
Financial accounts reports

EU Financial accounts reports

David Citron

BioFocus plc: Results for the year to 31st December, 2000

BioFocus was founded in 1995 by four Wellcome scientists who chose to remain independent rather than become part of the merger with Glaxo. The company provides pharmaceutical and biotechnology companies with services related to the design and synthesis of chemicals.

The provision of chemistry services is part of a growth market, with the overall market for outsourced drug development estimated to be increasing by 50 per cent annually (*The Daily Telegraph*, 7th February, 2001).

BioFocus's three major clients have been Aventis Crop Science, Roche and Pharmacia. Reflecting the growth trend, early in 2001 the company announced new contracts with Alizyme, Proctor & Gamble, UCB and Grunenthal.

The year 2000 was a significant one for BioFocus as, in August of that year, it graduated from the less-regulated OFEX market to the AIM. The shares were placed at 290p, raising just under £4m of new equity for the company.

Since then, apart from gaining the new clients already mentioned, the company issued an upbeat set of annual results for 2000. Sales tripled to £5.6m and the company recorded its second year of profits. These were £1.4m at both the pre-tax and post-tax levels, thanks to tax losses brought forward. While basic earnings per share (EPS) for 2000 were 20.50p, once potential share conversions were taken into account EPS stood at only two-thirds of that level. This high level of dilution was primarily due to the entitlement of the eight founders of the company to bonus shares representing 30 per cent of the issued share capital. Pre-tax profits for 2000 needed to reach £1.422m for this entitlement to

crystallise, a target that the company exceeded by a mere 3.5 per cent.

In May 2001 BioFocus made a £27.5m all-share acquisition of Cambridge Drug Discovery (CDD). In an uncanny mirror reversal of BioFocus's own modest origins CDD, which screens drug targets, had been set up by four ex-employees of Pfizer for an initial investment of £200 apiece. BioFocus's shares reached 550p on the announcement of the acquisition. By mid-June 2001 they were down to 490p, but still 70 per cent above their placement price only ten months earlier.

June 2001

Bayer Group: Results for the quarter to 31st March, 2001

Bayer reported a double-digit increase in both sales and operating profit from continuing operations in the year 2000. Sales at €30bn were up 21 per cent and the post-exceptional operating profit of €3.2bn represented a 45 per cent increase. In his March 2001 Chairman's letter to stockholders, Dr Manfred Schneider stated that the group was budgeting for double-digit growth in both these measures once again in 2001.

Results for the first quarter of 2001 proved disappointing, however, with operating profits from continuing operations down 15 per cent on the back of a 10 per cent sales increase. The deterioration was blamed mainly on high restructuring charges and the slowdown in the global economy. Against this background the interim report for the first quarter, issued at the company's annual meeting at end of April 2001, retreated from the previous forecast of strong profit growth, with the group now

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stating only that 'we are confident of surpassing last year's record earnings'.

A key point of interest at that annual meeting was the resolution proposed by a US money manager, Tweedy Browne, calling for a three-way demerger of the conglomerate into its component parts of pharmaceuticals, chemicals and agrochemicals. Tweedy Browne argued that the whole group is valued by the market essentially as a chemicals business resulting, in their view, in the undervaluation of its pharmaceuticals operation. Pharmaceutical sales amounted to €6bn in 2000, about one-fifth of the group total, and that business is managed by Bayer as part of its Health Care segment which also includes consumer care products and a diagnostics operation.

In his April 2001 annual statement, Dr Schneider rehearsed the various more radical options talked about as other ways forward for the group, including Bayer being targeted for takeover, the possibility of a mega-merger preferably in pharmaceuticals, as well as the Tweedy Browne demerger option. Dr Schneider's conclusion was to reject all of these and to argue that Bayer should focus on raising its value in its existing conglomerate form, particularly with the objective of achieving profitable growth on a par with that of leading firms in each of its business segments.

It was not expected that Tweedy Browne would carry the day. Some had estimated that it might get up to 10 per cent of the vote. In the event it received only 1.16 per cent. While Bayer's poor first quarter results were not a source of optimism, its share price had risen from a recent low of €36 in October 1999 to €56 by the end of 2000. In fact, over the two years to April 2001 it had marginally outperformed both the Frankfurt DAX index and the European pharma indices (*The Financial Times*, 27th April, 2001). Dr Schneider appeared to be winning the argument for retaining Bayer in its current form, but 2001 could prove a significant year for the future of the group.

June 2001

Acambis plc: Results for the year to 31st December, 2000

In mid-2000 Acambis (previously called Peptide Therapeutics) was looking likely to be taken over by Cantab Pharmaceuticals. However, the company's September 2000 announcement of a watershed agreement with the US giant, Baxter Healthcare Corporation, preserved its independent existence and provided it with a large measure of financial stability.

As part of this strategic alliance Baxter will inject a total of £28m into Acambis over the four years to 2003, which will eventually give it a 20 per cent equity share in the company. By December 2000 the first £10.4m instalment had been received, giving Baxter a 10 per cent holding by that date.

Among other features of the agreement, Acambis is to manufacture components of Baxter's vaccines, potentially generating over US\$200m of revenues in the period up to 2010. As a result, Acambis has embarked on a US\$17m capital expenditure programme at its Canton, Massachusetts, manufacturing facility. This investment is to be phased over 2001 and 2002. While Baxter will provide up to US\$2m towards commissioning costs, Acambis envisaged that new debt or lease finance would be required to meet the bulk of the capital outlay so as to preserve its December 2000 net cash balance of US\$16m for its research and development programme.

A further significant development in September 2000 was the awarding of a 20-year contract by the US Government's Centers for Disease Control and Prevention (CDC) to develop and manufacture a smallpox vaccine as part of that government's programme to combat potential bio-terrorist threats. Acambis will be required to hold a stockpile of 40 million doses of the vaccine over the period of the contract, which has a total estimated value of US\$340m.

As is common with biotechnology companies, these landmark developments are barely perceptible in the financial statements. Turnover for the year 2000 was up 12 per cent to £6.3m, an increase

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primarily due to the new CDC contract referred to above. The £11m net loss for the year, down 12 per cent on 1999, was after charging £12.7m of research and development costs and £1.2 million goodwill amortisation. Acambis currently writes off its goodwill over 15 years.

The above-mentioned intention to raise new debt would not normally be good news in a company still incurring such heavy net losses. In this case, however, the change of name to Acambis (a reference to the company's two Cambridge operations, one

in the UK and the other in the US) has not been merely cosmetic. The strategic alliance with Baxter together with the important CDC contract have truly transformed the company and provided a much needed injection of financial stability. This is reflected in the recent buoyancy in the share price which, having reached a 36p low in the third quarter of 1999, had steadily recovered to 136p by mid-June 2001.

June 2001

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