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Europe struggles to catch US biotech bulls

One of Allergan's main products is Botox

Boom times are back for US biotechnology. After a wobble in the spring when Janet Yellen, chairwoman of the Federal Reserve, warned that valuations were stretched, the Nasdaq biotech index is on the rise again, up 20 per cent since January.

Yet, across the Atlantic, the mood is more subdued. Valuations are rising in Europe too, but without the fizz that has surrounded the US sector for most of the past two years.

Almost $4bn has been raised by US biotech companies in 43 initial public offerings and follow-on fundraisings this year, while in Europe the comparable figures are $1.4bn from 28, according to Dealogic.

"UK and European IPO markets have been doing almost as well as the US market this year, but whereas the US has been led by biotech listings, there have been relatively few in Europe," says Richard Truesdell, head of capital markets at Davis Polk, the law firm.

To seasoned observers, this more cautious European approach might seem welcome given the heavy losses suffered after the previous biotech boom 15 years ago.

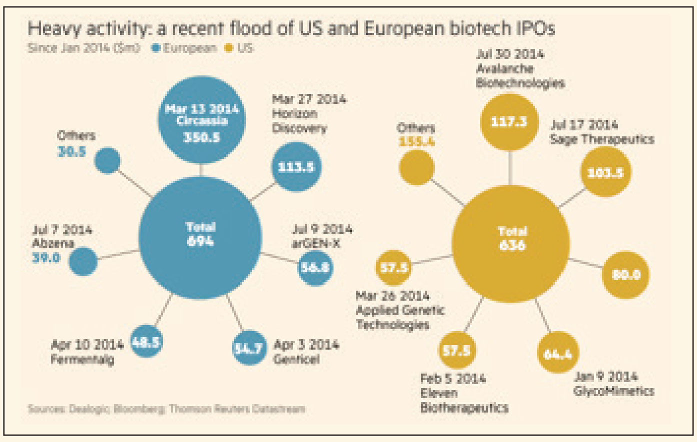
However, to others, it is evidence of a lack of risk appetite that is undermining European life sciences. "When I go to London and explain the biotech growth story they view the sector as very risky," says Geoffrey Hsu, partner at OrbiMed, a US-based healthcare fund manager. "There have been some failures that still colour perceptions even though the sector has changed a lot in the past decade."

As bulls such as Mr Hsu see it, Europe is missing out on a historic re-rating of the biotech industry as commercial dividends finally start to flow from the decoding of the human genome and other scientific advances.

Sceptics say they have heard this story before. Hype about the potential of genetic sequencing to open a new era of personalised medicine, in which treatments are tailored for individual patients, helped inflate a biotech bubble in the late 1990s that quickly deflated as it became clear such breakthroughs were still years away.

However, Mr Hsu and others say the sector is now more mature, with big biotech companies such as Gilead Sciences, Amgen and Biogen producing revenues to rival traditional big pharma, and a new wave of upstarts such as Regeneron and Alexionshowing similar promise.

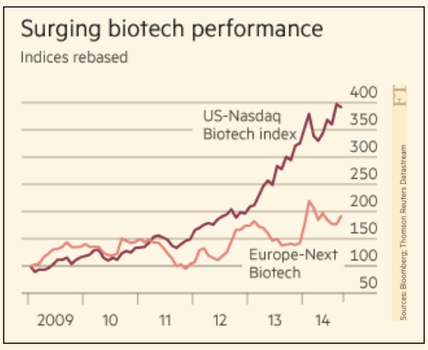
In Europe, such success stories are rare. The £32bn sale of UK-listed Shire to AbbVieof the US in July will, once completed, remove one of the few young European life science companies to have broken into the big league.



After Actelion of Switzerland, with a market capitalisation of $13bn, it is a big jump down to the next rank of young pretenders, such as Morphosys of Germany, Genmabof Denmark and Swedish Orphan Biovitrum with valuations of around $2bn.

Gilead, king of the US biotech sector, in contrast, is now bigger even than traditional European pharmaceutical companies such as GlaxoSmithKline and Sanofi, with a valuation of $157bn after the success of its groundbreaking hepatitis C drug, Sovaldi.

