

2010: The Coming Biotech Superboom



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Why 2010 Is The Year For Biotech Investing

I don't know about you, but sometimes it feels like the market's a roller coaster... and 2009 was no exception. 2008 was a horrible year... and the beginning of 2009 didn't look much better.

Blood was flowing in the streets when we hit a bottom in March.

The rest of 2009 was filled with the market marching steadily higher – by more than 60%! The rally helped all of the major indexes... and like always, some industries did better than others. The problem was:.

Many investors were sitting on the sidelines.

Maybe you were in the same situation... lots of investors were holding cash as the market started moving higher. Others were piling into “safe” investments like utility stocks and large cap dividend stocks.



None of these groups kept pace with the markets. And as a result many investors have little in the way of profits to show after the amazing market run.

Now, if you're like me, you're thinking about 2010. The big question is, “**where to put your money?**” Holding cash isn't an option (not with the value of the Dollar falling every day). Commodities can be volatile. And certain investment sectors will not keep pace.

But here is light at the end of the tunnel!

After mounds of research **we've found one area poised for a breakout in 2010.** It's not Gold or Oil. No fancy options trades here. I'm not going to suggest you speculate on beaten down financial stocks... nope.

We're looking at biotech stocks, and expect them to rally like never before...

I know it's a specialized industry, but trust me; there are a number of macro drivers working that could propel this industry to new heights.

First off, it's a sector filled with exciting technological breakthroughs. Diseases are being cured and lives are being saved every day. And if that's not enough, there are three big market drivers set to unleash a flood of investing dollars on the industry... which will propel valuations significantly higher.

But you can't go buying the sector willy-nilly. I'll tell you what to look for... so you can get the biggest bang for your buck.

Best of all, **these trends are just beginning**. It's not too late to get involved- there's still tons of money to be made.

I believe now's the perfect time to start investing in the biotechnology industry. Hold onto your hat as I explain all the details. I'm going to give you a little history, then talk about what's happening in the markets right now... and finally give you a few stocks to look at.

Let's get started...

The Markets Have Been Rattled

First a little history...

I'm not going to rehash all of the devastation that's taken place in the last two years. No sense replaying the Bear Stearns fire sale, the collapse of Lehman Brothers, the back room negotiations to save Merrill Lynch, or the crazy antics of our government.

Congress and their misguided attempts at economic stimulus and the TARP are enough to fill a number of books. It's enough to make your head spin... and honestly, it makes me sick.

Here's the key point...

The stock market's been in turmoil for the last 24 months.



Just look at this chart. The market was absolutely destroyed in 2008.

Unfortunately many investors sold their stocks and moved to cash at the very bottom. Perhaps you did this in your own account. If you didn't immediately move back in to the market you missed out on a great opportunity.



The stock market rallied more than 60% in less than nine months. And many individual stocks doubled or even tripled in value.

All while many investors sat on the sidelines. In fact, over \$3 trillion is sitting in money market funds yielding close to zero. And hundreds of millions of dollars are flowing into treasuries with a nearly negative yield every month.

A good portion of this cash came out of higher risk investments including biotech stocks. The mass exodus out of the biotech sector left many stocks at **all time low valuations**.

Market Activity In Biotech Hit A Bottom

As the major market indices hit bottom in early 2009, the Biotech sector faced an even bigger problem than falling share prices. The all important financing market dried up.

Bankers stopped lending money and financing biotech companies. Mergers and acquisitions (M&A) activity slowed to a trickle. The IPO window slammed shut. And other means of financing just disappeared.

Many biotech companies desperately needed this financing to stay in business.

How bad was it?

This was a recent headline from *The Wall Street Journal*:

“Venture Capital Funding On Pace For First Sub-\$20 Billion Year Since 1998”

Think about that for a moment.

It all signals that the big boys stopped investing in biotech.

They turned back the clock more than a DECADE on investing.

Traditionally Venture Capitalists are huge investors in this industry and drive valuations to very high multiples. But since they cut back so much in 2008 and 2009, many biotechs are trading at extremely low multiples.

When these investors get back in, which I think they will in 2010, we could be looking at a stampede in these share prices.

IPOs Are Non-Existent, and M&A Activity Is Slow

Unfortunately, Venture Capitalists aren't the only ones closing their checkbooks.

In 2009 big institutional investors did the same thing.

Normally when biotech companies plan an IPO, institutional investors line up around the block. The potential upside of these companies is too great to pass up.

However, 2009 was an entirely different story.

Big institutions were too busy focusing on the day-to-day gyrations of the market. They didn't have time to look at new companies coming to market. They didn't have the time to analyze new biotechnology companies or their products. They put all of these deals on the shelf.

As a result, **the IPO window was slammed shut**. And it's been that way for more than 18 months... *and 18 months is an eternity in the biotechnology industry.*

For years the public markets were the primary way biotechs raised money. Once this source of funds was cut many biotechs began to struggle for their very survival.

