Some thoughts on bioentrepreneurship

Points to consider before quitting your day job.

Alan Walton

What is a bioentrepreneur? Most of us have formed impressions based on people we have met. For myself, I remember the first time I met a self-acknowledged entrepreneur about twenty years ago in a tennis league in Cleveland. In that league, only two of my opponents consistently cheated at the game. Since I was in the habit of asking my opponents what they did for a living, I discovered that one was a medical student and the other claimed to be an entrepreneur. When I asked the entrepreneur specifically what he was doing at the moment, he claimed he was "resting" between ventures. I suspect he was actually associated with the Mafia.

Since that time, I have been an entrepreneur, and met many others. Perhaps the overriding quality that these people share is that they are conviced that they are *de facto* going to succeed. I have had friends who have given up high-paying jobs in large, stable companies to make a fortune on their own. Sadly, most of these people have sold their homes, raided their childrens' college funds, and broken into piggy banks in a fruitless effort to achieve their dream, which most of their friends said from the beginning was impossible. I know a venture capitalist who sums this quality up by saying that most entrepreneurs are crooks, or crazy. Certainly, an irrational belief in one's ability to achieve a dream is common.

But if you are set on that dream, there is really very little that can cure you of it other than real life experience of living it. My own experiences in marketing inventions, raising money, and managing a company, as well as my check list for what it takes to be an ideal bioentrepreneur, should help you get a sense of whether you are cut out for this line of work.

Marketing your invention

In the early 1980s, founders of biotechnology companies generally came from academic backgrounds, since they were the only ones who understood what biotechnology was. They worked for low salaries, raised money where they could, and had major equity chunks of their foundling companies.

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These entrepreneurs were easy pickings for financial types. I well remember my first biotechnology business conference in 1980. I was sitting at a lunch table with a young assistant professor, and sitting next to him was a "finder" who claimed to have access to large sums of cash. The finder said to the young academic, "I'll give you $2–3 million to start any company based on your academic work or ideas, as long as the word "gene" or "bio" appears in the title."

While these kinds of come-ons were used to lure the gullible, the real game plan in the early years was for financiers to put as little capital into a biotechnology company as possible, take the company public as soon as possible, and cash out when the lock-up came off. In those days it was not unusual to make five to ten times one's invested capital in a three-year period. In my own case, the initial investors in University Genetics (UGEN) put up $60,000 and got back $3,600,000 in exactly five years. This sort of financial return has only been obtained in recent years on Internet "deals." Not surprisingly, many of these early, under-financed biotechnology companies did not survive. In 1983, fewer than 30% of biotechnology initial public offerings were backed by venture capital, whereas by 1992, the percentage had risen to over 90%. And it is mainly the venture capital–backed companies that have survived.

During the past quarter-century academia has realized its value as the source of innovation. It can now go head-to-head with any financial situation you can throw at it. For example, in contrast to the early 1980s, when professors left academia to lead biotechnology companies, they now often stay in their academic positions and out-license their innovations. There is virtually no risk to them in this process. In terms of money, I have seen several cases in which said professor demanded 20% or more of the new company undiluted through all rounds of financing for his invention, although I have not yet seen an invention funded under these circumstances.

What's more, many of these academics have become equal to the best "finders" of the early 1980s. A few years ago, a professor approached me with an idea for a new technology that was extremely speculative. I asked him what would happen to the company if the technology failed. He replied "Oh, then we will take it public."

Raising money

Raising money is, of course, the big test of the innovator, the entrepreneur, and the professional manager of biotechnology companies. In my own case, I chose to swap a chunk of equity for the more secure situation of a well-financed company. After leaving a tenured academic position for a start-up company financed by a $26 million R&D financing led by Allen and Company, my first day on the job was greeted with the news that the market had gone south and the financing had collapsed. Welcome to the world of business!

Like so many entrepreneurs who do whatever is necessary to get a company off the ground, I raced around to every wealthy individual I could find (with my friend and mentor, Bill Miles) to raise startup money. We probably did over 200 "one-on-ones" in three months to get going. Those who have had no experience with meeting payroll with less than a month's cash on hand probably don't qualify as entrepreneurs. One of my happiest days was when we got UGEN public, and I could stop feeding my family on dog food.

Of course, it is only after you have gone public that you realize that, despite all your hard work, the public does not have a clue about what your company does. Stelios Papadopoulos of Paine Webber (New York)

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has often likened the public investment in biotechnology to buying a lottery ticket. For example, I used to regularly go on tours to explain to our stockholders what University Genetics did. Despite my efforts, four years into running the company, my chief technical officer came into my office to announce that one of our shareholders was on the phone. It turned out to be a little old lady whose cat had just died. As a shareholder, she knew that we did animal breeding, embryo splitting, plant cloning, etc., and in the sweetest voice asked if we would please clone her dead cat for her, as she had been keeping it in the freezer.

