SG Cowen & Co.

Taro Pharmaceutical

Initiating Coverage

Risk/Reward Profile Favors Purchase At These Levels

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Conclusion: Given the recent operational difficulties, TARO shares have depreciated by 60% YTD and are trading at a 15-20% discount to the generic group on our calendar 2006 and 2007 EPS estimates. This discount is understandable given the key to performance for any generic manufacturer is new drug visibility – and with Taro it is noticeably low. However, we believe that Taro's valuation now appropriately reflects that lack of pipeline clarity and as modeled, we believe that TARO shares represent a favorable risk reward opportunity for investors with a longer-term view. For this reason, we recommend purchase of TARO shares at these levels, with 20% appreciation relative to the market possible over the next 12 months.

- **Visibility Is Low, But Valuation Appears To Reflect This Reality.** We believe we have taken a conservative approach to our 2006-2007 projections. We forecast new U.S. generic product flow adds only $15MM in 2006 and essentially offsets any continued erosion in the U.S. base-line for flat U.S. generic revenue Y/Y. However, assuming continued modest growth in Taro's U.S. proprietary line (+13% adding $5MM), growth in Canada (+9% adding $3MM) and Israel (+10% adding $2MM) should lead to a 2-4% Y/Y increase in total 2006 revenue, to $315MM. An anticipated modest improvement in 2006 gross margin and likely lower SG&A should lead to a 30-35% EPS gain in 2006, to $0.75 – demonstrating the potential significant leverage in Taro's P&L. Indeed, holding our assumptions constant, each $5MM in incremental revenue should add $0.05-0.10 per share. Management does not provide financial guidance due to the difficulty in forecasting new product flow. We understand this dilemma and would caution investors that focus on the quarterly performances will likely lead to disappointment. Therefore, we argue for a broader focus on operational improvement on a yearly basis. As currently modeled, we believe that our estimates are achievable and should move higher with even the most modest improvements above our conservative new product launch assumptions.

TARO (12/08)	**$13.28**
Mkt cap	**$394.4MM**
Dil shares out	29.7MM
Avg daily vol	902.5K
52-wk range	$13.0-36.0
Dividend	Nil
Dividend yield	Nil
BV/sh	$13.02
Net cash/sh	NM
Debt/cap	65.0%
ROIC (LTM)	7.2%
5-yr fwd EPS growth (Norm)	26.0%
S&P 500	**1255.8**

Revenue $MM

FY Dec	2004 Actual	2005E Prior	2005E Current	2006E Prior	2006E Current	2007E Prior	2007E Current
Q1	84.1	—	78.5A	—	75.5	—	—
Q2	49.1	—	78.6A	—	77.4	—	—
Q3	73.3	—	72.5A	—	79.8	—	—
Q4	77.7	—	75.3	—	82.3	—	—
Year	**284.1**	**—**	**305.0**	**—**	**315.0**	**—**	**335.0**
EV/S	—	—	—	—	—	—	—

EPS $

FY Dec	2004 Actual	2005E Prior	2005E Current	2006E Prior	2006E Current	2007E Prior	2007E Current
Q1	0.37	—	0.17A	—	0.14	—	—
Q2	(0.31)	—	0.22A	—	0.17	—	—
Q3	0.14	—	0.07A	—	0.20	—	—
Q4	0.16	—	0.10	—	0.24	—	—
Year	**0.37**	**—**	**0.56**	**—**	**0.75**	**—**	**0.95**
P/E	—	—	23.7x	—	17.7x	—	14.0x

Investment Discussion

Taro is a specialized generic drug manufacturer, with franchises in the U.S., Canada and Israel. Taro has focused on generic products with formulation and development competitive barriers, such as creams, ointments and gels, and niche oral solid dose products, such as Warfarin. In addition to their complex formulation and manufacturing challenges, these products also typically have higher regulatory hurdles, especially in proving bioequivalence. This specialization has provided some of Taro's key products with extended lifecycles – although the opportunities are significantly more limited than standard oral solid dose formulations. Despite past success, Taro's niche generic strategy is facing rising competition, pressuring operating performance. Unfortunately, over the last 12 months Taro's new product replacement cycle has disappointed and, therefore, the recent P&L has suffered.

Given the recent operational difficulties, TARO shares have depreciated by 60% YTD and are trading at a 15-20% discount to the generic group on our calendar 2006 and 2007 EPS estimates. This discount is understandable given the key to performance for any generic manufacturer is new drug visibility – and with Taro it is noticeably low. However, we believe that Taro′s valuation now appropriately reflects that lack of pipeline clarity and as modeled, we believe that TARO shares represent a favorable risk reward opportunity for investors with a longer-term view. Thus, we recommend purchase of TARO shares, and believe they can appreciate 20% relative to the market over the next 12 months.

U.S. Generic Franchise Is The Key Driver

The U.S. generic drug line is Taro's key franchise, contributing roughly 70% of its total revenue. Taro's U.S. base generic line was down 19% Y/Y in 2004, to an estimated $210-215MM. The 2003-2004 decline was driven by several factors - management indicates that wholesalers destocked excessive inventory; and competitive launches on generics Lotrisone and Topicort clipped these franchises. We project that Taro's base U.S. generic line sales will decrease by an additional 9-11% in 2005, to $190-195MM. The decline should be cumulative throughout the line, as we forecast modest continued erosion in key generics Warfarin and Lotrisone as well as the majority of the other base products. The rapid erosion experienced between 2003-2004 has been a bit more tempered in 2005, as many of the competitive threats have now been fully realized. For this reason, we only forecast an additional 6-8% decline in the U.S. generics base line, to $175-180MM in 2006. Importantly, Taro provides its own raw material for a few of its key products - including warfarin carbamazepine, etodolac, and clorazepate. This vertical integration provides improved margins, as well as more efficient formulation and development, which is a modest, but real, strategic advantage.

Taro Estimated Divisional Revenue Build/Contribution

	2003	2004	2005E	2006E	2007E	2008E	2009E	CGR	Comments
TOTAL IN-LINE U.S. & NEW GENERICS	$261.2	$212.8	$212.0	$212.0	$222.0	$227.0	$232.0	+2%	- We believe that we have modeled the most conservative assumptions
% Change		-19%	-0%	+0%	+5%	+2%	+2%		- New generic launches should offset decline in base product line
% Revenues	83%	75%	70%	67%	66%	65%	64%		
TOTAL U.S. BRAND DRUG SALES	$22.0	$35.0	$40.0	$45.0	$50.0	$55.0	$60.0	+11%	- Driven by Ovide, Lustra franchise and Topicor; T2000 has potential
% Change		+59%	+14%	+13%	+11%	+10%	+9%		
% Revenues	7%	12%	13%	14%	15%	16%	16%		
TOTAL U.S. DRUG SALES	$283.2	$247.8	$252.0	$257.0	$272.0	$282.0	$292.0	+3%	- Driven by new generic launches; brand line increasing
% Change	+54%	-13%	+2%	+2%	+6%	+4%	+4%		- New generic launches should offset decline in base product line
% Revenues	90%	87%	83%	82%	81%	81%	80%		
CANADIAN DRUG SALES	$15.6	$18.4	$33.0	$36.0	$39.0	$42.0	$45.0	+20%	- Demonstrating good growth; should continue to trend higher
% Change	+22%	+18%	+80%	+9%	+8%	+8%	+7%		- Consistent stable growth anticipated
% Revenues	5%	6%	11%	11%	12%	12%	12%		
ISRAEL/ROW DRUG SALES	$16.7	$18.0	$20.0	$22.0	$24.0	$26.0	$28.0	+9%	- Stable business trends; should improve in 2006 with new generic lau
% Change	+41%	+8%	+11%	+10%	+9%	+8%	+8%		
% Revenues	5%	6%	7%	7%	7%	7%	8%		
TOTAL TARO SALES	$315.5	$284.1	$305.0	$315.0	$335.0	$350.0	$365.0	+5%	- Driven by new generic launches
% Change	+49%	-10%	+7%	+3%	+6%	+4%	+4%		

Source: SG Cowen & Co.

Taro Has Created A Focused U.S. Brand Division

Although Taro does not provide individual product sales we have attempted to break-out Taro's U.S. brand sales from the overall U.S. analysis to provide greater perspective on the generic versus brand businesses. Taro - like many generic manufacturers - has attempted to develop a brand-drug development and marketing strategy. The attraction of diversification is obvious as nearly all generic manufacturers seek to have more balanced, visible revenue and earnings provided from a stable brand franchise. Taro has focused its initial branded effort on the dermatology and pediatric markets - although it is investing in developing a neurology pipeline via its T2000 and T2001 compounds. The line is led by Ovide (malathion), a pediculicide used in the treatment of head lice, which is marketed to both pediatricians and dermatologists. Taro acquired Ovide and Topicort (desoximetasone), a line of high-potency topical corticosteroid products from Medicis in January 2003. In July 2004, Taro entered into a licensing agreement with Medicis for the Lustra product line, including Lustra AF and Lustra Ultra. The Lustra line is topical therapies for the treatment of ultra-violet-induced skin discolorations and hyperpigmentation. These three products - along with U-cort, a topical hydrocortisone cream – form the brand portfolio.

Taro details these four branded products via its 60-person specialty sales force. We estimate that Taro's brand line jumped sharply in 2004 to $35MME (+59%), contributing roughly 12% of Taro's total revenue - driven by integration of full year sales of the newly acquired Medicis products. We project that branded franchise sales will reach $40MM (+14%) in 2005, $45MM (+13%) in 2006, rising to $60MM in 2009. Management continues to invest in the brand portfolio, spending roughly 20% of annual R&D expenditures or approximately $9-10MM on its development programs. The highest-profile program is T2000, a long-acting, non-sedating barbiturate for the treatment of essential tremor in Phase II/III testing. Although this program has garnered the most attention management indicates that it is also pursuing a 505(b)(2) strategy for a variety of development projects focused on dermatology. These projects likely will be minor reformulations of existing brands, that will provide some level of dosing or formulation differentiation that can be re-branded and marketed via its specialty salesforce. Although management has yet to disclose potential targets, we assume a few initial filings could occur by late 2006 for marketing in 2007. In addition, we believe that Taro will continue to actively seek to acquire additional marketed and/or development stage programs in both dermatology and pediatrics to leverage its existing salesforce – although we have no contribution from potential strategic acquisitions or licenses in our models.

– T2000 Looks Interesting, But Is Very Early

T2000 is a long-acting, non-sedating barbiturate in Phase II/III testing for the treatment of essential tremor. Essential tremor is an under-diagnosed, under-treated movement disorder, effecting roughly 5-10MM Americans each year. The largest issue with the use of barbiturates is that it often acts as a sedative and is rapidly cleared. T2000 should have an extended action and be non-sedating. Taro has yet to publish any of its clinical data – making analysis by us and our clinical consultants exceedingly difficult. However, our consultants believe that the mechanism makes sense and that a barbiturate with a profile matching T2000 would likely be beneficial. Although management is classifying T2000 as in initial Phase III studies, these studies are being conducted in Canada – which for U.S. purposes should be considered Phase II as the FDA would require Taro perform two well controlled U.S. studies for approval. At this point we have low expectations for T2000 - we estimate a potential H2:2008 filing, with a possible H2:2009 launch. However, given the lack of clinical data timing is difficult to predict. For this reason we have not included any contribution from T2000 in our model.

Although management previously spent a large portion of many of its public conversations about Taro discussing T2000 – we believe that it is not a major focus – and indeed it appears that management is beginning to lower its visibility with investors.

Canadian And Israeli Markets Have Been Stable Contributors

Taro has an emerging generic drug franchise in Canada. In 2004, Canadian sales were $18MM (+18%), 6% of Taro's total sales. Similar to other international markets, pricing in Canada is established by the government, as well as by competitive factors. In Canada, formulary price lists are directed by the individual Canadian provinces. By nature, this limits the market opportunity – however, Canada does remain a solid niche market for Taro and should provide continued modest growth. Taro's Canadian pharmaceutical sales are expected to reach $33MM (+80%) or roughly 11% of Taro's total revenue in 2005, driven by new product introductions and unit volume gains. We estimate Taro's Canadian sales will exceed $36MM (+9%) in 2006. In addition to Canada, Taro markets a variety of generic drugs in Israel and other international markets. Taro's Israeli sales were approximately $15MM (+8%) in 2004, or roughly 5% of Taro's total 2004 revenue. Sales to other international markets accounted for approximately 1% of Taro's 2004 total revenue – so they are only a minor component. The Israel pharmaceutical market remains volatile due to government oversight on price controls and parallel importing - but Taro's recent quarterly performances have been solid. Nonetheless, we have very little visibility into the Israeli or other international markets, which reduces their revenue and earnings quality. We estimate Israel and rest of world (ROW) pharmaceutical sales of $20MM (+11%) in 2005, rising to $22MM (+10%) in 2006.

