

**HITK**  
**HI-TECH PHARMACAL CO., INC.**

**NASDAQ:HITK**  
**BROKER “SELL SHEET”**

- Specialty pharmaceuticals manufacturer of liquids, topicals, sterile products --
  - (1) Generic pharmaceuticals (Rx and OTC);
  - (2) Branded OTC products for the diabetes market;
  - (3) Contract manufacturing.
- Significantly undervalued generic pharmaceutical company – p/e of 10.1 vs. 27.4 average for the industry.
- Record sales and profits last two years.
- 23 approved new drugs and exciting prospects in the pipeline.
- Market leader in OTC and HBA products for the diabetes population – huge niche market with 16 million sufferers in U.S. alone:
  - (1) 40% sales increase forecasted for FY 2000.
  - (2) Diabetic Tussin® No. 1 brand of sugar-free cough syrup.
  - (3) 9 additional SKUs including DiabetiSweet®, DiabetiDerm® and DiabetiGest®.
  - (4) Chain and wholesale distribution nationwide – new contracts launching in 2000.
  - (5) National marketing plan launching in 2000.
- Owns 23% share of joint venture which has exclusive worldwide marketing and distribution rights to Huperzine A, a compound expected to be the next breakthrough in treating Alzheimer’s Disease and other neurodegenerative disorders. Venture also owns license to patents for HupA analogs.
- 135,000-sq. ft. state-of-the-art manufacturing facility.
- Stock repurchase program initiated in May 1997 and expanded in August 1999.
- Cutting edge company with roots dating to 1930.

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**WHO WE ARE**

- A specialty pharmaceutical company poised to become the No. 1 supplier of OTC products for the diabetes population.
- A detailing pharmaceutical company positioned to capture a share of the diabetes Rx business.
- A niche generic pharmaceutical manufacturer supplying products to drug chains and wholesalers.
- A contract manufacturer operating a 135,000-sq. ft. state-of-the-art pharmaceutical plant with facilities for Research & Development, manufacturing and distribution.
- A sterile manufacturer with an ophthalmic, otic and inhalation product facility meeting FDA standards.
- An R&D innovator with FDA approval of 23 products and an active pipeline.
- A niche marketing specialist projecting double digit growth through 2002.
- An undervalued publicly traded company with a record of strong earnings and a bright future.
- A seasoned industry player and a groundfloor investment opportunity.

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**HISTORICAL PERSPECTIVE**

- 1930 Reuben Seltzer begins compounding over-the-counter health and beauty aids in the back room of his brother's retail pharmacy in Brooklyn, New York. The new enterprise emerges as Success Chemical Co., which supplies its growing product line to other local drug stores.
- 1937 Success Chemical Co. sales begin to take off.
- 1946 Reuben's son, Bernard, joins Success Chemical after earning a business degree from Yeshiva University. The company's sales and profits grow over the next two decades.
- 1967 Success Chemical Co. is sold to Ketchum & Co., the third largest pharmaceutical wholesaler in the U.S. The firm's name is changed to Ketchum Laboratories. Bernard Seltzer stays on with Ketchum Labs as Vice President of Sales.
- 1983 Bernard buys back liquid and ointment operations from Ketchum, changes the company's name to Hi-Tech Pharmacal Co., Inc. The company has 10 employees and achieves \$200,000 in sales, returning a profit in the first year.
- 1984-89 Hi-Tech Pharmacal builds infrastructure with new plant and equipment. Maintains profitability, producing generics under its own label and others.
- 1990 David Seltzer, Bernard's son, is appointed Vice President/Sales. Bernard Seltzer becomes Chairman of the Board. Elan Bar-Giora is appointed Vice President/Operations.
- 1991 Arthur S. Goldberg is appointed Vice President/Finance.
- 1992 Company acquires 21,000-sq. ft. manufacturing facility adjacent to Amityville plant.

