

October 4, 2007

Biotechnology | Investment | Europe | United States

Europe's biotech maintains momentum

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Europe's biotech sector gets the thumbs up from investors in the third annual Biotech Investment Barometer by the Global Life Science Ventures (GLSV) released this week.

The survey of the biotech and investment communities shows the sector is viewed positively by a large majority of participants. But there are signs that clouds may be gathering, with the level of optimism slightly lower compared with last year, according to data presented at Sachs Associates' Biotech in Europe Investment Forum, held in Zurich this week.

The overall outlook remains optimistic, with 68 per cent of European respondents seeing the future as fairly or highly positive – though this is down from 75 per cent in 2006. At the same time 19 per cent are pessimistic, up from 9 per cent in 2006.

While 42 per cent of European respondents say they are more optimistic than 12 months ago, this is down from the 59 per cent who gave the same response in 2006. And 29 per cent say they are now more pessimistic.

Of 200 respondents to the survey, carried out in mid-September, 79 per cent were based in Europe, with the remainder mainly in North America. Biotech executives and members of the investment community represented 40 per cent and 50 per cent of participants, respectively.

It seems evident that the current global credit crisis had not fed through to influence sentiment at the time the survey was carried out. Instead, one of the main factors tempering optimism was recent clinical results and drug approvals, which are seen by 34 percent of European participants as having a negative impact on market sentiment, whereas only 20 per cent believe the effect has been positive.

Better relationship between big pharma and biotech

On the other hand the relationship between pharma and biotech is now much warmer. The symbiosis between pharma and biotech is of great importance to the biotech sector, and big pharma's attitude toward biotech companies is considered by 80 per cent of European respondents to have improved in recent years. In addition, 69 per cent consider pharma has made more effective use of biotech's innovations to fill its pipelines in recent years.

Curiously, given the ongoing flight from venture capital to private equity, there is a positive shift in the perception of the funding environment for early-stage biotech companies in Europe. While still viewed as difficult, or very difficult, by 62 per cent of European respondents, this number is down from 74 per cent last year. The shift in perception is highlighted by the 23 per cent who view the early stage funding environment as good or excellent, up from 13 per cent last year.

The US funding environment is considered good or excellent by 45 per cent of European respondents, compared with 42 per cent last year, while only 18 per cent consider it difficult or very difficult. North American respondents were, however, much more likely to view their own funding environment as difficult.

IPO markets neck and neck in Europe and US

Europe and the US are now considered to have similar market conditions for IPOs, with respondents split approximately equally among those saying conditions are more favourable in Europe, those saying there is nothing to choose between the two and those who believe the IPO market in Europe is less favourable.

The two most important factors for the success of an IPO are having a late stage product and a strong management team, with 34 percent of investors ranking strength of the management team first, and 28 percent saying that a product in Phase III is the most important factor for success.

Modestly, 50 percent of biotech executives in the survey view having a product in Phase III as the most important factor, with only 15 percent seeing the strength of the management team as the number one factor. The number of products in the pipeline came third in the ranking, followed by the size of the therapeutic market.

Biotech stocks still 'undervalued' (say Europeans)

European biotech stocks have performed well in the last year, but they are still are considered to be undervalued by 63 per cent of European respondents, down from 68 percent in 2006. It's no surprise that biotech executives are more likely than the investment community to think stocks are undervalued. And the shift in exchange rates probably has much to do with the fact that 42 per cent of North American respondents consider European biotech stocks are overvalued.

Conversely, with the euro at an all-time high against the dollar, there is a greater tendency to view US biotech stocks as undervalued, with 34 percent of Europeans saying stock prices are too low, compared to 29 percent last year, while 21 per cent consider stocks to be overvalued, compared with 29 per cent last year.

Almost half of European respondents expect biotech shares to outperform the stock market in the next 12 months, while only 22 per cent expect them to underperform. Here, biotech executives and investors had similar views.

Mixed views on attractiveness of US vs Europe

Respondents were split between 48 per cent who view the US as a more attractive region for life science venture capital and 48 per cent who consider the US and Europe equally attractive, or Europe more attractive. Interestingly, the investment community was more likely than biotech executives to consider Europe as more attractive than the US (18 per cent versus 7 per cent).

"The results show that 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," said. Peter Reinisch, Partner at GLSV. "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."

REFERENCES

The Barometer results are available in the Download area of the [GLSV website](#).