



Patheon Reports Second Quarter Fiscal 2010 Results

TORONTO, June 11 /PRNewswire-FirstCall/ - Patheon Inc. (TSX: PTI), a leading provider of contract development and manufacturing services to the global pharmaceutical industry, announced today its results for the second quarter and six months ended April 30, 2010. Total revenues for the second quarter were \$175.4 million or 4.8% higher than the same period last year. Excluding currency fluctuations, current year second quarter revenues would have increased by approximately 1.1% versus the same period last year. Operating income for the second quarter increased to \$15.0 million, up from \$13.4 million in the same period last year. Second quarter adjusted EBITDA was \$30.0 million, up from \$20.2 million in the comparable period last year. All amounts are in U.S. dollars unless otherwise indicated.

"We are seeing strong evidence of an improving pharmaceutical contract services business climate for Patheon," said Wes Wheeler, Patheon's Chief Executive Officer and President. "We are beginning to see stronger sales activity for our pharmaceutical development services (PDS) business, and significantly higher levels of quotation activity in the commercial side of the business. We attribute this to an improving economy, increased funding activity and progress with plant consolidations."

"I am also pleased with the progress we have made to strengthen our manufacturing platform, management team and financial position. Dr. Mark Kontny has joined our management team as President of Global Pharmaceutical Development Services and Chief Scientific Officer, and we successfully completed a refinancing of the company which has increased liquidity and given us a very stable capital structure with long-term debt maturities," said Mr. Wheeler. "I firmly believe that these actions have further solidified Patheon's position as a leading contract development and manufacturing provider."

Mr. Wheeler continued, "We announced that we have signed an expanded contract manufacturing agreement with Merck. The expanded agreement clearly positions Patheon as a preferred supplier to Merck. Products and services are being delivered from eight of our 11 global facilities. This contract is representative of the type of supplier relationships we expect to see with a broader group of customers."

"Our Puerto Rico operations delivered strong sales in the first half of the year, and we are meeting customer expectations from an operating perspective. However, the two sites operated at a loss in the first half and continue to be a drag on our EBITDA results. We are working to minimize the impact in the near term while we move forward with the site consolidation program. This project is on schedule for completion by the end of 2011 and will start to show benefits prior to the shutdown," said Mr. Wheeler.

Second Quarter 2010 Operating Results from Continuing Operations

Gross profit for the period increased 1.9% to \$43.2 million. Gross profit margin decreased to 24.6% in the second quarter 2010 from 25.3% in the second quarter of 2009. This increase in gross profit was supported by the strengthening Canadian dollar, Euro and U.K. sterling versus the U.S. dollar on revenue, higher revenue in Europe, accelerated deferred revenue recognition, and realization of R&D investment tax credits. These were partially offset by unfavorable foreign exchange impact on the cost of goods sold, mix, higher depreciation and higher operating lease expense.

Selling, general and administrative costs were \$27.2 million, down \$1.0 million or 3.5% from prior year. The decrease is primarily due to non recurrence of Special Committee costs of \$2.9 million recognized in the three months ended April 30, 2009, partially offset by unfavorable foreign exchange, and higher operating expenses.

Repositioning expenses for the three months ended April 30, 2010 were \$1.0 million in connection with the closure and consolidation of the company's Caguas facility in Puerto Rico. During the second quarter last year, the company incurred \$0.8 million of repositioning expense in connection with the shutdown of the York Mills facility.

Operating income for the period increased to \$15.0 million or 8.6% of revenues from income of \$13.4 million or 8.0% of revenues in the same period last year as a result of the factors discussed above.

Net income was \$10.9 million, or 8.4 cents per share compared with a loss of \$3.2 million, or 3.5 cents per share in the same period of 2009. Current period results reflect a \$13.8 million release of a tax valuation reserve to the income statement during the second quarter of 2010, partially offset by refinancing expenses of \$11.7 million. The valuation reserve, which relates to the Canadian operations, is no longer required in the view of the company due to recent performance and outlook of the Canadian operations. Prior year results include dividends on the convertible preferred shares of \$3.7 million.

