



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



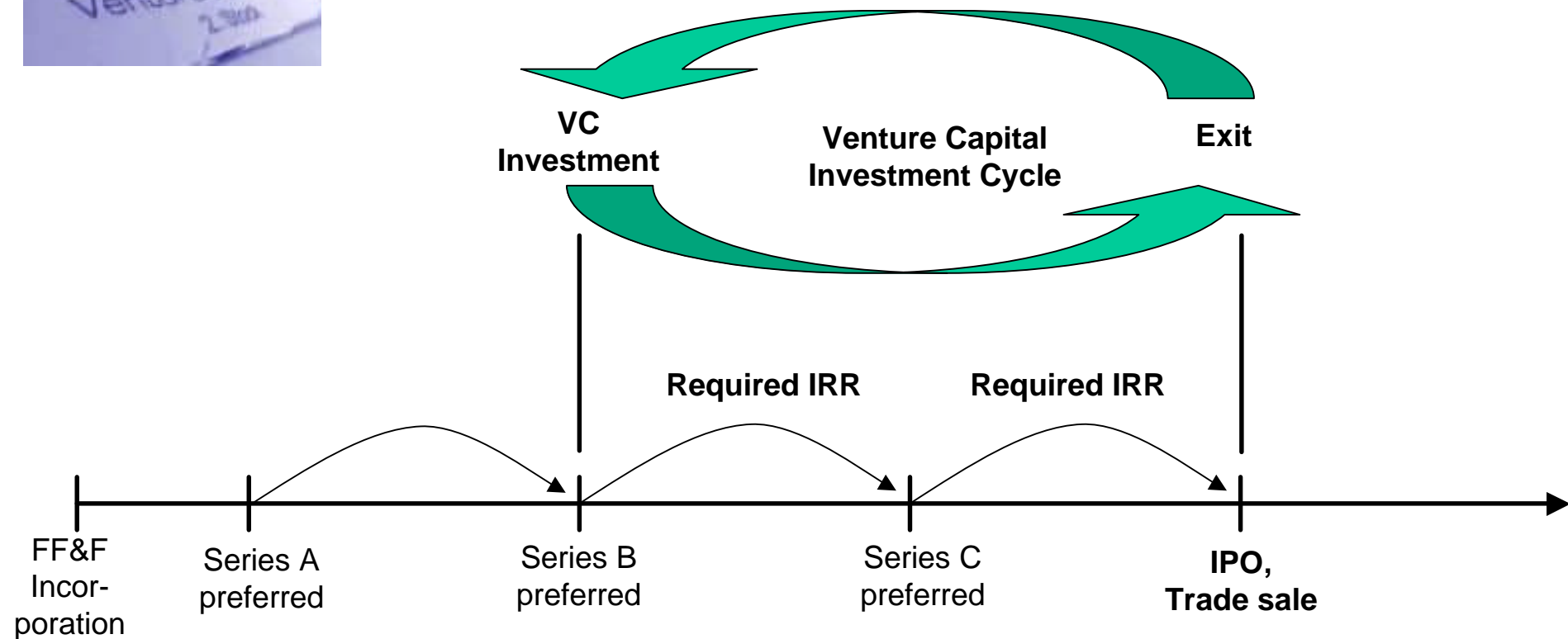
- Fragmented private equity markets in Europe
- Suffering from Governmental interventions (Germany, France?)
- (Too) many small, early stage companies
- Sliding valuations (impact of public markets)

=> why?

