

# Europe discovers bioentrepreneurship

## Does Europe now have the right mix for the next biotechnology wave?

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According to Ernst and Young<sup>1</sup>, the number of biotechnology companies in the US in 1997 was 1287, a 2% fall on 1996—presumably implying that the formation of new companies was exceeded by mergers or failures of existing companies. In Europe, the number of companies reached 716, a 22% increase in 1997, and a sign of the new energy and vigor in the old continent. It seems that bioentrepreneurship has finally taken off in Europe because there is suddenly money available to fund commercial growth from an already excellent scientific infrastructure.

### The new soft money

There has always been a very strong base of academic excellence in the biological sciences in Europe. In some sense, this science has been long overdue for commercialization as the technology has developed toward potential commercial application.

On a pan-European scale, money is available in considerable quantities from the vast resources of the European Union's (EU; Brussels) bureaucratic apparatus. Grants, awards, and matching schemes of various types can be obtained through the various directorates, particularly for enterprises that involve more than one EU member state. For example, a collaboration between a small UK biotechnology operation in England and a similar one in France or Spain can qualify for handsome incentives. The only problem is finding a way through the bureaucratic jungle to reach these pots of gold, and consulting firms have now come into existence whose entire role in life is advising biotechnology companies about how to obtain these awards.

On a national level, the UK has had similar schemes for years, albeit on a more modest level where, for example, matching grants of up to half a million dollars can be obtained from the Department of Trade and Industry (London) for biotechnology enterprises. Many of these awards are aimed at very early-stage or startup companies.

Germany, having experienced a political

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change of heart concerning biotechnology and woken up to how far behind they were in the European race, has provided the most aggressive program. It is currently possible, if you wish to start a company in the state of Bavaria and put up, say, \$1 million of venture funding, to obtain matching grants very quickly for a second \$1 million from the State of Bavaria, a third \$1 million from the Federal purse, and a further \$1 million from very "soft" loans from a number of sources.

### Available capital

There has always been plenty of venture capital available in Europe for investment in biotechnology. Ironically, for many years most of these funds were directed at biotechnology investments in the US, but they are now looking increasingly for European investments. More recently, these funds have increased in size and number and are managed by experienced venture capitalists who have been seasoned by their experiences in the US biotechnology arena. Firms such as Apax, Rothschild Asset Management, Schroders, Abingworth Management, Advent, and Atlas Venture, all based in London, have considerable funds available for startup and development capital for the life sciences in most European countries.

Venture capitalists are, of course, also attracted by more realistic opportunities for exit on the wider range of capital markets now available in Europe. The London Stock Exchange was among the first to amend its rules for the listing of early-stage bioscience companies under its Chapter 20 regulations in 1993, which enabled many of the first wave of UK biotechnology companies to gain access to the public markets through a major exchange. Many UK and European companies continue to take this route.

The Alternative Investment Market (AIM), also in London, is designed for even earlier-stage companies to obtain a listing and modest public funding. It suffers from limited liquidity, but some firms may use it as a stepping stone to a full listing on the London Stock Exchange.

Meanwhile the national markets in other countries have been proving a great success. The Nouveau Marché in France and the Neuer Markt in Germany have attracted several high-tech and biotechnology companies, and have inspired quite vigorous interest from small French and German investors.

Then there is EASDAQ. This could be the market of choice for European biotechnology companies, having a transnational investor base and considerable advantages if a company wishes to obtain a dual listing. Its requirements are designed to parallel those of NASDAQ, such that it is possible to obtain a dual NASDAQ/EASDAQ listing with marginal extra cost or effort. Listings such as LSE/EASDAQ are also possible.

Companies from sectors other than biotechnology have already taken up EASDAQ listings, but it is still somewhat short of the critical mass required for complete flexibility and liquidity. Observers believe that when it reaches a critical mass of, say, 200 companies, it will become the market of choice for biotechnology companies in Europe.

### Conclusions

There is now in Europe a rapidly changing climate in terms of availability of excellent science, government initiatives and political will, availability of experienced venture capital, and new capital markets. Above all, a new entrepreneurial spirit now pervades the continent, with academics hungry to leave their cloisters and risk their careers in a commercial ventures. Add to this combination the fact that more than half of biotechnology's ultimate customers—pharmaceutical companies—are headquartered in Europe, and Europe becomes an extremely exciting environment for the next wave of biotechnology.

1. Ernst & Young. 1997. *European Biotech 97—A New Economy*. Ernst & Young, Palo Alto, CA.