

Invest carefully in biotech field

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BIOTECHNOLOGY, the adaptation of biology for commercial use, is a huge global business.

Its products include plants that resist damage from insect pests, farm animals that grow rapidly, nutrition supplements derived from plant products and medicine made from natural organisms.

Last year global biotech drug sales were worth \$20bn; consultants Bain & Co expect revenue this year to rise by at least 25%.

In this expanding market, one might expect to find plenty of venture capital funds investing in young biotech firms in exchange for a share of the company. Not so. After the boisterous late '90s, when companies poured money into speculative ventures for little return, investors are cautious. Like the information technology field, biotech is an area in which visionaries may struggle to find cash.

It would be wrong to dismiss biotechnology as a bad investment. There is potential for profit if investors tread carefully. SA has just one dedicated biotech venture capital fund. This fund, Bioventures, has R80m in capital, and is managed jointly by Gensec Bank and Real Africa Holdings.

Fund manager Heather Sherwin expects that within a few years,

more biotech venture capital funds will enter the local market.

She offers a set of investment principles for the market.

■ Ensure that the potential investment offers a good commercial product. Some excellent science has no commercial potential: there may be no significant market for the product, or the market may be swamped. And scientists may not have the business skills to market their work. In these cases, consider setting up an experienced management team to work with them.

■ Insist on short- or medium-term profit, rather than investing in long-term projects. Avoid a company that develops only a product that may never work, or that will take a decade to reap a profit. It is fine to invest in a company with long-term or risky products, so long as the bulk of the company's products will bring safe, short-term returns to fund the longer-term goals.

■ Look to the overseas market. The local market is small. It is a good place to develop a product, since highly skilled scientists are less expensive in SA than abroad, and local intellectual protection laws are solid. But the target market of the product should be predominantly or even exclusively offshore.

■ Value companies that exploit SA's unique natural resources. For instance, local soil microbes and

bacteria may be a rich source of pharmaceutical products, and the southern oceans might also yield many commercially important compounds. Companies using unique local resources to create a proprietary technology could be a good investment bet.

■ Value companies with other sources of cash. Venture capital is only one source. The company might have acquired state funding: for instance, seed funding from the Biopad institution, research funds from the National Research Foundation, or grants for academics from the Innovation Fund. State funders do not compete with venture capital firms. They are a source of stability, making investment less risky.

■ Set a goal. The aim, for instance, may be to invest for five years in the company while providing management advice, and then to sell one's share to a bigger biotech company locally or abroad. Whatever the goal, drive towards it.

Sherwin also emphasises a requirement that is not easily measurable, but still crucial: ensure that the company's management team has a passion for its product. Both scientific progress and commercial development are difficult. To succeed in a project that combines good science and good business, to develop a viable product and market it successfully, requires a fierce drive.