



Is Your Biotech Investor Ready?

Robert Muir

Whether in the public or private markets, raising money for biotechs is a tough climate presently. The 81 stocks in the Intersuisse ASX biotechnology index fell 10.4% in April alone having fallen 23.5% for the year. And the story across the pond is similar, with biotechs in Europe and the US having to deal with difficult public markets and raising much less money than they originally intended.

Biotech investing takes 'faith'. Biotech has taken two decades to get its first wave of products to market and yet has thus far failed to fulfill its promise of accelerating discovery or reducing drug development times. A single drug discovery opportunity is at best a "lottery ticket" of sorts particularly since the latest stats suggest a typical 1-in-10,000 chance, some \$US800M and a decade-long process to get a new drug to market.

Investing in biotech poses some interesting challenges. Valuation of early stage companies is difficult enough in itself without the challenge of the science which is both daunting and difficult to understand. Adding to this complexity is intellectual property, including 'freedom to operate', since most biotechs offer only part of the 'solution' with OPR ("Other People's Rights": resources, technologies, and IP) being required to deploy an effective therapy against a specific disease. And lastly, there are very few serious angels and VCs in the space!

Nonetheless, specific rationales for making such investments do exist with defined strategies for managing the mire of biological risk and 'freedom to operate' minefield of industry patents. And some areas, such as biosecurity and biometrics are hot.

For early stage biotech, angel investors may be a better bet than the few venture capitalists that are using a competitive portfolio approach. Angels can be more easily swayed by your enthusiasm or their emotions particularly if they have a relative with a so-called 'orphan disease'.

Regrettably some entrepreneurs are so excited about the science and promise behind their discoveries that they expect investors to wade through their material to discover for themselves if there is any value for them. Angels and VCs share a common goal of wanting to invest and profit from "wow" products while avoiding being involved with poorly managed opportunities, uncommitted entrepreneurs and financial failure.

While some of the old rules still apply when seeking investment, there are a few key questions you need to be able to answer before your Biotech is investor ready. Take this quick quiz to determine whether you're seriously ready to talk to investors:

Q What's your elevator speech when you introduce yourself to a potential investor? Do you:

- a. Dive into a monologue about how your company has enough cash to ride out the current downturn in biotech.
- b. Whip out a mini version of your PPT and start furiously reading.
- c. Introduce yourself and explain your space (medical device, diagnostic, drug discovery), your specific niche (cancer, cardiology...) and the problem/opportunity you are focussed on in less than 30 seconds.

Q When discussing your potential market applications, do you:

- a. Explain that your potential drug market or therapy is so HUGE that even one per cent (1%) will make you and everyone in the deal rich.
- b. Mumble about potential interest from Big Pharma or a pending IPO inside of two years.
- c. Name the specific disease or application you are targeting, known players, and outline a clear clinical path to market including strategies and timelines for getting the necessary regulatory approvals.

Q When asked about your path-to-market, do you:

- a. Suggest that the University's Business Liaison Office will handle this.
- b. Suggest this is a little premature until the science is proven and future rounds of investment will provide the necessary funds to set up appropriate distribution.
- c. Outline a partnering strategy involving strategic clinical or distribution relationships and discuss candidates you have identified and/or are in discussion with.

Q When asked about your competition, do you:

- a. Tersely quote the number of times your science has been peer-reviewed for publication, cited or the presentations you have made to medical conferences.
- b. Suggest that you are really onto something because Merck and Pfizer Australia business development people are evaluating your initial submissions – without secrecy off course.
- c. Quickly name the leading global researchers (by institution or company) in the field and what you understand to be your key differences or advantages (efficacy, safety, cost, time-to-market) when compared to known practice.

Q When raising money, investors want to see that you have a strong scientific team supporting the underlying science. What best describes your situation?

- a. I'm it.
- b. I'm a University Professor with a Board of Advisors; you can't really expect me to commit to the day-to-day operation of this company.
- c. We have a world-class Principal Scientist/Investigator, supported by a core business team, with our 'management holes' clearly identified and a calendarized plan to effectively resource and build the team as we move forward.

Q When asked about your revenue model, you:

- a. Guessed the first three years' projections after completing a successful five year clinical trials process?
- b. Took a top down approach based on capturing a percentage market share based on Merck's Vioxx experience.
- c. Can demonstrate realistic revenue projections based on comparables (options, licensing, and sale) for companies in related fields and similar stages of development. For therapies, this should be a bottom-up 'product specific' approach based on number of patients to be treated multiplied by expected royalty generated.

Q When asked about your company's competitive advantage, you reply:

- a. (Demonstrating ignorance) — We have patent applications licensed from a reputable Australian University and/or Research Institute in process.
- b. (Raising your voice for emphasis) — "Marketing is key to our success since the science will sell itself. We just have to get our message out there on the web that we really have a cure for cancer and the email will run hot from partners."
- c. We have a core team, well developed IP and clinicals in process focussed on providing therapies to solve a 'globally relevant' disease. We need a 'smart-money' investor to help us complete the next phase of our clinical trials and protect/develop our IP as we move forward to meet our next strategic milestone [...] within the next two years.

Q When asked about your IP strategy, do you:

- a. Explain that your patent attorney has that covered.
- b. Confirm that you have filed your basic discovery patent in Australia and will file additional patent application as and when you have the money.
- c. Discuss the results of your 'novelty search', your patent mapping strategy and portfolio approach to stake out your niche while seeking to identify any potential 'freedom to operate' issues.

Q What do you see as the future of your company?

- a. What future? As soon as we complete Phase I, we are going to flip to San Diego with the help of UC Connect, cash out to Big Pharma for 7-figures, and live the good life up in Byron.

- b. I'm a serial bioentrepreneur. We have got a 3 year window on this deal so I'll be ready to move on to the next big deal as soon as Rodney and Brad get of jail.
- c. I've got some serious 'skin in the game' and I'm in it for the long haul. Let's build a sustainable and viable business together.

Q Raising money takes time and typically a minimum of twelve months. What do you do?

- a. Forget about it! You didn't plan on having to wait that long and you really don't need a back-up plan.
- b. Put everything on hold: stop networking, stop cultivating business relationships and working on new business and product development until the money rolls in.
- c. Batten down the hatches, manage your burn rate and bootstrap until you've got your financing.

Q Investors will want to know how much ownership you are willing to give up to make your business a success. What best describes your situation:

- a. I want to be President, majority owner, keeping dilution of my ownership interest in the business to an absolute minimum.
- b. I've already raised some Rolodex money from fools, family, and friends, and in return I offered them special voting and anti-dilution rights.
- c. I want this company to be a success and I'm prepared to take on serious investors and a management role that will help us reach that goal.

Q When asked about an exit for your investors, do you:

- a. Outline your desire to build a 'generational business' with a future family succession and buy-back plan based on News Corp or PBL.
- b. Propose that you're looking for a decade's long commitment given the nature of the industry and the risks involved.
- c. Plan to create liquidity options for early stage investors as you successfully complete your various clinical trials phases and bring on additional investors.

If you can't honestly answer, 'option C', to every question – JUST FORGET ABOUT BEING INVESTOR READY!

About the Author

Rob Muir, robmuir@pepvc.com, is a Partner in a technology commercialisation advisory company, Prometheus Equity Partners Pty Ltd. Rob is a regular speaker and published author on corporate business strategies, venture capital, and technology commercialization. He also has written and published a book *A Small Business Guide to Managing Technology for Profit* as a simple practitioner's guide available at www.pepvc.com.