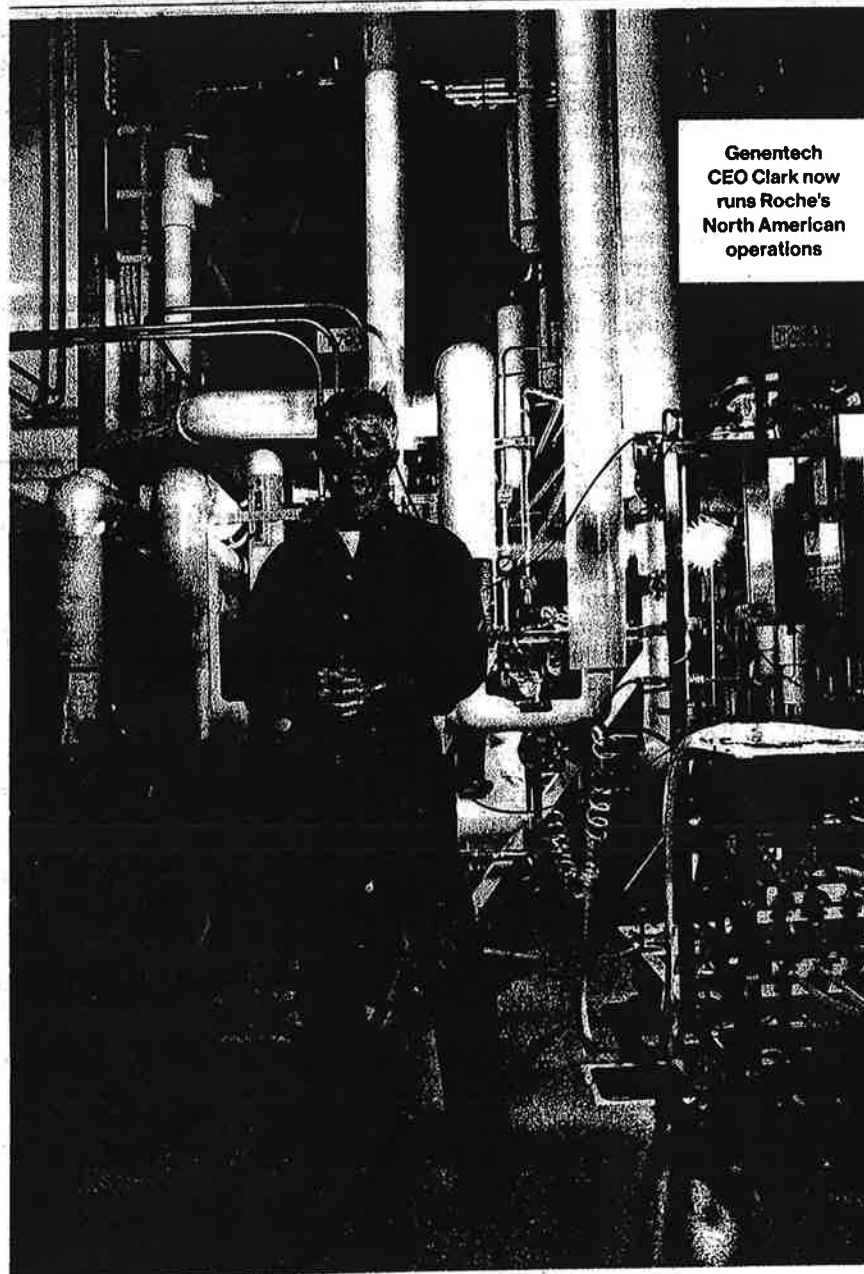


Companies & Industries

Post-Buyout, Genentech's DNA Is Dominant

▶ Bought out for \$47 billion, the biotech pioneer has gained the upper hand

▶ "Success ultimately equates into power, and that's ... what we're seeing at Roche/Genentech"



When **Roche Holding** executives held an investor-day briefing in New York in March, Morgan Stanley analyst Andrew Baum had a question that had nothing to do with new drugs, licensing deals, or health-care legislation. "Did the Genentech team hide the ties of the Roche executives?" he asked. Richard H. Scheller, a veteran scientist at Genentech, the Silicon Valley biotechnology powerhouse Roche took over last year for \$46.8 billion, quipped that he doesn't own one. Turns out his Roche colleagues on the stage, led by Chief Executive Severin Schwan, didn't want him to look out of place so they ditched theirs.

"I'd never seen them without suits and ties before," Baum said. To him, the informal attire "reflected the willingness of Roche to be seen to bend toward Genentech, rather than the other way around."

Genentech's impact on the Swiss drugmaker goes beyond the wardrobe of its executives. Unlike many acquired companies, the biotech leader is retaining its own culture even though it's under new ownership. Roche has placed Genentech scientists in key jobs, such as head of drug development for the combined company. The U.S. operations of Basel, Switzerland-based Roche bore the brunt of job cuts following the merger, and Genentech's research structure has been adopted across the company. Meanwhile, at Genentech's base-1 DNA Way in South San Francisco—employees say not much has changed.

