



Troubled Times Tool Kit



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Some NJ Life-Science Executives Believe Their Shops Will Weather Financial Storm

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By Alex Philippidis

CRANBURY, NJ — Some New Jersey life-sciences executives last week expressed doubt that the US financial crisis will improve over the next year, but are confident that they will survive it.

Other industry stakeholders shared this belief, and the state government and local trade groups have stepped in with tools to help the industry survive the financial upheaval.

“We are in a healthy position to hopefully weather the storm, no matter how long it lasts,” Christian Schade, senior vice president of finance and administration and CFO of drug maker Medarex said during a life science conference here last week. “We have never spent more money than we needed to execute our business strategy.”

“We understand the difficulty in the capital markets ... [and] have no idea when they’ll open, or when they won’t, or how long they’ll stay closed,” said Schade, whose Princeton-based company develops human antibodies against cancer and other diseases. “But we also understand that there’s a need for products [from] the bio and pharmaceutical companies. We understand that that is a source of cash, and a source of partnerships, that we’ve used in the past and hopefully can use again in the future should our programs reach a proof of concept. If they don’t, then you just eliminate that spend.”

However, he stressed that “because we get to proof of concept doesn’t necessarily mean” that Medarex will build a commercial manufacturing facility or hire 50 salespeople “to go out and sell something that’s not commercialized yet.”

“We’re just not going to do that,” Schade added.

Raymond Thek, who as vice chair of the technology practice at the law firm Lowenstein Sandler works with several biotech CEOs, drew some approving laughs when he suggested following the instructions printed on every jar of Hellman’s mayonnaise: “Keep Cool; Do Not Freeze.”

"It's the best advice any company could have," Thek said. "I don't know if the world is different [than it was six to nine months ago] so much as the conversation is different. The vocabulary is different."

Yet Thek said he is optimistic about the prospects for those companies that stay focused on their business and meet their financial and other milestones.

"It's very dark out there. People are — I think inappropriately — taking a bunker mentality," he said. "The thought is not to go out and do the investor meetings, to not go out and talk to various other constituents. And that's really a disservice.

"Right now, there are a lot of opportunities in the marketplace," Thek added. "It's certainly a very different environment than what we had in the past. But that creates an opportunity for those that are nimble, for those that go out and are visible.

"The sun will shine again," he added.

Thek spoke at "Weathering the Current Economic Storm: A Tool Kit for Life Science Companies," held last week by the New Jersey biotech industry group BioNJ. The conference was held at the Trenton headquarters of Amicus Therapeutics.

Amicus CFO James Dentzer told *BioRegion News* that being based in New Jersey "is a mixed bag" for biotech companies that are striving to survive the current financial crisis.

"If you're looking to do deals with traditional biotech companies, the largest markets are clearly California and Massachusetts," Dentzer said. "But if you're looking to have access to big pharma, you want to be in Jersey. It depends on which relationships you're cultivating more closely.

"In terms of state government support, New Jersey is coming around," he added. "There's an ability for the state government to be more supportive of high-growth industries."

Likewise, in terms of emerging industries, including biotechnology, "I think there's room for growth here," Dentzer said. "I think the base, to start with, is very strong here. The quality of the companies, the quality of the workforce, the quality of the educational infrastructure is extraordinarily high in New Jersey.

"I look forward to seeing this state take advantage of all of these strengths and position high growth industries like biotech to succeed long-term," he added.

In the meantime, big pharma, which has increasingly been laying off staff and acquiring smaller biotechs to help save cash and shore up soft pipelines, is expected to eliminate much of its internal research base and outsource more — which could trigger additional layoffs, said Shiv Krishnan, senior director of partnering and innovation for Sanofi-Aventis.

Such a shakeout could have a silver lining for smaller biotechs, which could be poised to benefit in the same way computer companies benefitted a generation ago with a market shift from mainframes to PCs.

"Act like you don't need money."

