

RNS Number : 1884K
MDY Healthcare PLC
16 December 2008

MDY Healthcare plc

Preliminary results

16 December 2008: MDY Healthcare plc ("MDY Healthcare" or the "Company"), the strategic investor in healthcare companies, today announces its preliminary results for the year ended 30 September 2008.

During the year, MDY Healthcare has continued to build its investment portfolio and consolidate its position as a strategic investor in healthcare companies, with a particular focus on medical technology. Key highlights are as follows:

Highlights in strategic portfolio

- Acquisition of Stanmore Implants Worldwide Limited by MDY Healthcare and a consortium of investors lead by Brian Steer (former CEO of Gyrus Group plc)
- Strong performance by Stanmore since acquisition. On target to achieve £5 million in revenues in 2008, representing 16% growth over 2007
- Successful launch of Trust William (www.trustwilliam.com), the direct-to-consumer natural healthcare joint venture, on schedule in September 2008
- AOI Medical announced successful treatment of first 10 patients in ongoing AscendX™ clinical trial
- Medivance has quadrupled rate of sales since initial MDY Healthcare investment and continues to expand its business
- Increasing focus on larger strategic investments especially in private businesses with a corresponding reduction in exposure to quoted investments

Financial highlights

- Total investments valued at approximately £9.2 million (30 September 2007: £9.4 million) with cash deposits of approximately £2.0 million (30 September 2007: £5.1 million)

- 80% of Trust William's revenues and losses consolidated on MDY Healthcare's accounts on joint-venture basis. Loss of £0.4 million included for period equivalent to approximately 3p per share
- Valuation of key private investments maintained prudently at cost given financial market conditions
- £2.9 million (2007: £1.2 million) of other operating expense represents loss in value following mark-to-market revaluation of publicly traded investments
- Consolidated net asset value per share as at 30 September 2008 of £0.77 (30 September 2007: £1.06)
- Loss after tax for continuing operations of £3.7 million (2007: £2.3 million)

Charles Spicer, CEO, said:

"In the general context of extremely challenging global financial and commercial conditions, we are delighted with the acquisition of Stanmore Implants and its recent trading performance along with the encouraging progress made by Medivance and AOI. Trust William is now open for business and winning customers in an extremely tough retail environment. We remain confident of the quality and potential within our portfolio but, like most investment businesses, we anticipate continued challenges and uncertainty in global markets as we go into 2009."

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Notes for editors:

About MDY Healthcare

MDY Healthcare plc is a sector specialised strategic investing company quoted on AIM (ticker symbol: MDY). The company seeks to achieve superior returns for shareholders by investing globally in companies, both public and private, across the healthcare sector. The directors, executives and senior advisors have significant

operational and investment experience in the sector and therefore the ability to identify and review a wide range of potential investments.

Further information can be found on the website www.mdyhealthcare.com.

MDY Healthcare intends to publish its annual report and accounts for the year ended 30 September 2008 by February 2009. When available, shareholders will be able to download the report and accounts from the website www.mdyhealthcare.com.

Chairman and Chief Executive's review

Overview

During the year, we have continued to build our investment portfolio and consolidate our position as a strategic investor in healthcare companies, with a particular focus on medical technology. We had total investments valued, as at 30 September 2008, at £9.2 million (30 September 2007: £9.4 million). The two key investment activities in the period have been the acquisition of Stanmore Implants Worldwide Limited by MDY Healthcare and a consortium of investors lead by Brian Steer (former chairman of Gyrus Group plc) and the launch of Trust William (www.trustwilliam.com), the direct-to-consumer natural healthcare business, on schedule in September 2008.

During the period, we have continued our policy of containing expenses and maintaining cash through appropriate realisations from our trading portfolio. Our cash position at 30 September 2008 was £2.0 million (30 September 2007: £5.1 million).

