BUSINESS

Stuck in the middle

The first foreign-based biotech company to list its shares in Japan has been caught up in bureaucracy — but its experience should help others. **Ichiko Fuyuno** reports.

Foreign companies rarely choose Japan as their base for raising money. Rules, regulations, laws and traditions make it too much hassle. But early last year, a biotechnology company set up in San Diego, California, by two Japanese doctors tried to break the mould.

The early signs were good for MediciNova: it raised US$110 million on its initial public offering in February 2005, at a time when rivals around the world were struggling to get such flotations off the ground. With several drug candidates in the pipeline and a novel business model, based largely on taking Japanese drug candidates into the lucrative US market, the company looked set to ride high.

But these hopes soon faded. After its debut on Hercules, a stock exchange in Osaka for start-up companies, MediciNova's stock price began to tumble (see graph), and its value today is about one-third of the issue price of ¥400 ($3.44).

Some of this poor performance is being attributed to an overall downturn in Japan's biotechnology sector. But fund managers and analysts think that it also reflects how hard it is for Japan's stock markets to accommodate firms that are based abroad — despite the government's promises to relax the tangle of regulations. "I was impressed with MediciNova's attitude," says Hisaji Agata, a managing director at JAFCO, Japan's biggest venture-capital firm. "But they didn't realize at the time that structural problems would arise later."

MediciNova was founded in 2000 as a spin-off from Tanabe Seiyaku, a midsize pharmaceutical company in Osaka that specializes in treatments for cardiovascular disease. It was led initially by Takashi Kiyoizumi, a reconstructive surgeon who left in 2005, and Yuichi Iwaki, its current chief executive.

Iwaki now claims that the company has been discriminated against by parts of Japan's securities industry — including brokers and the press. He says that rules about how shares in foreign firms can be traded has made it hard for investors to buy the stock. He also argues that many information sources used by Japanese investors have been unable to include data about foreign firms — effectively shutting the company out of some investors' portfolios.

"I feel so sad that our dialogue with the market is limited," Iwaki says. "We want to break the ice to globalize Japan's securities market,

Yuichi Iwaki's company has found life tough since it was listed on the Osaka Securities Exchange (right).

MEDICINOVA

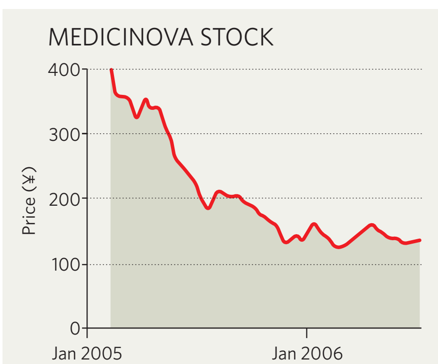
KYODO/NEWSCOM

but we have been having a hard time accomplishing that."

MediciNova's business model involves licensing drug candidates, primarily from Japanese companies, and then getting them through clinical trials in the United States and Europe.

The business model is attractive because Japanese drugmakers find it difficult to conduct clinical trials abroad. Iwaki, who is also affiliated to the University of Southern California, Los Angeles, has worked in the United States for 30 years, and other company board members have experience with major US biotech firms. So far, MediciNova has begun trials on six drug candidates, for treatment of diseases ranging from asthma to cancer.

Iwaki says he floated his company in Japan partly to help strengthen its ties with the business partners there who will provide its drug candidates. But from the outset, MediciNova struggled to make its shares accessible to institutional investors. Until recently, Japanese investors who wanted to buy and sell the shares of foreign-based companies listed in Japan had to go through a subsidiary of Japan's stock exchange called Japan Securities Settlement and Custody. But institutional investors such as banks and securities firms weren't allowed to use this route. Instead, if they wanted to buy stock in Boeing, for example, they would go abroad and buy it on the New York stock exchange.



That left MediciNova and the only other foreign company to be listed exclusively in Japan — China's Xinhua Finance — in a bind. Iwaki says the problem was solved in May, when Japan's financial services agency authorized a second company, the Japan Securities Depository Center, to settle trades in foreign firms' stocks with institutional investors.

Private investors, meanwhile, faced a separate set of obstacles. The company struggled to persuade the usual newspaper listings to include its stock price. Its quarterly reports and other corporate information didn't appear on Yahoo — a favourite of private investors in Japan, as elsewhere — because the web company couldn't readily convert the information into yen, the currency used on its Japanese website. (To comply with US rules, MediciNova prepares its financial results in dollars.) These issues made individual investors wary of the stock, Iwaki claims.

In an attempt to improve communications with its shareholders, MediciNova has recently overhauled its Japanese website, and Iwaki has put up his own blog — in Japanese — to lighten up the company's image.

Some observers say that it was the company's lack of preparation for its listing on a Japanese stock market, rather than the inherent difficulties of such a listing, that got it into bother. "MediciNova was going too fast," says Chul So Moon, chief executive of the firm Cangen Biotechnologies in Bethesda, Maryland, which plans to list shares on the Tokyo stock exchange by the end of 2007. "In Japan, a step-by-step approach is important."

And according to Agata, MecidiNova's experience has lessons for other foreign biotech companies that might list there. "Thanks to MediciNova, the problems of Japanese systems have come to the surface," he says. "We'll have to wait and see how the industry reacts." ■