



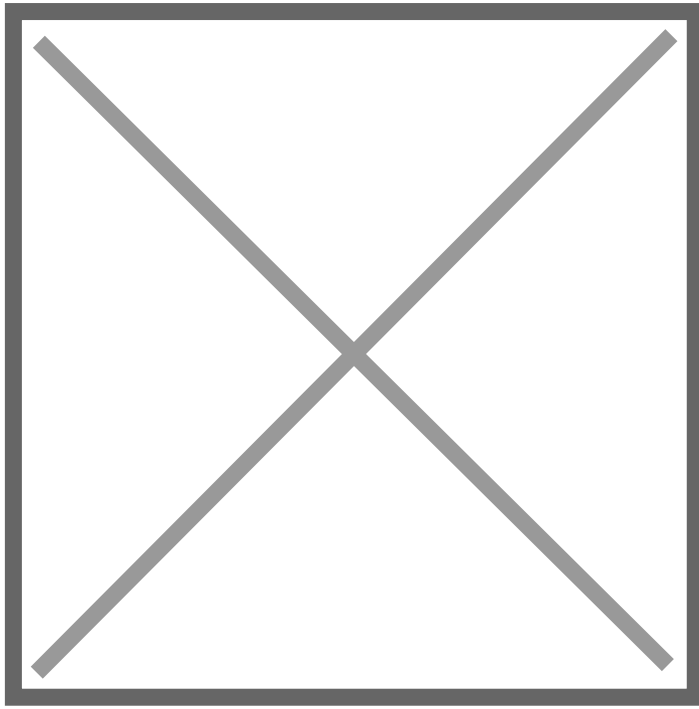
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Global biotech crosses \$60-billion mark

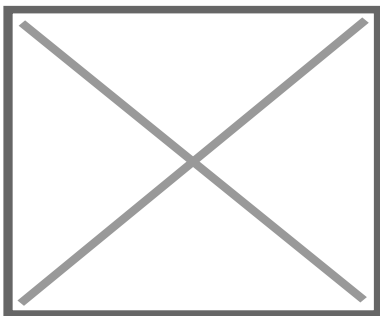
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Global biotech crosses \$60-billion mark

Revenues of publicly traded biotech companies worldwide grew 18 percent in 2005 to \$63.1 billion, an all-time high in the sector's 30-year history.

- E&Y counts public companies grew in double digits to cross industry revenues of \$60 b
- Asia-Pacific becomes first region to achieve aggregate profitability in biotech
- India, China continue to attract attention and partnership deals in 2005
- Aggressive Indian investments in stem cell research, bioinformatics, vaccine delivery systems-



The global biotechnology represented by publicly listed biotech companies, has crossed the \$60 billion industry revenue mark in 2005, according to the 20th anniversary edition of Beyond Borders: The Global Biotechnology Report 2006 by leading professional services firm Ernst & Young. The report was released at a special session of the BIO Annual Convention 2006 in Chicago.

The releasing of the 20th annual report also saw the rechristening of the E&Y division which produced this report, as the Global Biotechnology Center. "When we released the first report, there were many skeptics. Now the industry has proved that it is here to stay. And we also know that sky is the limit for biotechnology," remarked Donn Szaro, E&Y global leader on biotechnology while unveiling the report at a crowded session. The session coincided with the plenary speech by former US

President Bill Clinton.

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Strong performance and growth globally

By every performance indicator, the global biotechnology industry showed robust growth in 2005. "Since our first report 20 years ago, we've seen historic scientific advances and dramatic changes in market conditions combine to produce a rapidly maturing industry," added Szaro.

"The global biotechnology industry's revenues are growing at strong rates; product approvals are bringing innovative drugs to market, and the long-elusive goal of profitability is quickly approaching," said Donn Szaro.

Key highlights:

- Revenues of the world's publicly-traded biotech companies grew 18 percent in 2005, reaching an all-time high of \$63.1 billion.
- As revenues increased, the industry's net loss decreased by a dramatic 30 percent, to \$4.3 billion. The United States, Canada, and the Asia-Pacific region collectively improved their bottom line by about \$3 billion.
- In 2005, strong product sales boosted sector revenues in the US biotechnology sector by about 16 percent. The industry secured 32 new product approvals in the United States, including 17 first-time approvals.
- For the first time ever, European biotech sector raised more than the U.S. sector through IPOs; with number of IPOs at 23, compared to 8 in 2004.
- The European sector emerges from a lengthy restructuring period and revenues

While outsourced manufacturing and research represents cash cows in the near future, Asian companies will move from the fee-for-service model to the more lucrative, though more risky, innovation model, says the report.

