A New Biotech Funding Model is Critical to Survival of the Industry?

So what's wrong with Biotech financing today? What will it take to bring the Biotech market out of the doldrums and back into action? If you are having trouble finding financing for your next greatest idea then the only comforting news is that you are not alone.

Venture capital technology assessments, which are advisory diagnostics we perform frequently, have revealed some interesting information. Unfortunately, when the biotech bubble first burst, right around the 9-11 time period, there were already a bunch of troubled venture capital funds. Most of these funds became challenged because the time horizon for their investment to mature is too short for the drug development cycle. Too many of these firms believed that the capital market was an exit strategy. True, for some it was the best thing to do, and to a point it made sense for both company and investor - but not today. Following the market collapse and then the near fatal blow that the biotech market received along with the rest of the market, venture capital in the bio tech sector was and continues to be in a state of disarray. There are, however, a few funds that actually know how to make money in the biotech world. The problem is they too are having trouble raising capital for their next funds. Overall the VC market is a nightmare for biotech with lots of rationalization expressed - too early, too late, not enough differentiation, to expensive, too long to market. When all boiled down it shapes up as too many people that don't know how to develop a drug controlling the capital to one of America's brightest economic and social stars - medicine.

The trend for finding later stage products is so rapacious right now that VC funds are having deal flow problems. Everyone wants to jump on the band wagon, leaving the start up holding the 'your too early for us' bag of hot air. Ask Pfizer what they think of late stage drug investment? They just dropped $215MM on a drug from Russia that showed great clinical efficacy in Alzheimer's patients in Russia and the surrounding areas and has been in use for over 10 years, and guess what? Bring it to the U.S. for clinical trials and it shows absolutely NO clinical efficacy against the placebo! Who said late stage drug development was lower risk? Somebody tell the Pfizer board.

For $215MM and some savvy investment types, Pfizer management could have invested in 10 start-up's at $5.0MM a pop and reserved $15MM each as the investments hit their milestones. Now granted the chances of a drug start up reaching the market is pretty low, but come on folks, $215MM will buy you a lot of entrepreneurial grease, commitment and energy as well as some damn good technology. In my book, I like the odds of the new technology over slumping something just because it is in Phase 2 clinical trials or worse as Pfizer found out. So much for due diligence. But why take the chance and invest in the 'too early' crowd of drugs and technologies?

The new drugs being developed today are smarter because they will be tied to diagnostics to help physicians decide who should get the drug and who shouldn't. This new combination technology approach to drug approval could be a decidedly better approach to drug development then what most investors are doing today with their 'closer to market' picks. Why is that the case? The FDA likes this approach, tie a diagnostic to a drug, prove the efficacy, and your going to get approved!

The long and the short of it is that in the biotech world the 'valley of death' extends from Boston to San Diego and swings up to San Francisco and bounces its way across the globe to the Far East, Europe and the UK. The only people who seem to be getting all the money are the people in India, China and other places that are trying to eat the pharmaceutical and biotech industries' lunch in Europe and the U.S. with generics, biogenerics and more cut rate manufacturing suites than you can shake a stick at. Nothing wrong with that but hardly any one is paying attention to new technology.

Isn't it time we looked for a better financing model for Biotech products? We think so. Got any ideas? Let us know what you think might be a better way to fund Biotech!

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