

▶ **Biotech industry outlook brightens**

Annual industry report predicts a very strong 2004 after a recovery in 2003.

BY ANN M. THAYER

Just over a year ago, most of the biotechnology industry was “running out of gas” and had little to offer in the way of good news, says G. Steven Burrill, CEO of the merchant bank Burrill & Co. But 2003 eventually shaped up and ended up dramatically changed from what he calls a “pretty ugly period” in 2002. In fact, 2003 turned out to be one of the best years for the industry since the boom year of 2000.

No one really needs to reiterate the problems of the past few years—the bursting of the tech bubble, the rise of terrorism, an economic downturn, and escalating corporate scandals—to understand why the biotech industry experienced hard times. This came on top of the already significant challenge of developing and commercializing new drugs.

These factors together contributed to the market for biotech stocks plummeting and then virtually closing by the end of 2002. Companies struggled to sustain themselves with limited capital available. Reorganizations and restructurings occurred daily, along with mergers and acquisitions sometimes born from desperation.

Prosperity returns

But as Burrill points out in his latest annual

report, *Biotech 2004—Life Sciences: Back on Track*, 2003 brought improvement both in external macroeconomic factors and in internal industry measures. Positive changes included new Medicare legislation, a rebound in company prospects with drug approvals, and a new FDA commissioner.

The FDA approved 25 new biotech drugs in 2003, up from 20 in 2002. “The industry has been very successful in bringing new products to the market,” Burrill says, “having a number of multibillion-dollar ones already and some big names yet to be approved.” He cautions, however, that upcoming patent expirations and the possible emergence of biogenerics could cause “significant potential erosion of the industry’s profitability.”

The biotech industry’s pipeline remains attractive to larger pharmaceutical companies. Partnering transactions continued at record levels, with 384 new collaborative deals signed in 2003. “What’s really interesting isn’t just the macro numbers, but that Big Pharma’s desperation to find innovation is very evident,” Burrill says. Companies like Merck, he says, “are emerging as major partners and paying a big price to do it.”

But Big Pharma has “stripped out most

of the things in Phase III trials,” Burrill notes, and is spending significantly more and digging deeper to get to products in earlier development. In 2003, they paid twice as much on average, or about \$30 million, for preclinical candidates and struck five deals, each valued above \$100 million, for drugs in Phase I.

Both large drug and smaller biotech firms have been using acquisitions to access new technologies and products. Several transactions valued above \$1 billion were announced in 2003, including Johnson & Johnson’s purchase of Scios and Pfizer’s buying Esperion Therapeutics. Burrill anticipates mergers and acquisitions will continue to occur in 2004, with at least one major “marquee transaction.”

Investment rises

The recovery in 2003 also translated into higher stock prices, and the industry’s overall market capitalization rose to about \$350 billion. This was up nearly 40% since the end of 2002, but still well below the \$500 billion high reached during the genomics bubble of spring 2000.

Investors were not deterred from putting even more money into biotech. Investment reached a three-year high of \$16.3 billion in 2003. Burrill predicts companies will bring in at least \$20 billion in total this year, having already raised \$5 billion in the first three months.

“We’ll see the stock market react favorably and, at the end of the year, stocks will be up some 25% on average,” Burrill says. He anticipates a total of about 25 IPOs this year. “The bad news is that there may be more IPOs than we have public appetite for, so we will likely see the market soften a little.” Other challenges ahead include public concerns about stem cells, cloning, and gene therapy; Medicare and product pricing issues; uncertainty with a shift in FDA leadership; and the presidential election.

But, Burrill concludes: “The industry is fundamentally strong today, coming off a very powerful technology base, a deep pipeline, an improving regulatory environment, and very impressive revenue growth.” ■

Biotech investment rose more than 50% in 2003

(\$ millions)	1999	2000	2001	2002	2003
Public sources					
Initial offerings	\$670	\$6,490	\$440	\$445	\$453
Later offerings	5,805	12,651	2,539	979	3,536
Equity	1,433	4,061	1,741	907	2,051
Debt	1,520	5,728	4,848	5,251	7,170
Private sources					
Venture capital	\$1,084	\$2,872	\$2,397	\$2,688	\$2,841
Other	184	203	9	178	294
Total	\$10,696	\$32,005	\$11,974	\$10,448	\$16,345

Source: Burrill & Co.