

Pfizer setting aside \$10 million a year to help biotech startups

by Terri Somers

Pfizer's 26,600 square feet of empty lab, office and meeting space set aside to incubate new biotechnology companies might not look like a luxury hotel, but company executives hope it will feel that way to the tenants now being screened.

In a modern, tile-and-glass building on its campus on the San Diego coast, the pharmaceutical giant is planning to spend \$10 million annually for at least the next five years, incubating promising innovations or ideas as they germinate into startup companies. The incubator's board met for the first time in April and reviewed the initial applications from interested entrepreneurs. The incubator is set up to operate as a separate and distinct business unit from the drug company. But Pfizer expects to favor innovation that may one day help it strategically, either by providing new drug candidates or technologies that make finding drugs more efficient, said Catherine Mackey, a senior vice president of Pfizer Global Research & Development and head of the laboratories.

BIOTECH FUTURE - Catherine 'Kitty' Mackey, a senior vice president of Pfizer Global Research and Development in San Diego, sits in one of the company's research labs. CNS Photo by Howard Lipin.

Tenants will have to agree to an upfront equity-share agreement with Pfizer. When research is done, Pfizer will have an option to acquire rights at a fair market price. Or the incubator could spin out the company as an independent business.

Pfizer is not expected to be the only beneficiary of the incubator. It is providing sought-after space and financial support - assets that are always in demand in the scientific and entrepreneurial community. It creates a more complete menu of financing options for the biotech sector. And along with incubating businesses and entrepreneurs, it could be incubating the beginnings of new therapies to fight disease.

"We really want to make this successful so that it can be a win-win for everybody - San Diego, Pfizer, the scientists and the public," Mackey said.

If the concept works here, Pfizer could try it elsewhere in the country, she said.

There's room for five to eight individual company labs. Currently the tile floors are spotless and the lab benches, counters, cabinets and hoods are empty. Snorkels - air ventilation hoses that look like they should be attached to giant clothes dryers - dangle loose from the ceiling.

When the tenants are chosen, Pfizer will provide chemicals, tissue samples, computers and whatever else the tenants might need to start working the day they move in, Mackey said. And there will be access to professionals, both scientific and administrative, to offer guidance and mentoring to help the tenants through each step of their product's or company's evolution.

Too often scientists working in a university or a private institute will have an invention or idea that could be commercialized but find it too daunting to put together all the pieces required to do so, Mackey said. Sometimes they wind up walking away from the project.

"We're trying to get rid of all the barriers to everyone to do this," Mackey said. "We want them to be free to focus on scientific development."

It is the human capital and resources being provided by Pfizer that makes the incubator project promising and sensible, said Drew Senyei, managing director of Enterprise Partners, a San Diego-based venture capital firm. If it were just space and money, it wouldn't be that attractive, he said.

Pfizer incubator tenants will also have access to an autoclave and washing room that will be staffed and will serve all the companies. There also are shipping and receiving facilities and storage. And if the tenants need something else, a concierge is at their service.

"It's the biotech equivalent of staying at the Ritz-Carlton and calling the concierge with the craziest request and the answer always seems to be yes," Mackey said.

That doesn't mean a tenant won't eventually hear "no." Tenants will receive space and funding for two years, provided they meet milestones along the way. Funding won't necessarily be cut off after two years, Mackey said, because Pfizer realizes scientific discovery can have unexpected twists and turns. San Diego, Mackey said, offers the ecosystem that could make the incubator concept a success.

It has the research institutes to generate the innovations. It has support programs for startup, such as Connect, a nonprofit that provides guidance and connections to promising startups. And it has MBA candidates at the University of California San Diego's Rady School, many of whom are already working in industry and who could get experience and classroom credit for helping the incubating companies with administrative aspects, such as writing a business plan.

There's certainly a demand for incubator space, said Duane Roth, who heads Connect and hears requests for it every day. "The biggest problem we are seeing right now is that there really isn't a lot of funding of

innovation and platforms," Roth said. "Venture capital wants their projects to be clinical-trial ready."

That creates a valley of death to get new innovations rolling, he said.

Senyei, the venture capitalist, prefers to see it as "a mountain of obstacles." Decreased returns for venture capital investors led to some of those obstacles, he said.

The last 20 merger and acquisition deals by Big Pharma have had a valuation range from \$150 million to \$600 million, depending on the product, he said. The good news is that pharmaceutical companies are investing.

With the average being \$300 million, it's simple math to figure that investors want to put in \$30 million to \$50 million in hopes of getting multiples of five to 10 times in return, he said. "If that's the working capital, you have to ask what it is you can do with that amount of money and under what circumstances," he said.

The result is a rise in two alternative business models - specialty pharma and virtual companies.

In specialty pharma, a company licenses the rights to an already developed drug or compound and tries to further develop and commercialize it.

With the virtual business model, a few people lead a company in a small headquarters, and its research and development is outsourced, sometimes overseas.

San Diego venture capital firms, including Enterprise and Forward Ventures, have been doing their part to develop these business models, providing office space for the company executives. Targen, a San Diego-based company developing novel treatments for heart disease, cancer and a topical treatment for macular degeneration, was the last company in Forward Ventures' portfolio to be funded and incubated right out of academic labs, said managing member Ivor Royston. Enterprise partners also funded the company.

If Targen came along today, it probably wouldn't be funded, Royston said. The cost of that would be the loss of what looks like a very promising technology, he said.

And that makes it a good example of why incubator space like Pfizer's is important, he said.

Royston recently talked to Pfizer officials about how he might work with them to support the incubation of technology out of the University of California San Diego that he finds very promising.

Connect and Biocom, the Southern California biotechnology trade group, have been talking for several months about creating their own joint accelerator program that would help scientists whose innovations currently can't traverse that valley of death for funding, Roth said.

Ian Wisenberg, Biocom's chief financial officer, recently visited an accelerator program in Seattle that is helping along innovations out of the University of Washington. San Diego, Wisenberg said, has a much bigger concentration of biotechnology and research institutes turning out innovations. The big question that remains is who would fund it, he said.

"Clearly there is a need for something like an incubator here," he said. "We are very pleased to having Pfizer step up. Ten million dollars a year is a lot of money, and that facility is going to be well utilized."

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