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Biome Technologies PLC

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## **Biome Technologies plc**

**("Biome", "the Company" or "the Group")**

### Proposed Sale of stake in Biotec Holding GmbH

Biome Technologies plc announces the proposed disposal to Sphere S.A. ("SPH") of the Company's 50 per cent. holding in Biotec Holding GmbH ("Biotec") (together with the outstanding shareholder loan of EUR 6,227,092.02 made by the Company to Biotec and its subsidiaries (the "Shareholder Loan") for £5.2m in cash (the "Sale").

In view of the size of Biotec and the fundamental nature of the Sale, it is a requirement of the AIM Rules that the Sale be approved by Shareholders at a general meeting of the Company. A circular containing details of the proposal and a notice of general meeting at which a resolution will be proposed to approve the Sale is expected to be posted to shareholders later today ("the Circular"). The Circular is available on the Company's website at [www.biometechnologiesplc.com](http://www.biometechnologiesplc.com).

### Highlights

- Sale of 50% stake in Biotec, the Group's manufacturing joint venture with Sphere
- Biome will receive a cash consideration of £5.2m
- The sale will allow the Group to focus on its strategy to develop high margin, application led products.

John Standen, Chairman said:

"This disposal is an important step for the Company and it will allow our Bioplastics Division to work exclusively on developing and commercialising wholly owned intellectual property. The Board believes it is an appropriate time to divest its stake given the weak and uncertain market segments serviced by Biotec. In addition, we believe Biotec's dedicated operations



A series of transactions took place in 2005 resulting in Biome owning 50 per cent of Biotec. Biotec is based in Emmerich, northern Germany and operates as a 50:50 joint venture with SPH.

Biotec manufactures and supplies a range of bioplastic resins which replace oil based materials in a number of applications under the product name Bioplast. Biotec's principal customers are Biome and SPH and in Biome's case, all these materials are then sold on to the Group's customers in the bioplastics market. The intellectual property of Biotec that has underpinned commercial sales to-date is used in the production of resins for thin flexible films (most often converted to make bags) and in a small range of moulded product applications.

Biotec's manufacturing technology is based on a number of "compounding machines" with a high degree of automation. Biotec's annual capacity is in excess of 20,000 tonnes, but has never operated at near capacity. In current market conditions it is operating at less than 50 per cent. of capacity. In addition to its manufacture of resins, Biotec's production facilities have been used in the scale-up of the production of novel materials originating from Biome's own development activities undertaken in the UK.

Biotec is managed through an advisory board formed of equal voting members from both Biome and SPH. In the year to 31 December 2011, the profit after tax attributable to Biotec was £0.4m (2010: loss of £0.4m).

In 2007, Novamont S.p.A ("Novamont") began proceedings against Biotec and SPH in courts in both France and Italy alleging infringements of three of Novamont's patents. The first court judgement on this litigation was received in France in April 2010 and was in favour of Biotec and SPH in that no proof of infringement was found for all three Novamont patents. Subsequent to this, Biotec and SPH lodged an appeal in France against the remaining validity of two of Novamont's patents while Novamont has appealed against the complete court decision. The result of the case being heard in the Turin court in Italy was received in July 2012 and in the first instance has found in favour of Biotec. Appeal paths are available for these findings and a parallel case remains ongoing in the Milan court in Italy. In separate proceedings, Biotec and SPH have received two first instance court judgements that the relevant, equivalent claims of two of the patents that Novamont have been relying on in Italy and France are invalid in Germany. Novamont has subsequently appealed the German court judgement on one of its patents. The aggregate legal costs incurred by Biotec from commencement of the Novamont litigation to 30 June 2012 are in excess of €4m and the timing and outcome of the litigation in each of these jurisdictions remains uncertain.

Background to and reasons for the Sale

The board of directors of the Company (the "Board") believes that there are a number of factors which, taken together, lead to the conclusion that the Sale is in the best interest of Shareholders. In particular:

- the demand for biodegradable plastic polymers manufactured by Biotec and sold by Biome and SPH has reduced significantly during 2012. This follows the suspension of legislation in Italy banning the use of conventional plastic shopping bags and the deferment of legislation or voluntary adoption for similar applications in other territories. This change to legislation has had a materially adverse impact on sales in this market and while growth in these sectors is expected to resume in due course, the timing is uncertain;
- the ongoing cost of litigation with Novamont is likely to limit the returns from Biotec in the short to medium term;
- the overhead costs of a large scale factory and the cost base of the current product chemistry limit the margins available;
- the low margin characteristic of the plastic bag market drives a requirement for significant volume through Biotec;
- Biome's own strategy and technology development path is focused on materials with higher functionality and margins than those achieved through Biotec; and
- production technology required for the intellectual property being developed by Biome may require different process technology in due course.

