



## PRESS RELEASE

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### **Biacore Announces Update on Strategic Business Review**

#### **Streamlined Organization Set to Capture Growth Opportunities in Protein Interaction Analysis**

**Uppsala, Sweden, 4 October 2004.** Biacore International AB (Biacore)

Stockholmsbörsen: BCOR) today announces an update on the Strategic Business Review that was started following the Company's 2<sup>nd</sup> Quarter results, which were released in July.

The proposed actions in the Strategic Business Review have been presented to the Board of Directors. In accordance with Swedish labour laws\*, final decisions will be made after negotiations with the trade unions. The Board of Directors has therefore instructed Erik Walldén, President and CEO, to carry out such negotiations.

The key conclusions from the Strategic Business Review are as follows:

- The review has identified a number of growth opportunities for Biacore's business based on the ability to provide unique real-time data on protein interactions, a key area of life science research. The most commercially interesting applications for Biacore's instruments include antibody characterization, interaction proteomics, lead optimization, and bio-therapeutic development and production.

\* The Swedish Employment (Co-determination in the Workplace) Act stipulates, in short, that before an employer decides on, among other things, an important change in the business, negotiations shall be carried out with the trade unions.

- The review has concluded that Biacore's sales processes and culture need to undergo significant change to ensure that the Company is optimally positioned to capture these growth opportunities. A number of steps have already been taken to achieve this, the most important being the recent appointment of Mr Jerry Williamson as President of Biacore, Inc. Future planned actions include a realignment of our sales and applications teams and the recruitment of additional experienced sales personnel.
- Biacore's investment in R&D is crucial to its future success. However, present levels of spending are too high. As a result, it is proposed to reduce the company's R&D personnel from 95 to 65. It is estimated that if implemented this, and a reduction in the use of external consultants, will lead to annual savings of SEK 55 million in Biacore's cash spending on R&D. A re-assessment of the Company's array technology has also taken place. In order to secure the optimal positioning and long-term market penetration for this novel technology, a staged launch strategy has now been adopted. This, and a reduction in the product's medium-term sales projections has resulted in a SEK 44 million write-down in the value of this asset. This write-down will be taken in 3<sup>rd</sup> Quarter 2004.
- The Business Review has highlighted the need for Biacore to improve its operating efficiency and has included proposals to reduce the Company's overall administration expenditure. To assist in achieving this goal, the Strategic Business Review proposes that the Company's headquarters facility in Neuchâtel, Switzerland, is closed and functions re-located to Uppsala, Sweden, by the middle of 2005. The proposal to close the Neuchâtel facility was approved by the Board of Directors.
- In total, when all of the actions proposed in the Strategic Business Review have been decided and implemented, they will result in Biacore's headcount globally being reduced by approximately 80 people from its current workforce of 345. This will lead to one-off costs of approximately SEK 80 million including the array technology write-down. Excluding this write-down, the one-off costs will be charged to the Income Statement in 4<sup>th</sup> Quarter 2004. These actions are expected to lead to potential net annualised savings of approximately SEK 90 million. These savings will start in the final quarter of 2004, however most of them are expected to be realized gradually during the course of 2005.

Erik Walldén, President and CEO of Biacore, commenting on today's announcement said, "The aggressive cost cutting plans that we have outlined are necessary to return

Biacore to profitability in 2005 and to enable us to capture the growth opportunities that clearly exist for our current range of instruments. I am confident that we can utilize the re-focused strengths of the Biacore organization to deliver the earnings growth that our shareholders expect, based on the opportunities which exist for protein interactions analyses in life science research and pharmaceutical and biotherapeutic development.“

## **Background**

In July 2004, in conjunction with the release of its 2<sup>nd</sup> Quarter results, Biacore announced that the Board had asked the senior management team under the direction of the Company's new President and CEO, Mr Erik Walldén, to undertake a strategic review of its business. The Board tasked the management team to look at a number of areas of Biacore's business including:

- The Company's top-line growth and its profitability, both of which were considered unacceptable.
- The Company's R&D, where it was felt that the level of spending was too high relative to current sales, and
- The Company's administrative costs, in an effort to ensure that all of Biacore's resources were used as efficiently as possible.

## **Biacore's Growth Opportunities**

A key element of the Strategic Business Review was to confirm the Board's view that Biacore was operating in markets, which provided the Company with the potential to deliver an attractive level of top-line growth.

