US Financial accounts reports

Glenn Crocker

deCode (Nasdaq: DCGN): Results for three months to 31st March, 2001

Iceland is probably best known for being home to the pop star Bjork and Keiko the killer whale. However, a US-listed Reykjavik-based company, deCode Genetics, plans to add its name to the list. The population-based genomics company was founded 5 years ago with 20 employees on the realisation that the Icelandic population is, genetically speaking, fairly homogeneous with extensive genealogical records (there exists an unusually complete set of family records in Iceland, over 80 per cent of all Icelandic people who ever lived can be placed genealogically on a computerised database). DeCode uses research based on this unique population to identify genes associated with as many as three dozen common diseases. In January 2000 the company was awarded a government licence to develop the Icelandic Health Sector Database (IHD). This gave deCode the ability to cross-reference anonymised healthcare data to the company’s genealogy database and genotypic data, creating a potentially powerful tool to enable the rapid, tailor-made analysis of the interplay between genes, environment, disease and treatment. On the back of this, deCode was able to raise US$200m from its initial public offering (IPO) on the NASDAQ and EASDAQ in July 2000 at a US$800m valuation. Since flotation deCode’s share price has suffered a similar fate to many companies operating in the genomics space. The post-IPO period saw the company’s valuation dip below US$200m although there has been some recovery recently.

In spite of the genomics roller-coaster, the company has progressed since IPO and achieved several key milestones. These include identification of more than a dozen locations for disease causing genes, the identification of nearly two dozen specific candidate disease genes and completion of one of the largest and advanced ultra-high-throughput genotyping facilities in the world.

The company has incurred losses since inception principally as a result of expenditure on research and development. The accumulated deficit stood at US$126m on the 31st March, 2001. Operating results have reflected the expenses incurred in gene discovery activities although this was partly offset by revenue received from Roche in respect of the research and cross-licensing collaboration agreement that has been in place since 1998. Revenues for deCode stood at US$5m for the quarter, up 9 per cent on the same period in 2000. Roche constituted 99 per cent of the company’s total revenues in this quarter. The overall value of the deal is potentially worth US$200m in research funding, milestone payments and royalties.

Dr Kari Stefansson, CEO of deCode, stated late last year that he was ‘confident that new partnerships will become key drivers for our business model in the months ahead.’ To underline this, deCode broadened its existing collaborative relationship with Affymetrix during 2000. In March this year it signed a letter of intent to establish a new broad alliance with Roche in DNA-based diagnostics and announced this June the appointment of Michael Young as Vice President of Business Development. The company plans aggressive expansion in corporate and commercial alliances across the range of its research product development programmes. One of the most recent of these has been with Genmab A/S, to develop new antibody therapeutic products. The alliance will cover a broad range of disease areas, including cardiovascular and inflammatory diseases.
as well as cancer. Genmab and deCode will collaborate on the research, development and commercialisation of the new antibody products, and will share equally development costs and revenues generated from outlicensing or sales of these products. Medarex Inc., a leading antibody company based in the USA, will also contribute resources to the collaboration and will share certain costs and commercial rights.

Additional losses are expected over the next few years while the company invests heavily in its three business units: discovery services, database services and healthcare informatics. R&D expenses were US$20.2m for this quarter, as compared to US$9.2m for the same period in 2000, an increase of 119 per cent.

In an effort to avoid the commoditisation effect that is pulling the rug from under many business models in the genomics arena, deCode has established three new subsidiaries: Encode, deCode Cancer and Digitalis. Encode is a CRO conducting clinical trials and pharmacogenomics studies and has secured early partnerships with AstraZeneca, Novartis, Merck and Schering-Plough. Digitalis is an Icelandic software company, which was acquired in January 2001.

As of this quarter deCode has approximately US$172.1m in cash and cash equivalents. The company’s cash position is heavily influenced by one-time capital expenditures of around US$20m related to the purchase of genotyping equipment and to expenditures for the construction of new headquarters facility. The company is currently burning cash at around US$10–12m per quarter although this is likely to increase as deCode continues to expand its activities.