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- FY 1993 (High: \$8.17; Low: \$3.33)  
 Hi-Tech Pharmacial raises first round of financing through small IPO. Issues one million shares at \$6.00 – shares begin trading on the NASDAQ under the symbol “HITK.” HITK has 64 employees, shows a net profit of \$1.2 million on sales of \$10.7 million in its first year of operation as a public company. Acquires an additional 21,000-sq. ft. HITK establishes separate division, Health Care Products, to develop and market products specifically for the diabetes population; introduces Diabetic Tussin®.
- FY 1994 (High: \$10.00, Low: \$5.67)  
 Health Care Products adds line extensions to Diabetic Tussin: Introduces DiabetiDerm® which puts HITK on the map with significant distribution at major chains and wholesalers. Receives first FDA approval (ANDA) for drug product (Amantadine). HITK shares split 3-for-2.
- FY 1995 (High: \$11.87, Low: \$4.25)  
 Health Care Products introduces DiabetiSweet®, launches aggressive marketing/media program for all HCP brands. Diabetic Tussin becomes No. 1 selling sugar-free cough syrup. DiabetiDerm sales double.
- FY 1996 (High: \$9.63, Low: \$4.75)  
 HITK completes sterile facility; receives FDA approval for additional products.
- FY 1997 (High: \$9.88, Low: \$3.25)
- FY 1998 (High: \$7.50, Low: \$3.50)  
 HITK achieves record earnings of 38 cents/share. Sales reach \$22.3 million. Company receives first sterile approval from FDA (Albuterol Sulfate Inhalation Solution). Increased distribution at major chains and managed care. Company hires Vice President/National Accounts to build strong sales force. Launches website ([www.diabeticproducts.com](http://www.diabeticproducts.com)).
- HITK acquires 23% interest in Marco/H.T., exclusive worldwide marketer and distributor of Huperzine A. HITK receives (5) new product approvals from FDA.

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- FY 1999 (High: \$6.44, Low: \$3.44)  
David Seltzer named President of HITK. Begins production of sterile version of Albuterol Sulfate inhalation product, along with Sulfamethoxazole Trimethoprin Pediatric Suspension. 134 employees. Record sales (\$23.3 million) and income (\$0.42/share) for second consecutive year.
- FY 2000  
HITK introduces DiabetiSweet Measure-for-Measure. Breaks ground for new corporate headquarters building at its Amityville complex. Embarks on aggressive growth strategy, including new marketing campaign for Health Care Products and expansion of Internet marketing.

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**PHYSICAL PLANT**

- 135,000-sq. ft. complex.
- 4 modern buildings housing laboratories, manufacturing, packaging, warehousing and administrative facilities.
- New corporate headquarters building under construction to house management, sales and marketing, in-house telemarketing center, and upgraded customer contact center.
- Fully operative sterile ophthalmic facility on the premises.
- State-of-the-art equipment in all areas of operation.
- State-of-the-art chemistry, microbiology and R&D labs.
- CGMP practiced at facilities.
- Staff of 134.

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**GENERIC PRODUCTS:**  
**HIGHLIGHTS**

**Brand: Rx Choice (over-the-counter)**

Children's Allergy Medication  
 Saline Nasal Spray  
 Guaiaatussin DM  
 12-Hour Nasal Spray

**Compares to:**

Benadryl®  
 Ocean®  
 Robitussin®  
 Afrin®

**Brand: H-T (Rx)**

Albuterol Sulfate Inhalation Solution 0.5%  
 Albuterol Sulfate Inhalation Solution .083%  
 Albuterol Sulfate Syrup  
 Chlorhexadine Gluconate Oral Rinse  
 Hydroxyzine HCL Syrup  
 Poly-vitamin Drops with Fluoride  
 Sodium Fluoride Drops  
 Sulfamethoxazole Trimethoprin Pediatric Suspension  
 Valproic Acid Syrup

Proventil®  
 Proventil®  
 Ventolin®  
 Peridex®  
 Attarax®  
 Poly-Vi-Flor®  
 Tri-Vi-Flor®  
 Bactrum®  
 Depakene®

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**HCP PRODUCTS:**  
**HIGHLIGHTS**

**Diabetic Tussin® (liquid, liqui-gels, cough drops)**

- DM suppressant expectorant
- DM maximum strength
- Diabetic Tussin EX (expectorant)
- Diabetic Tussin Allergy (allergy relief)
- Diabetic Tussin Children's (suppressant expectorant)
- Diabetic Tussin Herbal (cold formula)

**DiabetiDerm® Moisturizer (cream and lotion)**

**DiabetiSweet® Sugar Substitute (packets)**

**DiabetiSweet® Measure-for-Measure (aspartame-free bulk sweetener)**

**Nasal-Ease® (spray, gel)**

***NEW!*** **DiabetiGest® antacid**

***NEW!*** **DiabetiRinse® mouthwash**

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**DISTRIBUTION**

*Drug Chains*

- Albertsons
- American Drug Stores
- Brooks
- CVS
- Duane Reade
- Eckerd
- Rite Aid
- Walgreens

*Mass Merchandisers*

- Costco
- Kmart
- Target
- Walmart

*Wholesalers*

- Amerisource
- Bergen Brunswig
- Bindley Western
- Cardinal
- Kinray
- McKesson
- Neuman Wholesale

