

WuXi PharmaTech Announces Fourth-Quarter and Full-Year 2012 Results, Share Repurchase Program

PR Newswire

SHANGHAI, March 7, 2013 /PRNewswire/ -- WuXi PharmaTech (Cayman) Inc. (NYSE: [WX](#) [1]), a leading research and development outsourcing company serving the pharmaceutical, biotechnology, and medical device industries, with operations in China and the United States, today announced its financial results for the fourth quarter and full year of 2012.

Fourth-Quarter Highlights

- Net Revenues Increased 15.8% Year Over Year to \$125.7 Million
- Laboratory Services Net Revenues Grew 18.6% Year Over Year to \$103.8 Million
- China-Based Laboratory Services Net Revenues Increased 22.2% Year Over Year to \$81.5 Million
- U.S.-Based Laboratory Services Net Revenues Increased 7.2% Year Over Year to \$22.3 Million
- Manufacturing Services Net Revenues Grew 4.0% Year Over Year to \$21.9 Million
- GAAP Diluted Earnings Per ADS Grew 6.5% Year Over Year to \$0.33
- Non-GAAP Diluted Earnings Per ADS Increased 7.2% Year Over Year to \$0.38

Full-Year Highlights

- Net Revenues Increased 22.8% Year Over Year to \$499.9 Million
- Laboratory Services Net Revenues Grew 22.9% Year Over Year to \$382.9 Million
- China-Based Laboratory Services Net Revenues Increased 26.8% Year Over Year to \$293.2 Million
- U.S.-Based Laboratory Services Net Revenues Increased 11.6% Year Over Year to \$89.7 Million
- Manufacturing Services Net Revenues Grew 22.5% Year Over Year to \$117.0 Million
- GAAP Diluted Earnings Per ADS Grew 10.8% Year Over Year to \$1.19
- Non-GAAP Diluted Earnings Per ADS Increased 13.3% Year Over Year to \$1.40
- Company Provides Full-Year 2013 Guidance, Expects 13-15% Year-Over-Year Revenue Growth to \$565-\$575 Million, 6-9% Year-Over-Year GAAP Diluted Earnings per ADS Growth to \$1.26-\$1.30, 6-9% Year-Over-Year Non-GAAP Diluted Earnings per ADS Growth to \$1.49-\$1.53

Management Comment

"WuXi is succeeding on three fronts: growing, investing to sustain our growth, and returning capital to shareholders," said Dr. Ge Li, Chairman and Chief Executive Officer. "We achieved strong double-digit revenue growth in the fourth quarter and full year of 2012. We also achieved double-digit growth in earnings per ADS in 2012. We continued to invest to build capabilities and capacity in order to sustain revenue and earnings growth for the long term. While growing and investing, we generated strong free cash flow that allowed us to purchase our shares.

"I am proud of what we accomplished in 2012," Dr. Li continued. "Revenue growth of 22.8% to about \$500 million was driven by continuing growth in demand for WuXi's services in all of our businesses. In February, we opened a chemistry facility in Wuhan to give our customers a new pricing option. In October, we began operation of a new cGMP drug-substance biologics manufacturing facility in Wuxi. We signed many new contracts in biologics, including a joint venture with MedImmune to co-develop their anti-IL6 monoclonal antibody for the China market. We delivered nine small molecule preclinical drug candidates for our clients. We produced advanced intermediates for five commercial products and grew our late-stage manufacturing pipeline. The company entered into an agreement to form a joint venture with PRA to offer clinical research services in China. We purchased 7% of our ADSs outstanding at the beginning of the year. WuXi achieved year-over-year growth in GAAP diluted EPS of 10.8% and in non-GAAP diluted EPS of 13.3%. And we continued to invest in building new capabilities and capacities with \$67.8 million in new capital assets, to drive future revenue and income growth.

"2013 looks to be another good year. We expect 13-15% revenue growth, driven by increasing demand across our service offerings. In spite of continuing margin pressure from labor inflation, we expect 6-9% diluted EPS growth as a result of this revenue growth, increased productivity, cost control, and a new authorization to purchase up to \$100 million of our ADSs over the next 18-24 months.

"Our goal is to build an open-access technology platform of integrated services that will enable anyone and any company to discover and develop products to benefit patients," Dr. Li concluded. "We are confident we can achieve this goal for several reasons. An open-access platform is the most effective and efficient way to allow researchers to capitalize their knowledge and experience and help solve the problem of low productivity in the pharmaceutical industry. Health care spending will continue to grow globally because the world's patients will demand, and be willing to pay for, high-quality medical products and a better quality of life. And our operational strength in China is important to capitalize on the rising demand by a large and rapidly growing Chinese middle class for the same treatments prescribed for Western patients."

