

## IN their words



**“Call me a stubborn Midwesterner, but I/we continue to believe that these megadeals never made any sense to begin with and don’t make sense now.”**

John Lechleiter, chief executive of Eli Lilly, criticizes

megamergers in the pharma industry, which he says are disruptive to research and development. (*The Financial Times*, March 30, 2009)

**“We have to be cautious about assuming that one size fits all...treating risk factors is a lot like cooking—the ingredients count.”**

James Stein of the University of Wisconsin–Madison comments on clinical results in cardiovascular disease of Cadila Pharmaceuticals’ (Ahmedabad, India) Polycap, a poly pill containing atenolol, ramipril, thiazide, simvastatin and aspirin (*Lancet* **373**, 1341–1351, 2009.) (*Boston Globe*, March 30, 2009)

## IN brief

## Mexico OKs GM corn

Mexico has reformed its law to allow planting of genetically modified (GM) corn on experimental plots, ending 11 years of moratorium and controversy. Until this change in the law announced in March, Mexico had banned GM corn cultivation completely. Even though legislation governing GM crops had been passed in 2005, because Mexico is considered the birthplace of corn, rules related to GM were deemed to require special treatment. Fabrice Salamanca, director general of AgroBio Mexico, a Mexican biotech association, explains that the recently amended guidelines contained in the Biosafety Law on Genetically Modified Organisms, also establish the need to create a seed bank to preserve different types of native or ‘criollo’ maize and provide financial support to encourage the use and conservation of native varieties. The experimental plots will be located exclusively in the northern region of Mexico, far from the states with native corn diversity. Critics argue that, despite the rigorous specifications set out in the newly reformed law, data on the potential impact of GM corn on the crop’s genetic diversity are lacking. But Salamanca points out that performing any survey *in situ* would have been impossible because the Biosafety Law prevented experimental GM planting. The new regulations, which include three phases—experimental, pilot crops and commercial planting—will ensure crops are assessed on a case-by-case basis. “If [the growers] don’t provide evidence of the GM crop’s value, they won’t be allowed to continue cultivation.”

Veronica Guerrero

Los Altos, California, follows a purely strategic model similar to Takeda’s. Also tightly linked to its parent group’s plans is New Brunswick, New Jersey–based Johnson & Johnson (J&J) Development Corporation, which is aimed at finding opportunities that are clearly strategic and spinning them into J&J at the right time. At the other extreme is GSK’s SR One, which, according to Takeda’s Martin, is de-linked from its parent: “Their mandate is that of a typical venture fund, making investments whose objective is financial gain before introducing them to GSK.” Other funds like Lilly Ventures of Indianapolis, Indiana and MedImmune are mixtures of these models.

The matter of licensing options is one sharp differentiator between funds. Some—notably Novartis Options—set out their stall from the start, linking an initial equity investment to an option to license a product in a certain therapeutic area. That approach is sometimes welcomed by, say, a platform company that expects to generate several different targets and products and so will need several licensing deals in any case—again Ambrx is a good example. But for a one-product company, it would be a much more sensitive issue, because of its chilling effect on other investors.

Demanding an option to acquire the whole company—as Novartis Venture Funds and Pfizer Ventures, of New York, are said to do—is even more edgy. “In more robust markets, traditional venture capital companies don’t like that,” says Topper. “It means we cap our upside in return for giving someone else the right to buy the company, and that wouldn’t usually work for us unless it’s an astronomical number.” The fact that such deals are even being considered by biotech companies is, he says, an

indication of just how stressed-out the industry has become. Not everyone agrees though: Takeda’s Martin is an admirer of Novartis Options and himself uses a similar model where appropriate. “It’s a very smart solution, bringing a ready-made potential exit to the game,” he says. “Some of the VC [venture capital] funds find that very appealing these days.”

The majority of corporate venture capital funds raise on average ~\$100 million to be invested over three to five years; that is, ~\$20 million a year each, although it’s nominal and depends on the particular investment opportunity. There are at least ten good-sized venture capital funds, which adds up to ~\$200 million a year, most of which goes into early stage. According to financial consultancy Price Waterhouse Cooper’s Moneytree survey, the total first-time financings in FY 2008 for biotech was \$834 million. This is likely to be a lot less in 2009—some predictions place first-round fundings this year down at least 50%. So if the corporate VCs keep investing at the same rate as in the past, they could account for as much as half of early-stage financing in 2009.

And what do the traditional private equity VCs think of the big guys moving in on their turf? Frazier’s Topper, for one, is upbeat: “We’re happy the strategics [corporate VCs] are in there and we like working with them,” he says. “As we VCs are now doing early-stage funding extremely selectively, the strategics are playing a very important role maintaining some early-stage innovation that we hope to come back into. It’s in everybody’s interest that the best early-stage companies get funded by someone, and we want to see these startups in the next round to keep the industry going.”

Peter Mitchell London

## Biotech fat cats

Biotech CEOs came under fire from the “Stop biotech looting” campaign. In April, the International Brotherhood of Electrical Workers local 103 instigated a campaign around Boston to protest that construction projects in the sector are failing to hire union workers and provide adequate healthcare coverage. The biotech industry’s expansion, even in the current economic climate, is probably behind the unflattering portrayals.

