



# Venture Capital and Company Valuations in Biotech

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# Agenda

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- Swiss Venture Capital
- Valuation of Biotechnology Companies
- Venture Valuation

# VC Trends



- From exit-strategies to maintaining investment  
=> larger, later funding rounds
- Some funds paid back their funds to investors
- IPO window shutdown has not stopped VC Investment in European biotech
- From IT-Fund to a Biotech-Fund and back
- Funds available, but ... follow-up investments

=> less funds available for Biotech companies

# Innovative Financing

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- Financing / Partnership with strategic Investor (big pharma, big biotech)
- Reverse merger i.e. Cytos in Switzerland
- Some consolidation - Cash meets product pipeline i.e. British Biotech and Morphosys, Modex and IsoTis
- Additional Venture Capital financing round

=> different sources of capital

# Driving Factors

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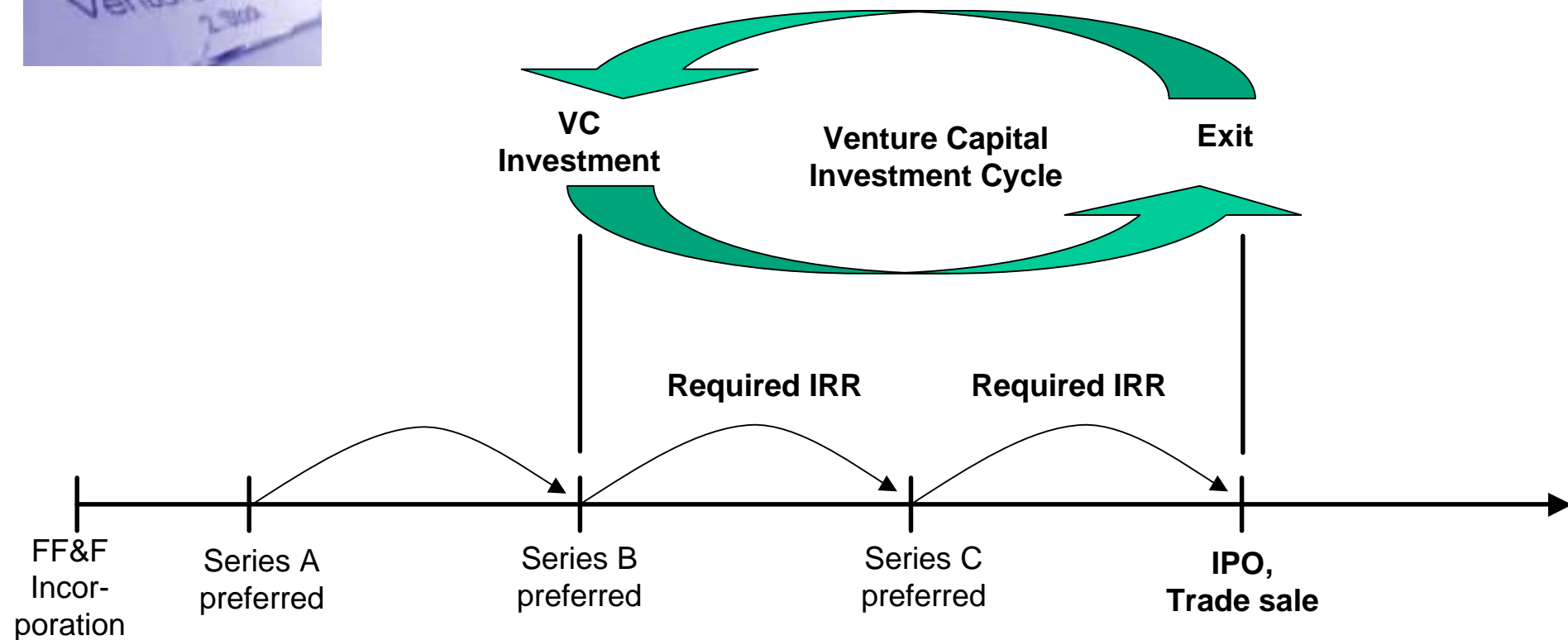
- Fragmented private equity markets in Europe
- Suffering from Governmental interventions (Germany, France?)
- (Too) many small, early stage companies
- Sliding valuations (impact of public markets)

=> why?

