

ANALYSIS

Validating a business model

The merger of ValiGene (Paris) with Kimeragen (Newtown, PA) to create a new functional genomics company, ValiGen, is just the first step in the creation of a multi-technology company offering functional genomics services to the large company clients. The transaction, structured and implemented as a merger of equals, will also raise finance through a substantial (and oversubscribed) private placement, the amount of which has not yet been disclosed.

"We have created an integrated functional genomics system that spans the continuum from identifying genes...to validating the molecular intervention points used for targeting the development of new life sciences products," says Jean Louis Pourny, ValiGene's CEO, who will remain as CEO of the combined company, ValiGen. ValiGene's technology platform for identifying targets for therapeutic development layered two functional genomics approaches—a phenotype-specific gene identification system and a physiological and metabolic pathway tracker—over a SNP-based scheme for the identification and genotyping of genetic variation. The merger with Kimeragen adds a back-end technology—

chimeraplasty—through which model systems for validating potential targets *in vivo* can be produced. Chimeraplasty involves the use of DNA/RNA hybrid molecules and allows specific repair or replacement of small segments of homologous genetic sequences. The company intends to establish a facility in the US this year to produce animal models that will serve both for target validation and for any subsequent drug development undertaken by ValiGen and its collaborators.

Within ValiGen, the core use of chimeroplasty will be in the validation of genetic targets for the development of pharmaceuticals or crop improvement. But its applications in repairing human genetic abnormalities, in enhancing genetic traits in plants, and in animal transgenesis will also continue within ValiGen. The human therapeutics activities will be managed by gene therapy pioneer Michael Blaese, while the food and agricultural business unit will be directed by Keith Walker and based in San Diego.

Reportedly, the merger was instigated by Arthur Altshul, who was a shareholder in both companies. However, the real driver of the deal was the business need for small companies to

be able to present potential clients with an integrated package of discovery and development tools. ValiGene management has apparently been concerned that the company—despite achieving its technical goals—was failing to stand apart from other companies in functional genomics. The company was looking to add other capabilities and its management had been involved in discussions with at least two other companies besides Kimeragen.

The desire of large companies to access more comprehensive packages of genomics technologies is clearly driving a number of business strategies. Most notably, perhaps, Incyte Pharmaceuticals (Palo Alto, CA) has been actively spreading out from its genomics database roots. Its acquisition of Synteni allowed Incyte to offer parts of its EST library as microarrays to existing database customers; its acquisition of Hexagen (Cambridge, UK) population-based gene discovery capability; while its deal with Oxford GlycoSciences (Abingdon, UK) allows it to correlate protein and gene expression data.

ValiGene management hopes that its current technology platform, another plank of which is likely to be announced soon, will allow it to conclude two collaborations with major pharmaceutical companies before the end of 2001.

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