

FINANCIAL RESULTS 1982

a. Income Statements

	<u>Budget</u>	<u>%</u>	<u>Actual</u>	<u>%</u>
	<u>\$'000</u>		<u>\$'000</u>	
<u>Gross Sales</u>	5,017	100.0	1,627	100.0
Discounts	24	0.5	5	0.3
<u>Net Sales</u>	4,993	99.5	1,622	99.7
Cost of Sales	4,055	80.8	1,321	81.2
Inventory write off	-	-	264	16.2
<u>Gross Profit</u>	938	18.7	37	2.3
<u>Marketing Expenses</u>				
Freight	54	1.1	27	1.7
Marketing	97	1.9	67	4.1
Field Sales	299	6.0	71	4.4
Distribution	35	0.7	28	1.7
Adv/promotion	97	1.9	24	1.5
	582	11.6	217	13.4
<u>Marketing Margin</u>	356	7.1	(180)	(11.1)
Operating Expenses	73	1.5	44	2.7
<u>Operating Result</u>	283	5.6	(224)	(13.8)
FX Losses/interest	85	1.7	114	7.0
<u>Net Result</u>	198	3.9	(338)	(20.8)
FX Rate	1.96		1.73	

Explanations - Overall Result

The large shortfall in sales against budget, of \$3.39m, is the main reason for the disappointing financial performance. The shortfall can be apportioned as follows:-

	<u>\$'000</u>
Sales volume shortfalls	
- Cutter blood bags	1,589
- Plasbumin/misc	685
- Tuta	577
- Koate	137
Selling price shortfall	
- Koate	186
Exchange rate effect on overall reported sales	216
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	3,390

The gross margin percentage was close to budget at 18.5% against 18.7%, due partly to intercompany pricing adjustments on Koate. The write down was \$264,000 - with inventory standing in the books at approximately \$211,000 at the year end (valuation basis \$0.90 per SBE) - for Canadian blood bags.

Marketing expenses were contained at \$217,000 due to the release of two salesmen in mid-year plus a postponement of further hirings. The steady fall in Sterling against the U.S., Canadian and Australian dollars resulted in a foreign exchange loss for the 10 months to 10.31.82 of \$114,000.

The overall result can be summarised as follows:-

	<u>\$'000</u>
Operating result from normal trading	40
Inventory write off	(264)
Exchange losses	(114)
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	(338)
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b. Sales/Gross Profit by Product Line 1982

Sales

	<u>Budget</u> <u>\$'000</u>	<u>% of</u> <u>total</u>	<u>Actual</u> <u>\$'000</u>	<u>% of</u> <u>total</u>
Tuta Bags	1,386	27.6	714	43.9
Cutter Bags	1,670	33.3	81	5.0
Koate	1,235	24.6	805	49.5
Other	726	14.5	27	1.6
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total:	<u>5,017</u>	<u>100.0</u>	<u>1,627</u>	<u>100.0</u>

Gross Profit

	<u>Budget</u> <u>\$'000</u>	<u>% of</u> <u>sales</u>	<u>Actual*</u> <u>\$'000</u>	<u>% of</u> <u>sales</u>
Tuta Bags	272	19.6	59	8.3
Cutter Bags	151	9.0	(18)	(22.2)
Koate	474	38.4	260	32.3
Other	41	5.6	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total:	<u>938</u>	<u>18.7</u>	<u>301</u>	<u>18.5</u>

* Excluding inventory write-off of \$264,000

Explanations

Tuta Blood Bags

Tuta bag sales in 1982 were disappointing at 52% of the dollar budget. The exchange rate effect on reported sales accounts for \$100,000 of the shortfall but the remaining \$572,000 was due to lower than forecast volumes. The loss of the Lewisham Centre to Travenol in December 1981 resulted in a revenue loss of \$176,000. The remaining three Centres were retained throughout the year - Glasgow, Edinburgh and Inverness, and these Centres all purchased the expected quantities (196,000, 110,000, and 31,000 SBE's respectively.) No new Centres were gained during the year, which accounts for the balance of the shortfall. In particular, the Aberdeen and Dundee Centres were expected to be gained in 1982.

Gross margins were reduced from 19.6% to 8.3%, but mainly due to a crosscharge agreement with Tuta, whereby inter-company prices were increased 12½% and offset by the recharge of Tuta-related marketing expenses to Australia. (This agreement enables Tuta to claim an export grant as they are bearing the marketing expenses) Hence, the reduced profitability on this line was caused predominantly by lower volumes rather than by price/cost influences.