Second Quarter 2010 Highlights of Business Segment Results

Commercial Manufacturing - Revenues from commercial manufacturing operations for the three months ended April 30, 2010 increased by 5.2%, or \$7.0 million, to \$142.2 million from \$135.2 million in the same period of 2009. Had local currencies remained constant to the rates of the prior year, commercial manufacturing revenues would have been approximately 1.6% higher than 2009.

North American commercial revenues increased \$1.3 million, or 1.9%. Had the Canadian dollar remained constant to the prior year rates, North American revenues would have 0.4% lower than 2009. Higher revenues in Cincinnati as a result of accelerated deferred revenue, as well as favorable foreign exchange, were partially offset by lower revenues in Toronto.

European commercial revenues increased by \$5.7 million or 8.4%. The increase is primarily due to the weakening of the U.S. dollar against the Euro and U.K. Sterling versus the prior year, and increased revenues in Monza, Swindon and Zug, partially offset by lower revenues in Bourgoin. Had European currencies remained constant to the rates of the prior year, European revenues would have been approximately 3.5% higher than the same period of 2009.

Adjusted EBITDA from the commercial manufacturing operations for the three months ended April 30, 2010 decreased by 4.1%, or \$0.8 million to \$18.8 million from \$19.6 million in the same period of 2009. Had local currencies remained constant to prior year rates and after eliminating the impact of all foreign exchange gains and losses, commercial manufacturing Adjusted EBITDA would have been approximately \$2.8 million lower than the reported number in the current period.

North American operations reported a decrease of \$0.2 million, or 2.9% in Adjusted EBITDA. The decrease in Adjusted EBITDA was driven by a \$3.2 million EBITDA reduction in Puerto Rico due to unfavorable product mix, higher utility and maintenance costs, lower revenues in Canada, partially offset by favorable foreign exchange contracts in Canada, and accelerated recognition of deferred revenue in Cincinnati.

European Adjusted EBITDA decreased by \$0.6 million, or 4.7% for the three months ended April 30, 2010. Higher revenues for the period were more than offset by unfavorable mix, higher compensation costs and unfavorable inventory absorption due to product mix and timing of production.

Pharmaceutical Development Services ("PDS") - PDS revenues for the three months ended April 30, 2010 increased by 3.1%, or \$1.0 million, to \$33.2 million from \$32.2 million in the same period of 2009. Had the local currency rates remained constant from the prior year, PDS revenues would have been approximately 1.0% lower than the same period of 2009.

Adjusted EBITDA from the PDS operations for the three months increased by 94.3%, or \$8.2 million to \$16.9 million from \$8.7 million in the same period of 2009. The second quarter 2010 PDS Adjusted EBITDA includes \$4.4 million in prior year Canadian R&D investment tax credits that were realized this quarter. Had local currencies remained constant to the rates of the prior year and after eliminating the impact of all foreign exchange gains and losses, PDS Adjusted EBITDA would have been approximately \$2.4 million lower than the reported amount.

Six Month Year-to-Date 2010 Operating Results from Continuing Operations

Revenue for the period was \$330.2 million, up 5.0% from the prior period. Excluding currency fluctuations, current year revenues would have been flat. Revenues from commercial manufacturing increased 6.9% to \$270.3 million from \$252.9 million in the prior period. PDS saw a reduction in revenue of 2.9% to \$59.9 million from \$61.7 million in the prior period.

Gross profit for the period decreased 7.4% to \$67.8 million. Gross profit margin decreased to 20.5% in the first half of 2010 from 23.3% in the same period last year. This decrease was due to unfavorable foreign exchange impact on cost of goods sold, unfavorable mix, higher depreciation and higher operating lease expense. These factors were partially offset by a decrease in cost of goods sold due to the realization of prior year Canadian R&D investment tax credits and favorable foreign exchange on revenue.

Selling, general and administrative costs were \$56.0 million, up \$1.5 million or 2.8% from prior year. The increase is primarily due to unfavorable foreign exchange, offset by lower marketing expenses, as well as Special Committee costs of \$3.0 million for the six months ended April 30, 2010 compared to \$3.4 million in the same period last year.

Repositioning expenses for the six months ended April 30, 2010 were \$3.4 million in connection with the Caguas closure and consolidation in Puerto Rico. During the six months ended April 30, 2009, the company incurred \$1.3 million in connection with the shut-down of the York Mills facility.

