

MDS Says Restructuring On Track, Challenges Remain

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MDS Inc.'s (MDS.TO, MDZ.N) restructuring plan is on track and on budget, the company's chief executive said on Wednesday, although he acknowledged challenges remain at the health and life sciences firm.

"When I look back over the last year I have mixed feelings. On the one hand I believe we have made tremendous progress... and on the other hand we still have some ongoing challenges," John Rogers said at an investors conference in Toronto.

"We will continue with the implementation of our change initiatives which are on plan and on budget...we are totally dedicated to resolving our issues and restoring MDS to its historical record of performance."

Since Toronto-based MDS announced plans in 2003 to jettison underperforming operations, it has divested itself of several laboratories in the United States. The company has cut its stake in its protein-based drugs unit to 48.4 percent from 89 percent to limit its impact on its operating earnings.

It has also started implementing a new technical support system and eliminated about 300 jobs.

But the company has so far received a lukewarm response from analysts who question when the company's core pharmaceutical services unit will grow.

"Management has successfully divested several non-core underperforming businesses. However, performance gains in the core operations remain elusive," wrote Lennox Gibbs, an analyst with CIBC World Markets, in a recent research note.

Neeraj Monga, vice-president and analyst with **Veritas Investment Research**, said new management is in order and said the situation is getting worse.

"This company has been restructuring for the last four years. It's constantly in re-engineer mode," he said.

"Most of the things the company does never comes through. They are high on promises and low on delivery...the company is going to have a very uninspiring fiscal 05."

Compounding the problems are concerns that the cost of developing its Maple reactor has ballooned in the face of regulatory hurdles.

It continues to spells trouble for the company's medical isotope unit, Nordion, which has experienced repeated delays and projected costs have jumped more than C\$300 million from initial projected costs of C\$140 million.

"It's an unacceptable situation," said Steve West, Nordion's president. "Until we resolve technical issues we really don't have a very clear understanding of what the costs are. This is an industry issue and we are working very closely with all stakeholders."

Shares of MDS rose 35 Canadian cents, or 1.8 percent, to C\$19.85 on Wednesday on the Toronto Stock Exchange. In New York, MDS was up 20 cents, or 1.3 percent, at \$15.55.