Commentary: Chris Maggos

Provincialism is holding back Europe's biotech sector

There's an-often quoted story telling how Henry Kissinger complained that there was no single phone number when he needed to speak to someone in Europe. US investors seem to have taken a cue from it. Many say that Europe's bewildering array of trading venues is making it nearly impossible for start-ups to raise enough money. And, if only there were a single platform in Europe, the funding gap for local biotech start-ups would quickly vanish.

But just like the Kissinger story isn't true, the lack of a single platform isn't our biggest problem. The funding gap is real: European biotechs got their hands on only a fifth of the capital their US peers attracted last year.[1] This is causing an exodus to the US with only the largest companies able to stay. Smaller concerns overwhelmingly have their eyes on America. It also makes Europe's best companies easy takeover prey. So far this year, Asahi Kasei has scooped up Calliditas, Gilead acquired Cymabay, US Merck bought Eye Bio, and Johnson & Johnson now controls Numab Therapeutics. While this provides important gains for investors, the shift in ownership means long-term financial benefits, and often jobs, leave Europe.

Setting up a single trading venue alone would not change that. With electronic trading the norm, where a company lists its shares isn't important but liquidity and market capitalisation are. A closer look shows that a vast number of smaller hurdles are together preventing capital from finding its way to European startups. In a recent survey among European VCs[2], 90% said the continent consisted of several regional hubs, each inwardly focused, serving its own eco-system. There were significant differences in tax law, depth of the local capital markets, the level of bureaucracy, regulation and the ease with which to set up a company. It's much harder for a company from France to attract German investors than for one in Massachusetts to find investors in California. If Europe is serious about giving its biotech sector a chance, it is those barriers that it needs to break down.

What if, for instance, Europe allowed countries to design their own tax incentives for investments, but applied them regardless of the investments' domiciliation in the European Union? What about harmonising reporting requirements for listed companies? What if the European Investment Bank funded independent equity research? What if the European Investment Fund created exchange-traded funds (ETFs) for industries of strategic importance for Europe, such as biotech? What if public pension funds were encouraged to invest more in private equity and venture capital, something that has proven to be a key driver of the US ability to disrupt businesses? What about promoting risk securitisation to free up bank capital?

Many of these ideas are already in the EU Capital Markets Union, a plan which was published in 2014. This was Brussels' response to the sovereign debt crisis, and an effort to make it easier for companies to attract equity capital, a type of funding that is much less prevalent in Europe than in the US. But when European Central Bank President Christine Lagarde and other senior EU leaders took stock of progress at a debate in Davos this year, their conclusion was that the Capital Markets Union is the one area where Europe has been regressing over the past decade.

Some countries simply may not want more unification, out of fear of losing regional advantages. Conservatives, particularly those sceptical of integration, gained more seats in the recent election for the European Parliament so the resistance will surely continue. If this causes more delays, it will be narrow provincialism that keeps Europe's biotech sector from thriving.

This would not be a victimless political error. Like other strategically important and innovative sectors, Europe's biotechnology industry has world-leading potential, and, in many respects, is well ahead of the US. Europe hosts many of the world's leading pharmaceutical giants, such as AstraZeneca, Bayer, Boehringer Ingelheim, GSK, Novartis, Novo Nordisk, Sanofi, Roche as well as a healthy slew of mid-size firms – Gedeon Richter, Lundbeck, Neopharmed Gentili, PharmaMar, Recordati, Tillots Pharma, UCB and many more. And there are a few large, fully integrated biotech firms that have managed to stay independent such as argenx, Ascendis, BioNTech, CureVac, CRISPR, Evotec, Genmab, Horizon Therapeutics, Idorsia, Valneva and others.

The sector has rich intellectual property and a huge talent pool to pick from, given that Europe is home to 43 of the world's 100 best life science universities, compared to 34 in the US[3]. It's also a myth that European investors simply don't understand early-stage capital. Despite smaller average investment sizes, European venture capital funds outperformed their US counterparts by 6.24% over the past five years[4].

It is frustrating to think that politicians would not do everything in their power to promote this fertile sector, which can provide benefits to both global health and local economies. Strategic autonomy is a buzzword in the EU, and a competitive pharmaceutical sector is in Europe's own best interest. Europe's biotechnology industry has the potential to create many more global champions for decades to come.

Applying policies to unify capital markets across 27 countries is a tall order that is taking time. French President Emmanual Macron is now advocating for a small group of countries to go ahead with the plan, and leave others behind. A small group is better than no group, and with a little luck they will succeed in showing the way.

References: 1. https://www.drugdiscoverytrends.com, 2. https://www.speedinvest.com, 3. https://www.mckinsey.com, 4. https://news.crunchbase.com.

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