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French Biotechs Facing Cold Investment Winter

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PARIS - For a brief moment everything was wonderful for financing European biotechnology companies.

That was 2007 when the Euronext stock exchange almost soared, putting wind under the wings of fledgling European biotechs, giving them an excitement they have long envied watching the high flyers on the American Nasdaq exchange take off.

Then, just as suddenly, it was over in the first half of this year.

The follow-on crisis in financial markets that began in September slammed the door on any hope of raising financing through the markets, leaving French companies out in the cold.

Economic winter has come again across Europe for aspiring biotechs that find themselves back in a familiar and desolate landscape for investment.

"The window is now closed," said Philippe Pouletty, chairman of **France Biotech**, during his presentation of the association's annual survey, "The Global and French Biotechnology Industry 2008 Report," at the heavily French congress EuroBio being held here this week.

The reopening of the stock market window in late 2006 "proved a major spur resulting in a marked progression in 2007 with the listing of 15 French **biotech** companies," he said.

"The stock market, which finally appeared to be fulfilling its role of a financial rallying point for biotechnology companies, allowing premarket investors to recover and reinvest their capital, was ultimately unable to ride out the current financial crisis," Pouletty said.

In 2008 only one company, Ipsogen, of Marseille, was able to manage an initial public offering (IPO) when it was introduced in June.

France is ranked third in Europe for the number of listed companies and fourth for total stock market valuation.

Unexpectedly, venture capitalists rode to the rescue for some French companies in the first half of this year, Pouletty noted. Investing only €99 million (US\$145 million), "this nevertheless remained the primary source of funding for the industry throughout the first half of 2008, accounting for 88 percent of all investment during this period," according to the **France Biotech** report.

That is roughly half of what VC funds invested in the salad days of 2007 when they accounted for just 25 percent of total investment in French biotechnology. In 2005 VCs funded 56 percent of total investment in French biotechnology and in 2006 VC funds accounted for 38 percent.

Pouletty did not give a projection for continued VC investment this year, and it remains to be seen if the financial crisis has closed that window as well.

He told *BioWorld Today* that the uncertainty of the crisis will freeze up investments into next spring, but that biotechnology companies will easily weather the credit crisis accompanying the market meltdown.

"These are money-losing enterprises," he said. "Banks wouldn't lend money to them in the best of times."

The heady surge of stock investment in **biotech** in 2007 encouraged the creation of the Euronext Next **Biotech** Index in April, grouping 26 companies in **France**, Belgium and the Netherlands that are listed on the exchange.

On June 26, the **Biotech** Index represented a total stock market capitalization of €4.7 billion, but on Oct. 3, the index's market capitalization had plunged €1 million to €3.75 billion.

Dollar values reflect exchange rates on those days, the dollar having rebounded against the euro during the crisis.

"The good news is that the plunge is not as deep as the broad market," Pouletty offered. He remains optimistic about the sector, saying creation of the index gives it a greater visibility with investors who he hopes have finished with their "témérité" - recklessness - and will at some point begin seeking the more reasonable value-to-risk opportunities that **biotech** represents.

Tracking the Next **Biotech** Index from April to August against the Dow Jones EURO STOXX 50 index showed **biotech** trading down 4.7 percent while the Dow Jones index fell 12.1 percent.

In the full report from **France Biotech**, the authors speculated, "While awaiting the next opening of the stock market window, it is to be hoped that the financial deficits registered within the large pharmaceutical groups, as a result of loss of a quarter of their patents for currently marketed drugs, coupled with their search for innovative new molecules to 'dynamise' their product portfolios, will push them toward our **biotech** companies."

"Such a development could lead to a number of strategic alliances or mergers over the coming months," the report stated.

The report from **France Biotech** is rich in detail offering a state-of-the-industry profile for **France** and insights to the larger European landscape thanks to sections comparing the national scene to Europe and the rest of the world.

Pouletty said the outlook for the French **biotech** sector is mixed with the dark investment picture casting a pall over what is a year of otherwise fairly encouraging news.

A survey of 149 companies is included in the report and they reported total revenue of €675 million, up 20 percent from 2006.

That increase in revenue helped slow the losses at those companies, which ballooned in 2006 by 45 percent but showed a "relative improvement" by only increasing 15 percent again in 2007.

Research and development expenses were €278 million in 2007, an increase of 23 percent.

The imbalance between the U.S. and Europe was highlighted by key activity indicators, according to **France Biotech**.

While Europe today counts as many companies as the U.S., they are smaller and less mature with 390 percent less capital than their U.S. counterparts.

R&D investment is three times lower with **France Biotech** valuing U.S. R&D spending at \$30 billion compared to \$9.5 billion for Europe.

Europe is home to 1,744 biotechnology companies employing 81,947 people for a mean average of 47 employees per company or half the staff at their U.S. counterparts.

According to estimates from Ernest & Young provided for the **France Biotech** report, total revenue for European companies was \$20 billion, representing a 21 percent share of the global biotechnology market.

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