Financial accounts reports

EU Financial accounts reports

David Citron

Dechra Pharmaceuticals plc – Results for the year to 30th June, 2001

Dechra manufactures and sells pharmaceuticals and veterinary equipment and related goods and services, predominantly to the UK veterinary market. The company was created as an independent company in 1997 as a management buy-out from Lloyds Chemist, and it floated on the London Stock Exchange in September 2000.

Dechra has three businesses. National Veterinary Services primarily supplies products to vets' practices but also sells pharmaceuticals and related products to the farming community. About 80 per cent of its orders are made over the Internet. Arnolds supplies instruments and equipment to the UK veterinary profession, and develops its own range of veterinary pharmaceuticals, focusing on the equine, feline and canine markets for a range of treatments including cardiology, cancer and respiratory. Finally there is Dales Pharmaceuticals, the company's in-house manufacturing facility.

The September 2000 flotation raised £26.4m, which was used primarily to pay back debt. As a result the company's debt mountain of £27.5m as at June 2000 was substantially reduced to only £8.7m by June 2001. Shareholders' funds at that date looked none too healthy at £0.9m, but it is important to note that this was after deducting £30.2m of goodwill relating to acquisitions that had taken place up until June 1998 and that had been offset against shareholders' funds according to accounting treatments that prevailed at the time.

The company produces solid results. Sales in the year to June 2001 totalled £156m, up 7.5 per cent. Pre-exceptional pre-tax profit was £5.9m, up almost three times on the year before. As the previous year's results had been heavily influenced by the very high pre-flotation interest bill, however, Dechra's finance director openly points out that the underlying pre-tax profit increase was in effect 11.5 per cent once this impact is neutralised.

After floating at 118p, Dechra's share price peaked at $228\frac{1}{2}$p in February 2001, but declined over the subsequent three months to 175p. The price was further down to 152p in October 2001 when an Office of Fair Trading investigation into the prescription-only veterinary medicine market was announced, although commentators thought any effect on Dechra would probably be minimal. At the time of writing Dechra's price was 166p and had substantially outperformed the *Financial Times* All Share index in the period since the company's flotation.

December 2001

Celsis International plc – Results for the six months to 30th September, 2001

Celsis supplies diagnostic systems for the detection of microbial contamination and also provides contract testing services to a range of industry sectors, primarily pharmaceuticals and food and drink.

While sales were stagnant at around £16m in each of the three years 1998–2000, they grew by 6 per cent to £17.5m in the year to March 2001 and were more recently reported (*The Times*, 10th December, 2001) to be expected to reach £20m for the year to March 2002. Gross margins are high – 60 per cent in the half year to September 2001 for example – but so are sales and marketing costs, with the result that operating profits from continuing operations for the same period were only

Professor David Citron
Faculty of Finance,
City University Business School,
Frobisher Centre,
Barbican Centre,
London EC2Y 8HB, UK

Tel: +44 (0) 20 7477 8665
Fax: +44 (0) 20 7477 8668
E-mail: d.b.citron@citg.ac.uk

£56,000, equivalent to about $\frac{1}{2}$ per cent of sales.

It seems that the market has been singularly unimpressed with Celsis's performance. While the company's share price briefly topped 60p in March 2000, it declined consistently to around 15p during the course of the subsequent year, at which level it has since remained.

A new management team, including chief executive and finance director, was introduced in late 2000 and this was accompanied by some major restructuring of the business. This has largely concentrated on unifying and focusing the marketing effort, and resulted in exceptional charges of £0.9m in the year to March 2001 and a further £1.5m in the subsequent half year. Cash management has been substantially improved, in particular collections from customers. Whereas amounts owing by customers averaged 152 days outstanding as at 31st March, 2000, these had been successfully reduced to 100 days a year later.

Appointment of new management is often an appropriate moment to tidy up a company's accounting procedures. In general also there is increasing attention being paid to companies' policies for recognising sales revenues and, in this spirit, Celsis introduced a more conservative policy for registering equipment sales in its 2001 annual report. Previously the company had recognised a sale once the equipment had been despatched to the customer after taking due account of estimated likely returns. The new, tighter policy requires in addition a written commitment from the customer to implement Celsis technology. The effect has resulted in a massive restatement of post-tax profits for the year to March 2000, down from £2.7m to £0.3m. Such restatements usually have the effect of merely shifting sales and related profits between years, however, and the company estimates that pre-tax profits for the year to March 2001 benefited by approximately £0.3m from the accounting change.

In November 2001 Celsis's chief executive stated that the benefits of the restructuring were starting to materialise. However, with the share price continuing to languish, a 10th December report in *The Times* spoke of a possible trade sale of the company, possibly at a price of up to three times its currently quoted 15p.

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Xenova Group plc – Results for the nine months to 30th September, 2001

Xenova acquired Cantab Pharmaceuticals in April 2001 in a share exchange deal valuing Cantab at £34m. When the deal was announced the previous February, however, Xenova's share price sustained a 13 per cent fall to 77$\frac{1}{2}$p. Analysts at the time questioned the strategic fit between the two companies, contrasting Xenova's focus on cancer products with Cantab's specialisation in vaccines.

Nevertheless Xenova's chief executive argued the case for the deal in terms of an expanded product pipeline, the combined group having seven drug candidates in clinical trials and five in preclinical development. The argument was that this would ensure an on-going news flow and so help sustain the company's share price. By December 2001, however, its price had fallen to 35p.

Xenova's 2001 third quarter included a mixed set of news stories. Trials of one of Cantab's lead products, a treatment of genital herpes, were discontinued and Xenova's related collaborative agreement with GlaxoSmithKline was terminated. On the plus side the company successfully concluded a £75m deal with the Vancouver-based group QLT relating to its drug for addressing cellular resistance to chemotherapy.

Sales revenues for the nine months to September 2001 were £1.2m, made up from revenues from the licensing deals, strategic partnerships and manufacturing outsourcing typical of biotechnology companies. Operating losses amounted to £13.2m after charging £11.1m for research

and development. Third quarter R&D spending, however, was down 7.3 per cent compared with the previous quarter thanks to cost-cutting resulting from the strategic review instituted subsequent to the Cantab merger.

Costs are indeed an important focus for the group. Cash and liquid resources totalled £17.5m at the end of September 2001. Despite a further £1.9m tax credit received in October, this looked adequate to fund no more than a further 18 months' spending at, say, £4m per quarter.

December 2001