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From NIH to ATM

Alternative Going Mainstream? Biotechs Find Funding Options

By Jennifer Boggs
Assistant Managing Editor

If the latest economic downturn has taught anything at all, it's that there will always be more than one way to fund a biotech company.

Whether a firm is just starting out, armed with a newly in-licensed compound or promising science, or has been around for several years and edging closer to market, finding adequate funding sources takes a bit more digging than it used to. Even 10 years ago, a biotech could travel the well-worn business pathway – secure seed funding, attract a few rounds of venture investment, complete an initial public offering and then return to the capital markets to raise money on the back of each clinical and regulatory accomplishment.

But now, venture capital is getting scarcer. *BioWorld Today* columnist Cynthia Robbins-Roth calculated a 27 percent drop in venture funding between 2009 and 2010 ($2.75 billion vs. $2 billion). Last year's numbers even fell below the $2.3 billion raised in tumultuous 2008. And the biggest drop was seen in initial venture rounds, with Series A deals bringing in $479 million for biotech last year compared to $849 million in 2009. (See *BioWorld Today*, Jan. 26, 2011.)

The capital markets haven't exactly been kind, either. Despite 25 percent fewer deals, follow-on public offering in 2010 raised less money than the year before, $5.6 billion vs. $6.5 billion in 2009, and most firms have been forced to offer discounts or take on further dilution.

"The new reality is that life sciences may need to rethink their capital-raising strategy," said Todd Wyche, founder of investment banking boutique Brinson Patrick Securities.

He was referring to public fundraising, but it's clear that biotechs, both private and public, are reaching more and more into the alternative financing bag of tricks.

Preferring Not to 'Venture' Out

Ask many industry experts and they'll agree that the VC market is expected to contract, especially as many funds reach their decade mark without having generated sufficient returns. Investors also are having to put more money into existing portfolio firms just to get those companies to an exit, either through an initial public offering or M&A.

That's bad news for emerging companies. And so far this year, attracting Series A finnacings is not looking much better. According to BioWorld Snapshots, there were four designated Series A rounds to close in January and February, bringing in a total of $54.3 million. (Diartis Pharmaceuticals Inc.'s Series A was excluded because the amount was not disclosed.) Compare that to the first two months of last year, when a total of seven firms closed Series A rounds in January and February and raised a total of $119 million.

Plus, most of this year's Series A money stemmed from just two offerings: PanOptica Inc., which brought in $30 million to support work on an non-injectable option for the hot age-related macular degeneration space, and Alkermes Inc. spinout Civitas Therapeutics Inc., which raised $20 million. (See *BioWorld Today*, Jan 4, 2011, and Jan. 10, 2011.)

But many firms have found success from other quarters. Organizations like the Michael J. Fox Foundation for Parkinson's Research, have helped bridge the funding gap. And there's the National Institutes of Health (NIH), which could increase its funding for basic and applied biomedical research by $740 million in fiscal year 2012 if the Obama administration has its way.

Many early stage firms already rely heavily on NIH grants. In fact, one 2008 start-up has funded its work almost entirely with NIH money. San Diego-based Renova Therapeutics Inc. has brought in about $23 million to support work on its cardiovascular gene therapy program. It's pulled in a bit more through angel investments and the qualifying therapeutic discovery tax grant.

Renova has no VC money in the firm, and CEO Jack Reich told *BioWorld Today* last year that he has no plans to seek venture capital, preferring to "see the people who work at the company reap the benefits of a stock sale." (See *BioWorld Today*, Dec. 22, 2010.)

He's not alone. Recent start-up Dance Pharmaceuticals Inc. also has avoided venture capital by choice. The San Francisco-based firm, which is working on an inhaled

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insulin program, aims to fund some of its R&D activities by carving out rights to its product in multiple regional partnerships. (See *BioWorld Insight*, Jan. 24, 2011.)

There's also a dual drug development/service model. Executives at Birmingham, Ala.-based DiscoveryBioMed Inc., facing a recession shortly after being founded in 2007, employed that two-pronged strategy, running a contract research organization on one side of the business to generate revenue for its pipeline programs in respiratory, metabolic, inflammatory and hyperproliferative disease. (See *BioWorld Today*, Nov. 5, 2010.)

While it doesn't happen often, a few firms have skirted the entire VC game by going public right away. Genesis Biopharma Inc., which is developing a CD55-targeting monoclonal antibody from failed biotech Viragen Inc., kicked off its operations last year by completing a reverse merger with public shell Freight Management Co. and gaining a listing on the Over-the-Counter Bulletin Board.

Adding to the Financing 'Arsenal'

Yet, while having access to the public markets certainly makes accessing cash easier, the toll of discounts and dilution from traditional public offerings and PIPEs can be hard on a company's stock. Shares of Worcester, Mass.-based RXi Pharmaceuticals Inc., for example, sank last week when the firm priced an offering of stock and warrants at $1.35 per unit, 27 percent below the previous day's closing price.

"That erosion of value can affect the whole company, and it affects the cost of raising capital," said Brinson Patrick's Wyche, whose firm works specifically with companies to raise money through at-the-market (ATM) offerings, designed to avoid the stock decline associated with traditional public offerings of late.

Since Brinson conducted the first life sciences ATM offering in 2006 for Avanir Pharmaceuticals Inc., ATMs have become more frequent. In the 2008-2009 period, there were only nine ATM deals in the life sciences industry, but in 2010, there were 26, Wyche told *BioWorld Insight*. Between the years 2001 and the second quarter of 2010, his firm showed that life sciences companies raised $247 million in total in ATM offerings.

True, an ATM might not work for a company that needs a large amount of capital within a short time frame, "but if companies are strategic in terms of planning, [ATMs] should definitely be in their arsenal," Wyche said. "You can raise 10 to 15 percent of your trading volume without adversely affecting stock price."

Less often seen in biotech – at least in the U.S. – are rights offerings. Though it takes longer to pull together compared to a traditional public offering or PIPEs, rights offerings also can help avoid substantial dilution. But there are risks, namely worries that a lack of sufficient interest by existing investors might leave too many shares on the table.

Only a few U.S. firms have pulled off a rights offering in recent years. Sunnyvale, Calif.-based Pharmacyclics Inc. brought in proceeds of about $28.8 million in a rights offering in 2009, along with BioMimetic Therapeutics Inc., of Franklin, Tenn., which raised about $17 million. (See *BioWorld Today*, July 17, 2009.)

Recently, Adherex Technologies Inc., of Chapel Hill, N.C., said it is trying to raise $12.9 million through a rights offering of its own.

Beyond the capital markets, companies also increasingly are looking at selling royalty streams for cash to advance programs. Royalty monetization, once a tool for cash-strapped biotechs, has become a way for even established firms to pad their balance sheets. And private equity-backed royalty deals continue to pick up steam. (See *BioWorld Insight*, Nov. 1, 2010.)

In today's economic environment, there's no single source for funding, and the smart firm is one that makes sure it has multiple fund-raising options, especially since a clinical or regulatory setback could put in it in an unenviable position if it has to raise money through traditional means.

"We're starting to see a shift in financing strategy," Wyche said. "It's not just about getting to the next milestone, but getting well past that and [finding] multiple ways of accessing capital." ■

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