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“Make the Connection” David Kliff, Publisher

As regular readers of Diabetic Investor know, we typically publish at the end of each month. Readers who receive DI through the mail usually receive their issue one month after the month that appears on the issue. For example, the October issue

which it is published. You will notice in this issue the month as well as the issue number.

Almost as confusing as DI's mailing schedule is two meter companies that have decided to go public at about the same time.

see how the markets will react to having two companies that do almost the same thing go public at almost the same time. While each company has something unique about it, it's doubtful that this uniqueness alone will be enough to sustain the stock

LXN corporation, maker of the InCharge meter, and Therasense, maker of the FreeStyle meter, have both filed documents with the Securities and Exchange Commission (SEC) indicating that they will soon be going public.

is usually received during the first week of November. While regular readers may be used to this schedule, it has caused some confusion with our many new readers. To put an end to this confusion, each issue will now carry a number as well as the month in

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after the IPO (Initial Public Offering) date. To be successful over the long term, both companies will need some help.

Back in April of this year, you might recall that I wrote about Therasense and ques-

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What's Inside This Issue

Make the Connection-

LXN and Therasense File for Initial Public Offering- Are they worth investing in?

It's earnings season and it's a mixed bag for members of our Model Portfolio- See what DI thinks you should do now!

Inverness Medical Goes on a Shopping Spree- What does this mean for Inverness shareholders?

Next Month-

More on the continuing changes in the glucose meter market- From the retailer's perspective.

HBA1C - Is this the next frontier in meter technology? Find out how this market is developing and who's in the lead.

tioned if we really needed another meter company. While the FreeStyle



Photo Courtesy Therasense

meter offers alternate site testing and requires a very small amount of blood, these features alone won't be enough to make the meter a commercial success. Especially when you consider that Lifescan and Medisense, two of the big four meter companies, have come out with alternate site products of their own. In fact, back in August I wrote about the One Touch Ultra, Lifescan's newest meter made by Inverness Medical. The One Touch Ultra, like the FreeStyle, offers alternate site testing, a small blood sample and a five second test time. It won't be long before Bayer and Roche, the other members of the big four, come out with alternate site meters as well. The bottom line here is that back in April the FreeStyle may have been unique, but today it's just one more meter.

Like many companies that go public, Therasense isn't just selling the idea that they have built a better mouse-trap. The fact of the matter is that

the FreeStyle meter may be the product Therasense has today, but their Continuous Glucose Monitoring Device is the product of the future, and it's that product which could differentiate them from the rest. At least that's what they're saying to potential investors. As I have said many times in the past, continuous glucose monitoring is the wave of the future. Continuous glucose readings have opened a whole new world of information that gives patients and doctors a powerful weapon to help fight the disease. Yet, here again, Therasense is not unique. Back in June of 1999, MiniMed received FDA approval for their continuous monitor. Not to mention that almost every other meter company is also working on continuous monitoring. This doesn't mean Therasense won't be successful; it just won't be the only dancer at the ball.

The key question with the Therasense IPO is will the money it raises buy enough time to build market share for the FreeStyle meter, and proceed with its continuous device? Unfortunately, not having enough money is only one of the problems that Therasense faces, and DI sees little evidence that additional money will make shares of Therasense worth more in the future than they will be when they go public.

Like Therasense, LXN also believes they have something unique to offer investors, namely the InCharge meter. Unlike conventional glucose meters, the InCharge also tests for fructosamine. According to LXN, the fructosamine test indicates the average of continuous blood glucose changes over the past 2-3 weeks. The compa-

ny further states that the test is similar to the HbA_{1c} test which measures glucose levels over a 2 to 3 month period and is considered by the majority of diabetes experts as the accepted standard when treating patients with diabetes.

Another unique twist to the InCharge meter is the company isn't pushing patients to test four or more times a day. According to the company's web site, "testing GlucoProtein weekly clearly shows if your diabetes management plan is working or not and if you are trending into or out of control. Trends, rather than individual results, are more indicative of overall glucose control." The company is specifically targeting the 90% of people with diabetes who are Type 2 or non-insulin dependent. Rather than fight the big four at their own game, LXN figures it can win by changing the rules of the game.