"Success ultimately equates into power, and that's exactly what we are seeing at Roche/Genentech," said Jörg de Vries-Hippen, chief investment officer for European equities at Allianz Global Investors in Frankfurt. "Now that the full integration has taken place, 

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it's the Genentech guys being promoted and getting the key positions."

Besides the billions it spent to buy Genentech, Roche has another reason to handle the biotech company carefully: its lucrative cancer drugs. Three of Genentech's cancer therapies—Avastin, MabThera (sold in the U.S. as Rituxan), and Herceptin—together logged sales of 17.6 billion Swiss francs (\$15.36 billion) last year, topping the revenue for Roche's 10 best-selling non-Genentech medicines. Genentech generated revenue per employee of \$1.2 million in 2008, compared with \$527,664 at its Swiss parent, according to data compiled by Bloomberg.

Wall Street analysts now tie Roche's future to Genentech's continued success. "Roche's long-term sales growth is better than its peers mainly due to a subsidiary that's been churning out its key blockbusters, while its own research unit hasn't been as productive," said Carri Duncan, an analyst at Macquarie Group in Zurich. "It appears to be a case of, 'If you can't beat 'em, join 'em.'"

That's certainly true in Roche's executive ranks. Genentech's Hal Barron, a 14-year veteran, is now head of Roche global development. Genentech CEO Ian Clark heads Roche's North American commercial operations. Pat Yang, who joined Genentech in 2004, moved to Basel to run global manufacturing. Scheller took a seat on Roche's 12-member executive committee.

Roche CEO Schwan said the shake-up of research led to initial uncertainty, particularly in Basel. Also, for the "first time ever in our history of acquisitions or mergers," global-management positions moved from Switzerland. Deci-

sion-making had in the past been concentrated at Roche headquarters.

Roche also preserved many Genentech jobs. Parent Roche shut its Palo Alto (Calif.) facility and axed 500 of about 3,000 jobs at its Nutley (N.J.) site as part of a manufacturing shakeup. More cuts may be in store, said Karl-Heinz Koch, an analyst at Helvea in Zurich. Nutley is home to Roche's labs for research and early development of compounds to treat cancer, viruses, and inflammation. Genentech labs are also targeting those same therapies, he said.

Roche is changing how its own labs work after its scientists saw that Genentech's setup made more sense, CEO Schwan said. In the past, Roche maintained separate departments for laboratory research and early-stage drug testing in people. Now it's adopted Genentech's practices of combining them.

Schwan said that Roche's concerns over losing Genentech staffers led to the integration being handled differently than previous acquisitions.

"If we look back a year ago, it was of utmost importance to keep the spirit and the culture of Genentech and to keep innovation thriving," he said. "It was really, really important to retain people and to retain scientists." Roche distributed \$375 million in payments to prevent defections, and none of the top scientists from Scheller's research and early-development group left, even after the retention payments ended, Schwan said. In fact, staff fluctuation rates at Genentech are lower than they were before the purchase was announced, he said.

One reason: Roche didn't tamper with Genentech's culture of research and innovation, which encourages employees to pursue their own projects and creates a workplace where jeans predominate, hierarchy is kept to a minimum, and scientists have easy access to top managers, said Mark Sliwowski, a 19-year veteran there.

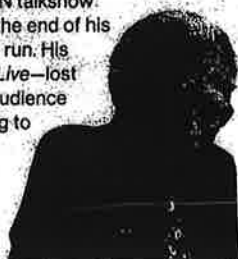
"Genentech has always had as an explicit goal being a great place to work," Clark said. "I don't think that was such a conscious goal for Roche, and that may be one place where our culture can rub off a bit." —Dermot Doherty and Rob Waters, with Eric Burg and Ellen Gibson

The bottom line Many analysts worried Genentech would lose talent and its innovative culture after its acquisition by Roche. Yet, so far, it's thriving.

Quoted

"It's time to hang up my nightly suspenders."

—Larry King, CNN talkshow host, announcing the end of his 25-year primetime run. His show—*Larry King Live*—lost 40 percent of its audience this year, according to Nielsen, part of a broader slump for the cable news network



Airlines

Emirates Wins with Big Planes and Low Costs

- The Dubai-based airline has quickly become a top international carrier
- "The words 'ticket tax' haven't been translated into the Arabic language"

While the last five years have been grueling for much of the airline industry, Dubai-based Emirates has prospered, becoming one of the top three international carriers. Now, the 25-year-old government-owned airline is on the offensive. To bolster its all-widebody fleet, it's adding 90 Airbus A380 superjumbo jets with 45,000 seats and operating costs 12 percent lower than rival Boeing's latest 747. That huge fleet of double-decker widebodies poses a threat to big European carriers that, like Emirates, specialize in flying passengers long distances through giant transfer hubs, says British Airways CEO Willie Walsh.

Emirates' latest order for 32 A380s valued at \$7.1 billion, announced in June, will give it 70 more superjumbos than any other airline. "It's a miracle that Emirates already has more intercontinental seats than Air France and British Airways combined," says Wolfgang Mayrhuber, CEO of Lufthansa. "It took