

South San Francisco, California-based Cytokinetics raised \$40 million in fifth round funding from Alta Partners, CSFB Private Equity, General American Investors, GlaxoSmithKline, HBM BioVentures, Mayfield, Mizuho Bank, PRM Ventures, Sevin Rosen Funds and Vulcan Ventures.

Startup Profile

Cytokinetics

Robert I. Blum, SVP finance and corporate development, CFO

VR: Would you start by talking a little bit about the company, its mission and how it intends to generate revenues?

Blum: Cytokinetics is a biopharmaceutical discovery and development company. As such, revenues for us come in different flavors, depending on the stage of maturity. Initially, revenues come in the form of collaboration revenue, where companies sponsor us to do research and we will share the fruits of those labors. And ultimately, revenues come in the form of product sales for drugs that are discovered, developed and launched after FDA approval. This second form of revenues comes after a number of years, as many as ten plus. Until then we have to make sure that we're generating revenues through collaborations that provide for us a safety net, in terms of our cash burn. The best modes, if you look historically at biotech, are companies that have figured out a way to sustainably generate about 50-to-60 percent coverage of their burn rate through partnered revenue situations until they are selling products and generating more substantial revenues, and have some visibility toward profitability. So, we have right now a net burn of a couple million dollars per month. Whereas we have a gross burn that is considerably higher than that.

Who are your current corporate partners?

Right now our largest deal is with a company called GlaxoSmithKline. They are the second-largest pharmaceutical company in the world; we're working with them in the area of oncology around our most advanced research program, which is looking at inhibitors of proteins called mitotic kinesins that have the potential to be novel cancer drugs. We have, behind that, other inhibitors of mitotic kinesins that we want to move forward as well into clinical development.

Who ultimately hold the rights to these compounds, once they reach the market?

We share them. We own rights to some, they own rights to others, and we jointly own rights in others. We co-develop them and we co-commercialize them.

Do you have internal marketing programs in place to support the eventual commercialization of these drugs?

At this stage, we have commercial planning activities under way. We're not currently marketing anything. But we're in the process of the market research, the strategic marketing, the education and all the kinds of corporate communications and related activities that speak to building a marketing presence over time.

What are the circumstances of the financing? How much of your funding comes from corporate money?

GSK participated in the Series E round. They were the sole investor in our Series D round. In this \$40 million raise in the Series E, some small part of that came from GSK; the vast majority of it came from institutional investors. This round was completed in April. It was at a post-money valuation north of \$200 million, which is very unusual in the biotech space, as is the fact that it was an up round, which is unusual if not unprecedented. So it was not particularly difficult for us. I can't say it was trivial, but it was facilitated in a large part by a couple of things. One is that our existing investors, who are very pleased with the progress of the company, were very committed to making sure that this financing sent a strong signal to other new investors that this is a company that's not going to get jerked around by the predatory practices of a lot of new venture investors in this marketplace. So we basically said, 'This is the deal — are you in or not?' That made a huge difference to us as management, that we went out into the marketplace to do this deal with that strong support at our backs. Secondly, the company has for five years been building relationships with investors for the future — folks that would be able to track us for a relatively longer period of time and get to know us and our ability to execute — and by the time we did this financing, we already had a list of folks that had indicated interest in the company at this stage. That made it easier. We weren't focused on the traditional private equity investor in this round, so there's not much "venture" money in this round. Rather, at this valuation range we were focused on mezzanine stage and crossover investors that might like to get a foothold in the company in anticipation of an IPO. So that also made it easier. Venture investors right now are behav-

Year established:
1998

Employees:
n/a

Pre/Post Valuation:
over \$200 million

Total equity investments received:
\$135 million

Total rounds of funding:
5

Investors (this round):
Alta Partners, CSFB Private Equity, General American Investors, GlaxoSmithKline, HBM BioVentures, Mayfield, Mizuho Bank, PRM Ventures, Sevin Rosen Funds, Vulcan Inc.

Most likely exit strategy:
IPO

Next expected round of funding:
Undecided

Amount sought:
n/a

Number of board members:
7

Companies represented by board members:
Sevin Rosen Funds, Mayfield, outside (4), Cytokinetics

(continued)

ing in ways that would have been difficult for us to accept.

Did you sense any reluctance on the part of investors to get involved with a corporate-backed company?

No. In our business that's viewed as a very validating feature. In the absence of that, they wonder. And on a relative basis to our industry, there really is not as much corporate money in us as a lot of companies have. As the sole participant in our Series D round, GSK put \$14 million into the company. But if you look at how much GSK has put in overall, it's much less than many of our other institutional investors. We've raised a total of \$135 million in five rounds.

Do you expect that your next financing

term, or if people are fundamentally looking at life sciences as good longer-term investment plays. I look at secondary offerings and who is coming into those deals and at what valuations those companies are being financed. I'm also looking at a group of comparable companies that I think are either like us or have some aspect of them that are where we are heading, as well as how they are performing and who is supporting their stock. And I'm looking at the infrastructure on the sell side, in terms of bankers and analysts, and how they are getting organized and behaving in a post-Sarbanes-Oxley environment — do they know the rules, and can they support IPO companies.

Do you see VC money coming back into biotech this year?

I don't think VC money ever left biotech. VCs

"VCs raised huge funds over the last several years, and they're continuing to put a lot of it to work. Their focus has changed a bit. But there is a tremendous amount of VC money on the sideline, and I think they are looking for good deals."

event will be your initial public offering?

We're not expecting it, but it very well could be. We have enough headroom here that we could do additional private financings if need be. We also would hope that if there is an IPO window, we'll be one of the more attractive companies to jump through it — but we're not requiring that of our company. We hope that we have done a thoughtful job of financing so that we leave room for future financings — we haven't 'topped out' in the private equity space. But it means that we have to continue to execute well and mature the company so that people are willing to pay higher and higher prices as we go forward.

What types of indicators do you watch for that might tell you when the window for an IPO exists?

I am looking at the flow of funds into life science stocks and whether these are simply momentum players coming in for the short

raised huge funds over the last several years, and they're continuing to put a lot of it to work. Their focus has changed a bit. But there is a tremendous amount of VC money on the sideline, and I think they are looking for good deals. The quality of the companies being formed now is perhaps informed by some VCs getting burned with companies that didn't have as solid a business model five years ago than they now require of companies today. But I think there is still a lot of VC money out there. ■ VR

HOW THEY MAKE MONEY

Cytokinetics is harnessing pharmaceutically validated cytoskeletal pathways and a proprietary high-throughput screening platform to develop novel therapeutics. It began Phase I studies of its first anti-cancer drug candidate with partner GlaxoSmithKline in 2002.

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NEW FUNDING WILL BE APPLIED TO (ESTIMATE):

Undisclosed