

# Investment in European Biotech: Outlook and Trends

*Sachs Associates 7<sup>th</sup> Annual Biotech in Europe Investor Forum  
Zurich, October 2, 2007*

**Dr. Peter Reinisch**  
**Global Life Science Ventures**



*Key message from last years' conferences:*

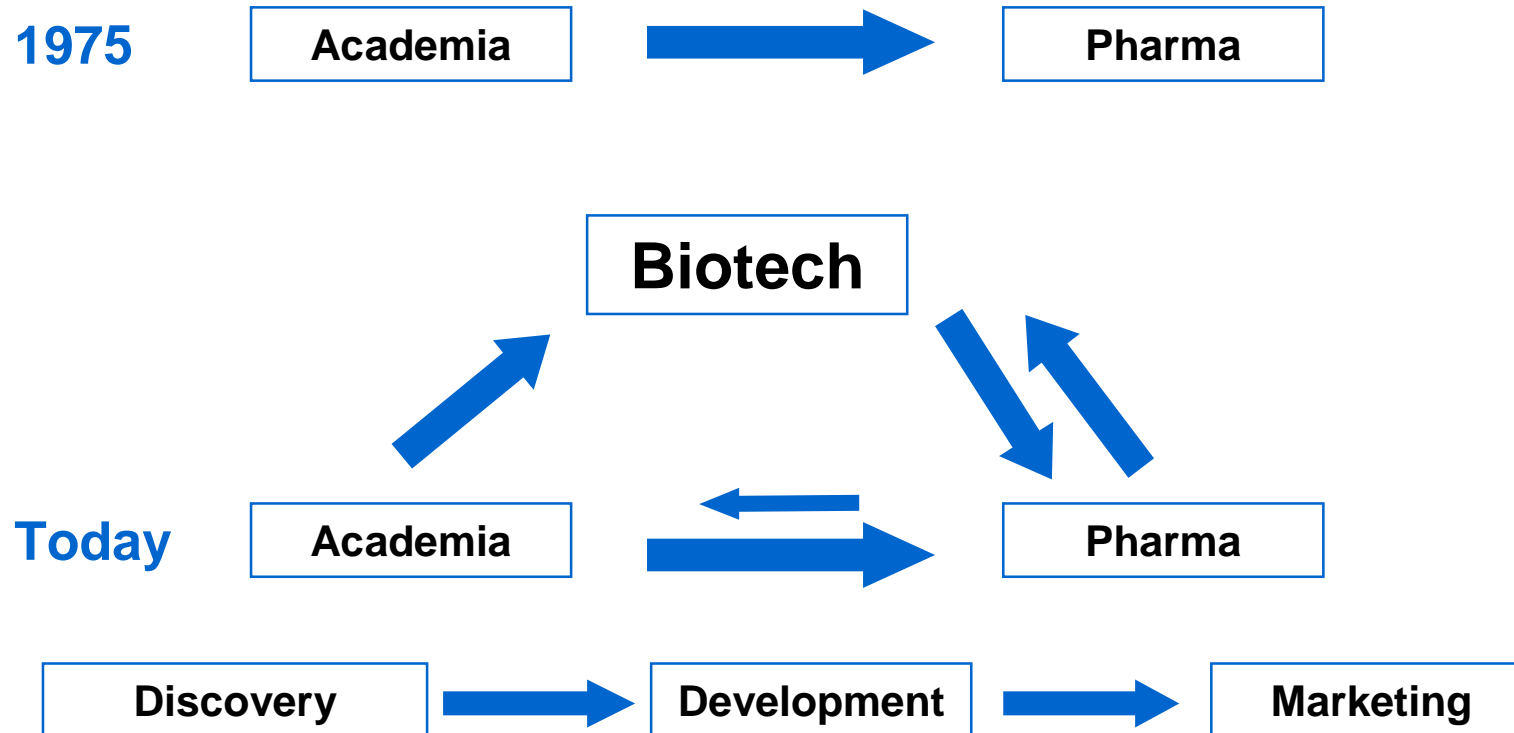
## **Biotechnology represents a long-lasting business opportunity**

**Life Sciences have a solid foundation to build on**

- ***Health is the most fundamental of human needs***
- ***Healthcare is largely resistant to market forces***
- ***Health offers a huge potential***
  - *There are a huge number of unmet medical needs e.g. cancer, cardiovascular, auto-immune, infectious (e.g. AIDS, malaria, tuberculosis, hepatitis, bird flu, SARS), Alzheimer's, obesity, depression, ...*
  - *Of ~30'000 known human diseases, only 1/3 can be treated*
  - *New infectious agents continue to emerge regularly*
  - *With aging populations, the needs are increasing*



# Biotech: the link between academia and pharma



*Key message from last years' conferences:*

## **Biotechnology represents a long-lasting business opportunity – Pharma under Pressure**

- *Loss of patent protection and sales*
- *Economic pressures*
- *Diminishing R&D productivity*
- *Reduced pipeline of new active substances*



*Key message from last years' conferences:*

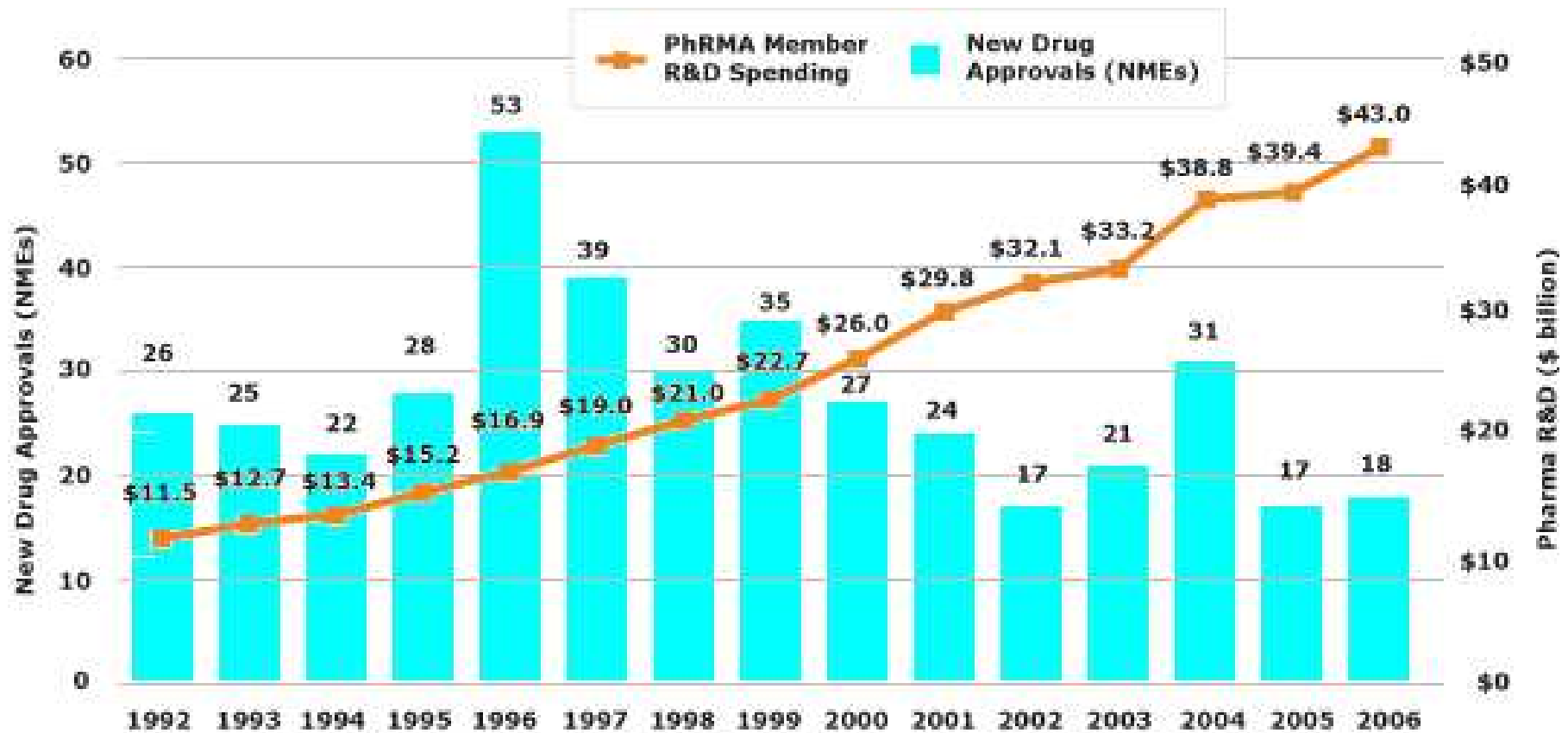
## **Biotechnology represents a long-lasting business opportunity**

- *4 out of 5 therapies in development are biotech-based\**
- *Proven ability to generate treatments for devastating diseases, such as AIDS*
- *Innovative character*
- *High R&D productivity*
- *>190 biotech drugs and vaccines currently available<sup>#</sup>*
- *>400 biotech products in clinical trials\**
- *Biotech had twice as many NMEs approved by the FDA in 2004 as big pharma\**



\*E&Y Beyond Borders 2005 #BIO, PhRMA 2003

# Big pharma's innovation gap



Source: Burill & Co., FDA

# New grounds for optimism

## Biotechnology sector predicted to reach overall profitability in US by 2008

- *In 2006, net losses of publicly traded companies fell by 37% in Europe*
- *If not for large transaction-related charges, US sector would already have been profitable for the first time.\**

## Strong interest of pharma in collaborations/acquisitions to strengthen pipelines

- *In 2006, value of M&A and especially alliances grew.*
- *Deal-making among pharma and biotech is becoming a dominant financial force&*



# New grounds for optimism

**Good IPO performance, with windows likely to remain more stably open than in past.**

- *In H1 2007, 16 IPOs in Europe, 14 in North America.*
- *In Q2 2007, the total raised in biotech IPOs broke \$1 billion in a single quarter for first time since 2000.#*





# New grounds for optimism

**Increasing number of European biotech companies with products in Phase III and on the market.**

- *In 2006: 36 product approvals in US (+3); 25 products in application or approved in Europe (+4)<sup>&</sup>*
- *Since 2004, biotech has had more product approvals than pharma every year<sup>&</sup>*

## Increasing revenues

- *In 2006, global public company revenues reached US\$70 billion threshold for first time<sup>\*</sup>*
- *Revenue growth was 13% in both US and Europe<sup>\*</sup>*



<sup>&</sup>Nature Biotech <sup>\*</sup>E&Y Beyond Borders 2007

# 3<sup>rd</sup> Annual GLSV Biotech Investment Barometer

- Survey of biotech and investment communities conducted mid-September
- 200 responses received
- Professional category:
  - 80 Biotech executives
  - 99 Investment community  
(55 VCs, 15 LPs, 14 other investors, 15 analysts)
  - 13 Pharma executives
  - 8 Other
- Location:
  - 158 Europe
  - 38 North America
  - 4 Other

