

## INDUSTRY OUTLOOK

Drug stocks have maintained their up-trend in recent months and should continue buoyant over the near term, largely on respectable earnings growth and investor rotation to defensive issues. Merger and acquisition interest in this sector is also likely to continue, piqued by Upjohn's recently announced plan to merge with Swedish drugmaker Pharmacia AB in a \$13 billion stock swap. More competitive global drug markets, a tougher pricing environment and the growing influence of cost-conscious managed care customers have spurred much consolidation in this industry in recent years. We continue to recommend investments in leading drugmakers with dominant market positions, proven R&D productivity and strong new drug pipelines.

The regulatory tide has also turned in favor of the pharmaceutical industry. The present Republican leadership in Congress is pressuring the FDA for speedier and more efficient review of new drug applications. In addition, the late 1994 passage of GATT legislation has been a boon for the drug industry by extending drug patent lives from 17 to 20 years. Rules on the granting of new biotechnology patents have been eased.

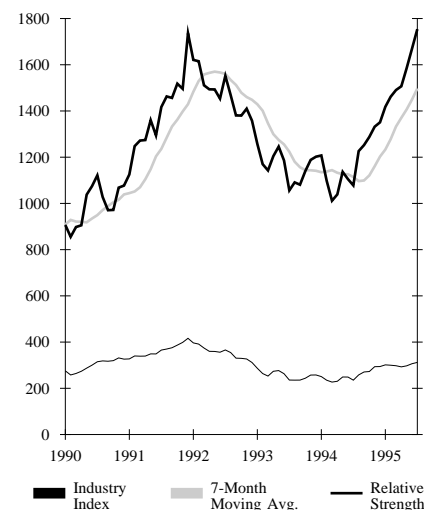
Although the governmental regulatory situation has improved, drug manufacturers are still having to live with a more difficult cost-constrained marketplace in the private sector, particularly from managed care purchasing groups. Drugmakers also face patent expirations on a large list of products and the phase down of important tax credits from manufacturing operations in Puerto Rico. These factors are expected to restrain overall industry profit to roughly 10%, as compared with the strong double-digit gains seen a few years ago.

Despite these negatives, companies with low cost producer status and strong research and global marketing strengths are expected to perform well in the years ahead. Positive industry fundamentals include the recession-resistant nature of drug products; the aging population; and the cost effectiveness of drugs over more expensive hospital therapies. Restructuring moves should also bolster the margins of many firms. Merger and acquisition activity in this sector is also likely to increase, as companies pool their strengths to compete more effectively in a more price-sensitive marketplace.

### Industry Stock Performance Related S&P 500 Industry Index

#### Health Care - Drugs

#### Month-end Price Performance As of 07/31/95



## OTHER INDUSTRY PARTICIPANTS

Principal Peer Group	Stock Symbol	Recent Stock Price	P/E Ratio	12-mth. Trail. EPS	30-day Price Chg %	1-year Price Chg. %	Beta	Yield %	Quality Ranking	Stk. Cap. (mil. \$)	Ret. on Equity %	Pretax Margin %	LTD to Cap. %
<b>Johnson &amp; Johnson</b>	<b>JNJ</b>	<b>68</b>	<b>20</b>	<b>3.45</b>	<b>-4%</b>	<b>39%</b>	<b>1.21</b>	<b>1.9</b>	<b>A+</b>	<b>43,884</b>	<b>31.6</b>	<b>17.0</b>	<b>23.3</b>
Abbott Laboratories	ABT	37 <sup>3</sup> / <sub>4</sub>	19	2.01	-3%	24%	0.82	2.2	A+	29,956	39.7	23.7	6.5
American Home Products	AHP	79 <sup>1</sup> / <sub>4</sub>	11	6.95	2%	32%	0.80	3.8	A+	24,559	37.8	22.6	68.5
Bristol-Myers Squibb	BMJ	68 <sup>3</sup> / <sub>8</sub>	18	3.90	0%	21%	1.12	4.3	A+	34,678	31.8	21.3	10.1
Glaxo Wellcome	GLX	24	18	1.35	1%	20%	1.05	3.9	NR	36,593	27.2	32.5	4.9
IVAX Corp.	IVX	26	34	0.76	5%	28%	1.87	0.3	B-	2,982	14.0	10.7	28.2
Lilly (Eli)	LLY	78 <sup>1</sup> / <sub>8</sub>	17	4.60	0%	40%	1.10	3.3	A	22,849	23.9	29.7	27.7
Merck & Co.	MRK	50 <sup>5</sup> / <sub>8</sub>	20	2.53	1%	53%	1.15	2.7	A+	62,608	28.4	30.1	7.8
Pfizer Inc.	PFE	48 <sup>7</sup> / <sub>8</sub>	22	2.26	3%	43%	1.44	2.1	A-	30,867	32.0	22.5	11.7
Pharmacia Aktiebolag*ADS	PHARY	27 <sup>1</sup> / <sub>2</sub>	27	1.01	14%	64%	NA	1.0	NR	6,959	NM	NM	NA
Rhone-Poulenc Rorer	RPR	44 <sup>1</sup> / <sub>8</sub>	14	3.25	2%	25%	1.17	2.7	B+	5,919	22.1	11.6	18.2
Schering-Plough	SGP	46 <sup>5</sup> / <sub>8</sub>	21	2.19	1%	33%	0.82	2.5	A+	17,348	59.6	26.0	9.3
SmithKline Beecham ADS	SBH	47 <sup>1</sup> / <sub>2</sub>	45	1.06	4%	34%	NA	2.8	NR	25,546	NM	NM	NA
SmithKline Beecham plc	SBE	46 <sup>1</sup> / <sub>4</sub>	NM	NA	3%	47%	1.02	2.9	NR	12,400	7.9	10.6	48.6
Upjohn Co.	UPJ	42 <sup>1</sup> / <sub>4</sub>	15	2.84	13%	17%	1.21	3.5	A	7,300	21.5	19.2	24.2
Warner-Lambert	WLA	88 <sup>7</sup> / <sub>8</sub>	17	5.27	6%	8%	0.97	2.9	A-	11,982	43.2	15.7	21.7

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