

**INFECTED BLOOD INQUIRY**

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**BRENDON GRAY WITNESS STATEMENT**

**EXHIBIT WITN6984057**

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CUTTER U. K.

1980(?)

YEAR END REVIEW AND REPORT

# I. SALES ANALYSIS.

## A. Summary.

	Actual 1979 \$'000	Budget 1980 \$'000	Actual 1980 \$'000	Variance from budget \$'000	Variance as % of budget.
Plasma (finished )	-	1360	524	(836)	(61)
Blood Bags.	788	830	1012	182	22
Disposables.		-	6	6	NM
Diagnostics		50	3	(47)	94
Totals	788	2240	1545	(695)	(31)

Variance  
actual sales  
1983/84

## B. Comments.

### 1. Plasma.

Sales. Plasma sales achieved during the year were disappointing, representing 34 % of total sales. However a budget figure of \$ 1,360,000 for product which had not previously been marketed directly by Cutter was an optimistic target. Total plasma sales consisted of Koate sales of \$ 450,000 and Plasmanate sales of \$ 74,000.

The following table shows a breakdown of Koate sales for the year between special bulk sales and regular sales :-

	Sales \$'000	Margin \$'000	Margin %
Bulk sale - Speywood *	148	NIL	NIL
Bulk sale - St. Thomas Hospital.	101	13	13
Regular sales.	201	43	17-25
	450	56	

(\* sale to Speywood in March, whilst the latter company was the U.K. distributor for Koate )

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Problems. During the latter half of 1979, a decision was taken to terminate the distributorship of Speywood Laboratories Limited, for Koate, and for this product to be marketed direct by Cutter Laboratories Limited. Although the 1980 budget had been prepared on the assumption that sales of Koate should commence in January 1980, the required licence variation application for the existing product licence to be transferred from Speywood to Cutter was not lodged until January 24th 1980. Following numerous meetings with Department of Health Officials and several months of frustration the Product Licence P/L 1605/0004 was finally granted on June 6th 1980. With late entry into the market with direct sales, Cutter were at an immediate disadvantage, as most of the larger contract business had been awarded in the first quarter of the year. This effectively closed access to these accounts until April 1981.

The insistence of the U.K. regulatory authority, N.I.B.S.A.C. for product labelled in international units produced a further problem, but this is now at the point of resolution with the necessary change being implemented for U.K. product. All our competitors are expressing potency in i.u.. In order to comply with these labelling requirements, it has been necessary to overstick all A.H.F. potency on both carton and vial with potency expressed in i.u., an operation which has been both time consuming and expensive.

After adverse reactions at two major centres, Oxford and St. Thomas, the product was withdrawn and will be returned to Berkeley. It is not felt that any lasting damage has occurred in respect of supplying further product to these centres, but it was a disappointing occurrence on which to end a difficult year.

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## 2. Tuta Blood Bags.

Sales. Sales exceeded \$ 1,000.000 for the first time in the U.K. and exceeded budget by 22 % . Increased production in Australia resulted in the absence of a customer back order situation, and the inventory position at the year end was better than it has been for several years.

Market Share. Estimated U.K. market position :-

	Market Share %
Travenol	90
Cutter	10
	<hr/>
	100
	<hr/>

In 1980, Cutter maintained its existing customers in Scotland and increased sales to a major Scottish centre at the expense of Travenol.

Pricing. Selling prices were maintained at their January 1980 levels during the year, which represent a substantial discount on comparable Travenol product. A proposed 10 % increase in transfer prices from Tuta Australia from March 1981 will need to be passed onto our customers, but an adverse effect on sales is not anticipated.

Competitive Moves. Renewed efforts by both Avon Medical and Biotest to break into the blood bag market have proved unsuccessful. However, the recent acquisition of Avon Medicals by Smith and Nephew may ultimately result in a more determined effort to break into the market, and being a U.K. manufacturer, they will have the fullest support from the Department of Health.

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### 3. Cutter Blood Bags.

General. Unfortunately, entry in the U.K. market was not achieved in 1980 through repeated delays in the product licence registration process. However, the visit by Roger Baker ( Department of Health Inspector ) to Calgary in November resulted in a favourable report being submitted and the issue of a Product Licence shortly is confidently expected.

Budget. The budget figure of \$ 1,767,000 ( equivalent to 650,000 S.B.E's ) is a challenging target to aim at, now that sales are unlikely to commence until the end of the first quarter.