However, the computing sector "changed very quickly" whereas big pharma, because they are regulated, "will change much more slowly," said Krishnan, who spoke during a panel focused on partnerships and

collaborations. "Other than that, the dynamics are very similar: You have very large companies with really smart employees and really big wallets. The decisions they make, whether they focus on what they have done in the last few decades or whether they grow more forward-looking and

become the HPs [and] IBMs,” will enable these companies to “take their wallet and expertise and evolve and thrive with the new upstarts.”

Dentzer said Amicus, which develops orally administered small-molecule drugs against a variety of genetic diseases, has so far weathered the financial storm by using cash raised when capital was more readily available. These include tapping the \$75 million it raised in its initial public offering, and the \$50 million up-front payment it secured as part of a collaboration announced late last year with Shire. That deal also positions Amicus to pocket another \$150 million tied to developmental milestones and \$240 million in sales milestones and royalties.

During the conference, Dentzer moderated a roundtable discussion that included bankers, accountants, and lawyers whose focus recently has been on helping biotech client companies cope with the financial turmoil.

According to panelist Tom Gordon, a Silicon Valley Bank official who works with life-science companies, “We’re seeing a pretty steady increase in companies coming to us for venture debt. They’re not finding the equity on terms that they like, or want to go with.”

Allen Wilen, a partner in the restructuring-services practice of accounting firm Amper Pollitziner & Mattia, urged company directors and officers to update their insurance policies to protect themselves against lawsuits, a possibility if their company is public.

Michael Becker, president and CEO of management-consulting firm MD Becker Partners, said public companies can also shield themselves from insider-trading scrutiny by meeting with analysts only if two or more executives are present.

And Thek said business owners in financial trouble should level with creditors and employees; create an escrow account to cover wages; protect their reputation; act quickly; and not over-promise.

‘High-Cost State’

According to Thek, while New Jersey-based biotechs do not appear to be hurting any more than their counterparts elsewhere in the US — “It’s the closed capital markets that are the problem. It’s a problem whether you’re in St. Louis, or Phoenix, or Cranbury.” — biotechs there do face some challenges unique to the Garden State.

One is the state’s reliance on revenue from its financial-services sector, which suffers with every Wall Street downturn. Another is the smaller relative concentration of capital firms in southern New Jersey, part of the greater-Philadelphia region, compared with top-tier bioclusters — a gap several firms had sought to fill in recent years by expanding in and around Trenton [[BRN, Oct. 15, 2007](#)].

Still another factor, he said, is the expense associated with New Jersey.

“To the extent there’s a higher cost infrastructure [in New Jersey], that’s a problem. We’re a high-tax state. We’re a high property-tax state. We’re a high-cost state. We have been for years,” Thek said. “And it doesn’t seem to matter whether it’s a Democratic or a Republican administration; they keep sticking their hands in your pocket left and right. To the extent that we do that and other states don’t, well, that’s a cost of doing business.

“Now, more important than ever, New Jersey’s a high cost state,” he added. “That’s a problem.”

Following the panel discussion, Debbie Hart, president of BioNJ, announced a new section of her group’s web site focused on helping businesses survive the economic upheaval.

BioNJ's [Troubled Times Tool Kit](#) features multiple links to articles and reports covering the financial turmoil and its impact on biotech companies, how-to articles, and links to lists of funding options, experts, and programs targeted to early-stage biotechs.

BioNJ unveiled the application two days after Gov. Jon Corzine signed into law some tools of his own aimed at stimulating job creation for life-sci and other businesses in the state.

The bill, known as Invest NJ, authorizes \$120 million in grants intended to stimulate capital investment and job creation in the Garden State over the next two years. Among its provisions is a grant equivalent to 7 percent of a firm's annual capital investment of \$5,000 or more.

The incentive is likely to help at least some biotechs in the state. According to a survey by BioNJ and Ernst & Young, as of 2007 64 percent of New Jersey biotechs said they spent up to \$999,999 on capital investments; 12 percent said they spent between \$1 million and \$4.9 million; and 12 percent said they spent between \$5 million and \$9,999,999. About three-quarters of all capital investment made by New Jersey-based biotechs was spent in the state, the survey found.

