

Roche digests Genentech

Back to the lab

The newly expanded pharmaceutical firm bets on old-fashioned research

“The fundamental question is whether it is still worthwhile to invest in pharmaceutical science,” says Severin Schwan, the new boss of Roche, a once-stodgy Swiss drugs firm. A cursory glance at his rivals, who have been trying to concentrate less on coming up with new medicines and more on making simpler things such as “branded” generics and over-the-counter drugs, suggests that the answer is no. Indeed, some analysts claim that the industry’s giants face such a precipitous decline in sales from drugs coming off patent, with so few promising new prospects to replace them, that their entire business model is collapsing.

That argument has Mr Schwan leaping out of his seat with indignation. Using a deck of PowerPoint slides he sets out to disprove “the chorus of gloom”. Drugmaking is “so crude”, he argues, that half of all known diseases cannot be treated at all, and the drugs for the other half work properly only half the time and with huge side effects. “Imagine a car that starts only half the time, and whose brakes often don’t work,” he says. He sees this sorry state of affairs as a huge business opportunity. In particular, he is convinced that rapid advances in diagnostics, genomics and biotechnology will bring “a brand new revolution” in personalised medicine.

Accordingly, Roche is betting big on research into new drugs, even as rivals seek to diversify and “de-risk”. Earlier this year it bought Genentech, a Californian biotech pioneer in which it already had a controlling but largely silent stake. The \$47 billion deal has transformed Roche into the world’s biggest biotechnology outfit (see chart). It has also taken over important firms in the molecular-diagnostics industry, including America’s 454 Life Sciences and Ventana. It hopes these deals will put it in the vanguard, since developing drugs tailored to individuals will involve tying manufacturing to the results of genetic tests—as, for example, with Genentech’s treatment for breast cancer, Herceptin.

By taking over Genentech, Roche has added promising drugs for cancer and other potentially lucrative treatments to its otherwise anaemic research pipeline. Tim Anderson of Bernstein Research calculates that Roche is now among the big drugs firms best positioned to cope with the coming generic assault. He projects that its revenues will grow by a quarter over the next five years and its earnings per share will increase by half.

Several potential snags could hold Roche back, however. One fear is that the bureaucracy of a big pharmaceutical firm will crush Genentech’s more innovative culture (it has been called the Google of biotech). “There is no interference in the way we do things,” insists Richard Scheller, head of research and early development at Genentech. That very few senior executives have left since the takeover supports his claim. Even so, scale is usually not an advantage when it comes to pharmaceutical research and a creative atmosphere can easily dissipate.

Another worry is that Roche’s long-term vision may come at the expense of the shorter-term returns expected by some shareholders. Michael Leuchten of

Barclays Capital, an investment bank, reckons that personalised medicine will not start generating profits for some time. That may be fine with Roche’s patient founding family, which controls the firm thanks to its dual-share structure, but it could dismay other investors. Moreover, there is a risk of catastrophic failure. Mr Schwan notes that new drugs (as opposed to “me too” pills) earn outsized rewards—but that is because they are much harder to make. It is anybody’s guess whether Roche’s newly filled pipeline of early-stage drugs will become commercial hits in ten or 20 years’ time. ■

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