PAYING DOWN DEBT

ICI SPINS OFF BIOTECH UNIT

LONDON—ICI (London), the U.K. chemical giant, unveiled plans to split the company in two in six month's time to produce a new, slicker, publicly listed company called ICI Bio. ICI Bio would comprise ICI's existing life science businesses in pharmaceuticals, agrochemicals, seeds, and specialty chemicals and be headed by ICI executive director, David Barnes. Based on 1991 figures, the company would have a staff of 35,500, while ICI as a whole has 123,600 employees, and a research and development (R&D) budget of more than \$420 million, or 10.5 percent of ICI sales. R&D commitments are similar at other major bioscience, and specialty chemical companies, including Ciba-Geigy (Basel, Switzerland) at 10.4 percent of sales, Sandoz (Basel, Switzerland) at 9.9 percent of sales, and Monsanto (St. Louis, MO) at 11.5 percent of sales.

Why demerger? Sir Denys Henderson, ICI's chairman, says that the move will enable each of the business groups to meet the very different challenges they face. He also says that ICI Bio plans to raise new equity capital, perhaps to fund acquisitions. But the announcement of the proposal six months ahead of time—ostensibly because maintaining secrecy was becoming difficult—has lead cynics to suggest that this was a convenient way of masking a set of poor first-half results.

Net income in what would be the mainstays of the ICI Bio businesses in the first half of this year increased only £10 million to £1,540 million, and most of that could be put down to divestment of the Savlon antiseptic cream business. Pharmaceutical profits did rise by 3.4 percent to £241 million over the half year, but, significantly, in the second quarter they dropped 18 percent to £119 million, as the company's biggest selling drug, Tenormin, faced increasing generic competition. ICI's forecast of flat pharmaceutical sales while replacement products work their way through the development pipeline looks decidedly mediocre against the performance of some of its major competitors.

The performance in agrochemicals and seeds was also disappointing. Net income was down slightly over the half

year, while profits were down nearly 39 percent to £94 million. Cynicism will not be dampened by the realization that the final decision on whether the demerger will take place will coincide

by than a dull and cyclical chemical giant with a P/E of around eight. Financial analysts say that ICI needs to raise around £1 billion. Along with paying down debt, the cash might be used to engineer links with other pharmaceutical concerns through mergers, strategic alliances, or acquisitions.

If raising money is the main goal, how does the financial community feel about the demerger? "Demerging will not do anything for the company unless it can be shown that, as part of the larger group, management was being held back," says one analyst. "ICI Bio will have to change if it is to give shareholders more value. And if it does not, it will probably end up a very dull pharmaceutical company."

There is a feeling that David Barnes, although very capable, is not the chief executive officer to set potential investors alight. After becoming the youngest-ever director at ICI's pharmaceuticals division in 1971, he left pharmaceuticals in 1983 to head up ICI Paints, and in 1986 joined the ICI main board, with responsibility for pharmaceuticals, agrochemicals, and explosives. Although slated as a possible successor to Henderson as chairman, some analysts find it difficult to believe that he will shake up ICI pharmaceuticals sufficiently.

—Mike Ward

Ward is a freelance journalist in Oxford, U.K.

ICI'S BIOTECH EFFORTS

ICI Bio would essentially be a biologically oriented chemical company.

ICI is currently the world's third largest agrochemicals player, and ranks among the top ten seed companies. Yet it is only 17th in pharmaceuticals.

Its biotechnology portfolio includes protein-structure-based rational drug design, an extensive library of human genes in yeast artificial chromosomes, the use of genetic markers for agriculturally important traits in crop breeding, and the development of genetically modified insect-resistant and herbicide-tolerant crops. It has used antisense RNA to develop a slow-ripening to-

mato and is looking to use biological processes for the manufacture of such fine chemicals as benzene cis glycol, ephedrine, and pseudoephedrine. Already on the market are its DNA fingerprinting technology—through its subsidiary, Cellmark Diagnostics (Abingdon, U.K.)—and its biodegradable co-polymer poly-hydroxybutyrate/poly-hydroxyvalerate.

ICI has had its biotechnological disappointments. It invested \$80 million in Pruteen single cell protein, which failed in the food-supplement market. Cyclear, a product designed to detoxify cyanide-containing wastes, also failed. —MW

with the release of ICI's full-year results in six months. Furthermore, the announcement of the plan to sell equity is effectively a self-imposed gag that prevents the company from discussing its strategic plans.

Nevertheless, ICI does need to raise money to address its long-term debts of almost £2 billion. It will transfer a large portion of this debt to ICI Bio. ICI Bio, a "sexy" life sciences company with a potential price/earnings (P/E) ratio of about 15, might find cash easier to come

ENTER BIOTECHNOLOGY

THE PERFECT FOOD

TOKYO—Milk has been described as the perfect food, but of course, it's not. Neither are beef, tofu, corn, or wheat. In fact, no food is—unless it could be modified to supply the amino acids, minerals, vitamins, and fibers that it lacks in its natural state.

Enter biotechnology. Genetic engineering holds the promise of a brave new world in which foods can be tailored into "nutriceuticals" that provide not only a better overall nutritional profile, but address specific medical conditions in both preventative and

therapeutic capacities. "Biotechnology will be used to manufacture a variety of nutriceuticals," says Kiyoshi Nara, director of the Vitamin & Food Research Laboratories at Takeda Chemical Industries (Osaka). Indeed, a host of Japanese companies are pursuing nutriceutical research, including Suntory (Osaka) and Hayashibara (Okayama) (Table 1).

For its part, food modification by traditional processing methods is already well established. Witness low-fat milk with added protein and calcium. "But