

**World Antibody Summit
Long Branch, NJ
Sept 12-19, 2002**

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Thank you and good afternoon.

I love coming to New Jersey, especially with weather like this.

I love the spectacular beaches like the one right outside our doors.

And I love the state's tomatoes, which in my book rank among the finest in the world.

But most of all I admire New Jersey as the home of Yogi Berra. A lot of people know a lot about Yogi. But not a lot know he once owned a tavern. One day a horse walked in, pulled up a stool and sat at the bar. Yogi went up to him and said, "So why the long face?"

Unfortunately, long faces, although on a different species, are a common sight on Wall Street these days.

Hopefully, through the comments and advice of our panel today, we can begin to change that expression into one of hope, with the prospects of a return to a period of more fluid funds' flow.

Money has clearly left the biotech sector in a vivid tribute to the investment uncertainty that has come to surround it.

The Biotechnology Index managed by the American Stock Exchange soared to nearly 800 points in the summer of 2000. And, in a notable series of fit and starts, it eventually cut itself in half and now hovers in the 320-350 range.

The leading antibody players did little more than mirror the broader debacle. Some today are trading at or close to cash – with investors according virtually no value to their technologies or infrastructures.

At its pinnacle in mid-2000, the biotech industry was worth some one trillion dollars. Today it is worth about 1/3 of that, or \$350 billion.

It's like the value of the \$1 million home you bought in order to take advantage of interest rate deductions suddenly being worth only \$300,000.

Money flow is down.

And it may not surprise you to see that a good healthcare industry is good for the economy. The fall-off in investing, the lack of capital gains, and the use of losses against otherwise taxable profits have cost the US Treasury, in our estimation, more than \$200 billion in the past 12-18 months.

That's enough to fund federal farm subsidies for the next eight years, or cover all of last year's Medicare costs, or pay two-thirds of last year's military budget!

So one could truly say that a good biotech-investing sector is good for the country in many ways beyond bringing new medicines to life.

In the world of electronic tech, it was clear the industry moved into a period of overcapacity. Demand had slowed faster than anyone thought possible, inventories were bulging at the seams, and the big buzz about dot.com's golden highway turned out to be a lot of hype.

The emperor indeed had no clothes!

The bio sector of tech really did not share those same issues, but it clearly got tarred by that same brush.

Biotech is an industry whose customer base is growing, not shrinking. New products are its lifeblood and the work of more than 300,000 trained scientists around the world. The markets for its products are expanding daily.

The number of American's over the age of 65 will increase 14 percent by 2010 – and jump a whopping 76 percent between 2010 and 2020. The growth between 1995 and 2000 was only five percent.

Per capita spending is increasing, from roughly \$5000 a year today to just over \$7000 by 2008.

There will more products to prescribe, and all of this will give healthcare spending a commanding 16 percent of our Gross Domestic Product. By 2008, costs will top a trillion dollars, with drugs accounting for roughly 11 percent, up from 9 percent today.

So why all the valuation decline?

Many say lack of leadership at the FDA is a major investor deterrent. What new policies will a new leader bring--good, bad or indifferent? There is an element of uncertainty – and many recent actions by a leaderless FDA have jolted investors and imparted more investment risk to the sector as well.

These kinds of concerns ultimately influence forecasts on rates of return that investors favor – and as those go down, values decline.

I'm no Nostradamus. But the collective wisdom of the many people we talk to daily suggests that at least five areas need change to bring investors back in force.

- ~~///~~ A further decoupling of bio from the broad tech sector.
- ~~///~~ New leadership at the FDA.
- ~~///~~ More good data flow.
- ~~///~~ More approvals.
- ~~///~~ An end to the rhetoric of price controls and caps on reimbursement.

When these changes occur, the industry can begin to re-attract economically insensitive money.

But even with that, there will remain the need to assess risk. There are always many risks, but for our purposes we have packaged the four main ones into two categories:

- (1) the **inherent risks** of **technology** and **marketing**, and
- (2) the **imposed risks** of **regulatory policy** and **pricing**.

When you look at it this way, you can see the federal government controls 50 percent of the risk components – so unfavorable changes, or even concerns about changes in imposed risks, can and do have a big influence on investors – and in many cases

they may weigh more heavily than the inherent risks of technology and marketing.

The last four or five so-called waves of extreme investor excitement in the bio world have been largely driven by technology: the interferon era, the first antibody era, the genomic wave, and then the second coming of antibodies.

Not many people are seeing another technology driver in the near future. The next wave or over-arching trigger of enthusiasm, therefore, is more likely to come from government initiatives and the cessation of rhetoric that will reduce or eliminate concern and uncertainty about the two imposed risks.

A legacy of moderation in these two areas enabled America to lead the world in modern medicine.

Until that next wave comes – if it ever does – the investment strategy of just throwing darts in a hot sector won't work – or certainly not like it did in the past.

It will be a market of stocks. Of individual opportunities. Of individual stories.

This will place a greater burden on managements to communicate more clearly their investor rationales. To validate their business plans more thoroughly than ever before. To seek more compelling ground in the pursuit of novel science. To fine-tune regulatory strategies and give them more transparency. And to make the achievement of market capitalization goals as important as achieving clinical goals, knowing that the two do not necessarily go hand in hand.

Thank you!

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Source:
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