

BIOTECH EARNINGS JUMP IN QUARTER

Genentech leads the biopharmaceutical sector to a strong third quarter

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TAKEN AS A WHOLE, THE 25 BIOTECHNOLOGY COMPANIES TRACKED BY C&EN HAD A WILDLY SUCCESSFUL third quarter. Combined sales rose 22.3% to just over \$10 billion, and earnings rocketed up 56.4% to \$2.2 billion.

That success, however, is mostly due to the performance of a few highly profitable stalwarts like Amgen, Genentech, Gilead Sciences, Serono, and Novo Nordisk. Twelve mostly smaller companies lost money in the quarter, and six firms even saw their revenues decline.

Although Genentech has fallen to number two in revenues behind Amgen in C&EN's survey of biotech company earnings, it had one of the industry's strongest quarters. Revenues rose 45.7% to \$1.8 billion, and earnings jumped 47.8% to \$384 million. "Genentech's first nine months of 2005 have been exceptional," says Arthur D. Levinson, the firm's chairman and chief executive officer.

Genentech's success is due in part to physicians prescribing its products in areas outside of the approved indication, something the firm says its sales force doesn't promote.

For example, U.S. sales of Avastin, a monoclonal antibody for first-line metastatic colorectal cancer, increased 78% to \$325 million in the third quarter compared with the same period last year, partly because of use in other cancer indications. Likewise, Herceptin's 70% sales increase to \$215 million was aided by unapproved use as an adjuvant in breast cancer therapy.

Amgen, although eclipsed in profit growth by Genentech, didn't do too badly itself in the third quarter. Its earnings rose 27.2% to \$1.1 billion on a 16.3% revenue increase to \$3.2 billion.

Sales of Amgen's anemia treatment Aranesp continued to grow in the quarter, rising 38% to \$840 million. Enbrel, a treatment for psoriasis and arthritis that is comarketed with Wyeth, also grew strongly—35% to \$668 million. And combined sales of the infection fighters Neulasta and Neupogen enjoyed a 17% jump to \$882 million.

In contrast, Biogen Idec, the third of the big-three U.S. biotech firms, continued to struggle in the quarter, posting a 7.3% de-

BIOPHARMACEUTICAL COMPANIES

Strong results at most major firms lead to rise in revenues, profits in third quarter

	THIRD-QUARTER 2005							NINE-MONTHS 2005					
	REVENUES ^a EARNINGS ^b		CHANGE FROM 2004		PROFIT MARGIN ^c		REVENUES ^a EARNINGS ^b		CHANGE FROM 2004		PROFIT MARGIN ^c		
	(\$ MILLIONS)		REVENUES	EARNINGS	2005	2004	(\$ MILLIONS)		REVENUES	EARNINGS	2005	2004	
Amgen	\$3,154.0	\$1,067.0	16.3%	27.2%	33.8%	30.9%	\$9,159.0	\$3,095.0	19.9%	29.0%	33.8%	31.4%	
Amylin Pharmaceuticals	25.9	-69.5	93.3	nm	def	def	76.9	-139.6	177.6	nm	def	def	
ArQule	13.2	-0.9	-9.6	nm	def	def	40.6	-4.8	0.5	nm	def	def	
Biogen Idec	596.2	122.3	9.7	-7.3	20.5	24.3	1,789.6	377.1	10.2	-4.8	21.1	24.4	
Celera Genomics	2.1	-16.7	-78.1	nm	def	def	15.3	-53.8	-56.8	nm	def	def	
Celgene	129.5	10.5	27.6	-50.5	8.1	20.9	387.6	60.1	42.4	42.4	15.5	15.5	
Cephalon	309.5	46.1	18.1	-0.2	14.9	17.6	875.5	124.4	22.2	26.7	14.2	13.7	
Chiron	479.6	72.9	-9.4	38.9	15.2	9.9	1,305.7	95.5	1.3	-28.8	7.3	10.4	
Genentech	1,751.8	383.8	45.7	47.8	21.9	21.6	4,740.3	1,024.0	43.4	53.1	21.6	20.2	
Gilead Sciences	493.5	179.2	51.3	58.3	36.3	34.7	1,419.1	532.3	48.6	57.0	37.5	35.5	
Icos	20.8	-11.5	5.6	nm	def	def	52.6	-80.5	-3.0	nm	def	def	
ImClone Systems	106.5	31.0	9.2	-22.1	29.1	40.8	284.7	85.8	1.2	-32.3	30.1	45.1	
InterMune	36.6	-16.6	-2.4	nm	def	def	106.8	-52.3	-4.2	nm	def	def	
Isis Pharmaceuticals	7.5	-12.5	-17.6	nm	def	def	25.5	-41.8	-18.3	nm	def	def	
MedImmune	153.6	-60.8	65.7	nm	def	def	739.4	10.0	11.0	-62.8	1.4	4.0	
Millennium Pharmaceuticals	201.7	-6.5	83.4	nm	def	def	436.0	-65.9	25.3	nm	def	def	
Nabi Biopharmaceuticals	30.8	-16.1	-29.7	nm	def	def	82.7	-52.9	-40.2	nm	def	def	
Neurocrine Biosciences	64.7	26.2	86.5	nm	40.5	def	109.8	1.7	64.6	nm	1.5	def	
Novo Nordisk	1,038.9	282.9	21.0	205.5	27.2	10.8	3,928.7	753.6	15.4	31.5	19.2	16.8	
Protein Design Labs	76.7	-11.5	287.4	nm	def	def	193.3	-5	164.1	nm	def	def	
QLT	64.2	15.6	5.9	15.6	24.3	22.3	191.6	52.3	8.7	46.9	27.3	20.2	
Sepracor	205.7	-20.5	156.8	nm	def	def	509.8	-50.5	104.3	nm	def	def	
Serono	638.3	158.9	0.7	32.7	24.9	18.9	1,916.5	407.5	7.8	14.2	21.3	20.1	
Shire Pharmaceuticals	376.1	70.6	9.1	-16.2	18.8	24.4	1,134.4	242.2	14.6	-7.7	21.4	26.5	
Vertex Pharmaceuticals	36.2	-41.7	35.1	nm	def	def	97.1	-127.2	54.4	nm	def	def	
TOTAL^d	\$10,013.6	\$2,182.2	22.3%	56.4%	21.8%	17.0%	\$29,618.5	\$6,187.2	21.7%	38.4%	20.9%	18.4%	