The joint venture structure with SPH has been successful on an operational level in recent years but the shared control of Biotec is not optimal for either partner particularly when the markets being served by SPH and Biome are experiencing volatility. Consequently, when SPH recently approached Biome about the possibility of selling its shareholding in Biotec, the Board felt that it would be in shareholders' interests to negotiate an amicable agreement for sale.

Biotec, although serving the current interests of both partners, will become increasingly less relevant to Biome's strategy in the coming years. It is therefore clear to the Board that it is a suitable time to sell Biotec and withdraw from certain markets supported by the existing Biotec technology.

The assets of Biotec and associated development activity are currently valued in the Company's balance sheet at approximately £9.1m. If the sale proceeds, the Company will incur a write off of approximately £3.8m, dependent on the prevailing Euro exchange rate at the date of completion.

#### Principal terms and conditions of the Agreement

Under the terms of the conditional sale and purchase agreement (the "Agreement"), the Company has agreed to sell, and SPH has agreed to buy, the share that the Company holds in Biotec (together with all rights and obligations relating thereto). In addition, the Company has agreed to sell, and SPH has agreed to purchase all outstanding amounts owed by Biotec and its subsidiaries to the Company under the Shareholder Loans.

The consideration for the Biotec share and the Shareholder Loans is the aggregate amount of £5,200,000 in cash, payable on completion. However, the Agreement also contains a provision whereby if SPH sells or transfers the business and/or assets (other than in the ordinary course of trade) of Biotec to a third party within 18 months of completion, the Company may receive an additional payment from SPH. This additional payment (if any) will be calculated as a percentage of the price of such second sale if this price is in excess of the purchase price paid to the Company under the Agreement with the percentage entitlement of the Company decreasing over time.

The completion of the Sale is conditional upon the approval of the shareholders of the Company.

The Agreement contains certain customary representations and warranties given by the Company to SPH. These are limited to certain fundamental matters such as the ownership by the Company of the shares being sold, title to the Shareholder Loans, capacity and authorisation and insolvency. Any liability of the Company under these representations and warranties is limited to the amount of the purchase price (save for fraud or wilful misconduct on the part of the Company).

As is common with an agreement of this nature, the Agreement contains a provision whereby the Company agrees not to compete in certain limited fields of activity with Biotec, limited to 12 months

worldwide and 18 months in the European Union. It is not considered that these restrictive covenants will prevent the Company from carrying out its planned business activities following completion of the Sale.

Simultaneously with completion of the Sale, the joint venture agreement between the Company and SPH relating to Biome will be terminated.

#### Current trading and prospects

On 3 September 2012, the Company released its interim results for the six month period ended 30 June 2012. Set out below are extracts from the interim results statement relating to the Group results and the outlook.

#### Group results

"Group revenues were £7.5m compared to £10.4m in the first half of 2011. The Bioplastic division's revenues reduced by 24 per cent. due to the changes in the European market. The decrease in the RF division's revenues is attributable to the phasing of furnace sales during this year. The Group's loss from operations was £1.1m compared to a loss of £0.4m in the first half of 2011.

At the end of May the Board announced that it would be taking steps to reduce cash costs by approximately £600k per year to protect its business model following the changes in the bioplastics market. These actions have now been completed substantially and we will experience the benefits over the remainder of 2012 and into 2013. Central costs decreased year on year to £0.8m from £0.9m in the first half of 2011.

Finance related costs totalled £0.2m (H1 2011: finance related income £0.5m). Of this change, £0.6m related to the depreciation of the Euro on the retranslation of the loan between Biome Technologies and Biotec.

The loss before taxation was £1.3m (H1 2011: profit £0.1m) which, after taxation, delivered a loss per share of 0.022 pence (H1 2011: profit per share 0.003 pence). Cash utilised by operations was £1.0m (2011: £0.3m) which reflects the aforementioned loss for the period and an increase in inventories, primarily at Biotec."

## Outlook

"Whilst there is some reduction to the turbulence seen in the marketplace in the second quarter, overall

demand remains subdued in Europe in comparison to 2011. The Board views this as a one or two year pause in the growth of legislatively derived markets, particularly for the plastic bags market. However, Biome continues to progress with new products and technologies to improve its future prospects and develop new markets. It is particularly encouraging to see a number of these technologies at an advanced stage on the path towards commercialisation.

