BIOTECHNOLOGY

A LITTLE SECRECY GOES A LONG WAY

Extensive research and development in other product areas continues at a highly productive pace. Some of this you have heard about, but much you have not. For business and competitive reasons, we have chosen to delay discussing certain products until they are further along the development pipeline."

Is this a pat answer from a medium-level corporate officer at Eli Lilly to a question from an inquisitive reporter? Is it a polite brush-off from a well-trained public relations executive at Johnson & Johnson? No, it's a quote from the 1983 third quarter report of a start-up biotechnology firm—Genentech, to be specific. This kind of attitude shift on the part of a genetic engineering company toward the secrecy usually manifested by the large pharmaceutical and chemical concerns may mean headaches for analysts and the investment community. However, it could be just what the stockholders of biotechnology companies really need.

The majority of biotech specialty firms have put themselves in a strange position. With few or no major products on the market, many of these companies have chosen to finance their R&D through public stock offerings. This means they have bared their proprietary souls to Wall Street analysts first through prospectuses, then to a lesser extent via the steady stream of 10K, 10Q, quarterly, and annual reports that follow. But it is the original prospectus of an early-stage genetic engineering company that yields the good stuff—the juicy, somewhat sensitive material that, under different circumstances, the company might prefer not to reveal. Because nascent research projects make up the bulk of these firms' corporate activity, R&D must be outlined in the prospectuses if they hope to sell their stock. Now, however, Genentech's public offering is a distant 3½ years behind us, and other companies have also put in a few solid years of research since their last stock offerings. In the interim, certain projects have taken shape and taken off, the emphasis of already-disclosed programs has shifted, and what once seemed promising lines of research have been abandoned. For the first time in their public lives, these firms have a chance to truly protect their proprietary interests. If they can keep their minds off the stock ticker, they should be able to avoid the myopic policy decisions that lead to prematurely optimistic announcements about research discoveries.

Even as the science advances at rates faster than some experts predicted, companies now have the chance to end or at least tone down the hype that has characterized—some would say plagued—the commercialization of molecular biology. A case in point may be the new clinical trials of interleukin-2. The truly spectacular aspect of the research is that less than two years after cloning the gene, industrial scientists are producing enough material to test in humans. However, press releases from companies like Cetus and Immunex, combined with the "sexy" clinical trials on cancer and AIDS, have distorted some observers' perspective on current accomplishments. Even if interleukin-2 is clinically effective, it won't be commercially available before the end of the decade at the earliest.

Since the development of the techniques that are just now beginning to let researchers take advantage of the awesome capabilities of molecular biology, there has been a contingent of cool heads cautioning that the commercialization of biotechnology will take longer than that of superficially comparable high technologies. Although, theoretically, it should not be any harder, coaxing microbes into doing what you want them to simply takes longer than designing a functional integrated circuit. This wait for results has made for some strange bedfellows: industrial scientists and investment bankers. In the process, it has altered—perhaps indelibly—the naive image of the absent-minded professor, and it has turned some venture capitalists into pseudo-scientists as well.

The Industrial Biotechnology Association sponsored a meeting last winter in not-so-sunny Fort Lauderdale, FL, for the biotechnology and financial communities. One of the recurring themes was information disclosure. The basic area of contention is that analysts crave more information than companies generally want to reveal. This is a fact of business life, but the press focused on the conflict, rather than on the cooperation that must exist between the two groups. E. F. Hutton's Nelson Schneider expressed it best when he attested that analysts do *not* want to learn and disseminate truly proprietary information about a company, but they do want to find out all they can just to the discussable side of this boundary. A sensible approach to classifying certain information as proprietary—while being forthright about the rest—would be the most appropriate corporate policy.

Due to the high-tech, high-risk nature of biotechnology, we can expect the roller coaster ride of exaggerated stock price movements to continue. However, as important products do become available on the marketplace (see page 499), the most dangerous action the fledgling industry can take is blowing its own horn too often and too loudly. Investors in biotech stock are the ones who have really banked on the future of the technology. Their interests will be served best by discretion on the part of the companies whose equity they own.

The recent *Business Week* cover story on commercialization of biotechnology was certainly appropriate—although the concurrent release of a *Venture* cover story on the same subject reminds one of the coincidences that placed rock-and-roll star Bruce Springsteen on simultaneous covers of Time and Newsweek. But *Business Week's* headline, "Biotech Comes of Age: More than 100 Gene-Splicing Companies Launch a Barrage of Products," can only be attributed to overenthusiasm on the part of a magazine and the people about whom it was reporting. Overplayed optimism today will lead to disappointment and disenchantment tomorrow about a technology that really will change people's lives eventually. These psychological shifts are in the best interests of no one except those who make their livings trading on the short-term fluctuations of stock prices. When biotech learns to keep its communal mouth shut—except, of course, to certain staff writers on certain publications—only then will it truly have "come of age."—Arthur Klausner