

## Europe's biotech 'immigrants' to America

International Herald Tribune

By Andrew Pollack The New York Times

WEDNESDAY, JULY 12, 2006

**LOS ANGELES** When the Scottish government injected \$9 million into the biotechnology company Cyclacel last October, the country's enterprise minister explained that "there could not be a more important company for Scotland's future."

So how did Cyclacel show its gratitude just two months later? By moving its headquarters to Short Hills, New Jersey, and merging with a publicly traded American company.

Cyclacel executives say there was no slight intended to the government and the company's 65 research scientists, who continue to work in Dundee, Scotland, and Cambridge, England.

"The issue was one of access to the capital markets of the United States," said Spiro Rombotis, Cyclacel's chief executive. Only American investors, he said, could provide the tens of millions of dollars needed to carry the company's cancer drugs through clinical trials.

Cyclacel is not alone among European biotechnology companies that consider their science second to none, while conceding the superiority of U.S. financial markets. A number of European players from countries including Denmark, France and Germany have come to the United States for greater access to the world's largest investment pool for life sciences.

The migration trend suggests that money, not molecules, could become the United States' main competitive advantage in biotechnology, a field that could become one of the premier global industries of the 21st century.

The United States has long been the world leader in biotechnology. But when it comes to spinning science into start-ups, other countries have caught up. Europe now has 1,613 biotech companies, compared with 1,415 in the United States, according to Ernst & Young.

The European companies, however, are typically smaller than their U.S. counterparts. More crucially, they often lack the capital to get beyond the early stages of research and development. Last year, biotechnology companies raised only \$3.3 billion in Europe, compared with \$16 billion in the United States, according to BioCentury, an industry newsletter.

U.S. companies also spend on average three times as much on R&D and have access to 10 times as much debt financing as their European counterparts, according to a report released last month by EuropaBio, a trade group based in Brussels. Compared with Europe, it is also much easier for public companies in the United States to raise additional money through secondary stock offerings or by issuing debt.

Thus the wave of immigrant companies, like BioVex, which was formerly based in Oxford, England, but now has its headquarters in Cambridge, Massachusetts. Although its scientists remain in Britain, BioVex recently used its American base to file for an initial public stock offering on Nasdaq.

Some of the foreign companies intent on a Nasdaq listing have sidestepped an IPO by doing a reverse merger with an American company that has already gone public - in some cases, a biotechnology company that has foundered.

That is what Cyclacel did. It agreed last December to be nominally acquired by Xcyte of Seattle, although Cyclacel is now the name of the company. The maneuver enabled Cyclacel to take advantage of Xcyte's Nasdaq listing by raising an additional \$45 million in April through a private placement of stock and warrants.

Similarly, IDM, a French drug developer, used a reverse merger to acquire the Nasdaq listing of

Epimmune. IDM is now based in Irvine, California, although its research operation and most of its employees remain in France.

The German company Micromet now has a Nasdaq listing and a U.S. headquarters, after reverse-merging with Cancervax, of Carlsbad, California. Most of its operations are still back in the home country.

In May, a company started by venture capitalists in Denmark to develop a drug for osteoporosis went public through a reverse merger with a U.S. shell company, Castle & Morgan Holdings, before raising \$10 million in a private placement, mainly from American investors. Originally called Nordic Bone, the drug company is now based in San Francisco and has a more cosmopolitan name, Osteologix.

There may be limits to the immigration trend, though.

Industry executives say it has become more difficult than in the past for very young companies to go public on Nasdaq. A company now usually needs to have drugs at least close to reaching the market. And some small companies say it can be too costly to comply with the financial controls that the Sarbanes-Oxley Act has imposed on public companies.

Last year, for the first time, more biotechnology companies, 23, went public in Europe than in the United States (16), according to Nature Biotechnology, a newsletter.

This year, two U.S. companies have even gone public on London's Alternative Investment Market instead of in the United States, although neither has moved its headquarters to London.

One of them, Entelos, a Foster City, California, developer of computer simulations of diseases, raised about \$20 million in the London market. The other - Aqua Bounty, a Waltham, Massachusetts, company trying to win U.S. regulatory approval for a genetically engineered salmon - raised about \$35 million in London.

"I have trouble raising money in the States, and yet you can raise money on a transgenic fish in a place where they'd never allow it," said Elliot Entis, chief executive of Aqua Bounty, referring to Europe's opposition to genetically modified foods.

Asterand, a supplier of tissue samples for pharmaceutical research, merged with a publicly traded British company in December to gain a listing in London, even though most of Asterand's operations remain in Detroit.

"The cost of being a U.K. public company is significantly lower" than in the United States, said Randal Charleton, the chief executive.

One factor working against the trend of European companies moving to the United States is the increasing willingness of U.S. investors to place some of their bets abroad.

"Today you do not need to be listed on Nasdaq," said Wolfgang Söhnngen, chief executive of Paion, a German company traded on the Frankfurt Stock Exchange. "Sophisticated investors invest globally."

Paion, which is developing a stroke drug derived from vampire bat saliva, recently raised €9.44 million, or \$12 million, in a private stock offering. Among the investors were J.P. Morgan Proprietary Equities of New York and Xmark Opportunity Fund of Stamford, Connecticut.

There are also logistical challenges in moving to the United States. Oxxon Therapeutics, a British company, moved its headquarters to Boston but then moved back to England.

"It's extremely difficult to manage small operations on both sides of the Atlantic," said Craig Smith, Oxxon's chairman.

In Scotland, meanwhile, Cyclacel's expatriation did raise concerns among that country's biotech boosters. But Scottish Enterprise, the government economic development agency that gave Cyclacel

the \$9 million, put the best face on the situation. It said that having a Scottish-born company listed on Nasdaq was an endorsement of Scottish biotechnology.

The agency also noted that the company's research was staying in Scotland, as it must do until 2010 under the terms of the agreement for the cash infusion.

But being a good sport has its limits. The \$9 million deal had originally called for the possibility of a subsequent infusion of government cash. Last month, Scottish Enterprise canceled that option.