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7 Elements Of A Successful Biotech Funding Plan

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Life sciences companies seeking to raise capital or form early partnerships with strategic players often make avoidable mistakes based on misconceptions stemming from management's internal perspective or from overlooking segment dynamics and the importance of return on capital to investors. But there are some tips that can increase your probability of a successful transaction.

1. Identify Strong And Validated Scientific Rationale And Hire Above Your Belt: Make sure that you understand the risk profile and development path of your product, and identify strong and validated scientific rationale. Ideas that have not been proven in the clinic must have a strong scientific rationale corroborated by recognized experts. As scientific data and rationale are the key currency in the life science sector, CEOs should reinforce their team with clinical and scientific thought leaders as well as blue-chip investors and service providers. A powerful scientific team will be perceived as a risk-mitigation measure. We continue to see renowned, serial entrepreneurs receiving significant funding. One recent example is Arrakis, which secured significant funding from topnotch investors through the formation of a leadership team consisting of highly reputed scientists and Big Pharma/Biotech veterans.

2. Adopt An External Perspective: CEOs must accept the reality that the success of their company is largely dependent on segment dynamics, in addition to their technology or management skills. It is imperative that management develops a path to liquidity that is aligned with their segment. Thus, savvy CEOs adopt an outward, top-down, market-driven perspective. They know what potential investors and partners are looking for and reflect on how their company is aligned with those needs.
   For example, having a corporate venture partner in a deal has led to an increase in successful exits of the past few years. Corporate venture capital groups have participated in 23 percent of biotech financings over the past 15 years, and they've been equity holders in 48 percent of the sector's IPOs and M&As. This holds true across biotech, where more equity investments, as part of broader R&D or product collaborations, are increasingly the norm. These deals mitigate risk for young therapeutics companies as they attract interest from pharma business development groups, which strike deals with an equity component. Those companies then go public or get acquired by pharma at a higher frequency than those without deals.

3. Establish Early Partnerships: There are innumerable benefits of early partnerships. For example, beyond providing a flow of cash, they increase a development program's chance of success; replenish thinning pipelines for Big Pharma; and enable rapid discovery, early development, and scale-up of investigational drugs at a pace not achievable for either party acting alone. As such, CEOs should avoid the rampant "go it alone" mindset and adopt a collaborative perspective early in the process of building your business. Some additional benefits include:
   - access to knowledge, which translates into a reduction in potential mistakes
   - access to essential resources, whereby CEOs can draw on a wider pool of technical expertise, skills, and networks
   - ability to drive commercialization
   - increased efficiency toward cost reductions

- fostering innovation
- third-party validation and credibility
- overall risk mitigation.

4. Reap The Value Of An Underlying Platform: A strong platform that can serve as a crank to produce clinical assets is a plus. The endless debate over platform versus product companies currently seems to favor a groundbreaking platform that translates into premium valuations for early-stage companies.

   A most interesting case in point is Forma Therapeutics, which is developing a differentiated cell-based, structure-guided, drug-discovery platform to generate novel products. In 2011, Genentech did a major licensing deal on Forma's platform. This generated significant returns for Forma investors without the company going public or getting acquired. Genentech made an up-front payment, provided support for R&D, and agreed to make milestone payments upon certain development goals. Genentech also retained an option to acquire the full rights to the asset. When Genentech exercised its option, it made an asset buyout payment that was distributed to Forma's investors, plus further milestone payments when certain sales goals were met. Therefore, if this drug pans out, Forma essentially would be able to deliver returns to its venture backers by selling off just one of several cancer metabolism targets, while remaining an independent company free to discover and develop additional drugs.

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5. Set Clear Value Inflection Points: It is essential that you identify key major value inflections for your investors as well as for the research and clinical community. This can be done through data presentations at scientific meetings and via publications and press releases. By doing so, you enable two-way communication among your company, the financial community, and other constituencies. That additional communication also raises awareness and interest in your company, which can assist prospective investors as they try to understand how the company intends to deploy capital to de-risk the technology.
6. Secure Third-Party Validation: When pursuing equity financing, validation comes from initial blue-chip backers or early strategic collaborations. Indiscriminately approaching anyone and everyone for funding usually results in the wrong type of investor being selected. That's why syndicating your financing with a shareholder base of recognized, larger investment firms or pharmaceutical companies will have multiple benefits. You will secure a sufficient cash runway to execute financings from a position of strength when you choose rather than when you need to. And, a pharma/biotech partnership or option transaction will validate your investment thesis — and your needed capital — in unfavorable equity markets.

   Many entrepreneurs become so enamored with their product that they believe their own hype and are convinced that the market for their solution is so large that no one will require independent market-research data. They do not realize that projections with no third-party validation have no credibility. Ultimately, third-party validation can become your secret weapon in closing a deal.
7. Ensure Investor Fit: Seeking venture funding for a young biotech company is often a frustrating endeavor, taking many months and too often, ending fruitlessly. To increase the probability of a successful financing event, management should make every effort to gather market data and devise a financing strategy that aligns with prevailing capital market dynamics. A data-driven, focused, and targeted outreach — as opposed to an indiscriminate blitzkrieg approach — is likely to be more productive and save significant management time and capital. For example, understand how many financing events took place in your sector over the past couple of years and how your sector compares with others. Multiple financing events in your sector confirm investors' interest and flow of capital into your space. Lack of investment activity suggests an uphill battle to generate interest. How large were the financings? If a company's financing strategy is wildly different from sector benchmarks, executives may want to align with market norms. What is the acquisition activity in your sector, and at what stage of development did it occur? Exits should be communicated early in the capital-raising process. If exits are occurring at a development stage that is beyond what your desired capital raise will support, it is likely that your capital needs are insufficient to attract institutional investors who are wary of being "crammed down" by a follow-on investment to get the company to its value inflection or exit window.

The current life science environment is dynamic and ever-changing, combining enduring patterns of practice with evolving ones. As the trail to success is profoundly influenced by market needs, management should be acutely aware of the driving forces that surround them when articulating a path to monetization for stakeholders. Company leaders should maintain an outward focus and execute in alignment with external forces. L

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