United Drug plc Interim Report 2003

Announcement of the interim results

half year ended 31 March 2003

Highlights

	2003 €'000	2002 €'000	Increase %
Group turnover	**561,447**	475,520	18
Trading profit*	**17,740**	14,487	22
Profit before taxation*	**16,014**	12,974	23
Fully diluted earnings per share*	**43.52c**	37.48c	16
Dividend per share	**8.00c**	7.00c	14

** excluding goodwill amortisation and exceptional item*

Chairman's statement

United Drug has produced another very strong performance for the six months ended 31 March 2003.

Group turnover for the period increased by 18% to €561 million. Trading profit, excluding once-off exceptional costs, goodwill amortisation and interest charges, advanced by over 22% to €17.74 million and pre-tax profits, on the same basis, increased by 23% to €16.0 million. Fully diluted earnings per share for the period amounted to 43.52 cent, a 16% increase over the corresponding period in 2002.

Interim dividend

The Board of Directors has declared an interim dividend of 8 cent per share. This is an increase of over 14% on the 2002 interim dividend and reflects the performance of the Company in the period and the policy of rewarding shareholders through continuous improvement in dividend payments.

The Directors are pleased to advise that all shareholders will be given an opportunity of receiving all or part of the 2003 interim dividend as a scrip dividend in the form of new ordinary shares. It is expected that share alternative election/mandate forms, setting out details of the share alternative offer and the procedures to be followed, will be posted to shareholders on 6 June 2003. The interim dividend will be paid or, alternatively, share certificates issued, on 11 July 2003 to holders of ordinary shares whose names appear on the Company's register at the close of business on 30 May 2003.

Proposed measures to increase liquidity of the Company's shares

Even though the volume of trading in United Drug shares has substantially increased over the last three years, the Board is of the opinion that it would be in shareholder's interest to facilitate a further move in this regard. The increase in our share price means that we are one of the few shares in our company size with a double digit share price, and this may be unattractive to private investors.

It is therefore proposed to recommend to shareholders that we split the shares. This will have the effect of changing the nominal value of United Drug shares from 32 cent to 5 cent. In turn, this will greatly increase the number of shares in issue and should facilitate greater ease in trading United Drug shares.

The proposal will not affect the underlying interest of shareholders in the earnings or net assets of the Company or the rights attaching to shares. The proposed measure will require the approval of shareholders at an Extraordinary General Meeting (EGM). Accordingly, full details of the proposal, the Notice of the Extraordinary General Meeting, and resolutions to be proposed at the EGM will be set out in a circular accompanying the share alternative election/mandate forms on 6 June 2003.

Outlook

Each of our four divisions - Pharma Wholesale, Contract Distribution Outsourcing, Medical & Scientific and Contract Sales Outsourcing - continue to perform well in the year to date.

Our strategic policy of continuing further investments in infrastructure with bolt-on acquisition opportunities, has strengthened the foundations and commercial base of the Group. This, in turn, reflects a clear implementation of our strategy in seeking leadership positions within high growth sectors of the healthcare supply chain.

The recent investment in Magna Park has given our Pharma Wholesale business the capacity for future growth, while at the same time, facilitating better service with a lower expenses to sales ratio. Recent acquisitions, New Splint and IntraVeno, have transformed our Medical & Scientific Division, providing a base for further expansion, both in Ireland and the UK. New facilities for Ashfield, in both Ashby-de-la-Zouch and Dublin, together with the acquisition of Ventiv, broaden the horizons in our Contract Sales Outsourcing (CSO) business.

Looking to the near future, the forthcoming building projects - stage two at Magna Park and at South Normanton for UDG - will give Contract Distribution Outsourcing (CDO) and Medical & Scientific the capacity to exploit further growth opportunities.

Therefore, given the strong performance during the first half of the year from each of the business units, I am confident that United Drug will report another successful year.

Martin Rafferty
Chairman

20 May 2003

Chief Executive's review

United Drug's growth and development has continued through the first half of our 2003 financial year. The six months to 31 March 2003 also saw another record financial performance by the Company.

Group turnover for the period was €561 million, an 18% increase over 2002. Headline profits before tax increased by 23% to €16.0 million. Earnings per share (before exceptional items and goodwill amortisation) increased by 16% to 43.52 cent per share. Once-off exceptional costs of €1.15 million were incurred during the period on the rationalisation of the acquired Ventiv business in the UK. This business has now been fully integrated into Ashfield Healthcare.

