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Biotechs Bootstrap Their Way Through Hard Times Again

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In today's shaky economy, consumers aren't the only ones cutting expenses. Biotech executives also are looking to hold down costs and have come up with some creative – if not drastic – ways to penny pinch.

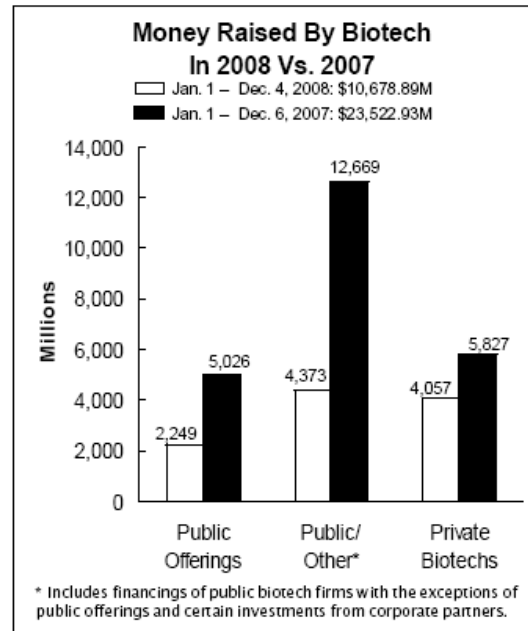
There are, of course, the usual company cost-saving measures – outsourcing, delaying or canceling a program, and cutting bonuses or slashing jobs. But for some struggling biotech companies, that may not be enough to survive. As a result, some biotechs have begun trimming their budgets in unexpected ways – even abandoning patents in some cases, renegotiating leases, and replacing computer servers with Internet-based “cloud computing.”

The life sciences industry has survived tough times before, like the 1990s when much of the capital left for dot com companies. So the industry is “accustomed to dealing with scarce resources, having to bootstrap our way along,” said Matt Gardner, CEO of BayBio, a regional trade association in Northern California.

Publicly traded companies have been most directly affected by the condition of Wall Street, but capital is still flowing to private venture-backed firms, Gardner said.

He noted that the industry has become reliant on partnering to create cash flow, companies have turned their tangible assets into royalty streams as a source of funding, and many firms have turned to creative financing such as private investment in public equity.

In addition, Gardner said, some biotech companies have made it through uncertain times by narrowing their



focus on a single program. “These companies are under pressure to make tough decisions,” he said.

He pointed to Onyx Pharmaceuticals Inc. as a success story. In the process of belt tightening, Onyx let go of staff and winnowed down its pipeline of several products to one “wildly successful” product: Nexavar.

To a great extent, though, the survival of a biotech

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10 BIGGEST U.S. GAINERS FOR THE WEEK

(By Percent)		(By Dollars)	
OncoGenex Pharma	176.14	Cephalon	5.73
Inovio Biomedical	105.26	OncoGenex Pharma	4.65
Generex Biotech	66.67	Gen-Probe	3.49
Sunesis Pharma	62.22	Gilead Sciences	2.34
Replidyne, Inc.	56.25	Theravance	2.29
icagen	48.84	InterMune	2.26
NeurogesX	46.67	Biogen Idec	2.25
PharmAthene Inc	36.36	Cubist Pharma	2.09
Pharma Drug Disc	35.42	Myriad Genetics	1.63
Theravance	35.02	Amgen	1.50

10 BIGGEST U.S. LOSERS FOR THE WEEK

(By Percent)		(By Dollars)	
Titan Pharma	-75.00	XenoPort	-13.73
Avax Technologies	-66.67	OSI Pharma	-3.19
Introgen Thera	-61.54	Pharmasset	-3.12
Orexigen	-46.82	Orexigen	-3.09
XenoPort	-44.42	Cepheid	-2.86
North American Sci	-38.89	Acorda Therapeutics	-2.06
Cyclacel Pharma	-32.50	United Therapeutics	-1.76
Palatin Technologies	-30.00	Immucor	-1.65
Emisphere Techno	-24.53	IDEXX Laboratories	-1.63
Response Genetics	-22.22	Progenics Pharma	-1.60



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may hinge on the strength (or weakness) of study data. Even when times are good, biotech companies have always been more sensitive to negative clinical trial data, Gardner said. "Certainly, we will see companies fail in this cycle, just like when times are good."