The RF division is performing well and the order pipeline into 2013 is continuing to grow."

## Proposed future strategy for Biome

The sale of Biotec will allow the Group to pursue its stated strategy with greater focus. The Group's medium term strategy is to:

- build a leading position in its chosen markets based on patented technology;
- develop a range of new functional application areas where premiums can be obtained from its existing bioplastics IP base;
- create application led rather than technology led products by working intimately with consumer facing international businesses to create and build new bioplastic applications; and
- differentiate the business by developing and retaining a team that is recognised as being at the forefront in advancements in application and product engineering.

The Sale will allow Biome to better focus on its chosen higher margin markets outside of plastic bags. It will also enable the business to work exclusively on developing and commercialising 100 per cent

owned intellectual property that is already generated in the UK, where it is believed premiums can be obtained.

Biome will heighten its concentration on international customers and will be able to stop allocating resources on generating sales to support the cost base of Biotec. These resources can then be re-deployed on application and product support rather than manufacturing.

The innovative technologies within Biome's portfolio that are at advanced stages of development include materials for paper coating, resilient injection moulded parts and multi-layer films for product packaging.

One such example is a new technology for heat resistant bio-plastic materials that is used in an innovative range of temperature stable bioplastics called BiomeHT. It was launched in 2010, with patent protection applied for in April 2011. These products are predominantly made from renewable resources and are fully biodegradable, providing for lower lifecycle costs and excellent end-of-life credentials. BiomeHT requires different production technology than that currently available at Biotec and is being produced under licence by a third party in the UK. Notably, Biome has entered recently into a pre-launch evaluation agreement with a leading manufacturer of high performance single-use foodservice products. Under the agreement, the parties will co-operate to undertake the final stages of high speed production testing and launch preparations. This evaluation is focused on the use of BiomeHT and the agreement comes at the conclusion of an initial cooperation over the past 18 months. It is aimed at being launched into a market of significant potential in 2013.

A further example is a product developed as a multi-layer sealing film for single-use coffee capsules and this product has completed barrier and mechanical testing. It has been launched through a limited number of Biome's end-customers sales outlets and we are currently scaling-up volumes of production.

With longer term development and a higher level of proprietary intellectual property in mind, Biome continues to evaluate the opportunities for the manufacture of bio-based materials through the use of synthetic biology. This is a rapidly emerging technology and Biome has a small number of early stage collaborations with both academic and industrial partners in the UK and further afield to better understand the technical and commercial opportunities in this area.

The RF business continues to perform and generates good margins and cash whilst broadening its portfolio of application areas. The Board will continue to explore ways to accelerate returns from this business.

The proceeds of the Sale of Biotec will be used to fund the declared strategy and specifically:

- the working capital needs of the Group;
- capital investment to facilitate the production of Biome's ongoing portfolio at third party facilities; and
- further research and development activities in the area of bio-based/bio-degradable chemicals and plastics.

The Board will also give consideration to potential return of funds to shareholders that are in excess of those required in the medium term. This evaluation will consider, amongst other matters, funds required to support the strategy, the results of ongoing customer trials and the elimination of the few remaining legacy issues from the aborted GreenSeal project. Should a distribution of funds be proposed in due course, an alteration to the Group's capital structure will likely be required which will be subject to the approval of shareholders. The Board will update shareholders on these matters at the time of the Preliminary Results in January 2013.

#### General Meeting

The Sale is conditional on the approval of the Shareholders of the Company at the General Meeting to be held at 11.00 a.m. on Thursday 27 September 2012 at the offices of FTI Consulting at Holborn Gate, 26 Southampton Buildings, London, WC2A 1PB.

#### Irrevocable voting commitments

The Company has received irrevocable voting commitments from certain shareholders in favour of the Resolution. These voting commitments are in respect of 1,184,524,040 Ordinary Shares, representing 20.13 per cent. of the Company's issued share capital.

In addition, the Company has received irrevocable voting commitments from the Directors in favour of the Resolution. These voting commitments are in respect of 88,111,360 Ordinary Shares, representing 1.50 per cent. of the Company's issued share capital.

The circular is available on the Company's website, [www.biometechnologiesplc.com](http://www.biometechnologiesplc.com).

This information is provided by RNS

The company news service from the London Stock Exchange

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