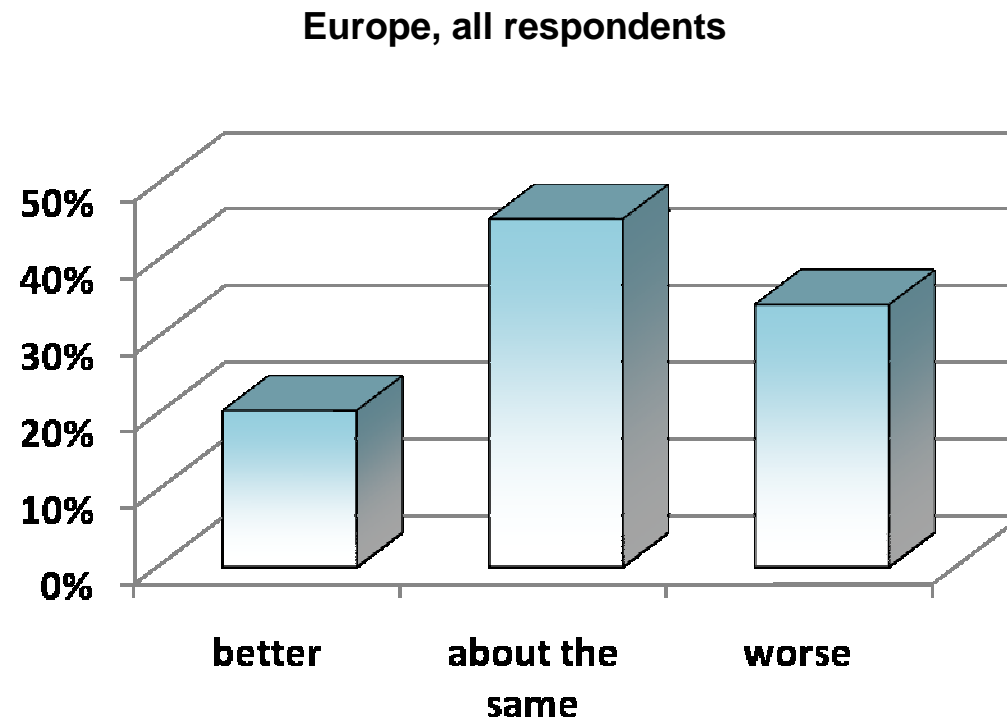


# Results of survey

- Despite negative impact of clinical results and drug approvals, continuing positive outlook



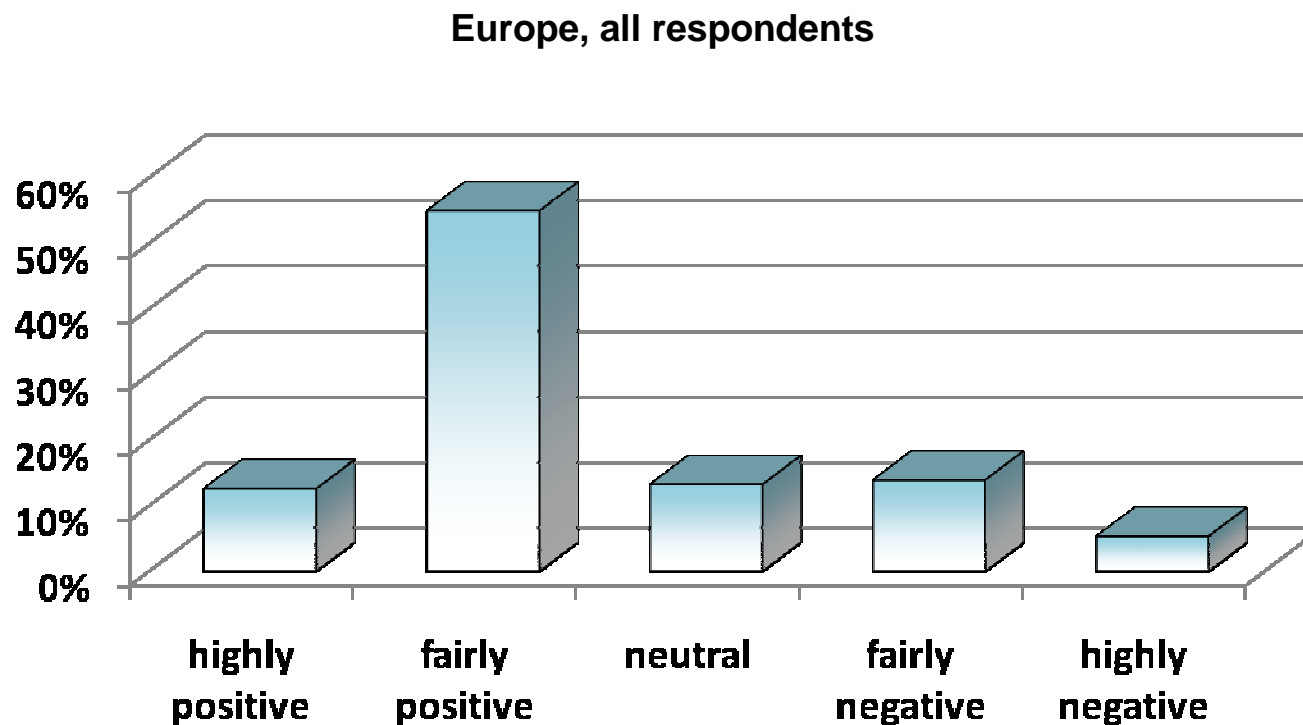
# Impact of recent clinical results & drug approvals on market sentiment vs last year



20% see an improvement  
34% see a deterioration



# The future for the European biotechnology sector

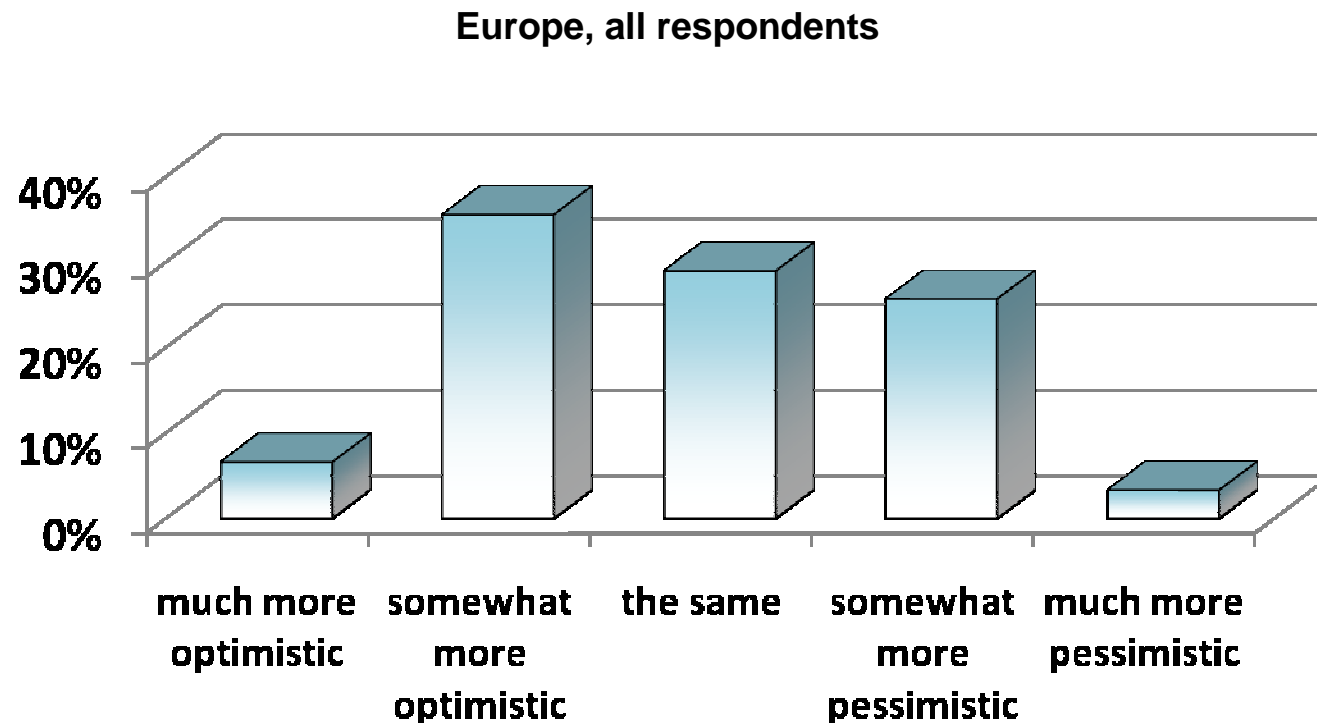


**68% see future as fairly/highly positive (2006: 75%)**

**19% see future as fairly/highly negative (2006: 9%)**



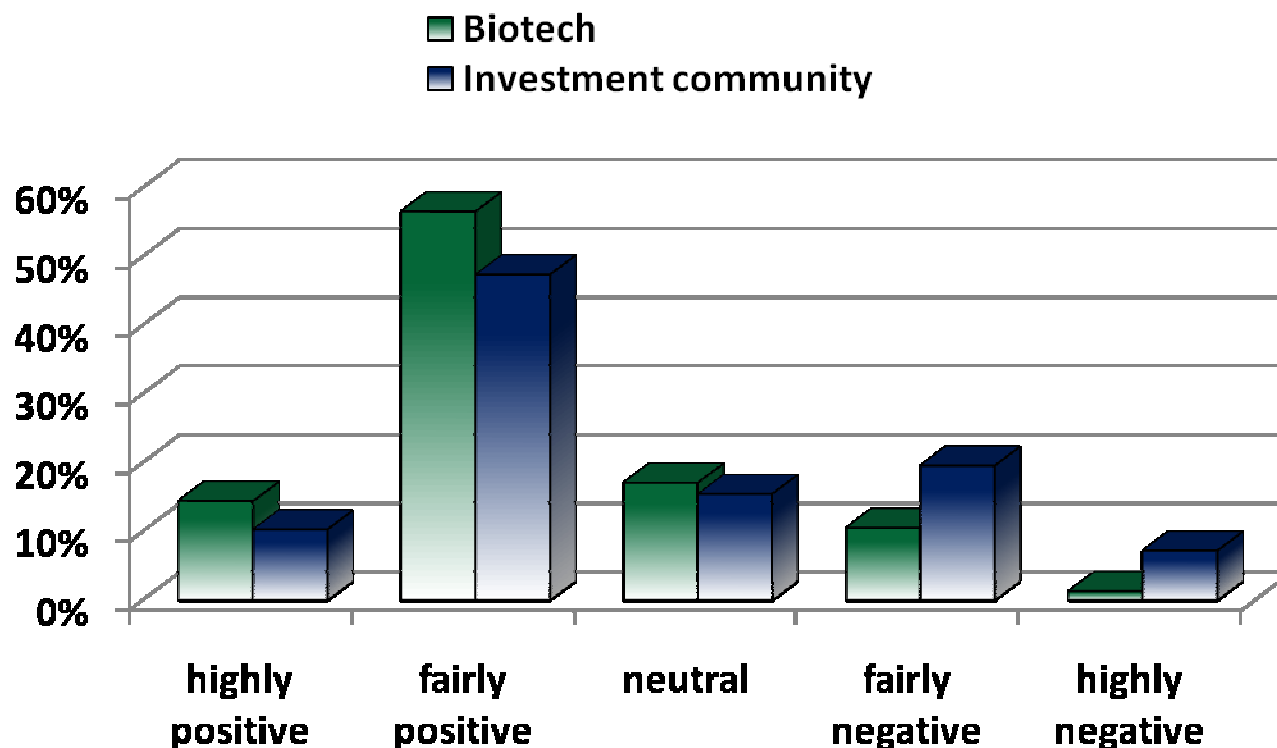
# View today about biotech sector compared with 12 months ago



