BUSINESS AND REGULATORY NEWS

European biotechnology firms approve of stock market mergers

European biotechnology firms are excited about rumors of a merger between the Eurocentric stock exchanges, Easdaq and EURO.NM, hoping a combined exchange will increase the liquidity and visibility of their stock, making it easier to raise money. However, it is unclear what form a merged exchange will take, as discussions between the exchanges are at an early stage and informal. Although many biotechnology firms believe exchange consolidation is a good idea, the exchanges want to tread carefully to ensure that the listing criteria after a merger will be beneficial to all firms including small biotechnology companies.

Easdaq (run by the European Association of Securities Dealers, Brussels) is an all-electronic exchange modeled after Nasdaq in the United States, and the EURO.NM (Brussels) comprises four small, high-risk, local exchanges: the Neuer Markt in Germany, Le Nouveau Marché in France, the Nieuwe Markt in The Netherlands, and EURO.NM in Belgium (*Nat. Biotechnol.* 15:1230, 1997). Both exchanges have shown some success: Qiagen (Hilden, Germany) raised over \$30 million on the Neuer Markt in June 1996 and Innogenetics (Ghent, Belgium) raised \$80 million on Easdaq back in November 1996. However, neither has been able to regularly attract investments of this size. Robert Thys, director of marketing at EURO.NM, says underground talks have been going on for some time. Analysts, financial officers from biotechnology firms, and staff at EURO.NM all agree that a merged entity would create one large, sustainable, investor-pulling exchange.

A number of biotechnology companies currently listed on these exchanges—including Innogenetics, Transgene (Strasbourg, France), and Cerep (Poitiers, France)—support a merger, explaining that a combined exchange would offer many new benefits: Exposure of a company's profile to a greater number of potential investors; an increased number of international investors; and a higher volume of shares being bought or sold (liquidity), increasing the chance of raising money.

Liquidity is essential to such small firms as Cerep, which is valued at just under Euro50 million (US\$59 million) on Le Nouveau Marché, says Cerep COO Alain Maiore. EURO.NM has low liquidity, a result of too few investors. In what amounts to a vicious cycle, investors are keen to be able to sell large chunks of stock at short notice if

they lose interest, as they are deterred from buying the low-liquidity stocks. "If you want liquidity, [EURO.NM and Easdaq] have to consolidate," Maiore says. "The investors in companies on EURO.NM would [then] be investing in the merged market," agrees Wem Ottevaere, Innogenetics CFO. He explains that an increased number of investors would "improve the visibility" of Innogenetics, which would be necessary to raise money in the future.

Robert Thys of EURO.NM thinks consolidation will happen.

Transgene, a gene therapy firm listed on Le Nouveau Marché, is also listed on Nasdaq. Transgene CFO Bernard Davitian says that this dual listing allows Transgene access to both international and local investors. According to Davitian, EURO.NM will never pull large international investors on its own because its listing requirements allow companies with a paper value as low as Euro5 million (US\$6 million) to list. "EURO.NM is more interested in the number of companies [on the exchange], not the quality," he says.

This question of listing criteria is key to whether or not a combined exchange will be advantageous for biotechnology companies, many of which are small and unable to meet the financial standards of large exchanges. The listing requirements for Easdaq and EURO.NM currently differ significantly in the size-of-company category: Easdaq companies must have a minimum paper value of Euro50 million, 10 times that of EURO.NM. A compromise between the two exchanges would have to be found before a merger could occur, says Clive Pedder, marketing director at Easdaq.

Although both exchanges are preparing themselves to handle high-risk firms, Pedder is concerned that a disorganized clumping of Easdaq and EURO.NM will not create the

benefits biotechnology companies are seeking. "We need time for market forces to decide what is the best structure [for a stock exchange]," he says.

One hypothetical scenario of a merged Easdaq and EURO.NM, which Pedder poses but emphasizes is not Easdaq policy, is a two-tier exchange. This would comprise a main exchange backed by international investors for large companies, and a secondary exchange that would tap into local investors for the smaller firms—a model similar to the Nasdaq National and Nasdaq Small Cap.

Another possibility is to follow the model chosen by the Stockholm Bourse and the Copenhagen Stock Exchange, which announced a merger in October. The two exchanges will continue to exist independently, but will be linked electronically. Investors will be able to trade in stocks from either exchange through the same computer platform, thus increasing liquidity, according to Hans Ole Jochusen, CEO of the Copenhagen exchange.

Ultimately, Jochusen envisages all 14 Nordic exchanges joining the alliance, but acknowledges that he is unsure how the rules and listing criteria would be standardized. Peter Wulff, president of Bavarian Nordic (Glostrup, Denmark), which listed on the Copenhagen exchange at the start of November and raised DKK195 million (\$31 million), thinks these Nordic consolidations will be very effective at increasing liquidity, allowing his company to raise money more easily in the future.

Europe is not alone in exchange consolidation. Two major US stock exchanges, Nasdaq and Amex, finalized a deal last month to link via a common electronic platform. Although there are plans to bring their listing requirements toward a common standard, this will not be happening in the near future, says Nasdaq spokesperson Scott Peterson. He says this merger is the start of an ongoing plan to globalize the finance industry: The new Nasdaq-Amex Group is now in negotiations with the Frankfurt exchange, the London Stock Exchange, and the Hong Kong Exchange to develop closer links.

When competing with globalization on this scale, European consolidation would seem irrelevant, or at least insignificant. However, it is likely that small biotechnology firms will always demand a higher-risk exchange.

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