Europe struggles to catch US biotech bulls

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 figure is $1.4bn from 21 companies, according to Dealogic. “UK and European IPO markets have been doing almost as well as the US market this year, 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 OrbisMed, 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 Alexion showing similar promise. 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 the UK market is opening up.”

Whatever the underlying reasons, it manifests itself in a much tougher financing environment for European biotech – both in terms of venture capital and equity funding from public sources. The stock market is 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 on 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 £20bn 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. 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 going public, including CAT, a biotech development arm 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.”

In Europe, such success stories are rare. The £32bn sale of UK-listed Shire to AbbVie in 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, Gemmaforb of Denmark and Swedish Orphan Biovitrum with valuations of around $2bn. Gilead, king of the US biotech sector, is 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.