Venture Capital and Company Valuations in Biotech

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Agenda

- 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

- 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

- 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

VC Investment → Venture Capital Investment Cycle → Exit

Required IRR

FF&F Incorporation → Series A preferred → Series B preferred → Series C preferred → IPO, Trade sale

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Market Trends

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

[Chart showing biotech index recovery from 2002 to 2003]
Outlook

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

=> timing? => Slow process
Outlook on recovery

- 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

- 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

<table>
<thead>
<tr>
<th>Investor</th>
<th>Funds available (m EUR)</th>
<th>Portfolio Companies (private)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aravis</td>
<td>n/a</td>
<td>5</td>
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<tr>
<td>BioMedinvest AG</td>
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<td>HBM BioVentures AG</td>
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<td>Index Ventures</td>
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<td>Novartis Venture Fund</td>
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<td>Schweizerhall Holding</td>
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<td>Ultreia Capital Ltd</td>
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<td>35</td>
</tr>
<tr>
<td>Venture Incubator</td>
<td>65</td>
<td>10</td>
</tr>
</tbody>
</table>

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... dynamic private equity and venture capital market

Investment Growth - (six year average %)

- Sweden: 188
- Switzerland: 109
- Finland: 71
- Italy: 56
- Spain: 50
- Belgium: 50
- Germany: 40
- France: 37
- UK: 31
- The Netherlands: 25

Source: 3i / PriceWaterhouseCoopers, Global Private Equity 2001
International Comparison of Direct Equity Investors (% of Population)

Source: Equity Ownership in Switzerland, 2001
SWX Swiss Exchange

- 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

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Biotech Valuation Issues

- 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

Soft factors are essential ...

- Management
- Market
- Science & Technology

... and the company stage

to define the risk profile of company
Management

- 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

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

- 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:
  \( \Rightarrow \) business plan, fundamentals

- Market-based methods:
  \( \Rightarrow \) price, trends, comparison difficulties

- 5 methods:
  - Discounted Cash Flows/DTA
  - Real Options/Monte Carlo
  - Venture Capital method
  - Market Comparables
  - Comparable Transactions

\( \Rightarrow \) use several methods and weigh depending on the company valued
Venture Valuation

- 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
Thank you

Presentation available on:
www.venturevaluation.com

...and how do you value your company?