

Wyeth

Ratings:	Baa1/A
Bond Score:	AAA
EBITDA Interest Coverage:	45.0x
EBITDA-Capex Interest Coverage:	28.2x
Net Debt/EBITDA:	0.4x
ST/LT Debt Ratio:	4.3%
Earnings Surprise:	Significant Positive

Wyeth is one of the world's leading pharmaceutical and health care products companies. The company's latest twelve-month revenues were about \$17 billion and reported earnings of approximately \$3.3 billion. Its leading positions are in the discovery, development, manufacturing and marketing of pharmaceuticals, vaccines, biotechnology products and non-prescription medicines. Wyeth is developing treatments for cancer, diabetes, HIV, multiple sclerosis and schizophrenia. The company's major products include Effexor (anxiety and antidepressant), Enbrel (arthritis), Advil, Centrum, Chap Stick and Robitussin. The company has been dealing with litigations of diet drug, fen-phen, since the late 1990s and has reserved about \$17 billion and paid out more than \$14 billion so far.

I. Credit Positives

1. Wyeth has strong operating fundamentals. It also has significant financial strength to withstand further additional litigation reserves. It reported more than \$1.1 billion of free cash flow after capex for the latest twelve months. The company has about \$6.1 billion of cash on its balance sheet.
2. Wyeth's key products have shown solid growth and expect to continue the trend. The company's over-the-counter products should be strong, especially with Advil benefiting from the Vioxx recall and shortage of flu vaccine boosting orders for cough medicines.
3. The momentum for diet drug litigation has been positive for the company since the second half of 2004 as Wyeth has had a number of winning verdicts and relatively small monetary judgments in several opt-out lawsuits. As a result, Wyeth's risk profile has improved significantly.
4. Wyeth has less generic exposure compared to most of its peers for the next few years.
5. The company's debt maturity schedule for the next five years is very manageable as there are only two debts maturing for a total amount of \$609 million.

VANDERBILT AVENUE ASSET MANAGEMENT

II. Credit Concerns

1. The company is still involved with the fen-phen litigation as it is now dealing with opt-out lawsuits. We expect the company will need to take additional reserves in the near future. Currently, the company has about \$3 billion reserves on the balance sheet to deal with opt-out lawsuits.
2. Wyeth has a history of negative headline risk which makes its bond spread volatile.

III. 2004 Security Performance

Wyeth was one of the best performing bonds in the Pharmaceutical sector and in our portfolio in 2004. The company's bonds generated about 358 basis points of excess returns (returns above duration neutral US Treasuries) which outperformed the Lehman Credit Index by 206 basis points.

IV. Recommendation

We have maintained our position in the company for now. However, we recognize that the paper has narrowed considerably over the past year as noted above and we are concerned about further diet drug headlines and the potential for spread widening. There also exists the possibility that other headline type news not related to diet litigation could come to the forefront and lead to a spread widening. As a result, we will look for an exit point over the next few weeks and replace it with another name.