



Stanford eCorner

Making Money in the Life Sciences Venture Business

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Despite the huge investments, regulatory burdens, and uncertain market place, Burrill talks about how venture businesses investing in the life sciences industry make money. He stresses the importance of creating a perceived value (which is much higher than the actual value) as well as taking advantage of global arbitrage of technology having a higher value in certain parts of the world as compared to others.



Transcript

The question really is how do we make money in the venture business in life sciences? And the deck is stacked against us because a) it costs a lot of money, b) we don't really know what the regulatory burdens are or when the product's going to make it to market, and thirdly we don't know how the market's going to react to it and how it's going to pay for it, if at all. And if you take all of the things I said about the changing marketplace, fundamentally, we're in deep yogurt. Because the world isn't going to pay the high prices it has historically paid for new drugs. Because we're going to encourage the spending on generic drugs. So as we try and rationalize the health care equation, decide who gets what, how we pay for it, the model that's worked for the last 20 or 30 years is very challenging. So I don't have a good answer as to what the formula is. What I can tell you is, perceived value is more than real value. So if I can create a company today and I can get the world to perceive that we're going to create enormous value, I want to sell into that perceived value, because the reality will never meet the expectation. Now let me sound kind of close to you because I'm going to sell my hopes and dreams before they materialize. So the interesting thing about the venture business is we start relatively early.

We're typically in the company's three to four to five years; we're not into them 20 years. So we're actually transient capitalists. And so what I want to do is take my knowledge and my capital and help companies to the level where the perceived value is the highest and get out--that's called taking them public or selling them to big pharma--before the real value becomes real, because it probably won't meet the expectation. So I'm in the perceived value business. So what I try and do is figure out where we're going to build potential value, the things that we can do to build that perceived value, and then do it. The other thing that--remember about my business which is kind of interesting? If you took a home here in Menlo Park and you took that same home and you looked at it in London, and you looked at it in Paris, and you looked at it in Bangalore, that home would have a very different value proposition. The same-size house will have a very different value. You can't move that around, and so here it's supply and demand. People think that biotech companies, if they're in San Francisco or they're in Tokyo or they're in Kuala Lumpur, would have the same value based on the same technology. That actually also isn't true.

So one of the ways I can make money is what I would call 'global arbitrage', which is you want to get technology from places where they don't value it very high, and then I want to finance it in places where they kind of overvalue it. So if I can take technology here today that doesn't have a lot of value and finance it in Tokyo, I can make a lot of money because the perception is different. So we live in a world of massive capital market inefficiency and no global arbitrage. And so my theory is that if I'm reasonably smart in a highly inefficient marketplace, I ought to be able to figure out how to make money.