Q3 Results Disappointing, But Should Rebound In Q4

Taro reported disappointing Q3:2005 revenue and EPS results, clipped by a shortfall in the U.S. generic drug franchise. In the U.S., management faulted inventory de-stocking as the primary culprit – although management admitted to lower penetration rates on new product launches than they (and the Street) had previously anticipated. The inventory de-stocking issues have been lingering for over a year and management appears hopeful that the trade issues are nearly behind them. The low penetration rates on the new product launches – at first blush - appears troubling, but at this point we are less concerned. Management indicates that they have been less willing to become an immediate significant price discounter – instead are attempting to garner share in a slower, more profitable manner. It is difficult to fault this strategy although near-term quarterly performances may be tempered in return for an expected longer-term benefit. In addition to lower revenue, margins were also adversely affected by currency fluctuations. A substantial portion of Taro's manufacturing expenses in Canada are incurred in Canadian dollars – therefore increase in the value of the Canadian dollar increases Taro's cost of goods. For this reason, although it may appear that Taro is experiencing lower operating efficiencies this may not be the case. Despite the revenue and EPS miss in Q3, we believe that Taro's key generic franchise will recover in Q4 as the newly launched products gain traction. We estimate Q4 revenue of $75MM (-3% Y/Y; +4% Q/Q) and EPS of $0.10 (-39% Y/Y; +36% Q/Q).

Pipeline Visibility – And Therefore 2006 Visibility – Remains Low

Although we believe there could be some improvement in new generic launches visibility is low. Taro has 26 ANDAs filed with the FDA (7 topicals and 19 oral solid dose or other formulations) targeting brand product sales of $1.0B+. Taro launched eleven new generic drugs in the U.S. in 2004 and has launched seven new generics year-to-date in 2005 – which we estimate should add $20MM to 2005 revenue. This most recent launch cycle has proven disappointing as management indicates that the initial shipments and penetration have been limited as to not disrupt the current competitive pricing environment. We conservatively estimate that Taro's 2005 product launches – specifically generic Bactroban, Terazol and Loprox - should grow from their current levels and contribute greater revenue in 2006 - although for conservatism we have modeled for flat Y/Y revenue from those products.

As with any generic drug manufacturer the success of TARO shares will be predicated on the new generic launch cycle. However, gaining insight into Taro's pipeline is exceedingly difficult given the lack of Paragraph IV legal challenges typical of other generic companies. Because of our inability to track Taro's pipeline we have taken what we believe to be fairly conservative assumptions – and have modeled for $15MM in new generic launches in 2006. We anticipate that this modest new product flow will offset the in-line base erosion - yielding flat U.S. generic drug sales of $210-215MM in 2006. We believe this is conservative – but necessary cautious modeling – given the lack of visibility.

However, TARO Shares Appear Reasonably Valued

We believe we have taken a conservative approach to our 2006-2007 projections – and can still make a purchase recommendation on TARO shares. As noted above, we currently forecast new U.S. generic product flow adds only $15MM in 2006 and essentially offsets any continued erosion in the U.S. base-line for flat U.S. generic revenue Y/Y. However, assuming continued modest growth in Taro's U.S. proprietary line (specifically from Ovide and the Lustra franchise - +13% Y/Y adding $5MM), growth in Canada (+9% Y/Y adding $3MM) and Israel (+10% Y/Y adding $2MM) – should lead to a 2-4% Y/Y increase in total 2006 revenue, to $315MM. An anticipated modest improvement in 2006 gross margin and likely lower selling expenses (due to the divestiture of the OTC product line) should lead to a 30-35% EPS gain in 2006, to $0.75 – demonstrating the potential significant leverage in Taro's P&L. Indeed, holding our gross margin and spending assumptions constant, each $5MM in incremental revenue should add $0.05-0.10 per share. Management does not provide financial guidance due to the difficulty in forecasting new product flow and the often unpredictable nature of the pricing and competitive environment. We understand this dilemma and would caution investors that focus on the quarterly performances will likely lead to disappointment, as predicting the near-term timing of new generic approvals is exceedingly difficult. Therefore, we argue for a broader focus on operational improvement on a yearly basis. As currently modeled, we believe that our estimates are achievable - and indeed should move higher if there is even the most modest improvements above our conservative new product launch assumptions.

TARO shares have depreciated by 60% YTD and are currently trading at a 15-20% discount to the generic group on our calendar 2006 and 2007 EPS estimates. Given the limited visibility, we believe that we have modeled for a conservative scenario – and still believe even with these targets purchase of TARO shares are warranted.

Generic Valuation Perspectives – Comparable Earnings Analysis

GENERIC DRUG INDUSTRY VALUATION PERSPECTIVE

	12/08/05	52 Week		Mkt. Cap	CY EPS Estimates			CY EPS GR		Absolute P/E			Relative to S&P			Performance	
	Price	High	Low	($MM)	'05E	'06E	'07E	'05-06	'06-07	'05E	'06E	'07E	'05E	'06E	'07E	'04	'05
Alpharma*	$29	$30	$9	$1,532	$1.45	$0.90	$1.15	-38%	+28%	19.8	32.0	25.0	117%	202%	159%	-16%	+70%
Andrx	18	24	13	1,323	0.68	0.90	1.25	+32%	+39%	26.4	20.0	14.4	156%	126%	92%	-9%	-18%
Barr Labs	61	60	41	6,364	2.91	3.22	3.81	+11%	+18%	20.8	18.8	15.9	123%	119%	101%	-11%	+33%
Biovail	24	27	14	3,899	1.76	2.05	1.92	+16%	-6%	13.9	11.9	12.7	82%	75%	81%	-23%	+48%
Impax Labs	9	20	10	536	0.40	0.60	1.00	+50%	+67%	22.9	15.3	9.2	136%	97%	58%	+10%	-42%
Ivax	31	31	14	8,896	0.79	1.40	1.45	+77%	+4%	39.8	22.5	21.7	236%	142%	138%	-17%	+99%
Mylan	21	22	15	4,748	0.82	1.01	1.39	+23%	+38%	25.3	20.5	14.9	149%	130%	95%	-30%	+17%
Par Pharma	27	44	22	926	0.75	1.20	1.45	+60%	+21%	35.9	22.4	18.6	212%	142%	118%	-36%	-35%
Teva	44	44	27	28,346	1.57	1.90	2.10	+21%	+11%	27.9	23.1	20.9	165%	146%	133%	+5%	+47%
Taro	**13**	**36**	**13**	**392**	**0.58**	**0.75**	**0.95**	**+29%**	**+27%**	**22.9**	**17.7**	**14.0**	**135%**	**112%**	**89%**	**-47%**	**-61%**
Watson	33	37	28	3,912	1.40	1.50	1.55	+7%	+3%	23.6	22.1	21.4	140%	139%	136%	-29%	+1%
Mean				**$5,534**				**+26%**	**+23%**	**25.4**	**20.6**	**17.1**	**150%**	**130%**	**109%**	**-18%**	**+14%**
Median				**3,899**				**+23%**	**+21%**	**23.6**	**20.5**	**15.9**	**140%**	**130%**	**101%**	**-17%**	**+17%**
S&P 500	**$1,256**	**$1,273**	**$1,136**		**$74.28**	**$79.34**	**$80.00**	**+7%**	**+1%**	**16.9**	**15.8**	**15.7**	**100%**	**100%**	**100%**	**+9%**	**4%**

Sources: SG Cowen; First Call; FactSet.

Generic Valuation Perspectives – Comparable EBIT And EBITDA Analysis

SPECIALTY PHARMA OPERATING CASH FLOW PROJECTIONS

	Price	Market	Enterprise	2005E Operating Data			EBITDA Growth			Enterprise Value /EBITDA[b][c]			Enterprise Value /EBIT[b][c]		
Company	12/8/05	Value	Value[a]	EBITDA	EBIT	Net CF	2005E	2006E	2007E	2005E	2006E	2007E	2005E	2006E	2007E
Alpharma	$29	$1,532	$1,971	$254	$157	$173	+56%	-27%	-1%	7.8x	10.6x	10.7x	12.5x	21.9x	22.3x
Andrx	$18	1,323	1,249	$106	$71	$86	-19%	+39%	+16%	11.8x	8.5x	7.3x	17.5x	11.1x	9.2x
Barr	$61	6,437	5,658	$497	$466	$341	+25%	+15%	+19%	11.4x	9.9x	8.3x	12.1x	10.4x	8.7x
Endo	$30	4,035	3,625	$371	$356	$242	+42%	+9%	+14%	9.8x	9.0x	7.9x	10.2x	9.3x	8.2x
Forest	$40	13,602	12,609	$827	$771	$789	-19%	+15%	+10%	15.2x	13.3x	12.1x	16.4x	14.1x	12.7x
King	$16	3,829	4,094	$717	$575	$518	+98%	-31%	-12%	5.7x	8.3x	9.4x	7.1x	11.6x	13.9x
Kos	$71	3,290	3,006	$204	$189	$144	+24%	+22%	+19%	14.7x	12.1x	10.1x	15.9x	12.9x	10.7x
Mylan	$21	4,757	4,940	$358	$308	$252	-3%	+13%	+27%	13.8x	12.2x	9.6x	16.0x	13.9x	10.6x
Par	$27	926	973	$54	$39	$41	-62%	+57%	+21%	18.1x	11.5x	9.5x	25.1x	14.0x	11.2x
Taro	**$13**	**393**	**503**	**$45**	**$25**	**$37**	**+132%**	**+20%**	**+14%**	**11.1x**	**9.3x**	**8.2x**	**20.0x**	**14.7x**	**12.1x**
Teva[1]	$44	28,478	32,678	$1,456	$1,311	$1,201	+7%	+55%	+10%	22.4x	14.5x	13.1x	24.9x	15.5x	13.9x
Watson	$33	3,910	4,012	$375	$252	$282	-11%	+26%	-0%	10.7x	8.5x	8.5x	15.9x	15.7x	15.8x
Median		**$3,829**	**$3,625**	**$358**	**$252**	**$242**	**+7%**	**+15%**	**+14%**	**11.6x**	**10.2x**	**9.4x**	**16.0x**	**13.9x**	**11.6x**
Mean		**5,626**	**5,836**	**407**	**350**	**318**	**+12%**	**+18%**	**+11%**	**12.7**	**10.6**	**9.6**	**16.1**	**13.8**	**12.4**

(a) Enterprise Value defined as Market Value plus Total Debt less Cash.
(b) LTM as of latest reported quarter. Estimated and projected financial data as per SG Cowen where available or Wall Street research.
(c) Historial depreciation and amortization margin carried forward to calculate projected EBITDA where necessary.
1 - includes IVX est.

TARO is trading at a roughly 8-12% discount to the specialty pharmaceutical 2006 and 2007 EBITDA comparable multiples. However, TARO is at a 4-6% premium to the comparable EBIT multiples.

Discounted Cash Flow Analysis Indicates Fair Value Is $17-17.50

Our DCF indicates a value of $17.00-17.50 per share. The assumptions are as follows: sales growth rates of 3% beginning in 2010; WACC analysis yielding a discount rate of 10.0%; normalized operating spending assumptions growing at similar % of revenue as exiting 2009; and 3% working capital growth.

Discounted Cash Flow Also Points To Purchase

Assumptions:		*Output:*	
Sales Growth	3.0%	Estimated Equity Value	$511.8
Increase in WC	3.0%	**Estimated Share Price**	**$17.30**
Discount Rate	10.0%	Debt ($MM)	$207.3
Shares Outstanding (MM)	29.6	Enterprise Value ($MM)	$524.2
Current Share Price	$13.30	Cash & eq. ($MM)	$76.7
Market Cap ($MM)	$393.6	Wacc:	10.0%

Source: SG Cowen & Co.

