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Biotech set for strong Q2 reports

Generics continue to cut into Big Pharma's revenue

By [Ted Griffith](#), [CBS.MarketWatch.com](#)

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BOSTON (CBS.MW) -- Through most of the biotechnology industry's three decades, company executives have been reluctant to draw attention to their quarterly financial results.

Focus on the future potential of our new therapies, not on the money we're losing this year, biotech chiefs told investors over and over.

But in a sign that the industry's maturing, a number of biotech CEOs are now happy to talk profits. The top-tier of established biotech firms are expected to report strong second-quarter earnings later this month, fueled by rising sales of their therapies.

([See CBS MarketWatch's sector-by-sector earnings preview.](#))

To be sure, most biotech companies continue to suffer big losses as they pour money into research. But for a select group of large biotech firms with actual products on the market, business seems to be going well.

Among the leaders, second-quarter profit at Foster City, Calif.-based Gilead Sciences ([GILD: news, chart, profile](#)) is expected to double, from 10 cents per share in the 2002 second quarter to 20 cents per share this year, according to the average estimate of analysts polled by Reuters Research (which is the source of all estimates in this story).

Sales of Gilead's flagship drug, Viread, a treatment for the virus that causes AIDS, are expected to help drive revenue up to \$179.7 million from \$109.4 million in the 2002 second quarter. On Wednesday, Gilead won Food and Drug Administration approval for a second anti-HIV drug, Emtriva. [See full story.](#)

No. 1 biotech firm Amgen ([AMGN: news, chart, profile](#)) also appears set to deliver a strong second-quarter report, with earnings expected to climb 18 percent to 45 cents per share from 38 cents per share in the 2002 second quarter. Investors will watch closely for news about sales of Amgen's new anti-anemia drug, Aranesp, which is locked in a fierce competitive battle with a similar drug from Johnson & Johnson.

Jeffrey Kraws, co-founder of Crystal Research Associates, an independent investment research firm, said he believes there's a good chance that Amgen will top analysts' earnings expectations thanks to strong sales of its drugs, including Aranesp and rheumatoid arthritis therapy, Enbrel.

"Amgen is a company that could post upside to earnings estimates by a couple of pennies," Kraws said. "Amgen is seeing strong across-the-board demand for key drugs."

Thousand Oaks, Calif.-based Amgen's optimistic 2003 earnings forecast, released late last year, has been widely credited with helping set the stage for a rally in biotech stocks in the first half of the year. Analysts say any additional comments from Amgen management about the outlook for the balance of the year could influence biotech stocks.

No. 2 biotech firm Genentech ([DNA: news, chart, profile](#)) will kick off the earnings season on Wednesday. Genentech's profit is expected to increase 13 percent from 23 cents per share to 26 cents per share. Investors will be watching sales of Rituxan, an anti-cancer drug, which is a key product for South San Francisco, Calif.-based Genentech and its marketing partner, San Diego-based Idec Pharmaceuticals ([IDPH: news, chart, profile](#)). Sales of Rituxan have soared since the drug reached the market in 1997, and it's now the top-selling cancer therapy in the world. But investors remain vigilant for signs that Rituxan has hit a plateau.

Idec's profit is expected to rise 25 percent to 25 cents per share from the 20 cents per share it posted for the 2002 second quarter.

Idec made news recently when it announced it would join forces with Biogen ([BGEN: news, chart, profile](#)) in a merger valued at about \$6.3 billion. The two biotech bellwethers hope to close the deal late in the third quarter or early in the fourth quarter. [See full story.](#)

Cambridge, Mass.-based Biogen is among the few profitable biotech firms expected to report a second-quarter disappointment. At the same time it announced the merger with Idec, Biogen warned that it expects to earn between 32 cents per share and 38 cents per share for the second quarter. The company had been expected to earn 42 cents per share.

Generic competition

The bruising effects of competition from generic drugs will be on display in Big Pharma's second-quarter earnings reports. Analysts expect several major pharmaceutical companies to post significant declines in profits largely because of business that's being lost to cheaper versions of blockbuster drugs.

"Overall, it's going to be a relatively weak quarter for pharmaceutical earnings," Krawns said.

Suffering most of all is Schering-Plough ([SGP: news, chart, profile](#)), which is expected to see its second-quarter earnings crater by 56 percent to 19 cents per share.

Kenilworth, N.J.-based Schering-Plough is reeling from the loss late last year of exclusive rights to its anti-allergy drug, Claritin. Schering-Plough still retains rights to the Claritin name, however, and it's now marketing the drug without a prescription to salvage something from the well-known brand. But nonprescription drugs sell for substantially less than their prescription counterparts, as the anticipated steep slide in Schering-Plough's earnings illustrates.

Schering-Plough by is by no means unique. AstraZeneca ([AZN: news, chart, profile](#)), Europe's No. 2 drugmaker, is expected to report second-quarter profit of 32 cents per share, down 28 percent from the 45 cents per share earned in the 2002 quarter. U.K.-based AstraZeneca has been hurt by generic competition for Prilosec, a heartburn medication that was once the top-selling prescription drug in the world.

Indianapolis-based Eli Lilly ([LLY: news, chart, profile](#)) still hasn't fully recovered from the arrival back in August 2001 of generic competition for its best-known product, Prozac, the blockbuster antidepressant. Eli Lilly's second-quarter profit is expected to be down 1.6 percent to 60 cents per share.

Even the potential for generic competition can be a significant problem. New York-based Pfizer ([PFE: news, chart, profile](#)), the world's No. 1 pharmaceutical company, and U.K.-based GlaxoSmithKline ([GSK: news, chart, profile](#)), the No. 2 drugmaker, have seen their shares come under pressure in the past because of concerns about expected near-term U.S. generic competition for important drugs -- anti-epilepsy drug Neurontin for Pfizer and antidepressant Paxil for GlaxoSmithKline.

Pfizer is expected to earn 30 cents per share in the second quarter, down 9 percent from last year's 33 cents per share. Pfizer recently warned that it would fall short of 2003 earnings expectations as it works off inventory acquired through the buyout of drugmaker Pharmacia.

GlaxoSmithKline's profit is expected to be flat at 69 cents per share.

But it's not all gloom for the major pharmaceutical companies. Krawns said he believes Johnson & Johnson ([JNJ: news, chart, profile](#)) could top earnings expectations, which are for 69 cents per share, and the analyst said he expects Pfizer's earnings growth to return later this year.

And companies appear to be on track to win approval for potential new blockbusters, which would help them counter the generic competition for old drugs. An FDA advisory panel will review AstraZeneca's new cholesterol-lowering drug, Crestor, on Wednesday. If the panel meeting goes well, AstraZeneca could win FDA clearance for Crestor later this year.

In addition, two pairs of companies are hoping to launch new drugs in the United States targeted at the lucrative impotence-therapy market. GlaxoSmithKline and German-based Bayer ([BAY: news, chart, profile](#)) hope to get approval for Levitra, and Eli Lilly and its biotech partner Icos ([ICOS: news, chart, profile](#)) hope to get an OK for another anti-impotence drug, Cialis.

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