EU Financial accounts reports

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GW Pharmaceuticals plc – Results for the year to 30th September, 2001

Well known as the only company in the UK licensed to develop cannabis for medicinal purposes, GW Pharmaceuticals floated on the Alternative Investment Market in June 2001, raising £23.5m net. Including a pre-listing private share placement, the company raised a total of just over £30m during the year to September 2001, giving it a year-end cash balance of over £25m.

Discoveries in the last decade or so have triggered renewed interest in the therapeutic potential for a wide range of medical conditions of cannabinoids, molecules found only in the cannabis plant. GW Pharmaceuticals embarked on its first Phase III multiple sclerosis trial in May 2001, which was expected to be completed by the end of 2002, and a series of further Phase III multiple sclerosis trials were planned for 2002. As at January 2002 the company was hoping for a possible product launch by 2004. A Phase III trial in cancer pain commenced towards the end of 2001 and the company was waiting permission to start a Phase III trial in spinal injury patients.

At present the GW Pharmaceuticals has no sales revenues, but its accounts reveal the rapid growth in its activities. Research spending was £6.6m in 2001, over three times the level of the year before. Analysts were reported as expecting break-even by as early as 2004 if the company were to generate licensing revenues (*Financial Times*, 25th October, 2001), but this would be delayed by likely R&D growth and also by any determination on the company's part to retain control over product development for as long as possible.

The company's share price has had a rocky ride since its June 2001 listing at 182p. By September 2001 the price had fallen to only just over one-third of that value at 67p. Since then, however, it has registered a reasonably steady improvement. This has been helped by the Home Secretary's October 2001 announcement that he was intending to approve a change in the law to enable the prescription of cannabis-based medicines, which produced a 13 per cent share price improvement, and further government moves in this direction in February 2002 which produced an additional 12 per cent price increase.

As at the time of writing the company's shares had recovered to 138p, boosted by the positive noises from government, its healthy cash balance, its unique market position and steady progress in clinical trials. The usual biotechnology start-up uncertainties remain, however, accentuated perhaps by the fact that, despite the wide range of potential applications, the company is placing its hope essentially in products built around a single drug.

March 2002

AstraZeneca plc – Results for the year to 31st December, 2001

With the 1999 disposal of its Specialties business and the demerger of its Agrochemicals operation in 2000 AstraZeneca is now focused as a prescription pharmaceutical group, with over 97 per cent of its sales now in that area.

Sales in 2001 totalled US$16.5bn, a 4.3 per cent increase over the year before, excluding the discontinued businesses.

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Gastrointestinal products contributed 38 per cent of these sales, including as much as 34 per cent (equivalent to US$5.7bn) from Losec, which has now lost patent protection for its active ingredient. In March 2002 the company lost a UK High Court application to protect two formulation patents on the product, thus opening the doors to competition from generic competitors. AstraZeneca's share price fell 1.2 per cent on announcement of the UK court decision, and similar cases are imminent in the USA. While Losec's sales dropped by 7 per cent in 2001, Nexium, which is claimed to be a superior substitute, was launched in the US, achieving sales of US$0.6bn in 2001.

US patent protection expired at the very end of 2001 for the cardiovascular treatment Zestril, the group's second largest product, sales of which, while topping US$1bn in 2001, nevertheless declined by 6 per cent compared with 2000.

Operating performance remains steady, with the pre-exceptional operating margin constant at 25 per cent. The company is cash-rich with net liquid funds totalling almost US$3bn at the end of 2001. This is more than enough to fund its on-going R&D spend of 16–17 per cent of sales. With the finance director quoted as saying: 'We have no intention of running a bank', the company continues with its share repurchase programme. An original repurchase programme of US$2bn was announced in 1999 and, as part of this, shares to value of US$1bn were repurchased in 2001. An additional US$2bn repurchase programme was announced in early 2002 to be completed by the end of 2003.

Over the past two years AstraZeneca's shares have risen by about 35 per cent, well outperforming the FTSE All Share index, which fell by 15 per cent over the same period, and this despite the lack of growth in dividends for at least two years now. Moreover the company has stated that no future growth is expected until dividends can be covered two to three times by earnings, after which time dividends would grow in line with earnings. In fact dividend cover has grown from 2.0 to 2.4 over the last three years. However the company faces major uncertainties relating especially to the timing both of new drug launches and of generic competition to existing products. Assuming generic competition to Prilosec in the USA as early as the second quarter of 2002, AstraZeneca projects flat sales for 2002. This, they say, would produce earnings per share of about US$1.60, a 5 per cent drop compared with 2001 and not a reliable enough base on which to increase dividends.

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