The top-down and the bottom-up market analyses undertaken by the senior management team have confirmed that Biacore does indeed have significant potential for growth. These analyses show:

- That the global annual market for Biacore's SPR technology is in excess of USD 500 million, leaving the Company considerable scope for growth.
- Biacore's instruments have applications in a number of the most attractive areas of the life science research market such as antibody characterization, interaction proteomics, lead optimization and bio-therapeutic development and production, many of which are projected by external industry analysts, including Frost & Sullivan, to have growth rates in excess of 10% per annum for a number of years.

Based on these analyses, Biacore's management is confident of the growth potential of the current business and intends to focus its future marketing efforts on protein interaction applications where it believes the Company's technology is able to deliver significant benefits to a broad range of customers based on the key applications outlined above.

### **Optimizing Biacore's Sales Capabilities**

The Strategic Business Review has highlighted a number of key issues with Biacore's sales organization that will be addressed over the next several months. These include:

- A commercially driven sales management team has been identified as crucial to Biacore's return to profitable growth. Mr Jerry Williamson who has recently joined the Company as the new President of Biacore, Inc. will be a key member of this team.
- A realignment of the overall sales force structure. These proposed changes will lead to a shift in the ratio of sales to applications personnel, as well as a reduction in the administrative sales support. Once implemented, these changes will provide the Company with more direct sales calls, at lower cost, leading to significant efficiencies.
- The planned recruitment of additional sales representatives with experience in selling to pharmaceutical and biotechnology companies. These new recruits will improve the Company's ability to sell its instruments to customers where the ability to manage a multi-level sales process is required.
- Finally, in order to drive a major change in the overall Biacore culture, the Company's plans to include all employees in a sales training program during the course of 2005.

Biacore expects that these changes will have a positive impact on the Company's sales growth. In Europe, where the Company's new sales management team has already implemented a number of these changes, revenues are now growing at an attractive rate.

## **Streamlining Biacore's R&D**

In the last several years, Biacore's R&D has delivered a number of new platform products to the market. This has led to Biacore's investment in R&D rising significantly in cash terms, largely as a result of the development of the Company's new array technology. With this technology about to be commercialized, Biacore's R&D spending was due to decline naturally. A significant part of this decline in spending would have come from a reduction in the use of external consultants. However, even with this anticipated decline, the Strategic Business Review has identified that the level of R&D costs is too high in relation to Biacore's revenues. As a result, the Company proposes to streamline its R&D structure with the number of people being employed in R&D being reduced from 95 to 65. The Company plans to carefully carry out this proposed restructuring in a way that Biacore retains all of the core skills that it needs to develop its products in-house. If these proposals to streamline R&D are actioned, they will result in a one-off cost of SEK 10 million to be taken in 4<sup>th</sup> Quarter 2004, and, in conjunction with a reduction in the use of external consultants, are expected to lead to annualised savings of SEK 55 million in cash R&D expenses.

In conjunction with these changes, Biacore also plans to refocus its R&D activities to both expand its market reach and its overall competitiveness. The areas that R&D will now focus on are:

- The initial commercialization of the new array technology, which is still on track to take place in 4<sup>th</sup> Quarter 2004. The array technology will strengthen the Company's offering to pharmaceutical and biotechnology companies, as well as major academic centers focused on proteomics.
- The development of new software and other support tools that are designed to make Biacore's current systems easier to use for all its key customer groups. This improved "ease of use" will reduce the amount of applications support needed for the sale of each system.
- New applications packages focused on the areas outlined earlier. These new packages are crucial to ensuring Biacore maintains its competitive position in these high-growth areas of the protein interactions market.

The review of R&D also entailed an analysis of the commercial potential of the Company's array technology. Biacore's re-assessment of the target applications for this product has led it to adopt a new approach to its commercialization. Over the next

twelve months, the roll-out of this exciting new technology will be handled by a special commercialization team centered on Biacore's R&D organisation and supported by Business Development personnel. This team structure is designed to ensure that both the technical and economic benefits of this novel approach to protein interaction analysis are clearly communicated, initially, to a small number of academic research centers and pharmaceutical companies. These first "high level" customers will help the Company to develop a broad range of application protocols for this new system before it is launched to a wider customer base through Biacore's entire sales team. Biacore is confident that by adopting this approach it will achieve better long-term market penetration for the array technology than would have occurred with the previously planned launch strategy.

