# Venture capitalists plough $1 bln into Euro biotech

By Ben Hirschler, European Pharmaceuticals Correspondent

MUNICH, Nov 12 (Reuters) - Venture capitalists have invested more than $1 billion in European biotechnology companies so far this year, despite a slump in public stock markets and a dearth of initial public offerings (IPOs), a conference was told on Monday.

A total of $1.022 billion was raised from venture capital between January and early November, almost matching the $1.193 billion raked in during the whole of 2000 -- a banner year for biotech firms around the world following the mapping of the human genome.

By contrast, IPO funding in Europe has virtually dried up, yielding a meagre $82 million against $2.4 billion in 2000, while follow-on offerings by already-listed companies raised $425 million against $762 million, according to figures compiled by BioCentury, an industry newsletter.

**Bill Kridel, managing director of investment bank Ferghana Partners, a specialist in unlisted biotechs, said part of the reason for the steady rate of venture capital (VC) funding was the lack of IPO opportunities. That has deprived VC funds of an exit route and forced them to fund private firms to a later stage.**

At the same time, however, a number of substantial new biotech funds have been created, partly helped by switching among VC investors from technology companies to the relative safety of biotech, which is viewed as a partly defensive sector, given recession-proof demand for medicines.

"In the past 18 months we've seen renewed interest in life sciences from the providers of venture capital funds, which is to say the big pension funds and insurance companies," Joel Besse, a partner with Atlas Venture, told Reuters.

"But many of the new funds have not really started to invest yet and, despite the plentiful finance, we are seeing a reduction in valuations. It is clear that entrepreneurs looking for funds are not in the driving seat anymore."

VALUATIONS FALL

Private biotech companies have not escaped the downturn which has swept public biotech markets this year, halving Germany's benchmark Neuer Markt biotech index <.NMPA> since January.

As a result, a number of this year's private financings have turned out to be "down rounds", where investors pay less for shares than in previous rounds.

Helmut Schuehsler, head of life sciences at Germany's Techno Venture Management, said biotech executives were typically having to accept 20 to 30 percent discounts in valuation for private rounds completed this year compared to the price achieved in 2000.

Biotechnology companies usually expect a significant premium in later rounds, reflecting the progress made by their drugs or technology platforms in development, which lessens the risk for investors.

"We are back to reality-based investing -- it's a buyer's market," Schuehsler said.

For the time being, European funds are continuing to sit on substantial VC reserves. In Germany, in particular, the VC industry has exploded with the number of companies offering private funds to biotech increasing from three or four to more than a hundred.

But Schueshler warned delegates at the BIO-Europe conference that the VC industry could be heading for a shake-out which might mean funding drying up by the end of 2002.
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