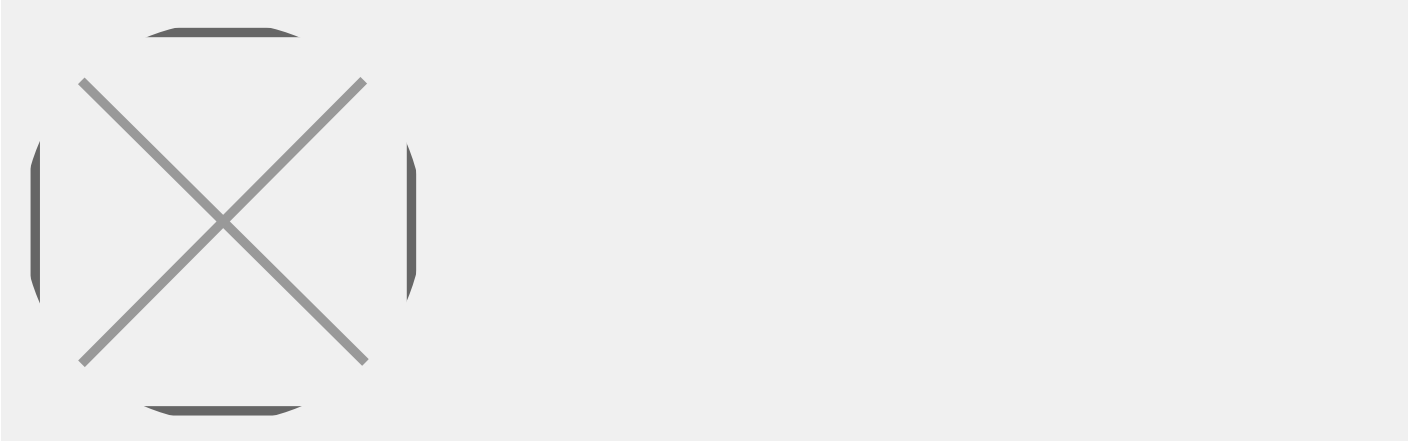
Interview: Marietta Wu, Managing Director & General Manager Taiwan, Burrill & Company



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The managing director of Burrill & Company discusses the biotech industry in Taiwan, the various hurdles the market faces and why there is so much potential for industry growth in Taiwan.

During the six years that you have been with Burrill, you have mostly covered the Greater China region. What was your motivation for joining Burrill and what role do you see Burrill, and Taiwan, playing in the industry?

I am a physician and scientist by training. Prior to accepting a position at Burrill, I worked at the National Institutes of Health (NIH) in the US, and with Lilly on the drug discovery side. In addition, I also had various business roles with Lilly, as well as with Edwards Life Sciences.

I joined this firm because of my interest in bridging East and West. I see tremendous opportunity for this region to play a role in the shifting paradigm of the life science industry. In recent years, we have seen the swift rise of Asian markets, largely driven by the growth of China. But Taiwan should not be overlooked: this country has become more and more of an enabler. In our view, it is a great location to link Western technology to Eastern opportunity.

Burrill has been quite active in Taiwan for the last five years. Our investments in the market have paid off quite handsomely thus far, and these returns have validated Taiwan’s potential. Our confidence in the market has motivated the firm to expand our presence in the country. We’ve

invested in two companies so far, and we are in late-stage discussions with a couple more. In addition, we are looking to bring one of our China-based companies to Taiwan.

Going back to your comment about Taiwan as an 'enabler,' how does Taiwan measure up to a country whose industry is as big as, say, China?

All of the large pharma multinationals have significant operations in China. However, when we look at the second tier of small-to-mid-size biotechs, we see that when they attempt to penetrate the Chinese market, they inevitably face various hurdles. Those challenges stem in part from unfamiliarity, but more than that, China is an extremely complex country. It is not easy to find a way in.

From that perspective, Taiwan can offer certain advantages. It has been in business with the Western world for the last couple of decades. Taiwan understands Western business practices, can offer a strong talent pool in this industry, and also has very strong IP protection and transparent governance—all issues that Western companies care about deeply. Based on our investment experience, Taiwanese companies can serve as a springboard to China and Eastern Asia.

What is your opinion on the development of Taiwan's indigenous biotech industry?

There is definitely something very interesting brewing here. Taiwan has always looked abroad, because the local market is quite small. This country has long had strengths in generic and API manufacturing, and Taiwanese companies have sought to break into markets like the US and Japan. Some players, like Scinopharm, have made this jump very successfully.

More recently, as Taiwan recruits more talent in this field, a new generation of companies has emerged with a strong focus on innovative products. We have observed tremendous advancement in Taiwan's capacity to develop drugs. Thanks to its relatively easy access to China—especially now that ECFA is in place—Taiwan has great leverage in targeting Asian populations with innovation.

Going back to your earlier point about market barriers, how has Taiwan overcome or avoided some of these barriers?

China is a market no one wants to let go of, but it's certainly a difficult market—not unlike Japan. It is difficult because of its internal regulations, and because the way companies do business there is quite different than other place in the world. On the other hand, Taiwanese companies are very familiar with both Chinese and Western practices. Taiwan can break into an increasingly large piece of the China market relatively quickly, demonstrate proof of concept, and validate programs that have potential for global partnership.

