

# Biovail Rattles Investors as Profit Falls 83%, More Than Expected

**Mark Heinzl, The Wall Street Journal**  
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TORONTO -- Pharmaceutical maker Biovail Corp. said third-quarter net income fell 83% -- far more sharply than it had indicated in its own recently reduced forecast. Biovail said its results were battered by charges that it decided to record, largely tied to research and development at a closely related drug-development company. Biovail made no mention of such charges early this month, when it rattled investors with a sharply reduced forecast for third-quarter results. At that time, it blamed an accident involving a truck containing a shipment of its new depression drug, among other factors.

The Mississauga, Ontario, company reported third-quarter net income of \$13 million, or eight cents a share, down from \$75 million, or 49 cents a share, a year earlier. Revenue was \$215.3 million, up 3% from \$208.9 million a year earlier. Biovail had forecast third-quarter earnings a share of 35 cents to 45 cents.

The quarterly results and a lower-than-expected earnings forecast for next year further shook investors' confidence in the company. Shares of Biovail sank \$2.81, or 10%, to \$24 in 4 p.m. New York Stock Exchange composite trading Thursday.

Biovail's "business model is predicated on a high-multiple valuation" for Biovail's share price, since its once-highflying stock helped finance lower-valued acquisitions, said **Anthony Scilipoti**, an analyst with Toronto independent research firm **Veritas Investment Research Corp.** But now, "the momentum has been clipped" for future growth and acquisitions, he said.

Analysts have criticized Biovail's accounting methods. Among other things, some have alleged that certain transactions with related companies reduce Biovail's future costs. Biovail has maintained its accounting is proper.

At the same time, Biovail has long played up its strong earnings "excluding certain items," such as certain research and development charges. The company's results using generally accepted accounting principles, however, show a cumulative loss of \$7.7 million since the start of 1999. Biovail Chairman and Chief Executive Officer Eugene Melnyk said the latest quarter's charges are aimed at improving "the apparent lack of transparency in our reporting."

Toronto-based Tera Capital Corp. fund manager Duncan Stewart said Biovail's "complex" results caused him to sell Biovail's shares a few months ago. While the latest quarter also contains many complex variables, the company appears to be taking a "step in the right direction," he said.