^a Revenues include product sales, collaborative or contract R&D funding, and royalties. ^b After-tax earnings from continuing operations, excluding significant extraordinary and nonrecurring items. ^c After-tax earnings as a percentage of sales. ^d Percentages calculated from combined revenues and earnings. **def** = deficit. **nm** = not meaningful.

cline in earnings to \$122 million on a 9.7% increase in revenues to \$596 million. The firm's main growth driver was Avonex, a multiple sclerosis therapy, which had an 8% sales increase to \$375 million. Also important was the non-Hodgkin's lymphoma treatment Rituxan, which the company copromotes in the U.S. with Genentech.

In announcing earnings, CEO James C. Mullen noted that earlier in the quarter Biogen had launched a plan to cut its workforce by 17% while increasing outside business development activities. One result is a new partnership with Protein Design Labs to jointly develop and commercialize three PDL antibodies now in Phase II clinical trials.

Biogen also continues efforts with partner Elan to get the MS treatment Tysabri back on the market in the U.S. and Europe. Use of the drug was halted in March after unexpected patient deaths were uncovered during clinical trials.

The Swiss biotech firm Serono has two things in common with Biogen: high dependence on a single MS treatment and a mediocre third quarter. The company enjoyed a 32.7% increase in earnings to \$159 million but only a 0.7% rise in revenues to \$638 million. Its main revenue driver was the MS treatment Rebif, which now accounts for 55% of overall revenues after posting 19.8% higher sales in the quarter.

Like Biogen, Serono is pursuing outside partnerships and during the third quarter signed an exclusive license to develop and commercialize products from Rigel Pharmaceuticals' Aurora kinase inhibitor program. After the quarter closed, Serono took a bolder step and announced that it had hired Goldman Sachs to help it evaluate "various strategic alternatives," a term that typically means the company is up for sale.

ONCE AGAIN in the third quarter, the biotechnology industry's most profitable company was Gilead Sciences, which, unlike Genentech, Amgen, Biogen, and Serono, mainly markets small-molecule drugs. It reported sales of \$494 million in the quarter, up 51.3%, and earnings of \$179 million, up 58.3%. Its profit margin was 36.3%.

Gilead's strength is HIV products, where it had sales of \$364 million in the quarter, up 59%. Growth was led by Truvada, which combines the active ingredients emtricitabine and tenofovir disoproxil fumarate in one pill. Truvada is growing at the expense

of Viread and Emtriva, Gilead drugs that deliver just the single active ingredients.

Notably during the quarter, Gilead paid Emory University a historic \$525 million to eliminate royalties it pays on sales of emtricitabine, which was discovered by scientists at the university.

Vaccines played roles both good and bad for three biotech firms—Chiron, MedImmune, and Nabi Biopharmaceuticals—during the third quarter and beyond.

Chiron's revenues fell 9.4% to \$480 million, while its earnings rose 38.9% to \$72.9 million. Both numbers were impacted by the firm's well-known vaccine manufacturing problems: The revenue drop stemmed from a production setback at a German plant in third-quarter 2005, and the profit gain reflects a charge taken in third-quarter 2004 due to problems at a British plant.

Two notable events occurred after the quarter closed: Chiron won a \$62.5 million contract from the Department of Health & Human Services to develop an avian flu vaccine, and, even more significant, it agreed to be acquired. Novartis will buy the 58% of Chiron it does not already own for \$5.1 billion. The Swiss drug giant has vowed to increase both the quality and quantity of the vaccines Chiron makes.

MedImmune reported revenues of \$154 million, a 65.7% gain, but a loss of \$60.8 million. The company's main product is the monoclonal antibody respiratory virus treatment Synagis, which had worldwide sales in the quarter of \$101 million, up 66%. MedImmune is a niche player in the flu vaccine market with its FluMist nasal spray, which had sales of \$10 million in the quarter. The company could get bigger, though, depending on the results of a collaboration with the National Institutes of Health to develop pandemic flu vaccines.

Nabi reported revenues of \$30.8 million, down 29.7%, and a loss of \$16.1 million. Compared with the year-ago quarter, sales fell for its PhosLo phosphate binder and its Nabi-HB hepatitis B immune globulin, used in liver transplant surgery.

The vaccine news for Nabi came after the quarter closed, when it reported that its StaphVax vaccine for preventing *Staphylococcus aureus* infections failed to meet its primary end point in a Phase III clinical trial involving hemodialysis patients. The company says it is halting development of the drug while it assesses the trial results. ■



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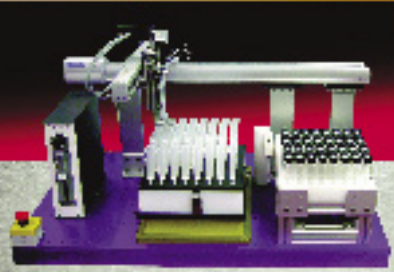
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