Taro Revenue Assumptions

TARO ESTIMATED MAJOR PRODUCT SALES BUILDUP ($MM)

	2003	2004	2005E	2006E	2007E	2008E	2009E	CGR	Comments
U.S. GENERIC DRUG SALES - BASE									
Warfarin Sodium	$34.7	$28.4	$25.0	$25.0	$25.0	$25.0	$23.0		- Stroke; BMY's Coumadin; difficult formulation/dosing - limited compe
Clotrim/Betameth	25.0	21.0	19.0	16.0	16.0	15.0	15.0		- Schering's Lotrisone; launched 7/2004; $40MM brand market
Desoximetasone	23.0	18.0	15.0	14.0	14.0	14.0	14.0		- Generic Topicort; topical steroid
Etodolac	22.0	17.0	14.0	13.0	13.0	12.0	12.0		- Wyeth's Lodine; arthritis - full product offering
Clotrimazole	22.0	16.0	12.0	10.0	10.0	10.0	10.0		- Generic Lotrimon; used to treat yeast infections
Clobetasol	17.0	12.0	10.0	10.0	10.0	10.0	10.0		- Generic Temovate; dermatologic
Carbamazepine	14.0	11.0	10.0	10.0	7.0	7.0	7.0		- Anticonvulsant; available in solid dose, liquid and chewable; NTI drug
Others	103.5	89.4	87.0	79.0	72.0	69.0	66.0		- Roughly 20 other U.S. marketed/distributed generic products
Total In-Line NA Generic Drugs	$261.2	$212.8	$192.0	$177.0	$167.0	$162.0	$157.0	-6%	- 75% of sales in 2004, 40% in 2009
NEW U.S. GENERIC DRUGS									
2005									
Mupirocin Ointment			$2.0	$5.0	$5.0	$5.0	$5.0		- GSK's Bactroban; 9/2005 approval; $75MM brand mkt
Miconazole			3.0	2.0	2.0	2.0	2.0		- JNJ's Monistat vaginal cream; approved 3/2005; $50MM brand mkt
Terconazole			6.0	7.0	7.0	7.0	7.0		- JNJ's Terazol vaginal cream; approved 1/2005; $40MM brand market
Ciclopirox			3.0	2.0	2.0	2.0	2.0		- Medicis' Loprox antifungal; 4/2005 approval; $35MM brand mkt
Hydrocortisone Butyrate			2.0	2.0	2.0	2.0	2.0		- Ferndale's Locoid cream; 8/2005 approval; $10MM brand mkt
Halobetasol Propionate			2.0	1.0	1.0	1.0	1.0		- BMY's Ultravate cream; 8/2005 approval; $25MM brand mkt
Alclometasone Dipropionate			2.0	1.0	1.0	1.0	1.0		- GSK's Aclovate cream; 9/2005 approval; $10MM brand mkt
Other			0.0	0.0	0.0	0.0	0.0		- Anticipated 1-2 additional products
2005 New Generic Drugs			$20.0	20.0	20.0	20.0	20.0		
2006 New Generic Drugs				$15.0	15.0	15.0	13.0	NA	- New product flow difficult to forecast in 2006
2007 New Generic Drugs					$20.0	15.0	12.0	NA	- Assumes 5-6 launches with peak sales of $4-6MM
2008 New Generic Drugs						$15.0	$15.0	NA	- Assumes 5-6 launches with peak sales of $4-6MM
2009 New Generic Drugs							$15.0	NA	- Assumes 5-6 launches with peak sales of $4-6MM
Total New Generic Drugs (2005-2009	$0.0	$0.0	$20.0	$35.0	$55.0	$65.0	$75.0	NA	- 25 pending ANDAs pending should provide steady new product flow
TOTAL IN-LINE U.S. & NEW GENERICS	$261.2	$212.8	$212.0	$212.0	$222.0	$227.0	$232.0	+2%	- We believe that we have modeled the most conservative assumptions
% Change		-19%	-0%	+0%	+5%	+2%	+2%		- New generic launches should offset decline in base product line
% Revenues	83%	75%	70%	67%	66%	65%	64%		
U.S. PROPRIETARY DRUG SALES									
Ovide	$8.0	$19.0	$24.0	$28.0	$32.0	$36.0	$40.0		- Brand treatment for head lice; acquired from Medicis 1/2003
Lustra/AF/Ultra	8.0	10.0	10.0	11.0	11.0	12.0	13.0		- Treatment for dyschromia; acquired from Medicis 7/2004
Topicort	5.0	5.0	5.0	5.0	6.0	6.0	6.0		- High potency corticosteroids; acquired from Medicis 1/2003
U-cort	1.0	1.0	1.0	1.0	1.0	1.0	1.0		- Topical hydrocortisone acetate cream; acquired from Medicis 1/2003
T2000									- Non-sedating barbituate for essential tremor; pilot Phase III studies ur
T2001									- Low visibility on timing of clinical development - efficacy
TOTAL U.S. BRAND DRUG SALES	$22.0	$35.0	$40.0	$45.0	$50.0	$55.0	$60.0	+11%	- Driven by Ovide, Lustra franchise and Topicor; T2000 has potential
% Change		+59%	+14%	+13%	+11%	+10%	+9%		
% Revenues	7%	12%	13%	14%	15%	16%	16%		
TOTAL U.S. DRUG SALES	$283.2	$247.8	$252.0	$257.0	$272.0	$282.0	$292.0	+3%	- Driven by new generic launches; brand line increasing
% Change	+54%	-13%	+2%	+2%	+6%	+4%	+4%		- New generic launches should offset decline in base product line
% Revenues	90%	87%	83%	82%	81%	81%	80%		
CANADIAN DRUG SALES	$15.6	$18.4	$33.0	$36.0	$39.0	$42.0	$45.0	+20%	- Demonstrating good growth; should continue to trend higher
% Change	+22%	+18%	+80%	+9%	+8%	+8%	+7%		- Consistent stable growth anticipated
% Revenues	5%	6%	11%	11%	12%	12%	12%		
ISRAEL/ROW DRUG SALES	$16.7	$18.0	$20.0	$22.0	$24.0	$26.0	$28.0	+9%	- Stable business trends; should improve in 2006 with new generic lau
% Change	+41%	+8%	+11%	+10%	+9%	+8%	+8%		
% Revenues	5%	6%	7%	7%	7%	7%	8%		
TOTAL TARO SALES	$315.5	$284.1	$305.0	$315.0	$335.0	$350.0	$365.0	+5%	- Driven by new generic launches
% Change	+49%	-10%	+7%	+3%	+6%	+4%	+4%		

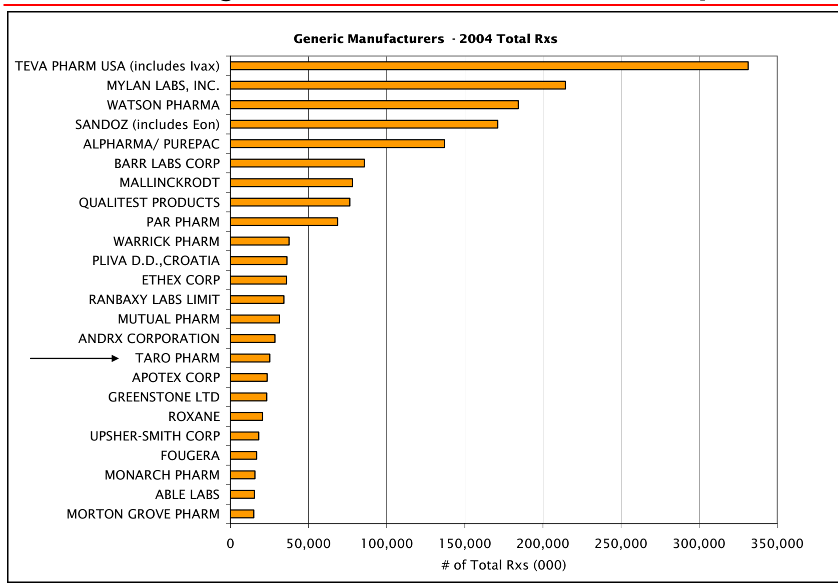
Source: SG Cowen & Co.

U.S. Generics Have Been Inconsistent, But Should Stabilize

Base Product Line Is Suffering Natural Attrition, Recent New Product Cycle Has Disappointed

Taro's U.S. generic franchise has a niche focus, and is the #15 leading manufacturer based on 2004 total prescriptions dispensed. Taro has focused its generic franchise around products with formulation and development competitive barriers – such as creams, ointments and gels and other specialized oral solid dose products – as evidenced by its position in difficult to formulate generic Warfarin. These products have either complex formulation and development characteristics, need specialized manufacturing, or have higher regulatory challenges – especially in proving bioequivalence. Topicals are not normally absorbed systemically therefore generic challengers often need to perform clinical studies to properly establish bioequivalence to the reference drug. Designing these studies are not trivial – typically requiring proving non-inferiority - and can be both costly and timely. Additionally, there is no set protocol established by the FDA and therefore each study design is unique based on the reference product. This specialization has provided some of Taro's products with extended lifecycles in a few of its key products – although the opportunities are significantly more limited than standard oral solid dose. Despite past success, Taro's niche generic strategy is facing rising competition pressuring operating performance.

U.S. Generic Drug Manufacturers - Taro Is A Niche Player



Source: IMS Data, SG Cowen & Co.

Unfortunately, over the last 12 months Taro's new product replacement cycle has disappointed and therefore the recent P&L has suffered. Taro's U.S. base generic line – which contributes roughly 70-75% of Taro's total revenue – was down 19% Y/Y in 2004, to an estimated $210-215MM. Note, although Taro does not provide individual product sales we have attempted to exclude Taro's U.S. brand sales (comprised primarily of Ovide and the Lustra Franchise) from the U.S. generic analysis. It appears the 2003-2004 decline was driven by several factors – management indicates that wholesalers de-stocked excessive inventory throughout the year and competitive launches on generic Lotrisone and Topicort clipped these franchises. We project Taro's base generic line sales will decrease by 9-11% in 2005, to $190-195MM. The decline should be cumulative, as we forecast modest continued erosion in key generics Warfarin and Lotrisone as well as the majority of the other in-line products. Importantly, the more rapid erosion experienced between 2003-2004 appears to have leveled in 2005 as many of the competitive threats have now been fully realized. For this reason we only forecast an additional 6-8% decline in the U.S. generics base line, to $175-180MM in 2006. Importantly, Taro provides its own raw material for a few of its key products - including warfarin, carbamazepine, etodolac tablets, and clorazepate dipotassium. This vertical integration provides improved margins as well as more efficient formulation and development which is a modest, but real, strategic advantage.

Taro's U.S. Generic Drug Sales Estimates

TARO ESTIMATED MAJOR PRODUCT SALES BUILDUP ($MM)

	2003	2004	2005E	2006E	2007E	2008E	2009E	CGR	Comments
U.S. GENERIC DRUG SALES - BASE									
Warfarin Sodium	$34.7	$28.4	$25.0	$25.0	$25.0	$25.0	$23.0		- Stroke; BMY's Coumadin; difficult formulation/dosing - limited compe
Clotrim/Betameth	25.0	21.0	19.0	16.0	16.0	15.0	15.0		- Schering's Lotrisone; launched 7/2004; $40MM brand market
Desoximetasone	23.0	18.0	15.0	14.0	14.0	14.0	14.0		- Generic Topicort; topical steroid
Etodolac	22.0	17.0	14.0	13.0	13.0	12.0	12.0		- Wyeth's Lodine; arthritis - full product offering
Clotrimazole	22.0	16.0	12.0	10.0	10.0	10.0	10.0		- Generic Lotrimon; used to treat yeast infections
Clobetasol	17.0	12.0	10.0	10.0	10.0	10.0	10.0		- Generic Temovate; dermatologic
Carbamazepine	14.0	11.0	10.0	10.0	7.0	7.0	7.0		- Anticonvulsant; available in solid dose, liquid and chewable; NTI drug
Others	103.5	89.4	87.0	79.0	72.0	69.0	66.0		- Roughly 20 other U.S. marketed/distributed generic products
Total In-Line NA Generic Drugs	$261.2	$212.8	$192.0	$177.0	$167.0	$162.0	$157.0	-6%	- 75% of sales in 2004, 40% in 2009
NEW U.S. GENERIC DRUGS									
2005									
Mupirocin Ointment			$2.0	$5.0	$5.0	$5.0	$5.0		- GSK's Bactroban; 9/2005 approval; $75MM brand mkt
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Hydrocortisone Butyrate			2.0	2.0	2.0	2.0	2.0		- Ferndale's Locoid cream; 8/2005 approval; $10MM brand mkt
Halobetasol Propionate			2.0	1.0	1.0	1.0	1.0		- BMY's Ultravate cream; 8/2005 approval; $25MM brand mkt
Alclometasone Dipropionate			2.0	1.0	1.0	1.0	1.0		- GSK's Aclovate cream; 9/2005 approval; $10MM brand mkt
Other			0.0	0.0	0.0	0.0	0.0		- Anticipated 1-2 additional products
2005 New Generic Drugs			$20.0	20.0	20.0	20.0	20.0		
2006 New Generic Drugs				$15.0	15.0	15.0	13.0	NA	- New product flow difficult to forecast in 2006
2007 New Generic Drugs					$20.0	15.0	12.0	NA	- Assumes 5-6 launches with peak sales of $4-6MM
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Total New Generic Drugs (2005-2009	$0.0	$0.0	$20.0	$35.0	$55.0	$65.0	$75.0	NA	- 25 pending ANDAs pending should provide steady new product flow
TOTAL IN-LINE U.S. & NEW GENERICS	$261.2	$212.8	$212.0	$212.0	$222.0	$227.0	$232.0	+2%	- We believe that we have modeled the most conservative assumptions
% Change		-19%	-0%	+0%	+5%	+2%	+2%		- New generic launches should offset decline in base product line
% Revenues	83%	75%	70%	67%	66%	65%	64%		

Source: SG Cowen

– Top 7 Products Account For Nearly 50% Of Taro's Total Revenue

During 2004, seven of Taro's product lines accounted for 48% or roughly $135-140MM. We believe that Taro's brand product Ovide is one of the seven products – therefore, excluding the estimated $19MM Ovide revenue - Taro's top 6 generic products (likely generic Warfarin, Lotrisone, Desoximetasone, Etodolac, Clotrimazole, Carbamazepine) likely accounted for roughly $115-120MM in 2004 sales. In 2005, we estimate that those 6 products likely will total between $95-100MM (-16%), and should decline at a slower rate in 2006 given the already high level of competition now presently factored.

