Serono changes tack

Serono recruited the Goldman Sachs bank to "explore various strategic alternatives" as a necessary move before the value of its core cash-generating business—centered around its mutiple sclerosis (MS) franchise—starts to erode. What appears to be Serono's imminent departure from the ranks of Europe's independent biotech stocks, announced on November 8 last year, could also be interpreted as another phase in the maturation of the continent's legacy pharmaceutical sector.

With a portfolio of recombinant protein and peptide products and projected sales of ~$2.6 billion in 2005, Serono of Geneva, styles itself as the third largest biotech company in the world. However, both its history and its growth rates are more reminiscent of a successful mid-sized pharmaceutical company. And its fate will be of little relevance to Europe's patchwork of small-scale biotech companies; the vast majority are grappling with a wholly different set of issues. Most are still struggling to bring products to market. And even the leaders are still some way off attaining the kind of revenues and valuation that Serono enjoys.

In common with many other long-established European pharmaceutical companies, Serono remains under family control—as do German firms such as Merck of Darmstadt, Altana of Bad Homburg, Strathmann Group of Hamburg, and Schwarz Pharma of Monheim, for example. Some say that Ernesto Bertarelli's latest move is motivated by his aspiration to preserve his family heritage, should the sale of his business allow him to recoup his fortune and shelter the money from the vagaries of the public markets, and dedicate more time to his passion: sailing. This month, Bertarelli celebrates his tenth year as CEO of the company, which his father and grandfather, Fabio and Pietro, previously led. This year also marks the 100th anniversary of Serono. It was originally established in Rome in 1906 by Cesare Serono as the Istituto Farmacologico Serono, but moved to its present location in 1977.

Serono has managed to stand out from the rest of the European pack by successfully effecting a transition to biotech-based manufacturing processes during the 1980s and early 1990s. A leader in the multiple sclerosis market via Rebif (interferon β-1a), the company reaped the full benefit of this drug when it attained blockbuster status in 2004, clocking up sales of almost $1.1 billion.

However, despite longstanding claims of Rebif's superior efficacy, it has so far failed to dislodge Avonex (interferon β-1a), marketed by Biogen Idec, of Cambridge, Massachusetts, from the top position either worldwide or in the US. In contrast, Novo Nordisk, of Bagsværd, Denmark, another long-established European pharmaceutical company that, like Serono, profited from a shift to biotech-based production, claimed on November 10 to have moved into the leadership position in the US market in 2005 in its core area, diabetes care, supplanting longtime rival Eli Lilly, of Indianapolis, Indiana.

Serono CEO Ernesto Bertarelli sailing into the distance? He was part of a crew that won the America's cup in 2003.

Moreover, Serono has struggled to keep pace with the US's biotech leaders, particularly in oncology, a key biotech market that it has so far failed to penetrate. Although it has been highly active on the partnering front of late, entering licensing deals during the past year with Genmab of Copenhagen, NovImmune of Geneva, BioMarin of Novato, California, and Rigel Pharmaceuticals of S. San Francisco, California, none is expected to yield substantial revenue flows in the near term. "The quality of deals has improved over the years but it's really too little, too late," says Karl-Heinz Koch, analyst at Lombard Odier Darier Hentsch in Geneva.

Its internal development efforts have not borne fruit in recent years, whereas its relatively late move into genomics, via the €107 ($126)-million acquisition in 2003 of Paris-based Genset, has so far failed to yield anything of tangible value. Its cessation on April 6 of late-stage development programs in psoriasis and stage IV melanoma, and in stage III melanoma on October 3, reemphasized the company's dependence on its core MS franchise. "They need to do something," says Nick Turner, analyst at Jefferies International in London. "I think really there's too much competition in the MS [multiple sclerosis] space," says Koch.

With Serono remaining steadfastly silent on its intentions, there is no definitive information that the company is actually up for sale, either in part or as a whole. Although Novartis and Roche, both of Basel, New York-based Pfizer, Johnson & Johnson of New Brunswick, New Jersey, and London-based GlaxoSmithKline have all been identified as likely bidders, some analysts remain skeptical that a deal will take place.

None may be willing to stump up a possible asking price of around $15 billion. Serono's main activity, apart from multiple sclerosis, is the production of peptide hormones for infertility treatment, an area with just one other significant competitor, Organon, a unit of Akzo Nobel, of Oss in the Netherlands. Opportunities for cutting costs by eliminating organizational overlaps, therefore, appear minimal, but a tie-in with another biotech company could be in the cards. "I would hope what they would look at would be a US-based research biotech with strength in oncology," says Turner. "I can't think who they would merge with in Europe, quite frankly."

Although its cash pile was slashed by around $700 million, due to the settlement of a Medicaid fraud case related to its AIDS wasting drug Serostim (somatropin), in the US (*Nat. Biotechnol.* **23**, 641–642, 2005), Serono exited 2005 with around $600 million and it also holds treasury shares valued at around $650 million, as a result of a share buyback program. "The treasury shares could be used to fund a paper deal," Turner says.

Koch says Novartis would benefit from acquiring Serono, as this would strengthen its relationships with the multiple sclerosis physician community and deliver additional marketing and development expertise in the area. Moreover, he says, it would also enable the company to offset delays to its FTY720 program. But "that doesn't seem to me to be a good enough reason to do an acquisition," says Denise Anderson, analyst at Kepler Equities in Zurich, as the emerging franchise is not yet priced into its stock. Novartis also spent over $14 billion on acquisitions during 2005. Koch says it has the financial flexibility to digest Serono as well. "All the indications we're getting do not point to a merger of equals."

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