Company news: Aspen records 15% year-on-year revenue increase

Issued by Shauneen Beukes Communications

26 Feb 2008

JSE listed Aspen (Apn), Africa's largest pharmaceutical manufacturer, has recorded consistently positive results for the period ended December 2007.

•Revenue increased by 15 percent to R2.2 billion (R1.9 billion).
•Operating profit increased by 24 percent to R634 million (R 512 million).
•Earnings per share increased by 31 percent to 125.0 cents (95.3 cents).
•Headline earnings per share (HEPS) increased 15 percent to 109.6 cents (95.6 cents). This excludes the profit of R54 million earned on the part disposal of United Kingdom-based Co-pharma and the South African natural products portfolio.

Stephen Saad, Aspen Group Chief Executive said “the Group's retention of its ranking as the leading pharmaceutical company in the South African private and public market sectors was endorsed in the positive results reported. Aspen's offshore operations showed steady growth with the Australian business delivering excellent returns. The pharmaceutical division within the South African business performed well, despite the delay in the registration process of new products from the Group's robust pipeline. The commitment to the current investment in manufacturing infrastructure is a critical element of Aspen's strategy and will provide additional capacity to meet increased demand from local and offshore markets.

South African operations

The South African business grew revenue by 14% to R1,771 billion (R1.550 billion) whilst earnings before interest, tax and amortisation (“EBITA”) increased by 17% to R577 million (R493 million). Finished dosage form pharmaceuticals performed well, increasing revenue by 21%, but this was tempered by negative growth in the active pharmaceutical ingredient (“API”) business and in the trading results of the consumer division.

Growth momentum from new product launches was retarded due to fewer new product registrations than anticipated. Aspen increased its share of the public sector tenders awarded mid-way through the period despite intense competition, particularly from importers. Revenue from finished dosage form anti-retrovirals ARVs increased by 78% to R308 million. Fine Chemicals Corporation, the 50% owned API business, experienced reduced demand for its key products which lowered revenue and contracted margins.

The Consumer division increased revenue by 3%. The downturn in the retail cycle was compounded by the discontinuation of a leading range of laxatives resulting from the regulator banning phenolphthalein. Margins came under additional pressure due to a sharp rise in the price of the critical ingredients for the manufacture of infant nutritionals arising from a worldwide shortage of milk. The natural products portfolio was sold off into a new entity at a profit before tax of R42 million. Aspen has retained 20% of the new company.

Aspen's investment in manufacturing capability and capacity in Port Elizabeth continued and now exceeds R1 billion. Plant validation has commenced at the Sterile Facility with commercial production scheduled for the second half of 2008. The first phase of the upgrade of the Heritage Manufacturing Facility will commence during the latter part of 2009, while enhancements to the packaging capacity at the Solid Dosage Facility should be complete before the end of 2008.

International operations

Revenue from the international businesses grew by 19% to R460 million and EBITA increased by 52% to R118 million.

Aspen Australia recorded excellent returns with revenue increasing by 20% to R312 million (R259 million) while EBITA improved by 30% to R48 million.

UK-based Aspen Resources also performed well, increasing its contribution to EBITA by 24% to R36 million (R29 million). Aspen disposed of 51% of Co-pharma, the Group's other UK business for R31 million, recording a profit on disposal of R17 million.

Astrix, the Indian ARV API manufacturer owned 50% by Aspen, increased its contribution to Group revenue by 82% to R82 million whilst EBITA grew 41% to R18 million.

Aspen has expanded its international footprint. The Strides Arcolab ("Strides") of India transaction provides for a presence in the lucrative oncology market with the rights to 32 oncology products in development having been acquired as part of the deal.

Aspen also concluded an agreement to acquire a 50% interest in Strides' Latin American business comprising operations in Brazil, Mexico and Venezuela with effect from 1 March 2008 for a consideration of USD 152,5 million.

Prospects

A strong product pipeline and the leadership position in a growing market leaves the South African pharmaceutical business positively positioned with upside potential should there be an increase in the flow of product registrations received. Margins will however come under pressure until the announcement of the annual price increases by the Department of Health. The previous increase was effected on 1 January 2007. It is understood that this year's increase may have been delayed so as to implement the increase in conjunction with the finalisation of the terms of the international benchmarking legislation. The recent sharp weakening in the rand will place further pressure on margins as imported input costs rise. The pricing regulations provide a mechanism to cater for additional price increases. The South African public sector ARV tender is due for award in May 2008. Despite increased competition, Aspen expects to remain a leading supplier of ARVs to the state.

The consumer division in South Africa remains vulnerable to the retail cycle. The infant nutritional products have absorbed a sharp increase in raw material costs driven by global shortages and this position will be closely monitored.

The international businesses are expected to continue performing well. While Aspen Australia is driving initiatives to improve its product offering, Astrix is becoming established as a leading supplier of first line ARV APIs. Opportunities to broaden Aspen's reach into African markets have been identified and are being actively pursued. Aspen's joint ownership in the Latin American businesses is expected to yield exciting developments in the foreseeable future. The Group's extensive intellectual property portfolio will be an important growth driver in this territory in the future.

Issued by:
Shauneen Beukes, Shauneen Beukes Communications
Tel: (012) 661-8467
Fax: (088) (012) 6618467
Cell: 082 389 8900

On Behalf Of:
Stephen Saad,
Aspen Holdings Group Chief Executive
Tel: (031) 580-8602
Cell: 083 303 4833

Gus Attridge,
Aspen Holdings Deputy Group Chief Executive

Tel: (031) 580-8604
Cell: 083 628 8813

Editorial contact
Shauneen Beukes,
Tel: (012) 661-8467
Fax: (088) (012) 6618467
Cell: 082 389 8900