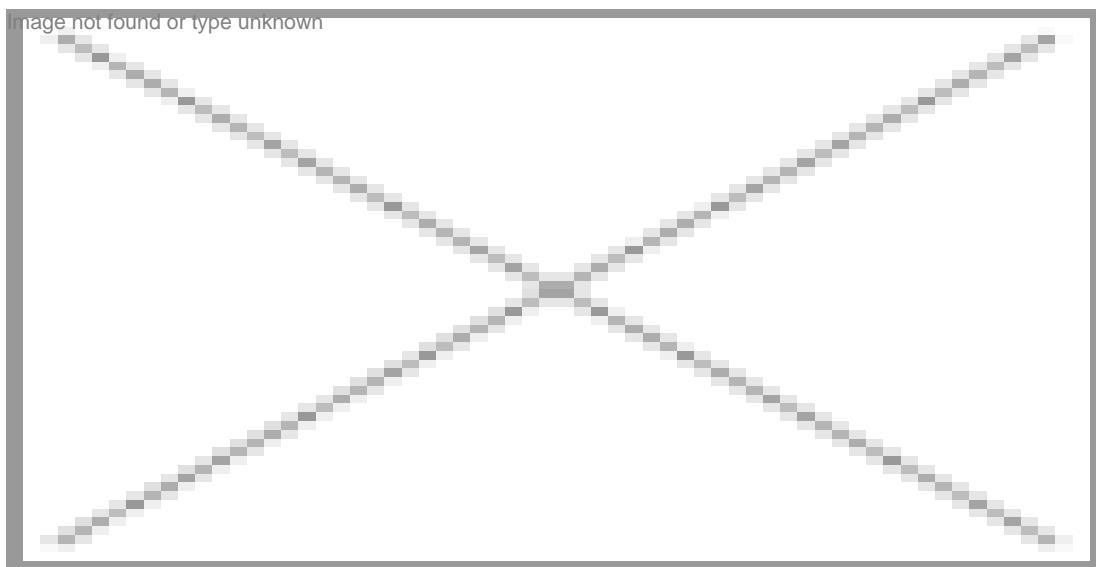
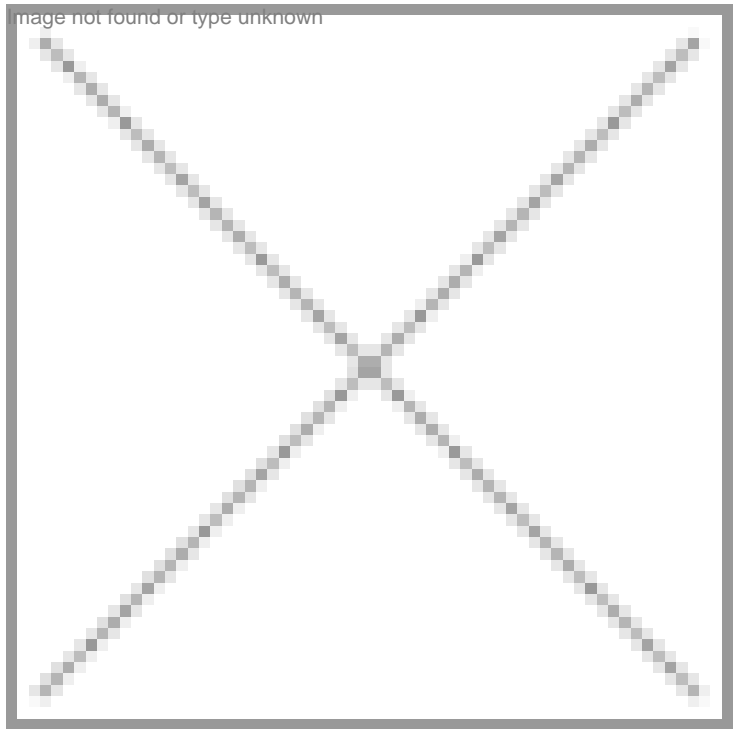


Biotechs get closer to the tipping point

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For biotechs, it's business as usual—So said Mr Glenn Giovannetti, Global Biotechnology Leader at Ernst & Young. He was assessing the impact of economic downturn and the approaches biotech firms are using to remain afloat and make a dash for growth. The context: He was chairing the session on: “Biotech: The New Normal” at the world's largest biotechnology event BIO International Convention 2010 (May 3-6, 2010) at McCormick Place in Chicago, US.

Overall, last year has been very tough. In the US, 50 publicly traded companies went bankrupt for lack of access to capital. However, biotech industry has weathered the storm and stands pretty much in good shape. "Biotech stocks have outperformed virtually every other index in the first quarter of 2010 and the Nasdaq Biotech Index has climbed back to a point even higher than it was when the market peaked in 2007. The markets are coming back and biotech has come back faster and stronger," said BIO President and CEO Mr James Greenwood.

