VENTURE ADVISORY

MAXIMS FOR MANAGEMENT AND INVESTING

SAN DIEGO, Calif.—Venture capitalist Brook Byers (Kleiner Perkins Caufield & Byers, San Francisco, CA) punctuated the otherwise somber mood of the financing trends session of the PaineWebber-Bio/Technology Biopharmaceuticals '89 conference (Bio/Technology 7:1224, Dec. '89) with a few *bon mots* attributed to his firm's founding father, Eugene Kleiner. While light in tone, they provide insight into the criteria used by today's biotech venture investors, as well as serious advice on how a biotech CEO can maintain an appropriate focus.

- **On Financings:** *The time to eat is when the appetizers are being passed around.* Byers ranks capital availability in second-half 1989 by type: early private (9, on a scale of one to ten); late private (3); initial public offering (1); and post-public (6 or 7). With later-stage financing currently scarce for all but the largest biotech companies, dilution "must be low on your list of concerns," Byers believes. Companies should take all that's offered, because "It's a capital-intensive business and there's no way around it."

- **On Market Opportunity:** *After R&D is finished, the dogs must want to eat the dog food.* "Financing is always available for products and businesses, but it's not necessarily available for research projects," according to Byers. "It's important, therefore, to spend those dollars that are so difficult to raise on developing products for a market segment that's consistent with whatever strategy you've chosen." San Diego-based diagnostics company Biosite "already was talking to the distribution channels it would use," nine months pre-product introduction, he notes. "It's amazing how many companies *don't* spend enough time early on thinking about, when the product is finished, the reaction of the distribution channels and the customer system in which it's sold."

- **On IPOs:** *Even turkeys can fly high in a strong wind.* Byers cautions against going public too early, and with too little. "A private company has a lot more financing flexibility," and should only go public "in a size that makes it worthwhile." He thinks that "a \$6 million IPO is not an IPO at all...that's just setting [yourself] up for a problem later because it's difficult to do private financings once you're public, and \$6 million isn't enough to make yourself liquid or purchaseable by an institutional fund."

- **On Negotiating:** *The best of breed don't grow on thinly sliced salami.* Byers'

firm believes that "Good deals go smoothly." One story that got the attention of his audience involved Genentech (So. San Francisco, CA) in 1979: "While considering the strategic alternatives, we were in discussions with a large northern New Jersey pharmaceutical company with nothing going in biotechnology at the time. It was thinking of acquiring Genentech and asked what we thought was a fair price. We said \$60 million, and they came back and said not a penny more than \$50 million."

Generally, Byers believes that "working these things through" with large firms is difficult, but essential. "They'll have someone in licensing involved in structuring the deal, but they won't hire an investment banker to assist. Or someone in operating will be involved, but that person wants to show they can negotiate tough, and so they offer a low price, and then someone in corporate—say in Basel—has to do a sign-off to ensure that R&D won't get hacked off."

One central question facing investors is "What are we going to do with the R&D investments we're all do-

ing?" Byers' opinion of the public markets, with their pressures on short-term performance, is that "they obviously don't understand what we're all doing here yet. They look to earnings models for value [but] the real values in this industry are the technical assets that will become earning assets later on." And in his summary comments, he urged industry leaders to "educate the reimbursers to the total system cost of a disease state. That's the way we're going to get the prices that put the full value on the products we're developing to replace surgery, ineffective therapy, and long hospital stays."

How will that be accomplished? With wider exposure for biotechnology in the investment community. "Go to conferences covering other technologies—computers, software, telecommunications. Get on the podium, talk about biotechnology as an industry and why economically it's going to work. It's those people—those large investor conferences with 800 to 1,000 fund managers sitting there, that we need to start addressing."

—Mark Ratner

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