

BioLucent's soft sell

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When Steve Gex founded **BioLucent** in Aliso Viejo in 2000, he told everyone it was a two-year project. Seven years later he and his crew have finally engineered the sale of the company to **Hologic Inc.** of Massachusetts.

That sale is final on Tuesday.

Acquisition is the standard exit strategy for young medical device companies but as BioLucent illustrates, the process can be arduous.

Gex is no novice in the entrepreneurial game of starting, growing and selling a company. He was president of Biopsys Medical, maker of a nonsurgical breast biopsy device, which was sold to Johnson & Johnson in 1997.

After taking a couple of years off, he started BioLucent to solve a little-discussed problem with persuading women to get mammograms. They hurt.

So while 90 percent of U.S. women get pap smears for cancer detection, about 60 percent get mammograms, he said.

BioLucent patented a special foam pad, called the MammoPad, that wouldn't interfere with the test results but would cushion the cold, metal plate and make the procedure more comfortable.

Women loved MammoPad, but venture capitalists didn't.

Professional investors love high-tech, expensive medical devices that insurance will reimburse, but "MammoPad is low-tech, sells for about \$3-\$4 and is a nonreimbursed product," Gex explained.

Three strikes.

"It looks like a mouse pad," acknowledged President Jill Anderson.

Timing was also a problem for BioLucent. After the Internet bubble burst, venture capitalists weren't investing in anything.

Of the \$6 million BioLucent raised, about \$2.5 million came from venture capital funds late in the company's life and the rest came from individuals, half of whom are employees.

With little capital and even less fanfare, BioLucent slowly built sales to 20 percent of the nation's 9,000 breast imaging clinics. It was profitable with positive cash flow.

A venture-backed company needs to provide its investors an opportunity to get their money plus profits out, yet no companies were interested in acquiring BioLucent.

"To them it was just a foam pad; they didn't know how much market penetration we had," Anderson said.

BioLucent has 52 employees and sells 12 million MammoPads a year.

With no exit prospects, the management team looked around for other cancer treatment products to develop in order to grow the company. They settled on a device that precisely targeted radiation for lumpectomy patients. The applicator named SAVI could provide the course of treatment in five days instead of the typical six weeks.

"We introduced this product last fall and instantly a lot of (acquiring) companies were at the door," Gex said.

SAVI has what MammoPad lacks: It is high tech, costs \$2,700, is not reusable and insurance will pay for it.

As companies talked to BioLucent, they discovered the profits from MammoPad.

Hologic Inc., which makes diagnostic imaging systems such as mammography equipment, only wanted to buy the MammoPad business.

"Expanding our market share in women's health is a key element in the growth of our company," said Hologic Chairman Jack Cumming. "We believe this acquisition provides us additional technical capabilities and customer relationships to further solidify our position of strength in the growing mammography market."

Anderson said the deal made sense for both companies. BioLucent had grown sales as much as it could with 25 sales people, but Hologic, with 200 people promoting its family of products, could greatly increase MammoPad sales.

However, BioLucent's board had to rethink the company's exit strategy and hired investment banker Jeffries & Co. to determine the value of just a portion of the business.

"You have to be flexible," Anderson said. Executives and board members "are here to protect shareholder value and in this case, employees are these shareholders too."

After about three months of negotiation, the two companies agreed that Hologic would buy BioLucent for \$5 million in cash and \$65 million in Hologic stock. The selling investors could earn another \$15 million if MammoPad sales achieved specific revenue goals.

When that sale closes Tuesday, Gex and 10 to 15 BioLucent employees immediately start a new company, Cianna Medical, in the same Aliso Viejo building to manufacture and market SAVI.

BioLucent investors can take their share of the sale and run, but 85 percent have chosen to invest in Cianna.

Most BioLucent employees, including Anderson, remain with Hologic for at least 30 to 90 days. Gex is hopeful that Cianna will grow so quickly that the BioLucent employees will come to Cianna when their jobs at Hologic end.

Having a spin-off company is unusual for entrepreneurial ventures, Gex said. "We have a very good team, but you don't usually get to stay together and build a new company."

Unlike with BioLucent, Gex is making no predictions about Cianna's life span.

"We don't think in terms of selling; we focus on building value," he said. "If we meet a clinical need with the right solution, everything else will follow."