EU Financial accounts reports

David Citron

Antisoma plc: Results for the nine months to 31st March, 2003

Antisoma, founded in 1988, specialises in the development of novel anti-cancer drugs. Its strategy is to focus on the middle pre-clinical and clinical development stages rather than on either the relatively risky initial discovery or costly marketing stages.

The key recent event in the company's development was the November 2002 strategic alliance with Roche, reported in the *Financial Times* (9th May, 2003) to be worth up to £317m. In the deal, Roche purchased the rights to Antisoma's four clinical products and exclusive options on new oncology compounds entering trials over a five-year period. In return, Roche made a non-refundable upfront payment of £23.2m, all of which was received by March 2003, as well as subscribing to just over 3 per cent of Antisoma's share capital for £4.2m. In addition, Roche will cover certain drug development costs and make success payments contingent on the commencement of Phase III studies and subsequent product launches by Roche.

Largely as a result of the Roche deal, cash and short-term investments totalled £35m at the end of March 2003, almost double the £19m balance at the previous financial year end in June 2002. While the entire £23.2m cash had been received by March 2003, following generally accepted accounting principles, only £3.0m was recognised as revenue in the accounts for the nine months ending on that date. The balance will feed into revenues only as and when the products in question complete the relevant phase of clinical development set out in the contract. In the meantime, the balance of £20.1m appears on Antisoma's balance sheet as a liability called deferred revenue.

It is also largely for this reason that, while the company shows an operating loss of £5.2m for the nine months, the cash picture shows a large operating inflow of £10.4m over the same period.

Despite the positive Roche deal, Antisoma's share price is still languishing. From being just under 120p on gaining its full London listing in December 1999, the price rose to peak at 270p in late 2000, only to plummet to 11p by late 2002. Since the Roche agreement, the price has trebled to stand at $35\frac{1}{2}$p in early June 2003. Key to future price increases will be the outcome of the pivotal Phase III ovarian cancer study, which is predicted to be completed some time between February and August 2004.

June 2003

GeneMedix plc: Results for the quarter to 28th February, 2003

GeneMedix was founded in 1997 as the outcome of a collaboration and joint venture with the Shanghai Institute of Biochemistry. It gained listings on the London and Singapore Stock Exchanges at the end of 2000.

The company is engaged in the development and manufacture of therapeutic proteins using recombinant DNA technology and novel cell culture. Its overall strategy as explained by the chairman, Dr Kim Tan, is to sell generic drugs in emerging economies such as China, India, ASEAN and South America while US and European patents are still in force, and expand activities into the USA and Europe once the drugs come off patent (see article in *The Edge Singapore*, 19th May, 2003).

The company's results continue to reflect the tension between the need to invest in ongoing developments and the paucity of cash flows. Sales in the quarter to 28th February, 2003, were only

Professor David Citron
Faculty of Finance,
Cass Business School,
106 Bunhill Row,
London EC1Y 8TZ, UK

Tel: +44 (0) 20 7040 8665
Fax: +44 (0) 20 7040 8881
E-mail: d.b.citron@city.ac.uk

£22,000 and the company commented on the modest Chinese sales of its key product granulocyte macrophage-colony stimulating factor, which is used in cancer treatment and marketed under the name Neustim. The main reason cited for sluggish sales was strong competition from cheaper locally developed versions, which resulted in an over-supply in both China and India.

The net result for the three months to February 2003 was a loss of £1m. There was a £1.1m cash outflow from operations as well as over £$\frac{1}{2}$m of capital spending outlays. Quarter-end cash balances totalled £5.3m, although these should be seen as being partially offset by a £3.4m 5 per cent convertible debenture loan. The notes to the unaudited February 2003 accounts signal significant cash flow problems. The company's directors state that liquid balances held at the date of approval of the accounts (at the end of May 2003) were unlikely to be sufficient to continue to fund trading activities for a further 12 months. They were, however, expecting to successfully raise necessary additional funds within the following few weeks.

The company continued to sign significant collaborative agreements in early 2003, although the alliance with Antibioticos Spa of Milan, Italy, will require GeneMedix to contribute 25 per cent of the cost of a €25m bacterial fermentation facility in Spain, to be spread over the period mid-2003 to early 2005.

The shares were launched on the London Stock Exchange at 85p in November 2000. They quickly rose to 115p by early 2001, but have steadily declined ever since to stand at 18$\frac{1}{2}$p in early June 2003, surely reflecting the company's near-term cash flow problems.

June 2003

aap Implantate AG: Results for the year to 31st December, 2002

aap Implantate is a German company specialising in biomedical implants for the musculo-skeletal system. Founded in 1970, it was acquired by Johnson and Johnson in 1986, but regained its independence in the 1990s via a management buy-out. In May 1999, *aap* listed on the Frankfurt Stock Exchange's Neuer Markt in a strikingly successful flotation 18 times oversubscribed.

The company's 2002 results reflect some success in achieving the apparently opposing needs of conserving resources while at the same time achieving fairly rapid growth. Sales were 11 per cent up at €13.3m, while employee costs were cut by 18 per cent to €4.8m as part of a cost reduction programme initiated at the end of 2001. As a result, the pre-tax loss was greatly reduced from €5.6m to €3.3m, and this despite a significant increase in interest expenses due to ongoing high levels of borrowings. It should be noted that 80 per cent of the €1.3m spend on development activities was capitalised as an asset in accordance with International Financial Reporting Standards, and as a result will be charged against future years' profits.

The main source of sales growth in 2002 was the Asian market, which accounted for almost one-fifth of sales and almost doubled in value. However, *aap*'s main market remains the home German one, which accounted for 69 per cent of total sales.

aap also achieved a measure of success in 2002 in keeping its balance sheet trim. Thus, despite the sales growth, inventories were reduced thanks to product portfolio streamlining, as were receivables, although this was due to the one-off event of completion of a major contract to develop marketable knee implants and operating equipment for a client.

The group's year-end financial position looked acceptable with equity funding 52 per cent of the balance sheet, only down slightly on 55 per cent the year before. Nevertheless, the company signals significant concerns about future funding, an issue to which the auditor also draws our attention. Writing at the end of March 2003, the Management Board refers to the unlikely prospects for raising funds on the stock market. Indeed, the company's share price was only just over €2 at the end of May 2003, down from €10 at the time of the 1999 flotation. This, management stated, made it imperative for *aap* to both achieve sales targets and successfully conclude the talks then ongoing for raising new funds.

Regarding operating targets, the objective for 2003 is to achieve double-digit profitable sales growth, not counting acquisition-related write-downs. As far as funding is concerned, management was focusing on negotiations with the bankers. As at the end of March 2003, the bankers had already indicated their readiness to make fresh funding available. As a result of this and a proposed private placement, management was able to state that there was adequate liquidity to support planned operations for 2003.

There remained an element of uncertainty surrounding *aap*'s ability to implement these proposed financing measures successfully, with radical downsizing and asset sales being the undesirable alternative.

June 2003