Investment strategy

Following the Board review of our investment strategy in respect of quoted equities as outlined in our portfolio update in September 2008, the majority of the value in our investments now lies in private companies. Over 80% of the value of our investments is in our four major strategic investments: Stanmore, Medivance, AOI and Trust William. We are encouraged by the progress made by each of these investments in the period. Our other investments comprise our smaller quoted portfolio which has declined in value albeit broadly in line with the challenging UK small cap healthcare equity market.

Portfolio review

Medivance, Inc

Medivance, the Colorado-based leader in the emerging field of therapeutic temperature management, continues to make excellent progress. The company has now successfully completed its move into a new manufacturing, administration and distribution facility, which has more than doubled its capacity.

Since we first invested in December 2006, Medivance has quadrupled its rate of sales. Medivance's patented, FDA-approved Arctic Sun™ device is now used in approximately 90% of the top US hospital heart programs and 70% of the top US neurology programs (as defined by the US News and World 2008 American Best Hospital Report). In addition, it is being increasingly adopted by smaller teaching and community hospitals. International adoption of Arctic Sun™ continues in Europe, Asia and Australia. Medivance has now achieved 19 consecutive quarters of revenue growth and is targeting continued growth in 2009. However the recent strengthening of the US dollar versus most other currencies presents challenges for Medivance's international business as does the current global financial uncertainty.

We have invested approximately £2.5 million to date in Medivance and now own around 9.4% of the fully-diluted equity. Based on its strong performance to date, and as anticipated in the interims, we have reviewed the valuation of our holding in Medivance as at 30 September 2008. However, due to the challenging business environment highlighted above, we have decided prudently to maintain the valuation in US dollar terms. Given the strengthening of the US dollar over the period, this values our holding at £3.1 million as at 30 September 2008.

AOI Medical Inc.

In June 2008, AOI commenced its key 60 patient clinical study for its AscendX™ VCF (Vertebral Compression Fractures) Reduction System. In October 2008, AOI announced that the first 10 patients had been successfully treated. The procedures thus far have shown that AscendX™ has performed as intended allowing single pedicle access, height restoration and the management of cement flow rate and localization where desired. However the overall patient recruitment has been slower than anticipated so AOI now expects the clinical trial to complete its last patient enrolment and make its 510(k) submission to the US FDA in mid-2009. Market launch in the US is therefore expected towards the end of 2009.

In May 2008 AOI secured shareholder approval to waive pre-emption rights in connection with a possible issue of up to 15 million new common shares to secure future financing. MDY Healthcare has invested a total of approximately £1.8 million and has approximately 8.6% of the issued share capital valued, as at 30 September 2008, at approximately £1.5 million.

Stanmore Implants Worldwide Limited ("SIW")

SIW has performed extremely well since the completion of the acquisition in March 2008 by the investor group led by Brian Steer. In the nine months ended September 2008, Stanmore was ahead of budget with sales having increased by 16% over the same period in 2007 and is on target to achieve sales in excess of £5 million in the year ending 31 December 2008.

Growth is being driven by increased take up of the METS (modular endoprosthesis tumour system) product range and strong sales of the non-invasive Juvenile Tumour Systems including in the US. SIW has seen good growth generally in exports, particularly in France, Greece, Hong Kong, India and Australia, and has sales in 15 countries in

total.

Under the new ownership, SIW continues to expand its skilled workforce, rebranding its marketing activities and developing a new global electronic communication system to support the work of surgeons. New state-of-the-art premises have been secured and SIW plans to move into them in early 2009.

SIW continues to make encouraging progress with its clinical trials of ITAP, its innovative device for directly attaching prosthetic devices to the skeleton of amputees. This is being developed for a wide-range of applications including upper and lower limb, digits and craniofacial prostheses. The first upper limb device, which was implanted in Kira Mason, a 7/7 bomb victim, has now been in situ for over a year and continues to perform well. Her case has generated considerable public interest following recent coverage in the Times, Evening Standard and a guest appearance by Kira and her surgeons on the BBC's Breakfast programme on 9 December 2008.

