DATELINE/

WHAT'S REASONABLE?

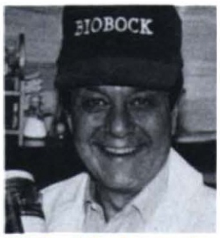
HOPE AND HYPE IN BIOTECHNOLOGY

NEW YORK—With all the leaps and lurches of biotechnology stocks, with the multitude of stock offerings last year and this year, with the rise and fall of great hopes for such key products as Centocor's (Malvern, Pa) and Xoma's (Berkeley, CA) anti-sepsis drugs, *Bio/Technology* thought it timely to raise some questions about whether biotechnology companies, with so few products to offer, were overselling themselves.

What's reasonable and what's not when a biotech company tries to explain itself to investors? What are some of the pitfalls companies should avoid? Is there, in fact, too much hype in biotech?

Bio/Technology asked a handful of people who view the buying and selling of biotech equity from a variety of vantage points. Below are their responses.

—Mimi Bluestone



Richard Bock is senior vice president for investments at Sutro & Co. (Los Angeles, CA).

As a stockbroker of some 36 years, the last ten of which I've specialized exclusively in biotechnology investments, I can say firsthand that there is no more hype in biotechnology than in most other sectors of the stock market. Unfortunately, because of the complex nature of the underlying technology, patents, and regulatory issues, emerging biotechnology companies are much harder to analyze and put a value on than your run-of-the-mill companies.

Biotech analysts are supposedly the ones who should cut through the hype instead of adding to it. I therefore find it absolutely incredible that not one of the 20 or so major biotech analysts called the Centocor/Xoma debacle correctly. To my knowledge, there wasn't one analyst who cut through the hype and said that neither Centocor's Centoxin or Xoma's E5 would get approved, costing investors over a billion dollars in losses.

The problem is simply that Wall Street analysts are paid to be bullish and to push stocks. Therefore biotech investors are well advised to buy on hype and sell on instinct. ///

One of the most important responsibilities of a company and its management is regular communications with the financial community, and one of its greatest assets is its credibility with this group. The process may seem complex and daunting, with so many players—analysts, institutions, media, collaborators, partners, investment bankers—involved in the process of valuation, so many companies vying for attention, cyclical opportunities to raise funds, and uncertainties and risks at every step in bringing a product to market. The high stakes to be gained or lost may present a variety of temptations to the players.

A company can only be responsible for what is in its control. The guiding principle is clear: be consistent and complete in communications with the financial community. Security and Exchange rules and scientific practice set standards for self regulation. A company should have consistent standards for disclosure that relate to any given point in its evolution. For example, a laboratory discovery may require disclosure for a small, young company, whereas a larger company may disclose only published clinical trial results.

Edward Penhoet is chief executive officer (CEO) of Chiron (Emeryville, CA).

If you are objectively confident of the importance of your news, and subsequent events establish its value, you are communicating appropriately. If the reasoning behind your disclosure is more hopeful than objective, and subsequent events prove so, you are hyping. Management—guided by legal and communications counsel—should be its own harshest critic. If a company applies consistently high standards to its communications, audiences have a yardstick for judging the importance of how and when you release news. ///

Earlier this year some companies that were working with conventional chemical entities portrayed themselves as biotech companies. These companies muddied the waters and are probably part of the hype. I refer to U.S. Bioscience (W. Conshohocken, PA) and MGI Pharma (Minneapolis, MN), whose products, I would argue, have no real claim to being biotech products. When they fail, it damages the whole industry.

For CEOs of *bona fide* biotech companies, there's a very important communications challenge: to talk about their industry in a way that people can understand. The analyst can play a meaningful role, but if analysts don't really understand things, they will disenchant investors. And if companies allow speculation about them to go beyond reality, they will suffer the consequences. Sometimes a company has to step in.

Jonathan MacQuitty is president and CEO of GenPharm International (Mountain View, CA).

Then we're dealing with another element, the Food and Drug Administration (FDA, Bethesda, MD). You don't always know exactly where you are with FDA. The agency also needs to be aware of the sorts of expectations that the industry has. FDA has a mission to help the development of novel therapies. I don't think it's in the agency's interest for a company to hit the wall and splatter all over. ///

Biopharmaceutical investors have stepped up to a betting window where risks are high but rewards are disproportionately rich. Once you have decided to invest in the biotech race, 75 percent of the investment decision should be based primarily on the jockey (management) and secondarily on the horse (enabling technology). Research and development is risky, and investors should go with management capable of creating other opportunities in the likely event of scientific failure. Bankers and analysts account for 25 percent of my selection process. They must be creative, enthusiastic, and committed to a