With that said, I also see Taiwanese companies becoming stronger in finding a niche, and capitalizing on that strength to play a role beyond Greater China. A good example is the Burrill-invested company Taiwan Liposome Company (TLC), which has a unique drug delivery technology. Early on, TLC identified some low-hanging fruit, and reformulated a number of existing compounds with a view on improving properties like efficacy, safety, stability, and so on. This work gave TLC an entry ticket to the Asian market. However, increasingly, the company is targeting a newer generation of innovative products to discern where they can play, and whether they can make an impact in the West.

I think that generally, Asian companies prefer to build a foundation first, and the Asian capital market, too, likes to reward companies that can demonstrate immediate revenues and profit. And yet, Taiwan is becoming more receptive to companies with a pipeline, which may not be profitable yet. I think this is a great sign, because in effect the capital market is encouraging companies to pursue more risky endeavors, and in biotech, the greatest advances often come when companies take on considerable risk. Taiwan is the only other country besides the US that allows companies to go public while still in the red.

Do you believe that the newfound excitement we have seen in Taiwan's capital market for biotech is a bubble?

I do believe that the market is a bit over-heated, and certain companies are likely overvalued. Nonetheless, I think that there are a number of great companies out there, and hopefully, we won't see a hard landing. The companies that are truly strong, with a good pipeline of products, should be able to sustain their growth even if the market goes through a bit of a correction.

Many of Taiwan's biotechs are run by scientists who in some cases have little prior business experience. Is that a challenge for you as an investor?

There are indeed a number of such companies in the biotech sphere in Taiwan, and I think that is precisely where the investor can add value. When we invest, we can help companies to recruit a strong management team.

One of the reasons we invested in TLC was the strength of the management team. TLC is a great example of a company that was started by a scientist: Keelung Hong, the mind behind the technology, but is run by a professional manager, George Yeh, who recruited the management team and really helped TLC to reach a new level. In these cases, it's about the open-mindedness of the scientist, and their ability to find someone that they can work with closely on the business side of things.

Sometimes, nontraditional management is a great way to go. In the US, when companies look for top management, they tend to look for people with a strong track record of success in the industry: someone that has a biotech background, has run biotech companies in the past, and has done so successfully. In Taiwan, I think personal charisma and leadership can play a larger role. The right manager may not have all of the resume highlights you might expect. George Yeh, for example, is actually an architect by training, and made his way through the banking industry before joining TLC. He began by helping Mr. Hong, who he was friends with, to raise some money. His role in the company grew from there. Mr. Yeh doesn't have a biotech background, but in my view, he is one of the most remarkable leaders in Taiwan's biotech sector.

Why would a Chinese company establish operations in Taiwan?

Well, actually, it's not a 'real' Chinese company. It was founded in the US, and is registered in the Caymans. However, over the years, it established its manufacturing and marketing operations in China. The reason Taiwan became attractive for them is because, as the company has grown and established itself in the Chinese market, it has decided to try to reach the US with a new product coming out of its pipeline soon. The company found that Taiwan is a great place to do clinical studies, and a great place to bridge to the West. Additionally, Taiwan can be a good location for its sales team to identify products and partnerships that they can bring back to China.

Another point is that the company has both a finished product business and an API business. Taiwan has great manufacturing capability on the API side, so a good partnership can enable the organization to attain US FDA compliance. FDA certification is a long process: having an already-certified Taiwanese partner can help them to climb that ladder much faster.

Is biotech the right industry for Taiwan?

I believe that it is. Taiwan is very technologically savvy. It has the right talent pool because the population is highly educated. However, Taiwan has to figure out what its strengths are. Personally, I believe that the right niche for Taiwan to play in is discovery and development, rather than later stages of the value chain—mainly because of geographic limitations. Taiwan has very strong clinical capabilities, and from a compliance perspective, the data that this market can produce is much more reliable than some of its competitors. We see a good number of FDA-compliant GCP facilities in the country.

The government, also, is dedicating a tremendous amount of resources and support to the biotech sector, and gradually, the local population is recognizing the industry as well. Indeed, because of the risk profile and long-term nature of biotech, it needs that kind of support.

With that said, biotech is not the *only* industry for Taiwan, and in fact Taiwan needs to do more to diversify. In the past, semiconductors did the vast majority of the heavy lifting in this economy, and that's not the best position to be in because industries go through cycles. There are ups and downs. Countries need to reinvent themselves every now and then, and if they focus only on a single industry, it's much harder to do that. A diversified economy is a better-hedged bet. Biotech is coming to the center stage in Taiwan today, and rightfully so, but do we want it to be the only driver for Taiwan's future? I don't think so.

The public stock market is booming, and the government is investing as well. Is there enough venture capital to go around?

I would say there is, and the deal size is increasing, particularly because of how the public market is performing. VC firms see their exit, and they are investing. But we have to keep in mind that the market goes in cycles. When things are hot, we see an increase in valuation, and an increase in expectations as well. We all have to find balance.

Is Burrill in Taiwan for the long haul?

We are. We recently established an office in Taiwan, which is currently run by myself and one other colleague. We see great opportunities in the region, and we see this subsidiary as a potential anchor for us to expand to China. Just like our clients, Burrill can use Taiwan as a springboard to China!

The Greater China market is growing, and Taiwan, in our experience, is very strong on the regulatory side, the IP side, and the talent side. There are great resources here, and fantastic people. The people I have personally worked with are second to none. This makes all the difference. With support from the government, Taiwan will become a more and more interesting location in Asia.

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