Investors Under Pressure

BayBio member company Target Discovery, of Palo Alto, Calif., has been backed by \$19 million in private angel investors for nearly 10 years. The company has never accepted money from venture investors, though not for lack of interest from venture firms.

It considers itself to be in a fortunate position to have such longtime backing through its angel financial structure. But the weakened economy has put pressure on its angel investors, and Target Discovery is feeling the squeeze.

"The angel financing structure that we have is more fragile to market conditions than venture financing tends to be, which is not to say that it's any picnic for venture firms at the moment," said Jeff Peterson, CEO of Target Discovery and a BayBio board member.

The company, which is developing protein biomarkers and diagnostics for cancer, has determined that it will need to cut its cash burn rate close to 50 percent, resulting in layoffs for a few workers and part-time work for some. All full-time employees have had their salaries reduced by 10 percent.

Peterson said the company is "trying to leave no stone unturned" as it looks for ways to reduce its burn rate while making scientific progress. It has renegotiated its lease, deferring about half the cost of rent for six months. It has renegotiated professional service supplier compensation arrangements, and has cut back on janitorial service from five days to twice a week.

And it doesn't stop there. Due to the manpower reductions, Target Discovery has taken lab equipment off

of a maintenance agreement to save money. It has cut back on snack offerings in the company kitchen, and is considering competitive bids for phone service to achieve further savings.

With all the changes, Peterson estimates that the company has quickly reduced over 35 percent of its total burn rate, with more savings still to come.

He estimates that the company is about two years away from being able to commercialize its most advanced product, a personalized medicine diagnostic for ovarian cancer patients designed to determine if a woman is a responder to the first-line chemotherapy drug combination of Platin and Taxol.

The company's development program requires clinical trials performed on frozen tumor samples, which will be used to select an appropriate biomarker for determining drug response. Working with a reduced team, the company is moving toward the initial selection and validation of the biomarker, while seeking institutional and strategic investors to partner in the development and commercialization of its personalized medicine diagnostics.

Tough Times in Europe

Jado Technologies GmbH, based in Dresden, Germany, was operating at a low burn rate well before the global economy took a dive. Still, the company is bracing for a tougher road ahead as it looks for additional financing. Jado, which is developing a new class of lipid-based allergy drugs, has benefited from close partnerships, mainly with the Max Planck Institute and the Technical University of Dresden to streamline costs. Jado was spun off from Max Planck around late 2003-early 2004 and still shares resources with the university, which has a strong relationship with Max Planck.

Under the collaboration, Jado's chemical group has access to university equipment, saving the company from having to build its own labs and infrastructure, CEO

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Charl van Zyl said. Jado's biology group, which is establishing a screening system for lead compounds, receives advice and other services from Max Planck on a contractual basis.

The company "consciously" built its business model around partnerships, he said, in light of the relatively small capital market in Europe.

The company keeps full control of the content of its program and intellectual property under the partnerships, Zyl said. It is an approach that "can work for many biotech companies, not just European, but U.S. as well," he said.

Jado also outsources some of its preclinical work, and is sending some chemistry and basic synthesis work offshore to India rather than using clinical research organizations or shared services in Europe. Zyl estimates that he is getting the work in India at a third of the price that he would pay a European firm for such services.

Offshoring jobs may be viewed as more acceptable for a small biotech than for larger companies sending greater number of jobs overseas, he said.

Jado has raised €10.5 million in venture capital, through series A and B financing rounds, and has enough

cash to last through the end of 2009. After that, the company will need additional financing, Jado.

In the next financing round, Zyl hopes to at least double that amount, but that may be tough in the current European environment. "I imagine it will be difficult in the C round," he said, adding that the company may have to lower its expectations.

He also said that the company may have to focus more on late-stage allergy projects, seen as a safer bet for investors than its early stage pipeline.

Gary Kurtzman, vice president and managing director of the life sciences group at venture capitalist Safeguard Scientifics, said venture firm investors will likely want to see that a biotech company can support itself for 18 months or so.

He said his firm has passed on deals where he believed the company would need to raise more money immediately after receiving venture financing. He called that scenario "the hardest sell to an investor these days."

It also helps to come to the table with strong clinical trial data. "Survival alone is not enough," he said. "What needs to be done in this environment is to come out of it in a positive way. Those are the companies that will survive."

