

# Innovation in Biotechnology– Changing paradigms, lessons learned, & opportunities for emerging bio regions

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Christian Suojanen  
Director – Global Life Sciences  
Valor Management S.A.

BioVision Alexandria  
Library of Alexandria  
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# The Classical VC Model

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## □ VC fund management companies

- Raise funds from Limited Partners (LPs) by proposing to generate returns through smart investments in selected companies, following a specific investment strategy.
- Try to pick winners and support and finance them through PoC, then exit via IPO or (more likely) trade sale or licensing, but possibly bringing products or services to market directly.
- Make money by charging a management fee (+-2%) to cover basic operations, and carried interest on the IRR over target thresholds to provide their real financial upside.
- The “high risk” nature of VC, and biotech in particular, requires high potential returns to attract LPs
- *But...*

# *The "Dirty Little Secret" of Biotech VC*

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- Biotech VC on the whole has not provided attractive returns to their investors.
  - Many VCs have provided disappointing IRR to their LPs, and therefore little if any carried interest.
  - Many others have generated significant losses for their investors.
  - Therefore, the universe of traditional LPs for biotech VC is rapidly declining.
  - As is the pool of capital invested into Biotech VC each year.
  - *Only an elite few have consistently generated attractive IRR for their investors, "carrying" the industry as a whole*
  - *Guess which will adapt & thrive, & which....will not?*

# How the best VCs are adapting

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- ❑ While many funds are trying to continue as before, leading VCs have realized that the model is broken....
  - ❑ They are building new strategies...
  - ❑ They are developing new models...
  - ❑ They are implementing new collaborations...
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- ❑ *The Biotech VC Paradigm is changing... and by the way, so is the pharma model. What does this mean for Egypt?*

# Key '*new*' trends

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- ❑ Increased focus on public funding, not just for blue sky research, but for research & development (FP7 through Phase 2)
- ❑ Focus on Tech Transfer & PPP (Public Private Partnerships).
- ❑ Lean, cash efficient, semi-virtual companies.
- ❑ Risk Sharing, especially CROs & Services. No upside unless you share the risk.
- ❑ Project finance funds.
- ❑ Corporate Venture
  
- ❑ *All of these can be applied anywhere*

# Strategies for Egypt

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- ❑ **What are the advantages of the Egyptian biotech sector?**
  - Good science?
  - Geography & Demographics
  - Global Network of Egyptians in research & industry
  - *The current opportunity to do things well & learn from the many mistakes of others.*
  
- ❑ **What are the key challenges, and how can these be addressed?**
  - Absence of the right Innovation Ecosystem.
    - ❑ Benchmark & implement best practices. Learn from others' mistakes.\*
    - ❑ Collaborate.
  - Insufficient public funding?
    - ❑ International strategies. EU, NIH, other
  - Lack of TTOs with real experience & track records.
    - ❑ Strategic Collaboration with leading TTOs for services, exchanges & development of local expertise.

# Strategies for Egypt *continued*

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- What are the key challenges, and how can these be addressed?
  - Absence of leading Bio-VCs with a proven multi-fund track record.
    - Incentivize angel investors
    - Establish regional fund. But be very careful\* (*learning from mistakes*)
      - Professional biotech investment managers with real track records.
      - Professional standards, incentives, independence & transparency.
      - Links to international capital for follow on investment rounds.
      - Links to industry (the customers).
  - Shortage of successful serial biotech entrepreneurs.
    - Recruit (*Friends of Québec* model is one example).
    - Collaborate
    - Train

# Opportunities for Egypt

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- ❑ Don't follow the trend of emulating bad policies!
- ❑ The right Innovation Ecosystem is crucial – including stability, IPR, human capital, and reward for innovation.
- ❑ Address weaknesses and not just strengths.
- ❑ Biotech is global. You don't necessarily need to use Egyptian mice...
- ❑ Benchmark but build custom strategies for Egypt.
- ❑ Prioritize bio-management talent (in addition to research). Recruit, leverage Egyptian expats, build alliances with leaders, serial entrepreneurs, leading TT organizations, and other stakeholders to create win-win cross border collaborations.
- ❑ Tech Transfer is key: World-class standards & capacities can be developed relatively quickly, through best practices but also exchanges, secondments, collaborative service agreements with the top TTOs worldwide.
- ❑ Incentivize entrepreneurship & angel investing.
- ❑ If you launch a Venture fund, follow international best practices, recruit top talent, ensure fund links to larger international funds, and focus on what you can finance through to key inflection points.
- ❑ Continuous engagement & dialogue between all stakeholders & policy makers

# Thank you

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Christian Suojanen  
Director – Global Life Sciences  
Valor Management S.A.

[christian@valormangement.com](mailto:christian@valormangement.com)

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