– Generic Warfarin (Coumadin) Is A Significant Contributor

Taro's leading in-line product is Warfarin Sodium - the generic equivalent of Bristol-Myers Coumadin, an anticoagulant for patients with heart disease and/or high risk of stroke. We estimate that generic Warfarin sales reached $28MM in 2004 (-18%), comprising an estimated 13% of Taro's U.S. generic sales and 10% of Taro's total revenue. Taro's generic warfarin was launched in Q3:1999 – only two other generics are marketed by Barr and Upsher. As of November 2005 Taro held 19% share of the total brand and generic Coumadin prescription share (versus Barr's 55%, Upsher's 4% and brand Coumadin's 22%) and 20% of new prescriptions (versus Barr's 57%, Upsher's 3% and brand Coumadin's 20%). Given the complex formulation, we believe that few additional generics will enter the market. It appears that Genpharm has an approval, but to date has not launched possibly due to formulation and/or manufacturing difficulties. Additionally, even if a generic were to launch substitution of the current users to a new formulation is expected to be limited, as Coumadin has a narrow therapeutic index heightening clinicians concerns of variability from product to product and therefore limiting switching amongst various formulations. We estimate generic warfarin sales will reach $25MM (-12%) in 2005, and will remain flat at $25MM (+0%) in 2006, accounting for roughly 8% of Taro total revenue in 2005 and 2006, respectively.

Coumadin/Generic Warfarin U.S. Market Dynamics

ESTIMATED U.S. COUMADIN TREATMENT MARKET DYNAMICS

	2003	2004	2005E	2006E	2007E	2008E	2009E	CGR	Comments
Coumadin And Generics - TRXs (MM	**29.0**	**30.6**	**32.2**	**33.3**	**34.3**	**35.3**	**36.4**	**+3%**	**- Stable market**
TRX Growth		+5%	+5%	+4%	+3%	+3%	+3%		- Assuming no new therapeutic competitors
BMY's Brand Coumadin Rx Share	**38%**	**29%**	**21%**	**17%**	**14%**	**13%**	**11%**		- Generics have clipped
Rx's (MM)	10.98	8.74	6.90	5.77	4.80	4.55	4.29	-13%	- Assumes steady erosion
Cost Per Prescription	$27.59	$29.19	$29.00	$26.00	$25.00	$22.00	$21.00		
Sales ($MM)	**$303**	**$255**	**$200**	**$150**	**$120**	**$100**	**$90**		
Barr's Generic Warfarin Rx Share	**48%**	**53%**	**57%**	**56%**	**51%**	**49%**	**45%**		- Barr has maintained the leading share
Rx's (MM)	13.86	16.34	18.29	18.67	17.33	17.33	16.22		- Growth likely will moderate beginning in 2007
Cost Per Prescription	$5.77	$4.28	$3.85	$3.75	$3.75	$3.75	$3.70		
Sales ($MM)	**$80**	**$70**	**$70**	**$70**	**$65**	**$65**	**$60**		
Taro's Generic Warfarin Rx Share	**9%**	**16%**	**17%**	**17%**	**17%**	**17%**	**16%**		- Has been a stable contributor
Rx's (MM)	2.64	4.92	5.35	5.56	5.88	5.88	6.13	+4%	- Should get clipped with new entrants
Cost Per Prescription	$13.15	$5.77	$4.75	$4.50	$4.25	$4.25	$3.75		- Pricing has gradually weakened
Sales ($MM)	**$35**	**$28**	**$25**	**$25**	**$25**	**$25**	**$23**	**-4%**	
Upsher's Jantoven Rx Share	**1%**	**2%**	**5%**	**8%**	**11%**	**12%**	**12%**		- Upsher has branded its generic entrant
Rx's (MM)	0.26	0.47	1.60	2.67	3.73	4.27	4.86	+60%	
Cost Per Prescription	$3.86	$4.26	$4.00	$3.75	$3.75	$3.75	$3.70		
Sales ($MM)	**$1**	**$2**	**$6**	**$10**	**$14**	**$16**	**$18**	**+55%**	
Sandoz's Generic Warfarin Rx Share	**4%**	**1%**	**0%**						- Sandoz product has been phased out
Rx's (MM)	1.30	0.15	0.02						
Cost Per Prescription	$3.86	$3.25	$3.25						
Sales ($MM)	**$5**	**$1**	**$0**						
Others Rx Share	**0%**	**0%**	**0%**	**0%**	**7%**	**9%**	**12%**		- Likely additional generic competition in 2007
Rx's (MM)	0.00	0.00	0.00	0.00	2.53	3.28	4.87		- Genpharm a possibility
Cost Per Prescription	$0.00	$0.00	$0.00	$0.00	$4.34	$4.27	$3.90		
Sales ($MM)	**$0**	**$0**	**$0**	**$0**	**$11**	**$14**	**$19**		
Total Market Sales (MM)	**$424**	**$356**	**$300**	**$255**	**$235**	**$220**	**$210**	**-10%**	**- Brand Coumadin clipped by generic entrant**
% Growth		**-16%**	**-16%**	**-15%**	**-8%**	**-6%**	**-5%**		

Source: SG Cowen & Co.

Generic Pipeline "Appears" Robust, But Visibility Is Low And Timing Is Difficult To Predict

Although we believe there could be some improvement in new generic launches visibility is low. Taro has 26 ANDAs filed with the FDA targeting brand product sales of $1.0B+. Taro launched eleven new generic drugs in the U.S. in 2004 and seven new generics year-to-date in 2005 – which should add an estimated $20MM to 2005 revenue. This most recent launch cycle has proven disappointing as management indicates that the initial shipments and penetration have been limited as to not disrupt the current competitive pricing environment. It is difficult to fault management's launch strategy which is designed to ensure profitable growth, not simply initial market share gains that necessitate aggressive early pricing. We believe that Taro's 2005 product launches – specifically generic Bactroban, Terazol and Loprox - could grow from their current levels and contribute greater revenue in 2006 – however, for conservatism we held those revenue flat Y/Y.

– Forecasting Taro's Potential New Generic Entrants Is Difficult

Gaining insight into Taro's pipeline is exceedingly difficult given the lack of Paragraph IV legal challenges typical of other generic manufacturers. For this reason we have analyzed Taro's drug master file (DMF) submissions – which is often an indication of potential future opportunities. A DMF is a submission that typically provides the FDA with confidential information about facilities, processes, or materials used in the manufacturing of a pharmaceutical. The submission is not required but is often helpful to establish appropriate initial guidance from the FDA on acceptable approaches to meeting regulatory requirements. A review of Taro's DMF submissions (outlined in the chart directly below) reveals the potential for a few near-term opportunities in 2006-2007. The potential near-term opportunities are: generic Neurontin (although this market has already become increasingly competitive) in late 2006, generic Trileptal possible in late 2006, and generic Lamisil in late 2006/early 2007 (exclusivity expires December 30, 2006). The potential opportunities in 2007 are for generic Coreg following the expiration of the undisclosed first-to-file challenger (possibly Teva), generic Zofran following the expiration of the undisclosed first-to-file challenger and generic Zyrtec. We note, that this type of analysis is imprecise (at best), as actual timing of a submission is unknown. Also note that it appears that Taro is choosing to file fewer independent DMFs and instead is incorporating the necessary information into their final ANDA submissions.

Taro – Selected Drug Master File Submissions – Potential Future Opportunities

DMF #	Product Target	Comments
16151	Gabapentin (Neurontin) -- Tentative Approval	Launch possible in late 2006 or early 2007. Attempting to move from PIII to PIV.
16262	Cetirizine (Zyrtec)	Launch possible in late 2007 (expiration of exclusivity December 25, 2007). Brand sales of $1.4B in 2004.
16339	Oxcarbazepine (Trileptal)	No remaining exclusivity; launch likely in late 2006. Brand sales of $510MM in 2004.
16863	Esmolol (Brevibloc)	Launch possible in late 2008 (November 21, 2008). Brand sales of $45MM in 2004.
16976	Ondansetron (Zofran)	Launch possible in H1:2007. Brand drug sales of $1.0B in 2004.
17618	Fluticasone (Flonase)	Likely limited competition if approved; timing uncertain. Brand drug sales of $1.1B in 2004.
17790	**Terbinafine (Lamisil)**	**Launch possible in late 2006 (December 30, 2006). Brand drug sales of $660MM in 2004.**
18031	Imiquimod (Aldara)	Potential upcoming patent challenge -- Launch in 2009? Brand sales of $210MM in 2004.
18145	Carvedilol (Coreg)	Likely PIV Filing; launch possible in H2:2007; Teva may have exclusivity, but it is unclear. Brand sales of $850MM in 2004.

Source: SG Cowen & Co.

Additionally, we are aware of a few major products (detailed in the table following) that either do not appear to have patent or exclusivity protection or are losing patent or exclusivity protection shortly. Products that could be potential targets are: Metrogel (metronidazole; a $75MM brand), Regranex (becaplermin; a $55MM brand), Efudex (fluorouracil; a $50MM brand) and Thrombinar (thrombine; a $150MM brand) - however, it is unclear whether any of these products are in Taro's pipeline. For these reasons we have taken what we believe to be fairly conservative assumptions – and have modeled for only $15MM in new generic launches in 2006. If we are incorrect and Taro's launch cycle is better than expected we believe there is the potential for significant upside to our targets. Holding our gross margin and spending assumptions equal, each $5MM in incremental revenue from the U.S. generic line should add $0.05-0.10 per share – demonstrating the leverage in Taro's P&L.

