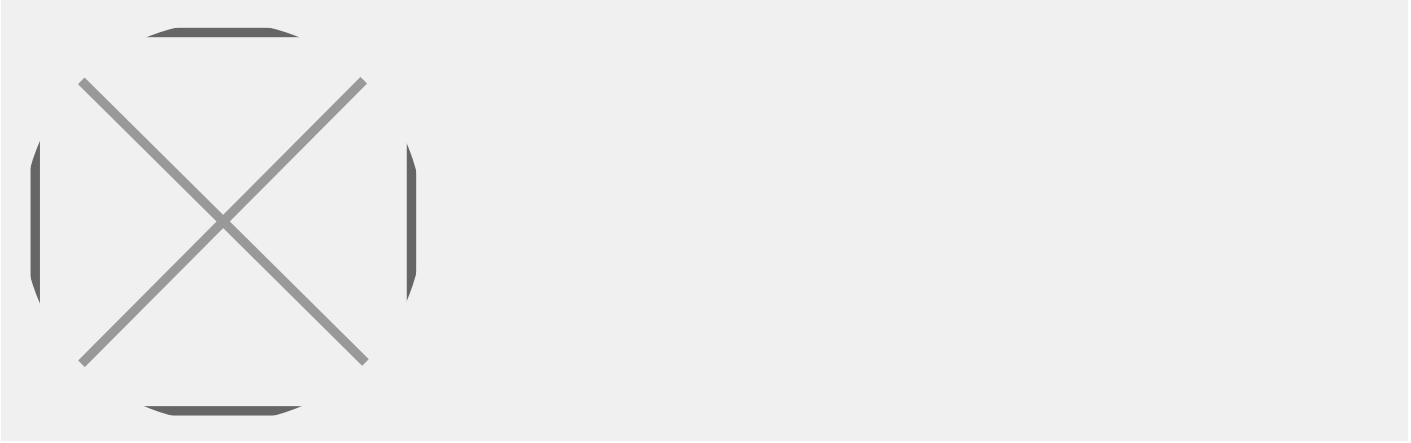
Interview: Hong-Jen Chang, Chairman, YFY Biotech Management Company, Taiwan



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Tags: Financial Management, Paper Mill, R&D, Venture Capital, YFY Biotech Management Company, Biotech, Innovation

YFY Biotech Management Company has not always been involved in the biotech sector. How has it evolved over the years?

Yuen Foong Yu Group originally began as a paper mill company, which grew alongside Taiwan as the country moved from agriculture to industry. In moving away from its traditional business and becoming an investment holding company, the group has seen a number of successes, particularly in the IT sector with companies like E Ink, the technology behind many e-readers, and with technologies such as RFID.

In recent years, YFY group moved into banking and finance, and finally, the biotech sector. The first venture from the group into this area was a company called TaiGen, which is now leading the Taiwanese biotech industry. In 2003, Chairman of the group, SC Ho, started YFY Biotech Management Company, which in 2005 established Taiwan Global Biofund, a venture capital fund.

Chairman Ho is quoted as saying, 'I had mixed feelings when I realized our company name wouldn't contain the word paper any more, but as we approached the centennial of our company, our conversion into an investment holding structure is not only in sync with the spirit of the times, but represents our determination to achieve sustained development in the future.' What is the role of biotech within YFY today? Why did the

company choose biotech as a strategic growth driver?

It all goes back to the paper mill. In China, the group has a paper mill that uses biotech in order to make paper from rice stalks. There are many ways around the world of safely disposing of rice straw from the fields—in Sweden for example, it is wrapped together during the rice harvest and left in the field. Traditionally in China, farmers burn it, and the ashes are used as fertilizer. However, this also causes a lot of pollution. Now, we have a biotech product that uses enzymes to break down the straw so it can be recycled into paper. This is one example of the ways in which biotech links back to our group.

Our group also has links to the very beginnings of the Taiwanese biotech sector. Chairman Ho is a chronic carrier of Hepatitis B, which is a very prevalent disease in Taiwan, and led to the country being the first in the world to immunize every newborn child with a vaccine for the disease—the market's first foray into biotech. YFY founded a company to manufacture the vaccine domestically, but once the technology became obsolete, it was closed. It was after this vaccination program proved to be successful that the DCB was created and the dream began.

