



BioIndustry Report

2004 opens on a positive note, but financing still a key issue for management

Analysts predict steady but slow improvements in the sector. However, growth might not come fast enough for many small biotechnology firms who could face the prospects of merging, being acquired or ceasing operations.

While the third and fourth quarters of 2003 demonstrated a distinct improvement over the same periods in 2002, many of the biotechnology companies in Canada are still facing a cash crunch. For example, over half of the Quebec life sciences companies recently surveyed by BioQuebec * said they had less than one year of cash remaining, and 75% of the respondents also said they were actively looking for financing.

These results are in line with another survey**, which reports that biotechnology top executives remain pre-occupied with finding venture capital.

While deals are getting done, they seem to be going to companies that are further along in their product development cycles. Well-established public biotechnology companies that have products on the market, or have products in late stage clinical trials, have obtained the majority of the funding in the third and fourth quarters of 2003. For private companies it is a different story, very few of them have managed to raise the much-needed venture capital in this same period.

Of the over \$1.9 billion raised in 2003 only 1.5 per cent went to private biotechnology companies. Vancouver-based NeuroMed Technologies, a biopharmaceutical company developing next-generation chronic pain drugs, closed the largest deal of the year - a Series C financing of US\$32 million. The round was led

* Survey conducted by BioQuebec between September 23 and October 3, 2003 (www.bioquebec.com)

** Egon Zehnder International (www.bhrc.ca/CEOsurvey)

by MPM Capital, the world's largest dedicated venture capital investor in life sciences with committed capital under active management of more than US\$2.1 billion. This was their first investment in Canada..

"The size of this investment and the quality of our investors reflect a strong vote of confidence in NeuroMed and in our potential to commercialize a next-generation chronic pain drug," said Natalie Dakers, NeuroMed's President and CEO. "This investment ranks among Canada's top ten for a private biotechnology company, and we are determined to capitalize on the opportunity it presents."

The proceeds are being used to advance NeuroMed's lead compound through to completion of Phase II clinical trials and fund the further development of the company's extensive preclinical pipeline.

In the public company arena, Angiotech Pharmaceuticals raised a massive \$339 million with Axcan, QLT and ID Biomedical also taking advantage of the more favourable environment with significant financings of their own.

Over the past two years, many biotech companies have had to employ an approach of trimming staff and mothballing research programs to preserve their limited cash resources. This strategy has been predicated on the hope that the economic climate would improve.

For US biotechnology companies these strategies are beginning to reap dividends. Companies have responded to the loss of investor confidence in the past two years by right-sizing their enterprises. They have restructured to focus on their most promising drug programs, balanced risks through collaborations and, in some cases, intelligent mergers, and they're getting products approved.

"Biotech had another strong quarter and ended the year on very sound footing," noted G. Steven Burrill, CEO of Burrill & Company, a San Francisco-

TABLE 1: 2003 Fund Raising in Canada

Public Companies

Angiotech Pharma.	339,307,500
Axcan Pharma	175,000,000
QLT	141,500,000
ID Biomedical	140,000,000
Neurochem	86,800,000
World Heart	76,500,000
Aeterna Labs	60,600,000
Vasogen	52,500,000
AnorMED	29,400,000
Lorus Therapeutics	28,500,000
Cardiome	28,000,000
Inex Pharmaceuticals	27,300,000
Biomira	25,000,000
CryoCath	25,000,000
ConjuChem	25,000,000
Neuro Discovery	23,000,000
Labopharm	22,000,000
Adherex Technologies	21,500,000
Isotechnika	21,000,000
StressGen Biotechnologies	20,000,000
Prometic Life Sciences	20,000,000
YM BioSciences	19,067,402
Tm Bioscience	17,300,000
Nymox	16,800,000
BioMS Medical	16,250,000
Oncolytics Biotech	16,100,000
Inflazyme Technologies	15,015,000
Medicure	14,578,750
Bioniche	13,500,000

Biomira	13,000,000
ConjuChem	12,000,000
VSM MedTech	10,730,000
Bioxel Pharma	9,500,000
Dimethaid Research	9,200,000
Xillix Technologies	9,100,000
Biomira	8,900,000
Medicure	7,650,000
Nymox Pharm.	7,000,000
Transition Thera.	6,560,000
Forbes Medi-Tech	6,500,000
Spectral Diagnostics	5,900,000
Hemosol	5,881,350
Neptune	5,200,000
Tm Bioscience	5,100,000
Andromed	3,500,000
Procyon	3,250,000
Magistral Biotech	3,100,000
Adherex	3,000,000
VitalState	2,800,000
BioMS Medical	2,630,000
ChondroGene	2,000,000
Arius Research	1,772,145
CEAPRO	1,300,000
Generex	1,000,000
Pheromone Sciences	535,000
Equitech	375,000
Biophage	190,000
TOTAL	1,673,192,147

