

With Drugs In Doubt, Some Biotechs Are Selling Out

Brian Gormley

June 06, 2011

With many small biotechnology concerns struggling to raise cash, venture capital firms see growing opportunity to buy these companies' drugs cheaply and resell them at a profit.

Venture-funded start-ups such as Innovations In Sight LLC, iTherX Pharmaceuticals Inc. and Edusa Pharmaceuticals Inc. have sprung up to advance drugs acquired from other venture-backed companies. Meanwhile, some venture firms now aim to buy several drugs and then auction them off. One new firm, Syzygy Therapeutics, seeks up to \$450 million for a fund with this strategy.

The opportunity is rising as funds run short for biotechs whose medicines are a long way from the market. With investors wary of risky drugs, few start-ups can raise large sums by going public. This is forcing them to consider other options, such as striking corporate alliances. But with drug-makers inundated with offers, observers say many small players will be forced to sell some assets outright.

A growing number of venture investors aim to play middleman, buying these companies' drugs, developing them in clinical trials, and selling them to pharmaceutical players. In so doing they hope to bridge the gap between biotechs with promising, but unproven, drugs, and corporations needing advanced products to fill their pipelines.

In an unforgiving financing climate, biotechs often cannot continue raising money unless they deliver superb clinical results. When this doesn't happen, it's not always because of the drug, according to Numoda Capital Innovations, which formed Innovations In Sight after buying the assets of venture-funded VitreoRetinal Technologies Inc.

VitreoRetinal folded last year after a setback in a study of its lead product, Vitreosolve, which it sought to develop as a treatment for diabetic retinopathy, a blinding disease. The drug induces a posterior-vitreous detachment, or a separation of the vitreous, the central gel part of the eye, from the retina, the light-sensitive tissue lining the back of the eye.

Numoda contends that the design of the study is to blame. The trial did not test Vitreosolve against a true placebo, a dummy drug. Instead, it compared patients receiving a full Vitreosolve dose to those who got tiny one. This may be why the study didn't show the striking benefit of Vitreosolve over the control group that VitreoRetinal expected, according to the firm.

Numoda now plans to develop Vitreosolve in the primary indication of vitreomacular adhesion and the secondary indication of inducing a posterior-vitreous detachment in the treatment of diabetic retinopathy. The firm plans new, placebo-controlled studies and is consulting drug-makers to find other ways to groom Vitreosolve for a sale. It aims to speed the auctioning process through technology from an affiliate, Numoda Technologies Inc., that enables potential bidders to see trial data as they are generated.

"We're trying to do all the work so that once we get started, we have a high level of confidence that we are going to be successful," said Terrance McGovern, managing director of Numoda Capital. "We want to make sure what we've created is the prettiest house on the block."

Other investors also aim to revive drugs by putting them to what they see as a better use.

Care Capital-backed Edusa Pharma is trying this on a drug from Dynogen Pharmaceuticals Inc., which closed down in 2009 after study of the product in irritable bowel syndrome didn't pan out. Edusa is testing the drug's ability to treat symptoms of gastroesophageal reflux disease, such as heartburn and gastric-acid regurgitation, in people who get them despite taking a proton-pump inhibitor or an H2 antagonist.

Taking a similar tack is iTherX Pharma, which paid \$75,000 for a drug that Kemia Inc. spent millions to develop. Kemia didn't see the results it wanted in rheumatoid arthritis trials, but iTherX, backed by Easton Capital, sees potential in another condition, hepatitis C. The medicine might help hep C patients who receive a liver transplant by preventing the hepatitis virus from infecting the new organ, according to Chief Executive Jeffrey McKelvy.

Proponents of building a biotech business around other companies' drugs say it is a buyer's market, but acquiring a true gem is not easy, said Jay Lichter, managing director of Avalon Ventures. The number of great products that are available and have been overlooked by others is low, he said.

"I think it is difficult, but that doesn't mean that certain firms aren't very good at it," Lichter said.

One investor that has been able to do this is Celtic Pharma Management, which formed last decade to acquire a portfolio of drugs that it could develop and then sell. In 2007 a successor, Celtic Therapeutics Management, launched to pursue the same model on a larger scale. More recently venture capital firms such as Atlas Venture, CMEA Capital and Druid BioVentures have developed strategies along these lines.

Joining them is Syzygy Therapeutics, whose founding managing director, Averill L. Powers, was one of three original partners who came together in 2005 to start Celtic Pharma. The firm formed late last year and seeks \$300 million to \$450 million for Syzygy Therapeutics Holdings LP, which it intends to use to acquire eight to 12 drugs.

Syzygy, whose team has experience at private equity, drug and contract-research companies, is searching for medicines that have shown promise in the middle to later stages of human testing, typically Phase II or Phase IIb clinical trials. It plans to hire contract researchers to push these products through new clinical studies before selling them.

The team, which prefers products that it can buy and develop for \$30 million to \$50 million, sees several good drugs becoming available as companies pursue new funding options, Powers said. Syzygy plans to acquire, develop and sell its products within three to five years.

More venture firms will migrate away from the conventional approach of backing standalone biotechs as they strive to improve returns by being more efficient, Powers predicted. In building a portfolio of biotechs, each with its own team and laboratories, firms duplicate many efforts, he said.

"We don't have the redundancies that you have when you build a lab and teams around each product," Powers said. "Venture capital is moving in [this] direction. A lot of these new ideas [are] going to be tested."

<http://www.numodacapital.com>

<http://www.edusapharmaceuticals.com>

<http://syzygytherapeutics.com>

<http://www.itherx.com>

<http://www.celticpharma.com>

Document DJFVLS0020110606e76600002