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The HealthInvestor Index

Compiled by Hardman & Co

The HealthInvestor Index, compiled by Hardman & Co, is the only comprehensive index reflecting the prices of UK healthcare companies traded on the Full List of the London Stock Exchange (LSE), the Alternative Investment Market (AIM) and OFEX.

A takeover bid can transform the performance of a portfolio, and Warner Chilcott has had not just one but three of them in the space of a month. The initial approach came from a consortium of private equity houses, and with hindsight it is easy to see why Warner Chilcott appealed to them. From the point of view of Stock Exchange reporting rules, Warner Chilcott was a disappointment, because its sales were falling, its operating profits were flat and its earnings per share were sliding gently downhill.

But the straitjacket created by the formal reporting systems of the Stock Exchange hid some interesting facts. After selling assets over the last year, debt had fallen from $289 million to $15 million. Cash generation from the remaining businesses appeared to be running at $240 million a year. Virtually no borrowings, strong cash generation, a business not appreciated by conventional investors – this is classic private equity territory. Little wonder that the shares have risen by 35 per cent over the past month.

The rise is all the more impressive because the pharmaceutical industry has been the stock market's least loved sector worldwide recently. Pricing pressures, the increasing difficulty in getting commercial results from an R&D programme, regulatory issues and lawsuits have been causing investors to take fright. GlaxoSmithKline shares have fallen 20 per cent in a year and are at little more than half their peak. Their p/e ratio is below the market average and their yield above the market average. AstraZeneca shares are down 25 per cent over the past year, and are rated even lower, on a p/e ratio of 12.5, the kind of level at which 'old economy' companies in areas like engineering trade. But with US giant Merck having received 300 lawsuits in less than three weeks since the withdrawal of its painkiller Vioxx, and AstraZeneca's most important new drug, the anti-bloodclotting substance Exanta, having been rejected by the US regulator, it is easy to see why conventional investment managers are viewing this business with increasing caution.

Warner Chilcott is however in an interesting position from the point of view of its product portfolio as well as its cash generation. Its two main areas of business are contraceptive pills and HRT treatment. Both have undergone radical reversals in terms of medical risk assessment over the past three months. The latest research suggests that both of them reduce the risk of strokes and heart attacks, a 180-degree shift in medical opinion in an astonishingly short time.

Also Warner Chilcott is heavily orientated towards off-patent medicines, which are increasingly being seen as low risk, steady income generators that can have a long and in some cases an indefinite life. One company in the HealthInvestor Index, Alliance Pharma, was deliberately set up with the intention of specialising in this area, and appears to be making a great success of it.

Neither Glaxosmithkline or AstraZeneca are included in our Index. The reason for this is that they would dominate it to the point of making all the other companies irrelevant. The market capitalisation of AstraZeneca alone – the smaller of the two – is more than three times the total of all the companies in the Index at present.

Ironically Warner Chilcott has given the performance of the Index a strong push in spite of it being in one of the least loved of industries. Without Warner Chilcott, the Index would be looking at a fall of 3 per cent over the past month, rather than a rise of 0.7 per cent.