This strong financial performance has been driven by all business divisions – Pharma Wholesale, Contract Distribution Outsourcing, Medical & Scientific and Contract Sales Outsourcing – and is a combination of market share gains, new business wins, margin enhancement and tight cost control.

Strong progress has been made on all three acquisitions which we have made over the past 12 months, supporting the Company's strategy to grow organically, and by acquisition in businesses that complement our existing core operations. The integration of the Ventiv (UK) contract sales business that we acquired last October is now complete and has brought with it a number of key new clients for our UK contract sales business. All clients were retained during the integration process and we have moved all operations to our new head office and training facility in Ashby-de-la-Zouch.

Our acquisition of New Splint in April 2002, the UK company supplying orthopaedic implants to surgeons, has delivered ahead of our expectations and has fully achieved its 12 month earn-out target. We have recently appointed a new General Manager to run this business in the UK. Integration within the Medical & Scientific Division has been finalised.

IntraVeno Healthcare, the Irish medical supply business we acquired last September, has made strong progress and has considerably widened our product portfolio and service offering to hospitals. The IntraVeno management team has integrated well, both within the division and the Group.

The Group has benefited in the past from investing in state-of-the-art distribution facilities that differentiate us from our competitors and meet the quality requirements of our multinational clients. We have continued to commit to investing in infrastructure that will serve to differentiate our offering through the approval to build a new 24,000 square metre contract distribution facility at Magna Park, Dublin adjacent to our existing new wholesale facility. In addition, with our joint venture partners, we intend to build a second premises for UniDrug, our UK pre-wholesaling business. This will be adjacent to its existing site and will satisfy expansion and growth in market share.

Pharma Wholesale

United Drug continues to be the only major pharmaceutical wholesaler in the Irish market that is not involved in retailing, and so, does not compete with its customers, many of whom are also shareholders. United Drug is committed to supporting our independent pharmacy customers and to providing a range of support services that allow them to compete effectively in the marketplace. As a result we have been able to further increase our market share in a market that continues to grow strongly.

In the Republic of Ireland, United Drug Wholesale has increased its customer base and its market share through each of its distribution centres – Ballina, Dublin and Limerick. The investments made in our wholesale infrastructure in recent years, and in particular our Magna Park facility, allow us to increase our sales and services without adding to our cost base, thereby driving down our expenses to sales ratio. Our strategic development to more technology driven systems for the provision of our operational and delivery services provides us with the capability to handle considerable further expansion within our existing facilities. Our over-the-counter (OTC) services company, Numark, successfully relocated from Ballina to Dublin in October and is making substantial sales gains in its market segment.

In Northern Ireland, Sangers continues to be the clear market leader and the only wholesaler committed to independent pharmacy. This policy of supporting independent pharmacy has seen another major pharmacy chain in Northern Ireland switch their business to Sangers, just after the period end. Turnover for the period increased in line with the market. Turnover growth, combined with good margin management and tight cost control, resulted in a very satisfactory profit improvement in the period. Sangers Distribution and Pemberton Health & Beauty both performed strongly during the period and contributed to the good profit performance.

Contract Distribution Outsourcing

The Contract Distribution Outsourcing Division (CDO) had a very strong six months with sales and profits significantly ahead of the corresponding period last year.

The Pharmaceutical Distribution business, United Drug Distributors, showed sales growth well ahead of market growth. The addition of Schering Plough and Provalis to our client list in the period added significantly to this result. Our CDO business, which is manufacturer facing, is built on the four pillars of (i) investment in infrastructure, (ii) investment in the highest quality people available, (iii) significant development of information systems, and, (iv) all overlaid with a very extensive quality agenda. We believe that this business will be very much driven by quality issues and compliance going forward. Manufacturers and regulatory bodies demand quality driven facilities, systems and procedures throughout the supply chain. United Drug Distributors is ideally positioned to partner pharmaceutical manufacturers in this quality agenda. The announcement, last year, of our intention to develop the remaining land bank at our Magna Park site, is further evidence of our major commitment to, and investment in, partnership with the multinational pharmaceutical manufacturers. We have continued to invest heavily in our Hospital Division and we believe this investment has been rewarded with vastly improved service to our hospital customers.

