Are biotechs a bubble about to burst?

Not according to the professionals at BIO-Europe 2000

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BERLIN (FTMW) -- If a company finds a cure for cancer, it doesn't matter how many personal computers Dell is selling, or what Alan Greenspan says about interest rates -- not even who is President of the United States.

For the more than 700 biotech industry professionals gathering in Berlin this week for Bio-Europe 2000, the day-to-day gyrations of the markets are largely beside the point.

In the short-term, it's hard to be complacent about biotech share prices. The extraordinary run-up in biotech in the winter was followed by an equally spectacular plunge. Some commentators speculate it could happen again. But at Bio-Europe 2000 -- a meeting is designed to bring people together to make deals -- the biotech companies, venture capital funds and investment banks are looking at a far horizon.

"Companies that are going to be strong can weather short-term variations," according to Targeted Genetics' (TGEN) Vice President for Business Development, Michael Burke.

Targeted Genetics is a Seattle-based gene therapy company.

(More on gene therapy from FTMarketWatch).

Intellectual capital

"The value is in the ideas and the intellectual capital of these companies," Burke told FTMarketWatch at the Berlin meeting.

Figuring out what a biotech company is worth is devilishly hard. Most make no money, and some trade at multiples of revenue that are reminiscent of dot-com mania.

In one Bio-Europe workshop, three impromptu teams of a dozen or so top biotech executives, scientists and high-powered venture capitalists were asked to add value to a mythical biotech start-up. In a fast-paced and lively debate, the teams pored over lab data and a fictional technological breakthrough, identified what made the intellectual capital potentially valuable, and hammered out rough-and-ready business plans to turn the under-funded firm into a winner.

The argument that money-losing biotechs selling at high multiples of their revenue are a dot-com slump waiting to happen cuts little ice in this group.

"To start a dot-com you need two guys with an idea. A biotech company is inhabited entirely by specialists -- they're all clinicians, scientists, specialist business development experts," explains one workshop participant, London-based William Kridel Jr., of Ferghana Partners Ltd.

Kridel makes his living putting together value-enhancing deals for biotech companies -- doing in the real world exactly what the value workshop did as an exercise.

"Also, there is much more long-term capital in biotech," Kridel says.

In addition to dozens of new biotech IPOs this year, companies have raised billions of dollars in secondary offerings. Where a year or two ago most biotech company measured their available cash in months, many have now raised enough cash to last for years.

Eight to twelve years

And they need it. As Targeted Genetics' Michael Burke points out, it takes eight to 12 years to get a drug from discovery to market. Success demands time and money.

Burke says individual investors can look for several benchmarks in trying to size up a biotech company as an investment.

For a company with a strong research and technology base, "Look for some form of demonstration of success," Burke says. The classic validation of a small biotech firm's technology is a partnership deal with a major drug company.

Kridel recommends looking for what he calls three easy markers.

Pyramid

A rough categorization of biotech companies helps, too.

At the top of the industry pyramid are the companies that develop drugs and already have innovative high-value products on the market. The best-known include Amgen (AMGN) , Biogen (BGEN) , and MedImmune (MEDI) , and up-and-comers like Millennium Pharmaceuticals (MLNM) , Human Genome Sciences (HGSI) and U.K contender Celltech (CCH) .

Analysts say many top biotechs are already priced for perfection.

A tier below are companies whose main effort is in developing and using sophisticated research methods and technology, and using them to discover potential new drugs, such as Orchid Biosciences (ORCH) and Curagen (CRGN) . The market puts a high premium on such companies, because the upside is huge. The risks are substantial too.

The base of the pyramid consists of what Kridel calls biosupply companies.

They provide the instrumentation, lab supplies and raw materials without which the more glamorous drug-makers couldn't work. Names include Packard Biosciences (PBSC) , Amersham Pharmacia Biotech (APBI) (to be floated soon), Invitrogen (IVGN) , Germany's Qiagen (901626) (QGENF) and PE Biosystems (PEB) .

"The safest place to invest is right down here," says Kridel.