

Regional Initiatives

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▼ German biotech sector inches forward despite long odds

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Capital and exit opportunities are still hard to come by in Germany, but there are new signs of life for investors and startups in Europe's second largest biotech market.

News of a possible recession in Germany is giving some in the American biotech community the jitters. While there is cause for concern, the established German investors and high-quality startups aren't panicking. Nor should they. Both have weathered worse in recent years. In fact, a recession just might benefit them by hastening the departure of the weak and wounded startups and venture capitalists that managed to hang on despite prospects that have long since played out. Indeed, put in the proper context, the cup could well be half full in Germany rather than half empty where biotech is concerned.

Since the downturn in 2001, investors throughout Europe and America have focused most of their interest upon late-stage startups; capital markets in Europe, in particular, have struggled to float public offerings of any sort; and trade sale exits have been few and far between. But, with a new, more rational financing scheme targeted at biotech startups, there is hope that the lingering gap in funding could soon be at least partially filled. Likewise, although terms were not disclosed, the recent acquisition in April by Olympus Life and Material Science Europa GmbH in Hamburg of Munich-based Advalytix, a startup microfluidics firm founded in 2000, left those privy to the deal feeling cautiously optimistic about exit opportunities going forward.

Indeed, despite the pervasive gloom in Europe, and self-doubt among inexperienced German biotechs and investors, there are some hopeful signs that things are not as grim as they might seem. Venture capital investment, although off its historic highs, has improved. Horst Domdey, CEO of Munich-based Bio-M, a financing and consulting firm, says that by the end of May, biotechnology companies will have raised around €200 (\$257) million, equivalent to the total for all of last year.

“What is funded now will be funded in the future,” says , CEO Bio-M”

Horst Domdey

There is reason to believe that the German biotech community of tomorrow will look very different from the one that came of age in the Internet boom. Many of the inexperienced venture capital funds have withdrawn from the field, leaving the field to investors who are now older and wiser. There is much talk in German biotech circles of flatter learning curves and a commitment to better distinguish, early on, ill-deserving biotechs from those with real prospects—and the need to sufficiently fund the latter.

"What is funded now will be funded in the future," Domdey says. He is among those who think a number of German biotechs could be ready for an IPO. "I could imagine two, three or even four companies are looking at the stock market." Privately, commentators identify Jerini, of Berlin, and Wilex and Micromet, both of Munich, as likely candidates ([Table 1](#)).



Reuters/CORBIS

Investors have been getting mixed messages.

This is all well and good for developed biotechs, but what about Germany's next generation of biotech startups, those starved for seed funding? In recent years it has been fashionable to ignore these upstarts. This gap in seed finance should be closed—at least partially—by the launch later this summer of a new €142 (\$182) million seed technology fund, with backing from the German federal government in Berlin and from BASF of Ludwigshafen, Siemens of Munich, Deutsche Telekom of Bonn, and KfW Banking Group of Frankfurt. It will support startups in biotechnology and several other fields.

The second half of the year could also bring important news from two of Germany's flagship companies. MediGene of Martinsried, near Munich, is expected to file a marketing authorization with the US Food and Drug Administration for its Polyphenon E Ointment, a treatment for actinic keratosis, a precancerous skin condition. GPC Biotech, also of Martinsried, is due to report interim data from its phase 3 registration trial of Satraplatin, an orally available platinum-based therapy in development for hormone refractory prostate cancer. "Both of those could act as a fillip for the sector," Nick Turner, biotechnology analyst at Jefferies International in London, said.

“Eventually, natural selection will sort things out.”

White biotechnology—or the application of biotechnology-based processes to the production of fuels, plastics, vitamins, pharmaceutical intermediates and a variety of specialty chemicals—is expected to inspire new startup activity in Germany, not least because of the country's traditional strength and readily available partner and customer base in these industries. There are already a handful of promising startups, such as Artes Biotechnology of Dusseldorf, BioSpring of Frankfurt and Brain AG of Zwingenberg. But, Hilmar Platz, an analyst at Munich-based consultants Kayenburg, says they are early stage and as yet lack the scale of international players such as Novozymes of Bagsvaerd, Denmark, Copenhagen-based Danisco and Diversa of San Diego. He adds, however, that the Germans learn fast. "They have gained critical mass as market leaders, as technology leaders," Platz says.

Still, German biotech, in general, has much to prove to doubters who hear "German" and "biotech" and instantly think of wobbly, under-funded companies—most notably those that are publicly traded. "None of them are flying," Turner says. "Many of them have lost significant proportions of their valuations since the beginning of the year."

Alas, this situation is not unique to German biotechs. Around the globe, fledgling biotechs are struggling. Eventually, natural selection will sort things out. In the meantime, against long odds, better days might be ahead for biotech in Germany.

Web links

Websites referenced:

- [Partners for Innovation](#)
- [Bio-M](#)
- [Advalytix](#)

Table 1: German biotechs dressed for IPO

Company	Description	HQ	Founded
Micromet	Antibody-based targeted cancer therapies	Munich	1993
Intendis	Spin-out of Schering AG dermatology business	Berlin	2005
Jerini	Peptide-based drugs for chronic diseases	Berlin	1994
Wilex	Cancer therapies for solid tumors	Munich	1997

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