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Tips for funding a biotech start-up

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In case you missed it, last week *FierceBiotech* brought together three experts to discuss tips for the early-stage funding field. As many have noted, there's been a slowdown in the amount of funding available for seed-stage companies. Despite the fact that biotech companies are snagging a growing share of the billions of dollars in venture capital, most of that is going toward late-stage developers who can offer investors a better bet at a near-term payback. Start-ups, on the other hand, are dealing with a challenging funding environment. Since 1995, early-stage funding has dropped from 45 percent of deals to 26 percent in 2007 (cite the source). And while some early stage money has come back into the market over the last two years, the market is still under-served.

Why the gap? For one thing, the average age of a company before it goes public has increased, which means that investors have to support them for a longer time. And even when they do go public, unfavorable market conditions mean they're getting lower valuations. Many VCs now regard early-stage investments to be too great of a risk.

However, that doesn't mean there isn't a lot of great science coming out of early stage companies, and Big Pharma is starting to pay more attention to early stage development as it seeks to fill its depleted pipelines. And they're willing to pay more to acquire those targets.

So what can a start-up do to attract much-needed seed money? Daphne Zohar, founder and managing partner of PureTech Ventures, Carl Weissman, president and CEO of the Accelerator Corporation and Barbara Schilberg, managing director and chief executive officer of BioAdvance, shared their tips for attracting funding.

Technology is the foundation of it all. Investors are looking for a unique product--not a "me-too" drug. When asked whether investors prefer funding technology platforms or drug candidates more, all three said they prefer to finance technology platforms that have produced drug candidates. Early-stage investors also look for investments that have the ability to hit a key milestone in one to three years.

There needs to be **significant market potential** for the drug. Investors are attracted to technologies that fulfill a significant unmet need, and will have a big impact on a large market. Additionally, the type of market matters a lot when it comes to securing funding. It's very difficult for, say, a cancer drug company to gain venture capital before it's completed human trials because VCs have been burned in the past by early-stage targets that don't pan out. On the other hand, Alzheimer's candidates do well with early-stage funding because Big Pharma companies often acquire early stage drugs in that space. If the development landscape for a company's drug is too crowded, investors will run the other way. But keep in mind that the market a company is aiming for must justify the cost of

development. Start-ups must walk a fine line between finding market potential and developing a drug that suits it.

Another area Zohar, Weissman and Schilberg stressed was **strong IP** (intellectual property) protection. It's a bad move to publish findings before locking down commercially-driven IP. Also, IP not covering key areas (such as the international market) isn't attractive to investors, and will only create problems in the long run.

Having **respected and recognized experts** involved in a company often says more than even the best science. The best minds attract the best investors and management team. They also validate scientific ideas and reduce risk in the eyes of investors. And just as a great management team will validate a product, a lackluster team that lacks relevant experience will send up a warning flag with investors, so avoid bringing in the wrong people at all costs.

There's one final piece of the start-up puzzle, and that's having a **back-up plan**. The only way a company can insulate itself against the risk of one molecule or program not succeeding is to have a back-up plan. Only about one in 5,000 drugs will make it from discovery to approval. Having multiple programs is the only way for start-up to survive the potential pitfalls of the drug development process.

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