Operating income for the period decreased to \$8.4 million or 2.5% of revenues from income of \$17.4 million or 5.5% of revenues in the same period last year as a result of the factors discussed above. This included a \$5.9 million EBITDA reduction

versus the prior year period in Puerto Rico due to unfavorable product mix, and higher utility and maintenance costs.

Net Loss for the six months was \$ \$0.2 million, or 0.1 cents per share compared with a loss of \$12.6 million, or 13.9 cents per share in the same period of 2009. Current period results reflect a \$13.8 million release of a tax valuation reserve to the income statement during the second quarter of 2010, partially offset by refinancing expenses of \$11.7 million. Prior year results include dividends on the convertible preferred shares of \$7.3 million. Dividends were recorded until July 28, 2009, the date when these preferred shares were converted to restricted voting shares.

Caguas Consolidation Estimate Adjustment

In December 2009, Patheon announced its plan to consolidate its Puerto Rico operations into its manufacturing site located in Manati and ultimately close or sell its plant in Caguas. The company estimated that this consolidation will result in total repositioning expenses of \$7.0 million, of which \$3.4 million was booked in the six months ended April 30, 2010. The consolidation project is moving forward on schedule towards a shutdown of the Caguas site by the end of 2011. However, based on ongoing revisions to these estimates, the company now believes that the total repositioning expense for the Caguas consolidation will be \$9.0 million, due to additional severance and a new retention program.

2010 Outlook

Patheon continues to anticipate that full fiscal year 2010 Revenues and Adjusted EBITDA (ignoring Special Committee costs in both periods) will exceed comparable results from the prior year. The extent to which 2010 results are achieved and will exceed 2009 is dependent on, among other things; foreign exchange rates, the timing in pharmaceutical development outsourced decision making, the timing of regulatory drug approvals, and the timing of integration activity related to recent major pharmaceutical mergers. The company has seen encouraging signs of market recovery and quotation activity since the beginning of calendar 2010, and remains cautiously optimistic.

Conference Call

Patheon will host a webcast conference call with financial analysts on Friday, June 11, 2010 at 10:00 a.m. (Eastern Standard Time). The call will begin with a brief discussion, followed by a question-and-answer period with investment analysts. Interested parties are invited to access the live call, via telephone, in listen-only mode, at 1-647-427-7450 (Toronto and International) or toll free at 1-888-231-8191 (U.S., including Puerto Rico). Listeners are encouraged to dial in five to fifteen minutes in advance to avoid delays. The live audio webcast will be available via the web at www.patheon.com. An archived version of the second quarter audio webcast will be available at www.patheon.com for three months.

About Patheon

Patheon Inc. (TSX: PTI) is a leading global provider of contract development and manufacturing services to the global pharmaceutical industry. Patheon provides the highest quality products and services to approximately 300 of the world's leading pharmaceutical and biotechnology companies. Patheon's services range from preclinical development through commercial manufacturing of a full array of dosage forms including parenteral, solid, semi-solid and liquid forms. Patheon uses many innovative technologies including single-use disposables, liquid-filled hard capsules and a variety of modified release technologies. Patheon's comprehensive range of fully integrated Pharmaceutical Development Services includes pre-formulation, formulation, analytical development, clinical manufacturing, scale-up and commercialization. Patheon can take customers direct to clinic with global clinical packaging and distribution services and Patheon's Quick to Clinic™ programs can accelerate early phase development projects to clinical trials while minimizing the consumption of valuable API. Patheon's integrated development and manufacturing network of 11 facilities, and eight development centers across North America and Europe, ensures that customer products can be launched with confidence anywhere in the world.

Use of Non-GAAP Financial Measures

References in this press release to "Adjusted EBITDA" are to income (loss) from continuing operations before repositioning expenses, interest expense, foreign exchange losses reclassified from other comprehensive income, refinancing expenses, gains and losses on sale of fixed assets, gain on extinguishment of debt, income taxes, asset impairment charge, depreciation and amortization. "Adjusted EBITDA margin" is Adjusted EBITDA as a percentage of revenues.

