Capital fundraising strategies for biopharmaceutical companies

By Hing C. Wong, Ph.D.

As challenging as capital fundraising is in almost any industry, fund raising in the biopharmaceutical industry is unique from other industries due to its long path reaching the exit strategy as well as its lengthy product development cycles. Let's discuss these fundraising obstacles in turn.

Exit strategies in the biopharmaceutical industry are typically through an initial public offering (IPO), merger & acquisition (M&A) activity or a sale; although the traditional IPO approach has become increasingly rare. Biopharmaceutical companies are a long-term investment for investors– sometimes requiring as long as eight to ten years – with capital requirements of up to $70 million, so its appeal to investors may be somewhat limited.

Why would there be a greater investment and longer time frame for biopharmaceutical firms than medical device manufacturers, for example? The answer relates to the second distinction noted above – the product development cycle. Biopharmaceutical companies incur greater risk and require a longer time frame because the clinical trial period requires multiple stages as well as testing on humans. Safety issues must be balanced against the desire for speed to market.

And as the time frames and risks increase, so too does the capital intensity. A typical funding cycle, similar in sequence if not duration to what is experienced in other industries, might include the following:

- *Friends and family financing* may cover such initial expenses as licensing and manufacturing costs, and may provide support during the first two years.

- *Angel investors*, often high net worth individuals with prior experience in related research, may then provide support for the next one to two years.
- *Venture capital funding* is most likely to be received one year prior to the clinical trial stage and will last through early to mid- phases of clinical trials.

Altor Bioscience's Experience

Altor Bioscience's strategy was to make judicious use of government non-dilutive funding through the Small Business Innovation Research (SBIR) Grant Program, offered through the National Institutes of Health (NIH) in particular. Other sources of funding with similar programs for biopharmaceutical firms might include federal government agencies such as the Department of Defense, and statewide programs such as Florida's SBIR Grants, created to support scientific excellence and technological innovation through the investment of federal and state research funds.

Government non-dilutive funding often co-exists with angel funding. Non-dilutive funding along with seed capital will allow the fledgling business to generate data-driven results that can lead to additional successful grant applications. Such grants offer benefits in addition to the funding itself. The third party validation and recognition that accompany the award of competitive grants can be extremely powerful in supporting the company's future ability to attract both public and private funding.

In Altor's case, we were able to bypass the initial friends & family and angel stages of funding because we had started with funds available through the sale of a spinoff from a previous business. Therefore, not only did we bypass these preliminary stages, but our initial investment and the government funding took the company straight through to a $6 million "B" round of venture funding two years after the spinoff.

From the inception of the company, we have taken an initiative to focus on a non-dilutive government funding strategy to avoid the need for large diluted venture funding. To date, Altor has received considerable non-dilutive funding, primarily through the National Cancer Institute, the National Heart, Lung and Blood Institute, the National Institute of Allergy and Infectious Diseases of the NIH, the Food and Drug Administration through the Orphan Product Grant Program and the Bill and Melinda Gates Foundation.

Typically, biopharmaceutical companies need up to $70 million to get to the exit phase. Altor has now received approximately $48 million in funding and expects two more years of non-dilutive funding. The company is quite capital efficient, however, and we believe we can see our exit on the horizon.

Our exit will not be an IPO, but will most likely occur through a sale to a major firm within the next several years. We follow what we call our "golden egg strategy," in which we rely on non-dilutive funding to grow the company and develop corporate partnerships such as the one we have with Genentech. The revenues from such corporate partnerships can support product development and ultimately provide appropriate return to our investors through shareholders' distribution. And, once we have sold the remaining golden eggs, there will be new exciting challenges to undertake!

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