
Opinion piece

Lessons learned

With 12 months now passed since I retired as the Head of the Bioscience Unit at Rothschild Asset Management Limited, it is perhaps a good moment to reflect on 13 years involvement as an investment manager in this exciting sector of ours.

In that 13 year period, my colleagues and I grew a global business, able to engage actively in investment opportunities wherever biotechnologists cried 'Eureka!'; Japan, Australia, North America and Europe. Our team kept an eye on whatever was going on in universities, institutes and companies, and made a substantial difference to the unfolding developments in tens, if not hundreds, whose paths we crossed. By 2000, the value of the assets under management had grown to over US\$1.2bn, and we had provided our investors with significant returns – while hanging on to the rollercoaster ride of successes, failures, up-markets and down-markets. The investments ranged from seed, through venture and into public, providing an ever-changing picture, but also a great perspective on the way in which the biotechnology sector developed in the different countries in which we operated.

The challenge has also been, and remains, sustaining and maintenance of investor confidence over the many years that it takes to develop specific technologies. In the absence of anything more concrete, such as products and sales, investors have to bet on the science, the management and the hoped-for commercially relevant outcome. It is tough to keep investors for over a decade – the time taken to develop a new pharmaceutical – given the uncertainty of the starting materials. As we all know, there are two important emotions driving investors – fear and greed – and the bigger

the distance between the two (it could be worth nothing, or a billion dollars), the more volatile the market, especially in the absence of a sustainable 'trading' business activity.

We had a pretty good record of avoiding failures – much to do with the invaluable help and support of our scientific advisors, who kept us on the straight and narrow. Not only were they all eminent in their fields, they reminded us frequently of the difference between Nobel Prize-winning science, and that which might also be of commercial relevance. 'Science does not necessarily make good companies.' Secure intellectual property does, however, mean that there is usually an asset to use to start again if the first effort at exploitation takes an unexpected downward path.

So, what lessons can be drawn from our experiences? Too many for a short comment! But some general themes stand out. For those starting out on the path of biotechnology entrepreneurship:

- Think hard about whether you have what it takes to cope with the sustained pressure of building a company over many years, and to deal with the unexpected reversals as well as the anticipated successes.
- Find investors who also understand and contribute, and not just money, particularly at the early stages of the company's development.
- Do not hide things from your investors. The guns they carry are real! Better to have them working to help solve your problems than planning your funeral.
- Do not take short cuts in the development process – they will usually go wrong. There is enough risk without it being added to unnecessarily.

- Recognise that management teams not only have to be built, but also evolved, through the various stages of development of the company. What you start with may work for a while, but different skill sets are acquired along the way. If you are good at start-ups, then do not pass your 'sell-by date'. Replace yourself and do another start-up. Do not wait until you are feeling old and tired, when investors may have also grown tired of your presence.
- Remember the rule of pi – the investment your company requires, the time it takes to succeed, and the number of management teams required will be 3.14 times the number you first thought of.

And for investors:

- Patience is a virtue. Do not give up on investments until the line on the ECG screen has gone flat. You have spent a lot of time working with companies through difficult periods in their development. With strong scientific fundamentals in place, the right management and a degree of luck, even a share price of \$1 and falling can recover, and recover dramatically – as we found on a number of occasions.
- Boards of Directors, as well as management teams, have to evolve as companies progress. We need to find better ways of encouraging a wide range of experienced outsiders to join the boards of emerging companies, and contribute to their success. To do this, we need to look carefully at how these important individuals are remunerated, particularly in the UK. By granting access, through share options, to the fruits of success, we may make it easier to persuade skilled non-executive directors to accept the risk to their hard-earned reputations, and their personal wealth and join the boards of high-risk emerging biotechnology companies. It *must* be the interest of investors to see this happen more frequently.
- Perhaps we should be prepared to give more opportunity to younger executives

in senior management roles. Youth has great value: it can have energy, vibrancy and self-belief. We need people who think they can walk on water or go through walls: after all, they might actually succeed in doing so. Surround the youthful CEO with experience and temperance of mature, experienced non-executives, and that way, management energy can be focused on achieving success.

- Recognise that we are in a volatile sector, and that management sometimes needs to be reminded of this. When markets are hot, and the valuations, particularly for public companies, reach unexpectedly high levels, then we in the UK should learn from the US experience, and perhaps even that of Germany. We seem shy or reticent of taking advantage of these highs in the share values to use the currency to make acquisitions – either corporate, or project, or just intellectual property. Over the past couple of years, companies in the USA have built infrastructure and critical mass by using their 'paper'. We should be more prepared to use our own native skills in this way, to create more substance, more backable enterprises, greater chances of success. We have had our highs and lows in the sector in the UK, and we have not come out of it too well, probably missing opportunities that the volatility has afforded, both at home and abroad.

We now need to ensure that the UK does not fall into a state where we are no longer the world's second largest player in the biotechnology sector. We may need to regroup, re-engage a sense of adventure and risk-taking, and learn from the lessons that can be drawn from our near 20 year experience in this exciting field of commercial biotechnology.

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