

# US Financial accounts reports

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## Myriad Genetics, Inc. (NASDAQ: MYGN): Results for the quarter ended 30th September, 2001

The Utah-based biopharmaceutical company Myriad Genetics, Inc. was founded in 1991 with the aim of exploiting the genetic characteristics of Mormon populations to develop novel therapeutic products using its proprietary genomic and proteomic technologies. The company now has two wholly owned subsidiaries: Myriad Pharmaceuticals, Inc. develops and intends to market therapeutic compounds; and Myriad Genetic Laboratories, Inc. develops and markets proprietary predictive medicine and personalised medicine products.

With the company's first drug launch not expected for five years, much of the company's revenues come from tests used to identify people whose genetic make-up puts them at high risk of disease. Indeed, the company first made headlines in 1994 by discovering the *BRCA1* hereditary breast cancer gene. A test for this breast cancer gene was soon released and other tests for heart disease, hypertension, colon cancer and skin cancer have followed. Product revenues for the quarter ended 30th September, 2001, increased 81 per cent to US\$5.5m, compared with US\$3.1m for the same period the previous year. The company, which used its own salesforce to market and sell the tests, struck a deal with LabCorp in December 2001, which gave it exclusive rights to sell and distribute Myriad's predictive medicine products through LabCorp's 600-person salesforce, thus widening Myriad's US sales reach. Myriad will continue to market its products to oncologists through its own oncology salesforce and, indeed, the company increased its salesforce to 75 full time employees, compared with 41 a year earlier.

This, combined with other increased promotional expenses, resulted in a 43 per cent increase in selling, general and administrative expenses in the quarter to US\$5.6m.

Myriad also earned US\$7.7m from research agreements, approximately the same as the first quarter of the previous year. The lack of growth in this area represents a shift in emphasis by the company, away from external collaborations towards focusing on internal research efforts. Research and development expenditure in the quarter actually fell to US\$8.2m, compared with US\$8.8m in the prior period. However, the expenditure for the quarter was offset by US\$2.0m of income received for outsourced R&D services performed for the company's new joint venture, Myriad Proteomics, Inc.

Myriad Proteomics is an interesting US\$185m joint venture between Myriad, the software company Oracle and the electronics player Hitachi. The joint venture aims to map the entire human proteome in less than three years. Myriad Genetics, which owns 50 per cent of Myriad Proteomics, will contribute technology valued at US\$82m to the alliance. Hitachi, Oracle and Friedli Corporate Finance of Zurich, Switzerland, will contribute a combined US\$85m in cash, plus US\$18m in technology to be used in the collaboration. The deal will combine Myriad's proteomics expertise with the information and electronics technologies of Hitachi and the software capabilities of Oracle to analyse all proteins and their interactions within cells of the body. For example, the project will generate a massive amount of information about the human proteome and Oracle's database will store, analyse and distribute it. The deal reflects what is likely to become an increasing trend of integration

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between biotechnology and high-technology expertise in the race to drug development.

The increased predictive medicine revenues and the offsetting of increased R&D spend by income from Myriad Proteomics meant that Myriad's loss for the quarter shrank to US\$1.2m, or 5 cents a share, from a loss of US\$2.1m, or 9 cents a share, a year earlier.

The company retains a healthy cash balance at US\$136m and, with net cash used in operating activities in the quarter standing at US\$9.8m, has sufficient cash for at least a further three years at the current level of operations. However, on 9th November Myriad Genetics filed a shelf registration with the Securities Exchange Commission (SEC) to sell up to US\$250m of securities, indicating that the company is ready to go on the fundraising trail once again.

The new cash is likely to be targeted at further increases in discovery efforts following the identification of MPI-49839, an agent that showed a dramatic ability to prevent HIV infection by disrupting the life cycle of the virus that causes AIDS and the initiation of a new drug development programme around the company's discovery of a novel target for the hepatitis C virus. The drug target is a protein that, Myriad believes, has not been explored previously for drug development, and represents a new approach to the problem of treating viral disease. This new target raises Myriad's active drug target total to 141, with high-throughput screening having been initiated on 56 of these.

The company has also formed a drug discovery collaboration with Biosearch Italia. Biosearch will provide Myriad with access to its natural product library that is one of the largest and most diversified libraries of microorganisms and microbial extracts in the world. Myriad will select promising drug targets, develop high-throughput screening assays and screen the library with these assays. Development rights to any resulting compounds will be shared between the two companies.

Myriad is adopting a similar strategic

direction to many of its peers in the genomics/proteomics space, by moving further towards drug development in order to capture more of the downstream value in the pharmaceutical value chain. This will probably result in an increase in R&D expenditure and consequent growth in cash usage. Even with US\$136m in the bank and the potential for a further US\$250m in the near term, Myriad is not among the wealthiest of companies travelling along this route, but the reserves it does have should take it a fair way there.

