



# Valuation and Investment in Biotech companies – an independent view



Patrik Frei

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Venture Valuation W AG | Badenerstr. 18 | 8004 Zurich | Switzerland | Phone +41 (43) 321 86 60  
Fax + 41 (43) 321 86 61 | [info@venturevaluation.ch](mailto:info@venturevaluation.ch) | [www.venturevaluation.com](http://www.venturevaluation.com)

# Agenda

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- I. Introduction
- II. Valuation Framework
- III. Current market trends in Europe

# I. Venture Valuation

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- Independent, third party Valuations
- Experts Finance / Industry
- Not a venture capitalist
- International experience (North America, Europe and Israel)
- Systematic / Validated Approach
- Track record of over 90 valued companies

# I. Why Valuations?

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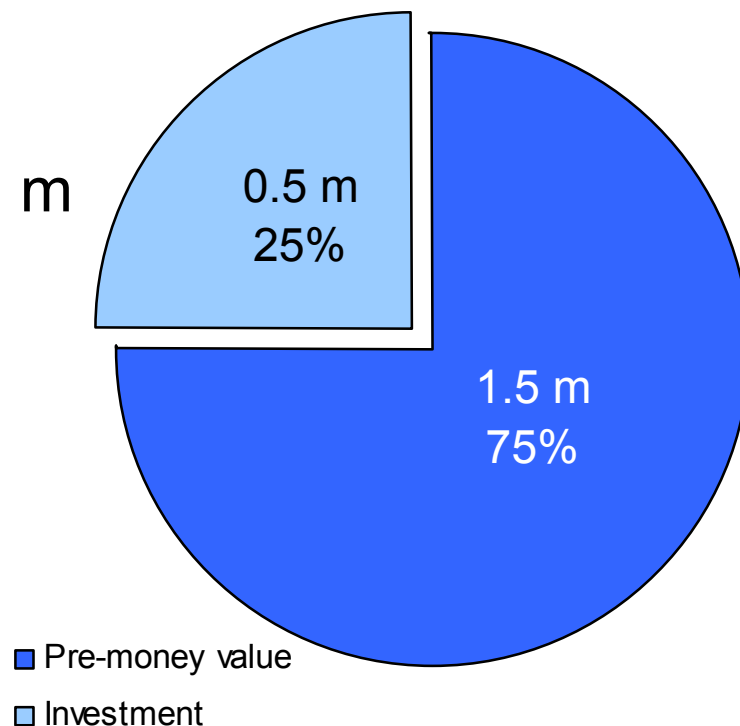
- Buy or sale (acquisition) or merger
- Extraction of key value drivers
- Needed for investment
- Basis for investment negotiations
- Out-licensing deals

# I. Why Valuations?

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## Equity:

- Value before investment (pre-money value): EUR 1,5 m
- Investment: EUR 0,5 m
- Value after investment (post-money value): EUR 2,0 m
- Share Investor:  
 $0,5 \text{ m} / 2 \text{ m} = 25\%$



# I. Price # Value

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- **Value:** implies the inherent worth of a specific thing
- **Price:** depending on the market (supply / demand); whatever somebody is prepared to pay

“Price is what you pay. Value is what you get.”  
By Warren Buffett

# I. Valuation Issues

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- Complex technology and IP situations
- Illiquidity of unquoted companies
- Long investment cycle
- Traditional valuation methods unsuited
- Industry lacks transparency
- Risk / Return

## II. Factors to influence value

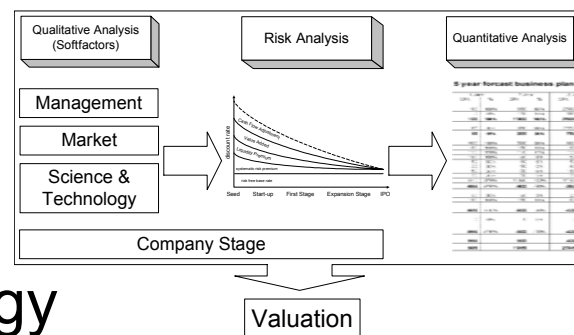


Soft factors are essential ...

