

GOING TO AMERICA
A SUMMARY OF THE BIOPARTNER DISCUSSION FORUM
BIOCITY NOTTINGHAM, 21 JUNE 2011

Panel: Roland Kozlowski, CEO Lectus Therapeutics
Stefan Ogrodzinski, CEO Biostatut
Darrin Disley, Exec Chairman Horizon Discovery
Tony Baxter, CEO Cyprotex Discovery
Neil Bryant, Commercial Director Molecular Profiles

North America is still the world's largest market for our sector; our common language and trade treaties make it easy to do business there, and the growth of our life science industry mimics that of the big clusters in Boston, the San Francisco Bay Area and San Diego. Whilst these facts may make it a natural destination for UK life science companies, true differences exist in the way the sector is managed and funded in the US and in its global view.

BioPartner's 3rd Annual Discussion Forum asked whether the USA is the ultimate destination for British innovation. Three main viewpoints emerged from the discussion: opportunity, culture and perception. With UK company leaders and entrepreneurs making up the panel, these philosophical themes were interwoven with the experiences of true company builders.

Questions for the Panel included:

Are there more opportunities in the US? Do companies need to relocate or have a US-registered company?

Finance and exit strategies

UK versus US business styles

Will China follow the US as the next big opportunity market?

OPPORTUNITIES

Q: Are there more opportunities in the US? Do companies need to relocate to the US or have a US-registered company? Several UK life sciences companies have set up offices or subsidiaries in America. Are they simply competing with US companies or are there real opportunities to be had? And is it absolutely necessary to have a presence there in order to do business?

A: There are opportunities, and companies don't necessarily need to relocate or travel extensively – but they will be better received if they have a US office or agent.

Clearly there are few SMEs that have the muscle to compete on US territory, so UK companies are either looking to fill market gaps or to benefit from US technologies in expanding their business. Product positioning is vital, together with a good framework and a good business model and a well-researched market. Increasingly, it is believed that in future there will be a small number of giant "big pharma" companies that will be served by a large number of SMEs on both sides of the Atlantic.

The more innovative pharma companies are looking to develop biomarkers in a range of therapeutic areas; and personalised medicines, which is an example of a range of opportunities for UK SMEs.

There are also excellent opportunities to license or acquire IP in the US, where the business of technology transfer is longer established than in the UK – although it is not always better.

With regard to getting a medical product into the US, just as in Europe there is no fast-track (although the use of orphan drug status will reduce the amount of time and cost needed to enter a market). The difference is that the US has a single regulatory body for a very large market, whilst selling in Europe can be subject to regulatory variations country by country. This is a big advantage for any company that manages to overcome the high bar set by the FDA.

‘Presence’ in the US (or anywhere else) can take several forms. Having a US base is highly advantageous, as is employing US staff: Americans like to do business with Americans and generally do not look outside their own country for business. There are however many UK-friendly entrepreneurs and managers in the US, although one has to be cautious about taking on brokers, who can be expensive and potentially remote from one’s vision.

Setting up a green field operation in the US is costly. Buying an existing US company is cheaper; because it already has US staff and they have knowledge of the US market.

Remote management is, however, now far easier with high-tech, low-cost communications, which is a real strength in the US. Managing a US operation does not therefore require incessant UK-US travel, and it is possible to get in on US deals without a presence there.

FINANCE

Q: Is it better to seek US funding than locally?

A: European financing patterns will improve, and there may be less advantage to US funding. There is no one-size-fits-all.

In terms of scale, the US life sciences sector is many times larger than that of the UK, even accounting for the bigger population. Biotech financing in 2010 (private equity, venture capital and various forms of debt), at \$20.7bn was nearly 10 fold greater in the US than the whole of Europe. UK companies raised \$0.5bn in the same year – the same as Pennsylvania or North Carolina¹. The VC-to-exit route that has formed the basis of much of the UK’s business education and modelling, while still viable in the US, is no longer a clear pathway here. One of the challenges for entrepreneurs in the UK is to get between the gaps of this model.

¹ Beyond Borders 2011 (Ernst & Young LLP)

Although US VCs traditionally do not look outside the US, there are plenty of UK- friendly entrepreneurs and managers in the US. Also, many Brits who make the move across the pond quickly rise to occupy high level positions in US companies.

Much has been made of European technologies being commercialised too early, and the breaking of the VC model means that the funding gap is wider than ever. The US has a greater capacity to incubate technologies until they are mature enough to commercialise. Early investment is easier in the US with SBRI awards, so there is consequently less early stage investment to be diluted in later rounds (it was noted that this model looked as though it would be adopted in the UK but has fizzled out).

Debt funding is difficult to get at present, but predictions are that the pattern of funding will change, and different investment models are appearing. That said, successful European VCs have continued to fund early-stage enterprises, even when the going gets tough. UK private equity was applauded as having the best people and the highest business acumen.

