All together now?

The imminent advent of a global exchange is unlikely to be a panacea for the financial ills that currently beset European biotech.

The single high-technology stock exchange that so many in European biotech have desired may be just around the corner. In mid-November, Nasdaq made a "final offer" of £12.43 ($23.79) a share for the London Stock Exchange (LSE). The offer, as with two lower offers earlier in the year, was rejected by LSE. Nevertheless, Nasdaq now owns nearly 30% of LSE shares, and it seems to many that it is only a matter of time before the deal happens, whether as a friendly merger or an aggressive acquisition.

Meanwhile, just a week earlier, seven global investment banks—Citigroup, Credit Suisse, Deutsche Bank, Goldman Sachs, Merrill Lynch, Morgan Stanley and UBS—came together to establish a pan-European equities trading platform that will compete head-to-head with Europe's domestic stock exchanges.

And, in parallel with both these developments, the New York Stock Exchange and Euronext, a consortium of relatively small European stock exchanges, are awaiting shareholder and regulatory approval for a merger to create a global stock exchange that trades 21 hours a day.

These three separate moves have all been stimulated by the introduction of the EU's Markets in Financial Instruments Directive (MiFID). The Directive was passed at the European level in April and is due to be implemented in each of the countries of the EU by November 2007. In essence, MiFID makes two very important and fundamental changes to European financial practice. It says that a person qualified to undertake financial dealings in one EU country is qualified to do so in them all. And it also says that share trading can now take place outside a stock exchange: banks, for instance, can trade shares between themselves as long as they publish the price of the shares beforehand. In short, MiFID creates a unified market and increases competition.

For biotech companies that are currently quoted on European stock exchanges, the creation of global stock exchanges or other forms of international trading platforms is often presented as a panacea for some of the financial ills that beset the European sector. But that may be oversimplistic.

One of the chief deficiencies of national stock exchanges in Europe is that there are only a few biotech firms on each of them. The fortunes of all of the biotech companies in a national sector are firmly tied to investors' perceptions of the leading ventures. Thus, in Austria, everything apparently depends on Intercell; in Denmark, it is GenMab; in France it used to be Genset and now it is Nicox; and in Sweden, it's Biovitrum. The presence of only a few firms on each bourse also affects the liquidity of biotech stocks: investors who want to be 'in biotech' are, in many cases, forgoing the right to move their money around. Where could they move it to?

In this context, bringing all the biotech companies together on a single exchange would, it is argued, show that the sector, not just one company, is more robust. It would allow investors to move money around within, rather than in and out of, biotech. And it would make it worthwhile for brokers to employ biotech specialist analysts, who in turn would raise the visibility of the sector with investors.

This 'critical mass' argument applies, of course, not only to any pan-European stock exchange, but also to the kind of global trading being planned by Nasdaq, NYSE-Euronext and the big investment banks. European companies would join the ranks of quoted US firms, such as Genentech and Amgen, Gilead and MedImmune. These are firms that undoubtedly get noticed by investors. But would that mean more attention for the European firms?

There is no guarantee that joining the same share-exchange club will necessarily elevate the firms to a similar status in the eyes of investors. Indeed, it may have the reverse effect. For a start, it seems unlikely that US analysts are going to spend too much time looking at European companies because of simple math. Stockbrokers get paid a small percentage on all trades. They benefit most from high-value shares that change hands regularly. And the truth is that nearly all of the top-traded biotech companies are US based; even the three European companies that feature in the top 40 according to *BioCentury*—Shire, Elan and Skyepharma—are traded in dollars. Between 100,000 and 400,000 shares per day are traded for leading European biotechs, such as Intercell, Actelion, Genmab, NicOx and Biovitrum; for the top-40 US biotechs by market cap, the trading volumes are at least twice the upper end of that scale and an order of magnitude higher for the top-20 US firms.

In terms of company valuation, most European public firms look out of place among the US big fish. Granted there are three European firms that feature in the top-ten list by current market capitalization—Serono, UCB and Shire. But arguably these firms hardly fit the traditional biotech model. Of those companies that do, just three of Europe's entrepreneurial biotech companies (Actelion, Genmab and Crucell) fall within the top 50 and another seven or eight squeeze into the top 100. So the European portion of any public global biotech sector might amount to <5%.

The other thing that a global exchange would do is expose both European and US companies to a global investor audience. There undoubtedly is a larger pool of money invested in US companies, and European companies may hope for greater access to some of that money. The downside is, however, that the relatively small amount of money invested in European firms may also dwindle when it has a scarily large mass of US corporate activity to migrate towards.

Ultimately, though, the precise outcome of globalization in finance will depend neither on the balance of current investment nor on the prevalence of publicly quoted firms but on the relative quality of those firms, wherever they are located. And for the bellwether firms in Europe, the time is coming to an end when it is sufficient simply to be the best bet in your own national market.