

INVESTOR'S BUSINESS DAILY

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The New America

HI-TECH PHARMACAL INC. Amityville, N.Y.

Following The Money Keeps These Guys Fit

One Focus Is Diabetes

As more people get the illness, suppliers eyeball new products to treat it

BY GLORIA LAU
INVESTOR'S BUSINESS DAILY

Where there's a medical problem, there's money to be made.

Diabetes is a case in point. Three years ago it was estimated that there were 14 million diabetics in the U.S., says Dr. Gene Barrett, president-elect of the American Diabetes Association and professor of medicine at the University of Virginia. Now the number is closer to 16 million or 17 million.

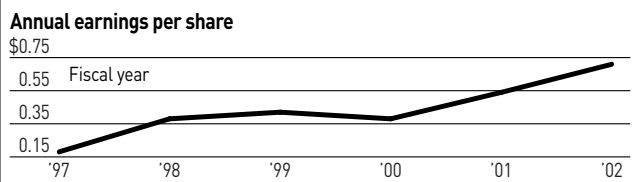
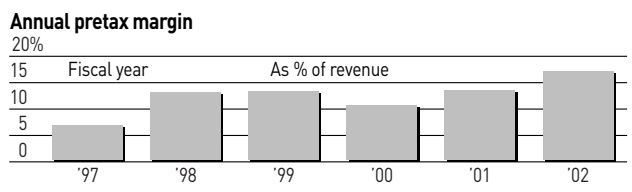
"It's a large number of people, and it's getting bigger all the time," Barrett said.

Not surprisingly, a lot of companies are trying to figure out new ways to treat or prevent the disease. That includes Hi-Tech Pharmacal Co., which makes and markets prescription, over-the-counter and nutritional products.

One of its focuses is diabetes, and one of its products on that end is DiabetiSweet. It's a sugar substitute that doesn't include aspartame, or NutraSweet,

Boring But Profitable

Hi-Tech Pharmacal doesn't specialize in the flashy brand name drugs. Instead, the company makes a steady profit off generic copies of brand-name drugs and over-the-counter goods such as foot creams, cough syrups and products for diabetics



Source: Company reports

which some studies have determined might cause health problems.

In addition, Hi-Tech's Health Care Products division markets branded, over-the-counter products and prescription drugs mainly for diabetics.

The unit recently launched three new products: Multi-betic, a multi-vitamin and mineral supplement formula, DiabetiDerm, a foot cream, and DiabeticTussin, a sore throat spray.

Hi-Tech officials didn't return phone calls seeking comment. But a company filing with the Securities and Exchange Commission notes that one of the

firm's goals is to introduce two new brands for diabetics before the end of this fiscal year.

"(The company) is confident it can maintain its leadership position in the area of improving the lifestyle of people with diabetes," the document says.

Healthy Growth

Private insurers and government agencies have been willing to pay for products that help diabetics monitor their disease, says analyst Ted Huber of Banc of America Securities.

It's cheaper to help patients keep their disease in check than to pay for the costly ailments that could ensue.

"It's one of the healthier growing markets in the medical world," said Huber, who doesn't follow Hi-Tech, but does follow several companies that make products for the diabetes market. "There are no cures in the immediate horizon that will change this dynamic."

That should bode well for Hi-Tech if it's successful in launching new diabetes products. In the meantime, there's plenty of business from the other items it carries.

Demand Drives Growth

Hi-Tech markets more than 70 products to about 100 customers. Generic products generated 79% of its sales during fiscal 2002, which ended in April. The rest came from branded goods.

The firm's biggest clients are drug store chains, drug wholesalers, generic distributors, mass merchandisers and mail-order pharmacies.

Customers include CVS Corp., K-Mart Corp., McKesson Corp., Rite Aid Corp., Watson Pharmaceuticals Inc., Walgreen Co. and Wal-Mart Stores Inc.

Those clients helped Hi-Tech post \$8.8 million in sales during the fiscal first quarter, which ended July 31. That was up 50% from

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the prior year. Earnings grew 96% to 19 cents a share.

“The significant growth in net sales is the result of increased demand for our generic prescription product line in all classes of trade,” President and Chief Executive David Seltzer said in a statement at the time.

New branded products for diabetics also boosted the bottom line, he says. So does the company’s focus on high-margin prescription generic products.

Hi-Tech has received Food and Drug Administration approval to market more than 23 generic products.

The company’s most recent FDA approval came in October. That’s when it got permission to market Prednisolone Sodium Phosphate Oral Solution, the generic version of Celltech Group’s PediaPred, which is used to

treat endocrine, rheumatic and skin disorders and allergies in adults and children.

Hi-Tech plans to start marketing the product after Celltech’s patent expires in December 2002.

In the generic drug business, it’s key that a company’s product be among the first introduced. If there’s too much competition, a generic firm’s profit margins are slim.

But because a generic drug maker doesn’t incur the \$300 million to \$500 million in research and development fees it costs to develop a new drug, it doesn’t need to make as much money back.

A generic drug maker typically spends only \$1 million to \$2 million on R&D efforts to copy a brand-name drug.

Hi-Tech’s generic drugs are sold under the Hi-Tech name. Its brand-

ed items are mainly for diabetics.

The company also markets other niche over-the-counter brands — such as Kosher Care, Nasal Ease and Soothing Comfort — to the general market.

Hi-Tech Pharmacal Inc.

hitechpharm.com

Ticker	HITK
Share price	Near 19
12-month sales	\$36 mil
5-year profit growth rate	18%

IBD SmartSelect Corporate Ratings

Earnings Per Share	92
Relative Price Strength	98
Industry Group Relative Strength	A
Sales+Profit Margins+ROE	A
Accumulation/Distribution	B+

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