EU Financial accounts reports

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Drew Scientific Group plc: Results for the six months to 30th September, 2002

Drew Scientific Group is a diagnostics company specialising in the design, manufacture and distribution of analytical systems for laboratory testing worldwide. Sales in the year to March 2002 were £12m, more than double those of the year before thanks to recent acquisitions in the USA. Over 70 per cent of sales were in the USA, and the business breakdown is approximately one-half in haematology, one-third diabetes and cardiovascular and one-fifth veterinary.

Having acquired CDC Technologies (veterinary products) in November 2000, Drew further established itself in the USA with the April 2001 acquisition of MWI Inc. These additions enabled the company both to achieve cost savings by rationalising its instrument and consumables manufacturing and also to increase its product offering significantly. At the same time however, in the 2002 annual report, the company's Chief Executive cited the weakening global economy, the return to the market of a major competitor and the group's strained financial resources as negatively affecting performance.

The September 2002 interims claim achievement of 'first time profit before tax and goodwill amortisation' of £0.2m, and the Chairman speaks of 'the move to profitability' representing a turning point for the group. However a more conservative view of performance in the half-year to September 2002 would put it at an underlying pre-tax loss of £0.2m, after deducting the £0.3m of goodwill amortisation and excluding the exceptional £0.1m profit on sale of property. Based on current figures, the group can look forward to an annual goodwill amortisation charge of £0.6m, much of this deriving from the £8.7m MWI acquisition which was entirely for goodwill and which Drew is amortising over a 20 year period. This MWI acquisition was paid for 80 per cent in cash and 20 per cent by shares, and it seems reasonable to account explicitly for this capital outlay by acknowledging the goodwill amortisation charge.

In fact the £0.2m pre-tax loss for the six months to September 2002 represents a substantial improvement over the £1.3m loss incurred in the corresponding period the year before. This was partly thanks to improved gross profit margins, up from 30.3 per cent to 37.2 per cent, owing to the increased proportion of higher profit consumables business in the overall sales mix. The other contributory factor was the 19 per cent reduction in overhead costs and the as-planned one-third cut in research and development spending.

Despite this gradual upward trend in performance, the company rightly refers to ongoing cash constraints. Net debt amounted to £2m at the end of September 2002 and the operating cash outflow was £1m for the six months. The group raises modest amounts of cash for working capital needs from periodical share issues – £0.6m in November 2001 and a further £0.8m in July 2002 – and, in the summer of 2002, was on the point of entering into a property sale and leaseback arrangement to raise a further £0.2m.

With the trend in the right direction, Drew should soon be able to fund its ongoing needs from operating cash flows and so capitalise on its recent expansion strategy.

November 2002

KS Biomedix Holdings plc: Results for the year ended 31st May, 2002

In 2002 KS Biomedix, the cancer drug specialist, completed its change in focus from a research-based operation to a product development business. As part of this process it acquired the Edmonton-based Avicenna Medica Inc. in June 2001 at a cost of £33m, with over 80 per cent of the consideration fulfilled by the issue of new shares. Since Avicenna's net tangible assets were virtually nil, the entire investment is shown on KS Biomedix's May 2002 balance sheet as goodwill. Avicenna brought with it the TransMID technology, a novel product for the treatment of brain cancer.

As with most early stage biotechs, the challenge faced by KS Biomedix is to successfully manage cash burn relative to available cash resources. Revenues in the year to May 2002 were negligible at under £0.5m. At the same time R&D spending more than trebled from £3m to £11m as a result of the new group strategy of focusing on product development. The cash outflow for the year, taking account of interest income and tax credits but before acquisition outlays, amounted to £12m.

Against this the company's May 2002 cash balance came to £17.6m. This was actually slightly up on the year before thanks a successful placing and open offer in the summer of 2001 which raised £16.6m cash. However it was clear in the summer of 2002 that, in the absence of new sources, cash resources would be sufficient for no more than around another 12 months.

At the same time the company's share price was languishing at around 15–20p, sharply down from the 550p that it had been at just over a year earlier in March 2001. Apart from the overall weakness of the market, the fall was also ascribed to a number of specific factors. These included the halting of two arthritis drug development programmes due to disappointing trial results, and the June 2002 forced sale by the company's founder, Kim Tan, of four million shares to meet financial obligations. This 7 per cent stake was sold at 10p per share and, on the day, caused a 20 per cent price drop to 22p.

In August 2002 there were rumours of moves towards consolidation among cancer drug biotechs, in which KS Biomedix was named, together with other firms such as Xenova and British Biotech. At the time of writing, however, KS Biomedix's latest significant news was the September 2002 announcement of a successful deal struck with the Norwegian pharmaceutical group Nycomed to market its TransMID product in Europe. TransMID was due to have gone for Phase III trials by the end of 2002, and the deal was said to be worth up to US$60m in milestone payments and clinical trial funding, with US$1m to be paid in advance. The deal was reported to have stretched the company's cash resources into 2004.

January 2003

Oxford BioMedica plc: Results for the six months to 30th June, 2002

Oxford BioMedica was established in 1995 as a spin-out from Oxford University. It was floated on the Alternative Investment Market in late 1996 and graduated to a full listing in April 2001. The company has a diverse portfolio of products and technology, specialising in gene-based products in the areas of cancer, neurological disease, cardiovascular disease and blood disorders.