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'Cloud Computing'

PhysioGenix, a drug development and a preclinical research organization in Wauwatosa, Wis., may be a case study in corporate frugality. About 13 months ago, before the economy soured, the company began addressing inefficiencies in its information technology and started looking for other cost savings.

"We are surviving the downturn very well," PhysioGenix CEO Brian Curry said.

In fact, he said that while other companies are downsizing, PhysioGenix has hired three more staff and is still attracting clients. "I wish we could say we had something sexy that nobody else is doing," Curry said. Instead, the company simply took advantage of "the latest, greatest technology that we can use."

Curry found that the company was outsourcing too much, and took steps to bring some activities back in-house, such as payroll. He also made use of a spreadsheet system to better track animal costs, which helped to keep studies on track.

In recent months, the company moved to what's known as "cloud computing," buying hard disk space on Google. That eliminated the need to maintain large files in-house and the need for a company server. The server required changing tapes on a weekly basis and paying for virus protection updates at a cost of \$500-\$600 every six months, Curry said.

In addition, the company no longer has to pay for software when it gets new computers and no longer has to worry about the server going down. All that is handled through the Google's Internet-based system, he said.

Curry estimates that the company has probably cut its IT costs about 60 percent, while greatly improving its efficiency.

Shopping for Discounts

According to industry observers, savings also can be found in the budget for marketing and supplies. In Southern California, members of the regional trade group BIOCUM received purchasing group discounts on a wide range of items such as lab equipment, copiers, office supplies and electronics.

BIOCUM estimates that participants have save an average of 44 percent savings off list prices at Office Depot and other stores in the program. BIOCUM member companies saved \$20 million last year and \$20.1 million so far this year, according to Tammy Hogan-MacTaggart, BIOCUM purchasing group contracts director. Of its 600 member companies, 64 percent participate in the purchasing program, she said.

Many trade associations offer employee perk pro-

grams with discounts on benefits and even dry cleaning and hotels, Hogan-MacTaggart said.

Marketing is another area that may need to be considered for cost-cutting. Biotech consultant Joseph Penkala suggested using direct mail and "telesales" in non-urban, out-lying areas instead of hiring sales teams for those areas.

Companies preparing to launch a product that may address the medical needs of military veterans – such as smoking-related cancer, hepatitis C, and post traumatic brain disorder – should consider targeting physicians in the Veterans Affairs health system, Penkala said.

Surprisingly, another item on the chopping block at some biotech firms is the patent portfolio. For a smaller biotech with numerous patents, the fees associated with maintaining the patent portfolio can become a "pretty expensive line item," said Sandy Hillsberg, a lawyer with the Los Angeles law firm Troy Gould. A biotech with 50-100 patents to maintain could easily rack up several hundred thousand dollars per year in filing and legal fees, he said.

In some cases, a firm could later seek to revive a patent that it had abandoned or ignored, but this still could put the patent at risk, said Hillsberg.

Bloodied Biotechs as Prey

For biotechs whose outlook is particularly dire, more extreme measures may be needed. Some biotechs may have to sell themselves to another firm, said Hillsberg, who expects to see "a fair amount of M&A activity" during this economic downturn.

No amount of cost cutting will be sufficient for some firms to stay afloat, and some biotechs may "disappear altogether," said Hillsberg, chairman of the board of RXi Pharmaceuticals Corp. and co-founder of ImmunoCellular Therapeutics Ltd. "I don't want to be too gloomy," he said, adding that the capital markets are unlikely to open at least until the second half of 2009 "or maybe even later." But he said it's hard to predict how long the current financial crisis will continue.

Although Hillsberg believes that the biotech industry overall will survive, he expects things to get "messy" for some companies. And vulture funds can smell the blood.

Historically, vulture funds looking for bargain prices typically have set their sights on distressed real estate firms, and more recently troubled financial institutions. Now, Hillsberg said, some special purpose funds could be formed to target troubled biotechs.

While the presence of vulture funds in the biotech industry is unlikely to reach the level seen in real estate, where these funds have spent tens of billions of dollars, Hillsberg said he would not be surprised if vultures emerge on the biotech scene in the next six to 12 months. With so many biotechs trading below their cash value, the idea of such funds entering the industry "makes some sense," he said. ■