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Navigating the doldrums

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After a decade of solid growth, Europe's burgeoning biotech industry has come to a virtual standstill as economic uncertainty and other factors caused public and private investments to dry up. Nevertheless, those companies with products in the pipeline and sufficient cash to wait out the financing drought should find themselves well placed when the economic climate improves, according to a new report.

"Biotech has experienced the biggest decline in its history," states Ernst & Young's 10th annual European biotech report. "Raising funds on the public equity markets has been almost impossible and biotech startups are failing faster than ever before, with nearly a fifth of all biotechs started in 2000 now fallen by the wayside."

The report, "Endurance: The European Biotechnology Report 2003," found that net losses for all European biotech companies last year soared to more than €4 billion from €1.5 billion in losses the year before. Meanwhile, the number of jobs fell by 6% as companies closed and others cut staff to preserve cash. Stock valuations for public biotechs dropped from €45 billion to €22 billion, and nearly a third of these companies traded below their cash levels at the year's end.

"With the stock market upheaval ravaging the biotech industry, many opportunities have gone unexplored, many promising approaches have had no chance to prove themselves, and many good ideas have been left untested," wrote Franz B. Humer, chairman and chief executive officer of Roche Holdings, in a foreword to the report released last week.

Also hard hit has been the private venture capital (VC) market. Here, appearances are deceiving. European VC remained strong at €1.1 billion last year, close to the record €1.3 billion generated in 2001. And last year biotech garnered 26% of the total, nearly matching the amount raised for software. While all this appears impressive, the average amount raised actually declined from €13 million to €9 million. And rather than investing in new startups, venture capitalists are choosing instead to focus on later-stage opportunities to support their own portfolio companies. This is hitting newly formed companies especially hard.

"A lot of growth in the European market happened when many of the platform companies were raising money - genomics, proteomics, and high-throughput screening companies," said Morrie Ruffin, vice president for business development and emerging companies at the Biotechnology Industry Organization (BIO) in Washington, D.C. "But there were a number of them in Europe. And these are the companies that are most vulnerable today."

Warning signs have been noted elsewhere. In March, a European Commission report concluded that Europe is about to "miss the boat of the biotech revolution." Strong performance in fundamental research has been hampered by weakness in patenting and in translating discoveries into products having industrial and economic benefits, the report stated.

Germany leads Europe with 360 biotech companies, compared with 331 in the United Kingdom. Together, they account for nearly 40% of the 1,849 European companies. But the United Kingdom leads the pack with 37% of the revenues (€2.9 billion) and 43% of the market capitalization (€9.4 billion).

A deeper look at last year's net revenue losses for European public biotechs reveals that €2.4 billion of the €2.6 billion loss was incurred by Dublin-based Elan Corporation. Excluding Elan's results, the average net loss per company actually improved over the past 4 years, from €13 million to €7 million.

In another promising sign, European companies now have more than 50 products in phase 3 clinical trials. "There is much expectation that the floodgates will open over the coming years and this may propel the industry into the next stage of its evolution," Ernst & Young states. US biotechs, by contrast, have close to 300 biotech products in phase 3 trials.

In general, biotech companies around the world face similar challenges. Indices for publicly traded biotech companies are down from a decade ago and have fallen some 80% from the peaks in 2000. But the situation in Europe is worse than in the United States, Ruffin believes, because the US biotech industry is more established than in Europe, and companies are in a relatively stronger position to ride out the difficulties.

"The challenge in Europe is that they don't have the number of mature companies as we do in the US," Ruffin told us. "Therefore, their ability to weather the storm depends on their ability to hunker down and do the things that companies need to do, both in the US and Europe. This means to conserve cash and wait for an opportunity to raise money when it presents itself. We've got companies that have had significant product approvals this year and landmark deals that will sustain the US market," he said. "In Europe, they don't have all the other successes to fall back on."

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