

## Box 1 HPPOs across the pond

Especially in Europe, there is skepticism that the HPPO idea could work. Like any IPO, the HPPO approach presupposes that demand for these shares exists but isn't currently being satisfied because the investment banks aren't taking good companies public. That isn't a given in Europe, says Kate Bingham of venture capital firm SV Life Sciences in London. "Demand might exist in Silicon Valley, where this initiative is geared, but here we don't have the investor appetite for these businesses. We don't have the kind of business angel, high-net-worth people that want to invest in public companies."

Genghis Lloyd-Harris, who is an exits specialist at British VC firm Abingworth in London, says there are just too many unanswered questions. "I don't think one can kick-start the IPO market simply through the use of an innovative structure," he says. "Especially one that is so opaque."

The multimillion-dollar cost of a normal IPO includes hiring an investment bank to underwrite the issue; preparing a detailed registration form (S-1) for the Securities & Exchange Commission; issuing a prospectus; and running a road show (or 'dog and pony show') to attract big institutional investors. An HPPO could avoid some of these expenses because new investors to buy up the issue are already lined up, though the cost is still high. But while IPOs remain a pipedream and VCs run short of funds, it may be the only practical way of raising the tens of millions needed to get a biopharma company through the later development stages.

companies cannot tolerate that level of share price instability.

That wouldn't happen with HPPOs, either in the US or in Europe (Box 1). By contrast, says Mott, an HPPO should bring in fundamental long-term investors with industry expertise who have had the opportunity to get to know the company over time. "From the company and VC perspective, this provides a more stable and supportive base of investors for the future," says Mott. VCs would expect to invest in the HPPO as well, he says, so it should be regarded as a broadening of the pool of available capital, rather than an exit. On the other hand, from the viewpoint of new investors coming in, the event provides better access to information and management, a

higher level of co-sponsorship and long-term commitment by the VCs, and the chance to own a bigger piece of the company, he says.

HPPOs are not common yet, though as venture capital firms better grasp the concept and have identified the best candidates from their portfolio, they are expected to increase in popularity. InsideVentures is working on several in the \$30–\$100 million range, and hopes to close one by the end of the year. Jamie Topper of Frazier Healthcare Ventures in Menlo Park, California, believes there are several biotech companies with potentially big products that did not get out in the last IPO window, which could be ripe for an alternative offering.

Peter Mitchell, London

## IN brief

### Sanofi's Shantha boost

Sanofi-Aventis has expanded its presence in emerging markets with a \$784 million deal with Hyderabad-based vaccine maker Shantha Biotechnics. On August 31, Sanofi-Pasteur, the vaccines division of Paris-based Sanofi Aventis, took control of Shantha after acquiring the ShanH subsidiary of Mérieux Alliance, a holding company with an 80% stake in Shantha. Under the agreement, Sanofi-Pasteur gains access to Shantha's vaccine platform, which will boost the French company's manufacturing capacity. Shantha will gain from Sanofi-Pasteur's commercial muscle to help launch its pipeline of new vaccines under development, which includes rotavirus, typhoid and human papilloma virus vaccines. Both local government and industry view the transaction positively. "If the combination of Sanofi's innovative skills and Shantha's cost-effective manufacture can result in transfer of technologies and development of affordable vaccines, the country will benefit and we should welcome this," says Subbarao Natesh, senior advisor from the state Department of Biotechnology, in New Delhi. But not everyone agrees. "A foreign company may acquire an Indian company and infuse technology and capital for its own commercial benefit," says Yennapu Madhavi, a scientist at the National Institute of Science, Technology and Development Studies in New Delhi. Varaprasad Reddy, Shantha's managing director, however, hopes the company he founded in 1993 will eventually become a global hub of vaccine research.

Killugudi Jayaraman

### Gulf beckons biotech

Arab nations are pouring billions into ambitious biotech-related programs, in a push to establish new sources of revenue for the region through biotherapeutics and clean energy. Abu Dhabi's Masdar Initiative aims to turn Masdar into a carbon-neutral city with a total \$22 billion investment for the overall project. This includes a \$250 million venture capital fund dedicated to R&D projects in clean tech, such as solar and biofuel technologies. Another Arab emirate, Qatar, is setting up the Sidra Medical and Research Center in Doha for translational research in biomedicine. Due to open in 2012, and at a cost of \$2.7 billion to construct, Sidra will provide healthcare services, and also conduct research in core areas that affect Qatar's population, such as diabetes, genetic disorders, cardiovascular disease and obesity. Sidra is also forging international links with elite universities such as Harvard and Cambridge, UK. The nearby Qatar Science & Technology Park was set up in March 2009 as a free-trade zone that allows foreign-owned companies to operate free from tax. So far, it has attracted 21 global companies, which have committed \$300 million. "In a small country it is better to have concentrations of laboratories, rather than a lab in every location," says Tidu Maini, executive chairman.

Hayley Birch

## IN their words



**"After decades in the jungles of fringe science, the placebo effect has become the elephant in the boardroom."**

Author Steve Silberman comments on the bizarre signs that placebos have become stronger over the years. (*Wired Magazine*, August 24, 2009)

**"[An] attempt to control, colonise and contaminate food supply under the guise of helping the Africa continent."** Friends of the Earth Nigeria reacts to the UK government's plans to

spend £100 million to support GM biofortified crops in Africa. (*The Guardian*, August 12, 2009)

**"If you always swing for home runs, you strike out a lot,"** George A. Scangos, chief executive of Exelixis, on balancing a company's pipeline of experimental drugs between long shots and some drugs that have a better chance of making it to market and sustaining the enterprise. (*New York Times*, September 2, 2009)

**"Race is a sociological concept, not a biological category,"** says Otis Brawley, the chief medical officer for the American Cancer Society, criticizing the prevailing—and flawed—medical opinion that race contributes to differences in health. (*Time*, August 22, 2009)