# Venture Capital Cycle



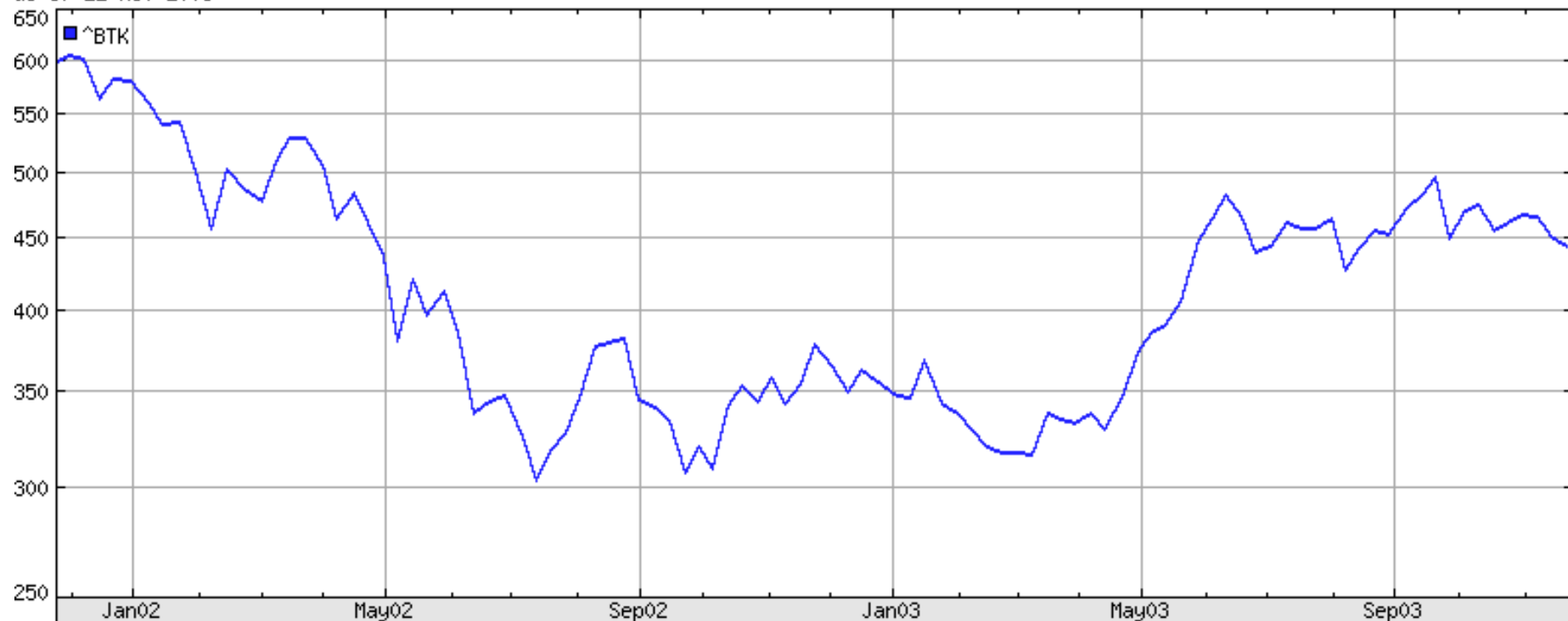
- Understand the Venture Capital Cycle
- Look at the whole Company Life Cycle



# Market Trends

- Recovery in public markets  
2003: +30%; since 2002: -25%

BIOTECH INDEX  
as of 21-Nov-2003



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# Outlook

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- Higher public valuations
- Opening of IPO window
- VC's get exits
- Money for reinvestment
- Regain self-confidence

=> timing? => Slow process





# Outlook on recovery

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- Biotech companies will less focus on early pharma deals
- Recovery of valuations
- Investors consider of early stage investments again
- Hinder industry consolidation

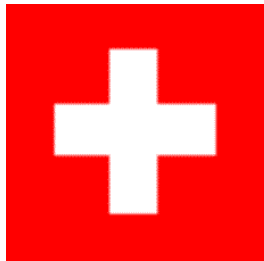
# Trends in Switzerland

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- Only Switzerland and Sweden more Investments in Biotech in 2Q 2003
- Pool of experienced managers from big pharma companies
- Home market too small => International investments

