Case Study: Biosensors International Group (Singapore)

Biosensors's Story

Executive Chairman Yoh-Chie Lu founded Biosensors in 1990 as an original equipment manufacturer of medical device consumables that were used in intensive care units (ICUs) and operating rooms. After roughly 10 years of business operations, Biosensors undertook an in-house research and development exercise to identify new products and opportunities to drive the company's next stage of growth.

Through its research process, Biosensors identified coronary stents as an area of great potential and demand: cardiovascular disease is the number two cause of death in China and the number one cause of death worldwide. As the company grew its business through retained earnings, as well as contributions from angel and individual investors, Mr. Lu realized he needed access to additional capital and sophisticated partners to achieve scale.

In 2003, Biosensors formed a joint venture with Shandong Weigao, a leading producer of medical consumables in China, to manufacture critical care products; and in 2005, the company listed an IPO on the Mainboard of the Singapore Stock Exchange (BIG:SP). Following the IPO, Biosensors began expanding its distribution network, and developing strategic partnerships in the European Union, Japan and other major markets.

These strategic partnerships included an expanded collaboration with Shandong Weigao. In 2006, Biosensors acquired a 10% equity interest in JW Medical Systems, a privately owned drug-

eluting stent company, of which Weigao owned 50%. Following approval from China's State Food and Drug Administration in January 2006, JW Medical's Excel drug-eluting stent captured nearly 20% of the Chinese coronary stent market. Biosensors increased its stake in JW Medical to 50% in the following year, giving the company a bigger footprint in the Chinese market.

In 2008, Biosensors received approval for, and launched, the first commercially available biodegradable polymer drug-eluting stent, the BioMatrix. In tackling cardiovascular illnesses, the BioMatrix offers patients a higher safety profile due to its biodegradable polymer coating, which degrades within six to nine months into carbon dioxide and water. Due in part to the success of its BioMatrix family of drug-eluting stents, today, Biosensors is one of the top four global suppliers of drug-eluting stents.

Though Biosensors's expansion succeeded in increasing sales and market share, the company was frustrated in its attempts to generate greater business within the Chinese market. Mr. Lu recognized the need for a financial partner with the capital and experience to unlock value in JW Medical and identify new business opportunities in the mainland.

The Role Played by Private Equity

The relationship between Hony Capital and Biosensors developed through many channels. Yoh-Chie Lu's brother, Hong Lu, co-founder of the Chinese telecommunications company UTStarcom, had known Hony's Founder and CEO John Zhao personally for many years. Through Hong Lu's introduction, Yoh-Chie Lu developed a relationship with John Zhao; over time they became friends and began discussing the possibility of a partnership.

From Hony's perspective, Biosensors offered a compelling investment thesis. Through its experience investing in the healthcare industry in China, Hony saw great potential in the medical device sector. With a superior proprietary technology, yet relatively small market share, ▶

The Company

BIOSENSORS INTERNATIONAL™

Essentials

Company: Biosensors International Group (www.biosensors.com); Stock ticker, BIG:SP

Country: Singapore

Sector: Healthcare & Life Sciences

Business focus: Medical devices

GP: Hony Capital, a China-focused middle-market private equity firm specializing in growth and buyout investments, state-owned enterprise privatization and cross-border deals (www.honycapital.com)

Date of investment: November 2010

Investment: Hony Capital invested US$200million for a 24.8% stake

Impact Highlights

As a financial backer and strategic local partner, Hony Capital helped Biosensors align interests amongst all shareholders in its Chinese joint venture, JW Medical, and expand its business in China

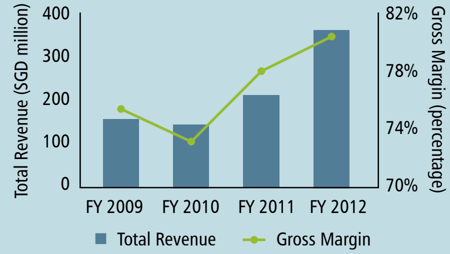
Between FY 2010 and FY 2012, Biosensors grew revenues from SGD147 million to SGD369 million, a CAGR of 59%, while increasing its gross margins by 7.7 percentage points[1]

Biosensors has grown its business in China from 9% of its total revenue in FY 2011 to 21% of its total revenue in FY 2012

Biosensors's pioneering drug-eluting technology has helped the company to penetrate markets in 70 countries

Financial Performance

Growth in Total Revenue and Gross Margin



[1] Source: Hony Capital.

The Company View

"Hony, through their participation, has collectively contributed to the strong and healthy growth of our company and also helped to unlock the value of our China business. Moving forward, I am confident that our two largest shareholders—Weigao and Hony—will continue to work with our board and management team to develop Biosensors through organic growth and M&A into a diversified, world-class medical platform company."
Mr. Yoh-Chie Lu, Executive Chairman, Biosensors

"This transaction had all the elements we look for in a cross-border deal. As we go forward, we will continue to have a close relationship with management, both to provide them with strategic direction and to assist their growth through acquisitions. We want to make Biosensors a company with over US$1 billion dollars in sales, and a multi-billion dollar market cap."
Mr. Bing Yuan, Managing Director, Hony Capital

▶ Biosensors was a company with a promising growth trajectory, particularly given the potential to unlock latent value in JW Medical, the firm's joint venture with Weigao.

At the time of Hony's investment in 2010, JW Medical was still 50% owned by Biosensors and 50% owned by Weigao. With split ownership, neither Biosensors nor Weigao were able to run the company effectively. Biosensors was frustrated by its inability to capitalize on the synergies that existed between it and JW Medical, and to effect the managerial changes necessary to enhance the business expansion of JW Medical in China.

After the deal closed, Bing Yuan, a Managing Director of Hony, joined Biosensors's board and spent eight months negotiating a restructuring of ownership in JW Medical to align all shareholders' interests. With his extensive relationships with both firms, Mr. Bing was viewed as an honest broker creating a structure conducive to all parties' interests.

In June 2011, Biosensors bought Weigao's 50% stake in JW Medical for a combination of cash, stocks and convertible bonds, acquiring 100% ownership of the company. While Weigao lost its stake in JW Medical, it became the largest shareholder in a much larger multinational corporation, enabling it to tap into a larger distribution network and expand globally. In turn, Biosensors gained a shareholder with extensive experience in the Chinese market.

Additionally, Dr. Jack Wang, CEO of JW Medical—and who had been serving as co-CEO of Biosensors since November 2010—was appointed CEO of Biosensors in March 2011. With more than 20 years' experience in the stent industry, Dr. Wang was the primary architect of JW Medical's rise to be one of the top three players in China's coronary stent market.

After the restructuring, and in partnership with Hony, Biosensors witnessed a 59% CAGR in total revenue—growing from SGD147 million in FY 2010 to SGD369 million in FY 2012—while increasing its gross margin by 7.7 percentage points (10.6%). Biosensors also saw its China business increase from 9% of total sales in 2011 to 21% in the following year. Biosensors also gained better broker and equity research analyst coverage, bolstering institutional support for its shares: the average equity analyst rating of Biosensors's stock has steadily increased since September 2011, moving from Outperform to Strong Buy.[2]

[2] Source: Hony Capital.

Beyond the Bottom Line

With the development of the BioMatrix family of drug-eluting stents, Biosensors became a leader in technological development and innovation within Asia's medical device sector. The benefits of Biosensors's technology extend beyond the firm's financial success. Biosensors has decreased the risks associated with cardiovascular care, improving health outcomes for patients in over 70 countries.