



Acquisition of BrachySciences

25/07/2008

Biocompatibles is pleased to announce the acquisition of the business and net assets of **BrachySciences** Inc. and its affiliated companiesⁱ (together “BrachySciences”) for a total consideration of up to US\$21.6 million (c.£10.9 million), of which up to US\$8.6 million (c.£4.4 million) is payable at closing and a further US\$12 million is payable based on the achievement of EBIT-related milestones over the years 2009-2011ⁱⁱ.

BrachySciences

BrachySciences is a medical device business located in Oxford, Connecticut, principally marketing implantable “seeds” that deliver radiation for the treatment of prostate cancer, a treatment known as brachytherapy. In the year to 31 December 2007, the business generated revenue of US\$9.7 million and profit of US\$0.2 million.

Prostate cancer is the second most common cancer affecting men, behind lung cancer. The most common treatments when the disease is localised to the prostate are surgery, external beam radiation and brachytherapy (internal radiation) with the highest market penetration of brachytherapy being in the US, where Biocompatibles estimates BrachySciences’ market share to be around 5%.

Transaction rationale

BrachySciences is expected to prove to be a valuable strategic investment for Biocompatibles:

- BrachySciences’ products are a local treatment for a locally-dominant cancer delivered under image-guidance, which is the same concept as Biocompatibles’ Drug-Eluting Bead products. BrachySciences’ seeds deliver radiation; Biocompatibles’ Beads deliver drugs.

A central conviction underpinning Biocompatibles’ oncology strategy is that the core approaches to cancer treatment, namely systemic drug administration and surgery, can and will be supplemented by much wider use of minimally-invasive local treatments for locally-dominant disease. The rationale behind locally-delivered therapy is to achieve a better side-effect profile, lower cost and potentially improved survival. BrachySciences’ products are in this category.

- BrachySciences will also act as a US base for Biocompatibles, enhancing the Company’s ability to promote its products and technologies to US cancer physicians and to US companies; and thereby underpinning its growth plans in the world’s most important market. Conversely, Biocompatibles will support the launch of Brachysciences’ products outside the US, through its network of marketing relationships.
- BrachySciences has recently launched a promising new product, AnchorSeedTM, which is designed to provide greater assurance of the accurate delivery of radiation. The product has FDA approval and initial market evaluations have been positive. Sales are expected to build over the next twelve months.

BrachySciences is trading profitably and generating cash. Its acquisition therefore contributes to Biocompatibles’ intention to move into sustainable profitability.

- BrachySciences' Chief Executive and Founder, Gary Lamoureux, and President, Jim Matons, will remain with the business. They have substantial commercial experience in the medical device industry. They will continue to drive the BrachySciences business forward and will add to the strength and depth of Biocompatibles' management team.
- Like Cellmed, acquired by Biocompatibles in 2005, BrachySciences was established and developed by a successful entrepreneur who is remaining within the business, with a substantial element of deferred consideration and management autonomy to sustain the entrepreneurial spirit.

Gary Lamoureux, BrachySciences Chief Executive, commented "I am delighted to be working with Biocompatibles, taking BrachySciences to the next level and helping to realise the potential of Biocompatibles' existing assets."

Transaction Details

Upon closing, Biocompatibles will pay to the shareholders of BrachySciences and certain affiliated companies an initial consideration of US\$8.6 million, with up to a further US\$1.0 million payable in cash reserved against specific warranties and indemnities. The initial consideration will be satisfied by the payment of US\$5.5 million in cash and the issue of 1,132,685 Biocompatibles shares and is subject to a potential reduction due to a working capital adjustment. The share consideration is equivalent to \$3.1 million valued at the closing share price of Biocompatibles' ordinary shares on 24 July 2008. It is a condition to closing that BrachySciences' shareholders agree not to dispose of the new Biocompatibles ordinary shares that they receive as part of the consideration payable to them for a period of one year from the closing date.

There is provision for additional contingent consideration up to a total of US\$12 million. This additional consideration is payable in three milestone payments of up to US\$4 million each, with each payment comprising 35% cash and 65% equity, and is based on the achievement of individual EBIT and sales targets in each of the financial years 2009-2011.

The value of the gross assets being acquired, excluding intangible assets, was US\$2.5 million as at 31 December 2007. The directors of Biocompatibles believe that, had the acquisition taken place on 1 January 2007, it would have had the effect of modestly reducing the group's net loss for the year commencing on that date. This statement should not be interpreted as implying any forecast in respect of Biocompatibles' earnings per share for the first full year following the transaction.

The transaction is expected to close on 1 August 2008.

Trading and Guidance Update

- On 9th January 2008, the Company indicated that 2008 revenue was expected to be in the range of £12million to £15million; and that year end cash was expected to be approximately £30million.
- Group revenue and cash in the first half of 2008 were in line with expectations.
- The Company now believes that following the acquisition of BrachySciences, the group's key financial measures in 2008 will be follows:
 - With the inclusion of BrachySciences for part of a year, the expectation for 2008 revenue is increased to a new range of £15 million to £17 million.
 - Guidance for closing cash is reduced by £2 million to £28 million, due to around £4m of acquisition related expenditure, partly offset by lower than expected cash burn in Biocompatibles.

Crispin Simon, Biocompatibles' Chief Executive commented "We are delighted with this transaction. BrachySciences fits well with our business strategy and our commitment to growing revenues and establishing sustainable profitability. We look forward to working with the BrachySciences people and serving their customers.

We will continue to look for bolt-on acquisitions that support our strategy of building a profitable Drug-Device business".

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[Notes to Editors](#)

[Glossary of Terms](#)

Notes:

- (i) World Wide Medical Technologies LLC and Advanced Care Medical Inc.
- (ii) The share element of the initial consideration is calculated using the 24 July 2008 closing price of Biocompatibles shares of 139.75p and a €:£ exchange rate of 1.983.

About Biocompatibles

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Board of Directors

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Advisors

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