Regardless of which rules they play by, it's difficult to see how LXN and their shareholders will ultimately

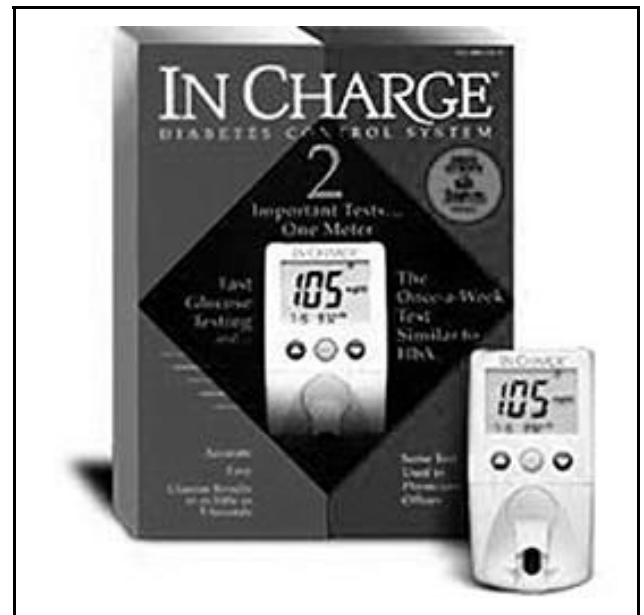


Photo Courtesy LXN

come out on top. Even if the fructosamine test was accepted by diabetes professionals, which it isn't, a great deal of patient education would be required so that users understood exactly what the test results mean. The HbA1c test, which is accepted by the majority of diabetes professionals as the standard, isn't understood by most patients or their primary care physicians. Could a competing number be easily explained and understood?

Finally, one has to wonder what makes LXN think that Type 2 patients who don't test regularly for glucose will test once a week for fructosamine. This is still a test, which requires a blood sample, 15 microliters of blood. If that number sounds high, consider that the FreeStyle meter by Therasense requires just 0.3 microliters of blood and the One Touch Ultra by Lifescan requires just 1.0 microliters. So not only is the patient required to draw blood, it's a significant amount of blood. All of this for a test that few understand.

Like Therasense, it's difficult to see how raising more money will help LXN or their future shareholders.

Earnings News From Model Portfolio Members

In what can only be described as exceptional, PolyMedica (NASDAQ:PLMD) announced another quarter of record earnings of \$0.52 per share, \$0.03 above analyst's estimates. It didn't matter where you looked - almost every area looked great. Revenues for the quarter were 73% above where they were in the comparable period last year.

According to PolyMedica's Chairman and CEO Steven Lee, "There were several significant milestones for our Company during the second quarter, including breaking through the 20% operating margin barrier for the first time in our history." Listening to the earnings announcement was like listening to a PolyMedica love fest. (You can hear a reply of the announcement on the company's web site www.polymedica.com. The reply will be available until November 13th.) The street really liked the news as the stock jumped over \$7 after the announcement and another \$1.88 the next day.

So is now the time to sell? Definitely not! Things are going to get even

better.

Also setting records in the third quarter was model portfolio member MiniMed (NASDAQ:MNMD), but the reaction was decidedly different than what happened with PolyMedica. Although Al Mann, Chairman and CEO of MiniMed, stated that, "The 2000 third quarter is the strongest in our history with respect to both sales and profitability", the street was looking for even better performance and shares in MiniMed dropped by over \$12. **DI SEES THIS DROP AS AN EXCELLENT BUYING OPPORTUNITY.**

It won't be long before MiniMed combines the technology it has in the Continuous Glucose Monitoring System (CGMS) with its pump technology for a truly closed loop system; not to mention the work they're doing with a disposable pump and using pumps to deliver other forms of treatment - not just insulin.

