

Wanted: bucks for Canadian biotech

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Canadian Business Online, March 22, 2006

When a group of top Canadian life sciences companies recently went on a cross-border road show to promote their leading drug candidates to American venture capitalists, the story didn't exactly make major headlines. After all, it seems perpetually under-financed biotech companies are always trying to secure long-term investment dollars.

According to Ernst & Young's most recent global biotechnology report, entitled *Beyond Borders*, the Canadian biotech industry's market capitalization actually shrank from \$13.8 billion in 2003 to \$13.7 billion in 2004, despite an 8% increase in the value of the Canadian dollar that same year. The report states Canada's biotech space remains dominated by "small, undercapitalized companies" that have reacted to capital deficits by slashing expenditures and seeking strategic partnerships with larger marketing partners, all to limited success.

But it's not all doom and gloom for sector start-ups, says Ken Lawless, president and CEO of the Ottawa Life Sciences Council. In late February, this not-for-profit group helped orchestrate its first ever multi-city road trip to New York, Boston and San Francisco, hoping to drum up capital for the companies it named last November as Canada's Top 10 Life Sciences firms for 2005-2006. Lawless predicts at least three of the 10 companies represented on the trip — including Ottawa's Variation Biotechnologies, Vancouver's iCo Therapeutics Inc. and Mississauga's YM BioSciences Inc. — could walk away with about \$15 million each in financing as a result of the conference.

"Biotech companies have an insatiable appetite for financing. Most of the proceeds of this type of investment end up being used to drive those critical products [from the research bench] into the clinic," says Lawless. "These fundings get them to a point where they can achieve substantial valuation, which then allows them to go public or be acquired or merged with another company."

Although it's too early to tell how successful the mission was, many of the companies that participated express optimism over their ability to raise future funds. Adam Buckley is the director of business development at Ottawa-Gatineau based Variation Technologies Inc., an early-stage biotech company focused on vaccine development. The 19-person company, which got off the ground in late 2003, is currently working on a number of synthetic vaccines for avian flu, HIV and influenza.

"When you've got a changing virus, you've got a changing target for your immune system, which either doesn't know how or just can't catch up to the virus," says Buckley. "What Variation Biotechnologies does is use bioinformatics and its understanding of thousands of sequences of a different virus to understand what [that virus] is up to, then develop a vaccine that's more able to teach the immune system what the virus is doing and how to capture it."

The firm has already raised \$2 million in seed capital and is hoping to close its next round of financing — somewhere between \$10 and \$15 million — in the couple of months. Buckley says the extra funds will allow Variation to advance some of its vaccines to early-stage clinical trials and eventually, to product development. "We were able to identify some excellent potential investors at the road show," he says. "The vaccine space is something people have taken a lot of notice lately."

Andrew Rae, president and CEO of Vancouver-based iCo Therapeutics, was also "pleasantly surprised" by the interest his firm received from several large American VCs. The company, which Rae helped found last spring, is focused exclusively on taking existing drugs, such as those in the anti-angiogenesis class that are used to starve blood and nutrient supply to tumours, and finding new uses for them for front- and back-of-the eye diseases such as ocular inflammation and age-related macular degeneration, respectively. "The model, quite honestly, is trying to shave off those very onerous early days of finding compounds, which of course the capital markets are having a difficult time financing, given the risk," he says.

iCo Therapeutics has already raised an impressive \$2.5 million to date, and Rae says the next round of financing — somewhere in the range of \$5- to \$8 million — will allow the company to complete a second in-licensing deal for its ocular allergy drug with a Nasdaq-listed company.

Surprisingly, adds Rae, the market for these types of drugs is, in his opinion, remarkably uncrowded, with only a few dozen other companies focusing on similar drug developments. He's hoping to capitalize on this — as long as he can find the money to move forward. "Canada has a very rich history of ocular development. QLT was obviously the leader, with half a billion [in sales] from Visudyne, and there's TLC too, if you think about laser eye surgery. Really, investors have done extremely well — if they were investing at the right time in those companies."

While there is no doubt these ambitious, young biotech firms are definitely on to something when it comes to innovative new drug products, the challenge now, says Lawless, will be to keep the momentum going with continued involvement in North American biotech trade and financing conferences. "This is a contact sport. You have to be able to be seen, you have to be able to perform and you have to be able to deal," he says. As for finding financing for the long haul, Lawless is optimistic. "Once those channels are opened up they tend to stay open."

Erin Pooley joined Canadian Business in 2005 and writes about biotech, pharmaceutical and business-education issues. Prior to joining the magazine she worked as a senior analyst in health-care administration at the University Health Network in Toronto.