

The Mercury News

The Newspaper of Silicon Valley
MercuryNews.com

http://www.mercurynews.com/breakingnews/ci_11847845?nclick_check=1

O'Brien: Biotech stays steadier than most sectors

March 5, 2009

By Chris O'Brien

If you're looking for a little sunshine after another week of grim economic and financial news, then turn your attention to the Bay Area's biotechnology scene. I did, and found something quite remarkable:

It's doing OK.

In an era when everything from jobs to the stock markets to venture capital seems to be collapsing in a heap of rubble, that's quite an achievement.

Biotech's steady hand is a reminder of why it's critically important to have a diverse economy. Silicon Valley has been blessed in this regard. The general impression is that this region is a hotbed of information technology and Internet companies. True, but it's easy to forget that the valley's innovation engine has also made it rich with companies in medical devices, early stage nanotechnology, some mobile computing and now green technology.

Many of those other areas — particularly the much-hyped green-tech sector — have overshadowed the continued strength of biotech. Biotechnology, while providing some remarkable scientific breakthroughs, and throwing off a fair bit of personal wealth, doesn't lend itself to many overnight success stories. Not when development cycles for new products take a decade or longer, and cost millions and millions of dollars.

To get some perspective on all of this, I checked in last week with Matthew Gardner, president and CEO of BayBio, the trade association that represents the local biotech industry. I wouldn't say that

Gardner was exactly giddy, but he did seem to have a much more optimistic outlook than folks I've talked to in other sectors.

"The biotech industry has stayed very resilient against the general downturn," Gardner said, noting that biotech stocks haven't taken the kind of beating seen elsewhere.

"It's a signal that things have held up nicely."

I checked out the Nasdaq's Biotechnology Index. It's currently at about 78 percent of its value a year ago, compared with 57 percent for the Nasdaq composite, 51 percent for the Standard & Poor's 500, and 54 percent for the Dow Jones industrial average.

Closer to home, the big biotech Kahuna, Genentech, still has a stock price that's up a bit from a year ago. Though this is probably due in no small part to the hostile takeover attempt by Roche. But even Gilead Sciences, another biggie, is down only slightly from a year ago. How many of Silicon Valley's tech companies would love to be in that position right now?

So what could put a crack in this relatively solid foundation?

Gardner indicated there are a couple of trends the industry is monitoring closely.

First, there is the emergence of what he calls the "valley of death." Gardner said there is a growing gap between how far academic research takes a new biotech product, and how soon venture capitalists will fund it. The biotech industry is hoping the government will step up with funds to bridge that gulf and keep breakthroughs flowing to markets.

There's already been some initial efforts in that direction, Gardner noted, with the National Institutes of Health allocating more than \$100 million to create a center at the University of California-San Francisco to speed discoveries from the lab to consumers. But BayBio, among others, believes much more needs to be done.

Next, like many industries, the biotech sector has seen the market for initial public offerings of stock slam shut. I've heard other folks in biotech worrying that this could be a bigger problem for their industry, given the intense capital costs of taking a product through years of testing. It's one thing if you're starting some Web 2.0 clone in your parent's basement, and quite another if you need to fund years of human testing to meet federal drug approval guidelines.

Gardner said so far he hadn't see signs of a direct fallout from the lack of IPOs. But he is watching closely for any sign that a company stops testing of a promising drug in a late-phase trial due to lack of funding from public markets. It hasn't happened yet. But if it did, that would be the red flag that the industry is headed for bigger trouble.

But as I mentioned before, even those concerns aren't exactly making Gardner lose sleep. Instead, he still's comfortable enough to say crazy things like this:

"At the end of the last year, the state of the industry was the best it's ever been."

I only wish more of us could say the same.