- Management
- Market
- Science & Technology

... and the company/product stage

to define the risk profile of company



## II. Management

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- 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

## II. Market

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- Substitutes
- Rivalry among existing competitors
- Barriers of entry
- Bargaining power of suppliers / buyers
- Current and future market potential
- Customers
- Political / legal dependency
- Cost and Sales estimations

## II. Science & Technology

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- Intellectual Property (IP) protection
- Unique selling proposition (USP)
- Alliances / partnerships
- Management of future discoveries
- Time to market

## II. Optimizing the value

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### **Reduce the risk:**

- Apply for the necessary patents
- Have appropriate team in place
- Know and watch competitors
- Find alliances / partnerships

# III. Valuation approaches



- Operations-based methods:
  - ⇒ *business plan, fundamentals*
- Market-based methods:
  - ⇒ *price, trends, comparison difficulties*
- 5 methods:
 

- Discounted Cash Flows (DCF)	}	Operations meth.
- Real Options		
- Venture Capital method	⇒	Mixed meth.
- Market Comparables	}	Market meth.
- Comparable Transactions		

⇒ *use several methods*

## II. Conclusion

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- Valuation as a process
- Use several methods
- Valuation can help to check deal-terms
- Risk and potential as main components
- Value spectrum as a result
- Value  $\neq$  price

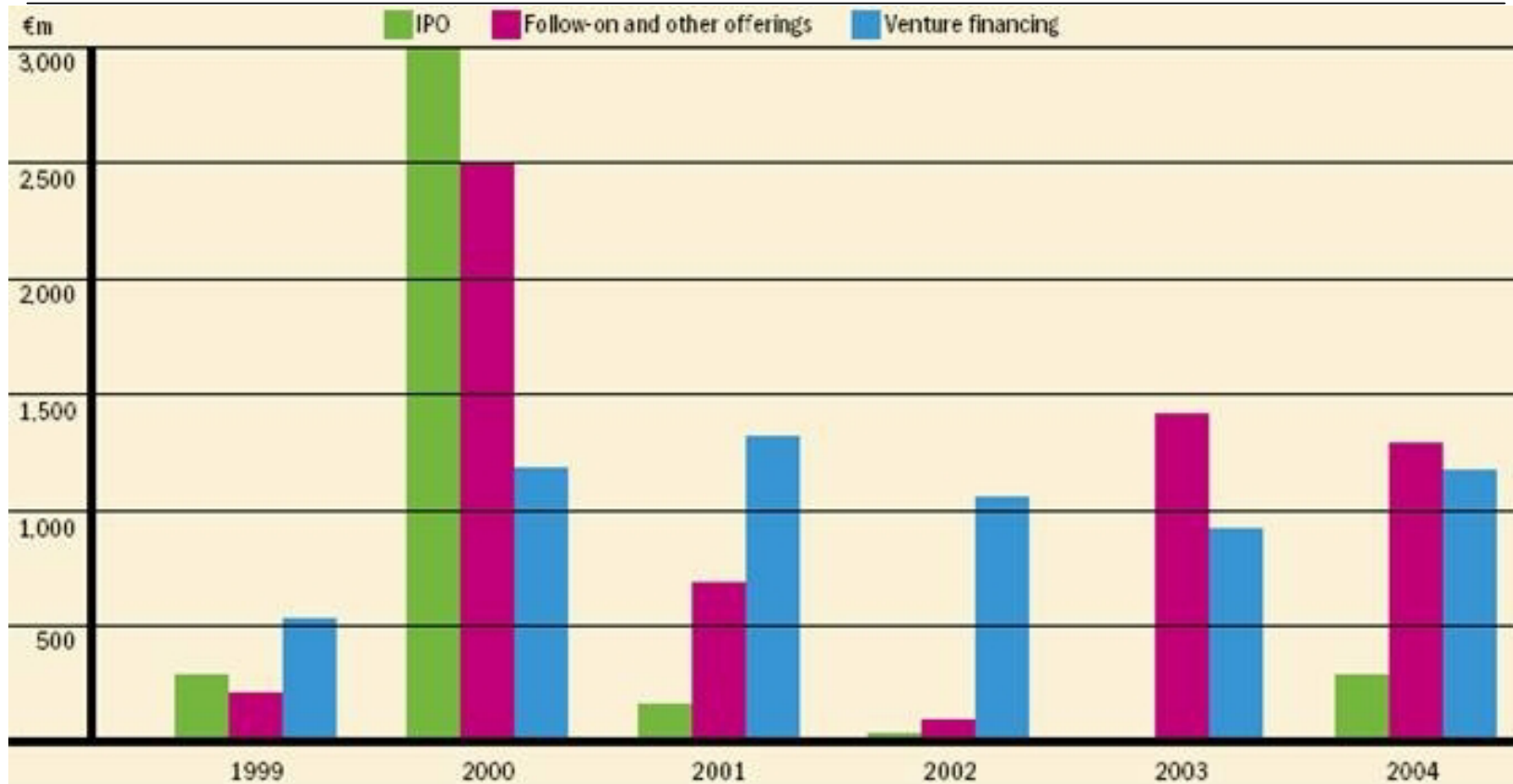
## III. Market trends

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- Financial support through European Investment Fund (EIF) and European Investment Bank (EIB)
  - Different countries have different investment policies (Germany, France, Switzerland, etc.)
  - Consolidation taking place
  - Financing gap (Seed and later stage)
- => Challenge is to create big European Biotech companies

