DNA researchers

Genentech Committee Says "Nay" to Roche

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by Lynn Shapiro, Writer

A Genentech special committee unanimously voted to decline Roche's $43.7 billion ($86.50 a share) takeover offer and urged shareholders to do the same.

"We are disappointed that Roche has chosen not to consider an appropriate price range for Genentech's minority shares or to constructively negotiate with our committee, and we must recommend that stockholders not tender their shares as a result," the committee said in a statement.

Genentech shares, which have faltered lately, climbed 40 cents to $84.95 in aftermarket trading, having closed earlier at $84.55, before Genentech said "nay" to its suitor.

Genentech's rejection comes almost a month after Roche offered $86.50 a share for the portion of Genentech it doesn't already own. Roche originally bid $89 a share for Genentech in July--an offer Genentech rejected--but has since lowered its offer because it couldn't get the credit to finance the deal, Roche said. Roche sold "a huge pile" of bonds earlier this month to fund the takeover, market watchers reported.

Blockbuster Niche in Cancer Treatments

Roche bought 55.9 percent of Genentech in 1990, when Genentech, founded in 1976, and dedicated to using recombinant DNA technology, was developing all sorts of drugs: human growth hormone for kids with dwarfism; human insulin for diabetics, Activase for blood clots in the lungs, and more, with no focus on any one specialty.

It hadn't found its blockbuster niche in biological cancer drugs yet when it let Roche buy a majority of its shares in 1990. Now, Genentech--whose ticker symbol is DNA on the New York Stock Exchange and is known as DNA on The Street --says one of its primary goals is to become No.1 in sales of oncology drugs.

DNA's rejection of its suitor was expected by the market, as investors thought that the 8.8 percent premium (over what the stock is trading) was too low. Some analysts covering the company say DNA is worth $100 a share, considering its scientists are expert at using molecular biology to invent unique drugs.

For instance, Avastin, now called a blockbuster with $3.2 million in sales, inhibits angiogenesis. That is, the drug stops cancer cells from spreading by traveling through the bloodstream and replicating themselves.

Currently, Avastin is approved as a second line treatment, for use with chemotherapy. If it gets FDA's nod of approval in April, it will be used as first-line treatment for colon cancer, that is, by itself, without chemotherapy.

Also in its portfolio are rheumatoid arthritis and non-Hodgkin's lymphoma drug, Rituxan, with sales of about $2.3 billion, and breast cancer medicine Herceptin (for those women who express the HER-2 gene) with sales of $1.3 billion a year.

Takeover Inevitable?

Many analysts conclude the takeover is inevitable, that there is no going back to the salutary neglect Roche bestowed on Genentech for 19 years. For example, Roche said that if it buys Genentech, it would cut jobs. Genentech responded by setting up an employee retention program.

Buying Genentech at its bidding price would give Roche an immediate $12 billion cash infusion. Without Genentech, Roche may face a calamity in 2015 when it loses exclusive rights to Genentech's products outside the U.S., and the billions of dollars in revenue that come along with them.