The trial on the lower limb device is now underway at the Royal National Orthopaedic Hospital in Stanmore and the Royal Orthopaedic Hospital in Birmingham. The MHRA-approved digit trial has now completed recruitment, with the final devices having been implanted in September 2008. Given the significant potential of the US market for ITAP, SIW's management is now planning clinical trials of the technology in the US.

Despite increased investment in clinical trials, marketing, staffing and premises, the gross margin remains over 60% and the company remains cash generative and profitable after tax. The management team and shareholders are keen to continue to grow the business aggressively internationally through mergers, acquisitions and commercial alliances with other specialist musculoskeletal companies.

MDY Healthcare has invested £3.0 million in SIW and has approximately 20% of the issued share capital on a fully-diluted basis. As at 30 September 2008 the investment was prudently valued at cost.

Launch of Trust William

In September 2008, we announced the commercial launch, on schedule, of Trust William, which started trading earlier that month. Trust William is a multi-channel retail business selling natural healthcare products direct to consumers via its website, www.trustwilliam.com and a catalogue supported by a freephone customer services line. Trust William's product range is based around six key natural active ingredients: Aloe Vera, Echinacea, Glucosamine, Manuka Honey, Omega 3 and Tea Tree Oil supplemented by a number of other natural family healthcare products.

Trust William, as well as benefiting from the facilities and staff of its two shareholders, is being led by Miles Stevens-Hoare who has been working with us on the project since March 2008 and assumed the role of Chief Executive in October 2008. Miles is a proven and experienced new business developer with significant experience in the mail order, online and direct selling environments. He was previously Managing Director of the Book Clubs and Fairs division of Scholastic UK Ltd, the UK's largest children's and school book publisher and distributor.

Trust William is now actively building its customer base through a range of marketing activities, including catalogues, online marketing, newspaper offers,

affiliate marketing, newspaper and magazine advertising as well as public relations. Customer feedback has been extremely positive to the Trust William concept, product range and service. However the UK retail environment is currently extremely challenging and we anticipate that building sales volume will take time and significant further effort.

As at 30 September 2008, MDY Healthcare had invested approximately £0.7 million by way of loan finance in Trust William, which is held at cost on the company's balance sheet. As MDY Healthcare owns 80% of the issued share capital of Trust William it is required to consolidate 80% of Trust William's revenue, profits or losses on MDY Healthcare's consolidated accounts on a joint venture basis. Accordingly, £0.4 million of losses have been included for the 12 months ended 30 September 2008. This is equivalent to approximately 3p per share.

Smaller quoted portfolio

As discussed above and announced at the interims and in our year-end business and portfolio update in September, over the last twelve months we have experienced extremely challenging conditions in the public markets generally, specifically in our target sector and for smaller capitalisation companies. These conditions have continued since the year-end.

As a consequence, we actively reduced our exposure to quoted equities during the period and have continued to do so following the year-end. As at 30 September 2008, the smaller quoted portfolio was valued at approximately £1.5 million. The portfolio includes our investments in Allergy Therapeutics plc, Minster Pharmaceuticals plc, Lombard Medical Technologies plc, Axis-Shield plc, Immunodiagnostic Systems Holdings plc and Xcounter plc along with our trading portfolio.

Financial review

At 30 September 2008, MDY Healthcare's total investments (current and non-current) were valued at £9.2 million (30 September 2007: £9.4 million). Cash reduced to £2.0 million (30 September 2007: £5.1 million) following the investment during the period, primarily in Stanmore and Trust William, as well as ongoing operating expenses. Net assets were £11.3 million (30 September 2007: £15.5 million). Consolidated net asset value per share as at 30 September 2008 was £0.77 (30 September 2007: £1.11).

