BUSINESS

Swooping for biotech

Big pharmaceutical companies are moving swiftly to acquire biotechnology companies — especially if they can snap them up on the cheap. Meredith Wadman reports.

When Novartis announced a bid to buy Chiron, the California biotechnology company, earlier this month, the Swiss drugmaker trod a well-worn path. Most 'big pharma' companies know that their future rests in either buying biotechnology companies or getting into bed with them.

But as Chiron's directors rejected Novartis' first offer, analysts were asking whether a takeover would pep up Chiron, which has been hit by recent vaccine-manufacturing woes — or if it would just mark a release of cash to shareholders, and the end of a biotechnology success story dating back to 1981.

"Pharma is struggling on its own," explains Karl Heinz Koch, an analyst who follows Novartis for the Swiss bank Lombard Odier Darier Hentsch. "It needs the more dynamic biotechnology industry to deliver growth and value to investors."

Big drug firms "have lots of cash on their balance sheets", adds Geoffrey Porges, a biotechnology industry analyst with investment-research company Sandford C. Bernstein in New York. "They are now saying: 'We don't see enough opportunities internally to invest that cash, so we're going to look externally.'" Novartis is a case in point: the company saw its profits grow by 15% in 2004, to \$5.8 billion, on sales of \$28.2 billion.

Healthy appetite

But a deal that looks tasty to big pharma may appear less enticing from the other end. "One of biotech's major challenges is to keep itself distinguished from pharma, which has more headaches and crises than you can shake a stick at," says Arthur Caplan, an industry observer and bioethicist at the University of Pennsylvania in Philadelphia. Keeping a distinctive profile is "a real challenge" for the biotechnology sector, Caplan points out.

Novartis' wooing of Chiron is hardly a blind date. The drugmaker already owns 42% of the biotechnology company, inherited from Ciba-Geigy when it merged with Sandoz to create Novartis in 1996. And despite Chiron's coyness, it may welcome the interest. Chiron has had a rocky year since problems at its vaccine plant in Liverpool, UK, were revealed last October. Influenza vaccine sales alone fell by \$178 million in 2004, and profit margins fell by more than a fifth.

Drug target: Chiron could be facing an end to 24 years of independence — and research job cuts.

CHIRON

On 1 September, Novartis offered \$40 a share, or roughly \$4.5 billion, for Chiron, whose share price rose by 18% to almost \$43 (see graph). Four days later, the California company's directors pronounced that offer "inadequate". Negotiations are continuing, with reports that Novartis may increase its bid.

The putative deal reflects a growing appetite among the major pharmaceutical companies for snapping up small, creative biotechs with their innovative research and potentially lucrative products. GlaxoSmithKline joined in on 7 September, when it announced its agreement to purchase ID Biomedical, a Vancouver, Canada-based vaccine maker, for \$1.4 billion.

Novartis followed up its Chiron bid by announcing a subtler partnership with another biotechnology company. It will buy a 20% share in Alnylam Pharmaceuticals of Cambridge, Massachusetts, a collaboration aimed at developing drugs based on RNA interference, which uses recombinant DNA to block disease-causing genes.

The two deals may represent opposite ends of the spectrum in terms of how large drug companies treat partners in the biotechnology sector. In the case of Alnylam — founded by Nobel-prizewinning biologist Phillip Sharp of the Massachusetts Institute of Technology — the arrangement envisages Novartis pouring money into the smaller company, whose laboratories would basically retain their autonomy.

Shopping spree

In contrast, some analysts think that a takeover of Chiron would shrink the company's research. This employs more than 380 scientists at laboratories in California, with others elsewhere, and cost \$431 million last year. "There's a lot of cost savings Novartis can take out of Chiron," says Koch. "The large majority of its research and development cost is in biomedical research, which has not produced a single drug in eight years." Analysts also speculate that Novartis may finance any acquisition in large part by selling off Chiron's lucrative blood-testing business.

New York-based Pfizer has been even more active in biotechnology acquisitions. This year alone, it has acquired three privately held California companies: Bioren, Idun Pharmaceuticals and Angiosyn. And last week it bought Vicuron, a Pennsylvania-based maker of anti-infective drugs, for \$1.9 billion.

Drug companies have long bought biotech companies as a means of expanding their drug pipelines, but several factors have converged to accelerate the process. The industry has faced bad publicity — most notably surrounding Merck's withdrawal of the painkiller Vioxx (see *Nature* 436, 1070; 2005). And as lucrative drugs go off-patent, drug companies are under pressure from their shareholders, who may be placated by smart acquisitions.

It is also a good time to be shopping. Public offerings for biotechnology companies have generated disappointing returns lately, making companies more willing to be bought out. And stagnant biotechnology share prices make acquisitions relatively cheap. "This hasn't been a great year for biotechnology stocks," notes Brady Huggett, managing editor of *BioWorld*. "So biotechnology companies have often been pretty decent bargains."

Chiron's share price, for example, has slumped from \$57 in late 2003 to less than \$37 when Novartis made its bid. "The problems in the vaccine business have caused Chiron's whole business to be undervalued," says Porges. "Novartis is being opportunistic in trying to buy Chiron when it is back on its heels." ■