Taro – Potential Topical Dermatologics Opportunities

Brand Name	Generic Name	Company	2004 U.S. Sales	Exclusivity Status	Comments
Elidel	Pimecrolimus	Novartis	$300MM	New Chemical Entity exclusivity until December 13, 2006 – pediatric extension until June 13, 2007. Three additional listed patents, the last of which expires December 2018.	To this point there have been no Paragraph IV filings. Therefore, not near-term .
Aldara	Miquimod	3M	$200MM	Exclusivity through March 2007. Two listed patents, the last of which expires August 2010.	Taro has filed a DMF, but has not yet filed a Paragraph IV certification.
Benzaclin	Benzoyl Peroxide; Clindamycin	Dermik	$190MM	No exclusivity or remaining patents.	This appears to be a possible target.
Differin	Adapalene	Galderma	$160MM	Two Orange Book listed patents, the last of which expires May 2010.	No Paragraph IV has been filed.
Dovonex	Calcipotriene	BMY	$150MM	Composition of matter patent expires December 29, 2007. Additional listed patent expires June 2015.	No Paragraph IV has been filed.
Thrombinar	Thrombine	JMI	**$150MM**	**No exclusivity or remaining patents.**	**This appears to be a possible target.**
Penlac Nail Lacquer	Ciclopirox	Dermik	**$110MM**	**One patent expiring September 18, 2007.**	**This appears to be a possible target.**
Protopic	Tacrolimus	Astellas	**$110MM**	**No exclusivity or remaining patents.**	**This appears to be a possible target.**
Tazorac	Tazarotene	Allergan	$100MM	One patent expiring June 13, 2011.	No Para IV has been filed.
Zovirax Ointment	Acyclovir	GSK	$90MM	One patent expiring October 16, 2007.	No Paragraph IV has been filed. Taro does not appear to be formulating.
Duac	Benzoyl Peroxide; Clindamycin	Stiefel	**$90MM**	**No exclusivity or remaining patents.**	**This appears to be a possible target.**
Retin-A Micro	Tretinoin	JNJ	**$80MM**	**Composition patent has expired; additional listed patent expiring September 2016**	**A Paragraph IV has been filed. This appears to be a target.**
Metrogel	Metronidazole	Galderma	**$75MM**	**One listed patent expiring June 6, 2006.**	**This appears to be a possible target.**
Olux	Clobetasol	Connetics	$70MM	One listed patent expiring Oct 3, 2006.	Taro is not pursuing.
Surgicel	Oxidized cellulose	JNJ	$70MM	No exclusivity or remaining patents.	Difficult formulation. Unlikely target.
Regranex	Becaplermin	JNJ	**$55MM**	**No exclusivity or remaining patents.**	**Possible target.**
Efudex	Fluorouracil	Valeant	**$50MM**	**No exclusivity or remaining patents.**	**Possible target.**
Totals			**$2.1B**	**More narrowed 7-9 opportunities with no or limited exclusivity have a total of $700MM+ in brand sales.**	**Visibility of any of these opportunities is limited.**

Source: Company reports, SG Cowen research

Taro Has Created A Focused U.S. Brand Division

Taro - like many generic manufacturers - has attempted to develop a brand-drug development and marketing strategy. The attraction of diversification is obvious as nearly all generic manufacturers seek to have more balanced, visible revenue and earnings provided from a stable brand franchise. Taro has focused its initial branded effort on the dermatology and pediatric markets – although it is investing in developing a neurology pipeline via its T2000 and T2001 compounds. The line is led by Ovide (malathion) - a pediculicide used in the treatment of head lice - which marketed to both pediatricians and dermatologists. Taro acquired Ovide and Topicort (desoximetasone), a line of high-potency topical corticosteroid products from Medicis in January 2003 for $12MM. In July 2004, Taro entered into a licensing agreement with Medicis for the Lustra product line – including Lustra AF and Lustra Ultra. The Lustra line are topical therapies for the treatment of ultra-violet-induced skin discolorations and hyperpigmentation. These three Medicis products - along with Taro's U-cort, a topical hydrocortisone acetate cream – form the brand portfolio.

Taro details these four branded products via its 60-person specialty sales force. Taro does not break-out brand division sales, complicating our analysis although we assume that IMS data provides a window into the division sales. We estimate that Taro's brand line jumped sharply in 2004 to $35MME (+59%) – contributing roughly 12% of Taro's total revenue - driven by integration of full year sales of the newly acquired Medicis products. We project that branded franchise sales will grow 14-16% in 2005, to $40MM -13% of Taro's total revenue. Management continues to invest on the brand portfolio – spending roughly 20% of annual R&D expenditures or approximately $9-10MM on its development programs. The highest profile program is T2000, a long-acting, non-sedating barbiturate for the treatment of essential tremor in Phase II/III testing. Although this program has garnered the most attention management indicates that it is also pursuing a 505(b)(2) strategy for a variety of development projects focused on dermatology. These projects likely will be minor reformulations of existing brands, that will provide some level of dosing or formulation differentiation that can be re-branded and marketed via its specialty salesforce. Although management has yet to disclose potential targets, we assume a few initial filings could occur by late 2006 for marketing in 2007. In addition, we believe that Taro will continue to actively seek to acquire additional marketed and/or development stage programs in both dermatology and pediatrics to leverage its existing salesforce – although we have no contribution from potential strategic acquisitions or licenses in our models

Proprietary Product And Licensing & Royalty Assumptions

TARO ESTIMATED MAJOR PRODUCT SALES BUILDUP ($MM)

	2003	2004	2005E	2006E	2007E	2008E	2009E	CGR	Comments
U.S. PROPRIETARY DRUG SALES									
Ovide	$8.0	$19.0	$24.0	$28.0	$32.0	$36.0	$40.0		- Brand treatment for head lice; acquired from Medicis 1/2003
Lustra/AF/Ultra	8.0	10.0	10.0	11.0	11.0	12.0	13.0		- Treatment for dyschromia; acquired from Medicis 7/2004
Topicort	5.0	5.0	5.0	5.0	6.0	6.0	6.0		- High potency corticosteroids; acquired from Medicis 1/2003
U-cort	1.0	1.0	1.0	1.0	1.0	1.0	1.0		- Topical hydrocortisone acetate cream; acquired from Medicis 1/2003
T2000									- Non-sedating barbituate for essential tremor; pilot Phase III studies un
T2001									- Low visibility on timing of clinical development - efficacy
TOTAL U.S. BRAND DRUG SALES	$22.0	$35.0	$40.0	$45.0	$50.0	$55.0	$60.0	+11%	- Driven by Ovide, Lustra franchise and Topicor; T2000 has potential
% Change		+59%	+14%	+13%	+11%	+10%	+9%		
% Revenues	7%	12%	13%	14%	15%	16%	16%		

Source: SG Cowen & Co.

– Ovide Has Been A Solid Contributor; Additional Studies Underway

Taro's lead brand product is Ovide (malathion), a treatment of head lice which is a widespread problem in many adolescents. It is estimated that 6-12MM cases of head lice occur in the U.S. annually, creating a fairly broad treatment market. Given the persistence of the problem and failure of many of the available over-the-counter treatments, Ovide has been particularly effective as a second-line treatment. Ovide competes with Lindane – although Lindane is limited to use only for patients who have failed to respond to other approved treatments (over the counter treatments, primarily Nix and Rid). The FDA has issued various warnings on the potential for neurotoxicity with Lindane use, which has clipped its market share – to the benefit of Ovide. In October 2005, Taro indicated that it has initiated a Phase III study of Ovide using a different formulation that is expected to provide a shorter application time and greater ease of use. Additionally, Taro is likely utilizing this second-generation formulation as the basis of its franchise extension strategy - as Ovide has no exclusivity or listed patents remaining. We assume launch of the second generation Ovide in H1:2007 – which should increase Ovide's overall market penetration. Taro does not disclose individual product sales therefore we estimate Ovide contributed $19MM in 2004 – 7% of total Taro revenue. We estimate Ovide sales will reach $23-25MM (+26%) in 2005, $28MM (+17%) in 2006, rising to $40MM in 2009. These targets could prove conservative depending on the success of the second generation Ovide launch.

Head Lice Prescription Market Dynamics

ESTIMATED U.S. HEAD LICE PRESCRIPTION TREATMENT MARKET DYNAMICS

	2003	2004	2005E	2006E	2007E	2008E	2009E	CGR	Comments
Head Lice Treatments - TRXs (MM)	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**	**+0%**	**- Lindane share eroding due to warnings**
TRX Growth		-12%	+0%	+0%	+0%	+0%	+0%		- Assuming no new therapeutic competitors
Alliant/Morton Grove's Lindane Shar	**55%**	**56%**	**52%**	**48%**	**45%**	**42%**	**38%**		- Additional FDA warnings have clipped
Rx's (MM)	0.41	0.37	0.34	0.31	0.29	0.27	0.25	-7%	- Assumes steady erosion
Cost Per Prescription	$73.93	$109.41	$105.00	$105.00	$105.00	$105.00	$105.00		
Sales ($MM)	**$30**	**$40**	**$36**	**$33**	**$31**	**$29**	**$27**		
Taro's Ovide Rx Share	**24%**	**38%**	**44%**	**47%**	**51%**	**55%**	**57%**		- Has been a stable contributor
Rx's (MM)	0.18	0.25	0.29	0.31	0.33	0.36	0.38	+9%	- Should gain share following entry of new formul
Cost Per Prescription	$44.80	$77.07	$85.00	$90.00	$95.00	$100.00	$105.00		- Pricing increases expected
Sales ($MM)	**$8**	**$19**	**$24**	**$28**	**$32**	**$36**	**$40**	**+16%**	
Other Generic Lindane Rx Share	**20%**	**6%**	**5%**	**6%**	**6%**	**6%**	**5%**		- Generic competition has been limited
Rx's (MM)	0.15	0.04	0.03	0.04	0.04	0.04	0.04		
Cost Per Prescription	$13.45	$54.83	$65.00	$65.00	$70.00	$70.00	$70.00		
Sales ($MM)	**$2**	**$2**	**$2**	**$3**	**$3**	**$3**	**$3**		
Total Market Sales (MM)	**$40**	**$61**	**$62**	**$63**	**$65**	**$67**	**$69**	**+2%**	**- Lindane has weakened due to warnings**
% Growth		**+53%**	**+1%**	**+2%**	**+2%**	**+2%**	**+2%**		**- Ovide should continue to gain share**

Source: SG Cowen & Co.

– Lustra Franchise Leads The Dermatologic Effort

Taro's second leading brand is the Lustra franchise (including Lustra AF and Ultra) – which was also acquired in July 2004 as part of the Medicis transaction. The Lustra line are topical treatments for ultraviolet-induced skin discolorations and hyperpigmentation – this is usually caused by exposure to oral contraceptives, hormone replacement therapy and/or by pregnancy and sun damage. Lustra and Lustra AF contains sunscreen agents, while Lustra Ultra contains retinol. We estimate Lustra franchise sale were $10MM in 2004. We estimate Ovide sales will remain relatively flat at $10MM (+0%) in 2005, rising to $11MM (+10%) in 2006.

– **Topicort And U-Cort Are Minor Contributors**

Taro's Topicort line includes gels, creams, and ointments all of which are Class II, high-potency corticosteroids indicated for topical use for inflammatory skin conditions. Importantly, Topicort has no dosing restrictions and minimizes the hypothalamic-pituitary-adrenal (HPA) suppression commonly seen with Class I corticosteroid use. We estimate the Topicort franchise revenue was $5MM in 2004 and will remain flat at $5MM in 2005 and 2006. U-cort is a topical corticosteroid; we estimate U-cort revenue was only $1MM in 2004 and likely will trend at these levels in 2005 and 2006.

– **Divestiture Of OTC Line Has Significantly Lowered SG&A**

In March 2005, Taro entered into an agreement with Alterna to divest its over-the-counter ElixSure and Kerasal products. Taro had invested fairly heavily in the development and marketing of these products, however, management was unable to justify the continued spend level given the low penetration rates. It appears that Alterna is better positioned to sell into the more diversified grocery and mass merchandise chains for the over-the-counter products. Importantly, the divestiture has allowed Taro to shed these promotional and distribution costs and refocus development on the higher margin prescription market. The Kerasal line comprises three exfoliating moisturizers for the feet. ElixSure children's medicines are based on Taro's proprietary NonSpil liquid drug delivery system. The ElixSure line includes spill-resistant formulations for fever/pain, cough and congestion. Taro will continue to manufacture the products for Alterna receiving a manufacturing fee and royalties on sales. Additionally, Taro has received a 5% equity stake in Alterna. With the divestiture Taro's SG&A has declined considerably – Q3 SG&A levels were down $7MM Y/Y and $1MM Q/Q to $22MM (-25%). Given this run-rate, we forecast 2006 SG&A spending will reach $92MM, down 3% Y/Y – including option expenses.

Canadian Market Growth Has Been Solid

Taro has an emerging leading generic drug franchise in Canada. In 2004, Canadian sales were $18MM (+18%), 6% of Taro's total sales. Similar to other international market, pricing in Canada is established by the government, as well as by competitive factors. In Canada, formulary price lists are directed by the individual Canadian provinces. By nature, this limits the market opportunity – however, Canada does remain a solid niche market for Taro and should provide continued modest growth. Taro's Canadian pharmaceutical sales are expected to reach $33MM (+80%) or roughly 11% of total revenue in 2005, driven by new product introductions and unit volume gains. We estimate Taro's Canadian sales will exceed $36MM (+9%) in 2006.

