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Does U.K. biotech offer better opportunities?

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Earlier this year, officials from the National Association of Securities Dealers Automated Quotation (NASDAQ, New York) visited the U.K. to investigate what the U.S. exchange could do to encourage U.K. biotech companies to list in the U.S. market. NASDAQ knows that Britain offers a wealth of opportunities in biotechnology, and there are high expectations for at least half a dozen U.K. biotech companies to embark upon a new phase in their financial and commercial development in the very near term.

Over the past year, the U.K. biotech sector, which is currently comprised of about 70 companies, has reached a milestone in its maturity. A turning point came in July 1992, when Cantab Pharmaceuticals (Cambridge) became the first U.K. biotechnology company to be listed exclusively in the U.S. on NASDAQ. In the same week, British Biotechnology Group (BBG, Oxford) listed on NASDAQ and simultaneously became the only biotech company to be quoted on the London Stock Exchange (LSE).

Cantab and BBG symbolize the strength of biotechnology in the U.K., not just because they are the first companies to go public, but because they achieved this at a time when U.S. biotech stocks had fallen out of favor. The market had seen several setbacks in the months leading up to their initial public offerings (IPOs), the most dramatic of which was caused by the Food and Drug Administration's (Bethesda, MD) refusal to license Centocor's (Malvern, PA) lead product, Centoxin, a treatment for bacterial sepsis. Many companies that had filed for IPOs shelved them. Cantab and BBG, however, decided that they were strong enough and special enough to press ahead, giving U.S. investors a taste for U.K. biotech investments and, in turn, lighting the way for other U.K. companies to come.

The LSE, which formerly had set listing rules prohibitive for biotech companies lacking earnings and minimum years of trading experience, is now showing signs of concern that other leading U.K. biotech companies—such as Xenova (Slough), Celltech (Slough), and Agricultural Genetics Company (Cambridge)—could follow the Cantab and BBG lead to a U.S. listing. The LSE is currently taking steps to amend its requirements for listing, which would enable developing biotech companies to become quoted in London.

In turn, the indications are that the NASDAQ listing of Cantab and BBG, coupled with the overtures of the LSE, will bring venture capitalists back into U.K. biotechnology, because they may now have a more accessible exit route. The BioIndustry Association (London) claims that over the last nine months it has played host to a steady flow of merchant banks and other financial institutions seeking information about U.K. biotechnology companies. Several companies, for example, Xenova, have recently raised money through private placements. This activity, too, is boosting the awareness in U.K. biotechnology among investors.

There are some other interesting comparisons with the U.S. In the 18 months before Cantab was listed, 45 U.S. biotech start-ups raised $1.8 billion in IPOs. Perversely, the enthusiasm for funding such companies in the U.S. may now be beginning to work against the interests of the investor. As a result of the relative ease of raising money, many fledgling biotech companies were set up around little more than a germ of an idea and, hence, have a long way to go before entering the clinic and certainly before the commercialization of a product.

By comparison, Cantab, at the time of its IPO, already had a product in the clinic, a leukocyte modulator for the prevention of rejection of transplanted organs. BBG had two compounds in clinical development at the time of its listing: an anticancer drug aimed at controlling the spread of a wide variety of malignant tumors and a post-infection vaccine designed to delay the onset or slow down the progression of AIDS in people infected with HIV.

In the U.K., there are still relatively few biopharmaceutical companies. These companies, however, have a network of academic excellence from which to draw that is among the greatest in the world and that is relatively underexploited. In the U.S., on the other hand, there are more than 200 biopharmaceutical firms, and it has become the norm for them to look for new technology in, and collaborate with, academia. Therefore, when a scientist out of a leading U.S. institution makes a profound discovery, there may be several companies fighting for rights. In the U.K., however, it is still the exception, rather than the rule, for academic institutions to be linked to the commercial world.

One reason for this low level of exploitation is that, although the U.K. has been a leader in biotech research, U.K. scientists have not historically been as entrepreneurial as their peers in the U.S. But these sentiments appear to be changing. As U.K. scientists find that deeper funding cuts are making scientific life less rosy, many, like Alan Munro of Cantab, are making the leap. Munro left his post as head of immunology at Cambridge University (Cambridge) to found Cantab in 1989. Cantab has remained on the cutting edge in tapping U.K. academic excellence. Shortly after its founding, Cantab was able to set up a five-year agreement with Cambridge University's technology-transfer company, accessing Cantab to technology and products discovered by the university's world-class scientists.

The U.K. offers biotech start-ups another important option. As home to many of the world's leading pharmaceutical companies, there is a stock of very experienced managers. Indeed, BBG was formed by a group from the U.K. subsidiary of the pharmaceutical company, G.D. Searle, when it was taken over by Monsanto (St. Louis, MO) in 1986.

The evidence of the past year suggests that U.S. investors have become much choosier about biotech investments. I don't think that I am alone in my belief that the stage is set for them to find an increasingly attractive market across the Atlantic in the U.K. ///