Gates eyes biotechs as for-profit investments


AFP PHOTO/BEN STANSALL

Philanthropist Bill Gates, who has invested in a biotech firm, pledged $1 billion to vaccine programs in June.

In March, the Bill & Melinda Gates Foundation, of Seattle, made a $10 million program-related investment in Liquidia Technologies, a nanotech platform delivery company, based in Research Triangle Park, North Carolina. The equity investment, unlike a grant, gave the Gates Foundation ownership company just like any other investor. This influx of capital can only be good news for biotech startups, says Michael Nowak, a former venture capitalist and now managing director of Yorkville Advisors, in Jersey City, New Jersey. "There never is enough innovative capital," he says. Venture capitalists, who traditionally operate in the same space, however, may be less sanguine.

Equity investments by foundations come with complications that venture capital funds don't have. "There were certain issues that had to be worked out because they [Gates] are a charitable organization," says Stephen Bloch, general partner at Canaan Partners, of Westport, Connecticut, and a member of Liquidia's board of directors. An equity investment endows the foundation with added control over the company that it wouldn't have with a standard grant. Having a seat on the board "allows them to have a bigger say in core issues," Bloch adds. "It's different when you're an investor than when you write a check for a grant, which tends to be a passive activity."

The added influence should work in Liquidia's favor. The Gates Foundation has experience, expertise and contacts in disease, global markets and potential nongovernment organization (NGO) payers and product delivery that typical startups lack. "They're bringing resources to the table," Bloch says of the Gates Foundation.

An equity investment does not exclude grant money, however. There's an expectation that future collaborations could be established after Liquidia develops its vaccine technology further. More funding from the Gates Foundation could be in the form of nondilutive grants for projects that Liquidia wouldn't develop otherwise.

The Wellcome Trust, a biomedical charity based in London, has similarly been making investments into independent biotech companies since 2003. As of December 2010, the charity had made 59 investments in companies in the UK, US, Europe, India and Australia, totaling £110 ($158) million. With early-stage startups, The Wellcome Trust often uses convertible loan agreements, which the foundation converts into equity only after it is "reassured the company is sustainable, has good leadership and has credible backers," says Richard Seabrook, head of business development in the technology transfer office at The Wellcome Trust.

The Wellcome Trust uses a committee of scientists and entrepreneurs to help guide its investments. Seabrook says it's very important that "their decisions are not based on investment return criteria but unmet need and the chances of making a difference."

Melding the goals of for-profit venture capital with nonprofit foundations isn't straightforward, but John Schaetzl, a consultant who has been working for years to bring foundations and biotechs together, says the key is to focus on aligned goals. "For a vaccine to be a viable alternative in the third world, the company making it has to be a commercial success," Schaetzl says.

Although foundations are investing in the same types of companies as venture capital funds, at this point, venture capitalists don't view foundations' investments as competition. In fact, it's a case of mutual admiration. "It's not competitive with venture capital. At the very least it's additive, and possibly synergistic, in that in addition to injecting much needed capital, they also bring their unique networks, experiences and organizational footprint to bear in support of their investments. It's a win-win as far as I can tell," says Bruce Booth, a partner at Atlas Venture, of Cambridge, Massachusetts.

Schaetzl concurs, pointing out that foundations can leverage venture capitalists' financial capital, intellectual capital and investment recognition skills. "The more experts you can get at the table, the better off you are," he says.

Brian Orelli, *San Diego*

IN brief

Alkermes, Elan in $960 million merger


Elan Drug Technologies.

In May, the drug-delivery specialist Alkermes announced it would merge with Elan Drug Technologies (EDT), the chemical formulation and manufacturing unit of Dublin-based Elan. The Irish firm will receive $500 million upfront and a 25% stake in the new company Alkermes, worth ~$460 million. The merger enables Alkermes to offer a slow-release system not only for small molecules but also for biologic drugs. For Elan, the cash infusion will reduce its considerable debts and enable the biotech to focus on developing drugs for neurological disorders. "The deal is the best possible solution for everyone involved," comments Adrian Howd, a biotech and healthcare analyst for Berenberg Bank in London. After the merger, Waltham, Massachusetts–based Alkermes can exploit EDT's drug delivery platforms, including controlled release platforms for drugs that solubilize poorly in water. Over two decades, Alkermes built its business by partnering with pharma to combine small-molecule drugs with its proprietary slow-release microspheres delivery platform Medisorb. The once-monthly Vivitrol (naltrexone), an injected opioid receptor blocker to treat addictions, was developed in house. The company's revenues might soon be boosted by Bydureon, a once-weekly formulation of Byetta (exenatide) recommended for approval in April by the European Medicines Agency for treating type 2 diabetes. Bydureon was developed by San Diego–based Amylin and Eli Lilly of Indianapolis, using Alkermes' Medisorb sustained release drug delivery technology. With the merger, Alkermes gains EDT's platform technologies to expand the scope of delivery solutions, as well as revenue from drugs such Invega Sustenna (paliperidone palmitate) for schizophrenia and Ampyra (dalfampridine) for multiple sclerosis that incorporate EDT technologies. The sale has helped Elan boost its business prowess. At the end of May, Elan announced a partnership with Cambridge, Massachusetts–based Proteostasis to develop small-molecule drugs and diagnostics to treat central nervous system disorders. Elan's key drug is Tysabri (natalizumab) approved to treat multiple sclerosis. The partnership with Alkermes is a clear signal of Elan's intent to focus on neurological disease—a wise move says biotech analyst Steve Yoo, at Leerink Swann Investment Bank in New York because "the market is large and continues to grow." The companies said they expect the deal to close before the end of September, at which point Alkermes intends to move its headquarters to Ireland to take advantage of lower corporate tax rates.

Gunjan Sinha