Canadian Generic Sales Have Been Increasing

TARO ESTIMATED MAJOR PRODUCT SALES BUILDUP ($MM)

	2003	2004	2005E	2006E	2007E	2008E	2009E	CGR	Comments
CANADIAN DRUG SALES	$15.6	$18.4	$33.0	$36.0	$39.0	$42.0	$45.0	+20%	- Demonstrating good growth; should continue to trend higher
% Change	+22%	+18%	+80%	+9%	+8%	+8%	+7%		- Consistent stable growth anticipated
% Revenues	5%	6%	11%	11%	12%	12%	12%		

Source: SG Cowen & Co.

Israel And ROW Markets Have Been Stable

Taro markets a variety of generic drugs in Israel and other international markets. Taro's Israeli sales were approximately $15MM (+8%) in 2004, or roughly 5% of Taro's total 2004 revenue. Sales to other international markets accounted for approximately 1% of Taro's 2004 total revenue – so they are only a minor component. The Israel pharmaceutical market remains volatile – due to government oversight on price controls and parallel importing - but Taro's recent quarterly performances have been solid. Nonetheless, we have very little visibility into the Israeli or other international markets, which reduces their revenue and earnings quality. We estimate Israel and ROW pharmaceutical sales of $20MM (+11%) in 2005, rising to $22MM (+10%) in 2006.

Israel And ROW Sales Remain Relatively Stable

TARO ESTIMATED MAJOR PRODUCT SALES BUILDUP ($MM)

	2003	2004	2005E	2006E	2007E	2008E	2009E	CGR	Comments
ISRAEL/ROW DRUG SALES	$16.7	$18.0	$20.0	$22.0	$24.0	$26.0	$28.0	+9%	- Stable business trends; should improve in 2006 with new generic lau
% Change	+41%	+8%	+11%	+10%	+9%	+8%	+8%		
% Revenues	5%	6%	7%	7%	7%	7%	8%		

Source: SG Cowen & Co.

T2000 Is Interesting, But Still In Relatively Early Development

T2000 is a novel, long-acting, non-sedating barbiturate in development for the treatment of essential tremor. Essential tremor is a fairly common form of movement disorder, present most often in the elderly. It is believed that essential tremor affects roughly 5-10MM people in the U.S. The disorder is sometimes confused with Parkinson's disease (which often includes severe "resting tremor") - although, it is significantly less debilitating and does not appear to cause serious complications. However, the disorder can lower quality of life by interfering with the ability to perform ordinary tasks as a person with essential tremor will have an abnormal level of trembling in the hands. It appears that essentially tremor is caused by minor abnormalities in the brain that is responsible for movement. Essential tremor usually develops gradually and is treated with a variety of medications. The most commonly used are propranolol, a generic beta blocker and the antiseizure treatments primidone and Neurontin. In addition clinicians also utilize benzodiazepines (primarily Valium and Xanax) as second-line or additive treatments. None of these treatments cure the underlying disorder, but all seem to provide limited symptomatic relief by reducing the tremor severity. It has been reported that roughly 55-65% of patients gain some benefit (albeit usually limited) for a period of time from propranolol. For the rarer severe patients there is the option for surgery; thalamotomy, which destroys a small part of the thalamus can be performed as well as deep brain stimulation.

Our clinical consultants indicate that less than 10% of essential tremor patients seek treatment - and an even smaller percentage receive pharmacologic therapy given the limited efficacy. Our consultants indicate that the disorder is very problematic, with 50-75% of sufferers indicating that they view themselves as somewhat disabled, limiting their quality of life. Our consultants indicate that they believe treatment levels would rapidly increase if an effective treatment were available.

– Barbiturates In Treating Essential Tremor Should Have Utility

T2000 is a long-acting, non-sedating barbiturate. Barbiturates typically act as depressants on the CNS by lowering nerve and muscle activity. In low doses barbiturates act as sedatives, increased doses have a hypnotic effect and at higher doses barbiturates can act as anticonvulsants. It is believed that deficiencies in the GABAergic system could play a key roll in essential tremor (Expert Opinion On Drug Safety 2005 “Benefits and Risks of Pharmacological and Surgical Treatments for Essential Tremor: Disease Mechanisms and Current Management”; Rincon and Louis) It appears that many of the first-line medications that have GABAergic activity (primarily primidone, benzodiazepines and the barbiturates) are effective in treating the disorder – potentially by compensating for biochemical deficiencies present in essential tremor (Rincon and Louis). Alcohol is also believed to mimick the GABA molecule at GABA-A chloride channels - while barbiturates or benzodiazepines are believed to increase either the duration or frequency of channel opening. Indeed, Primidone – one of the leading treatments for essential tremor - is metabolized to phenobarbital, a barbiturate (Rincon and Louis). The largest issue with the use of barbiturates is that it often acts as a sedative and is rapidly cleared. T2000 should have an extended action and be non-sedating. Taro has yet to publish any of its clinical data – making analysis by us and our clinical consultants exceedingly difficult. However, our consultants believe that the mechanism makes sense and that a barbiturate with a profile matching T2000 would likely be beneficial. Although management is classifying T2000 as in initial Phase III studies, these studies are being conducted in Canada – which for U.S. purposes should be considered Phase II as the FDA would require Taro perform two well controlled U.S. studies for approval. At this point we have low expectations for T2000 - we estimate a potential H2:2008 filing, with a possible H2:2009 launch – although given the lack of clinical data to date - timing is difficult to predict. We have not included any contribution from T2000 in our model.

Although management previously spent a large portion of many of its public conversations about Taro discussing T2000 – we believe that it is not a major focus – and indeed it appears that management is beginning to lower its visibility with investors.

TARO - 2004-2009 ESTIMATED ANNUAL P&L BUILDUP ($MM)

	2003	2004	2005E	2006E	2007E	2008E	2009E	'04-09 CGR	Comments
Core U.S. Generics:									
In-line Generics	$261.2	$212.8	$192.0	$177.0	$167.0	$162.0	$157.0	-6%	- Continued erosion from baseline products
% Change	+0%	-19%	-10%	-8%	-6%	-3%	-3%		
New U.S. Generic Sales			$20.0	$35.0	$55.0	$65.0	$75.0		- Visibility remains low given timing uncertainty
Total U.S. Generics Sales	$261.2	$212.8	$212.0	$212.0	$222.0	$227.0	$232.0		
% Change	+0%	-19%	-0%	+0%	+5%	+2%	+2%		
U.S. Proprietary Sales	$22.0	$35.0	$40.0	$45.0	$50.0	$55.0	$60.0		- Ovide, Alustra/AF/Ultra, Topicort, U-cort
Total U.S. Pharmaceuticals	$283.2	$247.8	$252.0	$257.0	$272.0	$282.0	$292.0		- Driven by new generic launches - visibility remains low
% Change	+54%	-13%	+2%	+2%	+6%	+4%	+4%		
Total Candian Products	$15.6	$18.4	$33.0	$36.0	$39.0	$42.0	$45.0		- Stable performance expected
% Change	+22%	+18%	+80%	+9%	+8%	+8%	+7%		
Total Israeli/ROW Products	$16.7	$18.0	$20.0	$22.0	$24.0	$26.0	$28.0		- Stable performance expected
% Change	+41%	+8%	+11%	+10%	+9%	+8%	+8%		
Total Taro Revenues	$315.5	$284.1	$305.0	$315.0	$335.0	$350.0	$365.0	+5%	- New U.S. generic launches; visibility remains low
% Change	+49%	-10%	+7%	+3%	+6%	+4%	+4%		
Cost of Goods	$102.5	$119.4	$140.3	$141.8	$147.4	$149.1	$151.5		
Gross Profit	$213.0	$164.7	$164.7	$173.3	$187.6	$200.9	$213.5	+5%	- Greater contribution from higher margin new generics
Gross Margin - Total	67.5%	58.0%	54.0%	55.0%	56.0%	57.4%	58.5%		
SG&A	$97.7	$123.3	$94.0	$91.5	$94.0	$97.0	$102.0	-4%	- Divestiture of the OTC line improves; should trend higher in '07
% of Revs	31.0%	43.4%	30.8%	29.0%	28.1%	27.7%	27.9%		
R&D	$40.6	$41.9	$45.5	$49.0	$52.0	$56.0	$60.0	+7%	- Both generic and brand R&D increasing
% of Revs	12.9%	14.8%	14.9%	15.6%	15.5%	16.0%	16.4%		
Operating Expenses	$138.3	$165.2	$139.5	$140.5	$146.0	$153.0	$162.0	-0%	
% of Revenues	43.8%	58.2%	45.7%	44.6%	43.6%	43.7%	44.4%		
Operating Income	$74.7	($0.5)	$25.2	$32.8	$41.6	$47.9	$51.5		
% Operating Margin	23.7%	-0.2%	8.3%	10.4%	12.4%	13.7%	14.1%		
Non-Operating Income									
Interest Income	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0		
Interest Expense	(1.7)	(6.4)	(7.8)	(7.8)	(7.8)	(7.8)	(7.1)		- $270MM of convertible and commercial debt
Non-Operating Income	($1.7)	($6.4)	($7.8)	($7.8)	($7.8)	($7.8)	($7.1)		
Pretax Income	$73.0	($6.9)	$17.4	$25.0	$33.8	$40.1	$44.4		
% of Revs	23.1%	-2.4%	5.7%	7.9%	10.1%	11.5%	12.2%		
Income Taxes	$11.5	($17.0)	$0.3	$2.5	$5.1	$6.0	$6.7		- Tax rate should increase
Income Tax Rate	15.7%	NM	2.0%	10.0%	15.0%	15.0%	15.0%		
Minority Share in Subsidiary	($0.3)	$1.0	$0.0	$0.0	$0.0	$0.0	$0.0		
Net Income - Before Ex. Items	$61.2	$11.1	$17.1	$22.5	$28.7	$34.1	$37.8		
% Net Margin	19.4%	NM	5.6%	7.1%	8.6%	9.7%	10.3%		
Extraordinary Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Reported Net Income	$61.2	$11.1	$17.1	$22.5	$28.7	$34.1	$37.8	+28%	
EPS - Before Ex. Items	$2.06	$0.37	$0.58	$0.75	$0.95	$1.10	$1.20		- Wide variance depending on generic product launches
Growth	+36%	-82%	+54%	+31%	+26%	+17%	+9%		
EPS - Extraordinary Items	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00		
EPS - Reported	$2.06	$0.37	$0.58	$0.75	$0.95	$1.10	$1.20	+26%	
Shares - Fully Diluted (MM)	29.7	29.7	29.6	29.9	30.4	30.9	31.4	+1%	- Diluted shares

Source: Company reports and SG Cowen estimates

TARO ESTIMATED MAJOR PRODUCT SALES BUILDUP ($MM)