42% more optimistic than 12 months ago (2006: 59%)  
29% more pessimistic



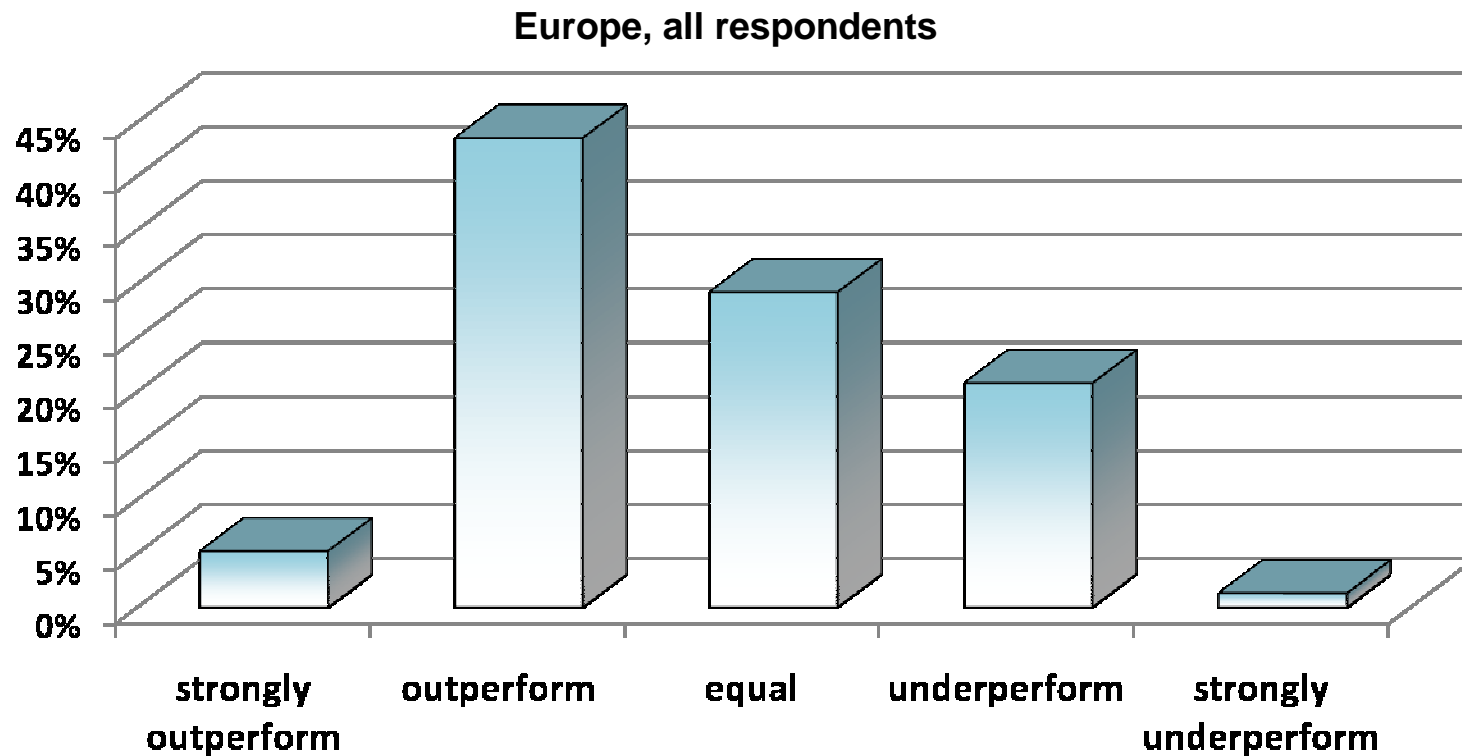
# The future for the European biotechnology sector



Change is mainly among investment community.  
71% of biotech executives still see future as positive (all countries)  
58% of investment community see future as positive (all countries)



# Biotech share performance vs stock market in next 12 months



**49% expect biotech shares to outperform stock market in next 12 months**  
**22% expect them to underperform**





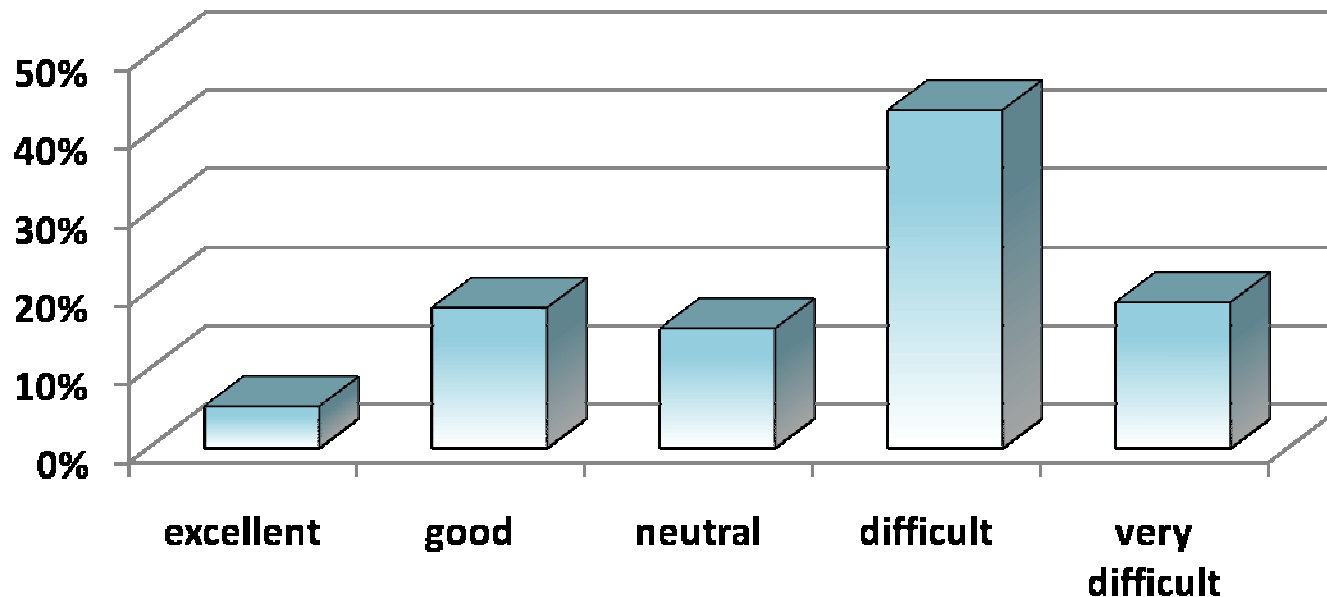
# Results of survey

- *Despite negative impact of clinical results and drug approvals, continuing positive outlook*
- **Slightly improved funding environment**



# Current funding environment for early stage biotech in Europe

Europe, all respondents



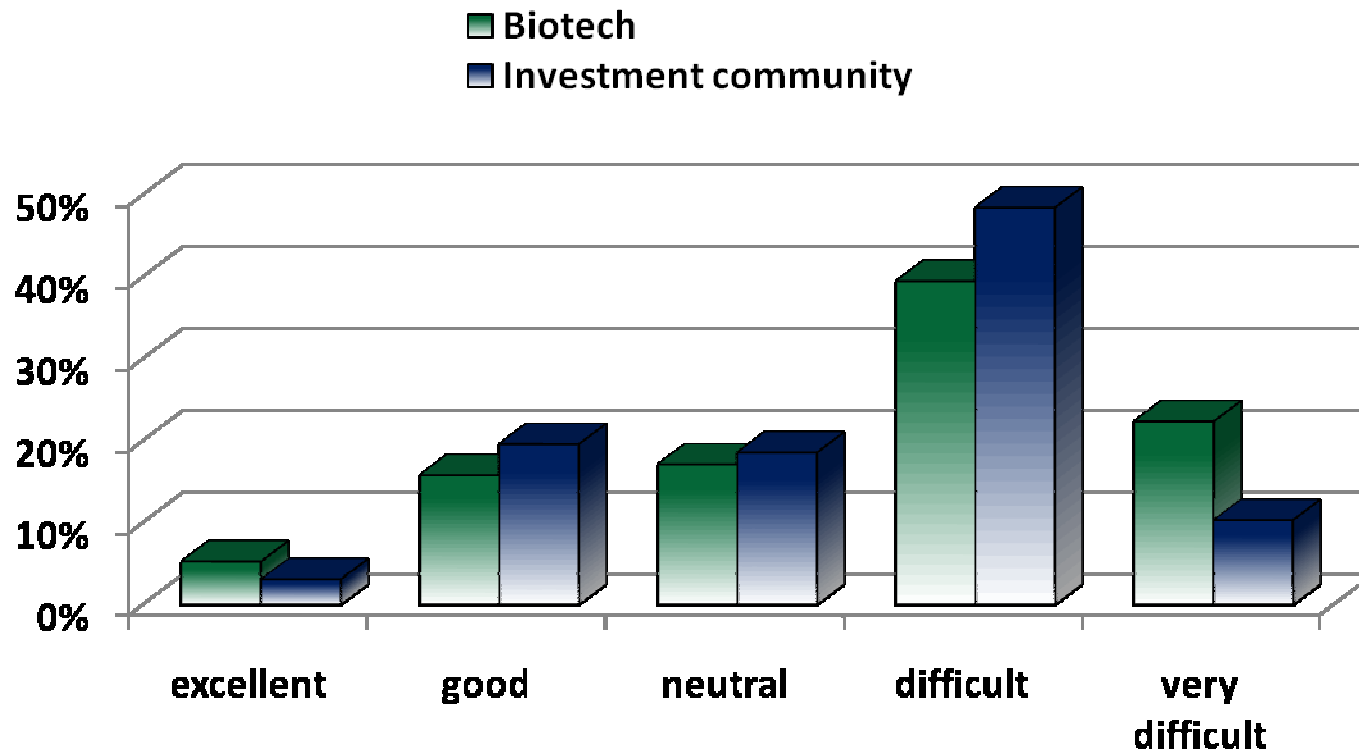
Funding environment for biotech companies in Europe still difficult but improved over 2006:

62% view it as difficult or very difficult (2006: 74%)

23% view it as good or excellent (2006: 13%)