The April 2001 move to a full listing was accompanied by the raising of £35.5m new equity capital at 55 pence per share. Over 90 per cent of these new shares were placed with financial institutions, thus expanding the company's institutional investor base. These funds enabled the company to expand activities on four fronts – to extend its clinical programmes, to devote more funds to research and development, to increase its Oxford facilities and to gain

a foothold in the USA by establishing a wholly owned subsidiary, BioMedica Inc., in California.

These developments are reflected in the company's financials. While revenues from collaboration and milestone payments remain negligible at only £172,000 in the first half of 2002, expenditure continues to grow. This growth was particularly rapid in 2001, in the wake of the placing, but has since slowed, in part thanks to the success of certain clinical trials. These have enabled the company to lend somewhat greater focus to its activities which are now centred on tumour antigens and antibodies.

Thus operating expenses, the bulk of which are R & D, were up almost 70 per cent at £11.4m in 2001. In the first half of 2002 they totalled £6.7m, and while this constituted a 34 per cent increase on the corresponding period the year before, the company is at pains to point out that this was in fact only a 4 per cent increase on spending in the second half of 2001 by which time cost containment measures were beginning to bite. In addition, 2001 saw particularly high levels of capital expenditure, with the Oxford offices and laboratories being expanded from 11,000 to 28,000 sq. ft (1,000–2,600 m^2).

While interest income was up almost threefold in 2001 thanks to the funds raised by the placing, the benefit was not as great as might have been anticipated due to the continued low level of interest rates. This income will of course also fall as the cash gets used up. At 30th June, 2002, the cash balance stood at £26.4m, which the company says is sufficient to take it through until the third quarter of 2004, and this on a worst-case view of no additional income or funding from any source.

Oxford BioMedica's stated strategy in its 2001 annual report was to create as many commercial opportunities as possible, since any one of its existing early-stage product opportunities could achieve profitability. The generation of current revenues was seen as secondary to the objective of building a strong and balanced product pipeline. As mentioned above, 2002 saw some focusing of activities and the institution of cost containment programmes.

The finance director must be keeping a careful watch on the company's share price. This had been at a high of about 120 pence in early 2000. At the time of the April 2001 placing it was down to 55 pence, but by mid-November 2002 the slide had continued to $6\frac{1}{4}$ pence.

November 2002

Powder Ject Pharmaceuticals plc: Results for the six months to 30th September, 2002

Powder Ject, established in 1993, began its transformation two years ago from what it calls 'a loss-making technology provider into a profitable products company'. It has de-emphasised, though by no means abandoned, the development of needle-less injectors and now projects itself as 'the world's largest independent company focused exclusively on vaccines'.

This was achieved via the acquisition of a string of vaccines companies. Additional focus was gained in March 2002 with the disposal of its loss-making drugs business to a private company, AlgoRx Pharmaceuticals Inc., for £3.5m. The sale price was paid by the acquirer issuing shares to Powder Ject which gave it a 16.3 per cent holding in the company.

These changes have certainly transformed Powder Ject into a profitable and fast-growing company. Sales in the year to March 2002 were £113m, up almost three times on the year before. In the half-year to September 2002 sales totalled £88m, 87 per cent of which were contributed by the company's 'flu vaccine, Fluvirin, the second-best selling 'flu vaccine in the world.

Powder Ject achieved a positive net profit for the first time in the year to March 2002, totalling £1.2m. In the following six months this grew sharply to £17.8m, so it is little surprise that the

company was describing 2002/3 as ‘its best year ever’. This was achieved despite incurring a £11.3m operating loss brought about by the August 2002 recall of its BCG tuberculosis vaccine due to concerns about its shelf-life potency. This was a significant enough setback to result in the company’s shares falling 26 per cent in the week of the recall, partly because of concerns over perceived delays in fully disclosing the problem to the market. In its September 2002 interims the company stated that it expected no BCG revenues during the 2002/3 financial year because of related ongoing regulators’ investigations.

Powder Ject’s balance sheet is strong, with a net cash balance of almost £30m at the end of September 2002. With the publication of its interims on 12th November, 2002, the company stated that second half profits would, however, be much lower due mainly to the seasonality of the ’flu business, although its expectation of being ‘on track to meet its ambitious financial targets, generating over £20 million pre-tax profit for the year’ seemed difficult to square with the fact that a pre-tax profit of £19.3m had already been achieved in the first half.

Powder Ject’s share price has reflected the ups and downs of its fortunes. It had declined from a high of 1,000 pence in late 1999 to 600 pence by the start of 2002 and was down further to just over 227 pence by October 2002. However, October then saw a sharp increase to 420 pence with rumours of a possible takeover of Powder Ject. While Shire Pharmaceuticals and GlaxoSmithKline (already a 5.5 per cent shareholder) were mentioned as possible purchasers, the US company Chiron was talked of as the most likely acquirer. Chiron, itself almost half owned by Novartis of Switzerland, was said to be informally offering 500 pence per share, valuing Powder Ject at £455m, but well short of the 600 pence said to be asked by Paul Drayson, Powder Ject’s chairman and CEO.

In late November 2002 Powder Ject was buoyed by the news that Wyeth, the third most important supplier of ’flu vaccines to the US market, was withdrawing from that market. Wyeth’s flu vaccine sales had been forecast at £50–60m, raising the possibility of Powder Ject gaining around £30m additional revenue in the USA, which could increase the attractiveness of the deal to Chiron. Powder Ject’s shares rose modestly by $5\frac{1}{2}$ pence to $405\frac{1}{2}$ pence on the day.

November 2002