UniDrug, our joint venture in the United Kingdom, has increased profits during the period. We have recently approved the building of a second warehouse of 17,000 square metres beside our existing facility. This development will double the capacity of UniDrug and is evidence of the confidence of the joint venture partners in the opportunities that exist in the United Kingdom market. In addition, approval has also been given for the installation of a new warehouse management computer system which will have significant benefits for our principals and for the efficiency of our operations. In the period under review, UniDrug won new contracts with Stiefel, Novo Nordisk, Strakan, Nutricia, Cephalon, Profile Pharma and Meda.

Our Consumer Products Division, comprising Pemberton Marketing and Blackhall Pharmaceuticals, recorded an excellent result for the period. The contracts won last year as noted in our last annual report, made a very substantial contribution in the period. In addition, we commenced distribution of NeuroTech and Slendertone during the period. We also extended distribution for a number of principals into the Northern Ireland market.

Our animal health company, Animal Health Distributors, also had a successful six months. This business is a 50/50 joint venture between United Drug plc and Co-op Animal Health. A number of new contracts secured last year contributed to the excellent result in the period under review.

Medical & Scientific Division

The Medical & Scientific Division has had an encouraging start to the year, with sales and profits ahead of target and significantly up on last year. The division operates as two business units in the Republic of Ireland (Unitech and IntraVeno) and two in the UK (Ulster Anaesthetics and New Splint). All businesses are performing well, with all reporting satisfactory market conditions going forward. Through these business units we sell and distribute a wide range of instruments, equipment and consumables on behalf of multinational manufacturers.

Significant progress has been made integrating both New Splint and IntraVeno into the division. A senior divisional and general management team is now in place and the newly formed Medical & Scientific Board is providing the strategic focus and management drive, that will deliver the ambitious growth targets the division has set.

Both IntraVeno and Unitech continue to enjoy significant market penetration and growth in their respective areas of activity, covering the medical, laboratory, biotechnology, industrial and pharmacy sectors. The significant depth of experience and expertise brought to such a broad-based business platform positions the Medical & Scientific Division as the distribution partner of choice in Ireland for the world's leading healthcare manufacturers.

In Northern Ireland, the combined medical & scientific business continued to develop, with Ulster Anaesthetics gaining a number of new agencies in the period that will contribute significantly in the future.

In the UK, the New Splint business, focussed primarily on the selling and marketing of orthopaedic prosthetic implants and surgical instruments, is benefiting from investment; most notably an increase in the sales team, but also customer service team expansion and the development of a dedicated custom prosthesis service unit. These enhancements will allow us to offer an even more responsive service to our end-user customers.
Our commitment to develop added-value activities for customers was further demonstrated in February when New Splint hosted, in conjunction with a major client, Waldemar Link GmbH, a clinical meeting that was attended by over 40 orthopaedic surgeons active in the area of revision knee surgery. Held in Ashfield's new Ashby-de-la-Zouch conference centre, the meeting is set to become a key fixture in the orthopaedic clinical meeting calendar.

The UK business is now ready to broaden its range of activities even further in line with our vision of a broad-based medical & scientific business in that region.

Contract Sales Outsourcing (CSO)

Ashfield Healthcare UK, with some 800 employees, has continued to secure its position as the second largest and fastest growing contract sales outsourcing company in the UK, through a mixture of both organic growth and acquisition. Ashfield UK now has close to a 40% market share. The acquisition in October 2002 of the UK contract sales outsourcing business of Ventiv Inc has now been successfully integrated into the Ashfield operation, broadening the already impressive client base, adding more depth to the nurse business and bringing with it a range of products under the trading name of "Kestrel". During the last six months, we have secured new contracts and relationships with 3M, GSK, Bayer, Convatec, Biogen and Eli Lilly.

Ashfield House, the state-of-the-art head office and training facility in Ashby, has been operational since December 2002 with all head office departments now located on one site. The inclusion of these impressive facilities within Ashfield's ever increasing portfolio of added-value services, means that we are now perceived as the premier CSO provider in the UK. The new state-of-the-art facilities are in great demand, being utilised for training of client sales representatives, in-house training, client meetings, conferences and seminars. More meetings and conferences are planned and booked for the future.

