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TALES OF THE TAPE: Celgene Gains On Cancer Drug Hopes

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OF DOW JONES NEWSWIRES

CHICAGO -- Thalidomide used to scare people away. Now it's drawing investors to Celgene Corp. (CELG), the company that's turned the once-forbidden drug into a big cash opportunity.

Thalidomide was banned in the early 1960s after causing horrific birth defects in children born to women who had taken it for morning sickness during pregnancy.

Now Celgene hopes to turn Revimid, an analogue of thalidomide, into a \$1 billion cancer drug. Thalidomide itself has been on the U.S. market for several years as Celgene's Thalomid drug, approved for leprosy but getting most of its sales for treatment of multiple myeloma, a cancer of the bone marrow.

Revimid is an immunomodulatory drug that is chemically similar to thalidomide but more potent and without the side effects, which range from birth defects to sleepiness. It is taken orally. Thalidomide is believed to boost the body's immune response to cancer and help block the blood supply of cancerous tumors.

Decades after thalidomide was banned, doctors realized that the drug may have caused birth defects because it blocked the growth of new blood vessels necessary to form limbs and organs in a developing human embryo. This led the physicians to identify thalidomide as a compound that could help block the flow of blood to life-threatening tumors as well, and they began testing it in cancer patients.

Celgene said last week it received positive data from a Phase I/II study of Thalomid, in combination with chemotherapy, to treat androgen-independent prostate cancer and that the results justify further study of the treatment.

"Many years ago, I obviously had my doubts about thalidomide, a product that was considered an anathema," said David Saks, chairman and chief investment officer of Saks Medscience Fund, a hedge fund. "Now thalidomide is showing a lot of benefit. It is helping. News keeps getting better, and the drug is no longer put into that horror story."

Celgene Shares Make A Comeback

Celgene, like many biotechs, got creamed in 2001 and 2002, falling from a peak of \$75 in 2000 to below \$12 last year. This year has been a different story, with shares recently trading at \$45, up 3.6% from Wednesday. That's double its price at the start of 2003.

A number of reasons come to mind for the turnaround, including the recent biotech rally. Celgene generated plenty of its own momentum, delivering its first profitable quarters and moving forward with several trials involving Revimid. The profitable quarters expanded investor interest.

"As a company turns profitable, it gets a lot of new institutional buyers who weren't allowed to buy it until it turns profitable," said John Jackson, chairman and CEO of Celgene, in a telephone interview with Dow Jones Newswires. "There were a lot of institutions that said they'd love to buy it, but their charters said they couldn't" until the company posted a profit.

Celgene's revenue could more than triple by 2007 to nearly \$800 million, said analyst James Reddoch of Friedman Billings Ramsey, who bases that on his expectations for Revimid to be a success.

Celgene has several trials underway with Revimid, including for multiple myeloma and for the skin cancer melanoma.

CEO Jackson is confident that Revimid can get U.S. Food and Drug Administration approval for multiple myeloma or for melanoma by late 2005. But it's possible Celgene could get Revimid approved as soon as late 2004 for myelodysplastic syndromes (MDS), a preleukemic condition with 20,000 to 30,000 new cases in the U.S. each year.

If Revimid gets approval for MDS, doctors would probably immediately begin using it off-label for myeloma and perhaps for other cancers as well, opening up a major revenue flow. The drug would be priced well above Thalomid, also accounting for extra revenue. Thalomid costs about \$8,000 for a year's worth of treatment, while analysts expect a price of around \$20,000 for Revimid. No other companies are working on thalidomide or its analogues.

"There are two shots on goal," analyst Reddoch said. "One is MDS and the other is refractory multiple myeloma. Developing a safer version of thalidomide without the regulatory constraints and finding a route to market faster than most cancer drugs is a strategic and very clever approach."

Reddoch said investors are beginning to realize that Revimid should work in the same diseases Thalomid works in, because they are close cousins. That makes regulatory approval less of a concern.

Revimid has a distinct advantage over Thalomid in that it won't have to be prescribed under strict circumstances that now apply to Thalomid to keep it from accidentally being taken by pregnant women or by women who might get pregnant. Revimid hasn't caused birth defects in laboratory animals, although the drug does seem to cause a dip in white blood cell counts, which means patients might have to take other drugs along with it to counter that effect.

Analyst Sees 2005 Launch For Revimid

Reddoch sees Celgene posting earnings per share of \$1.52 in 2006, up from 15 cents this year. He projects a 2005 launch for Revimid, which he says has five times the peak sales potential of Thalomid. By 2007, he said, Revimid sales should be around \$330 million. Reddoch rates Celgene an outperform and doesn't own shares. There is no investment banking relationship.

The optimism surrounding Celgene is almost palpable when talking with analysts and some investors. Saks, of Saks Bioscience, said Revimid could end up becoming a blockbuster, meaning \$1 billion or more in annual sales.

"It's fun watching a small company becoming a big story," said Saks, whose fund doesn't own Celgene but who holds some shares in his personal account. "They're doing an excellent job. The stock has come alive because the company has a business model that's generating profits for the first time, and it's a viable growth story."

Saks said his fund doesn't hold Celgene because it's not making any new investments, not because he doesn't like it.

CEO Jackson isn't trying to hush the \$1 billion talk. Indeed, in the interview, he referred to analysts' estimates for those kind of sales.

"Numbers like \$1 billion or \$1.5 billion, just in liquid tumors, are very reasonable," Jackson said. Multiple myeloma is the most common liquid tumor.

Analyst Cynthia Davis of Caris & Co. said Revimid has potential in solid tumors like prostate cancer as well as liquid ones, and thinks ultimately the market for the drug could approach \$3 billion to \$3.5 billion. "It's huge," Davis said. She rates Celgene a buy and doesn't own shares. There is no investment banking relationship.

Three and a half billion dollars happens to nearly match Celgene's market cap. And the current market cap is about 17 times the Warren, N.J., company's expected 2003 sales. To some, this makes the stock look too pricey.

"When it was about half the price, I thought it was OK," said Dr. Ron Garren, chief biotech strategist at InvestBio and editor of Biotech Insight. "Not at this price."

Garren said Thalomid has been a "mainstay" in the treatment of myeloma, but he's never been convinced it's effective in solid tumors. Revimid, he said, has shown some positive results in a small percentage of MDS patients, but he doesn't think it will work with more severe cases. And multiple myeloma, he said, is a small market in which Revimid - once available - will cannibalize Thalomid.

The current trials will determine whether optimists or pessimists are correct on the science. But Saks disagrees with Garren about the price of Celgene.

The high market cap to sales ratio "doesn't concern me," Saks said, because that's justified for a young company with its biggest product growth days still ahead.

"They're turning into the black and their cash is good," Saks said. "They have relatively big product potential and theoretically one day could have \$1 billion in sales, which a couple of years ago was pretty farfetched."

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