

MEETING REPORT

GENENTECH, APPLIED BIOSYSTEMS LOOK FORWARD

SAN FRANCISCO—Biotechnology companies were impressively represented at the Fourth Annual Hambrecht & Quist Health Care Conference, held here in January. Amid the euphoria that comes with products on the market and soaring stock prices, two of the most impressive presentations were made by Genentech and Applied Biosystems.

Genentech (South San Francisco, CA), which was the second company in the entire conference to tell its story, can finally boast about marketing its own therapeutic: recombinant human growth hormone (hGH). Founder and chief executive officer Robert A. Swanson told the 700 attendees that sales of Protropin® exceeded \$5 million for the fourth quarter of 1985. He stressed that Genentech is not sitting on its laurels, however, and is working on a "second generation" growth hormone that will be identical to the natural substance. Swanson maintained that this effort is not due to any flaw in the efficacy of Protropin, but rather to give physicians a choice in recombinant products.

According to Swanson, Eli Lilly's sales of Genentech's recombinant human insulin doubled in 1985 to about \$60 million, and Hoffmann-La Roche has now completed clinical trials with the firm's alpha interferon and is awaiting U.S. Food and Drug Administration (FDA) approval. The most advanced therapeutic in Genentech's own pipeline is its tissue plasminogen activator, Activase™. The company is currently pulling together data from its phase III clinical trials in preparation to submit a New Drug Application to the FDA. In addition, the firm's gamma interferon is in the third year of clinical trials against certain cancers and viral infections, and Genentech's tumor necrosis factor (TNF) recently became the first TNF to be tried on humans. The company also plans to enter the clinic soon with gamma interferon in combination with TNF.

As Genentech completed its seventh straight year of increased profitability, Swanson could proudly report: "We have more recombinant products on or near the market, in pre-clinical development, in clinical trials and in research than any other company...large or small." He predicted that 1986 will witness Genentech's eighth straight year of increased profitability, with revenues increasing 40–50 percent over 1985.

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It doesn't take a certified financial analyst to tell that Applied Biosystems' sales have gone up, up, up.

Genentech seems determined to maintain its number-one position as well. Products in earlier stages of development, Swanson revealed, include alpha and beta transforming growth factors, prolactin releasing inhibiting factor, relaxin, subtilisin, and inhibin (the reproduction-regulating hormone Genentech just cloned in its collaboration with the Salk Institute). Having expanded its staff to about 900, is Genentech at risk of losing the entrepreneurial atmosphere that attracts top echelon scientists? Seemingly not: Swanson mentioned that the firm receives some 800 unsolicited resumes a month.

With the price of Genentech equity perched over \$70 per share (and the stock about to split two-for-one), some attendees wondered if it might be overpriced. Perhaps the \$1.1 billion dollar valuation on the company is high, admitted Hambrecht & Quist's director of healthcare research, David H. MacCallum. But he pointed out that the drug giant Merck, for example, is valued at about \$7 billion. Certainly Merck has a stronger current business than Genentech, MacCallum said, but Genentech's products in the pipeline look stronger than Merck's.

Applied Biosystems Still Growing

About 30 percent of the companies that made presentations at Hambrecht & Quist's annual healthcare showcase emphasize biotechnology. Indicative of the overwhelmingly positive attitude about this technology

for 1986, these firms took up an even greater proportion of the attendees' attention.

Another biotech success story—both in the marketplace and at the stock market—has been Applied Biosystems (Foster City, CA). Chairman and chief executive officer Sam H. Eletr pointed to uninterrupted growth, and \$35 million in sales for fiscal year 1985 (see figure). The company reports that it holds an 80 percent share of the automated DNA synthesizer market. Having established itself as a leader in biotechnology research equipment, Applied Biosystems' goal is to achieve the same position in related separations and protein analysis. Current products include a protein sequencer, an amino acid analyzer, two DNA synthesizers, and a peptide synthesizer. Later this year the company plans to introduce a DNA sequencer, as well as instrumentation to automate electrophoresis. Equipment to isolate and extract DNA should follow.

Eletr's vision is a start-to-finish system of Applied Biosystems products. "All of these products tie in together in a very nice way," he said. He believes that his firm's chromatography-based separations and purifications equipment, designed specifically to complement its own synthesis and sequencing instrumentation, will complete favorably in this specialized market. With a chromatography package already available for its DNA synthesizer, only one percent of Applied Biosystems' machines are being sold without it.

According to Eletr, the company's growth for the next few years will be limited only by its ability to hire and train new people. He foresees a 40 percent increase per year in both staff and sales during that period. "Biotechnology companies per se represent only 3–4 percent of our customers," he said, "We're not going to be market-limited for 2–3 years."

The company's most consistent hiring need involves bolstering its worldwide service network—because of the individualized nature of the equipment, the sale of every 20 new machines necessitates bringing on one additional service person. "In a business like ours," Eletr says, "if you're going to sell twice as many machines, you're going to need twice as many people to manufacture them, twice as many people to install them, and twice as many to service them."

—Arthur Klausner