Rising biotech appetite in the East

The tripartite deal in which a Singaporean company, MerLion Pharmaceuticals, acquired two European biotechs last August is an indication of both the growing maturity of the biotech industry in Asia and of the ongoing globalization of the industry as a whole. An accompanying round of financing and a planned initial public offering (IPO) will rapidly accelerate MerLion's growth and could also offer other emerging companies in the region a possible development model. However, there is no immediate evidence that others are, as yet, ready to follow MerLion's lead.

MerLion Pharmaceuticals' stock-based acquisition of Berlin-based Combinature Biopharm and Geneva-based Athelas, was disclosed on August 21. In parallel, the Singapore-based company also banked the first $25 million of a $30-million funding round supported by Asian and European investors and has set its sights on an IPO in Tokyo in late 2007 or early 2008.

MerLion is still an early-stage venture. It was formed in 2002 through the privatization of the Center for Natural Product Research (CNPR) and has entered alliances with several major pharmaceutical and biotech firms based on its expertise in screening microbial, fungal and plant sources for novel compounds. However, the company lacked its own internal drug pipeline and clinical development capabilities. Acquiring Combinature has given it both. The German firm had in-licensed two novel antibiotics that were about to enter clinical trials, and its CEO Harald Labischinski—now CSO of MerLion—was previously head of antibiotics and anti-infectives research at Leverkusen, Germany-based Bayer Healthcare.

Orchestrating a three-way merger across two continents and three legal systems might appear to be an unnecessarily complicated means of achieving expansion for a small company. But MerLion's CEO Tony Buss says it would have taken "time and effort" to grow a drug development team in Singapore from scratch. Acquiring it externally was more efficient. Combinature had other offers from Europe and the US, says Clemens Doppler, investment director at 3i Group's Stuttgart, Germany office. "We decided to merge with [a company in] Asia because the total picture was the best one." The venture capital group followed its investment in Combinature by participating in the recent MerLion round.

The enlarged company's planned IPO depends on it first obtaining positive phase 2 data from its newly acquired development programs. The choice of Japan is influenced both by the perceived openness of its capital markets to biotech and by the difficulties of floating an early-stage venture without a proven earnings history on other Asian stock exchanges, such as those in Singapore or Hong Kong.

"I think we'll see more of that happening," says Steven Burrill, CEO of San Francisco-based life sciences merchant banking and venture capital group Burrill & Company, which recently entered an agreement to co-manage a $150-million, government-backed, biotech venture capital fund in Malaysia. "We are going to see companies accessing capital globally rather than

Japanese stock exchanges could soon become more attractive for biotech companies such as Merlion Pharmaceuticals, which recently acquired two European biotech companies.

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regionally or locally." The process is still at an early stage, however, and successful role models have yet to emerge, he says.

Indeed, the Merlion move may prove anecdotal as others are not ready to follow its path. Cell therapy firm ES Cell International, another Singapore-based firm with an international profile, also plans to seek international investment, but in a different fashion. "I don't think we see ourselves in the foreseeable future being strong enough to make acquisitions of that sort," says CEO Alan Colman. "At the moment, we're looking to the European and US markets for a liquidity event," he adds.

Japan's capital markets remain uncharted waters for foreign biotech and biopharmaceutical firms, and companies that aim to obtain a listing there have to demonstrate a substantial connection to Japan. MerLion has one in the shape of Tokyo-based Nomura Research & Advisory, which was a prominent participant in its recent $30-million financing round; it was jointly led by Singapore-based Bio*One Capital and Aravis Venture Associates, of Zurich.

San Diego-based drug developer MediciNova has already demonstrated Japanese investor appetite for new life sciences share issues. It completed one of the industry's biggest IPOs of 2005 when it raised $113.2 million on the Hercules Market of the Osaka Securities Exchange in February. However, the company's share price, at the time of writing, was languishing at less than one-third of its IPO price of ¥400 ($3.3) and aims to float on the New York-based NASDAQ soon. "Despite the encouragement to list in Osaka, the market itself was not prepared mechanically for a foreign company like us," says MediciNova chief business officer Kenneth Locke. He also identifies another issue: "There are very few peers for comparison, whether it's Osaka or Tokyo," Locke says.

Hayward, California-based Acologix is trying to tap into the Japanese market, too. Like MediciNova, it garnered substantial support from Japanese venture capital investors through successive private equity rounds. It filed an IPO on August 16—that it has yet to complete at the time of writing—seeking up to $115 million on the Tokyo Stock Exchange. Like MediciNova, it is also tapping Japanese innovation, as well as capital. Each is bringing pharmaceutical assets originally discovered by Japanese pharma firms to international markets. "For them to get full value out of their assets they need to globalize them," says Locke.

Conversely, Japanese firms are opening up to foreign opportunities (*Nat. Biotechnol.* **22**, 931 – 932, 2004). "We believe that Japanese pharma companies are waking up and following a more active strategy," says 3i's Doppler, citing a collaboration between Osaka-based Takeda and 3i portfolio firm Santhera Pharmaceuticals, of Liestal, Switzerland, to commercialize Idebenone for treatment of Friedreich Ataxia.

But the really big changes in the global drug industry are not going to come from high-cost locations like Japan or Singapore, maintains Burrill. India's generics industry is already a world power, and China is set to be a dominant force in the pharmaceutical industry over the next ten years, he says. Both countries already offer much lower drug discovery and development costs. "It's not like you're trading down scientifically," he says. He believes that outsourcing and codevelopment top the agenda at present, but in the longer term these regions will play a role in global consolidation as well.

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