.3%	6.5%	6.1%	6.4%	6.8%	7.0%	6.5%	6.2%	6.3%	6.8%	7.3%	7.4%
Travatan	ACL	4.3%	4.5%	4.7%	4.9%	5.1%	5.5%	5.5%	5.4%	5.5%	5.8%	6.0%	6.0%
Trusopt	MRK	3.6%	3.7%	3.6%	3.7%	3.6%	3.6%	3.6%	3.3%	3.3%	3.4%	3.4%	3.4%
Total Timoptic	MRK	1.5%	1.4%	1.7%	1.7%	1.7%	2.0%	1.9%	1.7%	1.7%	1.7%	1.6%	1.5%
Cosopt	MRK	9.7%	9.9%	10.0%	10.3%	10.4%	10.3%	10.3%	9.9%	10.0%	10.3%	10.4%	10.6%
Key Brands		56.0%	57.0%	57.0%	57.8%	58.2%	59.2%	57.9%	55.0%	55.1%	56.7%	57.8%	58.3%
Other		44.0%	43.0%	43.0%	42.2%	41.8%	40.8%	42.1%	45.0%	44.9%	43.3%	42.2%	41.7%
Total Market		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
NRXs (000s)													
Total Market		762	693	736	737	744	693	738	750	704	735	699	732
% Y1Y Change													
Xalatan	PHA	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%
Rescula	Novartis	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%
Total Alphagan	AGN	5%	6%	4%	4%	3%	7%	-1%	-22%	-20%	-13%	-9%	-8%
Lumigan	AGN	51%	51%	35%	35%	35%	35%	25%	25%	25%	25%	25%	20%
Travatan	ACL	54%	54%	45%	45%	45%	45%	40%	40%	40%	40%	40%	40%
Trusopt	MRK	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%
Total Timoptic	MRK	-43%	-43%	-42%	-42%	-42%	-28%	-28%	-28%	-28%	-29%	-29%	-29%
Cosopt	MRK	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Key Brands		-11%	-9%	-11%	-10%	-9%	-7%	-7%	-2%	2%	4%	5%	4%
Other		12%	10%	12%	12%	11%	8%	7%	1%	-3%	-5%	-6%	-6%
Total Market		-2%	-2%	-1%	-1%	-1%	-1%	-1%	0%	0%	-1%	-1%	-1%
% Market Share													
Xalatan	PHA	26.2%	26.5%	26.5%	26.4%	26.2%	26.4%	26.0%	24.5%	24.5%	25.0%	25.4%	25.6%
Rescula	Novartis	0.3%	0.3%	0.3%	0.3%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Total Alphagan	AGN	16.3%	16.1%	15.7%	15.7%	15.5%	15.6%	15.5%	15.3%	15.5%	15.3%	15.1%	14.3%
Lumigan	AGN	7.3%	7.6%	7.2%	7.5%	8.0%	8.2%	7.6%	7.3%	7.5%	8.0%	8.6%	8.7%
Travatan	ACL	4.7%	5.0%	5.2%	5.4%	5.7%	6.2%	6.1%	6.0%	6.2%	6.4%	6.6%	6.6%
Trusopt	MRK	3.5%	3.5%	3.5%	3.6%	3.5%	3.5%	3.4%	3.2%	3.2%	3.3%	3.3%	3.3%
Total Timoptic	MRK	1.4%	1.2%	1.5%	1.6%	1.5%	1.8%	1.7%	1.6%	1.5%	1.5%	1.4%	1.4%
Cosopt	MRK	9.6%	9.8%	9.8%	10.1%	10.2%	10.1%	10.1%	9.8%	9.9%	10.1%	10.2%	10.4%
Key Brands		53.6%	54.5%	54.5%	55.4%	55.9%	56.9%	55.7%	52.9%	53.1%	54.6%	55.9%	56.3%
Other		46.4%	45.5%	45.5%	44.6%	44.1%	43.1%	44.3%	47.1%	46.9%	45.4%	44.1%	43.7%
Total Market		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: IMS America

