

Biovail Shares Fall More on Downgrades, Concerns

Reuters, Monday October 6, 2003

Biovail Corp.'s (Toronto:BVF; NYSE:BVF) shares dipped on Monday, after falling about 18 percent in the previous session, as analysts cut earnings forecasts and expressed concern about the company's slowing sales and aggressive accounting practices.

Biovail said on Friday its third-quarter sales and earnings would be below expectations because of lower prices of generic drug Prilosec, used to treat heartburn, late shipments of its hypertension drug Cardizem CD and an accident of a truck carrying Wellbutrin XL, an antidepressant.

Canada's largest publicly traded drugmaker said it expects revenue in the range of \$215 million to \$235 million and earnings per share between 35 cents and 45 cents for the quarter ended Sept. 30.

In February, Biovail had forecast sales between \$260 million and \$300 million and earnings per share of 58 cents to 68 cents for the third quarter.

"Although earnings warnings could be seen as a confluence of one-time events, we would argue that the shortfall is a result of underlying weakness in Biovail's base business that has been veiled in the past by aggressive accounting practices," analyst Andre Uddin, with Research Capital Corp., wrote in a report.

Uddin, who has a "reduce" rating on the stock, lowered his price target to \$28 a share.

Hari Sambasivam, with Merrill Lynch, said the "outlook for the base business, including Cardizem CD and Prilosec royalties has become murkier in addition to weakness in generic revenues."

Sambasivam downgraded the shares to "neutral" from "buy".

Kenneth Howling, vice president of finance at Biovail, said the company's base business was doing well, but there will be competition for generic medicines.

During the third quarter, for example, royalty revenue will be about \$20 million lower because of Biovail's interest in generic Prilosec. Biovail acquired Prilosec when it bought Pharma Pass and said it has recently discovered that the drug's distributor had given significant discounts on a retroactive basis to wholesalers in August.

Part of the sales decline will come from an accident on Oct. 1 of a truck carrying between \$10 million and \$20 million of Wellbutrin XL, the company's new-once daily antidepressant, for which analysts see encouraging prospects.

One analyst expressed concern about Biovail shipping the Wellbutrin XL on Sept 30, the last day of the quarter.

"What seems perhaps in question is why they chose the very last day of the quarter to do that. That suggests they were perhaps pushing to make the revenue number for that quarter," said **Anthony Scilipoti**, an analyst with **Veritas Investment Research**. **Scilipoti** has predicted in July that he expected further guidance revisions from Biovail.

Analysts, however, remain confident about the prospects of Wellbutrin XL.

"Although we certainly feel that Biovail deserves few if any additional chances, we continue to believe that Wellbutrin XL will provide positive news flow over the next one to two years," RBC Capital Markets analyst Doug Miehm wrote in a report.

"The fact that the launch success of XL is largely in the hands of GlaxoSmithKline (Biovail simply receives a royalty and manufactures the product) makes us more comfortable with this opportunity," Miehm wrote.

Biovail shares closed down 7.7 percent, or C\$3.20, at C\$38.60 in Toronto. On the Nasdaq, they ended down 7.7 percent, or \$2.40, at \$28.70.

(\$1=\$1.34 Canadian)