Venture Capital Cycle



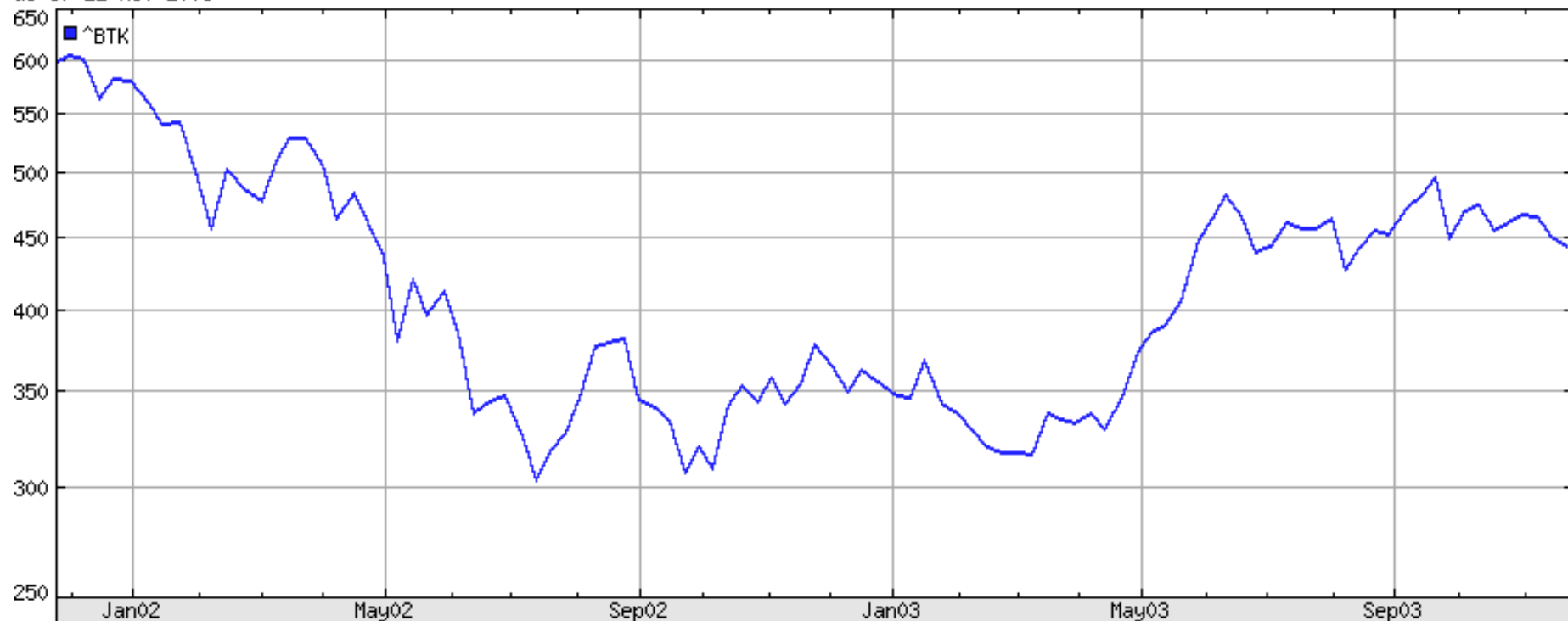
- Understand the Venture Capital Cycle
- Look at the whole Company Life Cycle



Market Trends

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

BIOTECH INDEX
as of 21-Nov-2003



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Outlook



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

=> timing? => Slow process



Outlook on recovery



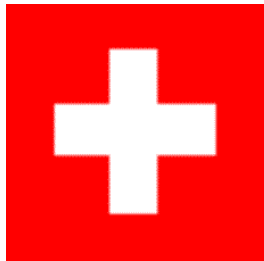
- Biotech companies will less focus on early pharma deals
