Wide-ranging restructuring bears fruit for Asterand

By Charles Batchelor, The Financial Times, March 13 2009

Asterand, a supplier of human tissue samples to the drug development industry, expects to report its first annual profit this month. After a year tightening up operations on both sides of the Atlantic, a wide-ranging management shake-up and the replacement of two-thirds of its sales force, 2008 was when these changes started to pay off.

Edison Investment Research, which conducts paid-for research for clients, forecasts a pre-tax profit of £3.6m in the year to December 31 2008 on turnover doubled to £15.1m."We broke even in the first half and the second half is always stronger," says Martyn Coombs, who was brought in as chief executive in March 2007 from Amersham, the pharmaceuticals group bought by General Electric. Within three months, he announced a strategy to shake the company up.

Asterand may still be small - market capitalisation is about £18m - but it is the biggest in its field and it has high hopes of increasing its share of a rapidly expanding market. The company takes human tissue that would otherwise be incinerated after surgery and supplies it to drug manufacturers seeking to test new products on human tissue. The company has deals with about 40 hospitals around the world to supply the tissue for which the patient receives no payment. As well as acquiring diseased tissue, Asterand obtains healthy tissue from the same patient to allow the drug development companies to understand more about the disease they are treating.

The focus of Asterand's work is cancer, although it also supplies tissue to companies working on treatments for diabetes and obesity. Russia has been a big source of supply, but Asterand is reducing its dependence, after the Russian authorities imposed a temporary restriction on bio-material exports in 2007. As well as ensuring greater reliability of supply, a wide choice of geographical locations is valuable, because it allows the company to supply tissue from a range of ethnic groups.

The main centre of activity is Detroit, where two-thirds of its 80 staff is based, but it does important research at Royston in Cambridgeshire. Asterand can trace its origins to March 1996, when Pharmagene, a biotech company, was established in Royston. In August 2000, Pharmagene raised £37m through a London stock market listing. Just before Pharmagene listed, Asterand, then called BioSamplex, was established at the Karmanos Cancer Institute in Detroit.

Outside investors backed Asterand and in January 2006 the company obtained a London stock market listing by a reverse takeover of Pharmagene. The shares of the combined group were valued at 14p but subsequently fell back until the results of the 2007 changes began to show through. During 2008, the shares rose nearly 160 per cent to 14.5p. They reached a 52-week high of 17.75p on January 9, but have since retreated slightly. Daniel Stewart, the house broker, has set a target price of 22p.

A big boost to the share price last year came from the announcement of a deal to license a compound with the potential to treat eye diseases for a $6.25m initial fee to Allergan, a Californian biotech company. Payments could rise to a total of $56m if the drug is successful. Asterand inherited a drug discovery business from Pharmagene but decided to stop further development in this field. However, it does see a good business in licensing these drug compounds for other companies to develop. BTG, winner of this year's Best Investor Communication award, is trialling an anti-migraine compound under licence from Asterand. "We have some pretty confident shareholders out there," says Mr Coombs. He identifies several factors that will keep the company growing, including a market estimated at $700m in size and expanding at 20-30 per cent a year. Pharmaceutical companies are increasingly making use of human rather than animal tissue to trial drugs, but suppliers are small and fragmented. Academic institutions currently supply a large portion of the market but they do not take a commercial approach to the business.

Asterand is in a strong financial position, with £6m-£7m of cash and a £2m line of unused credit also available. On the risk side of the equation are a continuing, if reducing, dependence on Russia for supply of tissue. Daniel Stewart has also pointed to a high exposure to three customers, each representing more than 10 per cent of the business. One line of business where Mr Coombs sees good prospects is providing consultancy to other tissue laboratories. This follows the award of a £1.4m contract by the US Department of Defense to review its tissue repository and assess its viability for research. Mr Coombs says he has no plans to pay a dividend, since spare cash will go into research and development and into a "buy-and-build" strategy - acquiring the business of some of the competing academic suppliers of human tissue.