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THE FIRST WORD  
WHEN IT CHANGED

On what is known in the United States as Ground Hog Day, Hoffmann-La Roche announced its \$2.1-billion acquisition of Genentech—or 60 percent of it, anyway. The focus of biotechnology suddenly seemed to shift from South San Francisco to Basel and Nutley, NJ, from start-ups to staid elder statesmen. The question of the day (and week and month) was whether this new binary would be the star other biotechnology companies would follow.

Did the Roche-Genentech deal change the world? Not really.

With many others, we have argued all along that biotechnology-based companies must fit into the context of the industry they want to join, an industry already in full swing, with market demands and dynamics that make the provenance of the product almost irrelevant. In the context of massive consolidation in the pharmaceutical industry, escalating entry costs, and the supreme importance of a marketing establishment, Genentech's backers have elected to play the drug-making game the way the big boys play.

While the West Coast of the United States has seemed the spiritual center of biotechnology, demographics have all along told a wider story. By whatever measure—from subscribers to *Bio/Technology* to concentrations of biotech suppliers—there is twice as much biotechnology going on along the Eastern Seaboard from Boston to Washington as there is on the West Coast from Mexico to Canada.

Still, we rooted for Genentech to make it on its own, the way the kids from the old neighborhood pull for the block's golden boy to become a star in the world outside—to start for the Yankees or sing at La Scala or win the Nobel Prize or scuff the dust of Mars with his boot.

That said, we must take particular issue with our colleagues across the Atlantic for their analysis of “Biotechnology eclipsed?—Genentech's rescue by Roche should raise questions about the procedures for approving new drugs” (*Nature* 343:494, Feb. 8, '90), which flew especially wide of its mark. The opinion proceeded from assumptions that would be debatable if they were not so patently wrong: First, characterizing the deal as a “rescue”; second, assuming that Genentech is endangered because it only “has two marketable products to show for ten years' hard work”; and third, attributing this putative lag to U.S. Food and Drug Administration discrimination against recombinant products.

In fact, of course, Genentech was doing rather well to win approval for two drugs; even traditional products must jump through regulatory hoops for a decade (okay, nine years, seven months and six days, on average). Biotech drugs have fared rather better than this, on average—which may be one of the reasons former FDA commissioner Frank Young lost his job.

And as for the buy-out being a rescue, consider the story Brook Byers (a partner at Kleiner Perkins Caufield & Byers, the venture capital firm that backed Genentech) told at our last PaineWebber *Bio/Technology* Biopharmaceuticals Conference:

In 1979, “while considering the strategic alternatives, we were in discussions with a large northern New Jersey pharmaceutical company with nothing going in biotechnology at the time. It was thinking of acquiring Genentech and asked what we thought was a fair price. We said \$60 million, and they came back and said not a penny more than \$50 million.” Less than impressed with this display of home-office pusillanimity, Genentech's backers sat tight. So last month, Roche offered the West Coasters \$2.1 billion for 60 percent of the company. Let's see, that's 2.1 divided by 60 percent—say \$3.5 billion total valuation if we don't worry about the repurchase schedules—that's about a 70-fold increase from \$50 million over ten years, so take the tenth root of 70.... Hmmm, that comes to an annualized increase in market valuation of about 153 percent.

Far from a rescue, then, the Genentech buyout represents the purchase of one real pharmaceutical company by another. It shows once again that biotechnology is an international, not a regional, pursuit. And it proves to investors that they can realize a reasonable return on their money within their own lifetimes. So perhaps nothing has really changed but the perspective of some of the observers.

—Douglas McCormick