THE LAST WORD/

BRINGING UP BABY

by Michael Du Cros

Thinking about having a biotech company of your very own? If so, think long and hard about the fact that, no matter how brilliant your "baby" of a company is, its chances of surviving and growing without an extended "family" of experts and lots of "coparenting" are quite slim. Founders of biotechnology startups have to be willing to spend a good deal of time and energy creating a complex of critical working relationships and finding the right family "members" to help the new company develop from inception through partnering and product release. Money alone will not suffice.

As with any child, events that take place during the formative stages of a biotech startup set future patterns and behaviors, and the company depends heavily on external sources for guidance and support during this period. Targetech (Meriden, CT), a gene drug company, is a case in point. The technology founder decided to remain in a university setting, so the venture capital syndicate financing the company hired key technical staff members, provided necessary business inputs, and located the space in which to set up commercial research operations. The venture capital syndicate also provided (over the first 18 months of operation) an interim management, assured the development of a greatly expanded patent portfolio, formed a scientific advisory board, and developed a focused, forward-looking business strategy. To achieve these ends they used a combination of prior and new contacts in the business and academic communities.

During a new company's "adolescence," knowing how to play the dating game with potential corporate business partners is crucial to raising necessary additional funding and to taking products to clinical trials and eventually to market. It is a process fraught with awkwardness and rejection unless potential partners on all sides have considerable experience and are focused on generating win-win solutions. Most final agreements are complex, as the one developed between Gilead (Foster City, CA) and Glaxo (Research Triangle Park, NC) in 1990 reveals.

According to its terms, Glaxo obtained an exclusive, worldwide license to antisense and triple helix compounds for the diagnosis, prevention, and treatment of cancer. In return, Gilead received an annual research fee, benchmark payments on the achievements of mutually agreed upon goals, and royalties on sales of products licensed to Glaxo. Gilead also obtained an $8 million equity investment from Glaxo, and a percentage right to manufacture any licensed compounds in the U.S. if Glaxo elected to contract out for product manufacturing. The termination options were equally complex, involving minimum payments, patent rights, and change of control clauses! Clearly, if you are a neophyte playing this dating game without direct help from a knowledgeable investor group and from a carefully selected management team, you are playing with fire and will, at best, arrive at a less-than-optimal deal for your company.

The initial public offering (IPO) is a company growth phase as different from previous phases as college is from high school. If your "child" is prepared for this next step, it has solid management, strong patent positions, one or more corporate partners, and, most likely, at least one drug with investigational new drug status. As a college student must determine which courses to take to fulfill degree requirements, so the company must direct the IPO process; it cannot allow the process to be dominated by the investment bankers it approaches. This can be achieved by understanding which IPO parameters are right for your company, and includes knowing the strengths of the potential lead banker's analyst group for your market the mix of retail to institutional buyers best selected to trade your stock the secondary bankers you want in on your IPO and most importantly, the point at which your company is willing to walk away from any deal on the table.

In this last case you must remember that you will almost certainly need a secondary offering or two before your company becomes profitable. An IPO price that is too high will quickly sour the market, so be prepared to walk away just as quickly from a price that is too high as from one that is too low. Investor board members often prove to be an especially vital resource at this stage since they too want strong secondary offerings at which they can sell their stock. During this "IPO to secondary process" your company will have to become increasingly reliant on its own infrastructure and less dependent on its venture capital "parents."

Your company may have finally reached the "graduate school" stage, but your product revenues are still a "Ph.D. plus post-doc" timeframe away. Both Genentech (San Francisco, CA) and Amgen (Thousand Oaks, CA) took 10 years to achieve direct product revenues following their IPOs. The support expertise required at this point has shifted away from the venture capital syndicate to company board members with in-depth knowledge of pharmaceutical products and marketing and to company employees with similar expertise. The company now has to look within itself for future direction and also has to identify and work with "mentors" to be assured of the best chance of future growth and development. Compared to a newborn entering a complex world, your "adult" company has had the distinct advantage of selecting the environment in which it has been nurtured. ///

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