# Current funding environment for early stage biotech in Europe

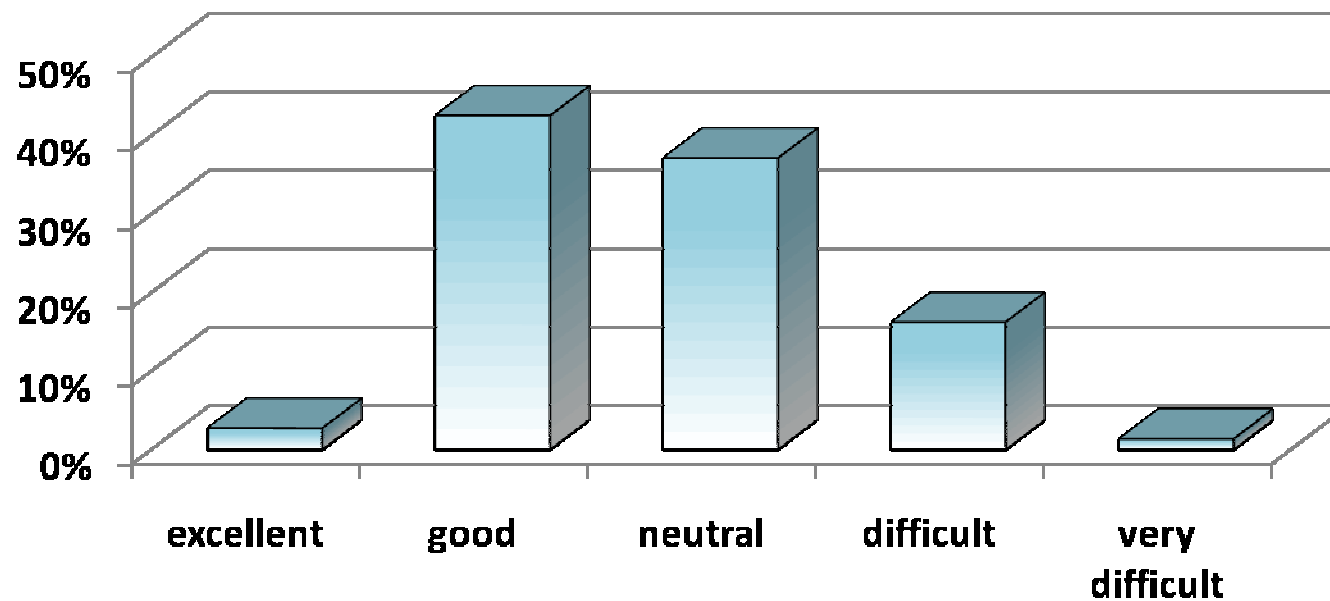


Investors view the funding environment in Europe as somewhat less difficult than do biotech executives



# Current funding environment for early stage biotech in the US

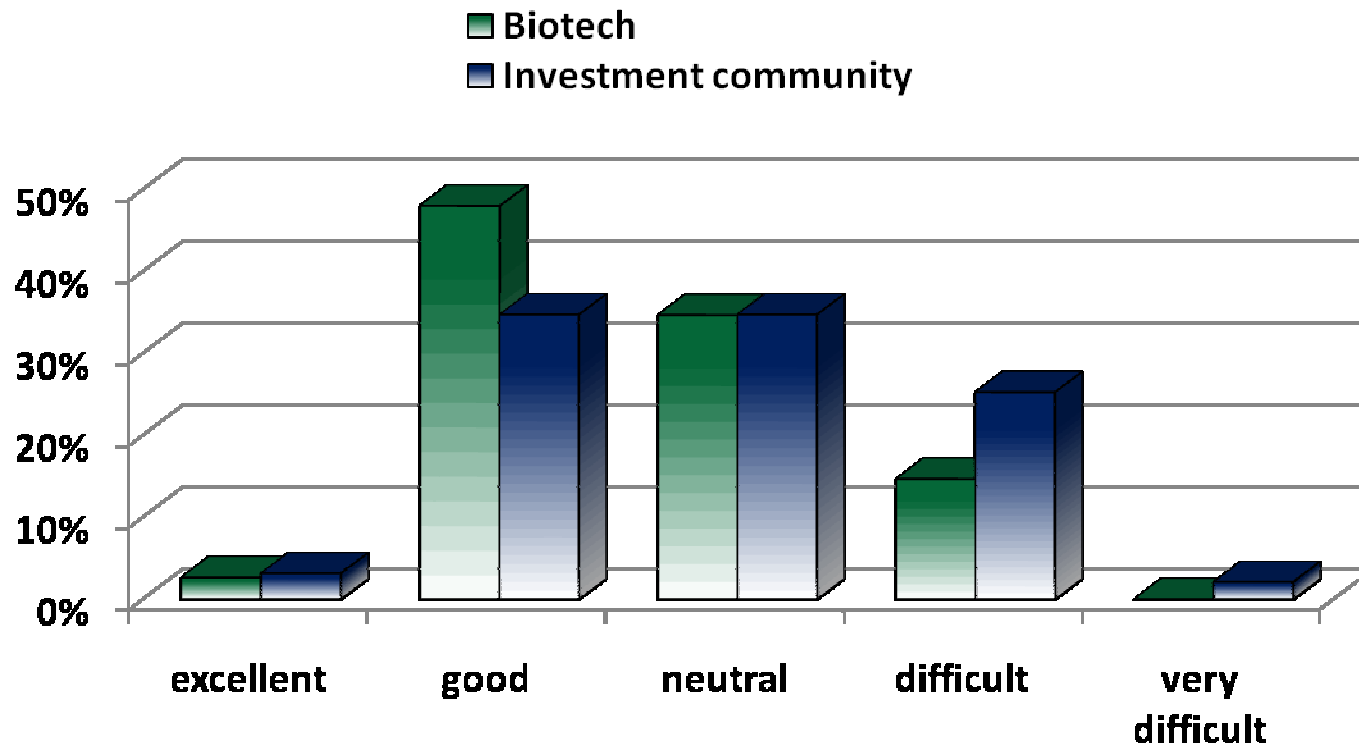
Europe, all respondents



45% view US funding environment as good or excellent



# Current funding environment for early stage biotech in the US



Investors view US funding environment as more difficult than do biotech executives

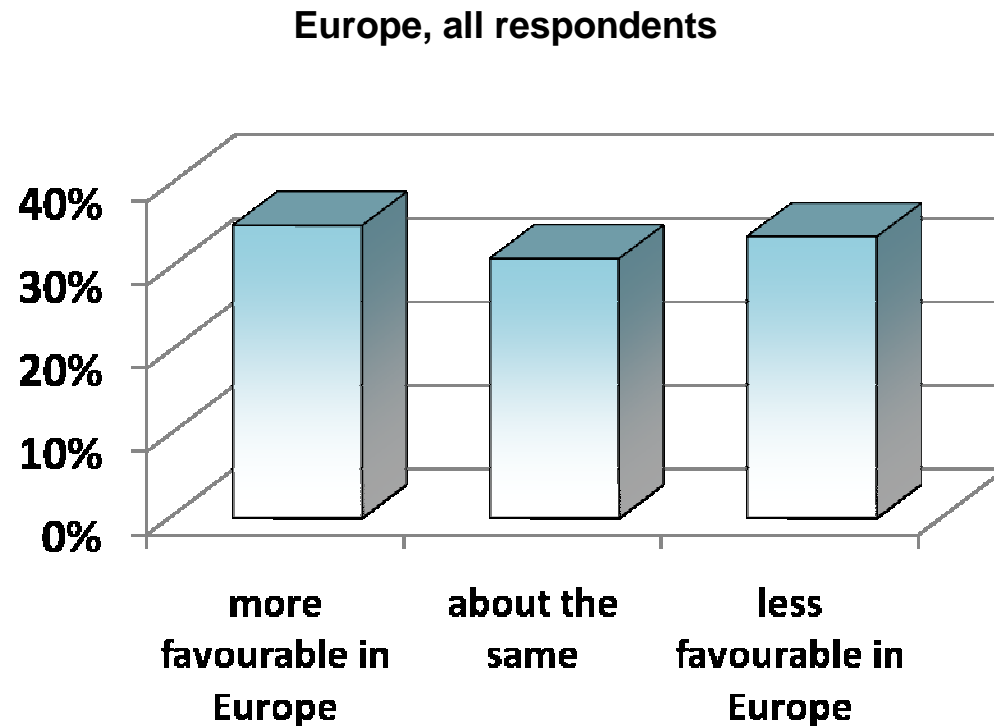


# Results of survey

- *Despite negative impact of clinical results and drug approvals, continuing positive outlook*
- *Slightly improved funding environment*
- **IPO market conditions in Europe similar to US**



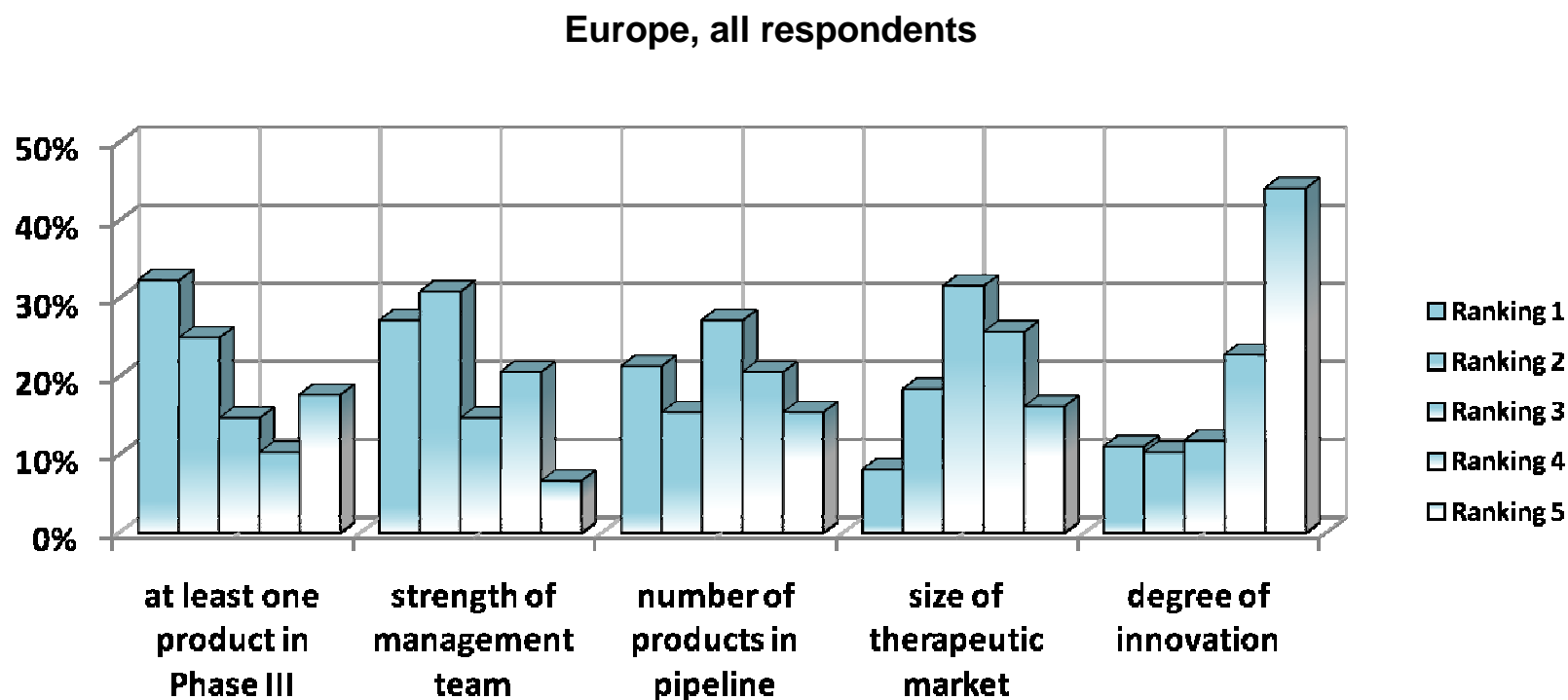
# Market conditions for biotech IPOs in Europe compared to US