Since Adjusted EBITDA is a non-GAAP measure that does not have a standardized meaning, it may not be comparable to similar measures presented by other issuers. Readers are cautioned that these non-GAAP measures should not be construed as alternatives to income (loss) determined in accordance with GAAP as indicators of performance. Adjusted EBITDA is used by management as an internal measure of profitability. The company's major credit facilities also have certain covenant calculations that are based on Adjusted EBITDA. The company has included these measures because it believes that this information is used by certain investors to assess financial performance of the company, before non-cash charges and large non-recurring costs. Please see Note 7 of the consolidated interim financial statements for an Adjusted EBITDA bridge.

Caution Concerning Forward-Looking Statements

This press release contains forward-looking statements which reflect management's expectations regarding the company's future growth, results of operations, performance (both operational and financial) and business prospects and opportunities. All statements, other than statements of historical fact, are forward-looking statements. Wherever possible, words such as "plans", "expects" or "does not expect", "forecasts", "anticipates" or "does not anticipate", "believes", "intends" and similar expressions or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved have been used to identify these forward-looking statements. Although the forward-looking statements contained in this press release reflect management's current assumptions based upon information currently available to management and based upon what management believes to be reasonable assumptions, the company cannot be certain that actual results will be consistent with these forward-looking statements. Current material assumptions relate to customer volumes, regulatory compliance and foreign exchange rates. Forward-looking statements necessarily involve significant known and unknown risks, assumptions and uncertainties that may cause the company's actual results, performance, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things: regulatory approval of and market demand for client products; general economic risks; credit and client concentration; the ability to identify and secure new contracts; regulatory matters, including compliance with pharmaceutical regulations; international operations risks; exposure to foreign currency risks; competition; product liability claims; intellectual property; environmental, health and safety risks; substantial financial leverage; interest rates; initiatives to reduce operating expenses; use of non-GAAP financial measures, significant shareholders; risks associated with information systems; and supply arrangements. For additional information regarding risks and uncertainties that could affect our business, please see the "Description of the Business - Risk Factors" section in our Annual Information Form, and the "Risk Factors" section in our MD&A for the year ended October 31, 2009, both of which are available on SEDAR at www.sedar.com. Although the company has attempted to identify important risks and factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors and risks that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date of this press release and, except as required by law, the company assumes no obligation to update or revise them to reflect new events or circumstances.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(unaudited)

	Three months ended		Six months ended	
	April 30,		April 30,	
	2010	2009	2010	2009

(in millions of U.S. dollars, except loss per share)	\$	\$	\$	\$

Revenues	175.4	167.4	330.2	314.6
Cost of goods sold	132.2	125.0	262.4	241.4

Gross profit	43.2	42.4	67.8	73.2
Selling, general and administrative expenses	27.2	28.2	56.0	54.5
Repositioning expenses	1.0	0.8	3.4	1.3

Operating income	15.0	13.4	8.4	17.4
Interest expense, net	3.2	3.6	6.4	8.1
Impairment charge	-	-	1.3	-
Foreign exchange (gain) loss	(0.9)	4.1	(1.3)	5.5
Loss on sale of fixed assets	0.1	-	0.1	-
Refinancing Expenses	11.7	-	11.7	-

Income (loss) from continuing operations before income taxes	0.9	5.7	(9.8)	3.8
(Benefit from) provision for income taxes	(10.4)	3.9	(10.4)	3.3

Income before discontinued operations	11.3	1.8	0.6	0.5

Loss from discontinued operations	(0.4)	(1.3)	(0.8)	(5.8)
Net income (loss) for the period	10.9	0.5	(0.2)	(5.3)
Dividends on convertible preferred shares	-	3.7	-	7.3
Net income (loss) attributable to restricted voting shareholders	10.9	(3.2)	(0.2)	(12.6)
Basic and diluted income (loss) per share				
From continuing operations	\$0.087	(\$0.021)	\$0.005	(\$0.075)
From discontinued operations	(\$0.003)	(\$0.014)	(\$0.006)	(\$0.064)
	\$0.084	(\$0.035)	(\$0.001)	(\$0.139)
Average number of shares outstanding during period - basic and diluted (in thousands)	129,168	91,149	129,168	91,149

CONSOLIDATED BALANCE SHEETS
(unaudited)