The "Oracle of biotech industry", Mr G Steven Burrill, at his customary 90-minute address echoed the same sentiment. According to Burrill, the most remarkable development was the fact that in such a tough year US biotechnology companies raised over \$55 billion (\$18 billion in financing and \$37 billion in partnerships), and saw an increase in market capitalization of over 21 percent. Today, 56 of the 312 publicly traded biotech companies have a market capitalization of greater than 1 billion. The year before 49 biotechs made the cut to billion dollar club. What's even better is that these successes were not limited to traditional segments such as industrial biotechnology.

Just compare this with the traditional big pharmaceutical firms. Over the last 10-year period big pharma have lost 51 percent (\$516 billion) in market capitalization and total financial returns for several companies such as Eli Lilly, Pfizer and Merck was negative over this period.

In the changing business environment the companies that will be successful are the ones that adapt fast. Take a look at what all has changed in the last couple of years-pharma industry blockbuster model has run its course; industry is restructuring and refocusing; Emerging markets (BRIC plus MENA) have trumped traditional markets (US/Europe/Japan); Technology and what it is enabling is redefining the world. Nobody has any doubts that by 2020 the future will be very different from today. Just what exactly will it be, is what everybody is grappling with. The biotechs at this point have to contend living with the "New Normal".

So, what is this "new normal"??

While industry analysts agree upon that biotech companies in the US, Europe and Canada have raised more capital in 2009 than for the corresponding period in 2008 a significant portion of this was raised by a handful of established public companies via follow-on offerings. Access to capital remained scarce. Emerging companies with early stage projects continue face the same challenges. In fact, they face the same set of challenges even more intensely in today's business environment. On top of that IPOs are not what they used to be.

After plummeting down during the financial crisis, IPOs are beginning to come back in the US with about seven companies having IPOs in 2010. However, the amounts raised were much less than what similar IPOs had commanded prior to 2008, and the share price for more than half of these companies had dropped from 1-22 percent from the offering price. Even though, another six biotech companies are set for IPOs in 2010.

Adapt = Success

According to Mr Burrill, the key to success, in this changing business environment is adaptation. "It is not the strongest of the species that survives, nor the most intelligent, but the one most responsive to change." Drilling this core message, originally made famous by Charles Darwin, Burrill recapped the environment for the industry leaders. Adapting for success essentially involves being aware of the direction changes are taking place and aligning with these. Healthcare reforms in the US, which currently is more of an insurance reform; emerging markets which are changing the global focus; regulation on genomics which is probably slowing the pace and above all technology which is constantly evolving dynamically changing the way healthcare is delivered and throwing up many possibilities with a great potential to affect the quality of life, the world over.

Key changes that businesses can look out for:

- Continued impressive developments in science/technology-More genomes sequenced, human genome sequencing will become affordable.
- Regenerative medicines/stem cells will see real progress; consequently personalized, predictive, preventative medicine will also progress; Antibodies vaccines will be big;
- Regulatory world more complex, more international-Pharmacovigilance and cost effectiveness will acquire more importance; manufacturing/QC issues will spur action;
- Growth of generics/ biosimilars
- Dramatic changes in pricing/reimbursement on Rx side; Dx generating increased value
- Global markets increasingly important-China/India/Brazil (and all of Latin America), MENA
- Bio pharma consolidation continues evolution from vertically integrated to more virtually integrated; more distribution focused
- Biogreentech is hot
- Funding world improving-Capital is available, but expensive and demand overwhelms supply of capital

• Increased globalness-arbitrage value difference

• Technology convergence is driving the way healthcare is delivered-making a difference on many fronts and this integration is something businesses need to look at as an opportunity to deliver better products. According to Burrill, essentially, a focus on delivering for the future is required. The businesses that will survive and succeed are the ones that will adapt and respond to these developments in their environment with speed.

Nandita Singh in Chicago, US

Some interesting facts

When Roche bought Genentech, it was valued at \$100B, and Pfizer was \$91B

• Today's market caps:

Biotech

• Roche \$142B

• Amgen \$56B

• Gilead \$43B

Pharma

• Pfizer \$145B

• Bristol Myers Squibb \$49B

• Eli Lilly \$40B/ Bayer \$39B

• The top 5 pharma companies have lost 15% of their market capital in the last five years

• Biotechs have appreciated 22% from market lows in March

• 312 biotechs are publicly traded on major US markets today with an aggregate market cap of \$356 (In 2009, 356 companies, \$391B market cap)

• 56 of those have market caps greater than \$1B (2009 \$49)

• 10% are trading below their cash level (70 companies 12/31/08, ~20%)

• 40% have a market cap below \$100M (2009 \$38%)