

# Market heats up for US biotech companies

- Record amounts of capital raised
- New products pave the way

## Washington

AFTER four years of uninspired performance, biotechnology stocks have once again become hot properties on Wall Street. Since the beginning of the year, 20 biotechnology companies have raised a staggering \$915 million of new capital in the public markets — a figure that already exceeds the amount raised during the whole of 1986, when the last wave of financial offerings flowed out from the industry.

Financial analysts say that the renewed interest in biotechnology stocks stems from several factors. As more products are introduced into the marketplace and as companies begin to make meaningful profits, investors are beginning to view the technology as having less risk. In particular, the commercial success of erythropoietin (EPO) has shown that genetically engineered drugs have the potential to be quite lucrative. And a couple of favourable patent decisions have reassured investors that companies will be able to reap the profits of successful invention.

The upshot is that the biotechnology industry is "at the right place at the right time", says Linda Miller, stock analyst with Paine Webber.

The lion's share of the money raised through public stock offerings has been snapped up by top-tier, well established companies, but six little-known firms have amassed more than \$200 million by going public. Almost half of this amount — \$99 million — was raised by Regeneron Pharmaceuticals Inc., a neuroscience company established only in 1988.

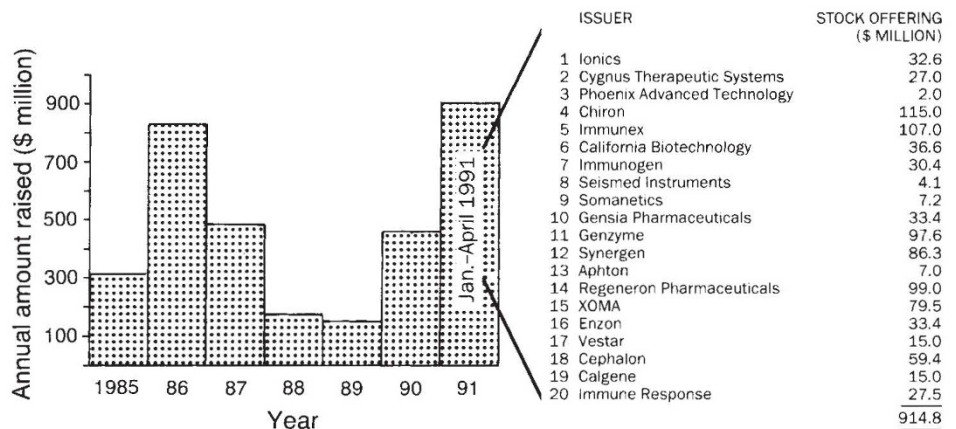
Regeneron's research focus is the development of biotechnology-based compounds for the treatment of neurological disorders, such as Alzheimer's disease and Parkinson's disease. What makes the company's ability to raise \$99 million so striking, says John Girton, a stock analyst with Van Kasper, is that "the development and commercialization of any products is years away".

The proceeds from that stock offering, which are mostly earmarked for research and development, will enable Regeneron to maintain its current and planned operations well into 1994.

The success of Regeneron and other biotech companies in raising capital demonstrates a renewed faith on the part of investors in the potential of fundamental biotechnology research. Early enthusiasm for biotechnology products on Wall Street was dampened when tissue plasminogen

activator (TPA), hailed as biotechnology's flagship product, fell short of sales targets. Data from two comparative trials of clot-busting agents indicated that TPA is no more effective than streptokinase, a drug produced by more conventional means at one-tenth of the price.

Interest revived last year, however, when EPO, another biotech drug, had worldwide sales of \$630 million. The drug, which stimulates the body to produce more of its own red blood cells, is used to treat anaemia in patients on kidney dialysis as well as HIV-infected individuals taking AZT. Sales of EPO are expected to 'mushroom' as other



Source: IDD Information Services, New York

US biotechnology companies have had tremendous success this year in public stock offerings, raising twice as much in the first four months as in all of 1990.

therapeutic uses for EPO are discovered.

More biotech drugs are in the pipeline. Since the beginning of the year, both Amgen Inc. and Immunex Corporation have received US Food and Drug Administration (FDA) approval for their colony stimulating factors; at least eight more biotech drugs should be approved in 1991. After years of anticipation, this steady stream of drug approvals means that more companies will have a source of revenue and will thus be making the transition to profitability.

Adding to the optimism about biotechnology's future are the resolutions of two important patent disputes earlier this year.

Amgen won a resounding and unexpected victory over Genetics Institute for the US patent rights to EPO, and Cetus Corporation successfully fended off a challenge by Du Pont over the polymerase chain reaction. These court decisions should allow investors better to assess the patent risks surrounding a potential biotechnology investment.

Amgen's victory over Genetics Institute in

its fight over patent rights to EPO, which has left Amgen with a guaranteed US market, is one of two factors that has caused the company's stock to more than quadruple in value in the past 12 months. The other is the recent FDA approval of Amgen's second potential blockbuster biotech drug, granulocyte-colony stimulating factor.

The growing interest in biotech companies has pushed executive salaries quite high, according to a recent survey by the management consulting firm of William M. Mercer of Boston. Of the 26 biotechnology companies surveyed, chief executive officers received an average of \$608,300 in total compensation, including stock incentives. This, Mercer says, is 71 per cent more than the average of \$355,300 earned by CEOs of high-tech companies, and 114 per cent more than earned by CEOs in industry as a whole.

"Good biotech executives are hard to find," says Girton at Van Kasper. Finding a person with the right mix of a knowledge of the industry and an entrepreneurial spirit can make "the difference between success and failure for these companies," he says.

Not every biotech company is having an easy time finding success. Genetics Institute, for instance, has been beset with problems. Not only was it on the losing end in its struggle with Amgen over EPO, but a court decision over US patent rights to TPA has also gone against the company. Now Genetics Institute and its partners are locked out of the US market for both drugs. Just two weeks ago, Gabriel Schmergel, president and chief executive officer of Genetics Institute, announced his intention to withdraw a proposed common stock offering because of "the recent decline in our common stock share price".

Although most analysts believe that the window of opportunity will be open for some time, most agree that only those companies that merit financing will have access to the market. Having had 10 years of experience with the biotechnology industry, investors now have the ability to ask "a lot of tough questions". "Selectivity is still the watchword," Miller says.

**Diane Gershon**