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Market	Company	Ticker	Share price (p) 10.9.04	Share price (p) 21.10.04	Market cap (£m)	Price change (%)
AIM	1st Dental Laboratories	FDT	29.0	**30.5**	4.1	**5.2%**
LSE	Acambis	ACM	325.5	**276.0**	292.6	**-15.2%**
AIM	Advanced Medical	AMS	7.8	**8.3**	11.7	**6.5%**
LSE	Alliance Unichem	AUN	687.0	**659.5**	2,308.3	**-4.0%**
AIM	Alliance Pharma	APH	15.3	**15.3**	16.9	**0.0%**
AIM	Aortech Intl	AOR	190.0	**177.5**	7.1	**-6.6%**
AIM	BBI Holdings	BBI	50.0	**57.5**	12.2	**15.0%**
LSE	Bespak	BPK	460.0	**437.5**	117.3	**-4.9%**
LSE	Biocompatibles Intl	BII	197.0	**219.0**	83.2	**11.2%**
AIM	Bioprogress	BPRG	97.5	**125.5**	128.0	**28.7%**
LSE	Bioquell	BQE	145.5	**140.5**	56.2	**-3.4%**
LSE	Biotrace Int.	BOI	88.5	**94.0**	35.7	**6.2%**
LSE	Care UK	CUK	310.5	**336.5**	168.3	**8.4%**
LSE	Celsis Intl	CEL	31.0	**34.0**	38.1	**9.7%**
LSE	Corin Group	CRG	297.5	**360.5**	137.0	**21.2%**
AIM	Customvis	CUS	28.5	**19.3**	6.7	**-32.5%**
AIM	Dawmed Systems	DSY	17.0	**15.0**	2.7	**-11.8%**
AIM	Deltex Medical Group	DEMG	26.8	**28.8**	17.8	**7.5%**
OFEX	Doctors Direct	DOC	24.0	**24.0**	1.7	**0.0%**
LSE	Ferraris Group	FER	118.5	**105.0**	52.5	**-11.4%**
LSE	Genetix Group	GTX	45.5	**46.5**	33.5	**2.2%**
LSE	Gyrus Group	GYG	228.5	**242.0**	200.9	**5.9%**
AIM	Healthcare Ent Group	HCEG	1.8	**2.0**	54.4	**14.3%**
LSE	Huntleigh Technology	HTL	380.0	**386.0**	330.8	**1.6%**
LSE	Integrated Dental	INTD	40.5	**40.5**	12.2	**0.0%**
LSE	Isotron	ISO	392.5	**435.0**	91.4	**10.8%**
AIM	Lidco Group	LID	15.8	**20.3**	19.8	**28.6%**
AIM	Maelor	MLR	15.5	**18.0**	6.1	**16.1%**
AIM	Adl (Matrix Healthcare)	MAH	40.0	**46.0**	0.9	**15.0%**
AIM	Medical House	MLH	47.5	**56.5**	31.6	**18.9%**
LSE	Medical Solutions	MLS	38.5	**21.5**	19.4	**-44.2%**
LSE	Medisys	MDY	7.3	**7.3**	28.3	**0.0%**
AIM	Mediwatch	MDW	7.0	**6.5**	5.3	**-7.1%**
AIM	Micap	MIC	41.0	**45.5**	13.2	**11.0%**
LSE	Nestor Healthcare	NSR	97.0	**112.0**	98.6	**15.5%**
AIM	NMT Group	NMT	0.5	**0.5**	4.4	**0.0%**
AIM	Oasis Healthcare	OSH	13.0	**13.5**	11.1	**3.8%**
LSE	Patientline	PTL	103.5	**112.5**	102.8	**8.7%**
OFEX	Personal Screening	PSC	6.0	**4.0**	1.0	**-33.3%**
LSE	Primary Health Prop	PHP	241.0	**251.0**	50.2	**4.1%**
LSE	Reed Health Group	RHG	54.5	**51.5**	30.9	**-5.5%**
LSE	Smith & Nephew	SN.	512.0	**482.0**	4,497.1	**-5.9%**
OFEX	Specialty Scanners	SCAN	7.3	**7.3**	2.7	**0.0%**
LSE	SSL International	SSL	276.5	**264.3**	502.1	**-4.4%**
AIM	Surgical Innovations	SUN	2.0	**2.3**	5.8	**12.5%**
OFEX	Syence Skin Care	SSC	5.5	**2.0**	0.1	**-63.6%**
AIM	Synergy Healthcare	SYR	324.0	**342.0**	75.2	**5.6%**
AIM	Tissue Science Labs	TSL	140.0	**175.0**	38.5	**25.0%**
LSE	Warner Chilcott	WCRX	602.0	**816.5**	1,526.9	**35.6%**
LSE	Whatman	WHM	202.0	**201.3**	255.6	**-0.4%**

Index: 110.0 **Combined market cap: £11.55bn**
Change over month: 0.7%

The top five performers

Gainers

Warner Chilcott	35.6%
Bioprogress	28.7%
Lidco Group	28.6%
Tissue Science Laboratories	25.0%
Corin Group	21.2%

The worst five performers

Losers

Acambis	-15.2%
CustomVis	-32.5%
Personal Screening	-33.3%
Medical Solutions	-44.2%
Syence Skin Care	-63.6%