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Life sciences industry celebrates victory, but biotech firms conserve cash as crisis looms

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Michigan's life sciences industry is celebrating a key victory at the ballot box even as the financial crisis prompts biotech firms to conserve cash.

In the meantime, the state's small life sciences firms may be more open to acquisitions as the big pharmaceutical industry's drug pipeline dries up and small firms trudge through the financial crisis.

The life sciences community - including interest groups and universities - overwhelmingly supported Proposal 2, which asked voters whether to repeal Michigan's ban on stem cell research that destroys embryos. Voters approved the proposal 52.6 percent to 47.4 percent.

Biotech companies and industry experts expect the proposal's approval to improve Michigan's image among the national life sciences community, even if it's unlikely the state will invest heavily in embryonic stem cell research any time soon.

Stephen Rapundalo, executive director of MichBio, the state's life sciences association, said Proposal 2's approval was a critical step in showing that Michigan is open to innovative life sciences research.

Opponents of Proposal 2, including a group called MiCause, argued that the proposal wouldn't generate noticeable economic activity without state funding.

"In terms of a business or economic impact, I think that will be somewhat slower to evolve, but I think initially there will be an expansion of existing research efforts at the established centers at Michigan, Michigan State or Wayne State," he said.

The financial crisis and the approval of Proposal 2 come as MichBio is preparing to host its annual MichBio Expo and Conference to discuss various industry issues. The event will take place Nov. 18-19 at the Rock Financial Showplace in Novi.

Among the speakers is George Dunbar, CEO of Ann Arbor-based Aastrom Biosciences, whose stock price enjoyed a boost in the leadup to election day as investors bet that Michigan voters would approve Proposal 2.

Aastrom is seeking to commercialize personalized medicine technology based on adult stem cell research.

Dunbar said that even though his company doesn't conduct embryonic stem cell research, Proposal 2 offers new opportunities.

"It does open the door so that if we ever choose to do so in the future we could do it here in Ann Arbor instead of having to take it out of the state," Dunbar said. "It does keep jobs in Michigan.

"By the vote not passing, the research would be done nearby. It could be done in Ohio, it could be done in Wisconsin or Illinois. We were really just shooting ourselves in the foot."

The proposal's approval comes as small biotech firms in Michigan and throughout the country have been forced to examine spending decisions thoroughly.

The financial crisis has made it nearly impossible for startup companies to get private loans, making them more dependent on low-cost government loans, grants and venture capital financing.

"Startups are being asked by investors to really focus on their goals and outcomes and to try to be very conservative in their cost structures," Rapundalo said. "It's obviously a difficult time to be out raising funds, and the only way you'll be able to do that is if you have strengths in your R&D outcomes."

The state's anemic budget makes it unlikely that the government will invest directly in stem cell research, industry observers agree.

But the Michigan Economic Development Corp.'s ongoing 10-year, \$2 billion 21st Century Jobs Fund program is playing an important role in sustaining the life sciences sector through the financial crisis.

In October, 11 Michigan life sciences companies - including seven in Ann Arbor and two in Kalamazoo - received \$16.2 million in low-cost loans from the 21st Century Jobs Fund. That represented 54.5 percent of the nearly \$30 million the state distributed in this round.

"That was surprising, particularly given the fairly noticeable shift by our government leaders focused on alternative energy. I think the award clearly showed where we have our strength and infrastructure and our highest likelihood of success is in the biosciences, no doubt," Rapundalo said. "So I think there needs to be continued emphasis and support."

Nicholas Stergis, CEO of Adeona Pharmaceuticals, a 6-person Ann Arbor company formerly known as Pipex Pharmaceuticals, said the crisis presents a strong opportunity to collaborate.

"I think you'll see more collaborations, more mergers and acquisitions of other companies," Stergis said. "Obviously the pharmaceutical companies have a wealth of capital, but they also need new drugs."

Aastrom and Adeona each suffered financial setbacks this year - well before the financial crisis - related to various internal crises. But each firm slashed costs a few months before the financial crisis - Adeona reduced its spending by 43 percent in the second quarter, and Aastrom cut spending 33 percent - and both expect they can survive.

"We're not out raising any capital at this point," Stergis said. "Obviously it puts a damper on the broader market and there's a lot of fear in this space, but I think we'll get through this."
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