	2003	2004	2005E	2006E	2007E	2008E	2009E	CGR	Comments
U.S. GENERIC DRUG SALES - BASE									
Warfarin Sodium	$34.7	$28.4	$25.0	$25.0	$25.0	$25.0	$23.0		- Stroke; BMY's Coumadin; difficult formulation/dosing - limited compe
Clotrim/Betameth	25.0	21.0	19.0	16.0	16.0	15.0	15.0		- Schering's Lotrisone; launched 7/2004; $40MM brand market
Desoximetasone	23.0	18.0	15.0	14.0	14.0	14.0	14.0		- Generic Topicort; topical steroid
Etodolac	22.0	17.0	14.0	13.0	13.0	12.0	12.0		- Wyeth's Lodine; arthritis - full product offering
Clotrimazole	22.0	16.0	12.0	10.0	10.0	10.0	10.0		- Generic Lotrimon; used to treat yeast infections
Clobetasol	17.0	12.0	10.0	10.0	10.0	10.0	10.0		- Generic Temovate; dermatologic
Carbamazepine	14.0	11.0	10.0	10.0	7.0	7.0	7.0		- Anticonvulsant; available in solid dose, liquid and chewable; NTI drug
Others	103.5	89.4	87.0	79.0	72.0	69.0	66.0		- Roughly 20 other U.S. marketed/distributed generic products
Total In-Line NA Generic Drugs	$261.2	$212.8	$192.0	$177.0	$167.0	$162.0	$157.0	-6%	- 75% of sales in 2004, 40% in 2009
NEW U.S. GENERIC DRUGS									
2005									
Mupirocin Ointment			$2.0	$5.0	$5.0	$5.0	$5.0		- GSK's Bactroban; 9/2005 approval; $75MM brand mkt
Miconazole			3.0	2.0	2.0	2.0	2.0		- JNJ's Monistat vaginal cream; approved 3/2005; $50MM brand mkt
Terconazole			6.0	7.0	7.0	7.0	7.0		- JNJ's Terazol vaginal cream; approved 1/2005; $40MM brand market
Ciclopirox			3.0	2.0	2.0	2.0	2.0		- Medicis' Loprox antifungal; 4/2005 approval; $35MM brand mkt
Hydrocortisone Butyrate			2.0	2.0	2.0	2.0	2.0		- Ferndale's Locoid cream; 8/2005 approval; $10MM brand mkt
Halobetasol Propionate			2.0	1.0	1.0	1.0	1.0		- BMY's Ultravate cream; 8/2005 approval; $25MM brand mkt
Alclometasone Dipropionate			2.0	1.0	1.0	1.0	1.0		- GSK's Aclovate cream; 9/2005 approval; $10MM brand mkt
Other			0.0	0.0	0.0	0.0	0.0		- Anticipated 1-2 additional products
2005 New Generic Drugs			$20.0	20.0	20.0	20.0	20.0		
2006 New Generic Drugs				$15.0	15.0	15.0	13.0	NA	- New product flow difficult to forecast in 2006
2007 New Generic Drugs					$20.0	15.0	12.0	NA	- Assumes 5-6 launches with peak sales of $4-6MM
2008 New Generic Drugs						$15.0	$15.0	NA	- Assumes 5-6 launches with peak sales of $4-6MM
2009 New Generic Drugs							$15.0	NA	- Assumes 5-6 launches with peak sales of $4-6MM
Total New Generic Drugs (2005-2009)	$0.0	$0.0	$20.0	$35.0	$55.0	$65.0	$75.0	NA	- 25 pending ANDAs pending should provide steady new product flow
TOTAL IN-LINE U.S. & NEW GENERICS	$261.2	$212.8	$212.0	$212.0	$222.0	$227.0	$232.0	+2%	- We believe that we have modeled the most conservative assumptions
% Change		-19%	-0%	+0%	+5%	+2%	+2%		- New generic launches should offset decline in base product line
% Revenues	83%	75%	70%	67%	66%	65%	64%		
U.S. PROPRIETARY DRUG SALES									
Ovide	$8.0	$19.0	$24.0	$28.0	$32.0	$36.0	$40.0		- Brand treatment for head lice; acquired from Medicis 1/2003
Lustra/AF/Ultra	8.0	10.0	10.0	11.0	11.0	12.0	13.0		- Treatment for dyschromia; acquired from Medicis 7/2004
Topicort	5.0	5.0	5.0	5.0	6.0	6.0	6.0		- High potency corticosteroids; acquired from Medicis 1/2003
U-cort	1.0	1.0	1.0	1.0	1.0	1.0	1.0		- Topical hydrocortisone acetate cream; acquired from Medicis 1/2003
T2000									- Non-sedating barbituate for essential tremor; pilot Phase III studies un
T2001									- Low visibility on timing of clinical development - efficacy
TOTAL U.S. BRAND DRUG SALES	$22.0	$35.0	$40.0	$45.0	$50.0	$55.0	$60.0	+11%	- Driven by Ovide, Lustra franchise and Topicor; T2000 has potential
% Change		+59%	+14%	+13%	+11%	+10%	+9%		
% Revenues	7%	12%	13%	14%	15%	16%	16%		
TOTAL U.S. DRUG SALES	$283.2	$247.8	$252.0	$257.0	$272.0	$282.0	$292.0	+3%	- Driven by new generic launches; brand line increasing
% Change	+54%	-13%	+2%	+2%	+6%	+4%	+4%		- New generic launches should offset decline in base product line
% Revenues	90%	87%	83%	82%	81%	81%	80%		
CANADIAN DRUG SALES	$15.6	$18.4	$33.0	$36.0	$39.0	$42.0	$45.0	+20%	- Demonstrating good growth; should continue to trend higher
% Change	+22%	+18%	+80%	+9%	+8%	+8%	+7%		- Consistent stable growth anticipated
% Revenues	5%	6%	11%	11%	12%	12%	12%		
ISRAEL/ROW DRUG SALES	$16.7	$18.0	$20.0	$22.0	$24.0	$26.0	$28.0	+9%	- Stable business trends; should improve in 2006 with new generic lau
% Change	+41%	+8%	+11%	+10%	+9%	+8%	+8%		
% Revenues	5%	6%	7%	7%	7%	7%	8%		
TOTAL TARO SALES	$315.5	$284.1	$305.0	$315.0	$335.0	$350.0	$365.0	+5%	- Driven by new generic launches
% Change	+49%	-10%	+7%	+3%	+6%	+4%	+4%		

Source: Company reports and SG Cowen estimates

TARO - ESTIMATED QUARTERLY P&L BUILDUP ($MM)

		2004					2005E					2006E				
	2003	Q1	Q2	Q3	Q4	2004	Q1	Q2	Q3	Q4E	2005E	Q1E	Q2E	Q3E	Q4E	2006E
Revenue																
U.S. Pharmaceuticals	$283.2	$75.7	$41.7	$63.8	$66.6	$247.8	$67.5	$67.6	$57.3	$59.6	$252.0	$62.5	$63.0	$64.5	$67.0	$257.0
% Change	+0%	+23%	-37%	-14%	-18%	-13%	-11%	+62%	-10%	-11%	+2%	-7%	-7%	+13%	+12%	+2%
Canadian Generics	$15.6	$4.2	$3.9	$5.1	$5.1	$18.4	$6.3	$7.1	$9.4	$10.2	$33.0	$8.0	$9.0	$9.5	$9.5	$36.0
% Change	+22%	+22%	+5%	+3%	+48%	+18%	+49%	+80%	+84%	+101%	+80%	+27%	+27%	+1%	-7%	+9%
Israeli/ROW Sales	$16.7	$4.2	$3.4	$4.4	$6.0	$18.0	$4.7	$3.9	$5.8	$5.6	$20.0	$5.0	$5.4	$5.8	$5.8	$22.0
% Change	+41%	+2%	-23%	+6%	+54%	+8%	+12%	+14%	+32%	-7%	+11%	+6%	+37%	-0%	+4%	+10%
Total Revenues	$315.5	$84.1	$49.1	$73.3	$77.7	$284.1	$78.5	$78.6	$72.5	$75.3	$305.0	$75.5	$77.4	$79.8	$82.3	$315.0
% Change	+49%	+22%	-34%	-12%	-12%	-10%	-7%	+60%	-1%	-3%	+7%	-4%	-1%	+10%	+9%	+3%
Cost of Revenues	$102.5	$27.7	$25.6	$30.7	$35.3	$119.4	$35.1	$35.1	$34.8	$35.3	$140.3	$34.4	$34.8	$35.8	$36.8	$141.8
Total Gross Profit	$213.0	$56.4	$23.5	$42.5	$42.3	$164.7	$43.4	$43.5	$37.7	$40.0	$164.7	$41.1	$42.6	$44.0	$45.5	$173.3
Total Gross Margin	67.5%	67.0%	47.8%	58.0%	54.5%	58.0%	55.3%	55.4%	52.0%	53.1%	54.0%	54.5%	55.0%	55.2%	55.3%	55.0%
SG&A	$97.7	$34.1	$30.6	$29.6	$28.9	$123.3	$26.4	$23.3	$22.3	$22.4	$94.5	$22.5	$22.8	$23.0	$23.2	$91.5
% Revenues	31.0%	40.6%	62.3%	40.4%	37.3%	43.4%	33.6%	29.7%	30.8%	29.8%	31.0%	29.8%	29.5%	28.8%	28.2%	29.0%
R&D	$40.6	$11.7	$10.5	$10.5	$9.2	$41.9	$9.8	$11.8	$11.7	$12.2	$45.5	$12.0	$12.2	$12.4	$12.4	$49.0
% Revenues	12.9%	13.9%	21.4%	14.3%	11.9%	14.8%	12.4%	15.1%	16.1%	16.2%	14.9%	15.9%	15.8%	15.5%	15.1%	15.6%
Operating Expenses	$138.3	$45.9	$41.1	$40.1	$38.2	$165.2	$36.2	$35.2	$34.0	$34.7	$140.0	$34.5	$35.0	$35.4	$35.6	$140.5
Operating Income	$74.7	$10.5	($17.6)	$2.4	$4.2	($0.5)	$7.3	$8.3	$3.7	$5.3	$24.7	$6.6	$7.6	$8.6	$9.9	$32.8
% Revenues	23.7%	12.5%	-35.8%	3.3%	5.4%	-0.2%	9.3%	10.6%	5.2%	7.1%	8.1%	8.8%	9.8%	10.8%	12.0%	10.4%
Non-Operating Income																
Interest Income	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Interest Expense	(1.7)	(1.8)	(2.2)	(1.7)	(0.8)	(6.4)	(2.0)	(1.6)	(2.1)	(2.1)	(7.8)	(2.0)	(2.0)	(2.0)	(1.8)	(7.8)
Non-Operating Income	($1.7)	($1.8)	($2.2)	($1.7)	($0.8)	($6.4)	($2.0)	($1.6)	($2.1)	($2.1)	($7.8)	($2.0)	($2.0)	($2.0)	($1.8)	($7.8)
Pre-Tax Income	$73.0	$8.7	($19.8)	$0.8	$3.4	($6.9)	$5.2	$6.74	$1.7	$3.3	$16.9	$4.6	$5.6	$6.6	$8.1	$25.0
% Revenues	23.1%	10.3%	-40.3%	1.0%	4.4%	-2.4%	6.7%	8.6%	2.3%	4.3%	5.5%	6.2%	7.2%	8.3%	9.8%	7.9%
Income Taxes	$11.5	($2.3)	($10.4)	($3.0)	($1.3)	($17.0)	$0.3	$0.2	($0.5)	$0.3	$0.3	$0.5	$0.6	$0.7	$0.8	$2.5
Tax Rate	15.7%	NM	NM	NM	NM	NM	4.9%	3.5%	NM	10.4%	2.1%	10.0%	10.0%	10.0%	10.0%	10.0%
Minority Share in Subsidiary	($0.3)	$0.2	$0.6	$0.2	$0.0	$1.0	$0.0	($0.0)	($0.0)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Net Income - Operations	$61.2	$11.1	($8.9)	$4.0	$4.8	$11.1	$5.0	$6.5	$2.1	$2.9	$16.6	$4.2	$5.0	$6.0	$7.3	$22.5
Non-Recurring Gains/Losses	$0.0	0.0	0.0	0.0	0.0	$0.0	0.0	0.0	0.0	0.0	$0.0	0.0	0.0	0.0	0.0	$0.0
Net Income - Reported	$61.2	$11.1	($8.9)	$4.0	$4.8	$11.1	$5.0	$6.5	$2.1	$2.9	$16.6	$4.2	$5.0	$6.0	$7.3	$22.5
EPS (GAAP) - Fully Diluted	$2.06	$0.37	($0.31)	$0.14	$0.16	$0.37	$0.17	$0.22	$0.07	$0.10	$0.56	$0.14	$0.17	$0.20	$0.24	$0.75
% Change	+36%	-21%	NM	-74%	-71%	-82%	-54%	NM	-47%	-39%	+54%	-17%	-23%	+177%	+147%	+31%
Non-Recurring Gains/Losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EPS - Reported	$2.06	$0.37	($0.31)	$0.14	$0.16	$0.37	$0.17	$0.22	$0.07	$0.10	$0.56	$0.14	$0.17	$0.20	$0.24	$0.75
Shares Outstanding (Fully Diluted)	29.67	29.8	29.0	29.5	29.6	29.66	29.6	29.6	29.6	29.7	29.64	29.8	29.8	29.9	29.9	29.85

Source: Company reports and SG Cowen estimates

TARO - 2004-2009 ESTIMATED BALANCE SHEET BUILDUP ($MM)