There are many factors that explain the transatlantic disparity. Some say the greater entrepreneurial drive in the US helps commercialise scientific discoveries that in Europe might remain languishing in a university laboratory. Others say it reflects the incentives for innovation created by America's private healthcare market compared with Europe's cash-strapped public health systems.

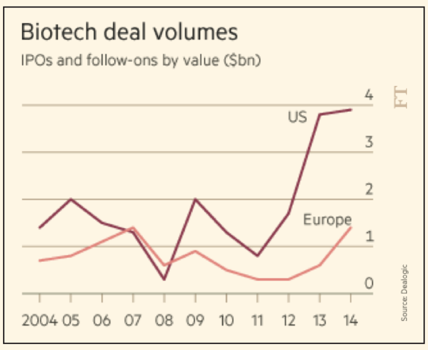


Whatever the underlying reason, it manifests itself in a much tougher financing environment for European biotech – both in terms of venture capital and equity funding from public markets. This translates into slower and more cautious drug development compared with lavishly funded US rivals.

This has led several European companies to make initial public offerings in the US, including GW Pharmaceutical, the UK-based maker of cannabis-based medicines for epilepsy and multiple sclerosis. Its shares spent a decade stagnating on London's junior AIM market before adopting a dual listing on Nasdaq last year. The stock has since soared from an offer price of $8.90 to $88.56 after success in clinical trials, valuing the company at $1.8bn.

However, there are tentative signs that Europe could be warming up to the biotech growth story.

While, still a long way short of US levels, the amount raised by biotech companies in European equity markets this year is already more than double the amount raised in the whole of 2013, according to Dealogic. A big part of this was the £200m raised in London in March by Circassia, an anti-allergy specialist, in what was the largest biotech float anywhere in the world so far this year.



A steady stream of IPOs has followed, especially in Paris, spurred by French tax incentives for investment in research -based companies.

Rafaèle Tordjman, managing partner at Sofinnova, a healthcare -focused French venture capital fund, says American investors are increasingly looking to European biotech as valuations soar in the US. In some recent fundraisings they have accounted for as much as two-thirds of the participation.

While nobody is expecting a Nasdaq-style boom, numerous European biotech companies are considering IPOs. Hugh Griffith, chief executive of Nucana, an Edinburgh-based cancer drug developer, says he will consider both London and New York for a potential float. "The breadth of analyst coverage and the depth of the investment pool in the US is attractive, but the UK market is opening up."

This optimism is echoed by Jim Phillips, chief executive of Midatech, an Oxford-based specialist in nanotech-based medicines which is considering an IPO. "I am surprised how vibrant London is feeling," he says. "I think there is hope for the sector."

Wrong formula: groups struggle to make successes pay

When AbbVie moves its tax domicile to the UK in coming months, it will mark a homecoming of sorts for the Chicago-based pharmaceutical company's most important product, Humira.

The rheumatoid arthritis medicine was the world's best-selling drug last year, with revenues of $10.7bn, and it owes its success to scientists in the UK, where it was developed by Cambridge Antibody Technology (CAT).

But the medicine was licensed to Abbott, of which AbbVie used to be part, and CAT was bought by AstraZeneca, creating a case study in how the spoils of drug innovation often land a long way from the laboratories where they were discovered.

As AbbVie proceeds with its £32bn takeover of UK-listed Shire – a so-called inversion deal in which the US company will move its tax home to Britain – the story of Humira also shows how European biotech companies have struggled to match the success of US counterparts in commercialising scientific breakthroughs.

Shire and CAT are among a series of promising UK life science companies that have been swallowed by big pharma over the past 15 years, in contrast to US biotech companies such as Gilead Sciences and Biogen, which have become powerhouses in their own right.

Richard Girling, partner and healthcare specialist at Centerview Partners, the investment bank, says the UK in particular has an opportunity to thrive in biotech through its world class university science and government initiatives such as the 100,000 Genome Project, which aims to harness genetic research within the National Health Service.

However, Mr Girling says investors need more patience if they are to build a life science sector to rival that of the US. Many have been stung by past failures in an industry where only about 7 per cent of drugs in early-stage development reach market.

"Most biotech companies don't succeed on their first molecule or target so they need time and financial headroom," he says. "There is more venture capital money coming back into the European market...but it is going to take a few years to really rebuild."