Blue chip genes promise high returns

BY DAVID FISHLOCK, SCIENCE EDITOR

"OUR INTENTION is to seek a much higher than average return on the unquoted part of your portfolio within a three to seven-year time-scale." Lord Rothschild says in the second annual report of Biotechnology Investments. His report suggests that it is making good progress—indeed, it reads like a catalogue of the "blue chip" end of the spectrum of new biotechnology companies which have blossomed in the past few years.

Increase

With two-thirds of the $1m fund now invested, almost equally in quoted and unquoted biotechnology companies, it is showing a 25 per cent increase in net asset value per share on the year, and 33 per cent over two years.

Biotechnology Investments, set up on the initiative of Lord Rothschild, as an offshoot of N. M. Rothschild Asset Management, now has a portfolio of 31 companies, both big and very small. All unquoted companies must still meet the strict criteria laid down by the directors. Lord Rothschild summarizes the five rules as follows:

- It must employ not only scientists of high calibre but also first-rate business managers, so that the team is "ready and able to establish a successful venture."
- Its business plan should clearly define its research and product areas, and contain both a market analysis and a realistic assessment of the competition.
- Its potential rate of return must be in line with the risk being taken.
- It must have a sponsor to act as lead investor and to accept responsibility for the venture. (Although the fund itself has been known to act in this role.)
- The company must have plans for releasing the investment, normally through a public share issue.

In the year ending May 31, the fund received 82 investment proposals, of which 57 came from the U.S., compared with 18 from Britain, three from Israel, and one apiece from Belgium, Canada, Finland, France, West Germany and Ireland.

Of those, it chose three U.S. companies in which to invest: Catalytica, where the $1m invested will go mainly to support the use of enzymes in petrochemical processes; CW Ventures, a fund which invests in health care and immuno-oncology; and a company with close links to Hoffman-La Roche and high hopes of making the field with a treatment for AIDS (autoimmune deficiency syndrome).

Change

By this summer the scene had changed dramatically. No fewer than four of the fund's investments have gone public, in each case advantageously: Amgen, Applied Biosystems, Integrated Genetics and ImmuneX (see table). Mr David Leather, investment manager, says that the fund has no intention of losing companies which go public, but will still continue to apply the five rules by which they judged the original investment. Even so, he admits that the fund did not expect so many of its unquoted investments to go public so soon.

Another dramatic change is the view the fund takes of the company is able not just to make scientific discoveries but to scale-up, extract, purify, and market its products, as evidenced by its first product, the anti-interferon monoclonal antibody.

The current position, according to Mr David Leathers, is that the fund is evaluating half-dozen British potential investments but has no new ones "on the front burner" from the U.S. It is, however, considering the investment of another $1m in Regen, one of its first investments, which needs more cash to help build a pilot fermentation plant.

Coy

Of the British prospects, the fund is coy for the moment. One that interests them is the Agricultural Genetics Company, set up this summer as a "venture division" of Celtech, to try to exploit the plant genetics research of the Agricultural Research Council.

As Biotechnology Investments see it, the new company has been very much funded by its three partners—British Technology Group, Advanta and Ulmara—at the outset, until the investors see the first business plan. Then the partners and other investors will be invited to plunge more heavily.

Two of the fund's older U.S. investments, Genetic Systems and Applied Biosystems, have just announced joint ventures in immunodiagnostics, to develop a new diagnostic system, one simple and inexpensive for "doctor's surgeries", the other automated for clinics and hospitals.

These systems are aimed at the diagnosis of bacterial and viral infections, chronic illness, and cancer, cardio-vascular and genetic diseases. Found at Rothschild, they see the move as an important one for both companies.

One further recent investment which excites the fund managers is the $1m they have pumped into Genzyme, a U.S. company set up to acquire whatman Biochemicals in Britain. This company makes diagnostic enzymes. It has since bought Koch-Light Laboratories, another British company, making fine chemicals.

Genzyme plans to use these two U.S. companies as a base for developing biotechnology interests. Biotechnology Investments see the company as actually British but driven by American entrepreneurial initiative.
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In the year ending May 31, the fund received $2 investment proposals, of which 57 came from the U.S., compared with 16 from Britain, three from Israel and one apiece from Belgium, Canada, Finland, France, West Germany and Ireland.

Of these, it chose three U.S. companies in which to invest: Catalytica, where the $1m invested will go mainly to support the use of enzymes in petrochemical processes; CW Ventures, a fund which invests in health care; and Immunex, a company with close links to Hoffman-La Roche and high hopes of leading the field with a Treatment for AIDS (autoimmune deficiency syndrome).
By this summer the scene had changed dramatically. No fewer than four of the fund's investments have gone public, in each case advantageously: Amgen, Applied Biosystems, Integrated Genetics and Immunex (see table). Mr David Leathers, investment manager, says that the fund has no intention of selling companies which go public, but will still continue to apply the five rules by which they judged the original investment. Even so, he admits that the fund did not expect so many of its unquoted investments to go public so soon.

Another dramatic change is the view the fund takes of British biotechnology investments. In the past Lord Rothschild has been forthright in expressing disappointment with the calibre of companies coming forward with investment proposals. Other London finance houses have suggested that they see the need for a more creative approach in Britain, to produce packages appropriate to a situation, rather than passively judge a proposal as Biotechnology Investments has tended to do in the UK.

During the year the fund made its first-ever investment in an unquoted British company, it is also its biggest investment in this sector. The fund has £3.1 m in Cell tech, the company with an inside track to the

Criteria

Celltech, to quote brokers Scrimgeour, Kemp-Gee and Co. last month: “fulfills the main criteria necessary for mounting a successful operation in This fast-developing, highly-technical, field. The management team comprises both eminent scientists and sound commercial/financial managers and the company is able not just to make scientific discoveries but to scale-up, extract, purify, and market its products, as evidenced by its first product, the anti-interferon monoclonal antibody.”

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Financial Times, Friday, September 9 1983

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