

DATELINE

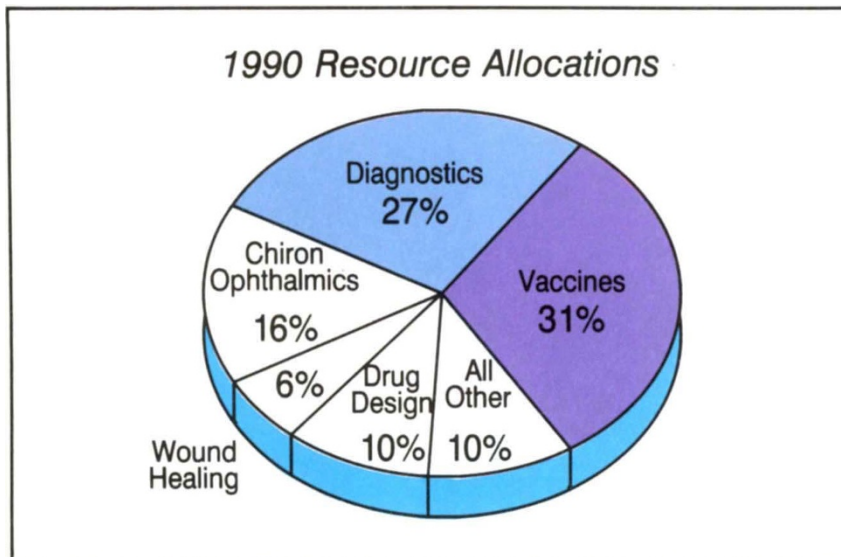
CORPORATE STRATEGY

CHIRON GREETS THE DECADE WITH DIAGNOSTICS

SAN FRANCISCO—For years, Chiron (Emeryville, CA) has focused on two core business segments: infectious diseases (including vaccines and related diagnostics) and growth factors (for applications in ophthalmics and specialty pharmaceuticals). But following the successful identification and cloning of the hepatitis C virus (HCV) in 1988, its research into infectious diseases has leaped into prominence (see chart). Now, with the subsequent development of a kit to detect the heretofore elusive HCV, the company is attempting to seize a sizeable market share in two important segments of the diagnostics business—blood-bank screening and confirmatory testing. And with the recent acquisition of DuPont's (Wilmington, DE) acquired immunodeficiency syndrome (AIDS) and hepatitis blood screening business, plus strong existing corporate partners—Ortho Diagnostics (a subsidiary of Johnson & Johnson [J&J], Rahway, NJ) and Abbott Laboratories (Abbott Park, IL)—to handle sales, Chiron appears poised to follow through on its plan.

The DuPont business, with more than \$40 million in sales to the blood-bank industry in 1989, includes highly valued instrumentation and software. DuPont also has the only Food and Drug Administration-approved Western blot confirmatory test for human immunodeficiency virus (HIV). According to Chiron president and COO Greg Lawless, "Other competitors will find it harder to service customers without a full spectrum of tests, including HCV." That should give the company and its partners market exclusivity for the full range of tests—including HIV, human T cell leukemia virus-1, adult T cell leukemia, hepatitis B surface antigen, hepatitis B core antibody, and confirmatory tests—for at least 2–3 years. Adding the HCV test (assuming U.S. approval in second-quarter 1990) should make the total retroviral market worth \$85 million to Chiron by the end of 1990, according to the company.

In the U.S., between one-half and three-quarters of one percent of all blood donors are HCV positive, according to Chiron vice chairman and



CEO Ed Penhoet. But because blood donors are not representative of the population at large, the real percentage of infected individuals may prove to be higher. "I'll bet that one percent of the U.S. population will be shown to be infective," Penhoet believes. And in Japan, he thinks the number will approach 3–4 percent. Viewed another way, about 50 percent of the population having hepatitis non-A, non-B will be diagnosed as having HCV. Thus, Abbott should continue to dominate the blood-bank business, observes Penhoet. "Not having a full menu of tests has always been a weakness" for other companies.

"Clearly," notes Penhoet, "we'd be stupid to say that hepatitis C has not transformed our company. Our investment in diagnostics would have been different without it." And by incorporating DuPont's technology, know-how, and sales expertise, says Penhoet, "all the pieces are in place." Adds Lawless, "We had a build-or-buy situation. We could have forwardly integrated on our own, but the acquisition gave us an immediate number two market share."

What of Chiron's work on growth factors? A long-standing program in wound healing with J&J subsidiary Ethicon "is not doing too well," admits Penhoet. "[It's] a difficult set of indications to pursue." Chiron's epidermal growth factor (EGF) is in the clinic, but Penhoet does not expect to

see a marketable product within two years. Using EGF intraocularly—to stimulate epithelial cells—is also a longer-term project for the company's ophthalmics group. And Phase II trials of insulin-like growth factor for treating catabolic states and certain classes of type II diabetics will first begin later this year.

Hambrecht & Quist (H&Q, San Francisco, CA) analyst Sarah Gordon sees a declining faith over the past two years in the potential for growth factors. Additionally, "EGF doesn't seem to be a particularly potent one, and so the company's 3–4 year lead time has been whittled down to nothing." Further, she adds, "wound healing is a question of formulation, and even J&J hasn't been able to do it."

But Gordon also believes that the fruits of Chiron's research have made things more upbeat at Ortho. "Sales people see hepatitis C as a savior; the division has been a drag on J&J." As for Chiron itself, Gordon, speaking at the recent H&Q Life Sciences Conference held here, made the company her number one pick for 1990. While she considers most biotech stocks—including Chiron—near full value, "The company has no special issues facing it. Expectations are not outrageously high, and it's well-financed." In such an environment, turning toward diagnostics, with its high profit margins, may indeed be a sound bet.

—Mark Ratner