ANALYSIS

OGS tests mettle of merit-based investors in UK

In mid-February, Oxford GlycoSciences (OGS; Abingdon, UK) announced that it planned to raise £30 million (US\$49.5 million) through a public share offering on the London Stock Exchange (LSE). This made it the third UK company in 1998 to seek public finance, after Quadrant Healthcare (Cambridge) and Oxford Asymmetry (Abingdon, UK). Such a flurry of money-raising events has surprised some observers given that the depressed market for UK biotechnology company stocks over the past several months has been exacerbated recently by further adverse news.

Paul Triniman, chief financial officer at OGS, believes that the current time "is not a bad time to raise money." He points out that a successful private offering in late 1997 raised almost £10 million (US\$16.5 million) and that OGS has made a deliberate choice in going to the public market so soon: "We have enough funds in the bank today to last beyond the year end." The offering follows a series of positive events for the company including an agreement with Incyte Pharmaceuticals (Palo Alto, CA) in January and approval to begin clinical trials in the UK with OGT 918, a drug being investigated in the treatment of a range of glycolipid storage diseases.

Investor sentiment is still a fluctuating commodity when it comes to European biotechnology companies. A number of German companies hovering on the brink of public offerings are having to decide whether to tap into domestic money markets—which are currently highly enthusiastic about biotechnology—or to look to the more established markets in the United States (*Nature Biotechnology*, 16:226, March 1998). In France, Cerep (Paris), a drug discovery service company, has tasted investor fickleness over the last few months. In November 1997, it announced a public offering on the Nouveau Marche (Paris) but withdrew it in December citing depressed markets. Yet the company completed a flotation in February 1998 with the offering three times oversubscribed, admittedly in a scaled down form, from 400,000 shares at FF260–300 (US\$43–49) to 300,000 shares at FF225 (US\$37).

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The events leading up to OGS' public offering have not been auspicious. A few days before the announcement in February, the UK's erstwhile flagship company, British Biotechnology (Oxford, UK), announced that the European marketing approval application for its pancreatitis drug, Zacutex, would be delayed until further results are available in 1999. Then, on 6 February 1998, the biomaterials company, Biocompatibles (Uxbridge, UK) lost its CEO, Alistair Taylor, and its share price dropped 43%. Taylor resigned following a meeting of the company's board to review the company's commercialization strategy.

This bad news sullied Quadrant Healthcare's public offering, which closed in late February. Quadrant is a drug-delivery company specializing in the stabilization and

IMAGE UNAVAILABLE FOR COPYRIGHT REASONS

Paul Triniman, CFO of OGS: Now "is not a bad time to raise money."

Hawkins, an analyst with Dresdner Kleinwort Benson (London), the market makers for OGS, believes that investors are now judging biotechnology companies on their own merits. Timing an offering is now less important, he says. Duncan Moore, an analyst with Morgan Stanley (London), believes the UK sector is now at the same stage as US biotechnology was in the early 1980s, soon after Genentech (S. San

Francisco, CA) and Amgen (Thousand Oaks, CA) went public: "a feeding frenzy, then a slump," but ultimately successful.

Moore says that the fact that OGS is a platform technology company may also help its prospects. He contrasts companies that are valued on a small number of potentially huge products (e.g., British Biotech), with others that are modeled "along the lines of service businesses" (e.g., OGS, Cambridge Antibody Technology [Royston, UK], and Oxford Asymmetry).

Oxford Asymmetry, which announced its intention in January 1998 to float on the LSE to raise £20 million (US\$33 million), certainly is emphasizing its service role in its investment "roadshow." CEO Edwin Moses says that Oxford Asymmetry had been promoting itself as "not a biotech company" but a company that served the biotechnology, pharmaceutical, and agricultural industries. The company also has the added distinction of having been profitable for

the past 3 years. Its offering had not closed when *Nature Biotechnology* went to press.

Since the appointment of ex-Genentech CEO, Kirk Raab, as chairman in 1995, the restructured OGS has only retained a small focus in its original business of the manufacture and analysis of glycoproteins. Before this "complete metamorphosis," OGS had tried to make a public offering but the attempt ultimately faded. This time, with drug discovery programs and a clinical development group, together with platform technologies, such as the large-scale, high-throughput analysis of proteins (proteomics), OGS is robust enough to succeed this time, says Triniman.

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Relatively stable stock prices in Europe suggest investors are learning how to evaluate biotechnology company values. Source: BA Robertson Stephens International Limited.

delivery of drugs using technology based on the sugar, trehalose. The company managed to raise only £20 million (US\$33 million)—two-thirds of its maximum target. CEO Ian Ross defended Quadrant's decision to proceed with the offering, noting that the market was picking up in January. He said it was just "unfortunate timing" that their presentations to investors coincided with the bad news from British Biotech and Biocompatibles, claiming these events "took the shine off the market." Even so, Quadrant raised £5 million (US\$8.2 million) more than the amount the company had set as a minimum for the offering.

Despite the fluctuations that Quadrant and Cerep experienced recently, David