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**SELECTED FINANCIAL DATA**

<u>Year ended April 30:</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
<u>Statement of Operations:</u>					
Net Sales	\$23,266,000	\$22,366,000	\$20,534,000	\$19,140,000	\$16,406,000
Earnings Before Taxes	\$2,996,000	\$2,835,000	\$1,327,000	\$2,206,000	\$2,803,000
Net Income (loss)	\$1,878,000	\$1,735,000	\$817,000	\$1,335,000	\$1,731,000
Operating Cash Flow	\$3,355,000	\$2,706,000	\$1,409,000	\$1,099,000	\$1,264,000
Diluted Earnings (loss) Per Share	\$0.42	\$0.38	\$0.18	\$0.29	\$0.38
Weighted Average Common Shares Outstanding - diluted	\$4,519,000	\$4,580,000	\$4,599,000	\$4,567,000	\$4,591,000
<u>Balance Sheet:</u>					
Working Capital	\$9,939,000	\$8,321,000	\$6,422,000	\$5,417,000	\$4,241,000
Total Assets	\$23,210,000	\$21,622,000	\$21,282,000	\$20,487,000	\$18,404,000
Long-Term Debt	\$1,003,000	\$1,450,000	\$1,896,000	\$2,427,000	\$3,026,000
Stockholders' Equity	\$17,307,000	\$15,685,000	\$14,001,000	\$13,171,000	\$11,266,000

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**ANALYSIS OF OPERATIONS TO NET SALES**

<u>Year Ended April 30:</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net Sales	100%	100%	100%
Cost of Sales	56.8%	58.5%	64.7%
Gross Profit	43.2%	41.5%	35.3%
Total Expenses	30.3%	28.8%	28.8%
Income Before Taxes	12.9%	12.7%	6.5%
Net Income	8.1%	7.8%	4.0%

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**VISION STATEMENT**

Hi-Tech Pharmacal intends to become the No. 1 supplier of OTC products to the diabetes marketplace and a key source of niche generic liquid and semi-solid pharmaceutical products to the retail chain and wholesale industries.

Hi-Tech intends to achieve a fair value for its stock in the investment marketplace with a price that appropriately reflects the growth and the financial, management and operating strengths of the company, as well as the substantial product marketing opportunities we are positioned to capture.

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**STRATEGIC BUSINESS PLAN**  
**2000 – 2002**

By focusing on its two core businesses – generics and branded diabetes products – through R&D, internal sales growth and strategic acquisitions, HITK intends to grow in double digits over the next three years.

<i>Sales Goals</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
HITK	\$30 million	\$40 million	\$50 million
- HCP	\$7 million	\$10 million	\$15 million
- Generics	\$23 million	\$30 million	\$35 million

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**The Diabetes Marketplace**

*A spoonful of sugar is dangerous medicine.*

- 15.7 million diabetes sufferers in the U.S. – 10.3 diagnosed/5.4 undiagnosed.
- 800,000 new cases diagnosed every year.
- There is no cure.
- Prevalent among Native Americans, African Americans, Hispanic Americans.
- Direct cost of care (1997): \$44.1 billion/5.8% of total personal health care expenditures in U.S./3.8% of U.S. population.
- Market for diabetes products grew from \$500 million in 1994 to \$2 billion in 1999.
- Many diabetes sufferers unknowingly utilize sugar-based pharmaceuticals.
- Diabetes sufferers spend three times more than general retail drug store consumers.
- Diabetes sufferers account for 25% of retail drug sales.
- Diabetes sufferers are brand loyal customers.

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**MARKETING**

*Reach Hi. Expect more.*

***Goals:***

1. Double HITK sales.
2. Become the No. 1 supplier of OTC and HBA products to diabetes sufferers.
3. Launch (6) to (8) new products per year.
4. Capture a share of the emerging diabetes Rx market.
5. Penetrate chains, wholesalers and managed care formularies.

***Strategies:***

1. Deploy a strong sales & marketing team to detail Rx products to medical professionals: physicians, pharmacists, nurses and physicians assistants.
2. Market products directly to consumers through a comprehensive print advertising campaign.
3. Build e-commerce in HCP diabetes products via a full-service Internet web site.
4. Brand the HITK name in the pharmaceutical industry.

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**MARKETING – cont’d**

**COMPONENTS:**

**(I) Detailing**

- *Sales & Marketing Team* - Doubled sales force to six.
- *Telemarketing* - Fully staffed in-house telemarketing center to be in place by 2000. Will include inbound and outbound capabilities to support product detailing, retail chain distribution and e-commerce.
- *Customer Contact Center* - Upgraded division will provide information, problem-solving and product sampling fulfillment.