Ashfield Ireland continues to see strong trading in the contract services area with growth in sales and nurse advisors, bringing headcount to 60 people, making this company the market leader in contract sales in Ireland.

Ashfield Ireland moved to new offices in Sandyford, Co. Dublin in mid April 2003. A 350 square metre office has been leased and will provide new space for administration and recruitment, but specifically for training. It will begin to deliver the "Ashfield Achiever" programme in Ireland for the first time in August 2003. There are also plans to offer external training for new and existing pharmaceutical sales representatives in Ireland. Upgrading of IT support will also allow direct access into Ashfield UK databases and infrastructure.

Conclusion

This has been an exceptionally busy half-year. Apart from the commercial and financial improvements, we have made significant strategic progress, both as a Group and within each division. The foundations for future growth and development have been strengthened. Our almost 20-year track record of delivering increased profits and earnings year on year has been further enhanced.

I would like to thank all the management and employees at United Drug for their commitment and contribution to the good results. It is the ambition of each of us to provide superior service to our customers and this is the key to being able to continually provide superior returns to our shareholders.

The continued implementation of our strategy to establish leadership positions in markets with strong growth potential leaves us well positioned for the remainder of 2003 and beyond.

Liam FitzGerald
Chief Executive

20 May 2003

Group profit and loss account unaudited

for the half year ended 31 March 2003

	Notes	2003 €'000	2002 €'000
Turnover: including share of joint ventures		**719,081**	568,878
Less: share of joint ventures		**(157,634)**	(93,358)
Group turnover		**561,447**	475,520
Operating costs		**(544,964)**	(462,111)
Exceptional item	2	**(1,149)**	-
Goodwill amortisation		**(1,790)**	(617)
Group operating profit		**13,544**	12,792
Share of joint ventures' operating profit		**1,257**	1,078
Trading profit, including share of joint ventures		**14,801**	13,870
Group interest payable (net)	3	**(1,711)**	(1,479)
Share of joint ventures' net interest		**(15)**	(34)
Profit on ordinary activities before taxation		**13,075**	12,357
Tax on profit on ordinary activities		**(2,549)**	(2,378)
Profit for the period attributable to ordinary shareholders		**10,526**	9,979
Dividends - declared	4	**(2,384)**	(2,016)
Profit retained for the period		**8,142**	7,963
Profit and loss account at beginning of period		**74,918**	62,228
Scrip dividends		**1,812**	2,043
Redemption of treasury shares		**-**	(4,271)
Realisation of revaluation surplus		**253**	-
Profit and loss account at end of period		**85,125**	67,963
Restriction arising on treasury shares		**(5,667)**	(5,667)
Profit and loss account at end of period as restricted		**79,458**	62,296

Earnings per ordinary share			
Before goodwill amortisation and before exceptional item			
- basic	6	**43.90c**	38.01c
- diluted	6	**43.52c**	37.48c
Before goodwill amortisation and after exceptional item			
- basic	6	**41.31c**	38.01c
- diluted	6	**40.95c**	37.48c
After goodwill amortisation and after exceptional item			
- basic	6	**35.65c**	35.80c
- diluted	6	**35.34c**	35.30c

Group balance sheet unaudited

At 31 March 2003

	2003 €'000	2003 €'000	2002 €'000	2002 €'000
Fixed Assets				
Goodwill		**57,774**		21,822
Tangible Assets		**63,591**		55,486
Financial Assets				
Interest in joint ventures				
Share of gross assets	**65,539**		54,065	
Share of gross liabilities	**(60,599)**	**4,940**	(50,450)	3,615
		126,305		80,923
Current Assets				
Stocks	**106,541**		94,385	
Debtors	**175,831**		144,670	
Cash at bank and in hand	**7,375**		16,367	
	289,747		255,422	
Creditors: amounts falling due within one year				
Bank and other financial obligations	**47,582**		11,220	
Other creditors	**194,466**		162,779	
	242,048		173,999	
Net current assets		**47,699**		81,423
Total assets less current liabilities		**174,004**		162,346
Creditors: amounts falling due after more than one year				
Bank and other financial obligations		**17,344**		24,685
Provisions for liabilities and charges		**1,932**		1,532
Net assets		**154,728**		136,129
Capital and reserves				
Called up share capital		**9,871**		9,546
Share premium account		**71,319**		62,838
Revaluation reserve		**-**		253
Other reserves		**(5,920)**		1,196
Profit and loss account		**79,458**		62,296
Shareholders' funds - equity		**154,728**		136,129

