

## BUSINESS

# Swiss star finds it tough at the top

Serono is calling in outside advice. Colin Macilwain investigates the future of Europe's leading biotech firm.

Large-scale success has eluded most European biotechnology companies. But on the banks of Lake Geneva stands solid evidence that it can indeed be achieved.

There, at a cost of SFr340 million (US\$260 million), Serono is building a new headquarters. From next autumn the complex will house 1,200 research and administrative staff, and it provides concrete proof that the Swiss company is in the top tier of global biotechnology.

For Serono's 600-or-so early-stage researchers, the company's environment strikes a happy balance between the innovation of a small start-up and the stability of a major corporation. "We sit in the sweet spot between the two cultures," says Tim Wells, Serono's head of research. "We live with cash flows that are luxurious compared with those of a small, start-up company."

But last month, the future of that balance began to look precarious. On 8 November, Serono confirmed that it had called in investment bank Goldman Sachs to explore 'strategic options' for the company. It was also reported that several major drug companies have been in discussions about the possibility of buying the firm. As is normal in such situations, Serono officials declined to discuss the corporation's plans; and the intentions of the Bertarelli family — which owns two-thirds of the company's stock — remain unknown.

For sale or not, Serono is a prominent feature on Europe's rather barren biotech landscape. With almost 5,000 employees and annual revenues of US\$2.5 billion, it is by far the largest biotechnology operation on the continent. In terms of sales, it is the third largest in the world, after California's Amgen and Genentech.

## Deep roots

Unusually for a biotech firm, the Swiss company has deep historical roots. It was founded 99 years ago in Rome by pharmacologist Cesare Serono. Initially it extracted hormones for fertility treatment from urine, but it managed to make the smooth transition into producing much more profitable, genetically engineered versions of these compounds.

Today Serono holds more than half of the global market in fertility treatments with drugs such as GONAL-f (follitropin- $\alpha$ ), which



Serono scientists have benefited from an innovative and diverse research environment in Geneva.

induces ovulation in infertile women. But two-thirds of its revenues are generated by Rebif (recombinant  $\beta$ -interferon), which is used to treat multiple sclerosis.

Wells says that the company has succeeded in establishing an innovative environment in Geneva, where it does about two-thirds of its research. "There are many nationalities," he says, "and the sort of multiculturalism that empowers US biotech companies."

Serono has established an extensive network of arrangements with European research universities, including major collaborations in neuroscience with the University of Zurich and in multiple sclerosis with the San Raffaele Scientific Institute in Milan, Italy.

Most of the company's remaining scientists work in Boston where, in common with so many others in the industry, Serono's labs are trying to develop cancer treatments.

But despite the strong cash flow from its established products and its success in creating a first-class research set-up, Serono has experienced a string of recent disappointments with late-stage products in its pipeline. About half of the 13 new compounds it was developing in 2003 have hit trouble, including potential treatments for psoriasis and, in partnership with CancerVax of California, for melanoma. "They've really been relying on one product," says Peter Knight, who watches the biotech

industry for Edinburgh-based market analysts Wood Mackenzie. "Like everyone else, they need to feed the pipeline — and they've been pretty unsuccessful at doing it."

That may have led to the arrival of Goldman Sachs and the discussions with prospective buyers. At the head of the queue is Pfizer, which already distributes Rebif in the crucial US market. "There are a number of large pharmaceutical companies who have so far steered clear of biologics who could see Serono as a way in," says Keith Redpath, vice-president of life sciences at Wood Mackenzie, noting that such a buyer would view the firm "as a biotech research and development operation that can wash its face financially".

There is still no certainty that such a sale will take place. Analysts have questioned whether Serono is worth a probable purchase price of US\$15 billion, given that it has no assured winners in its drug pipeline. Some say that a partnership with another biotech that has prospects in different areas of medicine might make more sense.

And if there is a change of ownership at Serono, outside observers say that what would matter to the European biotech sector as a whole is that the company's research and development operation remains intact. That way, it can continue to provide a model for other European biotechs to aspire to — and, with a bit of luck, unearth some more successful drug candidates. ■

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