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UK biotech sector loses flagship PowderJect to Chiron

One of Europe's few profitable biotechnology companies, PowderJect (Oxford, UK), is losing its independence to US rival Chiron (Emeryville, California, USA) in an agreed £542 (\$890) million cash deal. Whereas the merger is a lucrative exit for PowderJect's investors, it could be a negative factor for the UK's stalled biotech industry.

Last October, Chiron expressed an interest in acquiring the company at a price rumored to be £455 (\$748) million, about twice its then market valuation, but PowderJect's board of directors rejected that offer as too low. PowderJect's investors would be wise to accept the new offer, which is 31% over the company's average share price for the three months prior to the deal, says Richard Parkes, analyst at investment bank ING (London, UK).

In this deal, PowderJect's profitability put it in a strong bargaining position to get such a high premium. The lesson is that a company in a strong financial position can find a partner with ease, and extract a good price from it. The corollary is that this is very much a one-of-a-kind deal, notes Julie Simmonds, biotech analyst at investment bank Evolution Beeson Gregory Research (London, UK). "I don't see any other UK company with such a concentration of assets that would make it such an obvious target for acquisition. Most of the others are too small to make a deal attractive to the US biotechs," says Simmonds.

Unfortunately, says Simmonds, the loss of PowderJect will not help the rest of the UK biotech industry. "To have PowderJect taken out like this—yes, it is very nice for the investors to get a return on their cash, but it is disappointing for the [UK] biotech sector," she says. She believes that PowderJect was taking steps towards becoming what you might call a 'proper grown-up' company within the sector. "We needed a few companies of that size and visibility to help drive the sector forward, and that visibility is lost when it is consolidated into a US business," says Simmonds.

There is unlikely to be much more con-

solidation in Europe because other European countries have an even less mature biotech industry than the United Kingdom, says Simmonds. "What we will see are the smaller, cash-strapped, companies having to sell off some technology and products, while those with a little more cash look around to pick up some cheap technology and stick on some bits of pipeline." But when consolidation deals do happen, they are likely to be "deals that are largely financings, where the acquirer issues new paper in return for getting hold of a cash pile," says Jesse Schulman, managing part-

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ner at the advisory firm Capel Thompson & Homer LLP (Twickenham, UK). "Cash transactions [such as the Chiron-PowderJect deal] are likely to be very much the exception."

But apart from providing a decent return for PowderJect's investors, there is a clear strategic rationale for the deal from PowderJect's point of view. Paul Drayson, PowderJect's CEO, says the merger will "create a broader base to its business, balancing its dependence on flu vaccine." Fluvirin, the world's second best-selling flu vaccine and one of only two injectable flu vaccines available in the United States, made up 59% (\$155 million) of PowderJect's fiscal year 2002 revenues. This dependence makes PowderJect vulnerable to competition or market shifts.

Meanwhile, the fast-expanding flu vaccine market is attracting big-name competition. According to Parkes, the imminent



PowderJect owes its success to its vaccine delivery technology.

introduction of flu vaccines produced in cells rather than in chicken eggs is a serious mid-term threat to PowderJect's flu vaccine franchise. Baxter (Deerfield, IL, USA), Aventis (Strasbourg, France), Chiron, Crucell (Leiden, The Netherlands) and Solvay Pharmaceuticals (Brussels, Belgium) are developing such quicker, more flexible cell-based methods.

Despite the depletion of Chiron's current liquid assets, which totaled \$843 million at the end of March, investors viewed the deal positively, driving Chiron's share price up 15% to over \$46 in the three weeks following the May 19 announcement. PowderJect's business will give Chiron an entry into the US flu vaccinations market and provide it with a steady extra cash flow for its own research into vaccines against influenza, meningitis and hepatitis C. Vaccines generated 31% of Chiron's \$219 million product sales in the first quarter of 2003, and it is the second largest producer of flu vaccines for markets outside the United States. Parkes says the acquisition would make Chiron the second-largest flu vaccine maker worldwide, with a 22% market share. John Lambert, president of Chiron's vaccine unit, says the vaccine market is "dynamic and growing," so the deal is not expected to trigger any job cuts.

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