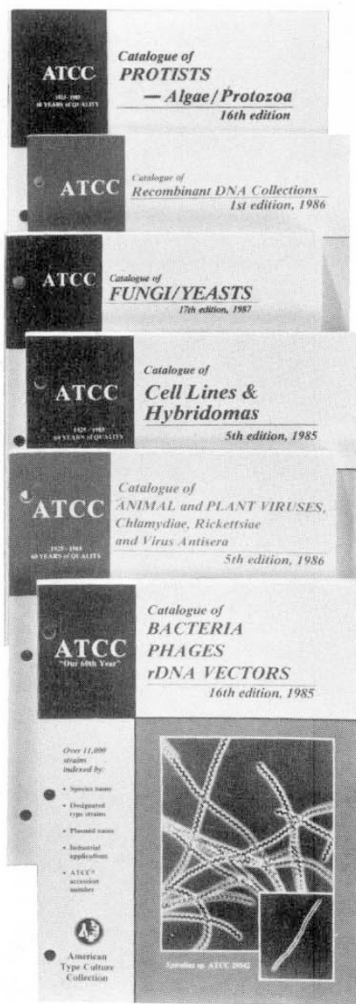


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### H&Q CONFERENCE

## ANALYSTS OPTIMISTIC ON BIOTECH

SAN FRANCISCO—Biotechnology once again dominated this year's Hambrecht & Quist (H&Q) Health Care Conference, the fifth annual and the largest ever. With more than 40 of the 125 presenting companies emphasizing biotech, these firms played to some of the biggest and most enthusiastic audiences of the meeting. Not surprising: After zooming up almost 130 percent in 1985, the biotechnology stocks H&Q follows again lead the investment bank's other three healthcare categories last year, this time with a more modest 35-percent increase.

Misha Petkevich, H&Q's biotechnology analyst, is looking for continued appreciation of these stocks in 1987, though he doesn't expect them to perform quite as well as they did last year. Some of his favorite stock picks are Centocor ("cheaper than Alza on a price-to-earnings ratio basis, and it has tremendous growth potential"), California Biotechnology ("valued at only \$60 million when you take out the cash"), Cytogen ("may be slightly overlooked"), Synergen ("the companies with products coming to market are more visible, but that doesn't mean the potential here isn't huge"), and Calgene ("soon it will be able to be evaluated on a price-to-earnings basis").

As usual, Robert Swanson, chief executive officer of Genentech (South San Francisco, CA), made one of the most impressive presentations. With three of the company's recombinant therapeutics already being marketed (human insulin, human growth hormone, and alpha interferon) and R&D spending for 1986 at the \$80 million level, Swanson emphasized excellence in marketing and distribution. Although Genentech's human growth hormone (hGH) has been selling at an annualized rate of \$50 million, he said this market would expand drastically if it included children who fall in the bottom three percent of the height distribution for their age—a quarter of these could be treated with hGH. Monitoring the use of hGH is a critical factor, Swanson said, and the firm is carrying out "the largest post-market surveillance program in history."

Genentech currently has 40 sales representatives and expects to increase these ranks to 60 by spring. With the company's tissue plasminogen activator (t-PA) poised on the brink of Food and Drug Administration approval, Genentech is creating a special computer program to handle

clinical data about t-PA.

*Fortune* magazine ranked Genentech as the 19th best performing stock of 1986, as it gained an impressive 144 percent in value. Hambrecht & Quist was an early investor in this biotech leader and, according to H&Q's J. Patterson McBaine, the investment bank gained more than 60 times return on its original investment. He pointed out, however, that if H&Q had held onto its Genentech equity, the stock would now be worth close to 500 times what H&Q had paid.

Other biotech concerns found themselves in the less enviable position of trying to convince the audience that their unimpressive stock prices have resulted from unfair treatment by the market. California Biotechnology (Mountain View, CA) chief operating officer Myron Wick, for instance, pointed to the ratio between market capitalization and net worth. He noted that CalBio's ratio of 1.7 is considerably lower than that of Chiron Corp. (3.7) and Amgen (4.3). Genentech's ratio, by the way, is 14.2, a figure that Wick could explain only as "a religion."

Monoclonal Antibodies Inc. (Mountain View, CA) was another firm attempting to explain its lagging stock price. President Thomas Glaze blamed the decline partly on the decision by Ortho Pharmaceutical Corp. (Raritan, NJ) to discontinue over-the-counter sales of the company's "Ovutime" ovulation predictor test, ostensibly due to shelf-life problems. Glaze pointed out, however, that Ortho was not marketing the product directly to consumers as it had planned, but rather was selling to physicians—thereby placing Ovutime in direct competition with Monoclonal Antibodies' own Ovustick™ self-test. Thus Ortho found itself in a market where it had little experience, and it used the stability problems as an excuse to drop out. Since Ovutime's withdrawal, Glaze reported, Ovustick sales have increased some 47 percent.

Monoclonal Antibodies' other problem centers around its patent dispute with Hybritech (San Diego, CA) concerning sandwich immunoassays: Recently the U.S. Court of Appeals reversed the decision of a lower court and ruled in favor of Hybritech. Glaze stressed, however, that Monoclonal Antibodies will appeal the decision to the Supreme Court, and that it is also designing its products to avoid the patented technology.

—Arthur Klausner

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