Analyst Certification

I, Angela Larson, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

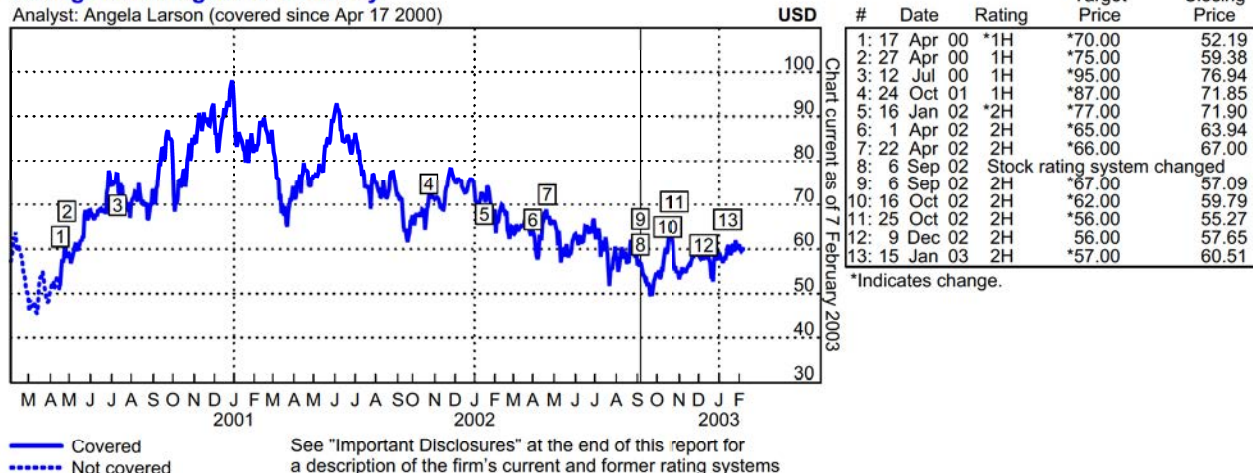
Table of Figures

Figure 1. Specialty Pharmaceutical Brands — Absolute Forward P/E.....	6
Figure 2. Specialty Pharmaceuticals Brand — Relative Forward P/E	6
Figure 3. Specialty Pharmaceutical Coverage Universe	7
Figure 4. Specialty Pharmaceuticals — Valuation and Performance Data	8
Figure 5. Fourth Quarter Historical EPS Comparison	10
Figure 6. Allergan Historical Earnings Surprises.....	10
Figure 7. Botox Quarterly Sales	12
Figure 8. Lumigan Weekly New Prescriptions	12
Figure 9. Lumigan Weekly New Prescription Market	12
Figure 10. Alphagan New Prescription Market Share	13
Figure 11. Allergan Segment Shifts	14
Figure 12. Tazorac Total Prescriptions	14
Figure 13. Changes to Sales Projections.....	18
Figure 14. Allergan Historical EPS Estimate Changes.....	18
Figure 15. AGN Weekly Stock Price.....	21
Figure 16. AGN Daily Stock Price.....	21
Figure 17. Allergan Absolute P/E Chart.....	22
Figure 18. Calendar of Events by Calendar Quarter	24
Figure 19. Product Background.....	26
Figure 20. Allergan at a Glance.....	30
Figure 21. Quarterly Product Sales, 2001–2006E.....	34
Figure 22. Quarterly Product Sales Growth Analysis, 2001–2006E	34
Figure 23. Quarterly Income Statement, 2001–2006E	35
Figure 24. Cash Flow, 2001–2006E	36
Figure 25. Balance Sheet, 2001–2006E	37
Figure 26. Prescription Model.....	38
Figure 27. Prescription Model.....	38
Figure 28. Monthly Prescription Market	41
Figure 29. Monthly Prescription Market Forecast.....	42
Figure 30. Monthly Prescription Market	43
Figure 31. Monthly Prescription Market Forecast.....	44

Allergan Pharmaceuticals (AGN)

Ratings and Target Price History

Analyst: Angela Larson (covered since Apr 17 2000)



IMPORTANT DISCLOSURES

Salomon Smith Barney or its affiliates beneficially owns 1% or more of any class of common equity securities of Allergan Pharmaceuticals.

Within the past 12 months, Salomon Smith Barney or its affiliates has acted as manager or co-manager of a public offering of securities of Allergan Pharmaceuticals.

Salomon Smith Barney or its affiliates has received compensation for investment banking services provided within the past 12 months from Allergan Pharmaceuticals.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Salomon Smith Barney and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability, which includes revenues from, among other business units, the Private Client Division, Institutional Equities, and Investment Banking.

The Firm and its affiliates, including Citigroup Inc., provide a vast array of financial services in addition to investment banking, including among others corporate banking, to a large number of corporations globally. The reader should assume that SSB or its affiliates receive compensation for those services from such corporations.

The Firm is a market maker in the publicly traded equity securities of Allergan Pharmaceuticals.

For securities recommended in this report in which the Firm is not a market maker, the Firm usually provides bids and offers and may act as principal in connection with such transactions.

Salomon Smith Barney Equity Research Ratings Distribution

Data current as of 31 January 2003

	Outperform/ Buy	In-line/ Hold	Underperform/ Sell
SSB Global Equity Research Coverage (2762)	33%	41%	26%
% of companies in each rating category that are investment banking clients	47%	43%	36%
Specialty Pharmaceuticals -- North America (11)	27%	45%	27%
% of companies in each rating category that are investment banking clients	100%	60%	33%

As noted in the headings to our ratings-distribution table, for purposes of NASD/NYSE disclosure rules, our Outperform rating most closely corresponds to a buy recommendation; our In-line rating most closely corresponds to a hold/neutral rating; and our Underperform rating most closely corresponds to a sell rating. Because our ratings are based on the relative attractiveness of a security within an industry or analyst-coverage area, however, Outperform, In-line, and Underperform cannot be directly equated to buy, hold/neutral, and sell categories. Accordingly, your decision to buy or sell a security should be based upon your personal investment objectives and only after evaluating the stock's expected relative performance and risk.

