



*Farris partner, Hector MacKay-Dunn, Q.C. appears in the January 6-12 edition of Business in Vancouver.*

## Buddy system buoying biotech

Financing and mergers and acquisitions might be stalled, but B.C. biotechnology companies and big pharma are strengthening ties and sharing resources to survive



Appeared in the January 6-12, 2009 issue of Business in Vancouver, by Curt Cherewayko.

With capital pools evaporating and acquisition activity stagnating, partnerships and licensing agreements with larger pharmaceutical companies are the transaction of choice – and necessity – among B.C. drug and medical device developers.

Reflecting the symbiotic dependence between big pharma and junior developers, partnerships and licensing deals remain steady even as companies turn inward to reduce their exposure to the market downturn. Junior developers in B.C. are partnering with pharmaceutical companies to maintain momentum in their development programs and extend their capital runway.

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Deal lawyers at Vancouver law firm Farris, Vaughan, Wills and Murphy LLP, which represents a number of biotech firms, are seeing an increase in partnering deals. Meanwhile, mergers and acquisition – which accounted for most biotech transactions in previous years – have dropped. “In the last two years, our M and A group has been worked to exhaustion,” said Hector MacKay-Dunn, a partner at Farris. “The same can be said [now] for our partnering and licensing group.”

In partnering and licensing agreements, early stage developers exchange technology or product rights in specified geographies or markets for royalty and milestone payments. The payments are typically invested in the expensive clinical trial stages of development. Through partnerships, developers also gain access to the established sales, marketing and distribution channels of larger companies and to the opinion leaders that hold sway with regulatory agencies and doctors.

The deal structures aren't a new phenomenon in biotech, but they're increasingly popular with players at both ends of the biotech spectrum. Plagued by the innovation inertia that can afflict many large corporations, pharmaceutical companies look to their smaller counterparts to replenish their technology and product pipeline. And while pharmaceutical companies are preserving cash and acquiring fewer companies, they still need to build relationships with developers.

MacKay-Dunn noted that, by partnering with developers or by licensing technology from them, pharmaceutical and technology firms avoid the risk and commitment that comes with acquiring a company, product or technology. “They don't have to make the big bet all up front,” he said.

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**About Hector MacKay-Dunn, Q.C.**

*For over 25 years, Hector has advised both senior and early stage private and public companies, in a broad range of industries on complex domestic and cross-border public and private securities offerings, mergers and acquisitions, tender offers and international partnering transactions. Hector is consistently named among the leading lawyers in Canada, by Lexpert, and he can be contacted by phone (604) 661-9307 or email: hmackay-dunn@farris.com.*

Joseph Garcia, a partner with McCarthy Tétrault LLP in Vancouver, is negotiating public and private financing deals for clients, although the volume of financing work is less than it was 12 months ago. He said the firm's partnering and licensing lawyers are as busy, if not busier, than they were 12 months ago. Garcia added that companies are more reluctant to close deals, no matter what the transaction structure.

"Which ultimately leads to a decrease in volume of companies betting their future on M and A," he said, adding that companies that have the capital to make acquisitions are delaying deals, waiting for company valuations to steady or drop further. "Do you run out and buy everything today or do you wait a month and see what happens?" said Garcia.

Urodynamix Technologies Ltd. (TSX-V:URO), a Vancouver company that's developing a line of devices for the non-invasive diagnosis of urologic and vascular conditions, continues to aggressively pursue partnerships. Pfizer Inc. and Boston Scientific Corp. are among its five partner companies.

In November, Urodynamix and Pfizer began a promotional program – led by Pfizer's urology division – to increase awareness of Urodynamix's bladder monitor technology among urologists, medical professionals and opinion leaders. Barry Allen, Urodynamix's president and CEO, said that by partnering early in the development cycle, Urodynamix is ensuring that its products are developed to be compatible with those in its partners' pipelines. In doing so, Allen believes that Urodynamix will be an attractive acquisition target down the road for its partners. "If you partner early and partner well, you improve the value of your product, shorten time to market and reduce costs."

Vancouver's Wex Pharmaceuticals Inc. (TSX: WXI) began seeking partnerships in October. It has attended two bio-partnering conferences in Europe since then and will be one of nine B.C. companies presenting at the BioPartnering North America event in Vancouver in February. Wex's Tectin, a pain-relieving drug for chemotherapy-induced pain, is in Phase 3 trials. The company is using data from that trial, two previous Phase 2 trials and three previous Phase 1 trials as bargaining chips in partnership talks with companies.

Bin Huang, Wex's president and CEO, said that when big pharmaceutical players like Merck & Co. and F. Hoffmann-La Roche court partners, they're primarily concerned with quality science and clinical data. Market climate is a secondary concern. She noted, however, that as the valuations of drug developers – particularly those in the United States – decrease, pharmaceutical companies gain leverage over developers during deal making.

Allen agreed that it's becoming more difficult to arrange beneficial partnerships with pharmaceutical companies. With pharmaceutical companies squeezed for cash, they're negotiating partnerships that are loaded with payments more heavily at the tail end of development. In doing so, pharmaceutical companies can delay paying partners or bail out of partnerships that don't pan out. "They are getting harder to do, because the big guys are trying to maintain cash just as much as anybody," said Allen. "Having said that, the big guys need the product pipeline just as much as they did before."