Fourth-Quarter GAAP Results

Fourth-quarter 2012 net revenues increased 15.8% year over year to \$125.7 million. Revenue growth in Laboratory Services of 18.6% was driven by our comprehensive and integrated discovery and development services. Revenue

growth of 4.0% in Manufacturing Services was driven by increased demand for clinical-trial materials in our research manufacturing business, which more than offset lower demand for advanced intermediates in our commercial manufacturing business.

Fourth-quarter 2012 GAAP gross profit increased 14.6% year over year to \$48.8 million due to 15.8% revenue growth, offset by lower gross margin. Fourth-quarter 2012 GAAP gross margin decreased slightly year over year to 38.8% from 39.2%.

Gross margin in Laboratory Services increased year over year to 41.9% from 41.5% mainly due to improved productivity, partially offset by the effects of increasing labor costs in China, appreciation of the RMB versus the U.S. dollar, investments in new businesses, and lower pricing in chemistry services. Gross margin in Manufacturing Services decreased year over year to 24.2% from 29.6% mainly due to lower capacity utilization in our commercial manufacturing business.

Fourth-quarter 2012 GAAP operating income increased 16.5% year over year to \$23.6 million due to the 14.6% increase in gross profit, slower growth in operating expenses, particularly general and administrative expenses, and revaluation of contingent consideration relating to the Abgent acquisition, offset by impairment charges for goodwill and intangible assets relating to Abgent. Operating margin increased slightly to 18.7% from 18.6% due to the slower growth in operating expenses, partially offset by lower gross margin.

Fourth-quarter 2012 GAAP net income increased 1.4% year over year to \$23.8 million due to the 16.5% year-over-year increase in operating income, offset by a 33.6% decrease in other income / (expenses), net, which was driven by lower gains on foreign-exchange forward contracts of \$3.0 million, and a 15.1% increase in income tax expense driven by income mix.

Fourth-quarter 2012 GAAP diluted earnings per ADS increased 6.5% to \$0.33 due to a lower ADS count caused by the company's purchase of 2,846,375 ADSs from General Atlantic in February 2012 and of 2,138,993 ADSs, at an average price of \$14.03 per ADS, in the open market during the second and third quarters of 2012.

Fourth-quarter 2012 GAAP comprehensive income increased 3.6% year over year to \$27.9 million due to the increase in currency translation adjustments and the 1.4% increase in GAAP net income.

Full-Year GAAP Results

Full-year 2012 net revenues increased 22.8% year over year to \$499.9 million. Revenue growth in Laboratory Services of 22.9% was driven by our comprehensive and integrated discovery and development services in China and increased demand for testing services for both biologics and medical devices in the United States. Revenue growth of 22.5% year over year in Manufacturing Services was driven by increased demand for preclinical and clinical-trial materials in our research manufacturing business, which more than offset lower demand for advanced intermediates in our commercial manufacturing business.

Full-year 2012 GAAP gross profit increased 17.1% year over year to \$183.2 million due to 22.8% revenue growth, offset by lower gross margin. Full-year 2012 GAAP gross margin decreased to 36.7% from 38.4% in full-year 2011. Gross margin in Laboratory Services decreased year over year to 38.6% from 40.7% mainly due to increasing labor costs in China, appreciation of the RMB versus the U.S. dollar, investments in new businesses, and lower pricing in chemistry services, partially offset by improved productivity. Gross margin in Manufacturing Services decreased year over year to 30.3% from 31.1% mainly due to lower capacity utilization in our commercial manufacturing business.

Full-year 2012 GAAP operating income increased 6.7% year over year to \$89.4 million due to the 17.1% growth in gross profit, partially offset by increased operating expenses from the hiring of new senior staff, increased share-based compensation expenses, and increased R&D expenses. Operating margin decreased to 17.9% from 20.6% due to the lower gross margin and the increased operating expenses.

Full-year 2012 GAAP net income increased 6.9% year over year to \$86.6 million due to the 6.7% increase in operating income and a 5.7% increase in other income / (expenses), net, driven by a gain on foreign-exchange forward contracts of \$5.3 million, partially offset by a 4.7% increase in income tax expense.

Full-year 2012 GAAP diluted earnings per ADS increased 10.8% to \$1.19 due to the 6.9% increase in net income and a lower ADS count caused by the company's purchase of 2,846,375 ADSs from General Atlantic in February 2012 and of 2,138,993 ADSs, at an average price of \$14.03 per ADS, in the open market during the second and third quarters of 2012.

Full-year 2012 GAAP comprehensive income decreased 11.9% year over year to \$87.9 million due to the decrease in currency translation adjustments, partially offset by the 6.9% increase in GAAP net income.