Europe and US now considered to have similar market conditions for IPOs



# Most important factors for the success of an IPO

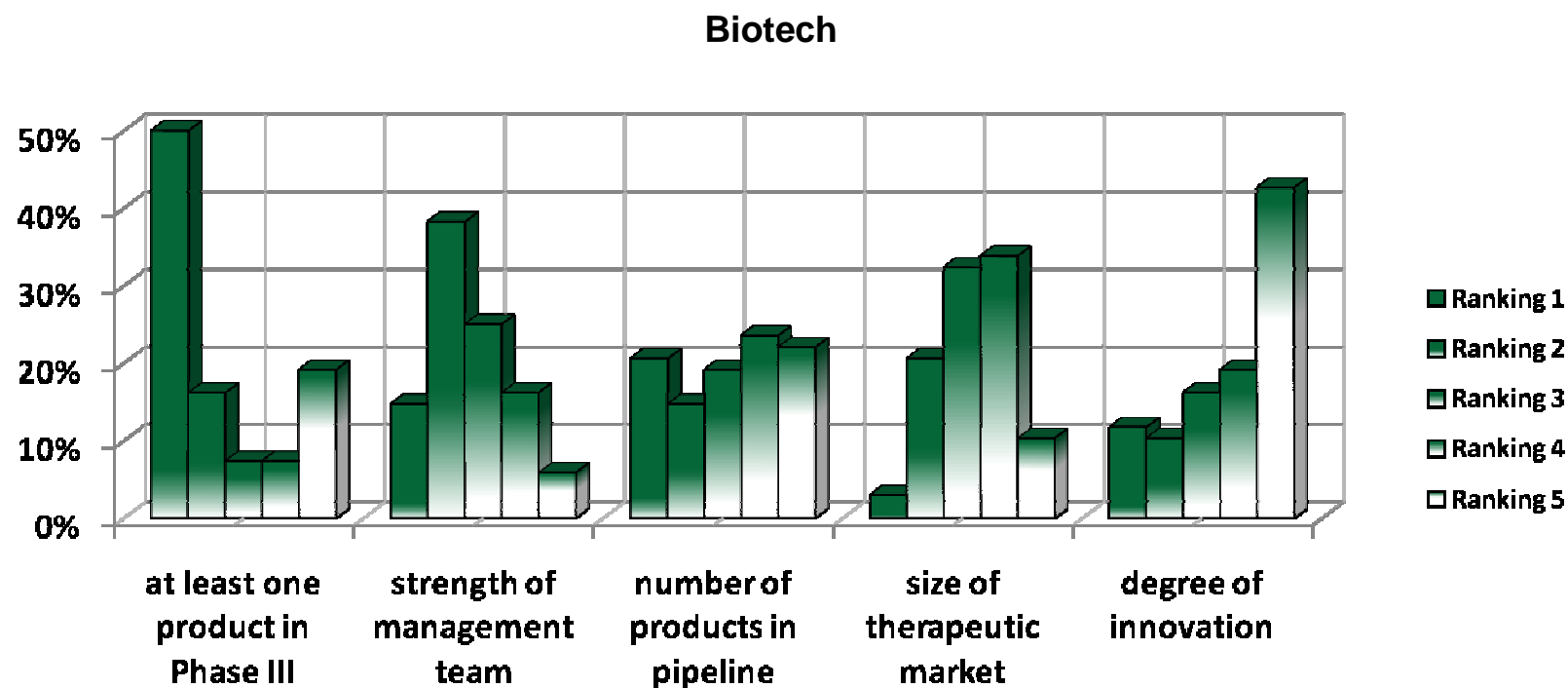


Late stage product and strong management team considered two most important factors for success of an IPO





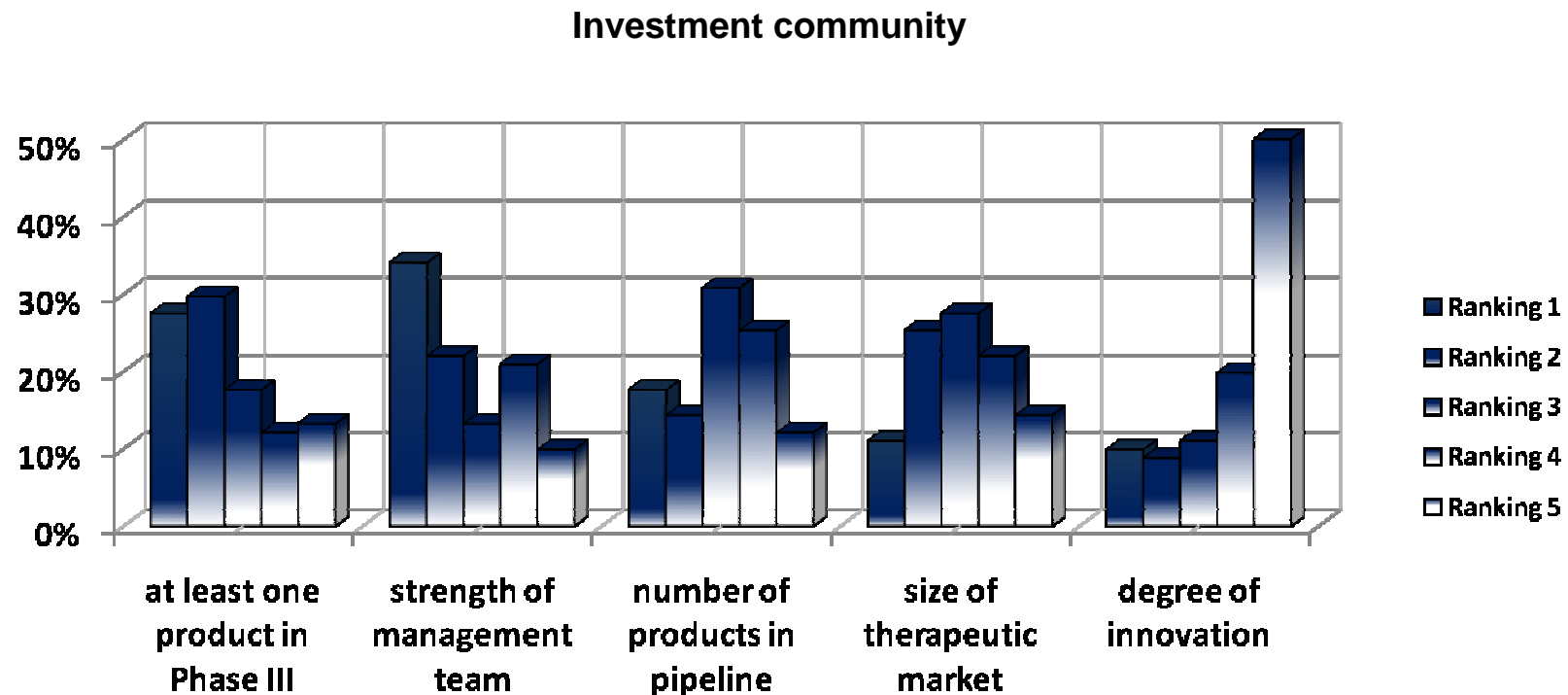
# Most important factors for the success of an IPO



**50% of biotech executives consider late stage product most important factor**



# Most important factors for the success of an IPO



Investors place about equal emphasis on strength of management team

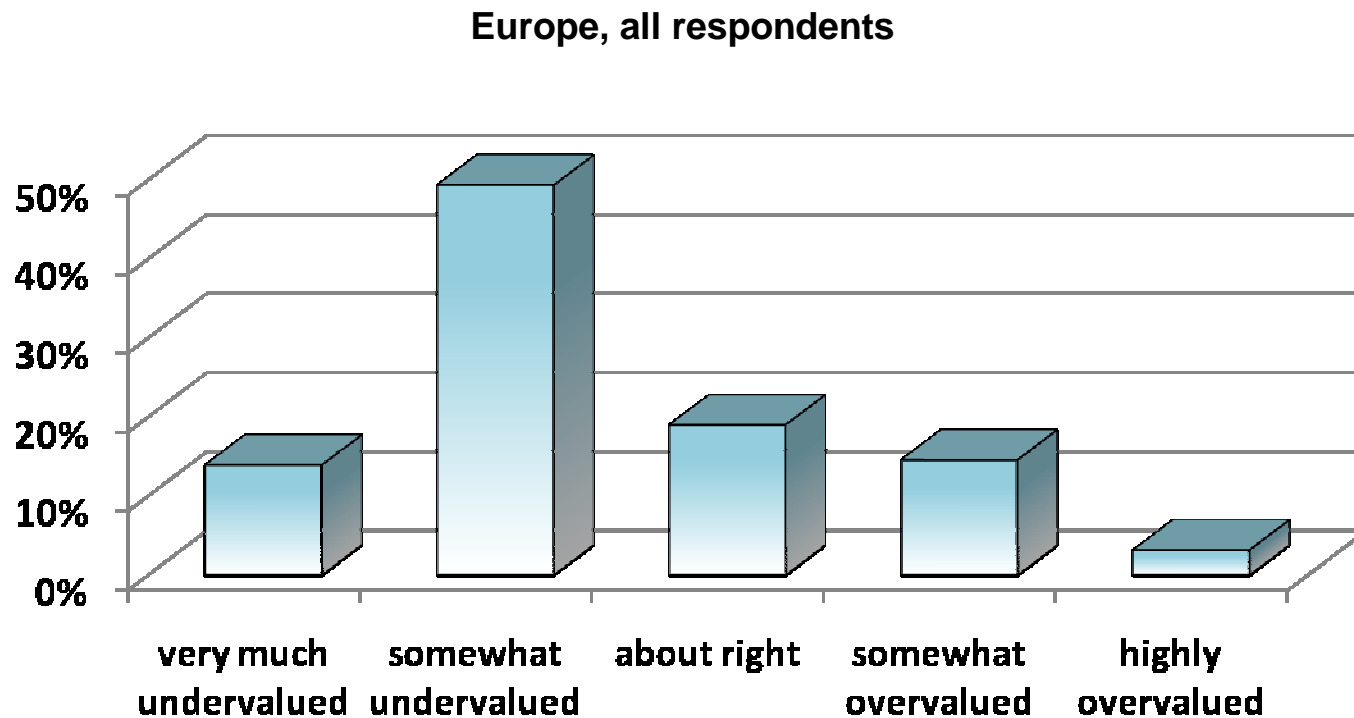


# Results of survey

- *Despite negative impact of clinical results and drug approvals, continuing positive outlook*
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- **Biotech stocks regarded to being undervalued**