# Venture Capital Scene



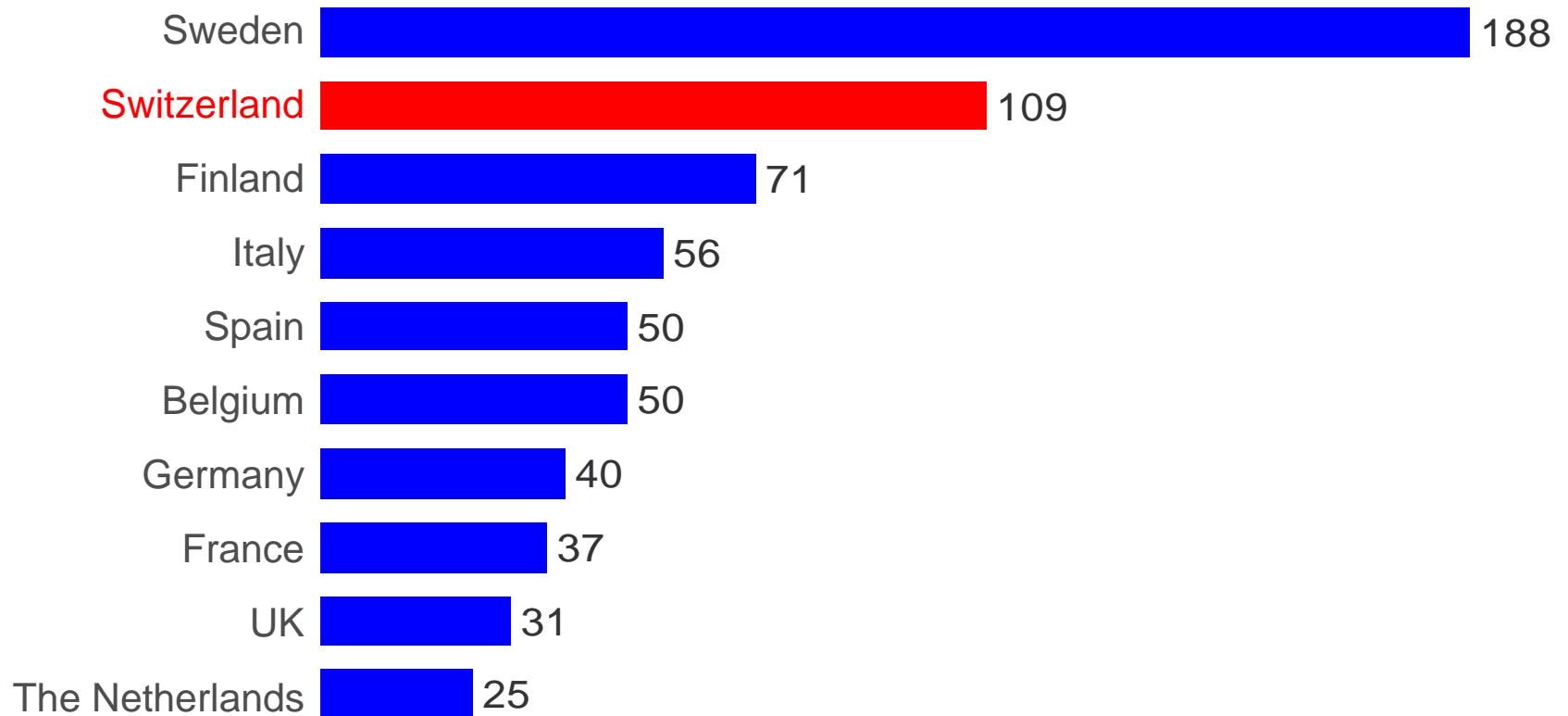
<b>Investor</b>	<b>Funds available (m EUR)</b>	<b>Portfolio Companies (private)</b>
Aravis	n/a	5
BioMedinvest AG	33	5
HBM BioVentures AG	554	44
Index Ventures	497	36
Novartis Venture Fund	204	117
Schweizerhall Holding	164	21
Ultreia Capital Ltd	130	35
Venture Incubator	65	10

# Prime Financial Center



... dynamic private equity and venture capital market

Investment Growth - (six year average %)