**(II) Direct to Consumer Marketing**

- *Advertising* – Ads in diabetes publications will create high visibility and support brand loyalty for HCP products.
- *Public Relations* - Comprehensive trade and consumer publicity supporting diabetes products launched in summer 1999.
- *Product Packaging* - Modified OTC and HBA product packaging will enhance shelf presence and attract customer attention.

**(III) Internet**

- *E-Commerce* – Full-service, on-line sales and information center is in development.
- *URLs* - Presently own (4) URL's including [www.diabeticproducts.com](http://www.diabeticproducts.com); [www.diabetesshop.com](http://www.diabetesshop.com); [www.healthcare-express.com](http://www.healthcare-express.com); [www.kosherdrugstore.com](http://www.kosherdrugstore.com).

**(IV) Branding**

- *Product Advertising* - Launched a trade media advertising campaign in 1999 to drive sales of Albuterol Sulfate. Other products to be added to the campaign in 2000.
- *Corporate Advertising* – Campaign brands HITK as a high quality, top service manufacturer with the technology and know-how to perform as a “David” in a marketplace dominated by “Goliaths.” “Reach Hi. Expect more” theme is a call to action for HITK customers.

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**RESEARCH & DEVELOPMENT**

*40 brand name drugs with annual sales of more than \$16 billion are scheduled to come off patent by 2002.*

- **FDA approval received by HITK for (23) ANDAs in total.**
- **Five new ANDAs approved in 1998 alone:**
  - (1) Albuterol Sulfate Syrup (2mg)**
  - (2) Albuterol Sulfate Solution for Inhalation 0.5%**
  - (3) Cimetidine HCL Oral Solution**
  - (4) Promethazine HCL and Codeine Phosphate Syrup**
  - (5) Sulfamethoxazole Trimethoprim Pediatric Suspension**
- **Twelve new drugs currently under development (Rx and OTC):**
  - (1) Sterile liquids**
  - (2) Creams**
  - (3) Ointments**
- **Goal: (6) to (8) new drugs annually**

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**HUPERZINE A**

*The Next Breakthrough for Alzheimer's Disease?*

Huperzine A

- ❑ A natural compound imported from China clinically proven to enhance memory.
- ❑ The next promising breakthrough in treating Alzheimer's Disease and other neurodegenerative disorders – undergoing clinical trials.
- ❑ Unmatched level of clinical research in the herbal category – effectiveness and mode of action identified.
- ❑ Nutritional products are now a medically accepted alternative treatment recognized by the National Institutes of Health.

Marco Hi-Tech JV Ltd.

- ❑ Joint venture with exclusive international marketing and distribution rights to HupA.
- ❑ Also owns license to (4) patents for synthetic HupA and analogs.
- ❑ HITK owns 23% of the joint venture.

Nutrapharm™

- ❑ Wholly owned subsidiary of Marco/HT.
- ❑ Markets and distributes HupA as a dietary supplement to chain drug stores (Cerebra™ brand) and health food industry/mass marketers (private label).

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**STOCK PRICE**

<u>Fiscal Year Ended April 30:</u>	<u>Quarter</u>	<u>High</u>	<u>Low</u>
1997	1	\$9.88	\$4.63
	2	\$7.38	\$4.50
	3	\$6.00	\$3.63
	4	\$4.75	\$3.25
1998	1	\$5.25	\$3.50
	2	\$6.38	\$3.50
	3	\$6.50	\$4.50
	4	\$7.50	\$5.63
1999	1	\$6.44	\$5.00
	2	\$5.38	\$3.50
	3	\$5.13	\$3.88
	4	\$5.00	\$3.44

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**COMPETITOR COMPARISON**

	<u>HITK</u>	<u>INDUSTRY</u>	<u>ANDX</u>	<u>MYL</u>	<u>TEVIY</u>	<u>WPI</u>
P/E	10.1	27.4	32.5	24.9	39.1	23.9
P/S	0.81	3.9	5.43	4.05	N/A	5.48
PEG	1	N/A	N/A	2.3	N/A	0.5

Source: Quicken.com 7/30/99

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**EVOLUTION**

Phase I (1992-1994):

- Established generics manufacturer with over 60 years of experience.
- Built a top-notch physical plant and sales force.
- HITK products introduced into major chains and wholesalers.

Phase II (1994-1999):

- Launch of Health Care Products division.
- Launch of three-tiered marketing plan: detailing to professionals, direct sales to consumers, and launch of Internet site (e-commerce).
- Record sales and profits due to proven success of diabetes product line and increasing popularity of generics.

Phase III (2000-2002):

- Projected 40% growth of Health Care Products division.
- Accelerated R&D generating (6) to (8) new products per year.
- External expansion through strategic acquisitions of synergistic companies.
- Projected return to double-digit growth by 15%-25%/year.