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THE NEW AMERICA

CUBIST PHARMACEUTICALS INC. *Lexington, Massachusetts*

Drug Maker Targets Infections That Are Resistant to Antibiotics

BY KEVIN HARLIN

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Hospitals can be dangerous places for sick people.

Their wards can be a fatal mix of weakened immune systems and nasty bacteria that tolerate some of the strongest antibiotics. But that's created opportunities for **Cubist Pharmaceuticals**^{CBST}.

The Lexington, Mass.-based drug research company sells the intravenous antibiotic daptomycin under the brand name Cubicin. It goes after nasty bacteria that can cause staph infections, and other skin and bloodstream infections.

The five-year-old drug has been the most successful new I.V.-antibiotic launch in the U.S., based on sales. It's delivered consistent double-digit revenue growth and nine consecutive profitable quarters for Cubist.

Cubicin is steadily taking market share from its main competitor, Vancomycin. That generic antibiotic has long been the treatment of last resort for some drug-resistant strains of bacteria. But as drugs are used, bacteria mutate, developing resistance.

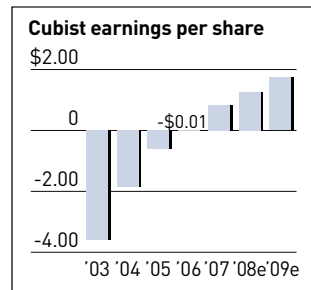
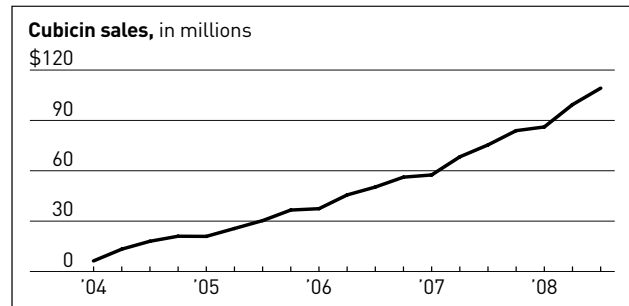
Resistant Bugs

Cubicin is part of that next generation of antibiotics that target those resistant bugs.

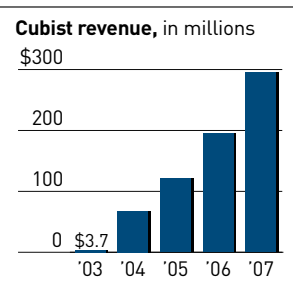
Competitors have other drugs in the works as well. Federal regulators could approve some for further

Biotic Battles

The antibiotic Cubicin has racked up cumulative U.S. sales of about \$1 billion since winning regulatory approval five years ago. Analysts say the trajectory should continue.



Source: Company reports



tests later this month. But analysts say Cubicin has a powerful head start.

"This is a market slow to adopt new drugs," said Jason Kantor, an RBC Capital Markets analyst. "If you look at the ramp of Cubicin, it's taken them many years to get where they are."

The company reported \$6.3 million in Cubicin sales in the first quarter of 2004, shortly after the drug hit the market. By the third quarter of this year, net U.S. sales reached \$109.2 million. The company said full-year U.S. Cubicin sales will be \$410 million to \$420 million.

Cubist estimates that more than 570,000 people

have been treated with the drug. The company says it's sold more than \$1 billion worth of Cubicin since its launch.

"We had to slog it for five years to get to where we are today, David McGirr, Cubist's chief financial officer, said during an investment conference earlier this month. "It's an important point to have in mind as we talk about competition because they will begin back at that zero number if they ever get approved. They will have to climb this wall like we did."

MRSA — or methicillin-resistant Staphylococcus aureus — is a growing problem. S. aureus is commonly carried on the skin and in

Cubist Pharmaceuticals

cubist.com	
Ticker	CBST
Share price	Near 25
12-month sales	\$388 mil
5-year profit growth rate	n.a.

IBD SmartSelect Corporate Ratings

Composite Rating	99
Earnings Per Share	61
Relative Price Strength	98
Industry Group Relative Strength	A+
Sales+Profit Margins+ROE	A+
Accumulation/Distribution	A-

See Investors.com for more details

the noses of completely healthy people. But if it finds an open sore or a weakened immune system, a full-on staph infection can develop. The Centers for Disease Control says that 60% of the strains it finds are the methicillin-resistant variety. That means most of the frontline and secondary attack doctors usually use have little impact.

MSRA has been showing up in hospitals, nursing homes, jails, and even neighborhood gyms and fitness centers. Cubicin is approved to go fight MRSA.

One of its big advantages is that Cubicin is administered once daily, rather than the twice-daily dosage required of some other antibiotics. That's helped expand its use for outpatients as well as those confined to hospital and nursing homes.

Cubist partners with European drug giant **Novartis**^{NVS} for sales outside the U.S. But the drug has made far less headway with European regulators and doctors. The company expects just \$7 million in revenue this year outside the U.S.

(Continued)

U.S. sales have been so strong though, the company earlier this year expanded its headquarters and research facility in Lexington.

Researchers at **Eli Lilly**^{LLY} first discovered the compound in Cubicin in the 1980s. It showed some early promise, though that company later put it aside. Cubist formed in 1992. In 1997, it licensed the compound from Eli. And in September 2003, it won FDA approval for the drug.

Cubicin isn't Cubist's only product, but it's by far the most important.

Cubist's third-quarter revenue rose 41% to \$112.4 million — almost entirely from Cubicin.

Earnings climbed 38% to 44 cents per share, 11 cents better than analysts' forecast.

Analysts surveyed by Thomson Reuters expect full-year EPS of \$1.26, up 48% vs. 2007.

Cubist has several new compounds in various stages of development. But those are potentially years off. This summer the company signed a deal with **AstraZeneca**^{AZN} to sell its antibiotic, Merrem, which works against bacteria that don't respond to Cubicin.

That should bring in about \$9 million this year and \$20 million in 2009. While the amounts are small, the company

has no development and very low marketing costs associated with the drug.

"We're selling this compound, we're selling Merrem to the same hospitals, the same doctors, that we're already talking to about Cubicin, so (it is) a very nice little deal for us," McGirr told investors.

Single Product

Still, that reliance on just one compound is one of the risks with Cubist, analysts say. Next week, the FDA will look at three other drugs to see if they have merit in fighting some of the same skin infections Cubicin targets.

RBC's Kantor doesn't have high hopes for those

potential rivals. But he thinks an FDA rejection of those competitors has already been priced into the stock. So if the FDA gives any of them a green light, Cubist could take a hit.

And as Cubicin gains market share, it makes itself a more attractive target for generic drug makers. Cubicin has patent protection on the dosing and administering of the drug. So far, it appears no one has filed the necessary patent challenge to attempt a generic. A key expected date for such a filing — the five-year anniversary of Cubicin's FDA approval — passed in September without notice.

As Stanford Group analyst Biren Amin said in a research note, "No news is good news."

