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Libido enhancers - a sure bet but banks aren't biting

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WHEN Dr Johari Saad's laboratory rats started breeding like rabbits and satisfied co-workers kept coming back to buy his special testosterone pills, he thought he was on to a surefire thing in the passion-enhancing business.

All he needed to do, Johari thought, was to convince some bank to lend him the seed money he needed to convert 15 years of research into product that can rival Viagra.

He quickly hit the same snag that has caught many of Malaysia's entrepreneurs - banks take a lot of persuasion to part with their money for people who may be long on ideas but short on money, especially if it is in a high-risk field like biotechnology.

"Money doesn't come easy for companies like ours. Our biggest problem is the lack of collateral. When I approached the banks, they liked our working paper, they liked our projections, but that was about it.

"They told us they would need collateral. We offered them our machines, they refused, claiming that the 1997 financial crisis had turned a lot of factory machines worthless.

"They said they preferred real estate. We did not have any estate, real or otherwise.

"Basically, they told me flatly, no collateral, no loan," Johari said.

Though Johari, now chairman and chief executive of Phytes Biotek Sdn Bhd, has a happy ending to his fund-raising quest, there are many others who don't make it past the first interview with their bankers.

Phytes Biotek was formed after its founders had amassed more than 15 years into research of the Tongkat Ali root, during which Johari developed a highly specialised process to extract the active ingredients of the Tongkat Ali, to create a highly potent capsule.

When word got around about the success of his experiments on laboratory rats, many colleagues started to come around to buy the capsules and were happy enough with them to keep coming back for more, despite the abundance of Tongkat Ali products already on the market.

When he realised the potential of the product and tried to raise capital to produce it in a big way, he came up against a financial system that knew little about what he was doing and cared even less.

The banks demanded collateral. The company had none.

The venture capitalists wanted to audit the technology. Johari was reluctant to reveal his technology secrets because his ideas were hijacked the last time he revealed them to a venture capital bank.

Instead, Johari and his partners dug into their own pockets to buy grinders and special machines to extract the good stuff from Tongkat Ali.

It wasn't much but enough to tide them over until they caught the eye of some government officials who referred them to Malaysia Venture Capital Management (Mavcap). Earlier this year, Mavcap invested RM20 million in Phytes.

Phytes Biotek's case is not uncommon. Lack of funding is a common complaint among most technology companies.

After the lack of properly trained people, funding is the most difficult hurdle between biotechnology and success.

The problem is not the lack of funds because Malaysia has ample money set aside for various schemes that partially fund market surveys, research and even commercialisation of products.

The problem is that many of these funds are uncoordinated and scattered throughout the system. Getting funded takes careful planning and judicious investigation.

A scheme through the MSC Technopreneur Development Flagship funding guide and directory for the ICT/Multimedia industry reveals that no less than 10 venture capital firms in the country list biotechnology as one of their preferred areas of investment.

These are BI Walden Management Sdn Bhd, CAV Private Equity Management Sdn Bhd, FirstFloor Capital Sdn Bhd, Malaysia Venture Capital Management Bhd (Mavcap), Mayban Ventures Sdn Bhd, MCM Technologies Bhd, Netval Ventures Sdn Bhd, OptixLab Sdn Bhd, Perbadanan Usahawan Nasional Bhd and Technology Asia Ventures Sdn Bhd. Between them, these companies manage nearly RM1.5 billion in funds.

In addition, Mavcap's chief executive officer Mohd Azwar Mahmud announced that the company plans to raise an additional US\$100 million (US\$1 = RM3.80) for a biotechnology fund. And, of the RM100 million it outsourced to four outsource partners, RM25 million went to Expedient Equity Sdn Bhd, which will invest in biotech investments exclusively.

There is also the RM1 billion tantalisingly dangled by Prime Minister Datuk Seri Dr Mahathir Mohamad during his budget speech a few weeks ago, "to encourage venture capital entrepreneurs to be involved in non-ICT fields".

While there has been no further news as to where that fund is going, most venture capitalists seem to think that most of this money will be poured into funding biotech start-ups.