Group cash flow statement unaudited

for the half year ended 31 March 2003

	2003 €'000	2002 €'000
Cash flow from operating activities	**(2,824)**	(1,023)
Returns on investments and servicing of finance	**(1,223)**	(1,720)
Corporation tax paid	**(2,612)**	(2,349)
Capital expenditure and financial investment	**(4,996)**	(3,532)
Acquisitions and disposals	**(13,110)**	-
Equity dividends paid	**(3,467)**	(2,265)
Cash flow before financing	**(28,232)**	(10,889)
Financing		
Issue of shares	**3,155**	18,699
Net increase/(decrease) in debt	**8,568**	(5,299)
(Decrease)/increase in cash for the period	**(16,509)**	2,511

Reconciliation of net cash flow to movement in net debt		
(Decrease)/increase in cash for the period	**(16,509)**	2,511
Net (increase)/decrease in debt	**(8,568)**	5,299
Changes in net debt resulting from cash flows	**(25,077)**	7,810
Translation adjustments	**(236)**	25
Movement in net debt	**(25,313)**	7,835
Net debt at beginning of period	**(32,238)**	(27,373)
Net debt at end of period	**(57,551)**	(19,538)

Notes to the financial statements

for the year ended 31 March 2003

1 Accounting Policies

The accounting policies and presentation applied to the interim results are consistent with those applied in the 2002 Annual Report, and are in accordance with applicable accounting standards. The interim financial statements are unaudited.

2 **Exceptional item**	**2003 €'000**	**2002 €'000**
Redundancy costs	**1,149**	-

The exceptional item relates to redundancy costs incurred following the acquisition of the UK operations of Ventiv Inc in October 2002.

3 **Interest (net)**	**2003 €'000**	**2002 €'000**
Group - interest payable	**(1,950)**	(1,714)
Group - interest receivable	**239**	235
	(1,711)	(1,479)

4 **Dividends - equity shares**	**2003 €'000**	**2002 €'000**
Interim dividend of 8.00c per share *(2002: 7.00c per share)*	**2,384**	2,016

5 Acquisition

Turnover and operating profit in respect of the acquisition of the UK operations of Ventiv Inc in October 2002 have not been provided separately. This entity has been fully integrated into the operations of Ashfield Healthcare UK and as such it is not possible to separately identify its trading result since acquisition.

6 Earnings per ordinary share

	2003 €'000	2002 €'000
Basic earnings per share		
Profit on ordinary activities after tax	**10,526**	9,979
Weighted average shares outstanding during the period	**29,524,029**	27,870,878
Basic EPS	**35.65c**	35.80c
Goodwill amortisation (net of tax)	**5.66c**	2.21c
Basic EPS before goodwill amortisation	**41.31c**	38.01c
Exceptional item (net of tax)	**2.59c**	-
Basic EPS before goodwill amortisation and exceptional item	**43.90c**	38.01c
Fully diluted earnings per share		
Profit on ordinary activities after tax	**10,526**	9,979
Weighted average shares outstanding during the period	**29,524,029**	27,870,878
Number of dilutive shares under option	**258,904**	398,418
Weighted average shares for calculation of fully diluted EPS	**29,782,933**	28,269,296
Fully diluted EPS	**35.34c**	35.30c
Goodwill amortisation (net of tax)	**5.61c**	2.18c
Fully diluted EPS before goodwill amortisation	**40.95c**	37.48c
Exceptional item (net of tax)	**2.57c**	-
Fully diluted EPS before goodwill amortisation and exceptional item	**43.52c**	37.48c

The 1,075,438 *(2002: 1,075,438)* treasury shares held by the Group do not rank for dividend and have therefore been excluded from the weighted average number of shares in issue used in the calculation of earnings per share.

United Drug plc

Belgard Road, Tallaght
Dublin 24, Ireland

Telephone: +353-1-459 8877
Fax: +353-1-459 6893

email: info@united-drug.ie
www.united-drug.ie