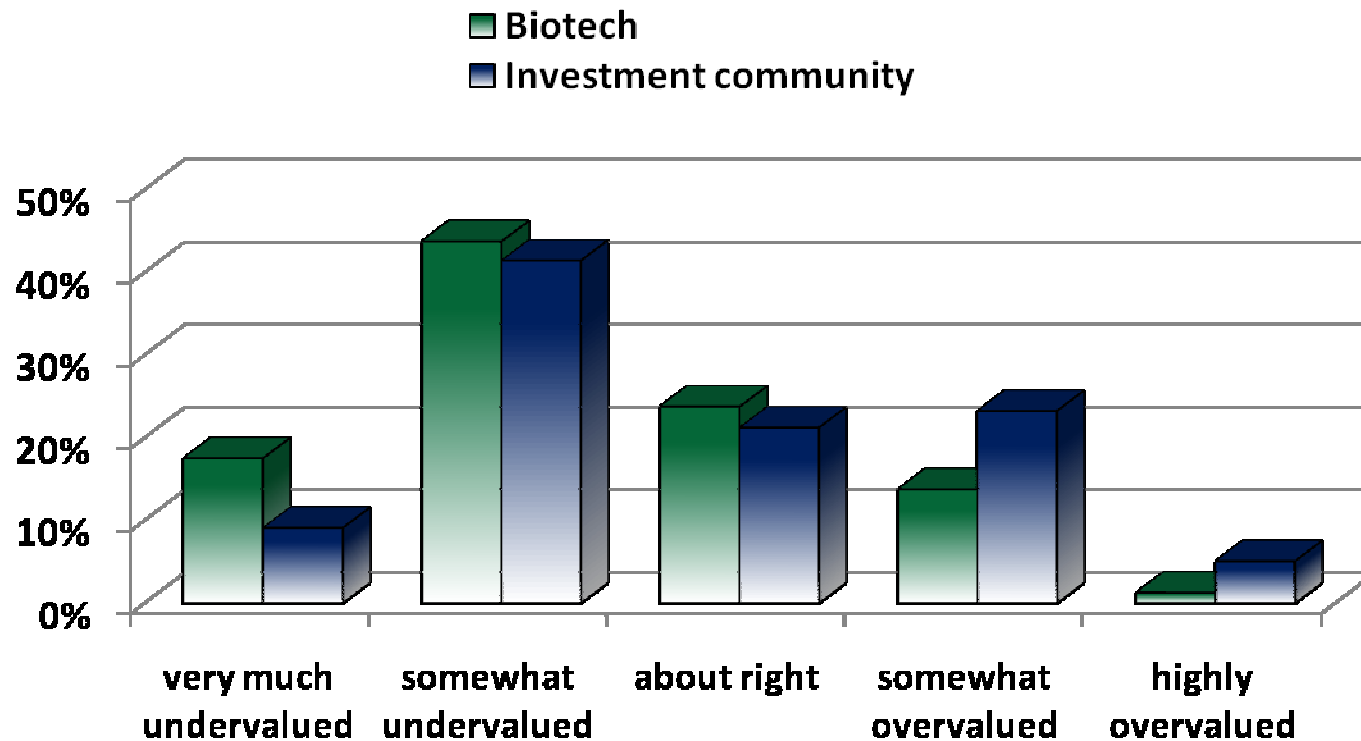
# Current biotech stock valuations in Europe



63% still consider European biotech stocks undervalued (2006: 68%)



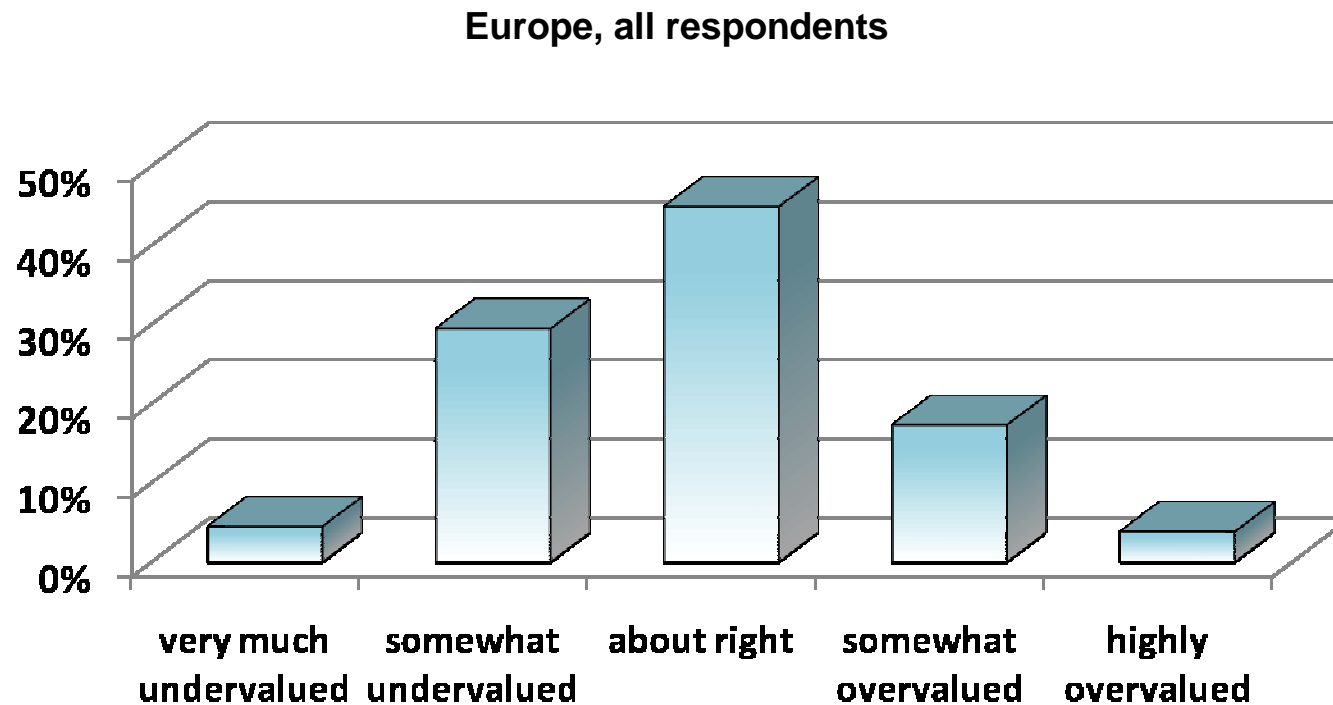
# Current biotech stock valuations in Europe



**Biotech executives more likely by a 10% margin to consider European biotech stocks undervalued than the investment community.**



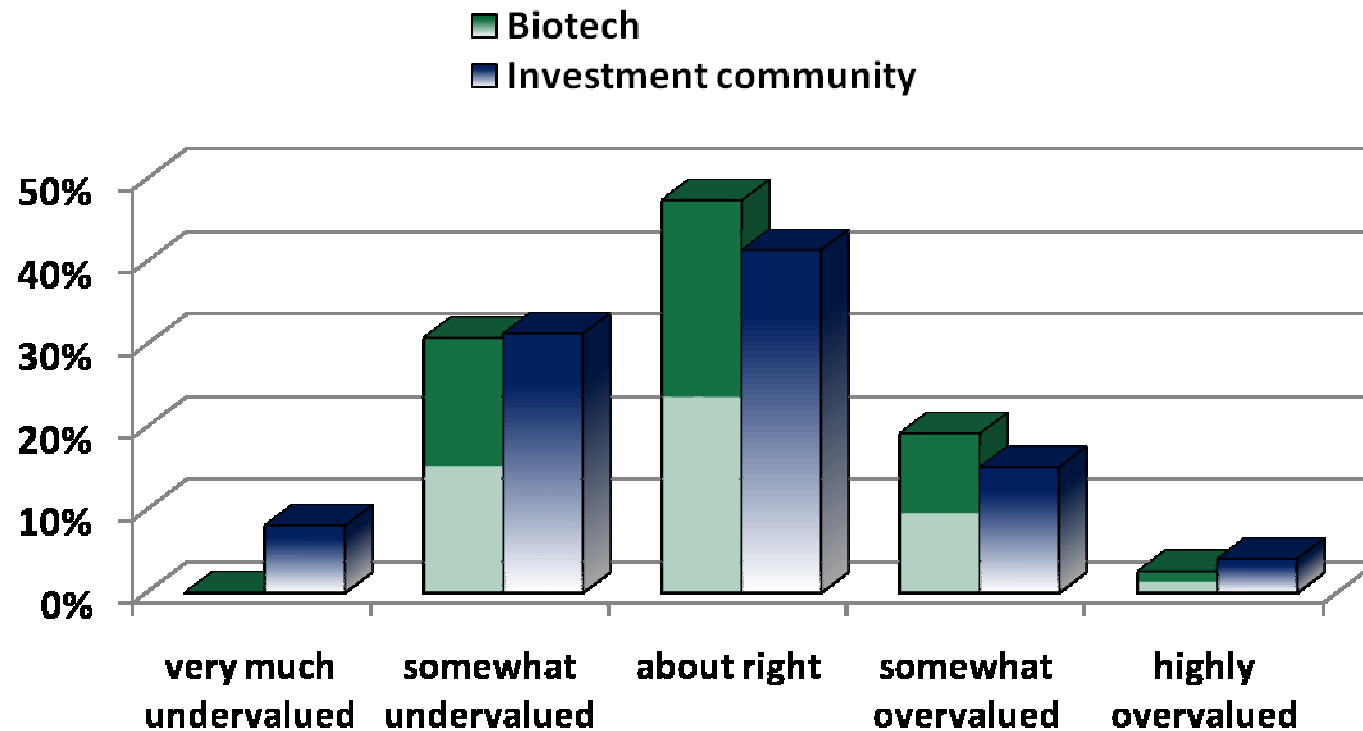
# Current biotech stock valuations in the US



34% now view US biotech stocks as undervalued (2006: 29%)  
21% view US biotech stocks as overvalued (2006: 29%)



