

May 24, 2004

'Dramatic Shift' In VC, Biotech Talent Pool From West To East

By Randall Osborne
Editor

Two groups of seismologists have made headlines by predicting major temblors in California in the near term, which would put an end to the relative calm that's been enjoyed by the state, tectonically speaking.

But history has smiled upon that part of the U.S. when concerning venture capital spending, especially as compared to what's known as the Mid-Atlantic region: an area often defined as consisting of four states (Delaware, Maryland, New Jersey and Pennsylvania) and one city (Washington).

Sherrill Neff, managing partner of Quaker BioVentures, a Philadelphia-based private equity firm focused on Mid-Atlantic biotech investments, believes that's changing.

"The raw material is just as good as the West Coast and just as good as Boston, arguably better, because we have so much large pharma here," he said, noting that his group marks off the Mid-Atlantic region as land space "from New York to Carolina." Major pharmaceutical players - **Pfizer Inc.**, **Johnson & Johnson**, **Merck & Co. Inc.**, **GlaxoSmithKline plc** and **Novartis AG** - have presences in the region and so, increasingly, does biotechnology.

In 2000, the National Institutes of Health saw value in the Mid-Atlantic, pumping \$3.4 billion in funding to the region, as compared to \$2.5 billion for the West Coast, and the value seemed real enough: That year, Mid-Atlantic inventors generated nearly 13,000 biotech patents vs. 8,000 for the West Coast. Yet for the same year, VC's invested only \$1.6 billion in East Coast companies vs. \$5.1 billion in West Coast companies.

The regional VC figures came from statistics compiled by The Brookings Institution, Neff said, and were put together by Quaker when the firm was starting up. "We confirmed the NIH data, but the investment and patent data would have been impossible for us to track down," said Neff, formerly president, chief operating officer and director of publicly traded **Neose Technologies Inc.** In any case, he is confident the trend is reversing, and the next 10 years will be different. Biotechnology, of course, began in California with start-up **Genentech Inc.**, at which East Coast pharma bosses first snickered.

"Twenty years ago, the presence of large pharma in the mid-Atlantic was, in hindsight, a real detriment to the venture capital and biotech here," Neff told *BioWorld Financial Watch*, describing the pharmaceutical industry as "fat, dumb and happy, and it sucked up the best and brightest of the grads on the East Coast."

East Coasters had their pick of scientific talent, easily grabbing graduates from schools such as Penn State University, whereas bright researchers coming out of Stanford University had to either relocate or take what they could find in biotechnology - and many of them did the latter. Thus, the East Coast became the pharmaceutical center, and the West Coast became the biotechnology hub.

Now, though, the Mid-Atlantic boasts biotechnology firms mature enough to become partnering targets for big pharma, and outfits such as Quaker are part of the action. Demand for Quaker's debut fund, which has raised \$225 million in 18 months, has been so strong that the company expects it to reach \$300 million before closing late this summer.

"Pharma is no longer antagonistic to large-molecule protein work," Neff said. Instead, the industry "not only embraces [such work] internally, but is voracious in its appetite to collaborate with and acquire companies in a better position to know that world."

Involved with Quaker is Berwyn, Pa.-based **Eximias Pharmaceutical Corp.**, which in late March raised \$63.5 million in an oversubscribed Series D round, enough to push Thymitaq through Phase III liver cancer trials and, FDA willing, to the market. Eximias licensed Thymitaq, a thymidylate-synthase inhibitor, from **Agouron Pharmaceuticals Inc.** in 1998. Quaker co-led the financing with New York's Cross Atlantic Partners.

Eximias, with only 20 employees, has what some regard as a blockbuster, if it can become the first treatment approved for unresectable liver cancer. A new drug application is expected in mid-2005, and Eximias is working on a pipeline of other late-stage products, including an oral version of Thymitaq.

Another Quaker baby is **BioRexis Pharmaceutical Corp.**, which earlier in March raised \$30 million in an oversubscribed Series B round for protein and peptide drug research. Quaker co-led that financing with Prism Venture Partners, of Westwood, Mass. BioRexis has protein engineering technology that, the company says, provides protein and peptide drugs with superior pharmacology by fusing them with a modified version of transferrin, the blood serum protein. **Biolex Inc.**, of Pittsboro, N.C., raised \$24 million in a Quaker-led private round last summer. The company has an alternative way of producing proteins from plants, and recently made news when it disclosed the buyout of **Epicyte Pharmaceutical Inc.** for an undisclosed sum. Privately held Epicyte has human monoclonal antibody technology, which will supplement antibody capabilities at Biolex by adding intellectual property and technology, along with therapeutic antibodies in development.

Quaker also is involved in funding Pittsburgh-based **Medmark Inc.**, a specialty supplies firm that in April raised \$28 million through an equity investment from Quaker and LLR Partners Inc., of Philadelphia.

"The talent pool that's available to us because of large pharma is amazing," Neff said. "These are people perfectly willing to consider job switches into small companies if they are well funded." Providing a potential leg up, too, is the kind of talent on hand - VC talent. Another managing partner in Quaker, Brenda Gavin, came from S.R. One Ltd., Glaxo's bioscience venture capital investment company, at which she was president.

"If she was asked to look at a deal in Singapore, she went to Singapore," Neff said. "If she was asked to look at a deal in Amsterdam, she went to Amsterdam. She spent more time on planes than anything else. [Corporate funds such as Glaxo's] have strategic objectives that are not necessarily the same as the venture funds."

One thing Gavin learned, though, is that "on the West Coast, companies generally hit a wall when they get through the development of new science and into the clinical development," Neff said. "The talent is just not there."

Not true of the East Coast, he added, where the new-company march is on.

"Even five years ago, we couldn't promise you we could do that," he said. "It's hard to quantify, but qualitatively we're seeing a dramatic shift beginning."