Guide To Investment Ratings: Stock ratings are based upon expected performance over the next 12 to 18 months relative to the analyst's industry coverage universe. An Outperform (1) rating indicates that we expect the stock to outperform the analyst's industry coverage universe over the coming 12-18 months. An In-line (2) rating indicates that we expect the stock to perform approximately in line with the analyst's coverage universe. An Underperform (3) rating indicates that we expect the stock to underperform the analyst's coverage universe. In emerging markets, the same ratings classifications are used, but the stocks are rated based upon expected performance relative to the primary market index in the region or country. Our complementary Risk rating system takes into account predictability of financial results and stock price volatility. L (Low Risk): high predictability of financial results and low volatility; M (Medium Risk): moderate predictability of financial results and moderate volatility; H (High Risk): low predictability of financial results and high volatility; S (Speculative): exceptionally low predictability of financial results and highest risk and volatility. In addition, in the major markets our industry rating system is based on each analyst's evaluation of their industry coverage relative to the primary market index in their region. The industry ratings are Overweight: we expect this industry to perform better than the primary index for the region in the next 12-18 months; Marketweight: we expect the industry to perform approximately in line with the primary index for the region in the

next 12-18 months; and Underweight: we expect the industry to perform worse than the primary market index for the region in the next 12-18 months.

Prior to September 9, 2002, the Firm's stock rating system was based upon the expected total return over the next 12 to 18 months. The total return required for a given rating depended on the degree of risk in a stock (the higher the risk, the higher the required return). A Buy (1) rating indicated an expected total return ranging from +15% or greater for a low-risk stock to +30% or greater for a speculative stock. An Outperform (2) rating indicated an expected total return ranging from +5% to +15% (low-risk) to +10% to +30% (speculative). A Neutral (3) rating indicated an expected total return ranging from -5% to +5% (low-risk) to -10% to +10% (speculative). An Underperform (4) rating indicated an expected total return ranging from -5% to -15% (low-risk) to -10% to -20% (speculative). A Sell (5) rating indicated an expected total return ranging from -15% or worse (low-risk) to -20% or worse (speculative). The Risk ratings were the same as in the current system.

Securities recommended, offered, or sold by SSB: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources SSB believes to be reliable, we do not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute SSB's judgment as of the date of the report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received this report from the Firm may be prohibited in certain states from purchasing securities mentioned in this report from the Firm. Please ask your Financial Consultant for additional details.

This report is distributed in the United Kingdom by Salomon Brothers International Limited. This material is directed exclusively at market professional and institutional investor customers and is not for distribution to private customers, as defined by the rules of the Financial Services Authority, who should not rely on this material. Moreover, any investment or service to which the material may relate will not be made available to such private customers. This material may relate to investments or services of a person outside of the United Kingdom or to other matters which are not regulated by the Financial Services Authority and further details as to where this may be the case are available upon request in respect of this material. If this publication is being made available in certain provinces of Canada by Salomon Smith Barney Canada Inc. ("SSB Canada"), SSB Canada has approved this publication. If this report was prepared by SSB and distributed in Japan by Nikko Salomon Smith Barney Limited, it is being so distributed under license. This report is made available in Australia through Salomon Smith Barney Australia Securities Pty Ltd (ABN 64 003 114 832), a Licensed Securities Dealer, and in New Zealand through Salomon Smith Barney New Zealand Limited, a member firm of the New Zealand Stock Exchange. This report does not take into account the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. Salomon Smith Barney Securities (Proprietary) Limited is incorporated in the Republic of South Africa (company registration number 2000/025866/07) and its registered office is at Citibank Plaza, 145 West Street (corner Maude Street), Sandown, Sandton, 2196, Republic of South Africa. The investments and services contained herein are not available to private customers in South Africa. This publication is made available in Singapore through Salomon Smith Barney Singapore Pte Ltd, a licensed Dealer and Investment Advisor. For purposes of this report, "SSB" includes the aforementioned companies.

Salomon Smith Barney is a registered service mark of Salomon Smith Barney Inc. Schroders is a trademark of Schroders Holdings plc and is used under license. Nikko is a service mark of Nikko Cordial Corporation. © Salomon Smith Barney Inc., 2003. All rights reserved. Any unauthorized use, duplication, redistribution or disclosure is prohibited by law and will result in prosecution.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

US02L062