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Lack of IPO money now driving alliances

The lack of funding available to biotech companies on the public markets over the past year has been the key factor in shaping the dealmaking landscape, according to Bill Kridel, the managing director of Ferghana Partners, an investment banking group focusing on life sciences companies.

The biotech boom that peaked a year and a half ago saw many start-up companies launching highly successful and oversubscribed IPOs. But by the end of the year the public markets effectively closed, and 2000 was also notable for the numerous companies that just missed the favourable conditions for public financing.

On the whole, access to venture capital money has been uncertain over the past year, although private financing is gaining in importance as a method of plugging the gap left by IPOs. This leads to the "third pot of gold" – that of corporate partnering as a way of financing a company, Mr Kridel told *Scrip* in an interview at the recent 9th BioPartnering Europe conference in London.

The uneven cash wealth distribution has resulted in a split between cash-poor companies and others with as much as five years' cash on their balance sheets. Both will need to license their products out, but this will occur at different points in time, with many of the cash-rich biotechs now able to afford to take a project further without a corporate partner.

At the other end of the spectrum, Mr Kridel says Ferghana has seen a "frenzy of companies" that did not raise cash during the biotech bubble. These companies' search for cash is one of the most important factors presently driving dealmaking.

. . . not one-sided

Big pharma is increasingly seen as the holder of the most easily accessible cash reserves, as well as having direct access to clinical development teams, sales and marketing infrastructure and postmarketing surveillance. But the relationship is two-way, with most large companies also viewing in-licensing as an essential activity.

Big pharma's sales growth is still driven largely by new chemical entities, but its R&D productivity has suffered greatly. This, combined with what Mr Kridel sees as much stricter regulatory standards, has resulted in the cost of bringing an NCE to the market soaring over the past few years.

The effect has been to look increasingly towards biotechnology to provide both NCEs and efficient techniques of generating NCEs, and this forms the other half of the symbiotic relationship.

However, Mr Kridel disagreed that this was a failure on the part of big pharma. Large pharmaceutical companies have always relied to an extent on partnering, and in fact they would be highly inefficient if they did not license products in, he said.

Although marketing power is one of big pharma's strengths, he does not believe that companies are simply turning into "speciality marketers". A company needs to have a core competency in R&D because only this sort of expertise can lead to an ability to evaluate all R&D possibilities and pick out the best ones, says Mr Kridel.

. . . proactive not reactive

Big pharma has also had to change its own attitude to dealmaking, which in the past was simply based on the concept that "the market will come to us". Many companies now realise the need to be "proactive rather than reactive", with some, like Novartis, establishing a group dedicated to seeking out partnering opportunities.

Companies are looking at compounds in earlier stages of development because "Phase III products are getting extraordinarily expensive". In fact, the days of single-product licensing deals are considered by many to be over and big pharma companies are increasingly looking at depth, with multi-product alliances being more the norm.

Investigating a therapeutic area is not uncommon, and this concept was developed further by Novartis, which last year signed an $800 million deal with Vertex Pharmaceuticals to investigate an entire product class directed at targets in the kinase family. Being a leader in several different fields is financially impossible, and so companies tend to specialise to make the types of deals they sign fit in with the types of skills they possess, says Mr Kridel.

. . . consolidation?

Merging is another means for biotechs to brave the present market conditions, but Mr Kridel says he has not seen as much biotech M&A as he had expected. However, some of the smaller companies are "under the gun to bulk up. There is some desperation among these to get together or die," he said.

Other companies are looking at alliances as a "bridge to consolidation", as evidenced by GelTex, which last year was acquired by Genzyme after a three-year joint venture between the two.

In any case, Mr Kridel remains confident that the present lack of public money is simply the low point in a cyclical process. Based on the promise offered by stem cell and other technologies, the IPO markets should reopen during the second half of 2002, he says.