# Current biotech stock valuations in the US

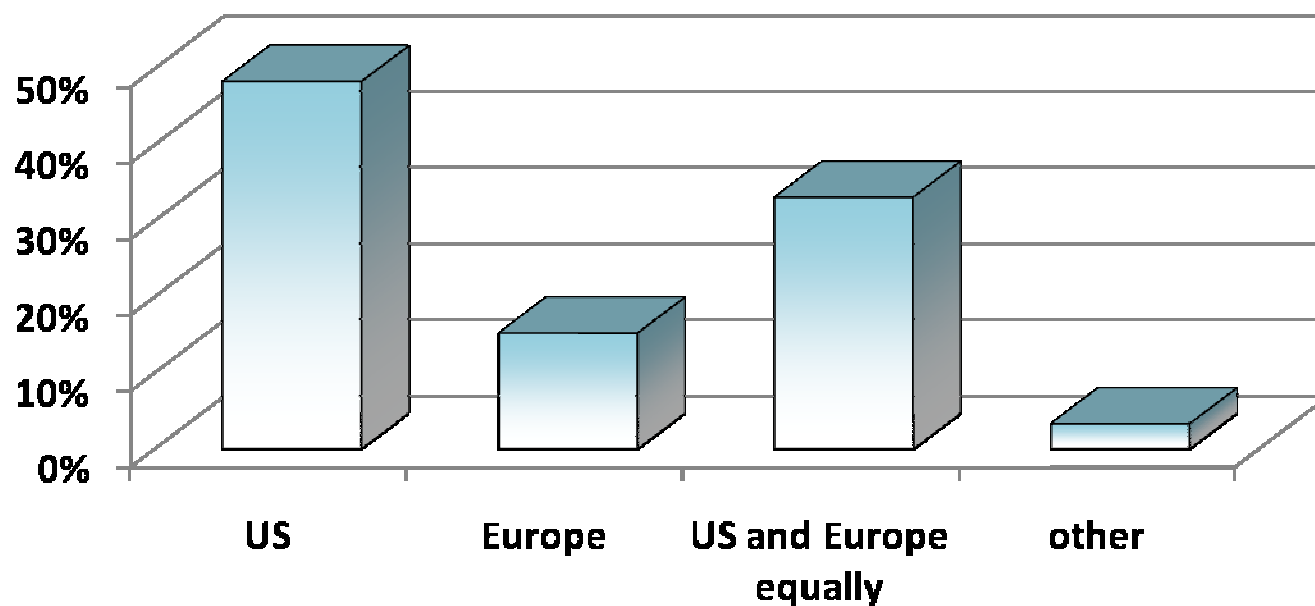


Investors more likely to view US biotech stocks as undervalued



# Geographical region most attractive for life science VCs

Europe, all respondents

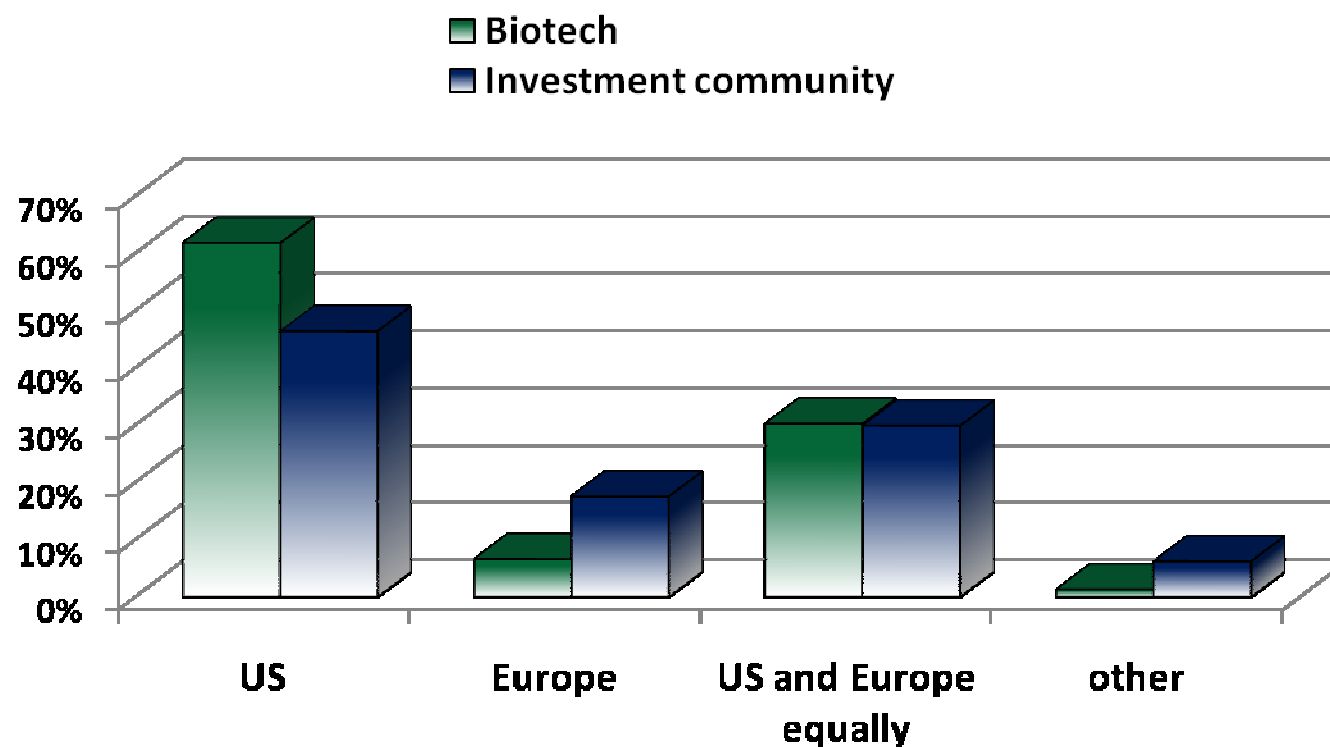


48% view the US as a more attractive region for life science VCs  
15% view Europe as more attractive  
33% view the US and Europe as equally attractive





## Geographical region most attractive for life science VCs



Investment community more likely to view Europe as more attractive



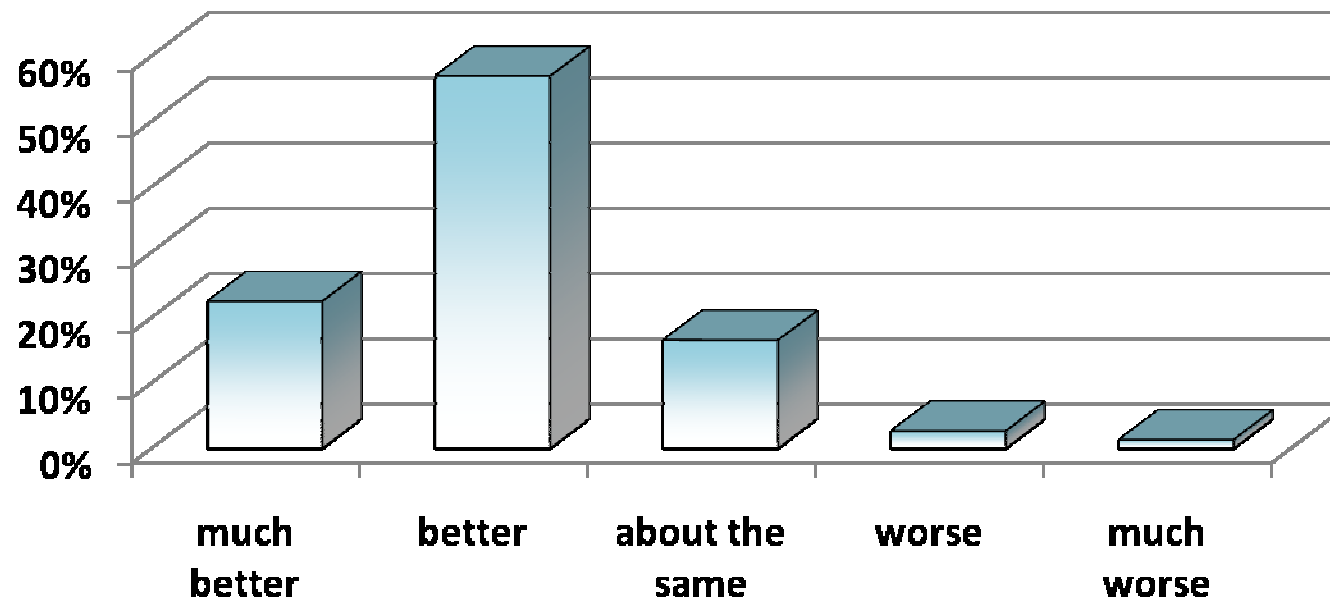
# Results of survey

- *Despite negative impact of clinical results and drug approvals, continuing positive outlook*
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- *IPO market conditions in Europe similar to US*
- *Biotech stocks regarded to being undervalued*
- **Improved relationship Big Pharma – Biotech**



