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JPMorgan Conference Lifts Biotech VC Hopes For Pharma Deals

Biotech venture capitalists expect a busy year of deal-making with pharmaceutical companies following a productive round of meetings at the [J.P. Morgan Healthcare Conference](#) this week.

With few companies going public, venture investors rely heavily on pharmaceutical M&A and licensing deals to secure returns and capital for portfolio companies. The J.P. Morgan conference in San Francisco, which concluded Thursday, is a key partnering event, and this year the tone of the discussions was particularly positive, venture investors said.

In 2009, drug manufacturers were consumed with consolidation and weighed down by the financial crisis. As a result, biotechs were unlikely to get full value from a deal, said Seth Harrison, managing partner of Apple Tree Partners.

But this year, pharmaceutical companies seemed ready to pay good prices for the right assets. "Now it feels like a 'normal' market, but [pharmas] feel like strong actors in it," he said.

Competition is rising for these products, as smaller drug makers join Big Pharma in the bidding, some said. Even so, VCs aren't expecting windfalls upfront. Drug manufacturers still have the upper hand, which means they're more likely to agree to option deals in which they pay out in stages as a company's drug proves itself in clinical trials. "No one's expecting a \$400 million check these days," said Christopher Ehrlich, a general partner at InterWest Partners.

Pharmaceutical companies at the conference were looking to spin products out as well as bring them in, said Terrance McGovern, managing director, Numoda Capital Innovations, an investment affiliate of Numoda Corp. These companies have amassed more compounds than they can develop and are thus open to deals enabling them to monetize assets they don't have the resources to develop internally, he said. This can enable venture investors to piggyback on the substantial investment others have made in a program.

Large drug makers, which hosted venture investors and biotech executives in hotel suites near the conference, weren't always so hospitable to VCs or their companies. That began to change over the past few years as pharmaceutical pipelines thinned and as patent lives for top products started to run short. Now, they court VCs at conferences and venture capital events at their corporate offices.

If deal-making flourishes this year, it could help trigger the opening of a window for venture-backed biotech companies to go public, predicted InterWest's Ehrlich. Like venture capitalists, public-market investors see more opportunity for a strong return when a company is sold than through share appreciation alone, he said.

While VCs were optimistic about the prospect for strategic deals, and even the potential of some companies to go public, they remain concerned about the venture industry's ability to finance companies on its own. Insider rounds have proliferated this past year and will remain common as long as venture firms struggle with their own fund-raising, some said.

"The really big question in the venture capital world is whether the window for raising new funds is going to open [soon] or not," said David Collier, managing director of CMEA Capital.

But the best will find funding, and at good valuations this year, said Scott Minick, a former managing director of Arch Venture Partners who recently became chief executive of venture-backed Bind Biosciences Inc.