# III. Market trends



Source: E&Y Global Biotech Report 2005

# III. Market trends



## Some IPOs in 2005

Company	Country	Exchange	Raised (m EUR)
Ardana	UK	London LSE	30.4
Arpida	Switzerland	SWX	63.1
Intercell	Austria	Vienna	46.8
Paion	Germany	Frankfurt	40
Plethora	UK	London AIM	14.5
Proximagen Neuroscience	UK	London AIM	21.0
Speedel	Switzerland	SWX	0 / 45.5*

•raised EUR 45.5 in convertible loan preceding IPO

European companies / public in the US: Gentium and IDM

## III. Market trends

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### **A Selection of Venture Capital Funds:**

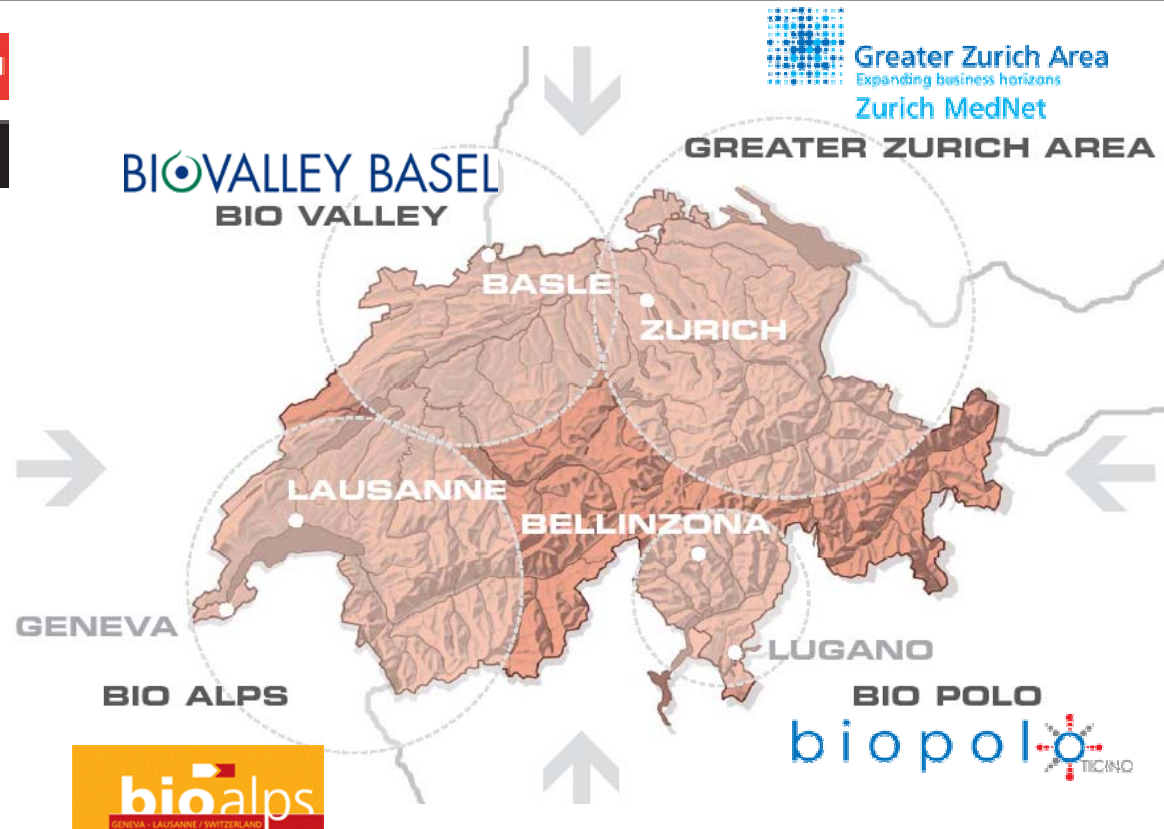
- Adamant Biomedical [www.adamantinvest.com](http://www.adamantinvest.com)
- Aravis [www.aravis.ch](http://www.aravis.ch)
- Aventic AG [www.aventic.com](http://www.aventic.com)
- BB Biotech Ventures [www.bbbiotechventures.com](http://www.bbbiotechventures.com)
- Global Life Science [www.glsv-vc.com](http://www.glsv-vc.com)
- Nextech Venture Ltd. [www.nextechventure.com](http://www.nextechventure.com)
- New Venturetec [www.newventuretec.com](http://www.newventuretec.com)
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# III. Market trends

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## III. Market trends

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- Sale of Glycard to Roche (EUR 160 m)
- IPO of Speedel (market cap. EUR 600 m)
- IPO of Ypsomed (market cap. EUR 1'113 m)

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**your valuation expert**

Thank you



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