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## **Private Placing by Zeus Capital raises £1.72 million to fund future expansion of leading UK stem cell company.**

### **Introduction**

EpiStem, the Manchester based epithelial tissue and adult stem cell specialist company, which provides expert advice and analysis to the biotechnology and pharmaceutical industries, announces that it has raised £1.72 million through a Private Placing by Zeus Capital to invest in its Novel Therapies Division and secure and promote its Intellectual Property over key genes which regulate adult epithelial stem cells. Between 2001 - 2003, the Company raised £892,000 in equity from three fundraisings and since then it has been funded by cash generated from its trading activities.

### **History and Clients**

The business, founded by Professor Christopher Potten and Dr Catherine Booth, was “spun-out” of the epithelial biology department from The Paterson Institute in Manchester and started trading in September 2000 with the intention of becoming a leading supplier of adult epithelial stem cell services and Intellectual Property to the drug development industry. Since then, EpiStem has combined its extensive knowledge of epithelial biology with leading stem cell genomics expertise to collate commercially valuable adult epithelial stem cell drug targets. Information on key genes regulating the growth of epithelial stem cells is of crucial importance in understanding disorders such as cancer, mucositis and inflammatory bowel disease amongst others and is sought by drug companies to develop new treatments for these diseases.

Clients include: Amgen, AstraZeneca, Unilever and Kudos.

### **Organisational Structure**

Reflecting EpiStem’s stem cell expertise the business now has two divisions:

The Contract Research Division offering preclinical in vitro/in vivo Drug Testing Services and; The Novel Therapies Division offering new Drug Development technology

The Contract Research Division has established itself as a respected supplier of drug testing services to a wide range of drug development companies. The Contract Research Division has generated increased levels of revenue and in the 6 months ended 31 December 2004 reported revenue of £602,000 which contributed to a full year unaudited operating profit – after deducting Research costs - of £51,000.

The success of the Contract Research Division has provided Epistem with a financial platform from which it has invested around £1m in developing innovative drug discovery technology. Over the next three years this will be brought to market through the Novel Therapies Division developing partnership arrangements and licensing agreements to generate royalty income. Background on Adult Epithelial Stem Cells and EpiStem’s Technology.

Adult stem cells are responsible for the healthy maintenance of all the major human organs throughout life. Not to be confused with embryonic stem cells, the failure (or de-regulation) of adult stem cells is directly associated with many of the most intractable diseases. In the case of epithelial tissue, in which EpiStem specialises, these diseases range from cancer, mucositis to inflammatory bowel disease. They also play a key role in wound healing and tissue replacement therapies. In commercial terms, this means that EpiStem is dealing with therapies in markets valued in excess of several billion US dollars.

The importance of stem cells has been known for some time. Indeed, the understanding of haemopoetic (blood) stem cells lies behind the successful bone marrow therapies available for leukemia and cancer treatments.

In the context of medical afflictions, such as cancer, the likely cause of the ailment - a diseased stem cell - is not easily treatable. Hence, therapies such as surgery, radiation and

chemotherapy, in particular, have been aimed at removing or killing tissue generally. Not only is this highly debilitating with patients routinely suffering painful mucositis (ulcers) and other organ failure but the treatment often leaves diseased stem cells behind to regenerate the cancer. As a consequence, drug development companies are increasingly looking to focus on stem cells in diseased tissue for new drug targets.

EpiStem's strength lies in its Directors' and employees' extensive knowledge of epithelial biology and stem cells as well as its ability to identify key genes within these stem cells. In commercial terms, EpiStem can detail for biotech and pharmaceutical companies the effect that their drugs have on the epithelial tissue as well as identifying key genes around which new drugs can be developed.

### **The Potential Market**

The market for drug testing services is a multi-billion dollar market with various organisations supplying companies ranging from the household names such as AstraZeneca and GSK to the innovative, biotechnology companies.

EpiStem's role within this industry is to offer highly specialised services to support drug development projects at the preclinical phase. The quality of EpiStem's services is evidenced by the extent of repeat business which it wins from respected clients.

EpiStem has been successful in recruiting high calibre technical skills to its team and its founders are renowned internationally in the epithelial stem cell community.

#### **Outlook**

EpiStem is at an early stage of its development. Not only does the market for its existing services have the capacity to grow but the Company is working on developing a pipeline of new services to carry forward its development into the future.

The strong relationships which have been built up by the Contract Research Division provide ready access to clients for the Novel Therapies Division which will be introducing partnering opportunities from 2005/6 onwards.

The target identification technology, which EpiStem has developed, strongly complements the drug development competences within potential partners. The Directors of EpiStem confidently expect partnering arrangements to be cash generative, with significant potential for partnership and royalty income. This fundraising will allow EpiStem to complete its recruitment of key personal and the Company expects to announce progress on this shortly.

Dr Robert Nolan, EpiStem's Chairman, commented:

"We are delighted by the response to this latest round of funding which will provide us with the resources to build on our established relationships with our clients and protect our intellectual property rights.

We are now firmly established as a global player specialising in epithelial, tumour and stem cell biology and, following this funding, I am confident that we have the resources in place to continue our development."

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