View from the Inside
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THE MONEY MEN

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Who are the super financiers of biotechnology?

A good idea and a couple of bucks will get you a white chocolate mocha at your neighborhood Starbucks. A good idea and several million dollars in venture funding will get you a company, and a shot at turning that idea into a drug or diagnostic product. Money is the fuel that drives entrepreneurs, but few industries require such a large amount of money—and repeated refueling—as does biotechnology. Until recently, there has been plenty of money available to satisfy the industry's voracious appetite.

Today, however, the industry is in crisis as the money supply has slowed from a torrent to a trickle, particularly for nascent companies or those seeking a second round of funding. The initial public offering (IPO) window is shut tight, which means that venture capitalists (VCs) are unable to cash out their investments and recycle the funds into new enterprises. The VCs are also having to supply more funds for late-stage companies that would normally turn to the public markets for continued funding, which is further strangling startups.

Is this the death-knell for biotechnology, as some predict? Or is it merely a lull before a great flood of capital that will seek to capture the economic potential of the post-genomics era of biomedical science? For insights, we've turned to some of the most experienced minds in the world of biotech finance. In the following article, we focus on the rare individuals who haven't just funneled billions of dollars into the biotechnology industry, but have applied their considerable intellect in ways that go beyond merely funding companies. Each in their own way, these five financiers have shaped the industry through their creativity, their passion for the life sciences and their ability to see beyond dollars and cents in a way that makes them valued as much for their brains as their wallets. Their stories hold lessons of tough times past, and of how creativity is often as important in the financial world as in the scientific world for turning a bright idea into a blockbuster drug.

William Kridel Jr.

Kridel gets the hard deals done by involving himself in even the most minute details, playing the role of confidante, mediator and negotiator.

As a child growing up in New York City in the early 1950s, Bill Kridel was surrounded by talk of the latest advances in biomedical and pharmaceutical science. His father, William Sr., sat on the Board of the Mount Sinai Medical Center (New York, NY), and medicine was always a part of family discussions. Nearly three decades later, after a successful career in Europe as an investment banker with a pharmaceutical focus and some emphasis on the oil and gas industry, Kridel was looking for new opportunities, and those memories of the childhood discussions prompted him to look at the life sciences. (Click here for profile and advice for bioentrepreneurs.)

"It was clear then—this was in the late 1980s—that there were few financial firms specializing in health care, either in terms of equity research or transactional support," says Kridel, referring to the paucity of independent stock analysis and of firms able to provide all of the legal and financial advice involved in making deals. Kridel also realized that the life sciences industry had many similarities to the oil and gas business, particularly in the level of competition and cooperation among firms and the large number of large and small players in the industry. "I concluded that there's plenty of science and clinical expertise but that the industry needed a healthy dose of finance and strategy capability."

Seeing an opportunity to combine personal interest with professional skills, he joined forces with fellow banker Jan Pilkington-Miksa and founded Ferghana Partners (New York and London) in 1992 to provide comprehensive strategic and financial advisory services to life sciences companies.

Over the past 12 years, Ferghana Partners has arranged acquisitions, divestitures, corporate partnerships and even private placements for dozens of life sciences companies, including pharmaceutical companies such as Merck KgaA (Darmstadt, Germany) and Wyeth (Madison, NJ) and smaller biotechs such as Targeted Genetics (Seattle, WA), Osiris Therapeutics (Baltimore, MD) and Atrix Laboratories (Fort Collins, CO). This past New Year's Eve, for example, Ferghana completed a $27 million deal between EntreMed (Rockville, MD) and Celgene (Warren, NJ) that resulted in Celgene investing in EntreMed and also licensing EntreMed's thalidomide analog program as well as ending years of bitter litigation. Kridel calls it one of the most memorable deals of his career. "It was incredibly interesting and challenging in that it was part finance, part licensing, part M&A (mergers and acquisitions) and part litigation settlement in a deal context that could have disintegrated many times during the negotiating process," he explains. "Fortunately, the team and I were able to keep everyone's focus on the fact that both sides were going to be winners."

Though Kridel and his partners will help a company raise money through the private equity markets, his personal approach is more of a holistic one. "I'm a strategy guy who looks at a company from the point of view of how can we change its circumstances, how can we reset the way it's doing business, its alliances, its development strategy, the way it is planning the clinical trials, the whole thing, in order to end up with a transactable event," he says. "In most cases, just raising money is not going to solve a company's real problems." He says that one of his biggest strengths is that he involves Ferghana and himself with every detail of a strategic transaction, whether it be planning a clinical trial or making sure every 'i' is dotted and 't' is crossed in a legal document.

What he dislikes are executives who don't have the moxie to make the changes needed to move their companies forward. "It doesn't happen often, because I think we pick our clients well, but I find it a shame when executives get lost in the moment instead of looking at the big picture. It bothers me to no end when a deal doesn't get done because the client loses nerve at the last moment or won't put that extra $1 million on the table."

In these days of dwindling corporate bank accounts, Kridel believes that the long-anticipated industry consolidation must happen, for several reasons. First, he sees the IPO window remaining shut for "half-baked" companies, those that aren't already in good financial shape and are lacking real product-generating programs. Second, he believes that venture funds are getting so large that they can no longer invest enough in tiny startups to make a decent return on their investment. Instead, he sees venture capitalists investing multiple times in the same company, staying with the company for a longer time and nurturing them to a condition where they can be acquired or are mature enough to go public at a large valuation. "I think the magic number for a company doing an IPO, when the window reopens, is going to be north of $300 million," he posits. Putting together smaller biotechs, with good strategic fit, may be the best way of assembling a company worth that much in the public markets.