

Start-up bets on Detroit, wins

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When Asterand set up operations in Detroit a decade ago, the company became a test case of sorts for whether Michigan's economy could grow an innovative new company that seemed to belong on the East Coast, not the industrial Midwest.

The good news: Michigan aced the exam. But Asterand's path to profitability was anything but assured.

The company's former CEO and one of its founders, Randal Charlton, took a big gamble when he established his start-up firm in Detroit rather than in Boston or San Diego. Asterand started out with only \$500,000 in seed money so Charlton sought the "lowest-cost place in America where there's good research," a search that led him to Detroit.

The serial entrepreneur spent the first year traveling to Russia, South Africa and other countries, setting up agreements with hospitals so Asterand could obtain the human tissue samples it needed. No one knew whether hospitals in foreign countries would comply with American ethical standards or if tissue samples from overseas would be allowed into the U.S. "There were a lot of unknowns," Charlton recalls.

But after surmounting these hurdles, dodging a takeover attempt and merging with a British company, Asterand has emerged as the world's leading human tissue supplier, though it has only a small market share because of the industry's many players.

The supplier of human tissue for drug companies turned a profit for the first time in 2008, is starting to acquire other companies and plans to add workers in Detroit. Its stock -- trading on the London Stock Exchange -- posted the LSE's biggest gain in 2008, soaring almost 150%, and shot up nearly 25% last year.

Under CEO Martyn Coombs, Asterand is taking another big step, seeking to offer drug companies what it calls "human-based solutions." In addition to tissue samples, it plans to offer customers drug discovery tools that use human cells, computer models or other non-animal methods.

Toward that end, Asterand announced in November that it purchased BioSeek, a small drug discovery services company in San Francisco. Coombs says the deal is the first of several acquisitions to come.

"Asterand has a good growth platform," says Mina Patel Sooch, founder of one of the company's venture capital investors, Apjohn Ventures. "Their underlying business is sound."

Asterand's business has taken off as pharmaceutical companies increasingly prefer to test their drugs on human tissue, rather than only animal ones. Asterand's human tissue bank on the fifth floor of the TechOne building contains 300,000 samples worth more than \$7.5 million, obtained from 86 hospitals around the globe.

More than two-thirds of Asterand's 90 employees work there; the rest are in Royston, England. Asterand doesn't collect any tissue samples from Michigan hospitals, but it's trying to form collaborations with some of them.

In Detroit, Asterand has been able to find the talent it needs within the state. "We have a loyal, passionate, committed workforce. The talent pool within Michigan is very high," Coombs says. That's critical because "getting people outside to move here is almost impossible."

To be sure, Asterand hasn't been immune from the recession. Pharmaceutical companies are delaying big purchases and placing smaller orders. "We're hoping it's just a blip," Coombs says.

Another challenge: Asterand's \$4-million contract with a major customer, Baylor College of Medicine in Houston, ended

in 2009.

With \$8 million in the bank and no long-term debt, Coombs is confident Asterand can overcome these hurdles, just as it coped with other difficulties in the past.

When Coombs replaced Charlton as CEO in 2007, Asterand was struggling with flat revenues and its venture investors were getting restless. Coombs replaced all of the company's top managers, cut costs, overhauled the board of directors, implemented Six Sigma quality methods and changed the focus of its sales force from being "order takers to order makers."

In early 2006, the company found a way to go public, something its small revenues prevented it from doing in the United States. It merged with Pharmagene, a drug discovery research services firm in Royston, England. The deal enabled Asterand to sell stock to the public on the London Stock Exchange.

Along the way, Asterand got some lucky breaks. Charlton, now TechTown's director, still vividly recalls how during a snowstorm at the end of 2000, a box containing the company's first tissue samples from China got lost while being unloaded at Detroit Metro Airport.

With Asterand low on capital, Charlton was desperate to get the samples. He visited the airport daily and offered a \$1,000 reward. "I thought the company was going to grind to a halt right there," he says.

After seven days, Charlton got a phone call as he was driving to a Christmas Eve dinner. With the snow starting to melt, someone had found the box. Charlton rushed to the airport and discovered that the samples were still frozen and in good shape.

Asterand has come a long way from those early days. Some wonder if the company, now profitable and expanding, will eventually be acquired by a larger firm. "I think we are an attractive takeover target but a bit small," Coombs says. "We're not looking to sell the company."

Asterand would like to list its stock on the Nasdaq stock market. For that to happen, the company needs to boost sales significantly, something Coombs is working on. "We have a great team in place," he says. "The demand for what we do is growing."

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Abstract (Document Summary)

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