Besides venture capital, there is also the more traditional government grants. Aspiring biotech entrepreneurs could apply for a grant under the commercialisation of research and development fund for market survey and research, product/process design and development, standards and regulation compliance and Intellectual Property Protection and demonstrations of technology.

That means the Government is willing to partially fund the development of a product or process if it is in the approved list of high technologies, outlined in the Promotion of Investment Act 1986, all the way from evaluating market potential to providing exposure to potential markets and to expedite technology roll-out by drawing interest from potential investors.

Then there is the Industry R&D Grant Scheme, where the Government is willing to fork out 70 per cent of eligible project costs for research and development carried out by companies, collaborating with one or more local public research institutions in "approved activities", one of which, of course, is biotechnology.

Research institutions and institutions of higher learning can get grants under the Intensification of Research in Priority Areas.

And finally, there is the Multimedia Super Corridor Research and Development for research and development projects leading to the development of research and development products and services across the multimedia value chain and flagship applications. This would be suitable for companies indulging in bio-IT (or the ICT component of biotechnology).

BioEnterprise Asia Sdn Bhd director Dr Gurinder Shahi, who presented a paper at the recent BioMalaysia 2002 Symposium, said in addition to the more traditional sources of funding such as Government grants and venture capital, investment opportunities should also be opened to be public at large.

One way is to allow more early stage initial public offerings of biotechnology companies.

"I believe that the public is going to be a stronger supporter of life

sciences than many of the traditional venture capitalists. There is a high level of interest in the life sciences and people realise there is an opportunity here. But they don't have a way of getting in.

"One way is to allow for earlier listings of life sciences companies."

But isn't life sciences a shade too intricate for the public to handle at an early stage?

Shahi disagreed: "The industry is very easy to understand. Biotech is all about improving life, eliminating diseases, making people live longer, increasing your deaf grand-aunt's ability to hear ... you get the picture.

"It's a lot more meaningful than high speed broadband or high performance computing, which is not critical to your life. People do understand that at a fundamental level."

He admitted, however, that for earlier listings to work, there would have to be a great deal of transparency. "There is a need for transparency, for the entrepreneur to develop proper communications capability with the investing public. You can't have 'sleight of hand' type of approaches here.

"The public needs to know the risks and challenges involved in making things happen. These are prerequisites in having any kind of public trading. Early stage stuff is higher risk, but the rewards are also higher."

He said it was important to open up new avenues for funding as biotechnology requires a great deal of investment, especially at the early stages.

"In general, during the first phase of its existence, these companies would be a net cash user and it's only when they have developed tangible products which are brought into the market that they become net cash generators.

"So during that negative cashflow stage, there needs to be some kind of a strategic investment. It can be in the form of an equity investment from the private sector or it could be coming in the form of grants and other support to reduce the cash outlay so that resources can be used on things that are critical to the company at that stage."

Shahi, a physician with training in molecular biochemistry and international health policy and management, runs what he calls an accelerator, which identifies life science technologies in the market that people will actually pay good money for, and then sets about taking up the technology and driving it through.

"My interest is in working with entrepreneurs to get some sparks going in their heads in terms of what the opportunity is, what it's going to take to capitalise on this opportunity and put in place the kind of people who can help them do it."

He said many people fail to understand the economics behind the business, the result of which, they expect to make money from their research, without translating that research into concrete products or processes which can be marketed.

"It's really funny when you talk to university departments. They file a patent and think it should be worth US\$100 million. As far as I'm concerned, the patent is worth absolutely zero unless you are able to translate the ideas there to something which is commercially viable.

"And the road to creating products which can sell in the market is a lot more intricate and complex than people tend to realise.

"The steps involved are generic, straightforward steps that apply in any particular context but the application of those processes is very specific according to the industry and the sector you are in.

"Drug development, for instance, has much longer productisation cycles than say, biomaterials. So you need to understand the intricacies of the

area you are in to drive the whole process forward."

BioEnterprise is currently "accelerating" six companies in fields ranging from genomics to disease management systems to neutraceuticals and is in talks to see if some of these companies can be based in Malaysia's upcoming biotechnology park in Cyberjaya, BioValley.