Private Companies

NeuroMed Technologies	44,800,000
Medicago	24,000,000
Chronogen	17,000,000
Oncogenex Biotech	16,100,000
IatroQuest	15,000,000
Zelos Therapeutics	14,000,000
Osprey Pharmaceuticals	10,800,000
Twinstand Therapeutics	10,000,000
Innodia	10,000,000
Celator Technologies	9,500,000
Lymphosign	8,000,000
Galileo Genomics	7,700,000
Materis Medical	7,000,000
Ionalytics	5,500,000
TGN Biotech	5,350,000
GB Therapeutics	4,500,000
Nanox	4,100,000
Triosyn	4,000,000
ImmunoVaccine	3,800,000
Axela Biosensors	3,300,000
Active Pass Pharm.	3,000,000
Sembiosys	2,500,000
Interface Biologics	2,000,000
Performance Plants	1,400,000
Plexagen	1,200,000
Insception Bio.	1,000,000
Matregen	1,000,000
Ylektra	1,000,000
CarbaPur	650,000
TOTAL	246,200,000

Details transactions: www.canadianbiotechnews.com/biofinance

Your Editor

Peter Winter is one of Canada's leading writers and commentators on the biotechnology industry in Canada. He is founder and Editor of *Canadian Biotech News*, the weekly publication of record now in its 13th year. He also produces the *Canadian Biotechnology Industry Report*, a comprehensive quarterly analysis on the 400 biotechnology companies in Canada.

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based life sciences merchant bank. "Indeed, 2003 was a huge year for the biotech industry, which took Wall Street by storm, won some big battles on Capital Hill regarding Medicare and drug reimbursements, raised US\$16.3 billion in financings and US\$9 billion through partnering, and received FDA approval for important new drugs. When you consider the tough political and economic environment that prevailed in the first quarter of the year, the industry's performance is all the more remarkable," he said.

The big news in the fourth quarter of 2003 was the return of the IPO market: seven US biotech companies went public raising a total of US\$453 million. At the end of 2003, there were 14 additional deals on file with three having been pulled. "The companies that are knocking on the door have very impressive profiles," noted Burrill. "Many have products that are in late stage clinical trials and some are already generating significant revenues. This is wildly different from the IPO boom in 2000, which was fuelled by the excitement of genomics," he said.

In Canada, the situation is similar. While the IPO window remained closed for Canadian biotech companies, The *Canadian Biotech News Biotech Index* jumped 20% in 2003 reflecting possible renewed investor interest in the sector as a whole.

SECTOR TRENDS

- ◆ The total financing raised is almost double that raised in 2002 and close to the levels of 2000.
- ◆ Canadian Biotech News Stock Index closes year up 20% since beginning of year - ConjuChem recorded highest growth (Table 2).
- ◆ Venture capitalists “cautiously optimistic about the future.
- ◆ Selected venture capital investing taking place
- ◆ IPO window still closed, but public biotech companies are raising capital.
- ◆ Failures in Phase II and III trials are still keeping investors cautious about biotech sector.
- ◆ Partnering deals not happening.
- ◆ Companies reduce burn rates through staff and R&D cuts.
- ◆ In Canada, 80 per cent of core biotechnology companies still have less than 50 employees, were created less than six years ago and are in their very early growth phases. Given the difficulty in raising venture capital the “survivability” of many of these companies remains in doubt.
- ◆ M&A's are needed to build more robust companies better suited for drug development.

TABLE 2: Selected Stock Performance since January 2003

Company	% increase
ConjuChem	1215
Forbes Medi-Tech	530
DiagnoCure	459
Neurochem	296
Vasogen	177
Ecopia BioSciences	177
Labopharm	154
Int'l Wex	141
Oncolytics Biotech	135
Medicure	112
Angiotech Pharma	109
QLT	88
Draxis Health	79
Lorus Therapeutics	77
Cardiome Pharma	74
PharmaGap	67
AnorMED	65
CML Healthcare	59
Spectral Diagnostics	58
Adherex Technologies	56

Financing still a major concern for biotech management

No surprise that topping the list of concerns among Canadian biotechnology healthcare CEOs is the need to raise capital. Nearly 30% of those interviewed highlighted venture capital as their most significant obstacle for success in 2003. This was just one of the findings from an Egon Zehnder International survey of CEOs and senior executives in Canada’s biotechnology healthcare sector.

In addition to the financing issue, the survey revealed several other hot button issues which continue to be an ongoing concern including: recruiting and retaining talent, appropriately compensating executives, securing regulatory approval and establishing effective corporate governance.

The acquisition and retention of top talent, especially in scientific areas (R&D, clinical trials, and medical affairs), and in business development raises significant challenges for biotech company management. Scarcity of individuals with the required skill sets and experience, and difficulties in attracting people to Canada from the US and Europe were cited as the two key reasons for difficulty in recruiting senior executives.

Another key preoccupation of CEOs centred on regulatory approval issues, with 70% of interviewees expressing concerns regarding regulators in the US and Canada. CEOs also stated that continued success in each stage of the clinical trial process would dictate the long-term success of many of these companies. To this end, many companies are looking to establish partnerships with organizations such as pharmaceutical firms to help navigate the regulatory and financial hurdles associated with bringing a biotech product to market. CEOs also expressed concerns regarding corporate governance.