- Recovery of valuations
- Investors consider of early stage investments again
- Hinder industry consolidation

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



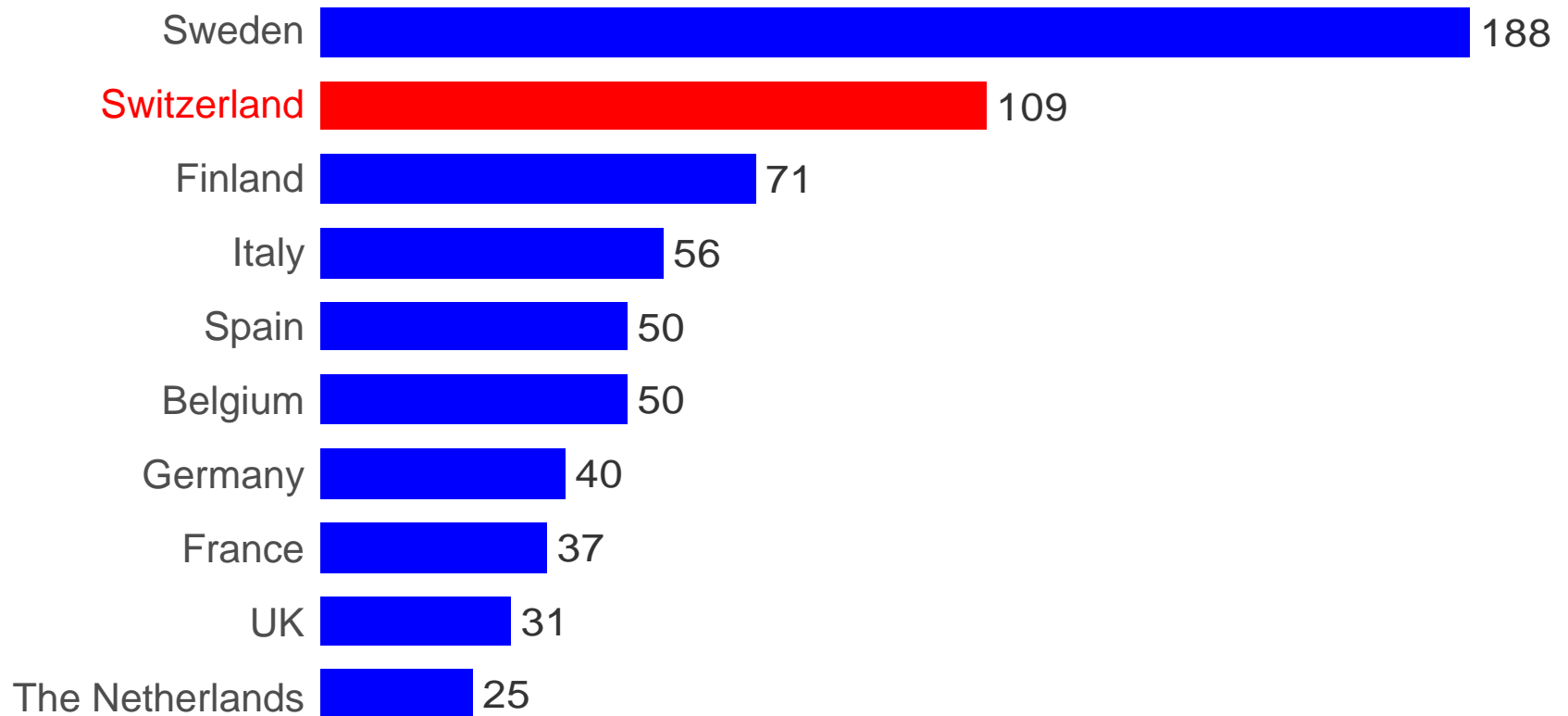
Investor	Funds available (m EUR)	Portfolio Companies (private)
Aravis	n/a	5
BioMedinvest AG	33	5
HBM BioVentures AG	554	44
Index Ventures	497	36
Novartis Venture Fund	204	117
Schweizerhall Holding	164	21
Ultreia Capital Ltd	130	35
Venture Incubator	65	10

