

## Media Coverage

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### Venture Capital in Australian Biotech

In these volatile times, investment in Australian biotechnology and the growing importance and significance of Asian capital sources in Australian life sciences funding

DESLEY BLANCH : Has your grandmother had a hip replacement? Has an uncle had a pacemaker fitted? Are you taking drugs to combat heart disease or another chronic illness? Is someone else getting injections for rheumatoid arthritis?

In Australia, a large part of what we mean by biotechnology is human medical drugs and devices but as well, there's agricultural biotech and diagnostics.

Biotechnology as an innovation-based industry requires "high-risk" investment.

What is the current availability of capital and is Asia a likely source for life sciences funding? Is the tyranny of distance a factor when it comes to appeal and visibility of the Australian life sciences sector to international capital?

To answer these questions and more is Dr Joshua Funder, a partner with GBS Ventures, an Australian venture capital company.

DR JOSHUA FUNDER : Look, I think it's strong and there are several reasons for its appeal, but I'd start locally. Australian stock markets have the highest proportion of biotech stocks relative to the GDP and other countries so there's clearly a local focus and a local value put on biotech. So I think that's an asset we go for as a country ourselves.

Or internationally, people see Australia as a superb source of biomedical research. We really do punch above our weight to use the hackneyed phrase in this sector and so people come here to collaborate academically and to partner commercially with the superb physicians and scientists we have doing research in the field.

And downstream from that it's also a very attractive place to conduct clinical studies, so Australians will get better clinical care through those studies, Australian companies will be able to provide services, export services, but international companies can do clinical research here that is unparalleled.

So I think there are a lot of reasons why Australia's an attractive market as an investment destination, but also as a development destination for biotech companies.

DESLEY BLANCH : So is this sector at a stage of maturity that it is sought out as an investment opportunity?

DR JOSHUA FUNDER : Look, I think those are some of the strengths the biomedical science and technology as well as the opportunities to conduct clinical development. That's not to say we're strong in all areas and there are areas where Australia needs to redouble its efforts in order to provide that maturity that you speak of.

I'd point to two areas, one of which in the provision of adequate capital. I said there are multiple sources of capital and they are all at play in Australia, they all need to be bigger to access the opportunity that we really have here.

And the second is management. Australia has a flourishing biotech ecosystem, but we don't have the presence of the big players in pharma or the big players in biotech that in overseas markets train and develop the sorts of expertise and the sorts of leadership and entrepreneurs that we can readily access. So I think there's a relative dearth of risk capital and also human capital in order to balance out and mature our sector in Australia.

DESLEY BLANCH : Does Australia have many companies with products that are on market or nearing sales?

DR JOSHUA FUNDER : We do, and I think it's something we should be really proud of and we've seen a dramatic increase in the number of Australian biotech companies that have products going to market over the last five years and I think it's something that we should really take note of.

If you think about the big three that we've known about for a while, CSL, ResMed and Cochlear. They've been around and putting world leading products onto the market, so they're clear in the public conscience and actually ResMed and Cochlear came from prior iterations of our venture capital market in Australia.

More recently, we've had a series of terrific successes and breakthroughs. For instance, Acrux have just partnered its product with Lilly. It is already selling into the international market for testosterone replacement for men. So this is a great story. Acrux had a technology that was based on sunscreen where it could deliver drugs into the skin in a reserve. And what they developed finally is a roll-on testosterone under the armpit which is much better than smearing yourself with gels and creams that you have to do now.

They've partnered with Lilly which markets Cialis an erectile dysfunction drug, so they're going to go global alongside the world's leading erectile dysfunction drug with a testosterone supplement, so very coordinated marketing with a leading player in the field. That drug is now being used by men around the world and we will see how sales go. That's a really good example of a sunscreen-based early stage high risk approach yielding significant rewards for a major global need in testosterone replacement.

There are many other examples I can go onto, Pharmaxis, Sirtex, Heartware are all doing superb things in delivering new products to global unmet medical need.

DESLEY BLANCH : Well, we hear how it can take at least 15 years and millions of dollars to

get drugs to market. Does Australia have any drugs in later stage clinical trials?

DR JOSHUA FUNDER : Yes, and you'll see, for instance, Pharmaxis is in clinical studies for bronchiectasis which is a terrible disease of the lungs and in late stage of getting something proved for cystic fibrosis, which is a congenital disease of the lungs. So you can see there a single company with a drug that in registration for one disease and in clinical trials for a second disease.

We've also seen successes in the likes of Peplin and ChemGenex; companies that my fund has been involved with where in the course of conducting clinical trials, those companies have sold to international players who will then take the drug on to market. So there's value in companies that are continuing to produce the drug and distribute it internationally with or without partnership, but there's also significant value to be realised in companies with mid-stage clinical products partnering or selling with major international global players.

DESLEY BLANCH : Well Josh, come back to the last 12 months. What large commercial deals have been made between Australian biotechs and international investors?

DR JOSHUA FUNDER : Well the stand out one there is probably the relationship between Mesoblast and Cephalon which is a large partnership based on Australian stem cell technology, which has seen Mesoblast evaluations skyrocket. But there have also been partnerships that have led to mergers and acquisitions and I mentioned ChemGenex recently with Cephalon had a relationship of an investment and a partnership that led to the ultimate sale of that company. So partnerships have been successful both in early stage development in the case of Mesoblast but also in later stage products and acquisitions of companies in the case of ChemGenex.

DESLEY BLANCH : So what's the current availability of capital like for your sector, given yours is a traditionally high risk investment?