Cutter Blood Bags

The launch of CPD Canadian blood bags proved to be disastrous, due to a misjudgement of market developments (i.e. the switch by major Centres to CPDA-1 anticoagulants) - and to excessive initial stocking orders. The net result was a minimal sales total of \$81,000 - mainly to Ditassa, and a year end inventory write off in the books of Miles U.K. of approximately \$264,000. Excluding the write off, a gross loss of \$18,000 was recorded on Canadian bags.

Koate

Dollar sales were 65% of budget at \$805,000, whereas unit sales were 89% of budget at 8 million I.U. against 9 million I.U. The major problem during the year was the continuing decline in market prices from 7.5p to 5.5p. Due to the impact on profitability, the two factor VIII salesmen had to be released in June and September. The reduced account coverage undoubtedly accounts for part of the 1 million I.U. shortfall, but the continued decline in prices until the year end shows that the decision to cut back the sales force was the correct one. Profitability was 32.3% against the budgeted 38.4% - but this relatively high figure was due to the low cost opening inventory (purchased in 1981 at more favourable exchange rates and costs) and the adjustments to standard prices prior to the merger.

Other products.

Depressed market prices for Albumin resulted in the postponement of any plans to launch this product. Budgeted sales for the year were \$637,000. Reduced personnel also resulted in Saftiwing being given low priority and low sales were recorded on this line.

1. FINANCIAL RESULTS 1983

a. Income Statement - 2 months to 2/28/83

	Budget		Actual	
	\$'000	%	\$'000	%
<u>Sales</u>	250	100.0	317	100.0
Cost of Sales	214	85.6	286	90.2
Gross Profit	36	14.4	31	9.8
Marketing Expenses	42	16.8	25	7.9
<u>Marketing Margin</u>	(6)	(2.4)	6	1.9
Division Admin.	10	4.0	4	1.3
<u>Operating Result</u>	(16)	(6.4)	2	0.6
FX Rate	1.78		1.56	

Explanations

Gross sales for the first two months are 27% ahead of budget in dollar terms, and 45% ahead in sterling. Gross margins continue to be a cause for concern at 9.8% although marketing expenses are well contained at \$25,000. The net result is a marginal profit compared to a budgeted loss. This situation is likely to continue for the rest of quarter 1 - sales in March to date have passed the sterling budget by 49%

b. Sales/Gross Profit by Product Line - 2 months to 2/28/83

Sales

	Budget		Actual	
	\$'000	%	\$'000	%
Tuta Bags	106	42.4	99	31.2
Cutter Bags	18	7.2	143	45.1
Koate	122	48.8	72	22.7
Other	4	1.6	3	1.0
	<u>250</u>	<u>100.0</u>	<u>317</u>	<u>100.0</u>

Gross Profit

	% of		% of	
	\$'000	total	\$'000	total
Tuta Bags	14	14.1	(1)	(1.0)
Cutter Bags	4	16.6	17	11.9
Koate	18	15.8	14	19.4
Other	-	-	1	33.3
	<u>36</u>	<u>14.4</u>	<u>31</u>	<u>9.8</u>
FX rate	1.78		1.56	

Explanations

Tuta Blood Bags

Sales are slightly below budget in dollars but a little ahead in terms of sterling. The fall in sterling against the Australian dollar eroded our margin completely for the first two months but the recent 10% devaluation of the Australian currency has certainly helped.

Cutter Blood Bags

For 1983, only sales of CLX packs were budgeted for - and results for the opening months were encouraging with sales to several Scottish and English centres totalling \$33,000. The remainder consists of sales to Ditassa of the CPD inventory at the new written down value of \$0.90 per SBE.

Koate

1983 opened quietly for Koate, due partly to good supplies of NHS product to the centres. However, a good part of the sales shortfall is being clawed back in March due to good sales to a new major centre - Alton. Encouragingly, prices are now hardening fairly rapidly and have risen back above the 6 pence mark. In percentage terms, margins are holding up well, although the continuing strength of the U.S. dollar gives cause for concern. For the first three months, sales are 96% of the sterling budget at £98,000 and 90% of the unit budget at 1.6 million I.U.

3. CURRENT STATUS

a. Status/potential by product line

Tuta Blood Bags

The opening quarter has been a good one for this product line. In addition to the sales results, new developments with our Scottish customers have progressed well. The Edinburgh centre is currently phasing out the use of single pigtail packs and moving onto the use of Tuta additive packs. They will still use a small quantity (1500 per month) of double packs and from May these will be CPDA-1 packs. For platelets a Tuta CLX double pack is expected to be the pack of choice.

