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# Global Biotech $70 Billion and Counting

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*Industry all set to cross $100 billion in revenues by 2010, forecasts Ernst & Young*

According to Ernst & Young's 2007 Global Biotechnology Report, released at BIO 2007 in Boston, the biotech industry made historic progress with strong product pipelines and product successes, record-breaking financing totals, unprecedented deal activity and impressive financial results. This trend is reflected in the strong financial performance of the global biotech industry. The global biotech revenues of public listed companies in 2006 grew to $73.5 billion, recording a 14 percent growth over that in 2005 ($64 billion).

Further, according to the report, all the leading regions of the world recorded double-digit growth. The US and Europe recorded 13 percent growth each and Canada registered 22 percent.

"The industry in the US has never been stronger and we're seeing its success story spreading to other parts of the world-particularly Europe," said Glen Giovannetti, Ernst & Young's Global Biotechnology Leader. "Time will determine whether these trends will be sustained, but there's reason for optimism. Innovation is being rewarded with record revenues and unprecedented premiums in M&A transactions."

**Success on Most Parameters**

The global biotechnology industry showed robust growth in all respects in 2006.

- Deal values soared with alliances involving US companies totaling $23 billion-an all-time record-while high premiums (the difference between the price per share paid by a buyer and the company's share price before the deal was announced) drove the value of mergers and acquisitions (M&A) to the second-highest level in the industry's history.

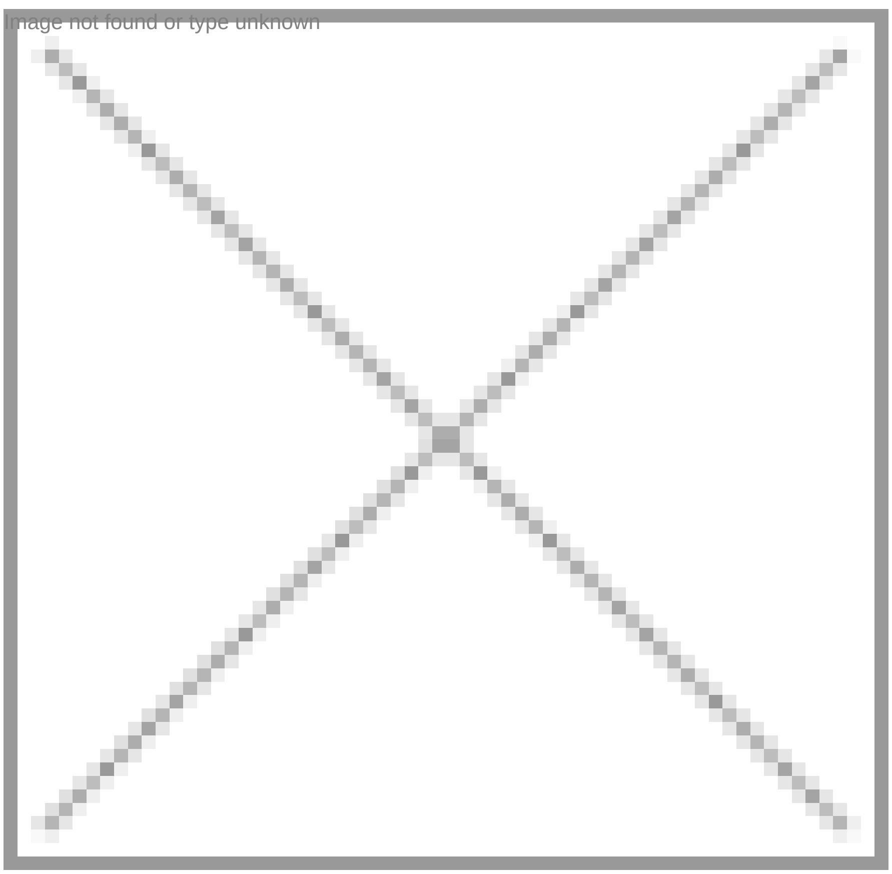
- Capital raised by the world's biotechnology companies grew by a massive 42 percent, to $27.9 billion. Venture capital (VC) reached $5.4 billion, an all-time high.

- Net losses of publicly traded companies fell by 37 percent in Europe and 43 percent in Canada, creating momentum toward profitability. While the US sector saw increased net losses, this was primarily due to large transaction-related charges in a year of unprecedented deal activity; in the absence of these, the US industry would have been profitable in aggregate for the first time, and the global industry would have had its lowest net-loss ever.

- The US product approvals increased from 33 in 2005 to 36 in 2006. New drug application (NDA) and biologic license application (BLA) approvals grew from 21 to 25. In Europe, product pipelines of public companies grew significantly.

**The Year of the Deal**

Intense competition, particularly among pharmaceutical buyers, created a robust deal environment in 2006. The average premium in M&A transactions with values over $500 million increased to 60 percent in 2006, more than twice the average M&A premium from 2003 to 2005. Several companies in the US were acquired for premiums in the 50 percent range, with some crossing the 100 percent threshold. In a reversal of recent trends, pharmaceutical buyers gravitated towards early-stage platforms and technologies. "In many ways, 2006 was the year of the deal; this is all the more remarkable because there was no one deal of the year," said Giovannetti. "In prior years, high deal-value totals were typically driven by a single mega deal, but in 2006, we now have widespread recognition among buyers of the potential value in biotech's platforms and pipelines. That's remarkable, and a testament to the tremendous innovation of the global drug development industry."