Just imagine if your credit card company cut you off... and your bank took your checkbook. You'd do everything you could to survive. That's the situation many small biotech companies are experiencing right now.

So what's the next logical step?

Some biotech companies have resorted to drastic measures. They're trying to sell themselves...

It's a great idea. Sell a piece of the business... or the whole thing. Find a partner who understands the business. Piggyback on their financial strength and use their checkbook.

Unfortunately, M&A activity has plummeted as well...

The most recent M&A data is absolutely shocking. **The number of billion dollar biotech acquisitions has fallen in 2009 by more than 38%.**

Let me say that again...

M&A transactions in the Biotech industry are down by 38%.



This means the number of biotech companies trying to sell themselves is growing... and the buyers with cash can have their pick of the litter. It's not good for biotech companies or their valuations... but that's all about to change.

Before I talk about what's in store for next year, let me touch on one more important influence we haven't mentioned yet... The US Government.

The Government Isn't Helping

Let's be honest here. I'm not a big fan of the government fiddling with the economy. Everyone in Congress seems to have a different idea about what's best... and you know the old adage about too many cooks in the kitchen!

All Congress is able to do is play partisan politics and screw up people's lives.

Either that or tax us to death.

In 2009 the government initiatives on healthcare were tossed out fast and furious. These initiatives are impacting the everyday business of the healthcare industry in general, and the biotechnology industry in particular.

The problem is nobody knows what to expect...

It's a scary thought when Congress starts dictating how healthcare is made available, who can participate, and what people pay.

Congress is casting a long shadow on the healthcare and biotechnology industries. They are threatening the survival of every company in the industry. Just a stroke of the pen can make one company a king and another a pauper.

The threat of the unknown is scaring investors away from the industry.

It makes sense... if you don't know what the future regulations will look like why risk making an investment in the industry.

So what's all this mean?

Setting The Stage For Greatness In 2010

2010 looks to be a year where the biotechnology industry benefits from significant tailwinds. We'll see the entire industry move higher... and one group of companies will do very, very well.

If you've been watching the markets recently, you know things are going well. It looks like the market will end 2009 in positive territory. And investors are once again feeling positive about market direction.

Investors tend to have very short memories.

The bounce in the market helped build investing accounts back up... and that means investors are going to start looking for more aggressive investments...

And biotechnology will be that area. Institutional investors are already seeing success in the biotech industry... and success breeds more success.

But that's not all.

For the first time in a long time we're seeing signs of life in the IPO market.

In just the last few months we've seen the first two biotech companies run the IPO gauntlet and launch successful IPOs...

Cumberland Pharmaceuticals (CPIX) raised \$85 million in August of 2009... this was the first IPO since the first quarter of 2008! Then a few weeks later **Talecris Biotherapeutics** (TLCR) went public raising more than \$550 million.

With these successful IPOs in the bag, there's a backlog of companies waiting to go public. Smaller companies will once again be able to easily raise capital... and that means they'll be spending capital on product development and improving their pipeline of drugs...

And that bodes well for the M&A market.

With the financing window opening once again, M&A activity should start to heat up... the two always go hand in hand. And more M&A activity means better company valuations.

Remember, all the major pharmaceutical companies need to fill their product pipeline. Most of them will see the patents on their major drugs expire over the next few years. They don't have the 8 to 10 years it takes to bring a new drug to market. They need new products now!

So in 2010 we'll see a number of major pharmaceutical firms on the acquisition warpath. They're going to buy anything and everything... remember M&A has been slowing down for almost 2 years now... and when that changes it will change in a hurry.



As one company announces a new blockbuster deal, it puts pressure on the others. They start feeling the heat from investors to do the same thing. This can spur a frenzy of M&A activity

The smaller biotechnology companies will be in a seller's market... and that means premium prices when selling and raising money.

When M&A deals are announced, you never see the buyer paying bottom dollar! Nope, they always pay a premium to the target company valuations. Remember, the Board of the company being acquired has an obligation to shareholders to get as much as possible.

That premium builds into the stock price. It increases the value of **all** companies in the industry.

That leaves one last thing that looks like a problem but is actually a huge positive for the industry... the healthcare bills being floated around Congress.

It's taken nearly a year, but hopefully at some point in the beginning of 2010 we'll have a definitive healthcare reform bill.

No matter what happens, I truly believe more people will be covered by insurance. And with more people covered by insurance, demand for medical services will skyrocket (with biotech firms being MAJOR recipients).

Just think back to 1993 when then President Clinton pushed for a healthcare reform package. Stock prices sold off significantly because of the unknown... but once the

investing public had a chance to understand the changes being proposed, the healthcare stocks in question rallied.

I'm expecting the same thing here (but on a magnified scale).

