



## Genentech's brighter outlook

The FDA's recent approval of Avastin for breast cancer should boost earnings for the Biotech, analysts say.

By Aaron Smith, March 13, 2008

NEW YORK (CNNMoney.com) -- A recent green light from regulators could mean a brighter outlook from Genentech when the biotech meets with analysts Friday.

Late in February, the Food and Drug Administration [approved its top-selling Avastin drug](#) to treat breast cancer. As a result, analysts expect Genentech ([DNA](#)) to boost its financial guidance from a current outlook of \$3.30 to \$3.45 per share for 2008.

"Genentech has benefited in recent weeks from a shift in sentiment driven by increasing Avastin sales forecasts following its FDA approval for breast cancer," wrote Jason Kantor, biotech analyst for RBC Capital Markets, in a note to investors.

Kantor forecasts full-year earnings per share of \$3.49. He believes Genentech will at least "raise the bottom end" of its range on Friday.

Joel Sendek, biotech analyst for Lazard Capital Markets, also said in a published note that Genentech could raise guidance because of the Avastin approval, but he didn't say by how much. Sendek currently projects \$3.44 earnings per share for 2008.

Before the approval, Genentech chief financial officer David Ebersman said in January his company "will likely need the timely approval for Avastin in metastatic breast cancer to get to the high end of the EPS range."

Genentech's stock has jumped nearly 12% since the Feb. 22 approval, which came as a surprise to many investors. Back in December of 2007, advisors to the FDA shot down the breast cancer indication in a 5-4 vote, triggering an 8% plunge in the stock. Avastin had shown mixed results in improving the survival of breast cancer patients, with some serious side effects.

The drug is already used to treat lung and colorectal cancer. Sales totaled \$3 billion in 2007, a one-third surge from the prior year. Avastin would not compete with Genentech's other breast cancer drug Herceptin, because they serve women with different genetic traits.

Going forward, Genentech's late-stage pipeline is dominated by potential additional uses for products already on the market, like Avastin, Herceptin and the cancer drug Tarceva, rather than new drugs.

**Damon Ficklin, analyst at Polen Capital Management, which owns \$30 million worth of Genentech shares, said that he doesn't see a lack of potential new molecules as a lack of innovation.**

**"A dollar of revenue is a dollar of revenue, whether you get that from expanding the use of your drug, or whether you come out with a completely new molecule," he said.**

Genentech is the world's largest biotech in terms of market capitalization. Amgen ([AMGN](#), [Fortune 500](#)), also based in California, is the world's largest biotech in terms of annual sales.

*The analysts Sendek and Kantor do not own Genentech shares, though RBC has conducted non-investment banking securities-related services for the company in the last 12 months. ■*