

Taking Stock: The skinny on diet 'wonder drugs'

by Malcolm_Berko

Dear Mr. Berko: A colleague lost more than 60 pounds in eight months because her physician prescribed a weight-loss pill called Xenical. She looks great and tells me that her weight loss was easy. I also hear of others who have had good success with Xenical, which seems to be a miracle drug for fat people. This drug is made by GlaxoSmithKline and I've been told that it is now available over-the-counter without a prescription and that this drug is the only weight-loss pill approved by the Food & Drug Administration for OTC purchase. I think this will be a huge success (better than Viagra) because so many Americans are so overweight. Because it can be bought without a prescription, it seems to me that this drug could increase Glaxo's sales by 20 percent, or \$8 billion. Because fat people would have to use this pill every day, I would like to buy 50 Glaxo if you think my reasons make good sense and if you think the stock could double in a couple years. Please tell me if you think the stock could double in a couple years. I might be able to come up with enough money to buy 75 shares if you think I should.

L.W.

Kanke, Ill.

Dear L.W.: Xenical's chemical name is orlistat, just as the chemical name for Viagra is sildenafil. It's what's in a name that counts and I'm sure that you'll agree that Xenical sounds better than orlistat.

Meanwhile, Xenical has been a smashing success for GlaxoSmithKline (GSK-\$52.06) and it is available on the shelves at CVS and Walgreen's under the alias "Alli." According to one of my kids who is a physician, Alli (like Xenical or orlistat) inhibits an intestinal enzyme called 'lipase' that breaks up fat so it can be more easily digested before it settles in your hips and thighs. Because less fat is absorbed, more weight is lost. However, I suspect you're being too optimistic.

OTC sales of Alli will have as much impact on GSK's bottom line as would the advent of another fly impacting a garbage scow. Xenical "ain't" the panacea that most folks believe it is. And no matter what those ludicrous, farcical weight-loss ads claim on TV and in newspapers, diet pills don't work unless the subject (1) exercises (2) moderates his/her diet and (3) expends more calories than he/she takes in. No diet pill is a magic bullet, although deceptive advertisements, which border on fraud that tout bogus claims would have you believe otherwise. In conclusion, Xenical's OTC debut plus \$1.50 will buy you a cup of coffee in Kankakee.

However, GSK may have the largest drug pipeline in the world with 51 pills, unguents, salves, injectables and other medicaments in Phase 2 trials plus another 17 pharmaceuticals in Phase 3 trials. And four drugs, which will be released in the coming 12 months, have the capacity to add about \$7 billion to Glaxo's revenues within the coming couple years.

This company has the broadest product line in the drug industry. GSK's portfolio has an enormous variety of therapeutics, with solid participation in respiratory, diabetes, anti-viral and cancer medications plus a strong line of vaccine offerings. GSK seems to have mastered the art of extending the product life of popular branded drugs beyond patent expiration dates via the development of improved formulations. That in itself is worth billions.

Revenues and earnings should continue to grow nicely over the coming four to seven years with the suits on the Street expecting growth between 5 percent and 8 percent. The suits also expect GSK's dividend to grow proportionately. The current \$1.92 payout yields 3.7 percent and may be increased to the \$2.10 level in the coming dozen months. GSK has barrels and buckets of cash and its balance sheet is oak solid. So I'd be comfortable owning GSK at the current price because I believe this stock will be a \$75 to \$80 stock in the coming three years.

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