DR JOSHUA FUNDER : Capital is tight. The superannuation industry has been consistent supporters of us so we're thankful for that but as a percentage of assets under management, the Australian Super sector under invests in venture and also under invests in health care. So we would love to see a greater support in sustainable, renewable, innovative technologies that are based on Australian companies.

The public markets have been, as I mentioned before strong supporters of our sector, relative to our GDP and relative to our asset class. So we do have over 100 listed companies in biotech and for the later more mature of those companies, during the GFC, they have been able to successfully renew their capital and raise additional funds. So there's been a story of success for listed companies that have mature products to access additional capital.

Many of the smaller companies, and some people call them 'penny-dreadfuls', have fallen away and that's probably something you would expect to see naturally.

So I think the overall availability of capital is tight, that's not specific to our sector. The availability of private capital through superannuation funds and institutional investors in

Australia relative to other asset classes has been low and we'd love to see that increase.

DESLEY BLANCH : So what factors are causing capital constriction?

DR JOSHUA FUNDER : I think there are several: clearly, disruptions to markets and volatility. I would like to say not any of the high risk that you focus on, but high rewards are in the long term attractive. I'd also like to say that health care is a fundamental need and when you develop innovative products, it's largely counter-cyclical so the needs for health care and the sales are relatively insulated from the commodity or other cycles that can affect markets.

But having said that, capital's tight for biotech I think because we don't have the experience as an investment sector at renewing success and reinvesting the proceeds of that success into our sector.

We are ten to 15 years behind where California was, where Canada was, where Israel was, where various other sectors are in some ways in renewing our investment in the sector. And so I think as those companies I just listed have seen products go global and as investors see the proceeds of those returns come through and in Pharma, you can have 80 and 90 per cent gross margins, so very attractive gross margins when you start to sell products and when you make one product, it may take a long time, it may take a lot of money but that product is likely to meet the needs of the medical community internationally. A human disease is a human disease.

So as people see those sorts of margins on those size of products come back to Australia, I'm hoping investment will be renewed.

DESLEY BLANCH : What's the importance of Asian capital sources in life science funding?

DR JOSHUA FUNDER : It's growing, and not yet as big as other sources, but certainly welcome and hopefully an exciting adjunct to the ecosystem of our sector and filling that key gap that we have in an under-investment on financial and human capital.

We've seen Asian investors come into ASX-listed companies as institutional investors and we've seen Asian investors play an important role in some of the recent IPO's in the biotech sector and those have been IPO's in our sector which have been notable, because the U.S. sector has had fewer health care-raised IPO's relative to the Australian sector. So that's been an important adjunct, but there are other ways in which exchange of capital, information and expertise has been occurring with Asia more broadly in our biotech sector that is important to acknowledge.

Many of our companies for instance, undertake their chemistry development and research in China. Other companies conduct clinical trials in India where it's an optimal place to conduct certain clinical trials. We're seeing collaboration scientifically and collaborations on health care service delivery.

The other thing to remember is certainly in Indonesia, Malaysia, many other parts of Asia, we have a very strong legacy of Australian trained in the health and medical welfare executives and professionals coming from Australia, so the links are very strong in both directions.

DESLEY BLANCH : So how accessible is Asian capital versus, say, United States capital?

DR JOSHUA FUNDER : Well capital's tight all round, so capital's not that accessible. We do have a more mature history of U.S. investors as venture investors investing in Australian companies and U.S. biotechs coming to Australia for their clinical work and US investors coming in as institutional investors on the ASX. But in each of those cases we've seen the beginnings of Asian investments across those different modes of investment. So it's beginning, it's not as big yet or mature, but I hope it can continue to grow and complement our sector.

DESLEY BLANCH : So what are the forecasted trends for growth in Asian capital supply?

DR JOSHUA FUNDER : In a market this volatile, I'm making no predictions whatsoever. I am saying though that not just the financial investment, but the exchange of ideas and expertise, access to markets is welcome in both directions.

DESLEY BLANCH : Did you have your fingers crossed then?

DR JOSHUA FUNDER : More than my fingers. (laughs)

DESLEY BLANCH : Well biotech companies are gathering in Adelaide, South Australia, for the Aus Biotech Conference and it's the premier biotechnology conference for Australia and the Asia-Pacific region. Josh, what's the importance of industry events, especially in the current market climate when sectors usually branded as risky are particularly shunned?

DR JOSHUA FUNDER : Firstly is continuity and in sectors where people are throwing up their hands, in markets where people are despairing of volatility, the ongoing passion that people have to develop new treatments for disease and the commitment required financially, professionally and as a sector to continue those and not abandon those very valuable, but very important scientific and medical developments is required. So conferences like these in some ways keep the flame alive during hard times.

But the AusBiotech Conference has also had some successes in other areas and one of which is in showcasing local biotechnology companies very clearly for the purposes of investment and very clearly for the discussion around what the next investment required is and who might come together around that company to support that investment.

So there's a whole day dedicated to very concise and very investment-focused presentations of the cream of our biotech sector and that enables that sector to learn from each other in their presentations. To learn from the successes of their peers in attracting investment but also to present themselves to global venture investors, to Australian venture investors, to global pharma companies and institutional investors, so providing not just a trade show or a scientific talk fest, but a very focused investment forum has been an important boost to the sector, but an important way to provide a real market for investment in the best of Australian biotech.

DESLEY BLANCH : Dr Joshua Funder is a partner with GBS Ventures, an Australian venture capital company.