In addition, the Business Review has led to a re-assessment of the medium-term sales potential for the array system. This is due to changed consensus growth estimates for a number of important life science research markets, including certain elements of the proteomics market, and the recognition that some of the applications that Biacore had envisaged for the array technology will take longer than previously thought to realize. Taken together, these changes have led the Company to reduce the value of the capitalized R&D that is currently held as an asset on the Company's balance sheet. This will lead to a write-down of SEK 44 million that will be taken in the Company's 3<sup>rd</sup> Quarter results.

### **Managing Our Administration Costs**

The final area covered by the Business Review was the Company's overall spending on administration.

As a result, it has been proposed that to achieve the efficiencies in Biacore's administrative structure it closes the Company's Headquarters in Neuchâtel in Switzerland. The Neuchâtel Headquarters were established in 2002 when Biacore was forecast to continue to grow rapidly. Based on these projections of growth, the facility was expected to yield significant financial benefits for the Company's shareholders.

The recent much slower than anticipated development of Biacore's sales has led to the decision to close this facility. It is believed that this decision is supported by the important operational benefits and administrative cost savings that can be achieved. The closure of the Neuchâtel facility is expected to take place in mid 2005.

The one-off costs of streamlining the Company's central administration will be approximately SEK 15 million.

### **The Financial Impact of Today's Update**

In combination, all of the proposed actions arising from the Strategic Business Review are designed to move the Company back to profitability as quickly as possible while at the same time positioning it to deliver an attractive revenue growth.

The proposed actions, when implemented, are expected to lead to a total reduction in the Company's workforce by approximately 80 people from its current level of 345, with all areas of Biacore's business being impacted. This streamlining is designed to ensure that all of the key functions of Biacore's business are operating as efficiently as possible.

In aggregate, the proposed actions should lead to one-off costs of approximately SEK 80 million, including the SEK 44 million write-down of the array technology. Excluding this write-down, the one-off costs will be charged to the Income Statement in 4<sup>th</sup> Quarter 2004. These actions are expected to lead to net annualised costs savings of approximately SEK 90 million. These savings will start to be seen in 4<sup>th</sup> Quarter 2004, however most of them are expected to be realized gradually during the course of 2005.

### **Conclusion**

The proposals contained in the Strategic Business Review are designed to:

- Bring a more commercial focus to the whole Biacore organization,
- Develop a more capable and efficient global sales capability
- Realign the Company's R&D spending with its current revenue base
- Ensure the successful commercialization of the Company's new array technology which over time Biacore still believes will be a major source of sales
- Reduce the Company's cost base to a level which will allow a return to overall profitability as quickly as possible

Commenting on today's announcement Mr Lars-Göran Andrén, Biacore's Chairman said, "I would like to thank Erik and his team for undertaking this far-reaching review in such a short period of time. Although our planned actions are obviously painful, they

are necessary in order to restore Biacore to profitability. Looking ahead, I am confident that the inherent strengths of the Biacore organization, in conjunction with its enhanced commercial focus will allow us to deliver the sales growth that our market analyses show we should achieve.”

– Ends –

### ***About Biacore***

Biacore is a global supplier of analytical systems that improve the productivity of research and development in the life science and pharmaceutical markets. The company's instruments generate unique data on protein interactions, an area of increasing focus in these markets. The data give insights into protein functionality, the role of proteins in normal and diseased states, and the influence of potential drug candidates.

Use of Biacore's products is well documented in key areas such as antibody characterization, proteomics, lead optimization and bio-therapeutic development and production. Customers include world renown life science research centers, all of the leading global pharmaceutical companies, and a large number of companies in the emerging biotechnology sector.

Biacore is successfully expanding into the food analysis market, providing key manufacturers with ready-to-use solutions for the determination of food quality and safety.

The company offers a range of products to meet specific customer needs. All instruments utilize Surface Plasmon Resonance (SPR) technology as the basis for detection and monitoring of protein interactions.

Biacore has its own direct sales capability in the world's key markets, United States, Europe, Japan, Australia and a distribution network in Asia-Pacific. The company was created in 1984, is based in Uppsala, Sweden, and is listed on the [Stockholm Stock Exchange](https://www.sse.com) (SSE:BCOR).

*Further information on Biacore can be found on the web: [www.biacore.com](http://www.biacore.com)*