Fourth-Quarter Non-GAAP Results

Non-GAAP financial results exclude the impact of share-based compensation expenses, the amortization of acquired intangible assets and the associated deferred tax impact, impairment charges for goodwill and intangible assets, and revaluation of contingent consideration.

Fourth-quarter 2012 non-GAAP gross profit increased 13.7% year over year to \$50.0 million mainly due to broad-based revenue growth, offset by lower gross margin. Non-GAAP gross margin decreased year over year to 39.8% from 40.5%. Non-GAAP gross margin in Laboratory Services decreased mainly due to increased labor costs, investment in new businesses, appreciation of the RMB versus the U.S. dollar, and lower pricing in chemistry services, partially offset by improved productivity. Non-GAAP gross margin in Manufacturing Services decreased mainly due to lower capacity utilization in our commercial manufacturing business.

Fourth-quarter 2012 non-GAAP operating income increased 15.1% year over year to

\$27.4 million, primarily due to the 13.7% increase in non-GAAP gross profit and slower growth in operating expenses. Operating margin decreased slightly to 21.8% from 21.9% due to lower gross margin, partially offset by slower growth in operating expenses.

Fourth-quarter 2012 non-GAAP net income grew 2.1% year over year to \$27.5 million due to the 15.1% increase in non-GAAP operating income, offset by a 33.6% decrease in other income / (expenses), net, driven by a lower gain on foreign-exchange forward contracts of \$3.0 million, and higher income tax expense.

Fourth-quarter 2012 non-GAAP diluted earnings per ADS grew 7.2% year over year to \$0.38 due to the 2.1% increase in net income and a lower ADS count caused by share buybacks.

Full-Year Non-GAAP Results

Non-GAAP financial results exclude the impact of share-based compensation expenses, the amortization of acquired intangible assets and the associated deferred tax impact, impairment charges for goodwill and intangible assets, and revaluation of contingent consideration.

Non-GAAP gross profit increased 16.9% year over year to \$189.1 million mainly due to broad-based revenue growth, offset by lower gross margin. Non-GAAP gross margin decreased year over year to 37.8% from 39.7%. Non-GAAP gross margin in Laboratory Services decreased mainly due to increased labor costs, investment in new businesses, appreciation of the RMB versus the U.S. dollar, and lower pricing in chemistry services, partially offset by improved productivity. Non-GAAP gross margin in Manufacturing Services decreased mainly due to lower capacity utilization in our commercial manufacturing business.

Non-GAAP operating income increased 9.2% year over year to \$105.7 million, primarily due to the 16.9% increase in non-GAAP gross profit, offset by increased operating expenses from the hiring of new senior staff and increased R&D expenses. Operating margin decreased to 21.2% from 23.8%, mainly due to the lower gross margin and increased operating expenses.

Non-GAAP net income grew 9.4% year over year to \$102.2 million due to the 9.2% increase in non-GAAP operating income and a 5.7% increase in other income / (expenses), net, driven by a gain on foreign-exchange forward contracts of \$5.3 million, offset by higher income tax expense due to income mix.

Non-GAAP diluted earnings per ADS grew 13.3% year over year to \$1.40 due to the 9.4% increase in non-GAAP net income and a lower ADS count caused by share buybacks.

Full-Year 2013 Financial Guidance

The company provides the following full-year 2013 financial guidance:

- Total net revenues of \$565-575 million, or 13-15% year-over-year growth
- GAAP diluted earnings per ADS of \$1.26-\$1.30, or 6-9% year-over-year growth
- Non-GAAP diluted earnings per ADS of \$1.49-\$1.53, or 6-9% year-over-year growth
- Capital expenditures of about \$60 million

First-Quarter 2013 Financial Guidance

The company provides the following first-quarter 2013 financial guidance:

- Total net revenues of \$129-131 million, or 9-11% year-over-year growth
- GAAP diluted earnings per ADS of \$0.26-\$0.27, non-GAAP diluted earnings per ADS of \$0.31-\$0.32

Share Repurchase Program

The Wuxi Board of Directors has approved a share repurchase plan. Under this plan, the Company is authorized to repurchase up to \$100 million of its American Depositary Shares, or ADSs, over the next 18-24 months, from time to time, in open-market purchases on the NYSE Euronext at prevailing market prices, in trades pursuant to a Rule 10b5-1 repurchase plan, or otherwise, in accordance with applicable federal securities laws, including the anti-manipulation provisions of Rule 10b-18, promulgated under the U.S. Securities Exchange Act of 1934, as amended. The timing and extent of any purchases will depend upon market conditions, the trading price of WuXi's ADSs and other factors, including customary restrictions on share repurchases. The repurchase program does not obligate WuXi to make repurchases at any specific time or in any specific situation.

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