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EpiVax finds development funds through contract work

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When Anne De Groot talks to venture capitalists, the conversation typically ends after she says the Providence-based company's vaccines haven't been tested on humans, and may take more than 10 years to commercialize.

Yet the EpiVax Inc. CEO isn't fretting. For the past several years, De Groot has funded development of the company's products with revenue-generating contracts from big pharmaceutical concerns such as Amgen Inc. and Eli Lilly & Co., which have hired EpiVax to test their company's products for immune responses, using EpiVax's technology.

In the process, EpiVax has fashioned a rare business model for biotechs: funding internal product development with revenue from contract research. And with grant funding added to the balance sheet, De Groot said, EpiVax has little debt.

"Many companies that we have talked to have gone the venture route," said De Groot. "And they either succeed or they don't."

EpiVax has survived by selling its services in the field of immunoinformatics, which uses powerful computers to analyze the protein sequences of drugs to learn what the body's immune response would be. The company performs this service with its patented EpiMatrix software, which De Groot licensed from Brown University in 1999.

With that expertise, EpiVax has received contracts to test proteins from Genentech Inc., Pfizer Inc., Wyeth Pharmaceuticals Inc., as well as the aforementioned Amgen and Eli Lilly. Though De Groot declined to reveal details of the contracts, she said her company has also taken treatments already on the market and engineered the original products' proteins to prevent certain side effects caused by immune responses.

In the meantime, EpiVax has managed to develop more products of its own.

The company, for instance, has just begun work on a new botulinum toxin -- commonly known as botox -- engineered to last longer than botox treatments on the market by preventing immune responses to the toxin that enable wrinkles on the skin to return.

With the help of grants, the company is also in preclinical stages of developing vaccines for smallpox, tularemia, H. pylori, HIV and tuberculosis. De Groot said the company is conducting development research on Martha's Vineyard, where pneumonia-causing bacteria tularemia is found in the soil. She said EpiVax is also looking for additional grants to perform clinical trials of the company's experimental vaccine there.

The Slater Technology Fund, a state-funded group that invests in Rhode Island technology companies, has provided EpiVax with a $75,000 grant and a convertible loan of $150,000, said De Groot. However, she said, Slater nor any other investment firm have made equity investments in the company.

A lack of seed funding for biotech startups has caused many local nascent firms to search elsewhere for funding, said Kevin O'Sullivan, president and CEO of Massachusetts Biotechnology Initiatives, a nonprofit that operates biotech incubators in Worcester.

VC invested in seed-stage ventures in New England during the third quarter totaled $18 million, compared with $205 million invested in more mature biotechs in the region during the quarter, according to PriceWaterhouseCoopers LLP and the National Venture Capital Association's MoneyTree Report.