Genentech: Is Its Glamor Gone?

Stock analysts predict the future of other biotechnology firms to come

Three months after its sensational debut on Wall Street, the stock of Genentech, Inc., the recombinant DNA technology company, now hovers at about half of its all-time high of $89 that it hit on its first day of issue in October. Has the glamor faded for Genentech? What is in store for similar companies, including Cetus, Inc., which is expected to make a public offering in the near future?

Stock analysts believe that investor interest is still high for Genentech despite its big drop in selling price. Others say, however, that part of the bloom is gone.

Michael M. LeConey, a vice president of Merrill Lynch, Pierce, Fenner and Smith, says that the company's selling price slid because the market cooled off and so did interest in the firm. "Genentech is such a confusing picture. A lot of things have to be worked out," LeConey says. There are some real barriers to using recombinant DNA technology because the biochemistry is still not completely understood. "There is still the big question: Is interferon important?" he remarks.

Another securities analyst, Scott R. King of F. Eberstadt and Co., Inc., in New York, says, "It's funny. You read comments in articles about Cetus that it's no longer blue sky and daffodils for biotechnology firms. That's good. We need a little realism in the market."

Genentech shares now sell at about $40, although, on the basis of revenues, they might be worth $20 to $25, remarks Nelson Schneider, a vice president of E. F. Hutton, who specializes in health care industry research. So despite its price plunge, current selling price indicates that "people love Genentech." The price has finally settled down and found its range, Schneider says.

The analysts predict that other biotechnology companies will have a tough time matching Genentech's performance in the stock market on its first day of issue because three ingredients of its October success add up to an unlikely encore. First, Genentech was offered during a particularly bullish market, Schneider says. The company also was the first biotechnology company to go public. And the young firm kept the number of issues relatively low at 1 million shares.

Based on these criteria, Cetus, for example, is not expected to fare as well as Genentech. However, Schneider predicts that shares of Cetus will sell out and that they will sell at a premium.

Says Stephen Handley, a vice president at L. F. Rothschild, Unterberg, Towbin, one of the co-underwriters of the Cetus offering, "There is a real investor appetite for biotechnology companies." He declined to make any specific predictions.

While the new biotechnology companies represent high-risk ventures, many investors are also turning to more established, reliable stocks as well.

Shares in medical technology companies such as Becton Dickinson and Co., and Baxter Travenol Laboratories are "looking good," says LeConey. He believes that companies that will be major players in immunodiagnostic testing are the best bets.

Schneider also says that medical technology stocks have a special allure for several reasons. Their price remains relatively static because profit is determined largely by what the market will bear and not the actual cost of the product. Capital needs are low and labor is not a problem. Therefore, most technology companies can sell at higher valuation than other industries can, he says.

Schneider estimates that roughly $250 billion is available to insurance companies and pension funds for investment. About 5 percent of that goes into high-risk shares. "The party has not yet begun for new high-technology stocks," he says.—MARJORIE SUN

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particle to interact with magnetic moments of ions in magnetic materials and permits both elastic and inelastic scattering studies of these materials.

The constant dollars budget constraint forced the panel to make a choice it preferred to avoid. But, when it came down to the crunch, the panel concluded that it was the two 15-year-old reactors at Brookhaven and Oak Ridge that would continue to be the mainstays of the U.S. neutron scattering program for the next decade. (Research reactors at the National Bureau of Standards, the University of Missouri, and elsewhere would play smaller but still significant roles.) Therefore, these facilities should get the first priority in funding, enough to guarantee their continued operation and to permit modernization of instrumentation and increased utilization by scientists outside the two DOE laboratories. DOE's Kane says it is his reading of the report that it is not worth sacrificing the two reactors to the as yet unproved pulsed sources.

One problem with the pulsed sources that may have caused the panel to restrain its enthusiasm for them, as reflected in its recommendation, can be seen by contrast to other techniques such as synchrotron radiation. The intensity of ultraviolet and x-ray radiation from synchrotron radiation sources is so much greater than that from conventional sources that qualitatively new types of experiments have been made possible. So far, pulsed sources do not even match the intensity of neutron beams from reactors. One skeptical observer found it noteworthy that the neutron scattering report failed to come up with a list of crucial scientific questions that could only be answered by use of a pulsed neutron source. In addition to a unified research community, such a list would seem to be required for justification of the $100 million or more needed to build an intense pulsed neutron facility.

If adequate funds were available, the panel would have liked to see the pulsed sources under development at Argonne and Los Alamos carried to completion. The intensity of the neutron beam from the Argonne source (Intense Pulsed Neutron Source or IPNS-1) would not be high enough to make it competitive in the international arena, but it would be valuable for developing new instrumentation and research techniques. The Los Alamos source (Weapons Neutron Research facility or WNR) would have a high enough intensity to be a world-class machine in the late 1980's but not beyond. For this reason, research lead-

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