Market Share and Pricing. It is hoped that volume sales can be achieved in at least four major English centres, in 1981. The absence of a nationwide pricing structure offers the opportunity to quote different prices to individual centres and Cutter prices will be pitched at levels which will offer a small discount on Travenol's product. The low margin projected ( 13 - 17 % ) means that high volumes need to be achieved as soon as possible.

Outlook. The combined Cutter/Tuta involvement in the U.K. market will, for the first time, promote serious competition for Fenwal. We do not expect Fenwal to " lay down and die "

With the combined efforts of Berkeley staff, the experience already gained in the Candian market and the enthusiasm of all in the U.K. will ensure a strong entry for a profitable future.

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## II. COST OF GOODS SOLD.

### A. Summary.

	1979		1980		
	Blood Bags	Blood Bags.		Plasma.	
	Actual	Budget	Actual	Budget	Actual.
	\$'000	\$'000	\$'000	\$'000	\$'000
Sales.	787	830	1012	1360	524
Cost of goods.	585	684	745	1156	468
	—	—	—	—	—
Gross profit.	202	146	267	204	56
	—	—	—	—	—
% of sales.	26 %	18 %	26 %	15 %	11 %

### B. Comments.

Clearly, the strong sales performance of Tuta blood bags, combined with a higher than budgeted gross profit percentage resulted in overall gross profit being close to budget ( \$ 334,000 against \$ 370,000 ).

Gross profit on Tuta bags continued to average 26 % of sales, as in 1979.

The bulk sales of Koate at low margins ( detailed in section one ) account for the high cost of goods figure for this product.

### C. Inventory.

Write offs during the year were negligible and year end inventory consisted almost entirely of current saleable product. The Koate allergy reactions experienced in the second half resulted in approximately \$ 77,000 of product being scheduled for return to the U.S. in January.

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Selling. The increase of \$ 110,000 over the 1979 level is explained by:-

	\$'000
Increase in salary costs.	56
Staff recruitment costs	5
Auto and travel expenses.	35
All other expenses due to increase in scale of operation.	14
Total	<u>110</u>

Distribution. The increase of \$ 8,000 was caused by the holding of higher inventory levels of Tuta blood bags and the special storage conditions required for Koate.

Product Freight. Higher costs are explained by the 100 % increase in overall sales. Close control over this variable expense will become increasingly important as the product ranges expand.

Administrative and other Operating Expenses. Use of expensive outside accountancy services for financial reporting and budget preparation form a major part of this expense. Taxation advisory services and directors' fees also contributed to the increase.

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## V. TOTAL EARNINGS.

### A. Summary.

	Actual 1979 \$'000	%	Budget 1980 \$'000	%	Actual 1980 \$'000	%
Profit before tax.	62	8	150	7	53	3
Taxation.	33	4	78	4	(68)	4
Profit after tax.	<u>29</u>	4	<u>72</u>	3	<u>121</u>	7

(% figures are as a percentage of net sales )

Thus the adverse pre-tax profit variance of \$ 97,000 is caused by :-

	\$'000
Adverse gross profit variance	(45)
Adverse expenses variance	(83)
Favourable non-operating income variance	31
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Total	(97)
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As at 12/31/80 total stockholders' equity stands at \$ 220,000 compared with \$ 99,000 at 12/31/79.

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All administrative duties, together with accounts reporting procedures which in the past have required month end outside professional assistance, are now performed by Steve Hollis. This will allow B. Dyos to devote more time to direct customer contact in respect of the Tuta product range, as well as his normal management responsibilities.

Systems are being introduced that will ensure that all members of the team are kept adequately informed of Management decisions, and regular monthly meetings at which the entire staff participate are being organised for 1981.

The obvious difficulty we have to contend with at the present time is limited office space. However, with normal activities being mainly field based the incidence of real stress only occurs at the times of annual audit or where confidential matters need to be discussed, and either outgoing or incoming telephone discussions of a similar nature.

Possible partitioning is being considered, but not thought to be practical within the existing space.

#### C. Sales Training.

It is expected that with cooperation from Berkeley, a short sales training program can be implemented for Barry Barber in the first quarter of 1981. This program should include a visit to a Canadian Blood Bank and the Calgary production facility. This will enable Barry to set up future training programs for sales personnel to be hired.

Further training will be made available by assisting in-house, at selected U.K. transfusion centres. This close personal contact with transfusion centre staff at all levels is invaluable to the future growth of the business.

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