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### **Vertex Pharmaceuticals Inc (NASDAQ: VRTX): Results for the nine months ended 30th September, 2001**

Vertex Pharmaceuticals was established in 1989 with the aim of designing and developing small molecule drugs faster and more effectively. Its scientific approach, which combines the diverse technology disciplines of biology, chemistry and biophysics, has proved successful, with 1 product on the market and a further 12 in the pipeline.

The company was originally based on X-ray crystallography and computer modelling techniques with a focus on treatments for rheumatoid arthritis, multiple sclerosis and other autoimmune diseases. Vertex launched on NASDAQ in 1991, raising US\$26m. Since its inception the company has developed a variety of advanced and proprietary technologies including compound screening using computer modelling and combinatorial chemistry, and early incorporation of pharmacological testing. The company has recently shown advances in the new field of chemogenomics, a platform aimed at accelerating drug discovery directed at gene families.

A step change in the development of Vertex took place in July 2001, when the company completed its merger with Aurora Biosciences, Inc., in an all-share deal worth

US\$592m. Aurora is a leader in the production of high-throughput screening systems, and is seen as a good match with Vertex because its technology platform complements Vertex's approach to parallel drug design. Aurora's technology is expected to allow Vertex to move into gene families that are accessed effectively through cell-based assays more quickly than would have been possible if the company had chosen to build these capabilities organically. The combination is also viewed as a cost-effective way of extending its research reach without significantly depleting cash.

Vertex was probably one of the last companies in the USA to slip through the net and use the pooling of interests method of accounting for the transaction. In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 141, requiring all business combinations occurring after 30th June, 2001, to be accounted for under the purchase method. One of the main effects of this will be an increase in the amount of goodwill on balance sheets.

In accordance with the pooling of interests method of accounting, all prior period accounts were restated to include the combined results of the two companies as though the merger had always been in effect. Vertex recognised a one-off, merger-related charge in the nine months to September 2001 of US\$21.3m.

The merger with Aurora precipitated an overall review of accounting policies, resulting in a change in the company's revenue recognition policy for collaborative and other research and development revenues. As a consequence of this, Vertex recorded a one-time non-cash charge of US\$25.9m.

A third one-time adjustment to the profit and loss account was recorded in the period as a result of changes in accounting for derivatives. Derivative Implementation Group Issue no. A17, effective March 2001, resulted in a US\$17.8m credit to reflect the recording of the fair value of warrants held in an affiliated company, Altus Biologics, Inc.

The result of these one-off adjustments was an almost doubling in net loss for the nine-month period to US\$63.0m, from US\$31.8m for the same period the previous year. Even before these charges, the operating loss of the combined entity increased by US\$25.6m to US\$54.9m, largely as a result of a US\$32.5m increase in research and development expenditure.

The increased expenditure was offset by an overall increase in revenue from US\$108.0m to US\$116.0m. A large proportion (43 per cent of total revenue in 2001) of Vertex's revenue stream has been from collaborations with large pharmaceutical firms. Indeed following its merger with Aurora, the combined company has 25 pharmaceutical and life sciences collaborations worth more than US\$1.5bn in pre-commercial payments to Vertex.

The company's proprietary approach to drug discovery continues to attract collaborative partners, and Vertex is commanding deals of increasing value. A collaborative deal with Novartis Pharma AG, signed in May 2000, to discover eight small-molecule drugs, or kinase inhibitors, worth up to US\$800m in pre-market money, is Vertex's largest deal to date. It provides validation for a new model for drug discovery – Vertex's proprietary genomics-based platform, chemogenomics – an intersection of medicinal chemistry and genomics, to aid design of small molecule drugs directed at genomic targets. Vertex received US\$26m under the Novartis collaboration for the nine months ended 30th September, 2001.

The company's most successful collaboration to date has been with GlaxoSmithKline (GSK) on the design and development of Agenerase, an HIV protease inhibitor, which, in 1999, resulted in Vertex's first approved product. Vertex has a co-promotion agreement with GSK and receives royalties on sales of the product. Royalty and product revenues remained virtually unchanged at US\$48.4m, compared with US\$49.2m for the same period the previous year.

Along with many of its peers, Vertex

made the most of the funding boom of 2000, raising US\$520m through the issue of convertible notes. In addition, the company acquired around US\$100m through the acquisition of Aurora and at 30th September, 2001, it held US\$730.3m in cash and marketable securities. This cash position, coupled with a product pipeline

that includes one Phase III product and several in Phase II, puts Vertex in a strong position to be one of the leading players in the biotechnology industry in the coming years.

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