



Crispin Kirkman discusses the European biotech industry

Interviewed by Ben Ramster and Rebecca N. Lawrence

Crispin Kirkman, Chief Executive Officer, BioIndustry Association (BIA)

Can you first give us a brief overview of what the BIA is and does?

The BIA is the trade association for the UK biotech industry and includes companies that trade in the UK but might not be UK-based originally. We are looking to grow the family aspect of the industry and promote expansion in various ways. It is still a young industry; we all know the battles it had to fight in the past to get recognized and it still needs to get to the point where you do not get a different reaction to biotech than you would to more conventional healthcare, pharma or other industries. We don't just act as a spokesperson for our members, but we are proactive, for example by organizing conferences and trying to improve the profile of the industry. One of the things we find is that it is an industry in which people still do not know all the other players. They need a networking environment, and that is something that we try and create. Now that all companies need to be international in their partnering, we are trying to increase that network so that it extends beyond the UK.

There have been many articles in the Press, stimulated by the recent Ernst & Young report, regarding the European biotech industry. Is Europe catching up with the US, and will it ever get there?

I think it is, and I think it will. The percentages, as shown in comparisons in the recent Ernst & Young report, were very encouraging. When you look at the actual amount, then as the US started on a bigger scale, the number of millions of dollars and Euros are still much greater on the other side of the Atlantic. When looking at the market capital of the industry overall, those that were large already seem to have expanded more quickly. Having said that, the UK has a very comprehensive industry:

we have the infrastructure, the research companies, the platforms and the material products. Other countries in Europe have some of this, but few have all of it.

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What I perceive is an evening out of the patchy picture across Europe. On the Continent and in the UK, there are some very complete companies starting to emerge, either in terms of science or good business/corporate strategy. There are also many aspects of the US biotech industry that are not entirely rosy; the high risk approach results in many failures as well as successes. That is partly why the overall number of companies in the US has not increased. The important thing for Europe is that we become a complete industry. We do not want to end up with national industries that are just technology platforms.

Over the past year, I have seen Europe make huge strides and the UK is already in a well-established position. Once you get to this point, you need one more ingredient: a much freer approach from investors with regards to the stockmarket, the follow-ons, and the post-IPOs. In the UK, there are a number of listed companies, many of them ambitious with ideas about how they should grow into multinational businesses. To do this, they need to be able to call on follow-on financing in the order of US\$200 million and more. That has to become the norm in Europe if biotech is to catch up with the US. If that happens, with the number of companies we have got and the truly excellent players, there is no reason why

we should not have the Genzymes, Amgens and so on. It just requires us all to make another step-change to believing in ourselves. Part of the agenda for us all is getting the investors to realize that we are now companies that produce profits and products. We are no longer an investment in a virtual industry: we produce sustainable development and return on investment.

Sir Chris Evans was recently quoted as saying that it would take Britain as least 20 years to catch-up with the US. Do you agree with this estimate?

It is hard to say, but I know why he said it. I have great respect for his judgement and he has been proved right many times. In some ways, 3 or 4 years could see us feeling as though we have made that step-change to catching up. We should see some of the really big European-based multinational biotech companies emerging. We already have the Celltechs and the Shires, and some of the German, French and Swiss companies are coming through. It will then only be a question of how quickly the very successful ones progress and how many more companies over the following five years start to fill the space. It might be that the expansion of our market capital value to the same level as in the US will take years, but the inevitability of it will be seen much earlier.

Would a proper European share index be one way of increasing Europe's performance?

Most commentators now agree that money would be more available to companies if they had a cross-European market. There will be competition for various markets to fill the space, but it does seem logical, particularly if the costs of appearing on it can be kept down, as it is currently very expensive to float on the NASDAQ. There are some barriers to this though, especially in trying to create common clearing systems across Europe. By and large, it would be a step forward and it would unite the dialogue among investors and companies.

Do you think that governments have a key role to play in this process?

