FINANCIAL ACCOUNTS REPORTS

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Alltracel Pharmaceuticals plc: Results for 2001

This Dublin-based biopharmaceutical company was established in 1996 and floated on the Alternative Investment Market in the summer of 2001. Most of its patents are derived from Micro-Dispersed Oxidised Cellulose (its *m·doc* Active brand).

The product is used in wound care to stop bleeding, with four of the top five Italian wound care manufacturers using it in their dressings. Related patents were obtained in the USA in April 2002 and the company was looking to achieve significant market penetration across Europe and the USA. Alltracel was also working at applying its *m·doc* technology as a food and beverage supplement for the reduction cholesterol, an area of increasing interest as obesity becomes more and more recognised as a major health concern. A report commissioned by Alltracel estimated the global market for food supplements at US$42bn in 2000. In June 2002 the company was in discussion with a number of major international food and soft drink companies with a view to integrating its technology into this rapidly expanding market.

These hopes for the future were hardly reflected in the 2001 financials however. Sales came to €600,000 while the pre-tax loss was €1.8m after research and development costs of €145,000. At the end of December 2001 the company showed net funds of only €338,000 on its balance sheet.

During 2001 the company raised €2.6m net of expenses, this over and above the approximately €2m raised the year before. However the operating cash outflow in 2001 alone totalled €2m and Ernst and Young's audit report, signed in June 2002, drew the reader's attention to the uncertainties surrounding key future fund-raising activities. In fact three days after the accounts were signed the company was able to announce a successful share placing at 20p per share which raised €465,000. This apart, the directors announced in the 2001 annual report that they were planning to raise an additional €1m from a further share issue towards the end of 2002. A concurrent press release indicated that additional funds may also be obtained via product research joint ventures for new products in both the wound care and food industries.

After hitting a high of 52p around the time of its flotation in mid-2001, Alltracel's share price declined fairly consistently during 2002 to stand at 16p in early September. The key issue is whether, at current levels of cash spend, the company's various fund-raising activities will bear enough fruit early enough to enable it to realise its product potential.

September 2002

BioGaia AB: Results for the six months to 30th June, 2002

BioGaia is a Swedish biotech company that, since July 2002, has focused on near-pharmaceutical products that prevent the development of allergies and gastrointestinal disease. This new-found focus is the fruit of the company's strategy announced in April 2002 which led to the July disposal of its fermentation business. This business, which had been acquired in 1997, had accounted for over two-thirds of BioGaia's sales. The reasons for such a significant disposal were that the company no longer needed to retain the fermentation business in order to access the necessary know-how in fermentation and biotechnology, and that the disposal would provide funds to enable it to expand in a more focused manner. The sale to the Copenhagen-based Novozymes A/S was expected to provide BioGaia with liquid funds of about Swedish kroner (SEK) 110m (£1 = approximately SEK15 in September 2002), and would contribute a net exceptional gain of SEK70m to its 2002 Profit and Loss Account.

As the company stated in its June 2002 interims, the funds raised from the sale would provide 'the financial means for an aggressive focus on Human Health'. The Human Health operation is largely based on applications of BioGaia's patented lactic acid bacterium *Reuteri*, as well as various patented systems for delivery of *Reuteri* via straws attached to beverage cartons or in bottle caps. A further operation is Animal Health which develops and markets products that replace prophylactic antibiotics in animal feed. BioGaia is retaining this business but switching it from marketing its own products to a licensing strategy, which will be considerably less resource-intensive.

Normally such a significant business reorientation only days after the end of the 30th June, 2002, interim period would render that period's results quite irrelevant. BioGaia, however, usefully breaks down its results for the half-year as between sold and retained operations. Thus while total sales for the six months were SEK31m, 6 per cent up on the corresponding 2001 period, sales for the retained Human Health business came to only SEK9.5m, down 9.5 per cent on the year before. The operating loss of the on-going business was SEK18.5m, a 47 per cent increase. Prior to the Fermentation disposal the company had been forecasting profitability by 2003 but in August 2002, after the disposal, it was stating that core operations were expected to show a profit only in 2004.

This deterioration in profitability should prove only a temporary setback, however. On its June 2002 balance sheet the company had only about SEK6m of liquid assets net of interest-bearing liabilities. Clearly the subsequent SEK110m of liquid resources provided by the fermentation disposal will enable it to fund new developments in its core operation.

September 2002

SR Pharma plc: Results for 2001

SR Pharma aims to operationalise the insights of Professors John Stanford and Graham Rook for the development of products to combat infection based on the soil microbe *Mycobacterium vaccae*. The company, which was formed a decade ago, has a full listing on the London Stock Exchange.

SR Pharma suffered a major setback in April 2001when its lead product for the treatment of cancer, SLR 172, failed to demonstrate any benefit over a placebo in Phase III clinical trials. As a result the company's share price, which had been as high as 550p in early 2000, fell 78 per cent on the day to 70p. The group is developing its technology in a number of other major inflammatory disease areas such as asthma, atopic dermatitis and periodontal disease, each of which according to the company represents a substantial commercial opportunity. These are currently in various Phase I and Phase II trials. However its share price has not yet recovered, standing at 29p in mid-September 2002.

Did the share price drop so sharply in April 2001 because the company's other applications are based on the same technology? An additional explanation is provided by Nick Staples, a biotech analyst with WestLB Panmure: 'If these trials were successful, I had a target price of 1000p for the company. And 90% of that would have been attributed to its cancer franchise' (quoted in *Investors Chronicle*, 20th April, 2001).

Recognising the problem of the 'single product syndrome', however, and following a review of the group's position, SR Pharma's Chairman, Eric Boyle, announced in the 2001 annual report a shift away from mere product differentiation. Greater emphasis, he said, would be placed on the possibility of accessing new products from external sources. At the same time out-licensing the SRL172 cancer drug as well as the other *M. vaccae*-based products were key objectives.

Following the completion of the cancer trials, research and development and administrative expenditures were down 14 per cent in 2001, but the company's net loss of £2.2m was nevertheless up 13 per cent on the year before. This was because sales revenues were substantially lower at £0.1m versus £1.0m in the year 2000.

The company's great strength lies in its cash balance. At the end of 2001 this stood at over £9m. Paradoxically, its September 2002 market capitalisation of £7m was substantially less than this cash balance. The biotechnology sector was certainly out of favour with the market in mid-2002. In the first half of the year UK biotechnology companies had lost 41 per cent of their value compared with only a 10 per cent fall in the FTSE All-Share index (*Financial Times*, 1st July, 2002, p. 22). With SR Pharma's December 2001 cash balance enough to cover over three years spending at current rates, however, the company has the time to implement its new diversification strategy before having to return to the market.

September 2002