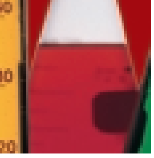

Investment in Life Sciences

Entrepreneurship is Alive and Well in Switzerland

A successful biotechnology industry in any country depends on entrepreneurship. Risk must be encouraged but has to be supported by access to capital, infrastructure as well as innovative ideas arising from universities, institutes and the private sector. A strong case can be made that the Swiss biotech sector is performing well and that it represents a very good opportunity for investors to fund private equity destined for early-stage biotechnology companies. Here we look at some of the criteria supporting this proposition.

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In recent years, the impact of consolidation has been evident across Europe's biotechnology sector. In 2003, Europe's biotech industry witnessed its first-ever year of declining revenues. In contrast, revenues of Swiss-based biotech companies increased to CHF 5.47 billion by the end of 2004 (2003: 5.03 billion; 2002: 4.3 billion).[1] Compared with the size of its population (approximately 7.4 million), Switzerland has one of the highest densities of biotechnology companies worldwide. By the end of 2004, Ernst & Young estimated that 133 core biotech companies were active in Switzerland.

Strengths in academia and pharma

It is often overlooked that universities drove the early days of the biotechnology industry and that they continue to be the source of innovative ideas for today's early-stage life science companies. In Switzerland, the transfer of innovation from the academic to private sector has been made possible by internationally recognized academic research institutions, primarily in the Basel, Geneva, Lausanne and Zurich regions. Educational centers such as the Swiss Federal Institute of Technology in Zurich, for example, have given rise to public companies like Cytos Biotechnology (listed on the SWX stock exchange in 2002) and privately held enterprises like Glycart. Over the years, Swiss universities have been successful in attracting international talent and this has been one of the reasons for their impressive track record in innovation.

For many years, Switzerland has also been the home of a thriving pharmaceutical industry. This has to a large part been due to the global success stories of Novartis and Roche. Serono, Europe's largest biotechnology company with headquarters in Geneva, achieved worldwide revenues of USD 2.5 billion in 2004, a performance comparable with some of the leading biotechnology companies worldwide. Success in the Swiss healthcare arena has burgeoned into a collection of earlier- and later-stage, publicly and privately held healthcare companies at three life science clusters based around Basel (40 companies, 4,000 employees), Zurich (65 companies, 2,000 employees) and the Lake Geneva region (30 companies, 5,500 employees).[1] This includes a vibrant medical technology sector, a line-up with companies like Medtronic (European headquarters in Tolochenaz), Phonak and Straumann. Medical technology company Ypsomed has enjoyed a greater than 90% increase in its share price since listing on the SWX Swiss Exchange in September 2004 (data as of June 2005).

Influx of later-stage companies

A steady stream of profitable healthcare companies continue to select Switzerland as headquarters for healthcare-related research, development and production. Switzerland offers access to a highly skilled, educated and multilingual workforce, many of whom have years of experience in high technology industries. The latest to add their names to a growing list of companies with a presence in Switzerland are Celgene (new production center in the Canton of Neuchâtel) and Biogen Idec (European headquarters in Zug). Biogen itself started operations in Geneva in 1980. The start-up company was founded by renowned scientists including Charles Weissmann (University of Zurich) and Nobel laureates Walter Gilbert and Phil Sharp from the US. Amgen is currently considering Switzerland as a site for one of its manufacturing plants. Later-stage companies may also give rise to innovative new biotech companies as spin-offs. Nitec Pharma, founded in 2004, is one example. Such companies are often backed by experienced management teams coming from the parent pharma company. The success of Actelion, which recorded its first profit in 2003, testifies to the merits of this approach.

Private equity as a driver

The venture capital community has remained firm in supporting Swiss companies in what has for many been a time of consolidation. Between 2002 and 2004, Switzerland was ranked

[1] Ernst & Young Swiss Biotech Report 2005

third by Ernst & Young among European countries in terms of venture capital influx (CHF 132, 125 and CHF 194 million, in 2002, 2003 and 2004, respectively).[1] Historically, most Swiss start-ups have been funded by private money with little support from government contributions. It can be argued that only the very best product ideas have survived because of this. Experts in the banking sector estimate that Switzerland manages some USD 3,000 billion in assets worldwide.[2] Switzerland's strengths in private assets represent a further opportunity to bolster private equity for investment into early-stage Swiss companies. Today, Switzerland is home to companies at attractive valuations that could make a sound return on investment. Innovative financing schemes, such as the public-private funding mechanism defined to support the life science incubator Eclosion in Geneva, are also to be encouraged. Switzerland is also home to large biotech funds managed by banks such as Clariden and Lombard Odier Darier Hentsch and several large VC funds investing in biotech. The country offers proven exit opportunities for privately held companies.

One of Europe's strongest healthcare stock exchanges

When it comes to the number of publicly listed life science companies, the SWX Swiss Exchange is currently the leading European exchange in terms of public equity after the London Stock Exchange (LSE). Around one-third of its total market capitalization (33.8 % as of April 2005) is due to companies active in the healthcare sector, an amount which just exceeds the combined market capitalization of healthcare companies listed on the LSE (data as of May 2005, World Federation of Exchanges).[3] The SWX Swiss Exchange remains an attractive venue for the public listing of Swiss and international healthcare companies.

A credible future

Switzerland is taking further steps in its effort to maintain its position as a leader in the healthcare sector. In the years ahead, Switzerland is poised for further success that will combine strengths in integrated, multidisciplinary biology with the commercial acumen needed to catalyze advances in the healthcare sector. Investors should not miss this unprecedented opportunity.

[1] Ernst & Young Swiss Biotech Report 2005

[2] http://www.pictet.com/en/home/about/history/gva_centre.html

[3] SWX Swiss Exchange: a catalyst for financing life science, Philippe-Jean Allamel, l'Agefi Biotech supplement 2005, pp. 110–113.

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