According to the report, the biotechnology sector's growth in the Asia-Pacific region outpaces its performance in other parts of the world with a scorching 46 percent increase in revenues. In 2005, Asia-Pacific has become the first region to reach aggregate profitability in biotech. Asian governments see biotech as a natural fit and the next big thing because it is a technology-based industry with tremendous growth potential in the decades ahead. Asian biotechnology executives and policymakers are focusing strategies toward strategic niches in their efforts to remain competitive.

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Biogenerics segment

Outlining the highlights of the Asian biotech sector, Utkarsh Palnitkar, industry leader - health sciences, Ernst & Young India said "India's generics firms are positioning themselves to play a big role in the evolving biogenerics market. With our advantage in information technology and access to well-trained and relatively less expensive human capital, India is also well poised to become a hub for processing and managing clinical data. Further, stem cell research will also help India create a niche"

Deals were a key driver in Asia-Pacific, where companies formed partnerships to position themselves in an environment characterized by brisk growth, increasing competition and sweeping regulatory changes. China and India continued to attract attention and deals, motivated by the desire to increase access to these large and growing drug markets, and by the need to lower the costs of drug development. According to the report, number of deals in vaccines was energized by concerns around the avian flu, SARS, and biodefense products, while looming patent expirations led to increased deals in the generics segment.

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India: Increasing confidence

With India becoming a signatory to the Patents Law, the rule of the game has changed for the Indian companies and they are repositioning themselves for increased competition and new niches. With the patent regime coming into force, domestic and international companies, most of who have set up their base in the country, are eagerly conducting research and development activities in India.

According to the report, partnering has also evolved from manufacturing and research agreements to active participation in global initiatives in front-end technologies. India was among the 10 nations that co-operated in a project to sequence the rice genome, successfully completed in 2005, it says.

The proposal to create the National Biotechnology Regulatory Authority (NBRA) will encourage efficient and professional regulation. The draft National Biotechnology Development Strategy released recently has proposals to give an impetus to the industry.

The Indian biotech sector has not only attracted funds from international organizations like the World Bank, but now companies are successfully tapping investors for cash, with some hedge funds also joining the momentum. All this reflects growing investor confidence in the sector. However, the high risk factor has deterred active flow of venture capital into the sector.

The report says that finding suitable valuation benchmarks in the Indian biotech sector is often a challenge, and a changing regulatory and policy structure adds to the complexity of valuing companies. "Seed capital to fund startups will be critical for the growth of India's biotech sector and government incentives or initiatives to spur seed capital hold the key to investments in this sector," said Palnitkar.

The foreign companies are increasingly recognizing the latent Indian biotech potential resulting in many outsourcing partnerships evolving into equity investments. Similarly, Indian companies are expanding and scaling up manufacturing capacity to become global players. India is rapidly moving from label extension support center to include global pivotal studies and the growing generics industry is boosting the flow of pharmacokinetic studies to the country. Indian companies are identifying areas of comparative advantage and leveraging them to compete globally.

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Stem cell research

While stem cell research has raised some debate in the west, huge investments have been flowing to India in this field, says the report. Similarly, the strategic emphasis in India has now shifted to developing new vaccine delivery systems instead of just manufacturing vaccines in bulk to maintain the cost competitiveness.

Changes are also occurring upstream through enhanced capabilities in conducting discovery research, and downstream, primarily in the capacity to manufacture biopharmaceuticals. Cross border services in molecular diagnostics and genetics are expected to grow, given India's strong value proposition in this space, points the report.

However, expanding India's highly skilled labor pool will be critical to industry growth. A comprehensive strategy is needed for boosting education in all aspects of biotechnology to provide a clear mapping between education and industry opportunities.

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Product theme

The next big step for India anchors on product theme, as most current research programs bear fruit by end of the decade. The range could be impressive, including biogenerics, novel therapeutics, vaccines, biochemicals, nutraceuticals and cosmeceuticals. This would finally progress to the stage where Indian biotech expands globally. According to the report this will be driven by domestic innovation, competitive cost, availability of valid data, and viable business models that have already been tested in India.

Narayanan Suresh in Chicago

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