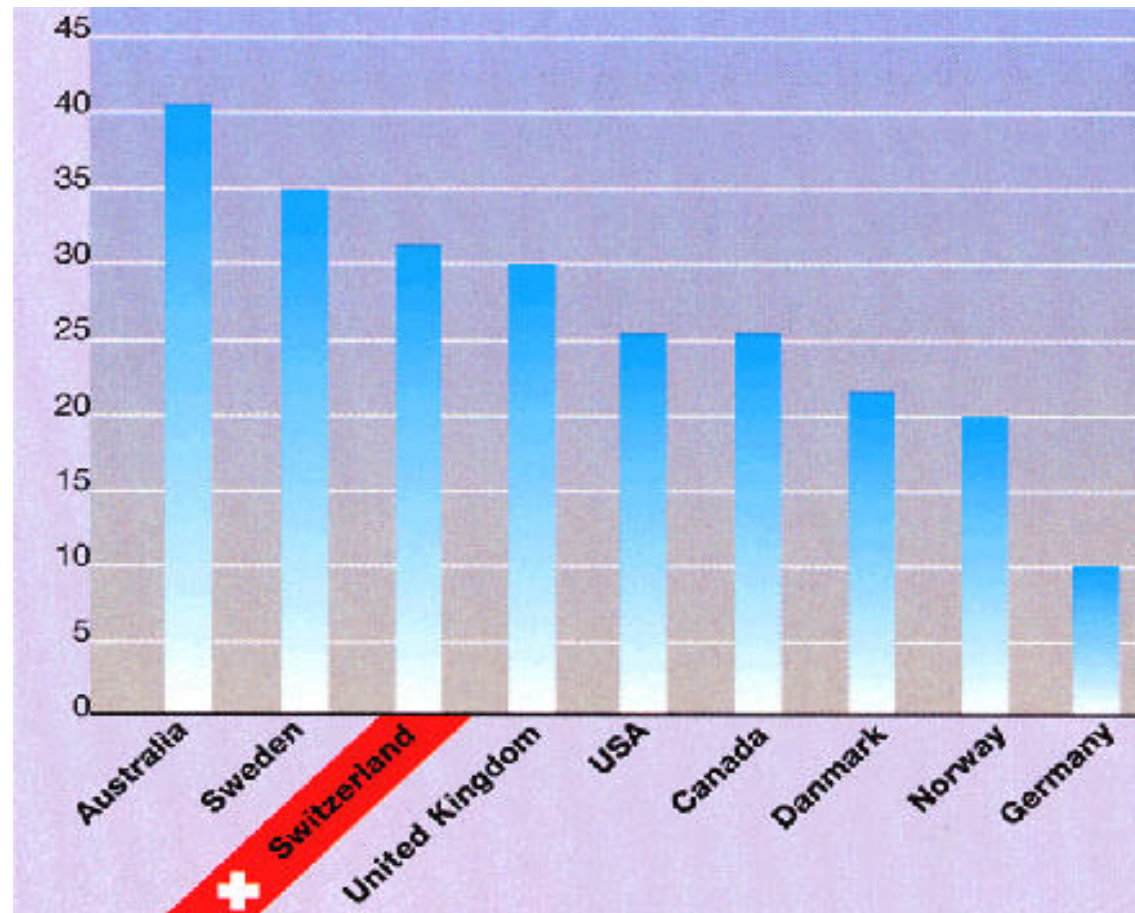


Source: 3i / PriceWaterhouseCoopers, Global Private Equity 2001

# Prime Financial Center



International Comparison of Direct Equity Investors (% of Population)



