Evaluate Vantage

January 27, 2012

EP Vantage Interview – Forma's fix for VC model driving deals

Amy Brown

Many have claimed the venture capital model is broken. Few have offered a fix. Forma Therapeutics, which in quick succession this month delivered its fifth and sixth research deal with big pharma, certainly represents a potential solution to the problem (*Forma keeps finding big pharma fans, January 11, 2012*).

Steven Tregay, chief executive, says the company was founded with big pharma's growing desire to access cutting edge research in mind, know-how the global majors no longer want to build in-house. Forma offers its partners speed and scale, and has sought to overcome the image problem platform technology companies have with investors by structuring exit points into deals where possible, allowing cash to flow back to shareholders. Despite the numerous collaborations in place the company is only operating at 50% of its capacity, and intends to keep striking deals, Mr Tregay says.

Opportunity cost

With $50m of venture capital committed by the likes of Lilly Ventures, Bio*One and Novartis Venture Fund in 2009, Massachusetts-based Forma has built a drug discovery engine that it claims can elucidate and process more than 40 new drug targets per year. Integrating techniques including computational and medicinal chemistry, parallel synthesis and X-ray crystallography and with a focus on cancer, the company has built expertise in areas such as tumour metabolism and epigenetics, offering partners the chance to mitigate the opportunity cost of early stage research into novel areas.

"We can move very quickly and efficiently," Mr Tregay says. "Our platforms really allow us to go very fast in new emerging areas that big pharma is tantalised by but, because of their high opportunity cost, doesn't want to move into until they see greater validation. But by the time they wait for validation it might be too late."

Shareholders in platform technology companies – normally venture capital firms – have historically struggled to extract a return on their investment, outside a takeout or IPO. The string of research deals these sorts of companies might strike raise non-dilutive operating cash, but this rarely flows back to investors.

Break the mold

This is where Mr Tregay is attempting to break the mold. Starting with a limited liability parent company, each new effort launched by Forma is, legally, a new company. This allows flexibility around deal structure, he says.

For example in the case of the deal struck with Genentech, which has an option to buy out the entire development programme the two companies are working on, a future sale would mean profits flow back to Forma's investors.

The research collaboration announced with Boehringer Ingelheim earlier this month has a similar clause, Mr Tregay says, although details have not been revealed.

"Genentech only do deals very selectively and were willing to do this very innovative structure because they wanted the asset and understood that the licensing deal needed to fit our business model or we'd find something different," he says.

"We have to give them a lot credit for being willing to change the model and understand our needs. But that's how deals should be. It shouldn't be a cookie template. It should be about what each partner needs."

Blurring the lines

Mr Tregay says some big partners are more willing to accept new deal structures than others. But with the venture model broken, he believes innovation on business models as well as science is urgently needed.

This is gradually being recognised, again in some quarters more quickly than others. Eli Lilly, which launched its 'mirror funds' last year in a collaborative attempt to to share the risks and benefits of early drug development with venture capital firms, is streets ahead of others, he says. "They have thought long and hard about how venture investment works," he says.

Companies like Lilly have recognised that early stage investment needs to be more than traditional research collaborations; the wave of new corporate venture funds started by nearly all big pharma companies reflects that.

"Just like our Genentech deal blurs the line between licensing and acquisition I think we're seeing a blurring of the line between what is traditional upfront research funding. By incorporating that into more of a corporate venture fund, investment into companies is becoming a more utilised tool."

Problem solving

Forma has successfully struck a string of deals with big pharma because it is offering what they want. But in an attempt to also give investors what they want, the company is also striving to solve a problem causing big headaches for early stage research groups and their backers – the ability to generate a return.

With venture capital drying up for this high risk end of drug development, Forma's progress will be watched with interest. Continuing success will depend a lot of the ability to strike more innovative deals and in this regard Mr Tregay is confident.

"On September 30 we launched our epigenetics effort. Two months from now we will have a dozen programmes in the pipeline. We were pretty busy at the JP Morgan conference," he says.