Biotech Daily

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The Real Friends Of Mervyn & The Perils Of Owner-Drivers

There are a number of biotechnology companies where the founder - often the founding scientist - holds the largest parcel of shares and also takes on the role of daily management, either as chief executive officer or as an executive director.

The market does not like this arrangement and for very good reasons. There are very few people with the ability to divorce their precious creation from vagaries such as accounting regulation, the cost of development; safety and efficacy; and either major pharmaceutical company or unknown biotechnology company competition.

And if they want to run their own companies, why not do it as a private company, without the cost of ASX compliance? Linfox, Dick Smith and Crazy John's are examples of well-run profitable private companies. Why bother with director's interest statements, quarterly reports, ASX in Wonderland regulations and annual reports, particularly for companies with market capitalizations of little more than a Sydney house.

Avantogen's Dr Richard Opara (76%), Compumedics' David Burton (70%), Genetic Technologies Dr Mervyn Jacobson (40%) and Mesoblast's Prof Silviu Itescu (34%) are merely the best known owner-drivers in the biotechnology industry. They are very different people, their technologies and skills are all different. The fact of their position and the way in which the market views their ownership is all that they have in common.

On the other hand Chemgenex's Dr Greg Collier, Acrux's Dr Richard Treagus, Cochlear's Dr Chris Roberts, CSL's Dr Brian McNamee and Pharmaxis' Dr Alan Robertson are universally respected because they are divorced from the technology and run their companies as businesses.

Dr Collier is an excellent example: recognizing Autogen's deficiencies he bought new technology and Chemgenex is a quality company built on that technology. Being a gifted medico or scientist is not necessarily a barrier to running a serious company.

We await the turmoil to be caused to a company recovering from a bout of the ASIC 'flu, following the call for a board spill by Genetic Technologies' single largest shareholder and director Dr Mervyn Jacobson (see Biotech Daily; September 18, 2008).

It is highly unlikely that the board will be able to muster the 58 percent of shares to defeat the spill, partly because many people won't bother to vote, in an election that will make or break the company.

There is also a group of shareholders known as “the friends of Mervyn” who include friends and family, some of whom are previously well-known to Biotech Daily. While they are aware of the consequences of the board spill, they may nevertheless, for loyalty to Mervyn, vote for the spill.

The quality of directors with their heads on the chopping block is extraordinary: highly respected chairman Henry Bosch, managing director and chief executive officer Michael Ohanessian (appointed September 24, 2007) who previously ran Vision Biosystems, with directors including former Federal Labor Minister John Dawkins, David Carruthers and Monash University deputy chancellor Dr Leanne Rowe, (appointed April 17, 2008).

The only replacement that has been put forward by Dr Jacobson is Grahame Leonard, a worthy director, but not an adequate replacement for the talent that is being lost. Director Fred Bart continues and is not subject to Dr Jacobson’s motion.

In short, it is very hard to see how this coup will benefit more than a few shareholders in the longer term. For the good of the industry, the Genetic Technologies board should fight back, but it won’t be an easy election to win.

Over the coming weeks to the annual general meeting, the Friends of Mervyn group will have to decide whether they are really friends of Mervyn or whether they are friends of Genetic Technologies. One could argue that if they were Real Friends of Mervyn, they would want him to own 19.95 percent of a $1.30 stock rather than 40 percent of a 6.7 cents stock.

In general, the market devalues companies who are controlled and run by their founders because of this sort of danger, principally the potential for sudden, inexplicable decisions or - in some cases - the companies being run to benefit very few.

There are exceptions to this rule: Gerry Harvey of Harvey Norman is the prime example. The difference is that Mr Harvey has a very long history of success which has transferred into shareholder wealth for all investors. Nonetheless, whenever Harvey Norman strikes trouble, Mr Harvey’s control is always raised as an issue.

Closer to home, Prof Itsecu has hardly put a foot wrong in running Mesoblast, but neither has he had to deal with any significant setbacks of the sort that occur in the high risk world of biotechnology. When something does go wrong, the finger will be pointed at his large shareholding and the close relationship between Mesoblast and the unlisted Angioblast, in which he holds “less than 50 percent” (see Biotech Daily; June 13, 2008).

David Burton’s Compumedics produces exceptional brain monitoring technology - among other devices - at its Abbotsford premises. Mr Burton is talented, creative and personable. His company deserves success, but we believe his 70 percent ownership and position as executive chairman is the major impediment to the $20 million he wants to raise to go to the next level.

Biotech Daily does not adhere to the 1980s pro-privatization mantra that ownership is all that matters. It is management that runs companies. The ownership only matters when it improperly interferes with sound management.

Biotech Daily does not believe that inventors and discoverers necessarily make bad CEOs of their own companies, but the market does and mostly it is the correct call.

We have said to anyone who would listen from April 2007 after the ASIC investigation of Genetic Technologies was revealed, that “Mervyn can either have 42% of a 10 cent a share company or 19.95 percent of a $1.30 a share company.

The same is true for all in this position

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