Prime Financial Center



... dynamic private equity and venture capital market

Investment Growth - (six year average %)

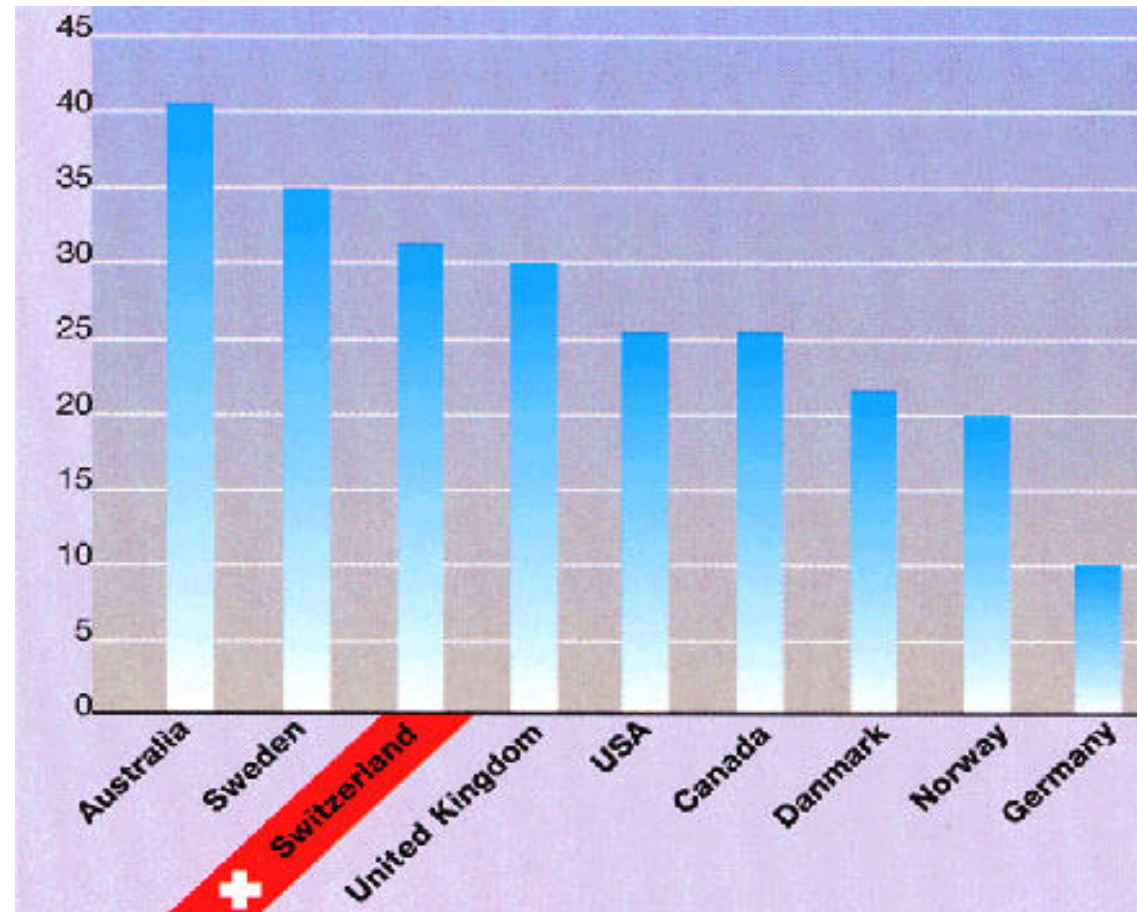


Source: 3i / PriceWaterhouseCoopers, Global Private Equity 2001

Prime Financial Center



International Comparison of Direct Equity Investors (% of Population)



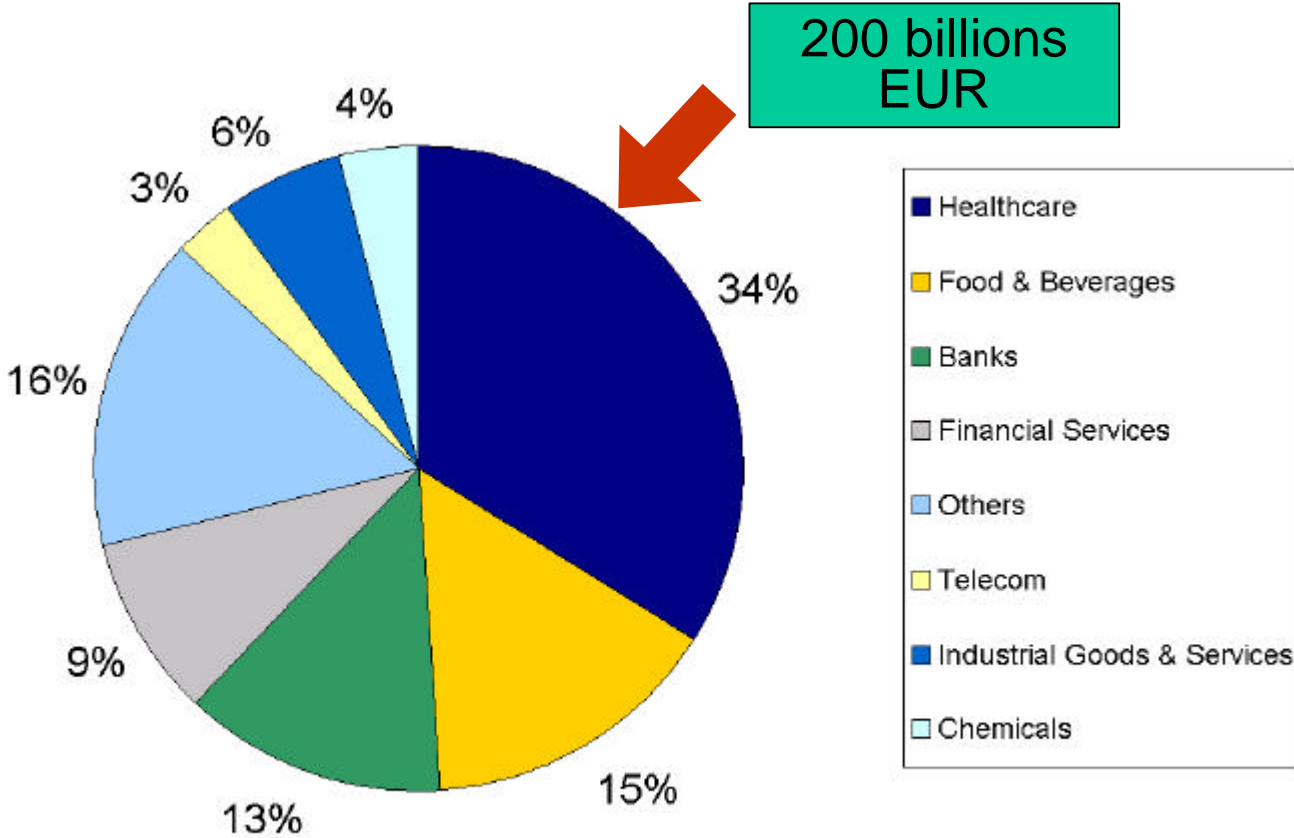
Source: Equity Ownership in Switzerland, 2001

SWX Swiss Exchange



- 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



- 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:
⇒ *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



- 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

your valuation expert



Thank you

Presentation available on:
www.venturevaluation.com

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