Glasgow have placed a standing order for 6,000 Tuta CPDA-1 doubles per month and are expected to carry out trials on the additive bags shortly.

Inverness will continue to use Tuta double packs and will switch to CPDA-1 in quarter 2.

Due to product developments by Tuta and the success in obtaining product licences without the familiar delays, the Cutter division for the first time is in a position to actively promote product at all the English centres. Quotes for up to 50% of the business have already been sent to the Birmingham and Leeds centres. Trials are to be arranged at Lancaster, Oxford, Brentwood and Tooting during the year and Aberdeen and Dundee remain prime targets due to our influence in Scotland.

In addition good progress is being made on the plasma tear down pack in conjunction with the Scottish Protein Fractionation Centre, and bar-code labels are also due to be available on Tuta packs in quarters 2/3.

Cutter Blood Bags

The CPDA-1 licence was granted on 14.2.83 and we are currently awaiting pricing details from Canada in order to assess the potential for standard Canadian bags. Although CLX sales in quarter 4 of 1982 and quarter 1 have been encouraging, we are restricted to CPD product only due to the Travenol hybrid patent. The possible solution of a modified all CLX film pack which allows 28 days for red cells is being evaluated.

Koate.

The market overall seems to have been fairly quiet in quarter 1 and under the circumstances, the sales performance has been good. Several factors suggest that 1983 will be a good year for Koate:-

- a) selling prices are continuing to harden. The average selling price in quarter 1 was 6.2p against the budget a.s.p. of 5.8p. For quarter 2 it is expected to rise to 6.5p and should approach 7.0p by the year end.
- b) three of the four competitors in the market are withdrawing their intermediate products. Travenol are now only selling Hemofil I priced at 10p - 12p. to a very limited number of accounts. Immuno have virtually withdrawn from the market and are selling minimal amounts at approximately 8p (including European-source product). Alpha are switching to high purity product but have yet to receive their licence.

These developments should enable us both to gain market share and to command higher prices for Koate in 1983. Market share is expected to increase towards 30% in quarter 2 with guaranteed sales to two major new centres - Royal Free (approx 2 million I.U. p.a.) and Alton (approx 1 million I.U. p.a.) Armour too are expected to increase their market share and remain as market leaders. It is clear that they share our desire to increase selling prices as rapidly as possible and will be selling at a minimum of 6.75p from quarter 2. Cutter sales should be in the range 8.0 - 8.5 million I.U. and £466,000 - £550,000 for the year. The budget figures are the lowest points of these ranges.

b. Expected performance 1983

The overall financial result compared with budget is expected to be:-

	Budget		Forecast	
	\$'000	%	\$'000	%
<u>Sales</u>	2002	100.0	1687	100.0
Cost of Sales	1709	85.2	1473	87.3
Inventory writedown	285	14.3	-	-
<u>Gross Profit</u>	8	0.5	214	12.7
Marketing Expenses	338	16.9	175	10.4
<u>Marketing Margin</u>	(330)	(16.4)	39	2.3
Division Admin	64	3.2	24	1.4
Operating Result	(394)	(19.6)	15	0.9
Interest	36	1.8	-	-
<u>Profit before tax</u>	(430)	(21.4)	15	0.9
FX rate	1.78		1.50	

The forecast level of sales may initially appear to be disappointing. However, the forecast dollar variance is due entirely to the exchange rate - the sterling budget of £1.125 million is expected to be reached, with the sales targets for the product lines individually also being attained. Cost of sales increase a little due primarily to the crosscharge agreement with Tuta. Higher Koate costs should be offset by correspondingly higher selling prices. The inventory provision of \$285,000 in respect of Canadian blood bags is no longer required as this product was written down to below net realisable value for the 1982 year end and it is all expected to be sold during 1983.

Marketing expenses are kept to a minimum at \$175,000 due to the freeze on hirings and a reduced advertising/promotion campaign. Division administration now consists only of an allocation by Miles for central services and interest charges are not allocated to separate divisions.

The overall effect is hence a turnaround on the bottom line of \$445,000 from budget and a small operating profit. This is in line with the divisions' main objectives for the year - to maintain a strong existence in the blood bag and factor VIII markets, to exceed our sterling budget in terms of sales and to achieve a positive operating result.