Inevitably they will, as long as there are governments who are prepared to pay and they raise the cost of the stake to get to the table. Governments have to pay by investing in the conditions of the economy that make it attractive to entrepreneurs, and they have to invest in a tax system so

that during development, companies are not paying out huge taxes. An example in Germany is that, when a company is at a sensitive stage (for example, the year after IPO when the market can be very fickle), your profits are free of capital gains tax. These things help investors, companies and entrepreneurs. Countries around the world are setting up grants and loan schemes because they know that biotech will be a big wealth provider for the future and they are buying a place at the table. The downside is that people say that handouts breed weak companies. In the past, the UK has not always been an entrepreneurial environment. We have come through thanks to our robust science and robust companies. In this context, I think that providing more loans and grants here now would bring out more good-quality companies.

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How do you think the downturn in US growth will affect the European biotech industry?

It could affect the industry in several ways. If funds are starting to lose money on the US market, they might not then have the money to invest in the European market. By contrast, it could mean that as long as they are quick to move, they could see that the European market is a better bet; it has been relatively undervalued in comparison. We must accept that there will be a bit of slowing down, but the encouraging thing is that over the past 18 months, we have seen the biotech industry disassociated in most investors' minds from high-tech companies. We have seen good companies disassociated from not such good companies and we have seen (as mentioned in the Ernst & Young report) that the hysteria that followed product failure no longer applies. Celltech lost a product a little while ago and their share price hardly blipped. We now have a proportion of the investor community that invest in biotech being much more aware that we are talking about real products, real returns and that you should have faith

in the management of the company, and should not be scared by an inevitably risky business.

Taiwan is an example of a country with an emerging biotech market. Can you identify others?

In terms of generating company growth you cannot write off the Japanese despite what is happening to their economy. They are being driven into a lot more partnerships as a result to sustain and feed their pharma industry and to help develop their home industry. The people who are being very proactive in putting their money upfront, if you allow for scale, is Singapore. They are very much like Taiwan in that they have a clear strategy and they are prepared to put money behind it. It is an integrated strategy and there are few countries in the world who clearly do this. You can also never rule out China, and Canada is looking strong.

There are some Third World countries which we have not thought of as being particularly advanced industrially where they have a biotech, not necessarily a health-biotech, market of some size, perhaps in reagents or some specialist area such as diagnostics. For example, Brazil has a significant population and significant needs in certain areas. It is interesting how many big pharma companies have set up there: almost every big pharma company has an enterprise in Brazil. There is an opportunity for others in specialist areas to go in and sell as well.

I would personally like to see biotech companies taking a greater interest in generics companies.

What do you think investors are looking for?

Ultimately, managers. Either one figure who seems to combine a very valuable mix of ambition, previous experience and an understanding of science, or a team with a balance of science, management and understanding of the market. The team can have people who are right for the first stage and some who are going to steer them into the second stage. When a company starts, it needs a strong scientist near the top; when it is a bit bigger, it needs someone who can read the finance and so on. Ultimately, your top team will

need to be led by corporate strategy. This is not about science but about how do you create robust companies. Irrespective of stage, though, investors will be looking for that quality and mix in the management team.

What do you think are the investment trends in biotech at the moment?

More investors are coming to the market. If you take fund managers, a little while ago some of them would say 'I don't do biotech'. More of them are now interested. Last year's performance will have attracted them, and also, as it is written and talked about more, they start to understand what the industry is about. To a scientist/biotech manager, it must seem quite extraordinary that many investors cannot understand, but newcomers to the market need a degree of sustained exposure to it to understand what distinguishes a good biotech company from one that is not. Investment is also coming from different sources.

Quite a lot of venture capitalists have been moving away from small projects to invest in large ones. The market may go in cycles; you do get changes from year to year in what part of the market venture capitalists are investing. More corporate venturing is emerging, not necessarily by pharma companies but by some IT-based companies who have created funds, and who are also interested in finding a way to cash in on the biotech field.

Has there been a change in where investors place their money in biotech?

They are very attracted by bioinformatics at the moment. I suspect that in the second part of 2000, anything post-genomics was hugely attractive. It may now be that this year something with a quicker route to market than developing the human genome might be more attractive. In general, they are all really attractive. I think you will find that these are fashions rather than trends. Investors are getting clued up but the number of people who really understand the field is not as great as we need.

Do you think the expanding generic drug market will have an impact on the biotech industry?

They are unlikely to have a direct effect on the biotech industry as our products are young in the market place. However, I would personally like to see biotech

companies taking a greater interest in generics companies. I know that in one sense they are like chalk and cheese, but there are one or two good examples where biotech companies have actually bought generics companies in related fields.

