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"A gap with causes – German life science companies must raise more money abroad"
By Dr Mathias Schott and Sebastian Sommer, FCF Fox Corporate Finance

Financing Life Sciences

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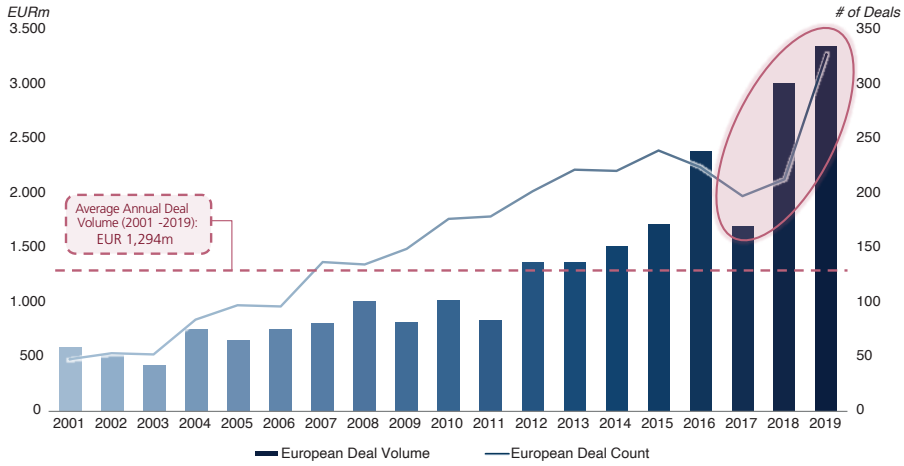
A gap with causes

German life science companies must raise more money abroad

The fact that Germany's life science industry is doing very well in European comparison is due to a few big deals. The latest venture capital research by FCF Life Sciences shows a much different and quite disillusioning picture.
By Dr Mathias Schott and Sebastian Sommer

Fig. 1: European Life Science Venture Capital Volumes over Time



Source: PitchBook as of 14.01.2020, FCF Equity Research

No doubt, life science is currently booming: 2019 has been the best year for European venture capital funding for the past two decades with a total deal volume of EUR 3.3 billion, and the number of deals has never been higher.

The upward trend's continuity is particularly remarkable: Apart from a correction in 2017, the deal volume has steadily increased every year since 2011. Moreover, the funding volumes of the past eight years have all been above the average of EUR 1.29 billion of the last nineteen years.

Germany's special driver

The analysis from a regional perspective provides more insight regarding the source of the growth. At EUR 4.4 billion, UK life science companies account, by far, for the largest share of European deal volumes over the last five years. Despite a remarkable increase in the number of UK deals in recent years, the funding volume has decreased at the same time, indicating that investors are increasingly targeting British seed- and early-stage companies with a more attractive risk-return profile.

Germany tells a different story. Europe's biggest economy has recorded a total deal volume of EUR 1.5 billion over the past five years, a third of the volume that UK life science companies have raised. A closer look reveals that two deals from the Mainz-based oncology specialist BioNTech – with an aggregated deal volume of approx. EUR 500 million – account for a third of Germany's life science deal volume, making it a special driver for Germany. In five years, Germany was not able to achieve the same level of deal activity as the UK in 2019 alone.

A different picture without BioNTech

As positive as this may be – without the EUR 288 million BioNTech deal in 2019, a different picture of the German life science sector emerges: Germany's share in total deal volumes would drop from 20% to 7%; the average deal volumes would decrease from EUR 28.4 million to EUR 9.7 million. At the same time, not a single German deal would be ranked among the top ten, while UK and Switzerland each have three such deals and even smaller economies such as the Netherlands have at least one.

The shortage of life science funding in Germany is further illustrated by the fact that a deal volume of EUR 10 million would have already been sufficient to reach the top ten ranking in 2019.

However, the fact that BioNTech's success story puts the German life science market in good light in an international comparison should not be disregarded. As early as 2018, a BioNTech deal worth EUR 222 million had already brought Germany up in the rankings as the top deal. BioNTech is a special driver for Germany but distorts the picture to some extent.

USA far ahead

An analysis of the fundraising activity in Europe might reveal first symptoms of the problem. It is true that European life science investors have been able to increase their fundraising activities and raise about 60% more capital in 2019 (EUR 3.9 billion) than in 2018 (EUR 2.4 billion) –

ABOUT THE AUTHORS
Dr Mathias Schott is Director at **FCF Fox Corporate Finance GmbH**.
Sebastian Sommer is Associate at **FCF Fox Corporate Finance GmbH**.

a trend that is in line with the increase in European deals and volumes.

However, there is still a considerable amount of catching up to do compared to the USA. US funds are more active and have been able to collect significantly more money than in previous years, also recording a new high in 2019 with EUR 13.8 billion raised.

Europe, and Germany in particular, appear more hesitant compared to the USA: German investors accounted for just 10% of fundraising in Europe over the past five years. US investors, on the other hand, raised four times more than their European counterparts during this period and 35 times more than German investors. The specific funds and drivers behind the European vintage 2019 funds may only be impressive at first glance. After all, the top five of these funds raised a total of EUR 2.2 billion out of around EUR 3.9 billion. Moreover, six of the ten largest funds raised in 2019 originate from the UK and France; Germany – with Wellington Partners and a volume of EUR 210 million – ranks at the 7th place.