Revenue for the period was £41,000 (2007: £28,000). In the twelve months ended 30 September 2008, our total administrative expenses were £1.4 million (2007: £2.0 million). Other operating income of £0.5 million (2007: £1.0 million) relates primarily to the gain on our investment in Medivance. The other operating expense of £2.9 million (2007: £1.2 million) represents the loss in value following the mark-to-market revaluation of our publicly traded investments following the continuing difficult stock market conditions discussed above. The share of profit/loss of associates of £0.4 million loss (2007: NIL) represents the consolidation of our share of Trust William's losses. Finance income of £0.5 million (2007: £0.6 million) includes £0.2 million of bank interest income (2007: £0.6 million), down from the previous period in line with the reduction in our cash deposits as we added

further investment to the portfolio, along with a small exchange profit of £0.3 million (2007: £0.9 million loss) following improvement in the dollar/sterling exchange rate. Finance expenses were NIL (2007: 0.9 million) as there were neither interest expenses nor any foreign exchange losses in the period.

Overall the net loss for the period increased to £3.7 million (2007: £2.3 million). Losses per share for the period were 25.63p as against 16.02p for the corresponding period in 2007.

Conclusion and Outlook

The investment in Stanmore Implants Worldwide has been a landmark deal for MDY Healthcare this year with significant potential for value creation. It demonstrates that excellent investments are still available in the medtech sector and that MDY Healthcare can attract high quality investors to invest alongside it. Medivance continues its impressive growth while the clinical progress of AOI Medical's key product is encouraging. We were delighted to launch Trust William on schedule and intend to establish it as a leading UK direct retailer of natural healthcare products.

These remain extremely challenging times for any company. Like most investment businesses, we anticipate continued challenges and uncertainty in global markets as we go into 2009. Despite this, we have built a strong portfolio of mostly unquoted assets that continues to demonstrate value while containing costs within our business. The directors will continue their strategy of seeking to create shareholder value by building these assets and realising investments over time. However, in light of current global market conditions, the timing of any revaluations and/or divestments clearly remains uncertain. We have further consolidated our reputation as a healthcare-focused strategic investor in a sector that is traditionally defensive in difficult economic conditions.

MDY HEALTHCARE PLC CONSOLIDATED INCOME STATEMENT for the year ended 30 September 2008

	2008	2007 Restated Continuing Operations	2007 Discontinued Operations
Notes	£'000	£'000	£'000
Revenue	41	28	-
Cost of sales	-	-	-
Gross profit	41	28	-
Administrative expenses	(1,409)	(1,628)	(421)
Other operating income	485	1,008	-
Other operating expense	(2,891)	(1,184)	-
Results from operating	(3,774)	(1,776)	(421)

activities

Share of loss of associates and jointly controlled entities using the equity accounting method, net of tax	(430)	-	-
Finance Income	457	628	-
Finance expenses	-	(877)	-
Net finance income/(expense)	27	(249)	-
Loss before tax	(3,747)	(2,025)	(421)
Income tax credit	-	175	-
Loss for the year	(3,747)	(1,850)	(421)
Attributable to:			
Equity holders of the parent	(3,747)		
Loss for the period	(3,747)		
Basic and diluted loss per share 3	(25.63p)		

MDY HEALTHCARE PLC
CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
for the year ended 30 September 2008

	Note	2008 Total £'000
Change in fair value of assets classified as available-for-sale	2 (ii)	(509)
Deferred tax liability arising on net change in fair value of assets classified as available-for-sale		-
Net change in fair value of available-for-sale financial assets transferred to profit and loss		-
Income and expenses recognised directly in equity in the year		(509)
Loss for the financial year		(3,747)
Total recognised income and expense for the year		(4,256)
Attributable to		
- Equity holders of the Company		(4,256)
Total recognised income and expenses for the year		(4,256)