New Life Sciences Funds established

MDS Capital has established its MDS Life Science Technology Funds. With over \$211 million to invest in the sector, Greg Gubitzi, Senior Vice-President, MDS Capital, noted that, “Our investment funds -including the new limited partnerships we have recently raised - are focused on some of the most significant opportunities in the

future of medicine, including: targeted drug discovery and development, and the rationalization of health care information management. We look forward to partnering with leading companies as they seek to capitalize on these exciting opportunities.”(www.mdscapital.com).

Quebec’s Desjardins Venture Capital is to invest more than \$100 million in the life sciences sector. Since the beginning of 2003, Desjardins Venture Capital, via its funds under management, has invested more than \$11.5 million in four biotechnology companies: Aurelium BioPharma, Bioxalis Medica, Iatroquest Corp. and Procyon Biopharma. Desjardins Venture Capital counts 27 companies in its portfolio from the life sciences sector, representing a total commitment of \$65 million. www.dcrdesjardins.com

Vimac Ventures LLC, RBC Technology Ventures Inc., and BTG International, a global leader in commercializing technologies (www.btgplc.com), have initiated the VIMAC Milestone Medica Fund (VMM), an early stage life sciences fund. The main focus of the fund is on finding, funding, and pursuing new life science opportunities from world-class institutions along the Eastern seaboard of the US, and into Ontario and Quebec. Vimac Ventures LLC is a Boston-based venture capital firm that invests primarily in emerging growth companies located in the northeastern US and Canada

Top 10 investment prospects named

The Ottawa Life Sciences Council has named the top 10 life sciences investment and partnership prospects in Canada. The companies presented their case to an audience of venture capitalists, potential strategic alliance partners and conference delegates at BioNorth 2003. This year’s entrant companies were classified as either “early stage” (seeking first and second round) or “emerging” (seeking mezzanine or later stage) opportunities. Based on their expert knowledge of investment in the life sciences sector, the jury was asked to select the companies that they felt offered the best investment and partnership prospects. The winners in the **Early Stage** are: ARC Pharmaceuticals Inc. (Vancouver), BioAxone Therapeutics Inc. (Montreal), Inimex Pharmaceuticals Inc. (Vancouver), Interface Biologics Inc. (Toronto), and Zelos Therapeutics Inc. (Ottawa).

Emerging Stage winners are: Aegera Therapeutics Inc. (Montreal), Affinium Pharmaceuticals Inc. (Toronto), Cytovax Biotechnologies Inc. (Edmonton), Ecopia BioSciences Inc. (Montreal), and Ionalytics Corp. (Ottawa). [Editor's Note: Full profiles on these companies are available in the Canadian Biotech News Biotechnology Industry Report]

IN BRIEF...

Montreal – According to a 2002-2003 report on Metropolitan Montreal’s life sciences cluster, the sector boasts 274 companies, employing 21,315 people, along with 125 research centres. The review, entitled “Strategic Profile of Success: The Metro Montreal Life Sciences Cluster”, reveals that the cluster continued to thrive in 2003, despite generally difficult conditions across the continent. Metro Montreal retained its eighth-place rank in life sciences among the world’s largest cities, and maintained its leadership position in the research areas of neurology, oncology, cardiovascular diseases, virology, epidemiology and immunology.

The Biotechnology Council of Ontario (BCO) has been formed to advise government on all public policy issues facing the biotechnology industry and to advocate on behalf of the industry in Ontario. The BCO will also support the Province in its goal of creating the third largest biotechnology industry in North America. The Council will be open to all biotechnology stakeholders in the province and will strive to fully integrate the interests of groups that span geographic and functional boundaries. (www.marsdd.com)

A new wage subsidy program, Career Focus, funded by the Government of Canada’s Youth Employment Strategy (YES) is designed to provide valuable work experience in the biotech sector for young people aged 30 or under who are unemployed or underemployed. The project is an initiative that provides cash incentives to industries for the creation of employment opportunities for new graduates in biotechnology. The core offering of the program is a wage subsidy that offsets part of the cost of staffing a new biotech position. Subsidies will cover approximately one third of salaries paid out to participants for a minimum six-month period (\$10,635 maximum subsidy for a 12-month period). www.bhrc.ca/careerfocus.

The Biotechnology Human Resource Council (BHRC) is studying the human resource issues faced by the Canadian biotechnology sector. “In order to preserve Canada’s competitive position in the global biotechnology marketplace this sector study will be a critical tool in helping managers both in their strategic planning and in managing their operations,” says Mark Lievonon, President of Aventis Pasteur Ltd. and Past Chair of BIOTECanada. The Governance Network (TGN), an Ottawa-based consulting firm, is undertaking the one-year study. www.bhrc.ca/docs/BiotechnologySectorStudyFactSheet.pdf