The survey, released in [New Jersey Life Sciences: Where Science is Life](#), a report issued by BioNJ in June, also reported that 86 percent of respondents predicted they would hire an average of 20 employees during 2008. However, those projections were made before the Wall Street upheaval that began accelerating in September with the demise of investment bank Lehman Brothers.

Another provision of Invest NJ will award life-sci and other businesses statewide a \$3,000 grant for each new job created between Dec. 1, 2008, and Dec. 31, 2010, and retained for one year. To be eligible, businesses must have operated continuously in New Jersey for at least the past two years, and must employ at least five full-time workers. Invest NJ sets aside \$50 million for job grants, with a maximum award per company of \$500,000.

"People are retrenching and saving their cash if they have it," Hart told *BRN*. "Hopefully this will incite some to do a little more than they might have had otherwise. Perhaps this will encourage some things that otherwise might have been shelved."

Invest NJ is part of Gov. Corzine's Economic Assistance and Recovery Plan, presented to the state legislature in October. "We are taking a necessary step to get New Jersey businesses investing again to make capital investments that spark economic growth throughout this state," Corzine said in a statement.

'Work in Progress'

At the conference's morning sessions, and in interviews, panelists shared both glum assessments of the broader economy's ability to recover over the next year, as well as tactics they said had worked for them and other companies at a time when the collapse of the initial public offering market and the near freeze of capital markets has left more entrepreneurs chasing fewer dollars.

John Maki, president and CEO of Vicus Therapeutics, said his company wasn't able to shell out the \$40 million to \$50 million in capital to complete clinical tests on its lead drug candidate, a compound being tested for the treatment of cachexia in patients with Stage IV, non-small cell lung cancer.

"That's a tricky order, and that's for a lead product," Maki said. "It's not a particularly attractive time to raise money. We have a choice: Sit back for the next year or two, dig a hole, scale back our development program, and wait for an opportunity to ... bring a product forward. But what we tried to do really is take a look at how else can we utilize these assets in a way to bring forward our drug products to address these unmet needs."

So Vicus has been exploring a new drug-financing and -development model: Add a repurposed drug to the already-approved drugs of pharma and biotech collaborators. Vicus is involved in one such effort it projects will yield a 50-percent increase, or \$250 million a year, in what is now the \$500 million a year generated by the Bayer kidney cancer drug Nexavar, through the addition of one of its products to add one or two cycles of use to the typically two-and-a-half cycles of use for the drug.

“We could launch this in June of next year, and launch it into a [Phase III clinical trial] study [and] potentially drive that adoption within a year,” Maki said.

The model was adapted from a plan devised by drug maker Aspreva. But where Aspreva focused on shifting the use of drugs approved for one disease to other less-common diseases, Vicus would retain their existing uses and thus save time and money in testing new drugs or the same uses.

Also, unlike Aspreva, Vicus has proprietary drugs it can contribute to a collaboration with big pharma or biotech partners.

“This is a work in process,” Maki said. “What we have to do is three things: We have to sell the regimen’s potential to add value. Talk about why our partnership makes sense to them. And then lastly, what’s the profit model, so that we can make money and they can make money,” Maki said.

Paul Schmitt, managing director of Novitas Capital, said his firm has cautioned biotech CEOs whose companies are doing well not to enter any mergers and acquisitions with pharma giants, since pharmas are hunting for cheap deals, and to focus instead on improving their products.

“We saw the chairman of Novartis. We saw the chairman of Roche. We think pharma is just looking at picking up things really cheap. There’s huge stacks on [the desks of] every head of business development in pharma of distressed deals looking for money. And those are the only deals I think that are going to get done this year,” Schmitt said.

But Schmitt’s co-panelist at “Assessing the Stage — Understanding the Funding Environment,” cautioned that biotechs shouldn’t ignore the pharmas beating down their proverbial doors — but should wait to capitalize on those relationships when the economy improves and pharmas are more willing to shell out bigger bucks for the product pipelines and technologies of biotechs, let alone those companies themselves.

“Now is the time to get to develop that relationship with big pharma. But you’re not for sale,” suggested Todd Brady, a principal with Domain Associates. “Act like you don’t need money.”