What was the motivation behind your change of career and why an investment company?

I quit the government back in 2004. I had been serving the state for 16 years and I felt that a change of career was due. At the same time, Chairman Ho came to me and offered me a future with his company, running this venture capital firm. I knew nothing about investment at the time, but he was willing to take a chance on me, and in that sense I am extremely fortunate.

When I joined this venture capital fund back in 2005, I had just returned from Harvard, and had met with some US biotech companies. They all showed me the same pie chart, which was of the global pharmaceutical market. Half of the pie chart was the US; another quarter was Europe; 15 percent was Japan, and the tiny 10 percent slice remaining was labeled 'rest of world'. No one cared about this ten percent at that time. There were some biotech VCs established in Taiwan in the early 2000s, but all of them were focused on investing in US companies. At first, this was the strategy that we followed as well.

Then in 2006, Goldman Sachs coined the term BRICs: in Chinese, we say Golden BRICs. 2006 was a boom time for China: with the Olympics in 2008, and the world expo in 2010, this was the peak of Chinese visibility and influence. In 2000, the sales of multinational pharmaceutical companies in China were the same as their sales in Taiwan. This is almost impossible to imagine today. But companies were not interested in looking east: one US biotech walked away from the table when

we suggested bringing their products to the Asian market, which I simply could not understand! But the lesson I learned was valuable: no one cared about this part of the world.

The global financial crisis led to some major failures in our investments in the US. This led us back to the drawing board, to work out a survival strategy. We were extremely lucky with what happened next, which was that for once, the Taiwanese people listened to their government! The government announced its plan to promote biotech, and suddenly the stock market started to pick up. In 2009, I had three IPOs: my friends in Europe and the US couldn't believe what was happening in Taiwan. Since that time, we have quadrupled our market cap.

Last year, Chairman Ho founded an association exclusively for local pharmaceutical innovators and manufacturers. In ancient Chinese, there is a saying that it takes ten years to make a sword. Chairman Ho coined this phrase for biotech: we have worked for ten years, and now it is time for the biotech industry to finish its sword.

The incubation period for this industry has been very turbulent and many companies have experienced ups and downs—but now, the industry is in a very strong place. When this biotech management fund was started, did you see this boom coming?

Absolutely not! But we did do one thing right. After 2008, we invested only in local companies that were working on innovative projects and original ideas. We believed in Taiwan, and we believed that bringing technology to this part of the world could create value.

Who do you believe is responsible for this biotech boom: the government or investment from companies like YFY?

It is everybody; in a free society, a government can only do so much. The Taiwanese government is not capable of making a very strong commitment in the same way that China can. But the government can put the infrastructure in place to support the industry, and can make connections with the strategically important people. Many people thought that the IT industry would be the country's most important sector, but I believe that eventually it will be biotech. IT companies are simply not innovating, but only manufacturing, with many now manufacturing in China instead of Taiwan. Biotech innovation is difficult, but the Taiwanese are patient. For the first 20 years, since that first hepatitis B vaccine, we have been learning. We did a lot of clinical trials in Taiwan, but we didn't know how to create our own value. But around the year 2000, we began to climb the learning curve more steeply. But for companies to emerge, investment was needed. The boom of capital markets lifted the whole industry, and brought it to the point it is at today.

Do you think this is just the beginning? What is coming next for YFY and the industry in Taiwan?

For us it is another fund. That is straightforward. But let me quote a friend of mine, one of the founders of Asus, who told me that he believes that the biotech industry is now at the same stage the IT industry was at 20 years ago. I agree with him in this observation. The biotech sector has spent a long time putting down deep roots, and now it is time for it to flourish.

The concept of investing in Taiwan is so different to investing in China. China has a huge domestic market, so people are investing mainly in profitable domestic companies, with no interest at all in money-burning innovators. A good example of this is the fact that of the ten leading drugs in China, seven of them are TCM with no R&D done to prove their efficacy. R&D is not necessary because people believe in the medicine, which makes it difficult for innovative drugs to thrive and compete. Taiwanese companies are driven, because we do not have a domestic market. We are forced to innovate. It is the only way to survive. The concept is not low hanging fruit in Taiwan, because there are none. It is about incubating. You need to plant the trees, and it takes ten years for them to bear fruit.

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