MDY HEALTHCARE PLC
CONSOLIDATED BALANCE SHEET
as at 30 September 2008

	Notes	2008 £'000
Assets		
Non-current assets		
Intangible assets		87
Property, plant and equipment		96
Investments	2	<u>8,020</u>
Total non-current assets		<u>8,203</u>
Current assets		
Investments	2	1,139
Inventory - goods for resale		7
Trade and other receivables		337
Cash and cash equivalents		<u>2,008</u>
Total current assets		<u>3,491</u>
Total assets		<u>11,694</u>
Liabilities		
Current liabilities		
Trade and other payables		<u>420</u>
Total current liabilities		<u>420</u>
Net assets		<u>11,274</u>
Equity		
Issued capital		6,999
Share premium		101,419
Other reserves		22,993
Retained earnings		<u>(120,137)</u>
Total equity		<u>11,274</u>

**MDY HEALTHCARE PLC
COMPANY BALANCE SHEET
as at 30 September 2008**

	Notes	2008 £'000
Assets		
Non-current assets		
Property, plant and equipment		85
Investments	2	<u>8,021</u>
Total non-current assets		<u>8,106</u>
Current assets		
Investments	2	1,139

Trade and other receivables		897
Cash and cash equivalents		2,004
Total current assets		4,040
<hr/>		
Total assets		12,146
<hr/>		
Liabilities		
Current liabilities		
Trade and other payables		271
Total current liabilities		271
<hr/>		
Net assets		11,875
<hr/>		
Equity		
Issued capital		6,999
Share premium account	4	101,419
Other reserves	4	3,132
Retained earnings	4	(99,675)
Total equity	4	11,875

MDY HEALTHCARE PLC
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 30 September 2008

	2008
	£'000
Cash flows from operating activities	
Loss for the year	(3,747)
Adjustments for:	
Depreciation and amortisation	24
Income tax expense	-
Net change in fair value of financial assets at fair value through profit or loss (note 2)	2,406
Net gains on disposal of available for sale financial assets transferred from equity	-
Foreign exchange (gain)/loss on cash held	(284)
Interest receivable	(155)
Operating loss before changes in working capital and provisions	(1,756)
Increase in inventory	(7)
Decrease/(increase) in trade and other receivables	1,133
Decrease in trade and other payables	(73)
Cash used by operations	1,053
Net cash outflow from operating activities	(703)

Cash flows from investing activities

Interest received	155
Purchase of financial asset at fair value through the profit and loss (note 2)	(3,499)
Purchase of intangible assets	(87)
Purchase of property, plant and equipment	(15)
Proceeds from the sale of financial assets at fair value through the profit and loss (note 2)	783
Proceeds from the sale of available for sale financial assets (note 2)	-
Net cash outflow from investing activities	(2,663)
Cash flows from financing activities	
Proceeds from issue of share capital	-
Net cash inflow from financing activities	-
Net decrease in cash and cash equivalents	(3,366)
Cash and cash equivalents at 1 October	5,090
Effect of exchange rate fluctuations on cash held	284
Cash and cash equivalents at end of year	2,008

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2008

Reporting entity

MDY Healthcare plc (the 'Company') is a Public Limited Company (traded on AIM) incorporated in and domiciled in the United Kingdom. The address of the Company's registered office is 23 Bridge Street, Ellon, Aberdeenshire, Scotland. The consolidated financial statements of the Company as at and for the year ended 30 September 2008 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is a healthcare sector specialised investment company.

2007 Income Statement Restated

The income statement format has been restated to reflect the Company moving from a trading company to an investment company.

1. Basis of preparation

a) Statement of compliance

The Group and parent company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU. On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

The financial statements were approved by the Board of Directors on 16 December 2008.

The financial statements have been prepared on the going concern basis.

