

Cross-border investments, a win-win proposition

03 April 2008 | News



Cross-border investments, a win-win proposition

(You can get in touch with Mark Ravera at: mravera@strategicpharma.com)

Mark Ravera is principal at US-based Strategic Pharma Consulting Group, which provides advisory services to both emerging market and western biopharmaceutical companies. This work makes him a frequent visitor to Asia.

Few things in life are constant. But one can guarantee that regardless of the broad economic conditions, CEOs of small biotechnology companies will be stressed about their company's financial situation. However, it appears that the current situation is much worse than usual. I have met with the CEOs of several US and Canadian biotechs over the past few weeks, and they are all trying to deal with a difficult financing environment. The IPO window has been closed for years. As a result, the only exit option for investors is via the company being acquired. And those buy-out deals are much more likely to happen when the biotechnology company has a clinical-stage pipeline. As a result, venture capital has grown scarce for early-stage companies, even for those that have scientifically interesting programs with clear commercial potential. For many of these companies, "scarce" equals to "nonexistent".

This should be seen as an opportunity for Asian biotechnology interests to access cutting-edge innovative research programs for a relatively low cost. Every Asian country is looking to develop its own biotechnology industry, but eventual commercial success requires many components, not the least of which is the development of an experience base in high-risk and high-reward drug discovery efforts. These are still relatively early days for biotechnology discovery in Asia. Well-chosen investments in western biotechnology companies, perhaps, could accelerate the process.

In North America and Europe, the biotechnology discovery experience base is both broad and deep. Many of these companies have people who bring a track record of being in a well-established biotechnology industry. This experience can be found in management, boards of directors, investors and outside advisors.

What is missing, and what Asian interests can bring to the table, is cash, along with a strong interest in learning how to build their own successful domestic biotechnology industries. Many of these western companies are looking for relatively small investments to move their programs into early clinical trials. As part of the investment agreement, Asian companies could obtain regional commercialization rights and also global supply agreements, adding highly innovative products to their portfolios.

Of course, managing investments that are geographically distant can be complicated. When I speak with western investors about investing in Asian life science companies, the main objection is one of distance: "How can I keep a close watch on my investment when I am in New York and the company is in India, China, Korea, or Malaysia?" For investments flowing from East to West, that question remains valid. Geographic distance, language and culture are all challenges of such cross-border investments. But while these challenges exist, they are not insurmountable. Some companies have set up corporate venture groups very far from home. Eli Lilly, like essentially all of the global pharmaceutical companies, has a venture-funding group that is tasked with identifying investment opportunities on a global basis. Lilly has gone one step further and established a separate group, Lilly Asian Ventures, which is based in Asia and is focused on opportunities in South-East Asia. Another example of reaching out (geographically) is MP Healthcare Venture Management, which is a joint venture between Mitsubishi Tanabe Pharmaceuticals and Mitsubishi Chemical Corporation. With offices in Boston and San Diego, this fund, like the Lilly Asian Ventures group, is able to stay close to its investments and be more closely involved with its portfolio companies. So while not easy, it is possible to invest far from home, yet stay close to those investments.

There will be those who believe that Asian funds looking to invest in biotechnology should invest in Asian companies and not in western companies. But this is not an "either/or" situation. The basic premise of managing an investment portfolio is management of risk through diversification. While investing 100 percent of funds in the home country may be patriotic (and politically expedient), it is not necessarily the best financial strategy.

Though the investments may be small by the US biotechnology standards, it would mean significant amounts of money for most Asian healthcare companies. Therefore, investing in western biotechnology companies brings disproportionate risk and will negatively impact a company's internal development efforts. But there are ways to share risk and reward, as many Indian pharmaceutical companies are now doing by spinning out their own R&D divisions. Asian companies interested in making these western investments could partner with banks or sovereign funds, both of which might have room for biotechnology in their portfolios.

Imagine Asian-owned funds based in Boston, San Francisco, San Diego and other biotechnology clusters in the US-funds that are partnerships between healthcare companies and banks or government funds; funds that actively invest \$2-10 million in the US biotechnology companies that are at or near a value inflection point in their development programs. While the majority of such investments will not be successful (this is, after all, the biotechnology industry!), imagine those that are successful: New therapies, revitalized US biotechnology companies, strong financial returns, technical and commercial boosts for the corporate partner, and access to the latest medicines for the fund's home country (or perhaps the entire Asian region). It sounds like a win-win situation, doesn't it?

Mark Ravera is principal at US-based Strategic Pharma Consulting Group, which provides advisory services to both emerging market and western biopharmaceutical companies. This work makes him a frequent visitor to Asia. His industry

experience of more than 20 years includes large pharmaceutical R&D, biotechnology start-ups, and Wall Street investment analysis.