A Disaster May Indeed Be Lurking in MDS's Maple Nuclear Reactor Project

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In the too-polite world of Bay Street, it's rare to hear an analyst call for a CEO's head, rarer still when that CEO is the head of a big-name public company.

Perhaps that's why it's so amazing to see someone declare, bluntly and in writing, that it's time for the board of **MDS** to dump John Rogers after eight years as boss.

Neeraj Monga, an analyst at **Veritas Investment Research** in Toronto, doesn't mention Mr. Rogers by name in his latest report on the health sciences firm. But his point is clear: "We believe it is time to inject new management at the top, given current management's track record of the last five years," he wrote last week.

Unfortunately for Mr. Rogers, the analyst goes on to build a strong case for new blood.

In **Mr**. **Monga**'s view, Mr. Rogers' legacy consists of taking the cash out of the company's main laboratory business and blowing it on other ventures.

Last month, MDS took a $63-million writedown on its proteomics unit, which does research on proteins in the body but which produced little revenue and consistently lost money. It was the latest in a series of losses on failed MDS investments.

The proteomics mess is old news, but the analyst believes another disaster might be lurking in the company's so-called Maple reactor project.

A little background: MDS is a big supplier of medical isotopes, which are used to diagnose and treat some diseases, including cancer. One of the most important isotopes is Molybdenum-99, or Mo-99. It's used in three-quarters of all nuclear medicine procedures, and is particularly important in screening for heart problems.

MDS is the world's largest seller of Mo-99. But the federal nuclear facility near Chalk River, Ont., that produces it is 47 years old and doesn't have much time left. That's why, in 1996, MDS said it would build two small reactors with Atomic Energy of Canada Ltd. (AECL) at a cost of $140-million (much of it financed by an interest-free government loan -- thank you, Mr. Taxpayer). The first reactor was to open in 1999, the second in 2000.

Eight years after the announcement, neither reactor is running yet. MDS had spent $304-million on the project as of last October, and the bills continue to roll in. "The reactors have been plagued with design and safety issues since inception," **Mr**. **Monga** says.

By his estimation, MDS won't be in production until late 2005, at the earliest.

Perhaps MDS didn't have a choice but to build the reactors if it wanted to remain a big producer of isotopes. (**Mr**. **Monga** spreads the blame liberally, arguing that AECL deserves some of the heat, too.) But at the very least, MDA was far too aggressive in its cost estimates, and has exposed its shareholders to serious financial risk.
"MDS management, I don't think, realized what they were getting into," **Mr**. **Monga** says.

Delays are not the only Maple-induced headaches. **Mr. Monga** argues that once the reactors are running, the company could be forced to swallow another multimillion-dollar expense -- thanks, indirectly, to the Bush administration's war on terrorism.

To make its isotopes, MDS relies on imports of highly enriched uranium, or HEU, from the United States. But HEU can also be used to make nuclear weapons, so the U.S. government is increasingly nervous about shipments of it. (There's even a lobby group called the Nuclear Control Institute devoted to trying to stop the trade of HEU for civilian uses.) MDS is under pressure to convert to low-enriched uranium (LEU), but **Mr. Monga** says that would mean bigger environmental costs because that kind of uranium produces more waste than HEU.

MDS declined an interview request, but sent along some written statements on the Maple saga. Yes, the company is concerned about the delays, and "very disappointed at AECL's inability to resolve this issue with the [Canadian Nuclear Safety Commission] in a more timely manner."

As for the uranium issue: "We have an LEU conversion program under way, and the . . . Maple reactors already have LEU fuel available."

But you can't help but wonder if another writedown looms in the distance here. **Mr. Monga**, for one, questions whether the isotope business will be profitable enough to justify the final price tag (whatever that will be). Nuclear reactors are a money pit, but taxpayers are usually the ones who get hurt. This time, it's shareholders.