



FROM THE EDITOR FRED W. FRAILEY

The Power of an Idea

Doggone, Andrew Tanzer was right! Andrew is my colleague who came back from the Value Investing Congress in New York City a year ago and remarked that each time a presenter talked fervently about a stock, you could see attendees hunched over their BlackBerries, buying shares. At the most recent such event I noticed the same phenomenon. At 9:40 A.M.,

when Lance Helfert, of West Coast Asset Management, began explaining the virtues of Noven Pharmaceuticals, its price stood at \$14.86 a share. Scarcely an hour later, it was at \$16.21. The power of a good idea is amazing, isn't it?

Good patchwork. I'd never heard of Noven (symbol NOVN), but it has many earmarks of a superior investment. It's a specialty-drug company whose forte is patches that adhere to the body and deliver medication. To borrow Helfert's phrase, this is "a beautiful business." Patches work with many compounds. Because a patch can extend the life of a drug and differentiate it from similar drugs, big drug companies partnering with Noven pay its development-and-marketing costs. And Noven's unique technology, patented until 2014, allows it to pack doses of drugs into far smaller patches

than those of its competitors.

Noven's biggest product is Vivelle-Dot, a patch that delivers estrogen to menopausal women. In a \$1.7-billion market, Vivelle-Dot has a small but growing share and, says Helfert, "we believe it is the best product." Vivelle-Dot is a partnership with drug giant Novartis, and in 2007 Noven's after-tax share of the profit was expected to be roughly \$35 million. If you multiply that by ten, says Helfert, the business value of this one product is \$350 million, or \$14 per share. He ascribes another \$85 million in value to a second patch, Daytrana, which is used to treat attention-deficit hyperactivity disorder in children and is sold in partnership with Shire Pharmaceuticals. The two companies hope to launch a second ADHD patch in 2010 to deliver amphetamine. Beyond all that, Noven is involved in multiple partnerships for drug products

in development that it will not disclose for competitive reasons. The company believes its patches can deliver 35 compounds treating everything from pain and depression to obesity and motion sickness.

I'd expect shares of a company with these attributes to be priced at least in the mid \$20s. And, in fact, Noven Pharma was in the \$25 range until it announced last July the purchase of privately owned JDS Pharmaceuticals for \$125 million in cash—yup, Noven is flush with money. The deal gave Noven two non-patch drugs belonging to JDS (and numerous others in the pipeline), as well as its own sales force. For whatever reason—maybe investors were spooked because Noven moved away from total reliance

on patch-delivered drugs—the stock slid steadily down to the \$14 range, where it stood when those BlackBerries started to deliver buy orders.

Moments of truth. I'm telling you all this because, frankly, I get a rush from good investment ideas. I'll never forget the day in 2004 that I interviewed Matt Rose, head of Burlington Northern Santa Fe, and realized midway through that the railroad business had fundamentally changed for the better—and that almost nobody knew it. I can't count the number of times this magazine has since recommended BNSF stock. So kudos to my fellow attendees of the Value Investing Congress for being alert. And here's to your own investment success in 2008. ■

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