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What Financial Crisis? Australian Biotech Enters Golden Era (Part 1)

PERTH, Australia - Australia's biotech sector has entered a golden era as its top 20 companies are now maturing and for the first time bringing products to late-stage development and looking to commercialize.

At this time last year, AusBiotech CEO Anna Lavelle said the sector faced the perfect storm as it headed into the world's worst financial crisis in decades, and she predicted that one-third of Australian biotech companies would go under ([PharmAsia News, March 26, 2009](#)).

At that time, investment in Australia's biotech sector plummeted to AU\$183 million in 2008, down from AU\$943 million in 2007.

But the association's Australasian Life Sciences Investment Summit in October was a strong indicator that the winds might be changing for the Aussie biotech sector and that perfect storm may just be the headwind it needed to get it moving.

The investment meeting showcased the country's top late-stage companies and most promising early-stage companies during the association's annual AusBiotech conference in Melbourne.

"We hoped we might be able to get 30-40 investors in the room. What blew my mind is we ended up with 110 different investor companies and one-third of them were international," Lavelle said. "The idea that we could do this in the worst year in the world, was nothing short of a miracle."

"In Australia in the last four quarters the small-cap biotech companies are outperforming the all ORDS, so it's the first time in history that the small-cap companies are standing on their own two feet," the CEO said.

The Australian Bioscience Manager's Report index reported in November that from October 2008 to October 2009, the small-cap biotech companies saw a 75 percent increase in their stocks, while the ASX-200 listed companies were relatively flat in comparison.

"People are realizing even more that as the world goes forward, we are going to need these innovative strategies. There is money in it and they are prepared to back it," Lavelle said.

"Q3 we raised AU\$136 million and the quarter before was about AU\$132 million, as opposed to last year where in the last quarter we raised AU\$18 million. So it has really picked up in the last few months; we're seeing a loosening of capital, more investment and a lot of the top companies have raised double-digit millions quite easily.

"Those values are now coming back to where they should be, and we also have this maturing

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bonus of companies that over the last 10 years have been developing and now they're ripening and coming onto the market and returning money to their investors and shareholders."

Can They Get It Off The Shelf?

"Having a small economy is what really means we don't have sophisticated VC investment and we don't have mezzanine funding here, which is really a major problem," Lavelle said.

Geoff Brooke, co-founder and managing director of Melbourne-based GBS Venture Partners, a private equity VC firm that manages \$450 million, mostly in early-stage Australian biotech and medical device companies, said interest in the sector is buzzing.

He follows different models to help companies commercialize, with some based in Australia, and some based in California but with laboratories in Australia. He often assists in transitioning Australian companies to California to syndicate them with U.S. venture firms.

Other deals have been with U.S. companies that wanted to acquire or invest in Australian companies. But his main focus is on commercializing Australian technologies around the world.

"It's been a long time coming, but about 10 years ago the biotech industry in terms of commercializing Australia's medical research became a bit more formalized, whereby little companies started to be formed and were financed either by individual investors or a couple of groups like us got started," Brooke said.

"There were one or two investors at the time. We licensed invitro technologies at universities and incorporated little companies and hired little management teams and started animal studies and here we are 10 years later where a number of them are now finishing pivotal trials and hence the big companies are coming from around the world to either acquire them or license them. "

"We're going into a really exciting golden era for Australian biotech because there are about nine companies with 12 products in Phase III clinical trials in Australia now. And then there's about double that in Phase IIb, so the next two years there will be a lot of companies coming out with clinical trial data."

While Australia's biotech sector is maturing, the funding mechanism necessary to get medical research out of the lab is way behind the times and, according to JP Morgan's Chief Australian Economist Stephen Walters, the biotech sector is simply "not a big enough part of the economy to effect change in the country."

He said mining will continue to dominate the country as an industry, and he thought healthcare "would be way down on the list."

"China is our biggest export destination - they have 25 percent of our exports right now and they doubled their share over the last six months, which tells you that China is growing while everyone else is not, and they're investing in new infrastructure ... so it fits neatly that Australia sits adjacent to Asia but also very well attuned to providing what China needs."

Surprisingly, healthcare is a large part of Australia's economy and is in the top-10 list of export commodities, the analyst said.

Could Big Pharma Fill The Funding Gap?

Roche Strategic Business Partner Spokesman Peter Sandbach said Roche is looking for deals in Australia, and had a team of four to five scouts at the AusBiotech meeting.

"From a Roche perspective, we had a record year last year in terms of deals and acquisitions. We did four acquisitions last year, which is more than usual because our first instinct is to go for a licensing deal."

Sandbach said in an interview that there was a lot of good science in Australia, but it was just "sitting on the shelf."

Bardia Akbari, Roche Global Head Partnering - Inflammation and Autoimmune Disease concurred: "When we look at early research type of activity getting ready to come outside of the university structure, there is a lot of innovation, a lot of good science, a lot of looking at different aspects of biology - quite interesting and novel."

"A few companies have products that are getting close to market or that are in Phase II/ III development and those are good as well," he said, "but then you have this middle section from early research and there is this inertia ... and things just sit there and don't progress very far because of lack of funding."

He said that funding gap is very visible from preclinical to Phase I, and that Big Pharma is investing and partnering earlier, but that compounds would need to be more "de-risked than they are in Australia" if they were to get serious Big Pharma attention.

"You can produce a lot of novel compounds but when you start losing them is when you start characterizing them and you find liabilities, so you just need more information on invivo and invitro ... to address those liabilities and make sure the compound does what it is supposed to do."

The volume of compounds sitting in preclinical "with no way forward" was surprising, Akbari said, noting that "you just don't see that in Europe, the U.S., or even in Japan."

"When I came into the industry 13 or 14 years ago, most of Big Pharma had offices in Australia to run their Asian activities, but more and more you see those offices shrinking and moving to China."

Akbari said he saw one Australian company that "fills Roche's sweet spot."

For autoimmune and inflammation disease, he said that "sweet spot" would include compounds "anywhere from GLP tox to Phase I, [where] we feel the compounds are well de-risked for us to move in and invest heavily."

One aspect that might make the deal sweeter, he said, is the ability to shape the clinical program from the beginning.

The lack of presence and interaction with Big Pharma in Australia is "puzzling," Akbari said, because many of the companies he had discussions with "really did not have a clear picture of what Big Pharma was looking for."

"They're doing the work they think they should be doing, but it's not a topic of interest to Big Pharma ... either because it was not the disease area of interest or the market in the West is not there, or the reimbursement situation in the West would not allow for that compound to come."

"I realized that many of the venture groups that are not based in Australia are reluctant to invest heavily in Australia unless they have an Australian partner that they know well, and it also limits the funding that is coming to the biotech industry there."

However, he also said the financial crisis has not changed the types of partners Roche is looking for, but he did acknowledge that the crisis did provide some interesting opportunities for the company last year.

"People are offering us things earlier to look at, but what we look for has not changed."

Big Pharma could play a role in filling the funding gap in the Australian biotech sector, Akbari said: "There is a lot of good science there and if the venture world is not there, is there anything we can do to foster that environment?"

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[Editor's note: This is part one of a feature on Australia's maturing biotech sector. Part two will highlight the top 10 Australian companies.]

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