### US Approaches Profitability

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The US had another strong year for product approvals with 36, including 25 NDAs and BLAs. This compares favorably with 2005, when the industry secured 33 approvals, including 21 NDAs and BLAs. Raised capital increased by 38 percent, fueled by some of the largest financings in industry history. Revenue grew by 13 percent among public and private biotech companies to $59 billion, and the industry made a truly historic move toward profitability. In the absence of over $4 billion in acquired in-process R&D charges related to the year's unprecedented deal activity, the US publicly-traded sector would have shown an aggregate net profit, for the first time in its history. Notably, the largest revenue growth companies in the US included "mid-tier" firms with recent product launches and rapidly growing sales.

"We predicted profitability in the US industry before the end of the decade," said Mike Hildreth, Americas Biotechnology Leader, Ernst & Young. "Only a strong deal year with high charges for in-process research and development kept the industry from reaching that goal this year."

### Sustained Progress in European Recovery

The European biotech sector sustained the recovery it had begun in 2005, with revenue growth of 13 percent-more than twice the 2005 growth rate of six percent-contributing to revenues (for public and private biotech companies) of $16.6 billion. The year 2006 marks a four-year turnaround, from the 12 percent revenue decline recorded in 2003. Financing increased by a robust 45 percent to reach $5.9 billion. VC financings reached an all-time high of $1.9 billion. The pipelines of publicly traded companies grew by an impressive 30 percent, bringing the overall pipeline to almost 700 compounds, plus 27 in registration and awaiting regulatory approval. In addition, Europe's privately held biotech companies have nearly 800 compounds in their pipelines, and 12 compounds in registration.

"Last year, there was cautious optimism in the European biotech industry-as the sector emerged from a prolonged period of restructuring," said Siegfried Bialojan, Germany Biotechnology Leader, Ernst & Young. "This year double-digit revenue growth and sustained success across multiple measures prove Europe's biotech sector has bounced back."

### Emerging Asia-Pacific

In Asia-Pacific, governments and companies are moving aggressively to make the transition from competing on cost to developing homegrown innovative pipelines. Businesses are adopting creative models to overcome capital constraints and other hurdles. Firms are reinvesting revenues from services to develop innovative pipelines, and are entering deals to accelerate commercialization efforts, drive economies of scale and increase global competitiveness. Conglomerates are entering the fray, making investments in the growing sector.

Data were generally derived from year-end information (31 December). 2006 data are estimates based on January-September quarterly filings and preliminary annual financial performance data for some companies. 2006 employee data are obtained from SEC filings at time of publishing, and include a combination employee data of 2005 and 2006. The 2005 estimates have been revised for compatibility with 2006 data. Numbers may appear inconsistent because of rounding

"Asian biotechnology companies face critical challenges in their efforts to accelerate the transition to become enterprises driven by research and development," said Utkarsh Palnitkar, India Biotechnology Leader, Ernst & Young. "Companies are leveraging the Asian advantage in bio-manufacturing and the contract services arena and utilizing them to drive the growth story in drug discovery and research."

### Global CEO Insights

With the biotech industry maturing in more regions, an increasing number of companies will have to deal with the challenges of success. This year's report features results of an Ernst & Young survey of over 400 biotechnology CEOs, at small, mid-sized and large biotech companies. According to the report, some of the fastest growing challenges facing their companies are issues facing maturing companies: ensuring regulatory compliance for sales forces, dealing with pricing pressures, expanding globally, and managing global operations. Survey respondents also were resoundingly optimistic. Ninety-four percent of respondents indicated they plan to hire new talent in the next two years, and 68 percent indicated plans to introduce new products within two years.

These challenges of success will drive even more deal activity in the years ahead, according to survey respondents:

- Ninety-nine percent of American CEOs and 87 percent of European CEOs plan to enter into deals in the next two years, with "sales and marketing assistance" being the most popular reason for alliances; and
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Fifty-two percent of CEOs plan to partner to bring new products to market, up from 29 percent of products that are currently marketed with the help of partners

Despite these challenges, the biotechnology sector still holds great promise for innovative companies and is comfortably on track to become a $100-billion revenue industry before the end of the decade, predicts the report.

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2006 data were converted to US$ using an exchange rate of 1.13 (Canadian per US$), except market capitalization, which was converted using an exchange rate of 1.17. Data for 2005 were converted to US$ using an exchange rate of 1.21, except market capitalization, which was converted using an exchange rate of 1.17. When stated in Canadian dollars, revenues grew by 15%, and net loss fell by 47%. 2005 numbers have been restated to reflect full-year results, since estimates in Beyond Borders 2006 included some estimation of fourth quarter results. 2005 net income is affected by QLT's large fourth-quarter loss due to a $410.5 million non-cash charge for impairment of goodwill and other intangible assets resulting from its acquisition of Atrix Laboratories. Numbers may appear inconsistent because of rounding

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The 2006 public data are estimates, mostly based on January-September 2006 quarterly filings and preliminary 2006 annual financial performance data for some companies. The 2005 estimates have been revised for compatibility with 2006 data. Numbers may appear inconsistent because of rounding

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