2. Investments

	Group		Company
	2008 £'000	2007 £'000	2008 £'000
Subsidiary undertakings (i)	-	-	-
Jointly controlled entities	-	-	1
Available for sale financial assets (ii)	908	1,417	908
Financial assets designated at fair value through profit or loss (iii)	7,112	5,037	7,112
Financial assets held for trading at fair value through profit or loss (iv)	1,139	2,904	1,139
	<u>9,159</u>	<u>9,358</u>	<u>9,160</u>

(i) Subsidiary undertakings

Cost	Group		Company
	2008 £'000	2007 £'000	2008 £'000
At 1 October 2007	-	-	1
Additions	-	-	-
Assets written down	-	-	(1)
Disposal	-	-	-
At 30 September 2008	<u>-</u>	<u>-</u>	<u>-</u>

Details of jointly controlled entities are as follows:

Joint venture	Country of registration or incorporation	Principal activity	Class of shares	% holding
Trust William Limited	England & Wales	Website distribution	ordinary shares	80.1%

Trust William Limited is considered a Jointly Controlled Entity because the decisions of the company and board control are split evenly with the other shareholder.

(ii) Available for sale financial assets

Cost	Group		Company
	2008 £'000	2007 £'000	2008 £'000
At 1 October 2007	1,417	1,274	1,417
Revaluation - increase	-	896	-
Revaluation - decrease	(509)	-	(509)
-Disposals	-	(753)	-
At 30 September 2008	<u>908</u>	<u>1,417</u>	<u>908</u>

In line with the Group's accounting policy, the gain on revaluation of available for sale financial assets is recognised in the consolidated statement of recognised income and expense until that financial asset is disposed of.

Fair Value as at 12 December 2008 **£'000**
919

(iii) Financial assets designated at fair value through profit or loss

Cost	Group		Company
	2008	2007	2008
	£'000	£'000	£'000
At 1 October 2007	5,037	-	5,037
Additions at cost:	3,309	5,696	3,309
Revaluation - increase	366	604	366
Revaluation - decrease	(1,551)	(539)	(1,551)
Disposals	(49)	(734)	(49)
At 30 September 2008	<u>7,112</u>	<u>5,037</u>	<u>7,112</u>

Fair Value as at 12 December 2008 **£'000**
7,548

(iv) Financial assets held for trading at fair value through profit or loss

Cost	Group		Company
	2008	2007	2008
	£'000	£'000	£'000
At 1 October 2007	2,904	-	2,904
Additions at cost:	191	4,454	191
Revaluation - increase	54	25	54
Revaluation - decrease	(1,176)	(643)	(1,176)
Disposals	(834)	(932)	(834)
At 30 September 2008	<u>1,139</u>	<u>2,904</u>	<u>1,139</u>

Fair value as at 12 December 2008 **£'000**
681

During the period from 1 October 2008 to 12 December 2008 the Company sold investments with a value at 30 September 2008 of £322,000.

3. Loss per share

	2008	
Basic		
Net loss for the financial period (£'000)	(3,747)	(2
Weighted average number of shares outstanding	14,623,111	14,171
Basic loss per share	<u>(25.63)p</u>	<u>(16</u>

The basic net loss per ordinary share is calculated using a numerator of the net loss for the financial year and a denominator of the weighted average number of ordinary shares in issue for the financial year. The diluted net loss per ordinary share is calculated using a numerator of the net loss for the financial year and a denominator of the weighted average number of ordinary shares and adjusting for the effect of all potentially dilutive shares, including share options and warrants, assuming they are converted. There is no difference for 2008 and 2007 between the basic net loss per share and the diluted net loss per share as ordinary share equivalents from share options have been excluded from the computation as their effects are anti-dilutive.

Weighted average number of ordinary shares

	2008	2007
Issued ordinary shares at 1 October	14,623,111	13,984,223
Effect of shares issued in the financial period	-	194,826
Weighted average number of ordinary shares at 30 September	14,623,111	14,179,049

4. Reconciliation of movements in equity

Group	2008 £'000
Total recognised income and expense for the period	(4,256)
Issued and issuable share capital including premium, less expenses	-
Net increase/(decrease) in equity	<u>(4,256)</u>
Opening equity	<u>15,530</u>
Closing equity	<u>11,274</u>

5. These preliminary results do not constitute the full accounts. MDY Healthcare intends to publish its annual report and accounts for the year ended 30 September 2008 by February 2009.

This information is provided by RNS
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