BioPharm Insight

Financing climate improving for early-stage life science sector; firms should remain ‘optimistic but realistic’

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The financing climate for early-stage life science companies is expected to continue to see modest improvement in the near term, as discussed in a plenary session panel at the Life Sciences Summit 2013 in New York.

This improvement is seen as a trickle-down effect from fairly strong financing for the biotechnology sector as a whole, driven by growth funds, the panelists said. Entrepreneurs can be “optimistic but realistic” about the state of the financing climate for early-stage companies, said panelist Alex Zisson, partner, Thomas, McNerney & Partners, LLC.

The biotech sector has led the market overall compared to other sectors, driven by promising science in oncology and precision medicine, said panelist Barbara Ryan, managing director, FTI Consulting. Low interest rates have also forced the markets to take more risk, she added.

The public markets are in a good place, though private funding sources were in a “deep freeze,” and are now slowly starting to warm up, which should continue through next year, said panelist Les Funtleyder, partner, Poliwogg. The public market activity may help thaw the private side, agreed panelist Laurence Blumberg, senior vice president, project management, Kadmon.

The growth capital funds have shown themselves to be a bit more robust than some of the early-stage funds, Blumberg added. There are definitely fewer funds for early-stage financing than growth funds, though there is an improvement in the number of early-stage funds compared to 18 months ago, agreed Zisson.

Alternatives to venture capital financing are growing, creating a larger ecosystem of potential investment options, said Funtleyder. These include local and regional economic agencies, government grants, angel investors and universities, he noted.

These funding sources come with different expectations, however, cautioned panelist Anthony Sun, partner, Aisling Capital. As one example, academic sponsors may require early data be published in a peer-reviewed format, when a company may otherwise not want to publish for competitive reasons, he said.

Panelists highlighted the need for solid development plans, particularly those with clearly articulated value inflection points and an estimate of the amount of capital required to reach each. Companies should focus on getting proof of concept quickly with a validated target, said Blumberg. Key proof-of-concept data should be replicable and validated, said Sun.

In addition to reproducible data, intellectual property (IP) can torpedo a company early on, the panelists said. IP is the aspect most likely to hinder a company, said Zisson. He urged firms to seek advice from legal counsel who regularly work in the industry and not just legal counsel who might simply be more attainable. The IP story is critical, agreed Blumberg.

Some therapeutic areas are more difficult for a small company to navigate, said Zisson, such as type 2 diabetes or Alzheimer's disease. Given that larger indications require larger trials and thus higher costs, orphan indications have gained favor, said Funtleyder. Orphan indications typically come with lower trial costs and higher reimbursement, he added.

In addition to orphan indications, oncology is also on investor radars, particularly targeted therapies, said Sun. Additionally, in oncology, Phase II results can sometimes be used to apply for early registration, he noted.

Devices for monitoring and healthcare IT to deal with bundled payments and cost accounting are also of interest, Sun added.

While traditionally science, safety and efficacy were the focus of investor attention, value-based outcomes around patient care are also being sought out, said Ryan. She cited cardiovascular disease as an area where there are many very good therapies available inexpensively, which sets the bar higher for new entrants with respect to value-based outcomes. While 10-15 years ago, drugs that might incrementally move the bar may have been interesting to investors, but is no longer the case, said Zisson.

by Christine Livoti in New York