# Change in big pharma's attitude toward biotech companies in recent years

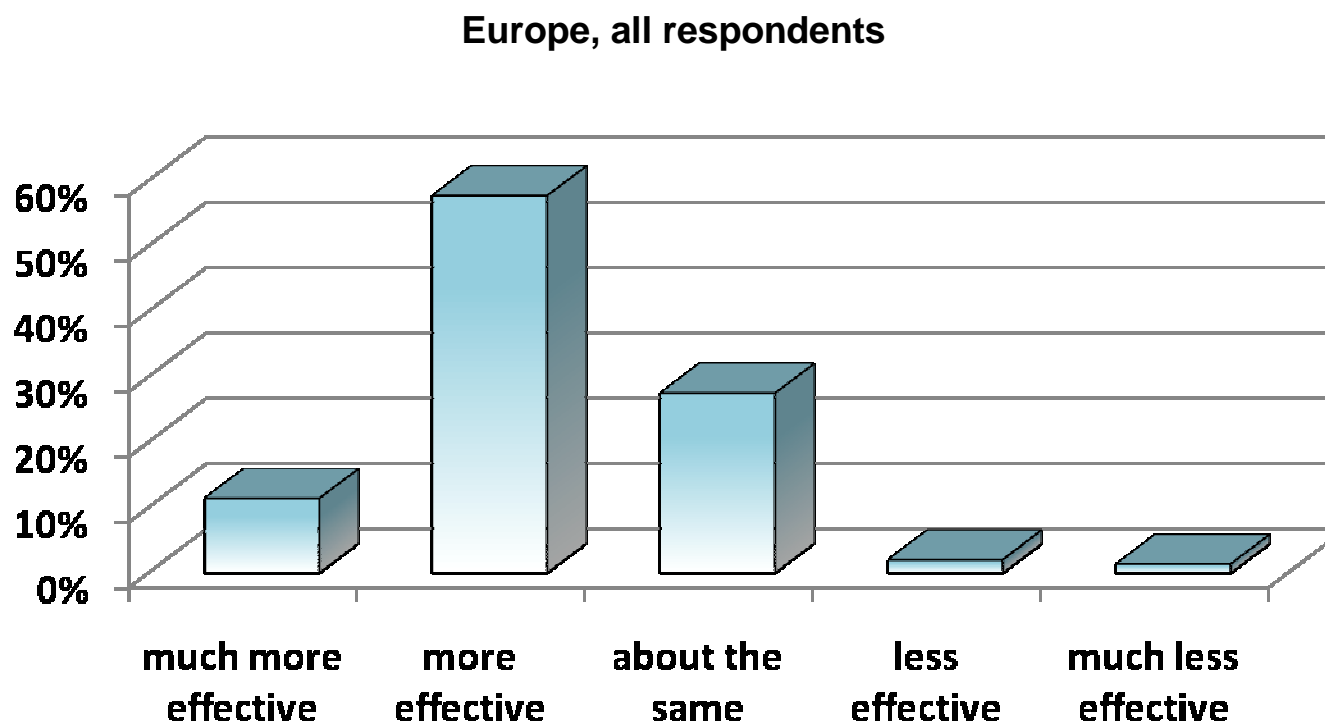
Europe, all respondents



**80% consider big pharma's attitude toward biotech companies has improved in recent years**



# Change in big pharma's use of biotech's innovations to fill its pipelines in recent years



**69% consider big pharma has made more effective use of biotech's innovations to fill its pipelines in recent years**

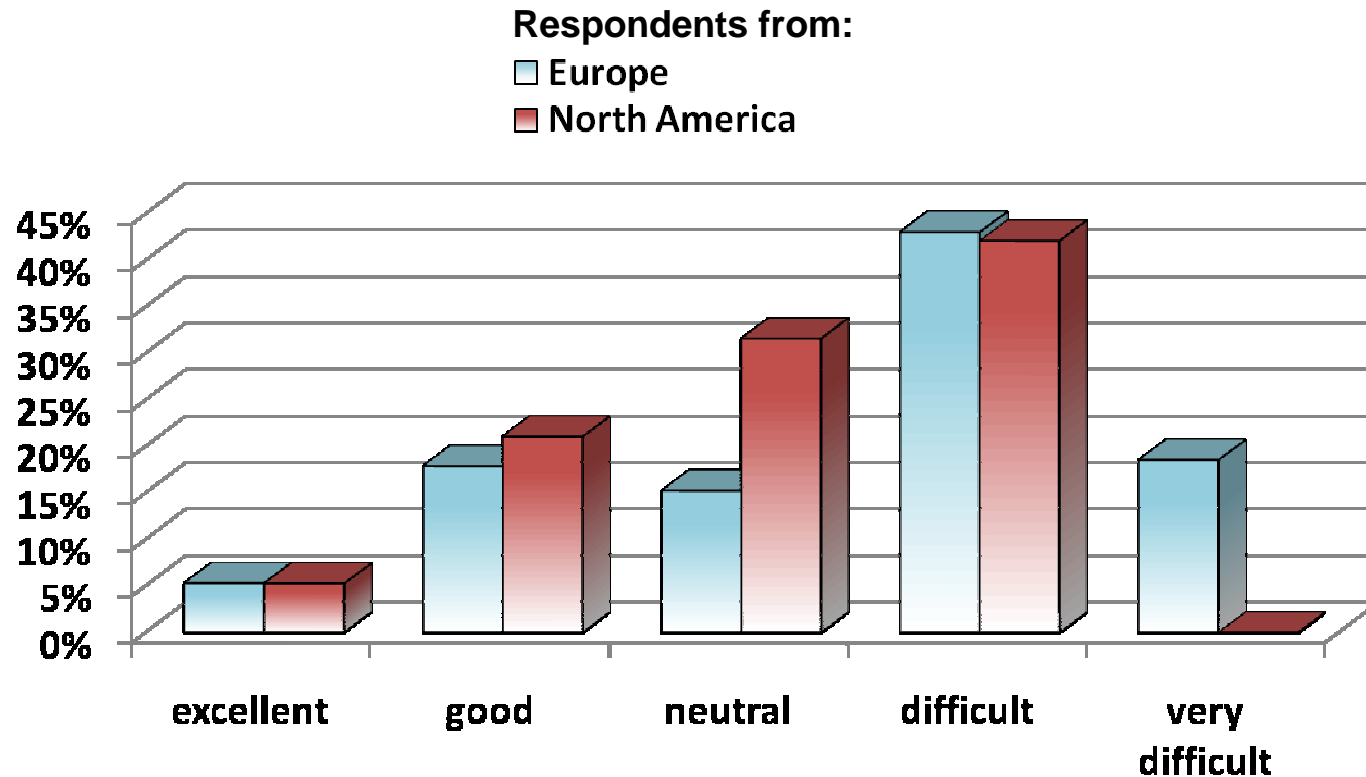


# Results of survey

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- *Slightly improved funding environment*
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- *Improved relationship Big Pharma – Biotech*
- **Mixed views on attractiveness Europe vs US**



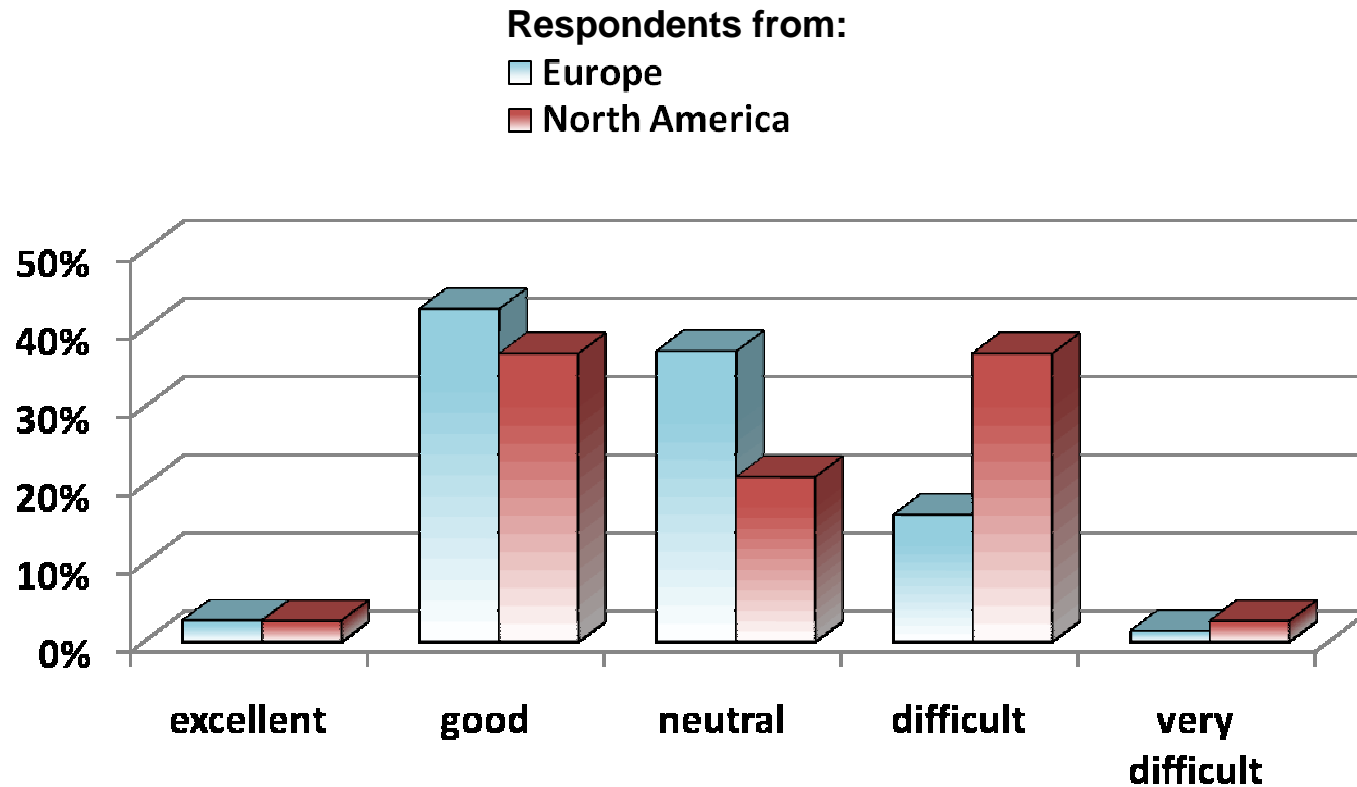
# Current funding environment for early stage biotech in Europe



North American respondents view European funding environment as somewhat less difficult than European respondents



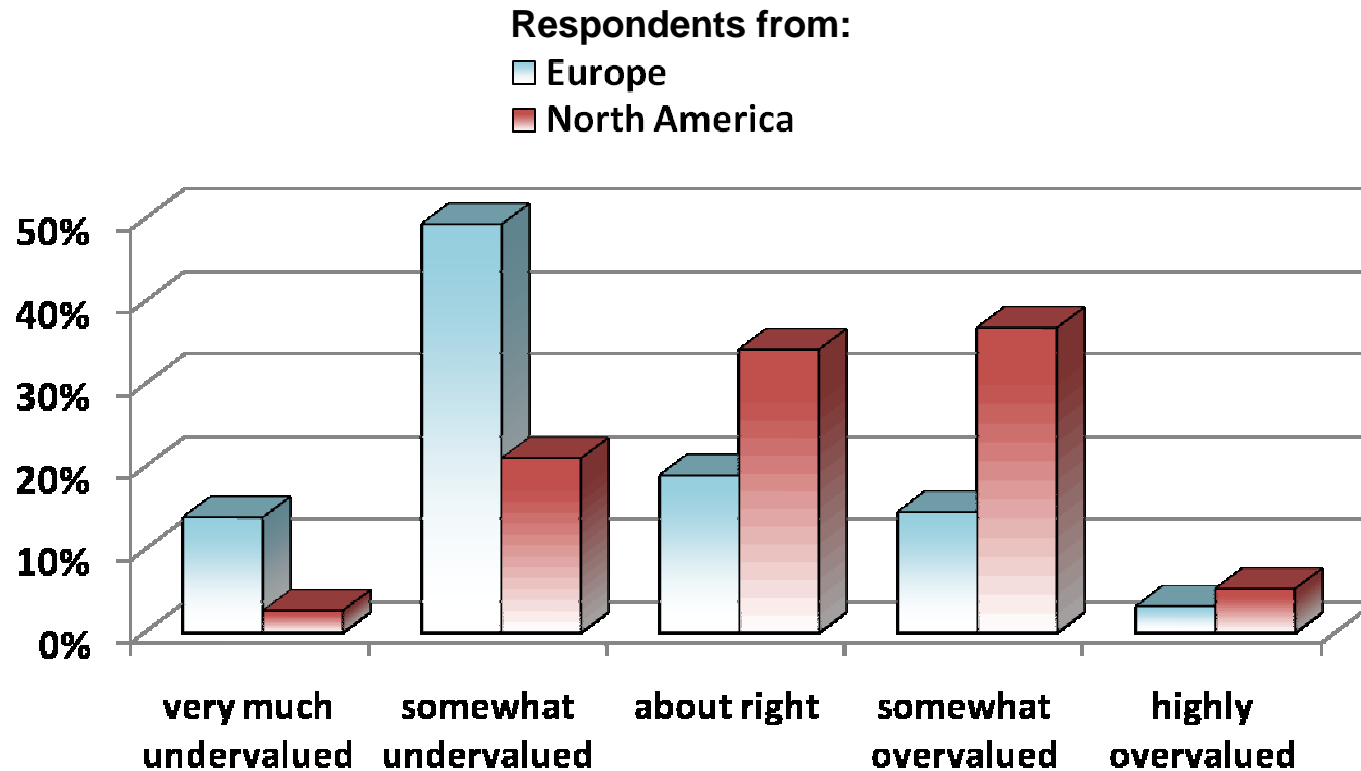
# Current funding environment for early stage biotech in the US



North American respondents view their own funding environment as significantly more difficult than do European respondents



# Current biotech stock valuations in Europe



North American respondents have very different view of European biotech stock valuations than did European respondents.





# Conclusion

**The European biotech sector is maturing and continues to be viewed positively by a large majority of respondents, despite some difficulties with clinical trials and drug approvals.**

**With all the fundamentals in place, the sector will continue to grow and fulfill its expectations as the source of innovative new drugs for the pharma industry's pipeline.**

