

## Germany hit badly by investor disinterest

The downturn in investor sentiment toward biotechnology has hit Germany worse than most places. Whereas there have been over 70 venture capital investments made in the United States so far this year, there have been only three in Germany. Recently, however, investors and senior management alike are beginning not only to recognize what needs to be done to dig themselves out of their hole, but also to act on it.

According to Horst Domdey, CEO of the Munich-based regional development group Bio-M, German companies, like others around the world, are affected by the low valuations in public markets and by the concomitant lack of interest of venture capitalists in prospective investees with unrealistic expectations. However, the plight of would-be start-ups in Germany is exacerbated, says Domdey, by several other factors. The first of these is the conservatism of venture capitalist: "If VCs are going to invest, they prefer often to prolong support for existing investments, and they don't invest in new ideas at this time." This creates an early funding gap that is no longer being filled by the "soft money" that was available in 1996–1997 through the German ministry of research's investment aid schemes. A business-angel community such as those in the United States and United Kingdom, which could to some extent plug that gap, has not yet emerged in the German biotechnology sector, says Domdey.

Domdey is also somewhat frustrated by the contrast between what he sees as the very positive political messages that are emerging from national governments in Europe and the lack of movement in European capital markets. High-technology markets such as biotechnology have, at least since the Lisbon meeting of heads of government, been recognized as an essential part of European economic development, and such continent-wide political sentiments are now being genuinely translated into national innovation policy and sector stimulation. But there has been no response from the capital markets. "The only thing that will really help biotechnology, in Germany especially, will be to get the tech markets going again."

One of the measures likely to stimulate the flagging German sector is a solid round of sensible consolidation. Peter Heinrich, CEO of one of Germany's biggest and most successful biotechnology companies, MediGene (Munich), says that there is "a

strong need for consolidation" to create companies that have broader bases involving bundles of technologies. Many of the German companies that obtained their initial funding in the 1996–1997 halcyon days were "financed inappropriately," he believes. "Their business models were too reliant on technology development"—leading, he says, to an overabundance of platform technology companies. Heinrich believes that most of these companies will not attract any funding at all in the current climate, and that corporate demise is more

---

**The only thing that will really help biotechnology, in Germany especially, will be to get the tech markets going again.**

---

likely than merger and acquisition. Among the remainder, though, he sees some hope. Although no trend in M&A deal flow has been discernable yet, Heinrich sees that company executives are now starting to talk to each other and to move toward negotiations.

That view is confirmed by venture capitalists in Germany. One, who did not wish to be cited, notes that meetings between venture capital groups to discuss M&A opportunities between companies are now becoming more urgent: "Quite a bit of the deal bottleneck used to be at the investor level," he says, "but now we have much more contact. If you ask for a meeting to discuss mergers of portfolio companies now, then that meeting can happen within a couple of weeks." The current bottleneck,

he believes, is at the management level—resulting partly from pride of ownership, but also partly from a recognition of the difficulties that M&A itself creates. "Post-merger management is a strain on company executives, especially at biotechnology companies, which normally have lean infrastructures without the reserves to perform extra tasks."

Even this recent increased willingness to look at M&A in Germany, although received generally as very positive, may not spur venture capitalist to fund new or newly merged enterprises. Karen Hitschke, assistant director of Apax Partners (Munich, Germany), points out that the current all-enveloping depression in biotechnology finance markets means that established investors may have more attractive opportunities elsewhere. "If you are an international investor and you have the choice between public and private equity, you can pick from a plethora of publicly quoted companies currently trading for cash that may often be below the value of comparable private companies. You know that there is an immediate and significant upside [when the markets recover] without running a technology or management risk."

She believes that when venture investors come back to biotechnology in Germany, they will back companies much more selectively. There will still be backing for some companies at a proof-of-principle phase, she says, but those companies will have to demonstrate quantum leaps in technological capability. The venture companies will back them in a small round at the beginning but will be ready to undertake a major second round. Later-stage companies with experienced management teams and portfolios of products will also attract significant finance, she believes, especially if they can demonstrate credible revenue streams that could see them through funding bad times.

*John Hodgson, Cambridge, UK*

## Eugenics concerns rekindle with application of gene therapy and genetic counseling

Virginia governor Mark Warner apologized publicly early in May for "Virginia's participation in eugenics," alluding specifically to a now-repudiated 1924 law endorsing involuntary sterilization. Although most such US state laws were also rescinded several decades ago, concerns over eugenics are being renewed

among molecular geneticists and others seeking to develop clinical protocols for human gene therapy.

Strictly speaking, research aimed at developing gene therapy for clinical application to human patients is not the same as using similar gene-based techniques to enhance human performance traits, points