10 things to do before you look for funds

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Pharma/biotech companies at different stages of their maturity cycle typically target different categories of investors and lenders for funds. For example, a start-up biotech company would seek seed capital from venture capital (VC) or government funds, whereas more mature companies often engage investment bankers to help them raise funds in the financial markets. Due to their respective unique criteria, investors and lenders typically look for various specific characteristics. However, there are certain must-haves for any life sciences company to succeed in attracting funds. Rabobank is active in raising funds, both equity and debt, for life sciences companies across various Asian markets and the following points have been drawn from our experience, most notably in India, China, and South East Asia.

1. A clear exit strategy to redeem their investments is critical. The company must be able to convince investors that it has a favorable chance of accomplishing most of its stated business targets and thus providing the exit for them. For companies that are equity funded through VC or private equity, an IPO or a trade sale is an important liquidity event for the proposed investor. For companies that are seeking loans or issuing bonds, this means showing their capability to use the funds efficiently to generate sufficiently strong cash flows for timely interest and principal payments. Having a good credit rating history, a financially strong guarantor or quality fixed assets as collateral will further enhance the credit-worthiness of the loan applicant or bond issuer.

2. A compelling business plan or model that sets a clear path to the next significant value inflection point. Such an inflection point can include (successfully) completing product trials, expanding into new markets, restructuring a loss-making or bloated enterprise, or acquiring companies for further growth. A track record of profitability or at least a potential for continued rapid growth that can lead to considerably higher valuation of the company is a pre-requisite to raising money in the equity markets.

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3. The quality of the management team is often the most important consideration for potential investors in their due diligence process. Companies at different stages of development need executives with different experiences and strengths. A start-up company should be driven by entrepreneurial, resourceful individuals with market savvy and unclouded knowledge of industry needs, whereas a larger listed firm is more likely to perform under the stewardship of a team with a clear understanding of key market trends and the track record of successfully capitalizing on such trends. In short, investors look for managers who can navigate the company through good times and bad.

4. The quality of the board of directors and the scientific advisory board is also a key criterion of investors, especially equity investors. For younger companies, board members are a critical source of market intelligence, leads and contacts and can provide financial, technical and operational expertise to help the management team achieve growth and overcome obstacles. In the case of larger firms, particularly those preparing for public stock offering, investors also expect the board to comprise members with experience in corporate governance and oversight. As is the case for company management, boards filled with eminent individuals with distinguished backgrounds in building, advising or running successful enterprises can go a long way in boosting investors' confidence in a company.

5. HR schemes to motivate, reward and retain key and outstanding personnel and align their interests with those of other stakeholders. Such schemes are especially crucial for small, young firms that are on or poised for a rapid growth trajectory and for companies that are undergoing complex organizational and operational restructuring.

6. The company's products, whether already on the market or still in the development pipeline, should be positioned to fulfill critical unmet market needs and have the potential scale to be leaders in large, rapidly-expanding or lucrative markets.

7. Company management should also ensure that intellectual property rights that pertain to the products are unencumbered with respect to the market needs that they are addressing. Expensive patent-infringement litigation can wipe out or decimate profits, especially for smaller companies, and scare away investors.

8. Alliances or partnerships with market leaders for technology access, product development or marketing can serve as a vote of confidence in the company's potential. In the case of pharmaceutical manufacturers, the off-taker and the nature of

long term contract (take or pay etc) is a critical measure of success.

9. Another crucial issue that will impact a pharma/biotech company regards government regulations in areas ranging from market access to pricing, from operations to acquisitions. A company's business processes, facilities and products should comply with the most stringent market-entry standards and requirements applicable in the countries, which it is targeting, such as the US FDA. In both advanced and developing economies, governments are also increasingly proactive in scrutinizing drug prices and affordability. For example, in Thailand, the authorities recently issued compulsory licenses that allow domestic drug makers to manufacture generic versions of patented pharmaceuticals developed by multinationals for treating AIDS and heart diseases. Companies with products that can be used in different disease segments and/or geographical regions will be in a better position to spread such regulatory risks and assure investors of minimized volatility in revenue outlook.

10. Last but not least, companies should be aware of current sentiments in the financial markets towards the life sciences sector and seek independent advice on the various options and instruments. Options can range from the common, such as bond issuance, to the more exotic, such as securitization of future revenue. A financial advisor with intimate knowledge of the life sciences industry can be engaged to structure and price the financial instrument that suitably addresses the needs of the pharma/biotech company.