Source: Equity Ownership in Switzerland, 2001

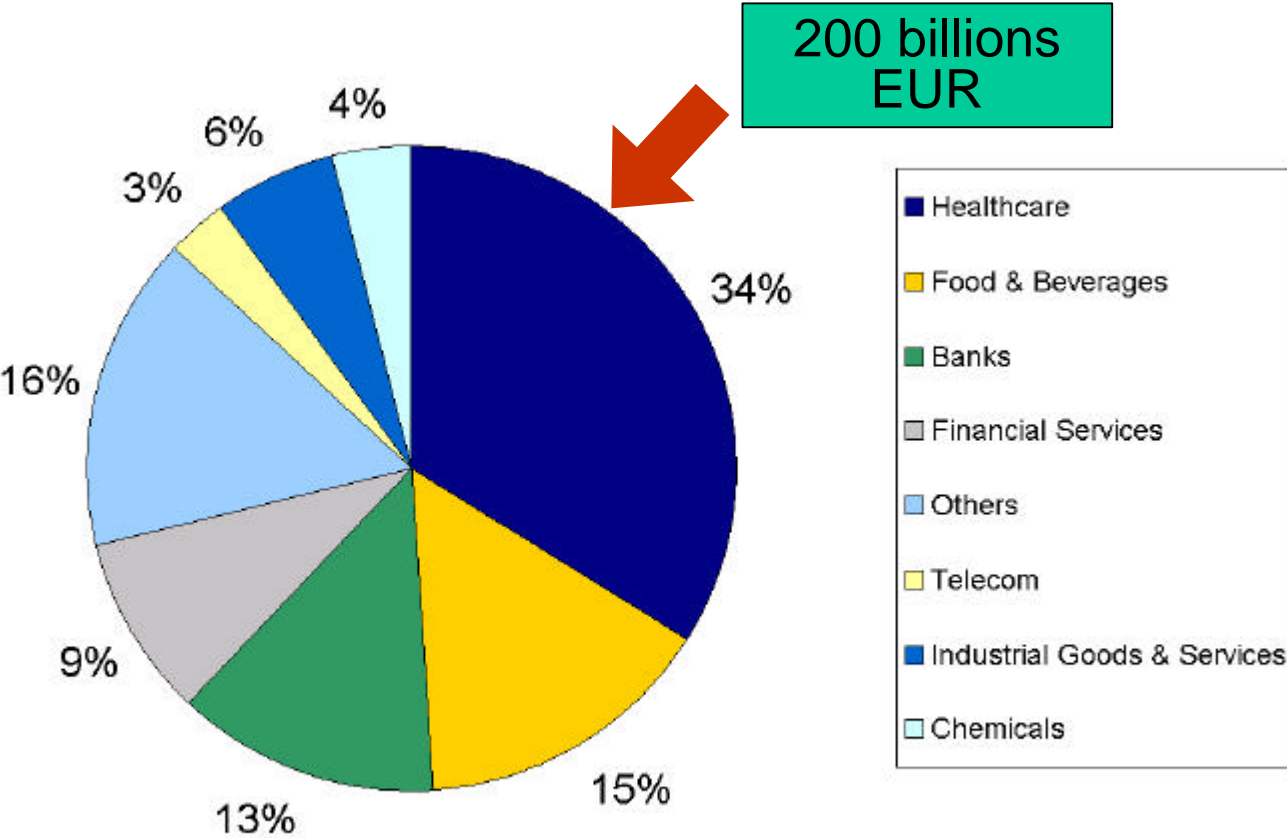
# SWX Swiss Exchange

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- Access to the Swiss financial marketplace
  - international financial network
  - highly skilled market participants
- Strong placing power
- high concentration of investors in few locations

# Healthcare Sector



Breakdown as of % of SPI

Source: SWX Swiss Exchange

# Biotech Valuation Issues

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- Volatility of quoted companies
- Long investment cycle
- Traditional valuation methods unsuited
- Understanding the drug value chain
- Industry lacks transparency (number of companies and therapeutic approaches)
- Multiple forms of competition (capital supply, IP, partnerships, market share & sales force)
- Complex technology and IP situations



# Factors to influence value

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Soft factors are essential ...

- Management
- Market
- Science & Technology

... and the company stage

to define the risk profile of company

# Management

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- Composition / Complementary skills
- Track record / Experience
- Ability to reach set goals
- Motivation / Incentive structure
- Composition and involvement of Board of Directors and Advisory Board
- Organization / Capacity to run a structure
- Emotional intelligence / social competence

# Market

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- Substitutes
- Rivalry among existing competitors
- Barriers of entry
- Bargaining power of suppliers / buyers
- Market trends
- Market size

# Science & Technology

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- Intellectual Property (IP)
- Competitive Advantages
- Technological platform
- Product pipeline status
- Ability to reach milestones
- Management of future discoveries
- Collaboration agreements & alliances

# Valuation approaches



- Operations-based methods:  
⇒ *business plan, fundamentals*
  - Market-based methods:  
⇒ *price, trends, comparison difficulties*
  - 5 methods:
    - Discounted Cash Flows/DTA
    - Real Options/Monte Carlo
    - Venture Capital method
    - Market Comparables
    - Comparable Transactions
- ⇒ *use several methods and weigh depending on the company valued*

# Venture Valuation

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- Independent, third party Valuations
- Experts Finance / Biotech / Medtech
- Not a venture capitalist
- International experience (North America and Europe)
- Systematic / Validated Approach
- Track record of over 70 valued companies



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**your valuation expert**



Thank you

Presentation available on:  
[www.venturevaluation.com](http://www.venturevaluation.com)

**...and how do you  
value your company?**

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