	2003	2004	2005E	2006E	2007E	2008E	2009E	Comments
Assets:								
Cash & Equivalents	$159.1	$98.6	$92.7	$98.5	$109.2	$125.3	$145.1	
Restricted Short-Term Bank Deposits	$2.5	$6.6	$5.0	$5.0	$5.0	$5.0	$5.0	
Receivables	137.6	141.3	146.2	151.0	160.6	167.8	175.0	
Inventories	84.5	86.6	82.5	83.4	86.7	87.7	89.1	- Net of obsolescence
Other Current Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Total Current Assets	$383.7	$333.1	$326.5	$337.9	$361.6	$385.8	$414.2	
Property, Plant & Equipment	$182.3	$242.0	$272.0	$302.0	$332.0	$362.0	$392.0	- Net of accumulated depreciation
Other Long-Term Assets	50.5	121.8	125.0	125.0	125.0	125.0	125.0	
Total Long-Term Assets	$232.8	$363.7	$397.0	$427.0	$457.0	$487.0	$517.0	
Total Assets	$616.5	$696.9	$723.4	$764.9	$818.5	$872.8	$931.2	
Liabilities:								
Short-Term Debt	$19.1	$65.0	$65.0	$65.0	$65.0	$65.0	$65.0	
Accounts Payable	60.2	49.6	57.7	58.3	60.6	61.3	62.3	
Current portion of long-term debt	24.4	16.9	20.0	20.0	20.0	20.0	20.0	
Other Current Liabilities	1.7	0.7	0.7	0.7	0.7	0.7	0.8	
Total Current Liabilities	$105.4	$132.2	$143.3	$143.9	$146.3	$147.0	$148.0	
Long-Term Debt	$156.9	$187.3	$187.3	$187.3	$187.3	$187.3	$187.3	
Other Long-Term Liabilities	6.7	9.2	10.5	10.6	11.1	11.2	11.4	
Total Liabilities	$269.1	$328.7	$341.2	$341.9	$344.7	$345.5	$346.7	
Net Equity	$347.4	$368.1	$382.3	$423.0	$473.9	$527.3	$584.5	
Net Working Capital								
Excl. Cash & S.T. Debt	$162.7	$184.2	$175.4	$180.4	$191.0	$198.5	$206.1	
Current Ratio	3.6	2.5	2.3	2.3	2.5	2.6	2.8	
Long-Term Debt/Equity	45.2%	50.9%	49.0%	44.3%	39.5%	35.5%	32.1%	
Return On Average Equity	17.6%	3.1%	4.6%	5.9%	6.4%	6.8%	6.8%	

TARO 2004-2009 ESTIMATED CASH FLOW ANALYSIS ($MM)

	2003	2004	2005E	2006E	2007E	2008E	2009E	Comments
Operating Activities								
Net Income (Operations)	$61.2	$11.1	$17.1	$23.8	$28.7	$34.1	$37.8	
Depreciation & Amort.	14.4	19.6	20.0	20.0	20.0	20.0	20.0	
Minority interest in Earnings of Subsidi	0.3	(1.0)	0.0	0.0	0.0	0.0	0.0	
Deferred Income Taxes, net	2.0	(18.8)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	
Change in Working Capital	(80.1)	(12.7)	(10.0)	(10.0)	(10.0)	(10.0)	(10.0)	
Other, net	7.5	(0.0)	2.0	2.0	2.0	2.0	2.0	
Net Cash Provided By Operations	$5.3	($1.8)	$24.1	$30.8	$35.7	$41.1	$44.8	
Investing Activities								
Capital Expenditures	($94.4)	($72.3)	($30.0)	($30.0)	($30.0)	($30.0)	($30.0)	
Investments (net)	(0.1)	(18.3)	(5.0)	(5.0)	(5.0)	(5.0)	(5.0)	
Purchase of Product Rights	(10.4)	(37.3)	0.0	0.0	0.0	0.0	0.0	
Other, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net Cash Used By Investing	($104.9)	($127.9)	($35.0)	($35.0)	($35.0)	($35.0)	($35.0)	
Financing Activities								
Common Stock (net)	$2.1	$1.9	$5.0	$5.0	$5.0	$5.0	$5.0	- Exercise of options, share buyback
LT Debt, net	107.7	21.8	0.0	0.0	0.0	0.0	0.0	
Other, net	18.3	45.5	0.0	5.0	5.0	5.0	5.0	- Short-term cedit facilities
Net Cash Provided By Financing	$128.0	$69.2	$5.0	$10.0	$10.0	$10.0	$10.0	
Net Change in Cash	$28.4	($60.5)	($5.9)	$5.8	$10.7	$16.1	$19.8	
Ending Cash	$159.1	$98.6	$92.7	$98.5	$109.2	$125.3	$145.1	

COWEN SUMMARY:

	2003	2004	2005E	2006E	2007E	2008E	2009E	Comments
Cash Flow from Operations (a)	$5.3	($1.8)	$24.1	$30.8	$35.7	$41.1	$44.8	
Capital Spending	($94.4)	($72.3)	($30.0)	($30.0)	($30.0)	($30.0)	($30.0)	
Owners' Cash Flow	($89.2)	($74.1)	($5.9)	$0.8	$5.7	$11.1	$14.8	
Financing	$128.0	$69.2	$5.0	$10.0	$10.0	$10.0	$10.0	
Non-Recurring Items	($10.5)	($55.6)	($5.0)	($5.0)	($5.0)	($5.0)	($5.0)	
Beginning Cash & Equivalent	$130.7	$159.1	$98.6	$92.7	$98.5	$109.2	$125.3	
Change in Cash & Equivalent	$28.4	($60.5)	($5.9)	$5.8	$10.7	$16.1	$19.8	
Ending Cash & Equivalent	$159.1	$98.6	$92.7	$98.5	$109.2	$125.3	$145.1	

(a) Excludes non-recurring items

Source: Company reports and SG Cowen estimates

TARO - ROIC Worksheet 2004-2009

	2003	2004	2005	2006	2007	2008	2009
EBIT	$74.7	($0.5)	$25.2	$34.3	$41.6	$47.9	$51.5
+ Implied interest from operating leases	0.7	0.2	0.2	0.2	0.2	0.2	0.2
+ increase in LIFO reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Increase in bad debt reserve	4.0	29.0	15.0	15.0	15.0	15.0	15.0
+ Increase in net capitalized R&D	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Goodwill amortization	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjusted Oper Profit Before Tax	$79.4	$28.7	$40.4	$49.5	$56.8	$63.1	$66.7
Income tax expense (from P&L)	$11.5	($17.0)	$0.3	$2.6	$5.1	$6.0	$6.7
+/- Decr/Incr in deferred taxes	3.8	1.8	0.3	0.0	0.0	0.0	0.0
Statutory tax rate	35%	35%	35%	35%	35%	35%	35%
Interest expense	1.7	6.4	7.8	7.8	7.8	7.8	7.1
Implied interest from operating leases	0.7	0.2	0.2	0.2	0.2	0.2	0.2
Other Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+ Tax benefit of interest expense	0.6	2.2	2.7	2.7	2.7	2.7	2.5
+ Tax benefit of interest on oper leases	0.2	0.1	0.1	0.1	0.1	0.1	0.1
- Taxes on other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Operating Taxes	$8.5	($16.5)	$2.9	$5.4	$7.9	$8.8	$9.2
NOPAT	**$70.8**	**$45.2**	**$37.5**	**$44.0**	**$48.9**	**$54.3**	**$57.5**
Cash & Equivalent	$159.1	$98.6	$92.7	$98.5	$109.2	$125.3	$145.1
Book value of common equity	$347.4	$368.1	$382.3	$423.0	$473.9	$527.3	$584.5
+Preferred stock	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+Minority interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+Deferred taxes	4.9	6.7	7.0	7.0	7.0	7.0	7.0
+LIFO reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+Accumulated goodwill amortization	7.2	7.2	7.2	7.2	7.2	7.2	7.2
+Interest-bearing short-term debt	19.1	65.0	45.0	45.0	45.0	45.0	45.0
+Long-term debt	156.9	187.3	187.3	187.3	187.3	187.3	187.3
+Capitalized lease obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0
+PV of operating leases	14.6	5.2	4.6	4.6	4.6	4.6	4.6
- Excess cash & equivalent	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Invested Capital (incl goodwill)	$550.1	$639.6	$633.4	$674.2	$725.0	$778.5	$835.7
Goodwill (on balance sheet)	$7.2	$7.2	$7.2	$7.2	$7.2	$7.2	$7.2
Invested Capital (excl goodwill)	$535.7	$625.2	$619.0	$659.8	$710.6	$764.1	$821.3
ROIC (incl goodwill)	**12.9%**	**7.1%**	**5.9%**	**6.5%**	**6.7%**	**7.0%**	**6.9%**
ROIC (excl goodwill)	**13.2%**	**7.2%**	**6.1%**	**6.7%**	**6.9%**	**7.1%**	**7.0%**

Source: SG Cowen & Co.

Addendum

COMPANIES MENTIONED IN THIS REPORT

Ticker	Company Name
TARO	Taro Pharmaceutical

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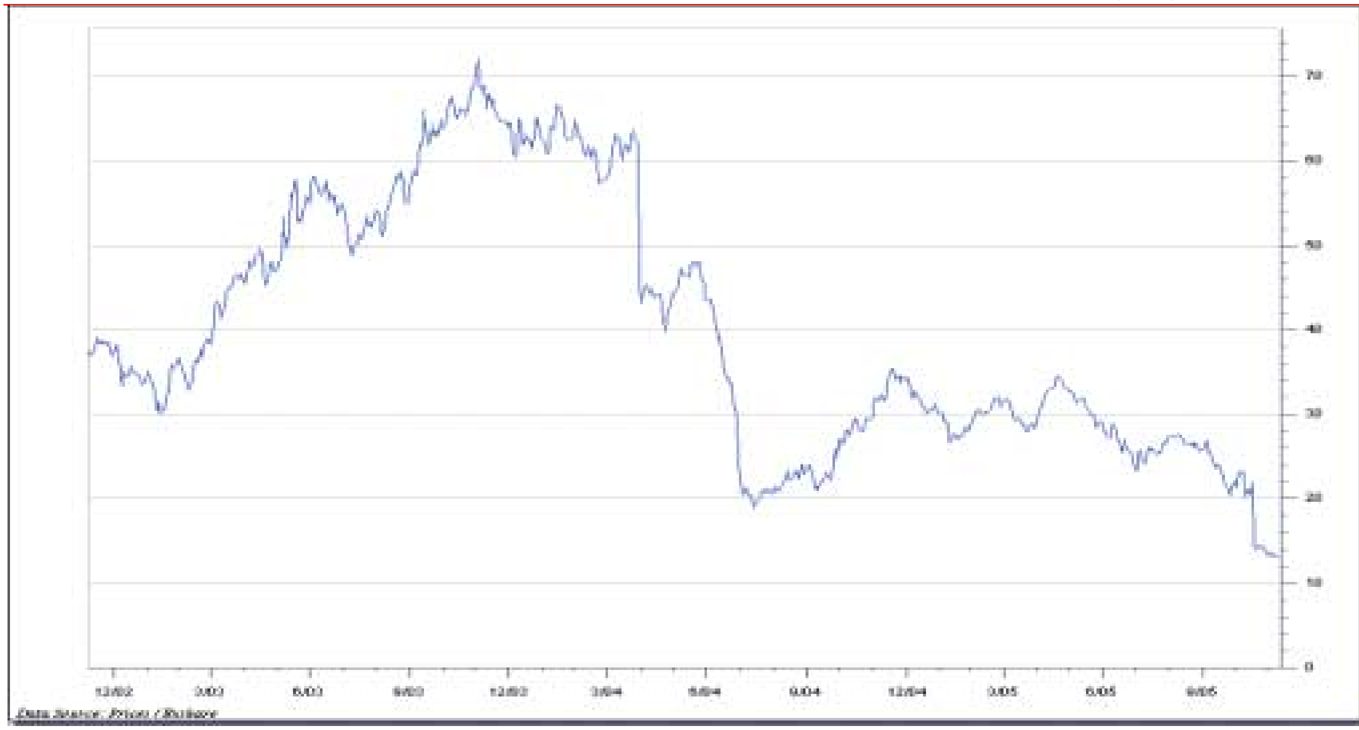
SG COWEN & CO. RATING DEFINITIONS PRIOR TO 3/1/2004

Rating	Definition
Strong Buy (1)	Stock expected to outperform the S&P 500 by over 25%
Outperform (2)	Stock expected to outperform the S&P 500 by 10-25%
Market Perform (3)	Stock expected to out/underperform the S&P 500 by +/-10%
Underperform (4)	Stock expected to underperform the S&P 500 by at least 10%

Assumptions: Time horizon is 12 months; S&P 500 is flat over forecast period.

TARO—SG COWEN & CO. HISTORICAL PRICE CHART AS OF 12/08/2005 (US$)



SG Cowen & Co., LLC eliminated price targets on 09/09/02;
SG Cowen & Co., LLC eliminated investment ratings on 03/01/04.