

Serono is the world's third biggest biotechnology company, but it is completely unlike its peers. First, Serono is still family-controlled: the third generation of the Bertarelli family, which took over the company in the early 1950s, and the controlling shareholder. Second, Serono is based in Geneva, Switzerland. Geneva and Switzerland have a proud pharmaceutical history, but no other significant biotechnology companies. Indeed, Serono is easily Europe's biggest biotechnology company.

Serono's third distinction is that unlike most biotech companies it is strongly cash-generative. Its fourth distinguishing mark is that it is a full-service company: discovering, developing, trialling and then manufacturing and commercialising its own products.

'Our business model is to bring products to market,' explains Stuart Grant, Serono's chief financial officer. 'We develop our own products, but we also are open to in-licensing opportunities that arise.' This means forming partnerships with other, usually smaller biotechnology companies that have the best available

technologies, but which perhaps do not have some of the commercial, clinical or regulatory experience Serono possesses. This expertise includes Serono's ability to manage large late-stage (II and III) clinical trials and the experience of liaising with regulators for the final approval of drugs.

Family link

Serono's distinctiveness in ownership, location, balance sheet and business model is topped by a high-profile, young chief executive, Ernesto Bertarelli. Not only does *Forbes* magazine rate him as one of Switzerland's 21 billionaires, with a net worth of \$5.4bn, but he also generates yards of publicity for his success in the America's Cup. On several occasions Bertarelli, who is not yet 40, has denied that his evident passion for yachting has distracted him from the management of the company.

The factor that gives the company its distinct character is the Bertarelli family's ownership. The Bertarelli family still holds 58.3 per cent of the capital of the company and slightly more of the voting rights. The company's shares were listed in Switzerland in 1987 and in New York, in form of American Depository Shares in 2000. Currently about 40 per cent of the shares in the company's free-float is held by US institutional investors.

A stock market shock

The company's detractors had a field day in April 2005 when Serono surprised the stock market with a poor set of first quarter figures. Some analysts were negative about the operating results, which was compounded by the announcement of the company taking a large (\$725m) provision to cover the settlement of an investigation by the US Justice Department. This investigation concerned the company's past commercial practises of Serostim – a growth-hormone drug used to help patients with HIV-associated wasting. Analysts said that they were less bothered by the news of the provision and the settlement with the US Justice Department, than by the fact that the company's underlying sales in the first quarter were disappointing. Although revenues were up by 8 per cent,



SERONO: KEY FACTS

- Bertarelli family: majority shareholder (58.3 per cent)
- Own products plus in-licensing
- Second quarter 2005 net income: \$175m

SUCCESS: SWISS STYLE

In light of the current measuring of pharma and biotech forces, one biotech company stands out among the others: Serono. Will Ollard speaks to Stuart Grant, Serono's CFO, about the company's unique profile.



net income was down by 12 per cent and came in considerably below analysts' forecasts.

The company's detractors were nonplussed, therefore, by the company's second-quarter results that showed a dramatic improvement. In the second quarter of 2005, net income came to \$175m, almost one-third more than analysts had expected. Revenues were 15 per cent ahead of the second quarter of 2004 at \$677m. Almost half the company's sales come from its multiple sclerosis drug, Rebif.

Grant rules out that the company may have overprovided for the cost of the settlement with the US Justice Department. 'The cost of this settlement, including the amount we will pay to the US Government, will be covered by the \$725m provision,' he says. He also stresses that it was coincidental that the first quarter figures came along with the provision: 'We got to the point at the end of April, when it was a case of being able to settle on a mutually agreeable basis, and put this matter behind us.'

Grant emphasises that the Serostim issue is now behind the company. 'Clearly as a company we aim for the highest ethical standards,' he says.

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The new recruit

Grant, a Scotsman, took over as Serono's chief financial officer ten months ago. He joined the company in 1995 and was most recently CFO of Serono Inc, the company's US operation. Serono's distinction among biotech companies of being strongly cash-generative means that he has more scope than some of his peers. Serono has a strong balance sheet, with almost \$2bn in liquid financial assets. This cash is there to support the business. 'We do not run our treasury operation as a profit centre,' Grant explains. 'Our goal is to have cash available to support the execution of the company's strategy.'

The bulk of the liquid assets are invested in investment-grade Eurobonds. These bonds have a maturity of between three months and three years. Small amounts of the cash have also been used to buy stakes in the companies with which Serono has strategic partnerships or in-licensing agreements. 'Most of the recent transactions have involved stakes in the equity of the companies we work with,' Grant says. 'We're not interested in becoming board members of our partners. What we're interested in is the elements of the partnership that will allow us to bring a drug to market.'

As Serono is a mature company (it was founded in 1906), the finance function has more of an input into the company's overall strategy than at some other biotechnology companies. 'We have a dynamic planning process whereby we have an annual budget, but focus every quarter on how changes in the business environment affected the companies operation,' Grant adds. His experience with the non-financial aspects of Serono's operations means that he can

see beyond the simple financial aspects of his role. 'I have spent three years running a manufacturing operation and another three in a commercial part of the organisation, so I can bring all that to bear on business discussions,' he says. 'The internal dynamics mean that I have a full seat at the table and that I have a say in the strategy of the company.'

The impact of location

Although Serono is based in Geneva, it is a company that thinks in terms of dollars. 'We plan and manage in US dollars,' Grant says. The company hedges any foreign exchange exposures centrally, but local management is responsible for making judgments about how the local currency will fare against the dollar and how this might affect the pricing of products.

Grant argues that having a Swiss base is an advantage. 'It is convenient for hiring people because it is easy to attract people to Geneva,' he says. 'That is the main reason: the access to human capital. There are also tax advantages for a multinational based here.'

Serono's full service capability is another of its distinctions. Unlike a lot of biotechnology companies, it manufactures its own products. Grant says that the company expects to continue to do all its own manufacturing and does not expect to contract out or outsource its manufacturing. 'We have over 30,000 litres of bioreactor capacity,' he points out.

Future moves

What Grant does see developing further is the company's in-licensing operations. 'What we are doing is looking for the best available technologies. Often this will come from small biotech companies,' he explains. 'We have three criteria in deciding about in-licencing deals. Firstly, does the deal fit the strategy of our company; secondly, can we add value and execute; and thirdly does the deal meet our financial criteria? We have a clear strategy by therapeutic areas and we're happy to develop them either internally or externally. Executability means do we have something we can add – for a smaller US biotech company this could be simply access to Europe.'

In each of the past three years, Serono has in-licensed two or three products. Usually these have been early stage deals. One of Serono's most promising products in its pipeline are in-licensed: Canvaxin, which is in phase III trials for advanced melanoma.

Serono has four main therapeutic areas: neurology, particularly multiple sclerosis; reproductive health, which was the original cornerstone of the company; dermatology, particularly psoriasis; and growth and metabolism products, which account for about 12 per cent of sales. Serono's R&D focus is on the expansion of the existing therapeutic areas as well as on the establishment of a strong pipeline in oncology and autoimmune diseases.

Serono's current mix of products is dominated by two therapies: its Gonal-f fertility treatment and its block-busting Rebif multiple sclerosis drug. Rebif is the company's key product, but it got approval for sale in the USA only in March 2002 after having overcome a competitors' orphan drug status. The company's stated target is for Rebif to become the global market leader in 2006 in the forecasted \$6bn multiple sclerosis market. **END**