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Big biotechs to benefit from Genentech sale

by **Bill Berkrot**

NEW YORK: Major biotechnology companies stand to benefit from Roche's acquisition of Genentech as investors and fund managers decide what to do with the US\$95 (RM351.50) a share they can expect from the Swiss drugmaker.

Roche Holding AG's months-long campaign to acquire the 44% of Genentech Inc it did not already own finally came to fruition with an agreement to pay US\$46.8 billion for the nearly 465 million outstanding shares.

Much of that money is likely to be

poured back into healthcare stocks, and in particular the remaining large-cap biotech companies.

"The obvious choices are the big biotechs like Celgene, Gilead, Genzyme, Biogen Idec and Amgen. They are the most Genentech-like in terms of risk/return profile," said Sven Borho, portfolio manager for OrbiMed Advisors, which has about three million Genentech shares.

"Portfolio managers will want to put their Genentech allocations into the big, profitable biotech companies," Borho said.

Just hours after the Roche/Genentech agreement was announced,

it appears that some of that money is already starting to flow their way.

Celgene Corp shares jumped more than 11%, and Amgen Inc, Genzyme Corp and Biogen Idec Inc were all trading at least 4% higher. Gilead Sciences Inc shares were off, as the maker of AIDS drugs just announced a US\$1.4 billion acquisition of CV Therapeutics Inc.

Borho is likely to shift funds into all five companies.

"All of the big biotechs have very, very solid EPS growth," he said.

"If you want the highest growth rate, you go to Celgene. If you want the value plays and low PEs (price/earnings ra-

tios), you go to Amgen and Genzyme. If you want to go with medium growth but excellent management team, you go with Gilead," Borho said.

Michael Becker, chief executive of MD Becker Partners, a strategic advisory firm specialising in biotech, agreed that the bulk of Genentech money would likely be reallocated to the remaining large-cap biotechs.

"I don't think the money will be evenly dispersed among small-, mid- and large-cap companies as much as we'd like to see that happen," Becker said. "The Amgens and larger companies will probably be the primary beneficiaries."

Fariba Ghodsian, portfolio manager of Dafina Capital Management, believes the majority of the Genentech shareholder funds will be reallocated within the biotech industry.

She sees some trickle-down to mid-cap companies that either have approved drugs, or medicines with a relatively clear path to approval — "companies like Isis Pharmaceuticals Inc and specialty companies like United Therapeutics Corp".

But with some concern over the shape US healthcare will take under President Barack Obama, not everyone is ready to put their Genentech money back into the sector. — *Reuters*