	As of April 30, 2010	As of October 31, 2009
(in millions of U.S. dollars)	\$	\$
Assets		
Current		
Cash and cash equivalents	75.8	22.3
Accounts receivable	117.6	151.5
Inventories	72.9	78.3
Income taxes receivable	1.1	2.6
Prepaid expenses and other	11.4	11.8
Future tax assets - short term	10.8	10.5
Total current assets	289.6	277.0
Capital assets	468.2	490.8
Intangible assets	2.4	3.2
Future tax assets	7.3	11.8
Goodwill	3.4	3.2
Investments	4.9	4.1
Long-term assets held for sale	0.7	0.7
Other long-term assets	17.1	-
Total assets	793.6	790.8
Liabilities and shareholders' equity		
Current		
Short term borrowings	-	14.0
Accounts payable and accrued liabilities	133.4	170.8
Income taxes payable	4.1	1.8

Deferred revenues - short term	31.7	4.6
Future tax liability - short term	-	1.7
Current portion of long-term debt	3.4	15.4
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Total current liabilities	172.6	208.3
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Long-term debt	273.7	221.1
Deferred revenues	33.9	37.1
Future tax liabilities	23.4	31.5
Other long-term liabilities	24.8	21.5
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Total liabilities	528.4	519.5
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Shareholders' equity		
Restricted voting shares (Note 6)	553.8	553.8
Contributed surplus	8.3	7.7
Deficit	(325.9)	(325.7)
Accumulated other comprehensive income	29.0	35.5
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Total shareholders' equity	265.2	271.3
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Total liabilities and shareholders' equity	793.6	790.8
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Patheon Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three months ended		Six months ended	
	April 30,		April 30,	
	2010	2009	2010	2009
(in millions of U.S. dollars)	\$	\$	\$	\$
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Operating activities				
Income before discontinued operations	11.3	1.8	0.6	0.5
Add (deduct) charges to operations not requiring a current cash payment				
Depreciation and amortization	13.2	10.0	26.3	19.9
Impairment charge	-	-	1.3	-
Other non-cash interest	2.0	0.2	2.1	0.3
Change in other long-term assets and liabilities	(9.0)	0.5	(9.3)	(0.3)
Future income taxes	(9.6)	0.6	(13.1)	(2.8)
Amortization of deferred revenues	(9.8)	(0.2)	(11.5)	(0.3)
Loss on sale of fixed assets	0.1	-	0.1	-
Stock-based compensation expense	0.4	0.4	0.6	0.9
Other	-	(0.3)	(0.4)	(0.6)
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	(1.4)	13.0	(3.3)	17.6
Net change in non-cash working capital balances related to continuing operations	11.3	(14.4)	8.9	(11.5)
Increase in deferred revenues	29.1	4.7	40.3	4.1

Cash provided by operating activities of continuing operations	39.0	3.3	45.9	10.2
Cash used in operating activities of discontinued operations	(0.3)	(3.3)	(1.1)	(6.6)
Cash provided by operating activities	38.7	0.0	44.8	3.6
Investing activities				
Additions to capital assets	(9.2)	(12.7)	(19.4)	(21.2)
Net increase in investments	(0.3)	(0.5)	(0.9)	(0.2)
Investment in intangibles	(0.1)	-	(0.2)	-
Cash used in investing activities of continuing operations	(9.6)	(13.2)	(20.5)	(21.4)
Cash used in investing activities	(9.6)	(13.2)	(20.5)	(21.4)
Financing activities				
(Decrease) increase in short-term borrowings	(15.0)	3.4	(12.6)	3.9
Increase in long-term debt	278.8	20.8	286.9	40.7
Repayment of long-term debt	(238.3)	(16.1)	(244.3)	(25.2)
Cash provided by financing activities of continuing operations	25.5	8.1	30.0	19.4
Cash provided by financing activities	25.5	8.1	30.0	19.4
Effect of exchange rate changes on cash and cash equivalents	0.9	3.4	(0.8)	0.5
Net increase (decrease) in cash and cash equivalents during the period	55.5	(1.7)	53.5	2.1
Cash and cash equivalents, beginning of period	20.3	24.0	22.3	20.2
Cash and cash equivalents, end of period	75.8	22.3	75.8	22.3
Supplemental cash flow information				
Interest paid	3.8	4.5	7.3	8.5
Income taxes paid, net of refunds	(0.9)	8.7	(0.9)	9.1

SOURCE Patheon Inc.