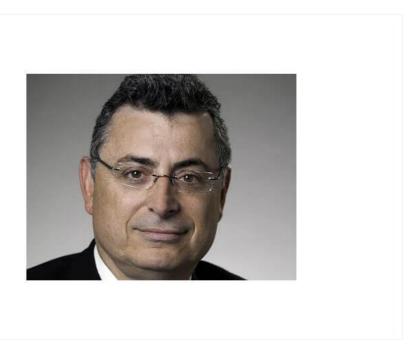
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# Business success in the life sciences: an investment banker's perspective



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Our firm recently opened a London-based European office. As we are passionate about bringing paradigm-shifting technologies to patients, we were excited by the opportunity to facilitate transatlantic collaborations between Boston's biotech hub and the life sciences-rich Oxford/Cambridge/London 'golden triangle', writes Outcome Capital's managing director Oded Ben-Joseph.

In preparation, we spent considerable time talking with biotech and pharma companies as well as academic research labs throughout the UK. Our aim was to get a more in-depth understanding of the local industry, its strengths, weaknesses and particular needs, as well as to look for technologies where we could provide strategic expertise in helping to capture their full value.

While the UK continues to generate exciting and potentially world-leading science, representing potential future 'stars,' we found that there remains a greater number of companies facing significant challenges in terms of successfully progressing technology to shareholder return.

We believe there are a number of key lessons for these companies that can be learned from mistakes and misconceptions that litter biopharma's past, and are well worth heeding if a tangible return to shareholders is sought.

From our perspective, the road to success lies in the basic premise that 100% of investor returns is generated via a liquidity event, typically through sale of the company or an IPO [initial public offering]. Avoiding failure hinges on making that achievement your goal. With this in mind, we would like to share our five top recommendations for life sciences entrepreneurs.

## Focus on a path to liquidity

All too often, we see companies founded and managed on the mistaken belief that good technology is enough to gain funding, and ultimately commercial success. However, while interesting technology and research excellence provides a strong foundation, the aim of a successful business is not good science but achieving a tangible return to its shareholders.

A growing company will be faced with both internal factors such as board and management strength, clinical development, regulatory progress, along with external ones like access to capital, competition, reimbursement policies and sector dynamics that ultimately affect its chances of success.

Management's job is to process and interpret such factors, and based on rational analysis, steer a steady path forward towards exit.

# Meet a need: emphasize innovative products over platforms or research projects

While many UK companies are commercially aware and focused on the 'end game,' there are still many that continue to operate as though they were extensions of an academic lab, with multiple funded research projects underway and few products progressing through clinical development towards the market. While operational freedom and 'multiple shots on goal' are often laudable, though often resulting from historical or internal political precedents, the result is more often lack of focus and wasted investment dollars with little chance for investors to gain their desired exit.

In contrast, most successful companies focus on one or two innovative products or services that solve needs for the end-users – patients, providers or payors – and improve clinical outcomes. Inwardly-focused research pursuits, where a team becomes fascinated with inventing something never before seen, are best left to the academic realm.

While a minority of investors like to fund development of a 'platform,' it is prudent to highlight a specific product in your pitch, while explaining that the platform could be an engine for further products.

#### Aim for value-creating milestones that de-risk investment

Investors are seldom enticed by great technology or large markets, acting instead when they believe their investment will generate a significant multiple. Management should be able to clearly convey their understanding of the relationship between time, capital and development milestones, and how they intend to use capital to de-risk their technology and products.

Very often progress – clear commercial milestones such as completing the data analysis of a Phase III or pivotal trial, obtaining a CE Mark or regulatory clearance, or opening an exit window – is confused with activity such as hiring key personnel, forming tangential collaborations, building a laboratory or manufacturing facility.

While the former create real value and gives investors further confidence in their investment, the latter are rarely value-enhancing, at least over a typical investment cycle.

Timing is critical, and there is a very real danger that for many companies, particularly those confusing activity with progress, that they will underestimate timelines and funding required to hit value-inflexion milestones, run out of cash, and fail to offer shareholder return.

## Assemble the right team - and do it early

Life sciences businesses are knowledge-intensive, complex and multi-disciplinary. They operate at the intersection of business strategy, science, clinical medicine, regulatory affairs, finance, and legal knowledge.

While many chief executives feel they need to master all aspects of their business, doing that proficiently is an unrealistic goal. The real job of an effective chief executive is to craft and communicate a viable long-term strategy and secure appropriate financing.

Moreover, too many companies believe that investment in internal resource such as manufacturing, development and legal, represents a wise use of funds.

We advise chief executives to make a list of their key domain weaknesses and deficiencies and seek out and hire the best advisors they can to complement their own strengths and core capabilities, most of which can be outsourced.

Scientific advisors, physicians, development and regulatory experts, reimbursement specialists, industry representatives, and investment bankers fall into this category, and you should get advice from the best of these at an early stage.

#### **Avoid Undercapitalization**

Many chief executives hold the misconception that investors are sensitive to the amount of capital sought. Consequently, management teams often underestimate the required budget and unnecessarily risk falling short of an important milestone, with a consequent need for bridge financing.

For investors, risk management and value creation are key, rather than conserving capital. Most would prefer to deploy more capital, not less, if it heightened the probability of hitting a risk-reducing milestone furthering the company's ability to achieve a successful and profitable exit.

It is also important to select the right type of investor, ideally those with a solid interest in your particular area and who can bring operational knowledge and other expertise to the table, as per the recommendation on assembling the right team.

A mismatch between investors' respective goals and abilities to invest for the long haul can lead to board dysfunction that is just as likely to drive a company to the ground as is poor management.