Among the most important achievements in this first quarter were clear, early steps toward turning disease-gene research into products on the market. In the first quarter, targets from work on schizophrenia and peripheral arterial occlusive disease were taken into drug and diagnostic discovery at Roche. Near- and medium-term revenue growth should come from further milestones in these alliances, as well as from new partnerships in gene discovery, pharmacogenomics, database services and bioinformatics. Indeed, on 22nd May deCode and Roche announced that deCode scientists had identified a gene causally involved in stroke, the third leading cause of death in the industrialised world. It was also announced that they had mapped the chromosomal location of a gene linked to type 2 diabetes (type 2 diabetes accounts for around 90 per cent of all diabetes cases). These announcements saw deCode’s stock jump 30 per cent to US$7.24 on the day. The company will be looking for a string of such announcements to bring its share price back to IPO levels.

June 2001

Genome Therapeutics Corp
(Nasdaq: GENE): Results for the six months to 24th February, 2001

In this ‘young’ industry, Genome Therapeutics (founded in 1961 under the banner Collaborative Research Inc.) must surely be one of the oldest children in school. Since changing to its current name in 1994 it has begun to show signs of growing up with a string of alliance deals and substantial increases in R&D investment. The company focuses on the commercialisation of genomics-based pharmaceutical, vaccine and diagnostic products and operates in two areas of business: genomics services and biopharmaceuticals. The genomics services business focuses on services that enable other organisations to achieve their drug discovery objectives and the biopharmaceuticals business develops novel therapeutics, vaccines and diagnostics aimed at solving major medical needs.

In the development of its genomics-based products, the company has benefited from several strategic alliances with pharmaceutical companies including Schering-Plough (alliances worth a total of US$152m in asthma, bacterial and antifungals), AstraZeneca (US$23m, ulcers) and bioMerieux (in vitro diagnostic
products). However last year’s osteoporosis agreement with Wyeth-Ayerst, in the region of US$118m, was by far the biggest single deal.

The company is one of the nationally funded DNA sequencing centres of the international Human Genome Project, the draft sequence of which was reported in the February edition of Nature, and is in receipt of substantial funding from the National Human Genome Research Institute (NHGRI). Genome is also a primary centre for the NHGRI mouse and rat sequencing programmes. Indeed, work with the NHGRI has led to an estimated US$30m in grants over a three-year period which began in 1999.

On the financial front for the first half of the year, revenues were flat at US$13.8m while net loss increased significantly to US$2.1m from US$0.2m in the same period the previous year. The increase in loss was largely a result of a jump in research and development expenses, up nearly US$3m US$14.5m. This was due to the funding of an anti-infectives collaboration with ArQule and other advances in the company’s drug discovery capabilities. Total costs and expenses increased 24 per cent to US$17.9m in the six month period compared with US$14.4m for the same period last year.

The company’s cash, cash equivalents and other investments at the end of this second quarter of 2001 were approximately US$72m.

This quarter was marked by the announcement by Schering-Plough and Genome that they had made the first identification of a gene that is responsible for asthma susceptibility in a large percentage of the population. This discovery triggered a milestone payment, which is reflected in the company’s quarterly results.

With 15 million patients treated for asthma in the USA last year, the stock market has responded recently with a marked leap in Genome’s share price. This was largely spurred on by the investment firm Landenburg Thalman rating the stock a ‘strong buy’ with an US$84 12-month price target in May, against a price at the time of around US$7. However, this was closely followed by Friedman, Billings, Ramsey’s decision to down-rate Genome to ‘market perform’ because it felt that, unlike its competitors Human Genome Sciences, Millennium Pharmaceuticals and Myriad Genetics, Genome has no clinical pipeline and no lead drug candidate selected for clinical trials making current trading somewhat ‘irrational’. Genome’s market cap currently stands at US$265m.

During this quarter Bristol-Myers Squibb extended its subscription to the company’s PathoGenome™ Database and in early April Aventis announced that it had renewed its licence for access to the database as well. Genome has built on this success by recruiting new fee-for-service customers via its launch of the database on the internet during 2000 at Compugen’s LabOnWeb.com. This move will no doubt expand the market for the database, which was established in 1997 and is reportedly the most detailed commercial microbial sequence database available.

As a result of the expansion, Genome’s management have estimated that end of year revenues will be in the range of US$28–31m with total costs and expenses in the range of US$39–42m. Investors will be hoping the company with one of the most coveted ticker symbols in the biotechnology arena will live up to its growth forecasts.

June 2001