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BIOWORLD® TODAY

WEDNESDAY
JUNE 19, 2013

THE DAILY BIOPHARMACEUTICAL NEWS SOURCE

VOLUME 24, NO. 117
SPECIAL REPRINT

Fund It if You Can

More Than One Way to Build a Biotech Company

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SAN DIEGO – At a session at the recent Calbio meeting, biotech executives from multiple companies explained how they got their start-ups off the ground. Be it capital-efficient virtual biotechs, strategic partnerships, venture capital funding or initial public offerings (IPOs), the message was clear: There's more than one way to build a biotech.

"It really depends on the profile and the capital requirements," stressed Faheem Hasnain, president and CEO of Receptos Inc. "For a company like ours, it was difficult to think about doing angel investing for preclinical when Phase IIIs were going to cost me in the $300 million range."

Last month, San Diego-based Receptos raised $72.8 million from its IPO to support two clinical-stage programs for G protein-coupled receptor drugs and to potentially in-license additional programs. (See *BioWorld Today*, May 10, 2013.)

While the IPO market has been frothy lately, John Celebi, chief business officer of Igenica Inc., pointed out that it hasn't always been that way. The Burlingame, Calif.-based company raised $33 million in a Series C last year to move its monoclonal antibody pipeline toward clinical trials.

"We just assumed that the private equity, investment banking and IPO routes were not going to be available, and if they came that was great, but we weren't counting on that," Celebi told the audience.

"I think of VC as a fire hose. If you're squarely in their model and you're hot, you're going to be deluged with interest, and if you're not, the fire hose is pointed somewhere else and you're not going to get anything," said Willie Quinn, president and CEO of Bullet Biotechnology Inc.

Not getting anything is what Quinn experienced when he started Bullet. Quinn and co-founders put in their own money and raised $1.3 million from angel investors to hit key milestones that venture capitalists (VCs) said they'd like to see completed before investing in the Menlo Park, Calif-based company.

At that point, Quinn said he'll be willing to take a strategic deal with a larger partner or VC funding. "We're going to be very pragmatic."

The advantage of Bullet's capital-efficient strategy is that the company doesn't have to be sold for very much to produce a large return for the investors. "I don't care about building a big company," Quinn told the audience.

Karen Boezi, CEO of Redwood Bioscience Inc., who has a background in venture capital, stressed the same equation to measure success: company value divided by capital raised.

"The general mentality in biotech and venture is that you have to raise a lot of money to do product development, but if you think about the equation, the value of your company has to be very, very large and that poses a greater risk for everyone," she said. "You don't have to raise a ton of money and create a hugely valuable company to make the formula work well."

The Emeryville, Calif.-based company had the opportunity to raise a large amount of capital, but chose to take a deal last April from a strategic partner. Redwood Bioscience licensed its Smartag precision protein-chemical engineering technology for the development of next-generation antibody-drug conjugates to Catalent Pharma Solutions. As part of the deal, Catalent took a minority stake in the company that can increase over time up to a potential acquisition.

How much cash a company raises is a balancing act, Mark Goldsmith, a partner at Third Rock Ventures LLC, told the audience.

"You can't just generate a runway for a company and not retain enterprise value, and you can't get enterprise value unless you have capital. "The thing I worry about having too heavy a focus on capital efficiency is that you leave value on the table," he added. "And that you make decisions based on capital that's available, rather than make decisions that are most value-creating for the company."

The panel noted that planning out milestones and ensuring funding beyond when the data are due is key to survival. The consensus was that having enough cash for a year beyond the next milestone is key; six or nine months won't cut it.

"If you go out and talk to public investors about those kinds of months past your inflection, you'll get crushed," Receptos' Hasnain said.

A large round with tranched funding based on milestones can solves some of the funding issues, but Third Rock's Goldsmith pointed out that "it can create some perverse incentives for a company to bring programs and technology forward."

No matter what the current plans, Goldsmith stressed that opportunities like the wide open IPO window mean companies need to keep their options open.

"You have to be prepared to modify your plan almost on a dime," he said. ■