FINANCE

BIOTECH IPO WINDOW CLOSING AS STOCKS FALTER

NEW YORK—The fabled "window" that allows biotech companies to go public is about to close, closing fast, or has already slammed shut, depending on which analyst is trying to peek through it. With Quidel (La Jolla, CA) reportedly cancelling its initial public offering (IPO), and firms like the Liposome Company (Princeton, NJ) and Syntro Corp. (San Diego, CA) scaling down their IPOs, this latest biotech boom is clearly on the wane. This could portend difficulties for firms that have just recently announced their intention to go public, such as Infergene (Benicia, CA), Microbio Resources (San Diego, CA), and the ICN Biomedicals unit of ICN Pharmaceuticals (Costa Mesa, CA). NPI (Salt Lake City, UT) is hoping to make its IPO this September.

"The quality of some of the biotechnology deals has not been what we'd like," reports Eugene Rothman of Alex. Brown (Boston, MA), and virtually all these IPOs have performed poorly on the stock market so far. Although some analysts are highly pessimistic about the future for biotech IPOs, Rothman maintains that if the stock market in general picks up, then the IPO window could reopen.

"For the start-ups that are going to be doing another two years of R&D before any products get to the clinical stage, the interest just isn't there right now," says Teena L. Lerner, senior analyst for biotechnology at L.F. Rothschild, Unterberg, Towbin (New York, NY). When the market psychology becomes critical of stocks in general, the near-term performance of companies becomes emphasized to a greater degree, she adds.

The stock prices of publicly traded biotech firms have come down anywhere from 15 percent to as much as 40 percent from their highs last June. According to PaineWebber, while all biotech industry segments performed poorly in July compared to the Standard and Poor's 500 Index, biopharmaceutical and supply/service companies fared the worst. Although most analysts believe that the stocks could go down another 25–30 percent, they do not expect the drop to be as severe as the one following the highs in 1983. Most of the companies are further along now, with products on the market and fewer losses on their balance sheets.

In the midst of these funding difficulties, a new financing vehicle has emerged for biotech companies: convertible subordinated debentures. These notes, which earn interest and are convertible into stock at specified (higher than current market value) price at a later date, represent a route into biotech for funds that must deal with income-bearing securities. According to Rothman, the debentures are a good way for a company to raise money as long as its stock price rises and the debentures are converted. If the stock price falls, however, the firm will be saddled with paying interest on its debt. Companies that have used or plan to use this mechanism include Bio-Technology General ($10 million), Immunex ($40 million), BioTechnica International ($25 million), and Bio-Response ($20 million).

—Arthur Klausner

A.D. LITTLE SEMINAR

'FARMERS CAN'T SUCCEED WITHOUT AGBIOTECH'

NEW YORK—"Non-commodity products" are the answer to the U.S. farmer's dilemma in the 1980s and 1990s. "And biotechnology gives the possibility of novel, non-commodity products," said Robert Bondaryk recently at an A.D. Little-sponsored seminar here devoted to "Biotechnology in Agriculture." Bondaryk, who specializes in agribusiness biotechnology for the Cambridge, MA-based consulting firm, stressed that over the next 15 years American farmers can either stay in the commodity game and do everything possible to reduce costs, or they can shift into the contract production of higher-value specialty products. DNA Plant Technology Corp. (Cinnaminson, NJ), he noted, is avoiding commodity crops via agreements, for example, with American Home Foods (New York, NY) for new popcorn products and with Campbell Soup (Camden, NJ) for improved tomato varieties.

Bondaryk disagrees with the U.S. Office of Technology Assessment (see *Bio/Technology* **4**:385, May '86) on the effect that biotech will have on the plight of the small U.S. farmer. He characterized biotechnology as "size-neutral," and said it would *not* hasten the decline of small and mid-size farms (although it will not save them, either).

PROJECTED CONTRIBUTION OF BIOTECHNOLOGY TO U.S. AGRIBUSINESS MARKETS

INDUSTRY	ESTIMATED MARKET, TOTAL (Million $)		MARKET ATTRIBUTED TO BIOTECH (Million $)	
	1990	1995	1990	1995
Seed	$ 5,300	$ 6,500	$ 53	$ 650
Crop Protection	5,800	6,800	45	160
Soil Treatment	10,000	11,000	40	200
Feed	19,000	20,000	95	190
Animal Health	2,700	3,600	300	1,100
TOTALS	42,800	47,900	533	2,300

Data courtesy Arthur D. Little Decision Resources

But the numbers attached to agbiotech products over the coming years are neither small nor mid-sized. Bondaryk predicted that sales of new agricultural products developed using biotechnology will grow to $530 million by 1990 from virtually zero today (see chart). From 1990 to 1995, agbiotech sales will climb 30–35 percent annually to $2.3 billion (close to 5 percent of the entire industry). He predicted that biotech will achieve the greatest penetration in animal health: by 1995 A.D. Little is looking for biotech-derived products and services to reach $1.1 billion, or 30 percent of this market.

Other A.D. Little insights into agbiotech included:

- The era of biotech start-ups is over.
- Several segments are already getting overcrowded, including micropropagated plants and, to some extent, animal disease diagnostics.
- Having biotechnology may be *necessary* for success, but it does not necessarily *guarantee* success.

—Arthur Klausner