Britain urged to lift barriers to investment in biotechnology

London. Britain's biotechnology companies plan to ask the government to make it easier for small start-up ventures registered in Britain to attract capital. The effort, which is being coordinated by the BioIndustry Association (BIA), follows growing evidence that difficulties in raising venture capital domestically is forcing small biotechnology companies into the arms of foreign investors, particularly those from the United States.

Two weeks ago, for example, the Aberdeen-based company Scotgen, which has developed a range of products using "humanized" antibodies that derive from research financed by the Medical Research Council, announced that it was merging with the biotechnology company Vasocor, Inc. of Menlo Park, California. The new company will be called Scotgen Biopharmaceuticals, Inc.

The merger has already allowed the new company to raise an additional $7 million in capital, from US investors. Most of the money will go towards clinical trials.

The injection of capital is a windfall for Scotgen's original investors. The University of Aberdeen, which provided laboratory facilities and other assistance in return for an equity stake, could see its investment of tens of thousands of pounds grow in value to several million. Similar gains could accrue to the Scottish Development Agency, another early backer.

But the merger and refinancing also means that US investors will dominate the company's new board of directors. Although Bill Harris, professor of genetics at the University of Aberdeen and founder of Scotgen, who will act as both president and chief scientific officer of the merged company, regrets this shift, he says that "we did not even look in the UK" for new financing because of a previous lack of interest.

The merge also gives Scotgen a US presence that will help it at some point to obtain a public listing on the National Association of Securities Dealers Quotations (NASDAQ) exchange. Cantab Pharmaceuticals of Cambridge pursued the same route last summer when it went public in the United States.

A US listing gives a company greater access to a more aggressive pool of investors and is easier to obtain than a listing on the British Stock Exchange, which places stricter demands on fledgling companies. One particularly difficult standard is the need to show a record of profit making. A recent report by the Advisory Committee on Science and Technology (ACOST) suggesting changes in Stock Exchange rules drew attention to the lack of an efficient "exit route" for initial investors in British companies who, unlike their US counterparts, are required to stick with a company until it shows a profit.

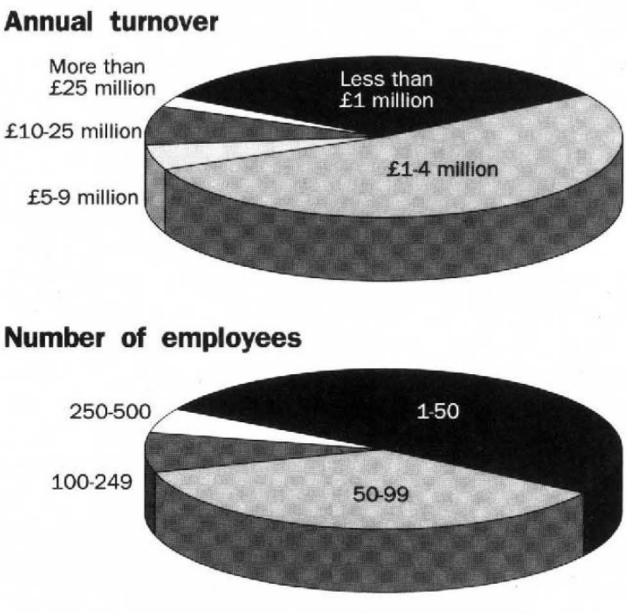
Shortly before Christmas, the Stock Exchange proposed new guidelines that would, for example, drop the profitable trading requirement. But the exchange still wants companies that apply to hold (or expect to gain) the rights to a number of patents and to have at least two drugs in clinical trials.

The comment period on these proposals ended last Friday and the response has been mixed. Several companies (and the BIA) have welcomed their general thrust, and have proposed some minor changes. But financial analysts are concerned that the rules are likely to remain relatively conservative.

"If the situation continues, the City of London will continue to lose out on a great opportunity", says Caroline Vaughan of Newmarket Management Services. "We must be among the top two or three countries in the world in terms of technical capability [in biotechnology], but the downstream benefit is going to go to NASDAQ and the US." The director of the BIA, Louis da Gama, says that the BIA intends to ask the Department of Trade and Industry to address a range of issues that make investment opportunities in biotechnology less attractive in Britain.

In the meantime, scientists working in university and research council laboratories report an increasing number of enquiries from foreign investors. In several cases, the offers would involve buying the rights to fundamental research results and developing them in US-based laboratories. **David Dickson**

A profile of British biotechnology companies



Source: Base Consultants, Ltd., 1992

Research council takes stake in start-up

London. The Medical Research Council (MRC) has accepted a significant equity stake in a new company created to exploit research funded by the council in gene therapy technology. The company, known as Therexsys, hopes to develop a gene therapy technique that targets therapeutically effective genes to human cells without using more conventional vectors such as retroviruses and adenoviruses.

Both the MRC and the Cancer Research Campaign (CRC) — through its technology transfer arm, CRC Technology — have taken equity in the company in return for access to their respective research facilities, and in MRC's case for the exclusive rights to patents on research carried out at the council's National Institute for Medical Research (NIMR) in London.

If the techniques prove successful, both organizations will be able to reap substantial rewards by selling their stakes either when a new round of financing takes place, planned for later this year, or when the company eventually goes public.

Therexsys was set up last summer with seed money from three British venture capital funds, Biotechnology Investments, Ltd. (the venture capital arm of the merchant bankers N M Rothschild), Schroder Ventures and 3i. It is being run from a science park in the northwest of England by Roger Craig, formerly professor of biochemistry at Middlesex Hospital Medical School in London, and until last year head of biotechnology for ICI Pharmaceuticals.