Managing your company

When I first joined the venture capital community, I was told by my partners that they always backed "management, management, management." This is, I believe, still VC dogma. One of the hallmarks of this strategy is that venture capitalists bring in "managers" at an early stage of a company's existence. As a rule, these managers are recruited for their brand name recognition, as they are generally from big pharmaceutical companies. To lure them away from the pharmaceutical industry, venture capitalists generally give them astronomical salaries, plush benefit packages, and do not require that they put their own money into the company.

From my experience, the irony of this strategy is that these "grand" managers generally spend the first 12–18 months figuring out what exactly the company's proprietary technology is useful for. What's more, the *Venture Capital Journal* states that the average high-technology company has 3.5 CEOs from startup to initial public offering. One wonders, therefore, whether the key parameter in venture capital success is in choosing the right CEO or whether it is the ability to fire the CEO when things go wrong.

In actual fact, there are two separate skill sets required for a successful biotechnology company both of which are grouped under the heading of "management." The first is finding an entrepreneur who can initiate a successful company. The second is finding a manager who can run a successful young company. In my view, there are no more than a half-dozen good bioentrepreneurs in the United States and a dozen "star" managers of young companies. Because of this shortage of startup bioentrepreneurs, there has been a growing trend for VCs to be "acting CEOs" of startup companies. Although this is not an easy job for most VCs, there are advantages from the VC perspective. First, they get to choose and design the technology platform and strategy for the company. Second, there is much more financial leverage (you do not have to pay $3-5 million for an idea). Finally, the VC financial backer is not faced with the awkward job of explaining to the founding entrepreneur that he/she is "no longer needed".

The ideal bioentrepreneur

If you are still reading this, it is likely you have been bitten by the bioentrepreneurial bug. From my experience, I have put together the six dominant features that I consider necessary for all successful bioentrepreneurs as a final checklist against which to measure yourself.

1. You are a charismatic individual who articulate plans well.

Without charisma, it is unlikely that the entrepreneur can attract attention and financing. Articulating the plan of the company is key, and eventually the individual may have to stand in front of the Wall Street crowd. Caveat: Too much charisma can be a dangerous thing!

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2. You are a skillful manager.

We all know of the brilliant entrepreneur/investor who builds a mediocre team because no-one will challenge him or her or, conversely, a brilliant team of unmanageable people. Obviously, "people interactive" skills rank high. We have turned down investing in many companies because the ego of the founder was overwhelming.

3. You possess technical knowledge of the area.

This is one of my favorite parameters. Whereas it is relatively easy to change management in the company, it is not generally easy to change the technology base. Thus, these days the best managers generally have a good technical background and a grasp of the company's technology. Having said that, there have been some very clever changes in strategy, generally involving older companies that have discovered that their share price increases if they include "genomics" in the title or description, or if they drop "antisense" or "monoclonal" from their major thrust.

4. You are energetic to the point of being "driven."

I think we all admire the "can do" person who works 100 hours per week, jogs five miles at lunch, and whose energy and enthusiasm are pervasive. These are clearly desirable traits in entrepreneurs and managers. Sometimes, such individuals are put under incredible pressure by investors or, at least, imagine such pressure. And under the guise of such pressures we have seen peculiar things happen, including "adjustment of scientific data" and the selling of product to empty warehouses. More than one entrepreneur/manager has ended up at a minimum security facility for trying too hard.

5. You possess the ability to lead.

It is very difficult to define leadership skills, and we all know of different styles. Perhaps one definition of entrepreneur, that of impresario, is appropriate in this sense. There are, of course, many styles, ranging from autocratic to consensual to passive. In personal interviews it is not easy to pick up leadership qualities. Of the many potential CEOs I have interviewed, my worst mistakes were with people with a consulting background: They were often impressive during interviews, mainly because they told me what I wanted to hear, but they were lousy at operations.

6. You have an appropriate track record.

Previous success does not automatically lead to future success, but at least it is a useful parameter—particularly if one has worked with the individual before. One thing to note is that a good track record in one sector does not necessarily translate into success in another. One of the biggest factors concerning track record is that the successful individual rarely has difficulty attracting capital.

Conclusions

So how does one find all these marvelous features in one individual? It is nearly impossible. Search committees often look through hundreds of names and conduct many interviews, often with growing frustration, and eventually settle on an individual who is suboptimal in order to save time. Some people have had good luck with certain executive search firms—"head hunters"; I have not. Having commissioned about 20 searches, only one worked out really well (but took six months). In fact, in all of my best portfolio companies, the CEOs were recruited through personal contacts and the venture capital community.

The good news for budding entrepreneurs is that the shortage of good CEOs for young biotechnology companies is leading to higher and higher salaries and benefits. From a venture capitalist's point of view, this remains one of the most vexing problems in growing young companies. So if you have what it takes, by all means, live your dream. But please, don't cheat at tennis in Cleveland. ///