U.S. still top destination for entrepreneurs, investors

by Penni Crabtree

For Mireille Gingras, the road to China's up-and-coming life science community is very much a two-way street.

Unlike many U.S. biotechs and pharmaceutical companies that are setting up shop there to take advantage of cheap research labor and manufacturing, Gingras' San Diego-based Huya International is working with Chinese universities and fledgling biotechs to license promising Chinese drug candidates and bring them to the U.S. for further development.

TOP STOP - Scott Southwood, a scientist at Pharmexaâ€™s San Diego subsidiary, works with the companyâ€™s experimental vaccine. Several foreign-based drug companies have established units in the U.S. to court scientific talent and capital. CNS Photo by Scott Linnett."A lot of the Chinese scientists we work with got their Ph.D's in the U.S. and stayed on to work at places like Amgen and Pfizer before returning to China," said Gingras. "Now they are developing biotech companies in their own country and coming up with great drug candidates, but they need help in bridging that gap to commercialization."

Despite the increasing globalization of biotechnology, with governments from Sweden to Singapore providing resources and incentives, the U.S. is still the destination of choice for entrepreneurs and investors, say biotech industry observers.

While there are no reliable statistics, a number of foreign life-science companies and the investors who back them are establishing footholds in mature U.S. biotech centers, just as some U.S. biotech firms and U.S. venture capital investors are tentatively scouting abroad.

In a global venture capital survey, over half of U.S. venture capital firms indicated that at least 10 percent of the startup companies they invest in will have a majority of operations overseas, with favorite picks being China, India, Israel, Taiwan and the United Kingdom.

But foreign-based venture capitalists responded in the reverse: for them, the United States was the top location, according to the survey by Deloitte & Touche. About 40 percent of foreign venture capitalists said they plan to focus on biopharmaceutical investments.

Some of the foreign-based life science companies want to tap into capital, either through private venture capital investments or by going public on a U.S. stock exchange.

Others are seeking management expertise or potential corporate partners to develop their products. And some just want to establish a hub in the world's most lucrative market for new drugs and devices.

Given the West Coast's proximity to the Asia-Pacific region, it's no surprise that many of the newcomers come from such places as Australia, New Zealand, China and Japan.

Jeff Lucero Riley, an adviser to the Queensland Biocapital Fund, a $100 million venture capital fund that invests in Australian biotechs and medical device companies, said he is helping a number of firms set up satellite offices in San Diego.

The plan is to hire executive management teams in the U.S., while keeping the bulk of research activities in lower-cost Australia, he said.

"There is top-notch science in Australia, as good as you'll find in the U.S.," Riley said. "The primary challenge when we find an interesting technology and really good scientists is that we have a hard time finding quality executive management."

One Queensland-funded biotech, Xenome, opened an office in San Diego in November to manage its U.S.-based clinical trial and pursue business opportunities. Another Australian company with Queensland Biocapital funding, Adipogen, also has a San Diego office.

"We are trying to access a bigger talent pool and a bigger market for deals," Riley said. "In Australia, one roadblock you run into is U.S.-based VC firms typically don't want to do more than one short airplane ride to a board meeting - and Australia is one very long plane ride."

Two privately held New Zealand biotechs, Protemix and Proacta, also established headquarters in San Diego last year, while maintaining their research operations in New Zealand.

"It could all be done in New Zealand, but there is so much more potential here with access to other biotech companies and the large capital pool in San Diego and San Francisco," said Proacta CEO Paul Cossum.

Other foreign companies are gaining a U.S. presence, and at times a listing on a U.S. stock exchange, by merging into an existing public biotech that has fallen on hard times.

Germany's Micromet last year reverse-merged into CancerVax of Carlsbad, Calif., to get the failed biotech's remaining cash and its slot on the Nasdaq.

Micromet plans later this year to relocate its corporate headquarters to the East Coast, where the time difference between the U.S. and Germany isn't so pronounced, the company said.

France's IDM merged last year with San Diego's Epimmune, and subsequently moved its operations to Irvine, Calif. But before its exit, IDM sold off Epimmune's infectious-disease programs to Denmark-based Pharmexa, which hired about 30 of Epimmune's researchers and established a San Diego subsidiary, Pharmexa-Epimmune.

Marc Hertz, CEO of the Pharmexa-Epimmune unit, said the parent biotech, whose stock trades on the Copenhagen stock exchange, wanted to acquire a company in the U.S. to access capital and expand its research focus.

In Denmark, Pharmexa's researchers are working on cancer treatments, while the San Diego unit is focused on infectious disease, including a treatment for HIV that is in early clinical trials.

"Investors have so many opportunities here that they don't have to look abroad, so being in the U.S. does make a difference," Hertz said. "For a lot of European companies that are already public, there is a trend toward moving headquarters to the U.S."

The lure of the U.S. has also created a few hybrid migrants, such as San Diego's MediciNova. The specialty pharmaceutical company was created in 2000 as a spin-off from Tanabe Seiyaku, a Japanese drug company that also has a small research unit in San Diego.

"If you have a relatively small group of scientists, it's hard to come up with new chemical entities on a regular basis," said Ken Locke, chief business officer of MediciNova. "Tanabe wanted to change the direction of the organization, take advantage of things in the U.S. and in the industry outside their home territory."

Today, MediciNova maintains dual roots. Though its headquarters and 22 employees are based in San Diego, the biotech was launched with Japanese capital, and it went public last year on Japan's Osaka Securities Exchange.

Five of MediciNova's six drug candidates, which are all being tested in clinical trials, were acquired from Japanese pharmaceutical companies.

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