

Venture capital: build intellectual property depth first, then seek investment

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AUSTRALIAN biotechnology companies need to look for early stage intellectual property partners before seeking venture capital money, according to the founder of one international private equity and venture capital firm.

Speaking exclusively to *BiotechnologyNews.net*, MillhouseIAG chief executive David Millhouse said Australian biotechnology firms needed to put themselves and their technology in a much stronger position before seeking major capital investment in their company.

"The thing that our biotech scene in this country needs to understand is that they're competing globally for capital," he said.

Millhouse thinks that companies should build a strong suite of related intellectual property rather than just one product with potential, before hawking themselves to investors for development money.

"What they need to do, rather than all getting on the plane for BIO, or New York or London – we have 747s full of people flying around to all of these conferences, followed by planes full of lawyers and plane-loads of politicians – what they need to be doing is collecting similar projects from various countries and putting them together in one enterprise," he said.

Millhouse, who has a long track record in emerging technology investment in Australia as founding managing director of UniQuest in Queensland, says from his perspective, one of the critical issues in investing in the sector is the need for companies seeking investment to have an intellectual property estate that is rich, deep and has significant standing.

"It's relatively rare, in Australia, to find that," he said.

He describes many Australian companies, particularly those which have floated on the market in the early stages of development, as "expensive for what you get".

"Basically the paradigm here can be that you're buying something that isn't much further along than the laboratory bench, and it gets floated.

"You then have retail investors buying that at a price that we would be paying, institutionally, for a very late stage company in Europe.

"And the retail investors don't understand that they've got to be in it for a very long time, 10 to 12 years, with the dilutory effects of the continuous capital injections along the way."

Millhouse is also prepared, however, if somewhat ruefully, to accept that a lack of venture capital investment at the early stages of development also has a part to play in that problem.

"It's an issue that arises practically every day in our business. And it's not just in biotech, it's across-the-board," he said.

"It's certainly true that there is a significant quantity of private equity money available in Australia looking for a home.

"It's not the case that there is very much venture capital availability for early stage investments. If anything, there is less venture capital around today than there was five years ago.

"On the other side of the coin, almost all of the deal flow in this country is early stage venture capital – 90-plus percent of it, and a lot of it is straight out of the laboratories.

"So those new projects each year, and there are probably a hundred plus of them each year, are competing for maybe \$100 million of new capital in the bioscience sector," he said.

He says that that leaves a huge gap in institutional investment opportunities.

"There's a dearth of really top flight private equity life sciences deals in this country – you can't find another CSL, for instance and you'd struggle to find another ResMed. They just don't exist.

"As a consequence of that, us and now others, are looking offshore for equity opportunities.

"One of the reasons there is a lot of confusion for companies is that there is a difference between venture investing and private equity investing, and it's in equity investing where all the money happens to be in Australia.

"It's pointless for early stage venture management teams to go knocking on private equity house doors.

"And that's when they get frustrated because they get nowhere, and they all then get fed back to government for investment."

He recommends that early stage companies build their product portfolio breadth before seeking to ramp up to development.



David Millhouse

"It's simply not sustainable to have just one product to take to venture capital and expect to be funded to market.

"We look at the breadth and depth of the product in a company before we decide to invest.

"Companies need to be looking at what else is out there that's similar, in terms of their intellectual property, and bringing it into the one place. If you can, you would bring those people and those enterprises to Australia."

He says the richness of the intellectual property estate within an early stage company is what will attract investment, even if that estate is relatively narrowly focused.

Millhouse says his company is always looking for investment opportunities in Australia and overseas.

MillhouseIAG recently signed a deal with Ascalon Capital Managers, partly owned by the St George Bank, which saw a significant investment in the company and Millhouse is hoping to add another half billion dollars for the company's funds management pool over the coming months.

But he is setting a high benchmark for what he is looking for in a serious investment in Australia.

"They have to have a rich intellectual property estate, and they have to be capable of growing organically or by acquisition or both into a half-billion dollar publicly listed corporation within the next 10 years."

If anyone has a company like that tucked away in a quiet corner, good luck to you both...

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