

# San Francisco Chronicle

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## '08 was good year for big drugmakers

Bernadette Tansey, Chronicle Staff Writer

Sunday, January 18, 2009

Carmakers or retail executives might have wept if they had attended the recent J.P. Morgan Healthcare Conference, where big drugmakers trumpeted healthy sales increases that held steady even as the economy tanked in late 2008.



Paul Sakuma / AP

"Many people would like to forget 2008 very quickly," said Eric Hunziker, chief financial officer of Swiss drug firm Roche, as he reported high single-digit growth in pharmaceutical and diagnostic products. "I don't have any problem with 2008."

While profitable drug and biotech companies weathered the financial storm as consumers maintained spending on health care, the outlook was "gloom and doom" at the conference when it came to younger biomedical outfits that have yet to bring a product to market.

The hedge funds that used to finance public drug development companies have retrenched or gone away, said Dr. David Collier, managing director of the San Francisco technology venture firm CMEA Ventures. Venture capital firms, which nurture private biotech startups, are conserving their funds or leaving the sector.

"The universe of venture investors is definitely shrinking," Collier said.

### A media darling

In that atmosphere, the small private Brisbane company BiPar Sciences became a media darling when it announced during the conference that it had raised \$20 million. BiPar CEO Hoyoung Huh appreciated the attention but said his firm's fundraising success

hardly proves that biotech financing is in good shape. In the past, only deals worth hundreds of millions of dollars would have been noteworthy during the conference, Huh said.

"For the industry, it's actually not a good statement that there are not larger ventures being funded," he said.

Inventive young biotech companies, ironically, were the source of many of the commercially successful drugs that are now buoying revenues for big pharmaceutical companies during the global recession. The big drugmakers, facing patent expirations on their blockbuster medicines, have been buying biotechs or licensing experimental treatments from the smaller firms to bolster their product pipelines. In recent years, they've moved up the food chain to acquire large and profitable biotechnology leaders including Chiron, a former Emeryville company, MedImmune, Millennium and Imclone.

Two events in 2008 may further increase big pharma's footprint in the biotech world - Roche's announced plan to buy full control of oncology leader Genentech of South San Francisco, and the credit crunch that makes hundreds of biotech companies vulnerable to acquisition at bargain prices.

### **Impact of role model**

The loss of Genentech as an independent biotech leader will have a deep impact because it has been a role model for biotech startups and a business catalyst for the Bay Area, said BiPar's Huh. Top academic scientists, who once looked down on industry jobs, agreed to accept such positions if they could go to Genentech, which supports basic research, he said.

"If it becomes a Roche company, it has a different luster for the scientific community," Huh said. Roche already markets Genentech's cancer drugs outside the United States.

Hunziker, fully aware of that sentiment in the Bay Area as he spoke at the J.P. Morgan conference, repeated Roche's pledge that Genentech will remain a research center with a considerable degree of autonomy. The terms of the acquisition are still under negotiation. But Roche, Genentech's majority shareholder, is expected to top its initial offer of \$43.7 billion for the shares it doesn't own. No role has yet been specified for Genentech CEO Arthur Levinson, the scientist-turned-executive who may have made his final appearance as head of the company at the conference, the industry's signature annual event.

True to form, Levinson faced the sea of dark suits in the Westin St. Francis hotel's Grand Ballroom wearing a woolly earth-colored jacket and khaki pants ideal for professorial wear. While analysts waited hopefully for details about the Roche acquisition, Levinson

opened his talk with a lecture faulting the graphic representation of DNA on big conference banners and slides behind him.

"This is a left-handed helix. This does not exist in nature," he said. "We're a \$300 billion industry. We should get the structure of DNA right."

Along with a recap of Genentech's commercial progress, Levinson touted the number of scientific journal publications by Genentech scientists, which he said rivals or tops the record of Bay Area powerhouse universities including UCSF and Stanford.

## **Expiring patents**

Big pharma's takeover of such biotech companies, steeped in cutting-edge science, could save them from dramatic revenue losses as their patents expire. The big drugmakers have the chance this year to snap up further assets at low valuations as cash-strapped smaller biotech companies run out of options. Doubt remains, however, that large bureaucratic pharmaceutical companies can maintain the innovative, flexible culture that allowed biotech companies to outpace them in drug development.

Ten years ago, the big drugmakers maintained that their internal research units would outperform fledgling biotech companies, said Collier, the venture capital firm director.

But now they're remodeling themselves after the biotech companies they've acquired. Pfizer, the world's largest drug company, let go of 800 of its in-house scientists during the conference. At the same time, Pfizer's president of global research, Martin Mackay, recounted the "resounding success" of the firm's new bio innovation center based in the Bay Area, which is assembling a worldwide federation of associated external companies working on bio therapeutics.

In the same vein, Roche's Hunziker positioned the Swiss company in the biotech camp. "Roche is not big pharma," he said. "Roche is the leading biotech company in the world."

## **Reshuffling in the cards?**

Industry watchers, however, doubt that some pharmaceutical firms can restructure themselves fast enough to avoid plummeting revenues when their biggest sellers go off-patent. Analysts expect a major reshuffling of the pharma revenue rankings over the next five years.

In the meantime, biotech backers are hoping that Roche's purchase of Genentech will release as much as \$50 billion into the hands of non-Roche shareholders who may be willing to reinvest it into young biotech companies, said Matt Gardner, president of

Northern California's life sciences trade association, BayBio. But even that windfall could fail to prop up the cash-starved sector, he said.

"It might take quite a bit more than that to move the market," Gardner said.