

Interphex Keynote: The changing landscape of biopharma

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For the last week Steven Burrill has been on a mission. Talking to various media outlets, the noted venture capitalist has been sharing his view of what the future holds for the biotech and pharmaceutical industries. As the keynote speaker of Interphex 2009, he took the opportunity to explain what led to this fundamental shift in the biopharma industry, how it will shape our future and what companies need to do to survive the coming change.



"Our industry is undergoing the sea change--not *a* sea change but *the* sea change," Burrill told the packed audience. This change represents the most significant shift in the history of the industry. A combination of new medical breakthroughs, rapid technological advances, a changing political environment and an aging population will completely revolutionize the biopharma industry.

2008 kicked off the largest financial crisis in the history of the world, spurring major changes in the investment sector. "Not only has Wall Street restructured, but every country in the world is going through major financial changes," explained Burrill. Massive dislocation on Wall Street has led to total restructuring on both the buy and sell side. Investors now have almost no interest in microcap stocks (anything under \$1 billion dollars). Unfortunately for the biotech industry, the vast majority of companies trade under that amount. Meanwhile, risk-averse venture capitalists have moved upstream with their capital, choosing to invest in later-stage projects rather than small start-ups. This doesn't mean that funds aren't available, but companies have to sacrifice more ownership in order to capture that financing. As Burrill colorfully put it, "today's sources of capital have deep pockets and short arms."

But the financial crisis is only one part of the sea change. Healthcare systems around the world are dramatically reforming. Governments are now asking, "What do we pay for and what don't we pay for it? What's reasonable?" "The technology we've developed over the last 40 years is great at keeping us alive," observed Burrill, "but it's not economically viable." Institutions like the United Kingdom's NICE, for example, have declined to support certain expensive medications that give patients a few more months of life due to the costs of those treatments. As the U.S. attempts to find ways to support an aging population, we could be faced with similar regulations.

"The Obama Administration is by and large negative for this industry," said Burrill. "Healthcare will be redistributed on a value basis, not a cost basis, which is bad for our industry." Increasingly, gaining approval for a drug is not just safety and efficacy, but also comparative effectiveness as well. And biogenerics will become a force to be reckoned with "whether we like it or not."

So what does all this mean for healthcare in, say, 2020? "Healthcare hasn't changed for two thousand years," Burrill said. "We do the same the things. Wait for you and I to get sick, figure out what's wrong, treat the illness and the patient either lives or dies." The treatments and technology have improved but the methods, he said, are fundamentally the same. However, recent advancements in genomics will turn that age-old process on its head. While we're not there yet, future medicines will be redesigned around mutation-specific knowledge. Added Burrill, "we're moving away form one-size-fits all to personalization, prediction, and prevention."

This has dramatic implications for the industry. Government pressures will push the cost of medicines down

and payors will no longer be willing to pay for branded drugs with equally effective generics available. The era of the blockbuster will come to a close in favor of personalized medicines that produce better outcomes for patients. "We may have to be happy with products that make a hundred million [dollars], not multi-billions. And companies will have to anticipate what kinds of products and services that this will require." Finally, as spending on prescription drugs declines, greater emphasis will be placed on diagnostic technologies that identify which treatments work best for patients.

The financial crisis is wreaking havoc on the biotech industry in particular, but it will ultimately make the sector stronger. Small companies will combine or be bought by larger players. Less promising programs will be dropped as resources are focused on only the best research and the most cutting-edge advancements. "This is not the time to write the obituary for the biotech industry," Burrill assured the audience. When these difficult times are over the industry will emerge onto a new playing field stronger and more powerful than it is today.

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