In fact, I think there is a potential for an **'internet boom type'** rally in biotechs in 2010!

So that naturally leads to the next question...

Where Should I Invest In The Biotech Industry?

Save for a few rare instances, I believe it will be difficult not to do well in the biotechnology industry next year. But before you start picking stocks let me highlight a few different types of companies out there.

There are basically three you should be familiar with:

- The "Big boys" of the industry
- The "Mid-level" players, and
- The "Scrappy Start-ups."

Each of these companies has a unique focus. Each plays an important role, and each provides a different investment opportunity to investors in the know.

Let's look at each one independently:

The Big Boys

The Big Boys of the biotechnology industry are pretty easy to identify. These are companies like Amgen (AMGN), Gilead Sciences (GILD), Celgene (CELG), Biogen (BIIB), and Genzyme (GENZ). They already have a number of drugs on the market.

The Big Boys also have dedicated sales forces to market their drugs. Revenue is measured in the billions and they have something smaller biotechs don't have... earnings. Companies of this size have market caps well over \$5 billion.

For investors looking at these types of companies, it's important to focus on financials. Metrics like price to sales, price to earnings, and earnings growth rates are things to

focus on. These are often solid investments... but you'll never hit a grand slam home run investing in these companies.

The Mid-Level Players

The Mid-level is like the farm league in baseball. These companies can spend years and years trying to get to the big league. But hard as they try, few will make it.

Mid-level companies typically have a solid product or two. Often they specialize in one specific area of treatment or type of drug. However, they lack the huge blockbuster drug or the depth of products needed to compete at the Big Boy level.

These companies are valued on a mix of future drug potential (the pipeline) and current financials of the business. You'll often see big companies with small amounts of revenue, earnings, or cash flow... but big potential with other drugs... some others will look totally opposite... little future potential, but solid everyday profitable products.

If picked correctly, these mid level companies can provide market beating returns... but they also carry more risk. The potential to just flat line for years is always there. These companies often have market caps between \$1 and \$5 billion. Some of these include Human Genome (HGSI), Illumina (ILMN), Dendreon (DNDN), and Techne (TECH)

This brings us to the one part of the industry with the most potential.

The “Scrappy Start-ups”

Now first a comment on the name... not all of these companies will be true start-ups. Some have been around for years developing a novel technology, therapy, or drug cocktail. Others are trying to reinvent the mousetrap... often taking existing drugs and trying to make them better.

These companies are often valued at less than a billion dollars and many have market caps below \$250 million.

Don't be surprised to find many of these companies with no revenue or earnings. Often they're struggling to raise capital to stay afloat. These companies fight for survival every day.

The risk is high in this group... but so are the potential rewards.

All it takes is one press release, a positive word from the FDA, or even a partnership announcement. The stock is instantly propelled into the stratosphere.

If you're wondering where the really big money is made in the biotechnology industry, make no mistake the truly big winners are found in the Scrappy Start-ups. You'll hear stories of companies languishing for pennies a share only to see their value skyrocket by 1,000%, 2,000% or more virtually overnight!

You'll really see these companies pop when the M&A market heats up. As the rumors swirl, and a number of them become targets for the big boys, prices start jumping.

If you're looking for the big winners in the biotechnology industry in 2010... most of them will come from the Scrappy Start-ups. Look for companies with small stock prices and small market caps.

Putting It All Together

2010 is going to be a hot year for the biotechnology industry. You'll get the biggest bang for your buck, bar none. The lack of financing and M&A activity has depressed valuations in the sector as a whole. The threat of Government regulation has scared away investors.

But unseen billions of dollars are lining up... all headed to the biotech industry.

As 2010 opens up, we'll see a number of new financings, IPOs will start to drive big returns, and the M&A market will catch fire. The entire industry will see huge gains as investors flood back in....

The biggest winners of course will come from the smallest segment of this universe... the Scrappy Start-ups. These companies are working on game changing technology, novel therapeutics, and new ways to cure major diseases.

The Quick And Easy Way To Make Tons Of Money In 2010

By now it should be obvious that smaller biotech stocks could blast off in 2010. All the catalysts are there. The only question is, "which ones to invest in?"

As many of you know, the small stock biotech market can be difficult to navigate. Which is exactly the reason why Hyperion Financial will be launching its first ever research service dedicated *solely* to the biotech industry.

We've developed a process, based on FDA research findings, that pinpoints only those tiny biotech stocks that about to see their stock prices explode.

This new service, called ***Biotech Supertrader***, demonstrates how strongly we feel about this sector in 2010. We truly believe you can make an absolute killing over the next 12 months with these exciting stocks...

We're still putting on the final touches on the service but should have everything ready to go by the first week or two of January. Keep an eye on your email inbox for more information over the coming weeks...

Good Investing,

Robert Morris

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