In line with the fundraising activities, the most active investor hubs also originate from the UK (London, Cambridge and Oxford) and France (Paris) while German hubs are not represented in the top ten. Munich only ranks at 11th place with approximately EUR 108 million invested in 2019.

Again, the comparison with the USA is illuminating: In the USA, the fund volumes of the top five vintage 2019 funds are significantly higher (EUR 5.4 billion), the investors collect around three times as much as their European counterparts. An era of funds of more than "one billion US dollars" has long since begun.

Europe's dependency on the USA

Analysing the origin of VC investments shows that in recent years, significantly more capital has come from foreign investors. In 2019, the share of such "cross-border volumes" amounted to 63% in Europe, underpinning the fact that life science companies are simply becoming increasingly dependent on foreign capital. Especially in later rounds – in which funding requirements become larger –, cross-border investors have become increasingly important in European deals.

Within Europe, the UK and France are setting the tone as the major cross-border investors. In 2019, Germany ranked second in Europe thanks to Fresenius' EUR 60 million Unicyte deal. Not counting this deal, however, Germany falls behind as in the previous years. In short, Germany is not a relevant cross-border investor and plays only a minor role within Europe.

The biggest and unchallenged contributor, however, is the USA

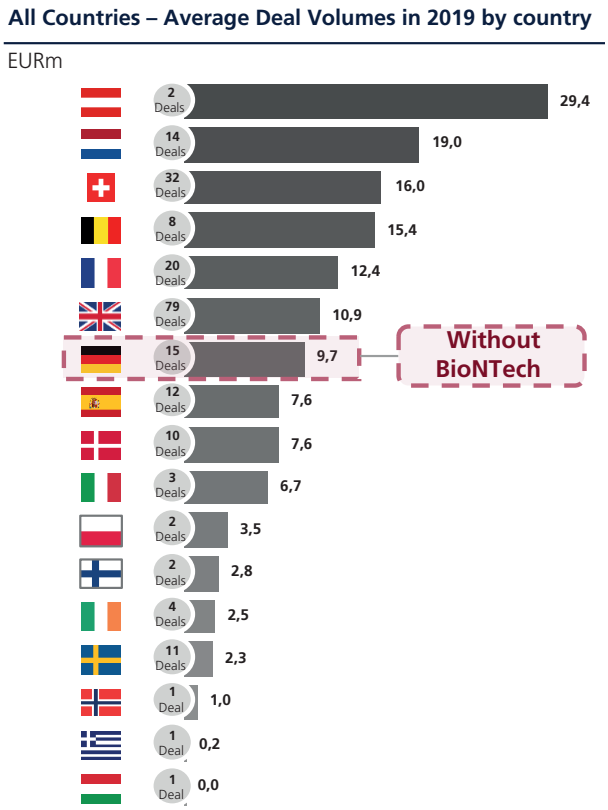
With EUR 683 million invested capital in 2019, the US leads the top ten ranking. Throughout the last five years, US investors were responsible for around 50% of the cross-border volumes in the top ten ranking in each year. In other words, the European life science industry is heavily dependent on US investors.

Within Germany, a weak home bias of German investors is a major cause of the problem. While British and French life science companies have drawn 50% to 60% of the capital raised from domestic investors in the last five years, 66% to 84% of the invested capital was put in domestic companies by British and French investors in this period. Such home-biased investment activities support the domestic market.

In contrast, German life science companies have only obtained 25% of the capital raised over the last five years from domestic investors, and only 54% of the invested capital was put in domestic companies by German investors during this period.

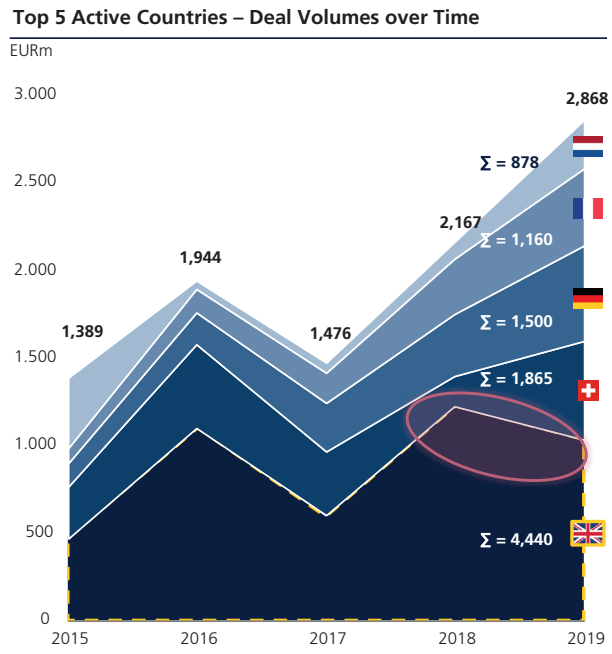
It is a paradox that is causing problems for the life science sector in Germany: German investors invest more abroad than the UK and France; at the same time, German companies must raise more money abroad, and most likely in the USA. ■

Fig. 3: European Biotechnology & Pharmaceuticals Analysis in 2019 by Country excl. BioNTech Deals



Source: PitchBook as of 14.01.2020, FCF Equity Research

Fig. 2: Most Active European Life Science Countries (L5Y)



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