Although funding in the US is easier to obtain and there is more investment available, nonetheless, US VCs are looking more closely at funding and the needs of their current portfolio. There is no reason in principle why they would not invest in a UK company, but the US offers better treatment than UK or Europe to its investors, with less dilution.

EXIT STRATEGIES

Q: US, UK or Europe?

A: This was agreed as a complex issue. The UK should be an attractive proposition for US investment, and UK companies can introduce products to the US market.

Looking further ahead at exit strategies, the US does offer advantages over Europe. Share structures are critical: some investors are allowing management veto rights (generally speaking the investment documents will contain provisions reserving to the investors veto rights in respect of a range of activities of a company). In the UK, some investments are being structured where there is only one class of share as opposed to providing investors with shares that have liquidation preference rights.²

Exits take the shape of their time and are strongly influenced by the economic landscape. They are all about timing and ensuring best value for the company's shareholders. Often it is the US organisations that will offer the best price for companies for sale. The better understanding of the technologies they are buying also means the US is a good 'home' for them.

² Liquidation preference rights allow investors on an exit, the right to be paid out first from the sale proceeds with the payment often being a multiple of the funds originally invested.

BUSINESS STYLES

Q: UK versus US styles: Is there a difference between UK and US management style?

A: *Yes, the UK displays less positivity.*

It is well known that the US differs from the UK in style and approach to management and risk in business. Americans are seen as having a positive approach – finding the one reason something will work – without fear of failure, whilst Brits tend towards caution and scepticism and a view of failure as a permanent taint. In reality, there are two broad management styles in the US: the optimistic and bold ethos of small companies, and the fearful and unaccountable–management often found in large Corporations, that is essentially a global problem. Expectations that working with the US base of a large company will necessarily be easier or more progressive may therefore be unfounded.

When it comes to exporting, the US tends to be inward looking because of their huge internal market: UK businesses must export, because their internal market is not large enough. To external eyes, British products are viewed as high quality and high value. In our sector, the UK is number one in Europe and its companies usually top the list of potential international partners for US companies.

One of the biggest differences may be that it is more ingrained in our American cousins to grasp opportunities. British entrepreneurs who gravitate to the US are in this mould. Another is the push from academia, via any route, to commercialise technology, which is much less developed in the UK and certainly less well managed. Again, within this generalisation there are strong exceptions on both sides, although UK tech transfer offices were singled out as being generally timid when it comes to doing deals.

Snapshots of the sector provided by newsfeeds and the output of PR agencies can easily give the impression of overnight success and effortless wealth creation. In reality, 'inflexion points' can be many years in the making. An 'overnight success' can take 10 years, and fortunes can quickly change. The definition of success is also relative. Some of the great successes of the 1990s, such as Incyte Genomics, Celera, Oxford Glycosciences, with billion dollar valuations, are gone. In biotech, a successful company is equally one that is brought through adversity by good management and entrepreneurship. Big financial rewards for biotech entrepreneurs are quite rare: of the 400 richest Americans, just 3 made their money in the sector³. The lack of serial entrepreneurs in the UK is often seen as a drawback. Building up a biotech company is a long process with a high failure rate and relatively few are prepared to do it more than once.

³ <http://www.fiercebiotech.com/story/forbes-how-get-really-really-rich-biotech/2011-03-29>

A summary of the US's advantages:

The majority of customers are US based; it is a big market and the US seizes opportunities; big markets bring big competition; there is a culture of opportunity

OTHER OPPORTUNITY MARKETS

Q: Will China be the next opportunity, following the US?

A: Despite fears about competition from cheaper solutions in China; it is too large a market to ignore.

In 10 years, as a Biopharma player, China has grown from nothing to becoming a very powerful force. Disbelief is turning to respect as the country clamps down hard on corruption and cleans up its act on IP infringements and regulatory issues. There are massive amounts of money available for investment, and very little domestic innovation.

China views the Western way of life as an aspiration rather than a threat. UK management is highly sought after. In terms of being receptive to technology, if a UK Company is offering technology or products that are "first in class" then often China will be more receptive to that technology than is offered by other countries. Brokerages are needed to help apply products and technologies to the Chinese market. Also, there is not yet a critical mass of SMEs trading in China, and the best option for a UK SME is to get involved with a government-backed pharmaceutical company.

Although China may become the world's largest market, there is still some way to go before it will be as accessible to European biotech companies, as the US or European markets are.

SUMMARY AND OUTLOOK

North America is still the biggest market for UK life science companies. Although US finance is unlikely to come to the UK in the form of big funding rounds, exit via acquisition by an American company is usually best for both valuation and value preservation. The UK is as good or better at innovation and does well when it links the successful attributes of American culture: positivity, recognising opportunity, effective management - to exploit its discoveries.

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