The Swedish company Activ, who are doing R&D into traveller's medicines, also have a generics business that produces traveller's medicines. That means they have market outlets, revenue streams, and systems that are already experienced in manufacturing. You have blazed the trail already and made your R&D stream much more sustainable, compared with other companies who are just doing R&D, because you have revenue. R&D tends to be about discovering new things and intellectual challenge. It does not always appear to be the natural 'bedfellow' of generics.

Biotech collaborations with pharma are not always the best thing: it depends where you are positioned.

What do you think are the key requirements for biotech-pharma collaborations?

Biotech collaborations with pharma are not always the best thing: it depends where you are positioned. If you cannot get to market or if a pharma company has a stranglehold on treating a particular disease, you would want to think very carefully before you did anything other than licensing. We are finding that some biotech companies are able to get better terms than they used to with pharma companies. You have to see which foot the boot is on. Some biotech companies just want to remain suppliers; they just want boutiques that sell on relatively short-term projects to companies further downstream and they are constantly making new deals as specialists. There are others who want to go the whole way: identify targets, keep some back and use the money they earn to develop some of their own products. The further you can go with your product, the more return you get on your investment.

Which biotech companies do you think are being the most innovative?

It is hard to say because if you look closely at businesses, there might be some people being very cute in a niche area. Those that

have been most visible are those who have worked their way through M&As to move from being a single platform company to being a multiple platform company and to being a company focused on a particular consumer market. Almost every company must look at a multinational approach. Of the larger companies, you have to take your hat off to Cambridge Antibody Technology (CAT), Powderject, Shire, Oxford Glycosciences and Oxford Celltech. These are companies who have quite surprised people in the way that they have moved to take on bigger, new overseas commitments, especially given the market barriers and the shifting currency values, employment markets and capacities.

Anyone who is after major company development is going to pick a very appropriate overseas development strategy. Ultimately, that will come in the form of M&As, and earlier on in the form of partnerships. For example, you have to look at what Shire and Celltech have done over the past 4–5 years. They were quite small and went out, taking their courage in their hands, and bought up companies that were a good fit. Some of the German companies are doing this at the moment. This is being done not just for the sake of expansion but because they are looking to create a full hand to deliver to several international markets.

Do you have any concerns or worries about the future of the biotech industry?

The biotech industry is in several consumer markets, one of which is medicine/healthcare. We join with all of industry in feeling that we need the public to feel that we are trustworthy, particularly because biotech deals in 'clever' science and is constantly producing new challenges and products, and completely unthought-of ethical challenges. The pace of development will be limited by public perception: if you look around Europe, we have a voluntary moratorium on the use of GM foods. These are countries without a legal constraint operating in accordance with what they perceive to be consumer opinion. I personally am not sure it is consumer opinion, but it is certainly a strongly voiced one. We have to make sure that the understanding of what is on offer grows much more rapidly.

Taking the example of animal testing, people have a complete misunderstanding about, first of all, whether animal testing of medicines is necessary and, second, what it

involves. The marketing of these issues has to be more sophisticated than advertising so that you do not get the response 'Well they would say that wouldn't they?' We need general education, ranging from topics such as where our food comes from to why we allow our farming/butchering industry to take shortcuts in the preparation of meat. We need the public to take enough interest in what our science does. We need to present some simple and attractive propositions that seem to fit into the everyday media that people like to use. Whether it be *Woman's Hour*, magazine programs or popular newspapers, you should be able to find something that is not a sensational story but is news and is understandable. In lifestyle pieces, the media and science have more of a common goal. Even the tabloids have large sections on health, or well-being and leisure time, and we could also fit into that.

We need the public to take enough interest in what our science does.

Do you feel generally positive about the future for the biotech industry?

Oh, yes. It is difficult to avoid over-optimism sometimes because you have to be realistic. I have been with the BIA for nine months and arrived at a time when there had been some well publicized setbacks in the perception of the industry that had taken the wind out of investment. Since then, it has been very upbeat: companies have products they are selling, they are established and the market is responding. We are not dealing in a virtual world: we are researching and that is a high-risk area, but we are dealing in products that are substantial and impressive. For instance, when you see a child or animal that gets given the appropriate medical treatment, the rate of recovery is phenomenal. That is our trade: it is a very idealistic industry and you know it is something that will sell.

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