



Firm left to its own devices

Buyer aims to lead in medical products

By Mike Boyer • mboyer@enquirer.com • July 26, 2010

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Mammotome CEO Tom Daulton views his new medical products company acquired from Johnson & Johnson's Ethicon Endo-Surgery like building a house.

"Once you have that foundation in, it doesn't matter whether you want to build a one-story ranch house, or a three-story traditional house. We're built for all of them," said Daulton from the company's new headquarters in the Summit Woods office building in Sharonville.

Daulton, with a \$250 million investment from Chicago private equity firm GTCR Golder Rauner, envisions building a much larger medical products company over the next several years, one with revenues of at least \$500 million on the foundation of the Mammotome breast biopsy business.

Mammotome, acquired by Ethicon Endo-Surgery in 1997, introduced the concept of using a vacuum-assisted probe to collect breast tissue samples to diagnose cancerous and non-cancerous abnormalities. More than 3 million women worldwide have undergone an image-guided minimally invasive breast biopsy using its system.

Roz Sweeney, analyst with Nerac, a Connecticut-based technology research firm, said the worldwide breast biopsy market, including surgical and minimally invasive technology, is estimated to be worth about \$250 million. The vacuum-assisted biopsy segment is valued

around \$100 million.

Estimates are that between 1.6 million and 1.9 million breast biopsies are performed on women in the United States annually. But only about a third, between 500,000 and 600,000, use the vacuum-assisted method.

As part of the deal with Ethicon Endo-Surgery, about 300 J&J employees will be hired by Mammotome. About half that number moved to the new company a week ago when the deal was completed. The rest will move over the next 18 to 24 months, as Mammotome secures regulatory approval and sets up operating units in 50 countries.

Daulton said the business expects to hire another 150 people globally over the next few years including about 70 at the corporate headquarters.

The state of Ohio, which has focused on the biosciences - including medical devices - as a target for economic development, awarded Mammotome a \$1.5 million job creation tax credit earlier this year.

Spinning off Mammotome into a new company helps bolster Cincinnati's position as a site for medical device development, said Mike Hooven,

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founder of West Chester Township-based medical device maker AtriCure and a director of BioOhio, the nonprofit group promoting the state's bioscience industry.

"Attracting talent is one of the biggest challenges facing medical device companies," he said. But Mammotome, along with Ethicon Endo-Surgery, AtriCure and other companies, creates a critical mass that makes this area more attractive when those companies recruit new employees.

Finding new products

To grow his company, Daulton's strategy is to continue to expand Mammotome's worldwide breast biopsy business and find other clinical medical devices the company can manufacture and market.

They may or may not be related to women's health care, Daulton said. The company has already looked at adapting Mammotome's minimally invasive technology for treatment of prostate cancer in men.

It's too early to say what Mammotome, a subsidiary of holding company Devicor Medical Products Inc., will include. But Daulton, who has more than 20 years experience running medical products companies, said it will be built with a combination of new product development and acquisitions.

The new owners plan to invest about \$60 million in product development while shopping for new products and acquisitions.

"We want to make sure the toolbox used by our customers is as broad-based a solution as it can be. So if there needs to be a dozen things in the tool box, we want to have a dozen. We want to have the best one, with the best training, the most reliable and the newest clinical improvement," he said. "That will keep us busy for quite a while."

Daulton, who spent nearly two years looking at more than 100 different acquisitions, said one thing he is sure of is that Mammotome is a good place to start.

"It's an ideal business to build off of," he said. "We know how to deal with physicians, we know the clinical research and we know how to sell around the world."

Big acquisitions

For competitive reasons, Mammotome, one of three principal players in the vacuum-assisted breast biopsy market, won't disclose revenues or the purchase price for the business from J&J.

But it's the latest in a series of acquisitions by the major players. Medical device maker C.R. Bard Inc. paid about \$213 million this year to acquire SenoRx Inc., a California-based maker of the rival EnCor breast biopsy system. Last year SenoRx reported revenues of about \$57 million.

Four years ago, digital mammography provider Hologic Inc. paid about \$240 million to acquire the other leading player in the market, Suros Surgical Systems.

Competition is keen. Daulton says Mammotome has more than 400 patents issued or pending on

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its technology. Each of the competitors guards its turf.

In February, Ethicon Endo-Surgery and Hologic Inc. settled conflicting patent lawsuits dating back three years. While neither side acknowledged liability, they entered a cross-licensing agreement. Ethicon also received \$12.5 million from Hologic.

In the United States, breast biopsies are increasing about 5 percent annually, but the vacuum-assisted segment is growing at nearly double that rate, says Nerac's Sweeney.

"The growth rate in emerging market countries, such as China, India, and Brazil, is even higher due to more citizens gaining access to health care and an increasing incidence in breast cancer, especially in China," she said.

Despite its growth potential, Sweeney said J&J may have concluded the market size didn't justify its continued investment.

"One thing we told employees is there's nothing wrong with this business," Daulton said. "It's an excellent business. It's global. The underlying need for biopsies continues to grow. There's no cure on horizon for breast cancer and you are a world leader."

Building a new plant

Daulton says J&J probably entertained other offers for the business, but believed his was the best "because we wanted to keep all the employees, keep the business in Cincinnati and wanted to build off their research and development pipeline."

Over the next couple of years, Mammotome will build its own manufacturing plant, replacing Ethicon's existing plant in Juarez, Mexico. It also will establish new physician training facilities, engineering offices and repair facilities as well as establish other infrastructure such as its own information technology system. He said

Mammotome will probably invest another \$200 million to \$250 million in the business over the next few years.

Surveying the company's 30,000-square-foot offices at Summit Woods, where Mammotome has options for additional space, as employees were unpacking boxes and moving in a week ago, Daulton said, "I'm already running out of room."



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The Enquirer/ Tony Jones
Tom Daulton of Mammotome holds the Mammotome MR Vacuum Assisted Biopsy Needle

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Mammotome's biopsy system is a minimally invasive procedure, requiring a quarter-inch incision closed by a small adhesive bandage, to help a doctor diagnose a breast abnormality without more expensive and painful open surgery, the company says.

With the procedure, which can be done on an outpatient basis without an overnight hospital stay, the patient is given a local anesthetic. The physician uses X-rays, ultrasound or an MRI to guide the insertion of a needle probe about half the thickness of an ink pen.

A tiny trough on the end of the probe opens when the physician reaches the abnormality. The probe vacuums a tissue sample, cuts it and removes it through the probe which can be repositioned to collect additional samples without having to remove and reinsert it.

In open surgery, a physician typically makes an incision and removes a tissue section about the size of a golf ball.

Mammotome says its procedure takes less than an hour.

CEO Tom Daulton says the cost of the Mammotome procedure, which is covered by most insurance plans, is typically less than \$1,500 versus between \$5,000 and \$8,000 for an open surgery biopsy including overnight hospital stay.

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