Even without new products, MiniMed is still in a solid position to take advantage of the growing demand for insulin pumps. Often lost

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Model Portfolio Update

| Company | Purchase Price | Current Price | % Change Year to Date | % Change From Last Issue | % Change Since Inception |
|------------|----------------|---------------|-----------------------|--------------------------|--------------------------|
| MiniMed | \$13.69 | \$65.13 | 100.40% | -24.21% | 375.75% |
| PolyMedica | \$10.44 | \$57.63 | 248.01% | 44.98% | 452.01% |
| JNJ | \$72.50 | \$91.69 | -3.15% | -3.15% | 26.47% |
| Lilly | \$69.56 | \$87.69 | 27.90% | 6.45% | 26.06% |
| Novo | \$110.00 | \$107.44 | 67.20% | -2.33% | -2.33% |

Note- Novo's % Change Year To Date is based on Novo's closing price 12/31/99.

in all the talk about new technology is the fact that just 10% of all Type 1 patients use insulin pumps and MiniMed controls nearly 85% of that market. Each day pump therapy is gaining support from both patients and healthcare professionals. DI sees no reason why as pump therapy grows in popularity that MiniMed sales won't grow with it.

The street may have been disappointed this quarter, but long time MiniMed shareholders won't be disappointed by holding onto or adding to their stake in this well run company.

Finally, on the earnings front, I had the pleasure of attending the Johnson and Johnson (NYSE:JNJ) earnings announcement in New York. As you know, Lifescan is owned by JNJ, and speaking at this announcement was Eric Millidge, President of Lifescan. The result is great news if you're an Inverness Medical (AMEX:IMA) shareholder. As I reported back in August, Lifescan has been losing market share and has turned to IMA as their SOLE supplier of new meter technology. As I mentioned earlier in this column, the One Touch Ultra is made for Lifescan by Inverness. With sales down and a huge base of customers using older meters, Lifescan plans to convert users to newer meters such as the FastTake and One Touch Ultra, both made for Lifescan by Inverness.

Lifescan is so committed to this strategy that they're scaling back support for their older meters. Although they won't be abandoning these users, it's clear the goal is to convert them to newer meters, which are made for Lifescan by Inverness. Just how big is this market for Inverness? According to Eric Millidge, Lifescan's President, the current breakdown of strip sales is 15% for

Inverness made meters and 85% for Lifescan made meters. By the end of the first quarter of next year, he projects the numbers will be 30% for Inverness and 70% for Lifescan. If that's not enough to get you to buy IMA stock, consider that Lifescan has NO OTHER meter supplier besides IMA. I strongly believe that in an effort to enhance margins, Lifescan will buy IMA outright.

Inverness Medical Goes on a Shopping Spree

The street may have been disappointed this quarter, but long time MiniMed shareholders won't be disappointed by holding onto or adding to their stake in this well run company.

Long time readers of DI might recall that back in October of 1999, I recommended buying shares of Integ, which were then trading near \$2 per share, because they had agreed to be acquired by Amira. In a surprising move, Inverness Medical agreed to acquire Integ, using their stock as currency. Should the deal close as announced, owners of Integ stock will receive 0.187 shares of IMA for each share of Integ they own. In effect, Amira's failure to go public allowed Inverness to step in and buy the company. Inverness and Amira will share in the technology Integ develops up to the close of the deal. The bottom line here is that even with Integ's collection technology, Inverness is in a better position than Amira to market the technology. News of the deal sent Integ shares soaring and they now trade near \$5 per share. DI recommends that own-

ers of Integ hold their shares, as IMA shares will be even more valuable in the future.

In another deal, Inverness and Debiotech S.A., a privately owned Swiss company, announced that they have entered into an agreement in which Debiotech will develop an externally-worn insulin pump. Inverness will have exclusive worldwide rights to manufacture and distribute the product. Although it's too early to tell just how Inverness plans to market insulin pumps, DI can see Inverness using this as a stepping stone to offer co-branded or private label pumps to retailers. Just as the glucose meter market is evolving into a segmented marketplace with both premium products and value priced products, DI can see the day when insulin pumps also travel down this road.

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