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European Biotech Industry Looks Ripe for Consolidation

Seeking Safety in Critical Mass as Funding Opportunites Wane

Too Many Companies Are Competing for Cash

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DOW JONES NEWSWIRES

PARIS — The biotechnology industry is ripe for a bout of consolidation, given the demise in the initial-public-offering market and the difficulties facing publicly listed companies wanting to raise cash.

That may sound a familiar cry — biotech followers have talked about consolidation in Europe for two or three years, but only a handful of deals have materialized. But things are different this time, they say. There are plenty of biotech groups that need additional funding, but equities investors have no appetite for such financing right now. So one option is to seek safety in critical mass through mergers and acquisitions.

"A boatload of public companies are up against the wall," said ABN Amro analyst Nick Woolf, "it's an obvious market for consolidation."

While there is still some venture capital available, there's not enough funding to go around. There are just too many biotech companies in Europe competing for cash. On average, European biotech firms are about one-third the size of their U.S. counterparts and without critical mass, they're less insulated from product failures.

What's more, more big pharmaceutical companies are on the prowl for in-licensing opportunities, including the world's two biggest drugs groups Pfizer Inc. and GlaxoSmithKline PLC.

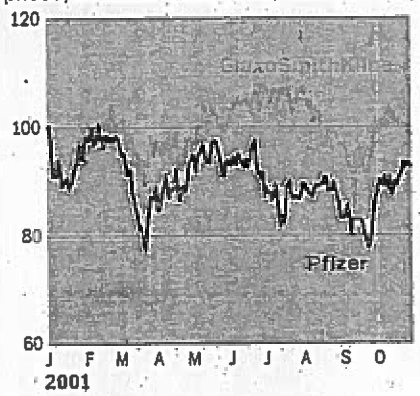
"Anyone with cash is looking at bombed-out assets," said Sam Williams, an analyst at Robertson Stephens.

In combination, all these factors mean that Europe's biotech industry may be on the crest of a massive M&A wave.

"Ask any CEO if they're talking about M&A and they'll say they think about it every day," said Michael Ward, head of biotechnology at brokerage firm Friedman Billings Ramsey. "They need to raise money."

Come Together

Pfizer and GlaxoSmithKline PLC closing prices, rebased with Jan. 1, 2001 as 100



Source: Thomson Financial Datastream

With 1,500 biotech groups across Europe, the permutations for M&A are endless, but experts reckon smaller European biotech companies will likely marry among themselves where they have complementary, rather than overlapping, technology.

For example, a genomics group merging with an antibodies specialist makes more sense than two genomics groups doing a deal. Genomics or platform companies pinpoint a drug target, and generate royalties from products that use those targets. Antibody companies discover and develop drugs using that data. That makes them ideal partners.

Vertex and Aurora, which came together this year, fit this model.

"Only a certain amount of money can be generated from royalties," said Mr. Ward. "You can't get away with having one piece of the biotech jigsaw anymore."

Industry observers said likely M&A candidates include France's Genset, formerly a platform-based company that now wants to develop drugs, and the U.K's Pharmagene, a drug-discovery and -development company. As of Sept. 21 both had market capitalizations equal to or less than their June 30 cash levels.

"Genset is in such a poor condition it could be acquired," says Jean-Pierre Loza, an analyst at Natexis. Genomics pioneer Genset — best known for its work on the Human Genome Project — lost its way after setting its sights on products.

Genset's latest setback is the delay of clinical trials for its antiobesity drug, Famoxin. But the company still has a world-class database that might interest acquirers.

Also on that list is Italian cancer-drug company Novuspharma. It "might not have a lot of cash but it has been quite successful with cancer products," said Mr. Ward. Plus, he added, its low market capitalization on Italy's low-profile Milan Stock Exchange makes it vulnerable.

A key product is anticancer drug BBR 2778, which the company said showed promising results for multiple sclerosisS in tests. Phase III trials on the drug start this year. Potential buyers include British Biotech, Biogen, Genentech and Amgen, as well as drug discoverer Cerep of France.

"Cerep needs to expand its platform but hasn't got the resources to focus on drug discovery," said Mr. Woolf of ABN.

Another possible M&A candidate is Morphosys of Germany, which competes with the U.K.'s Cambridge Antibody Technology Group. Investors have been clamoring for products — no easy feat as the company lacks cash. Genset and Morphosys are certainly cheap. Their stock prices are 60% or more off their 52-week highs.