

## CRB Inverbío - Enrique Castellón, President - Spain

---



---

12.12.2014

---

*The president of CRB Inverbío discusses the challenge of building a VC firm in Spain, a country where companies have traditionally relied on banks for capital, and about building the international reputation of Spanish biotech in order to boost international investment.*

**Spain has a very large number of biotech companies, and the Spanish pharmaceutical sector is the number one investor in R&D in the country, but somehow, Spain doesn't have the reputation for high quality R&D that its European counterparts like the UK and France have. Why is that?**

The main reason is time – you need time to create a reputation in something, and there is always a gap between the actual results and those results becoming well known around the world. The other side of this story is that research and knowledge in themselves don't create a reputation for technology, biotech or medicine – it is products, services and technology that create that reputation, and Spain is not yet at that stage. We also have our existing reputation to shake off, or change – a country where most investors think first of housing, hotels and tourism. To move to being a country known for something so radically different will take a lot of time and effort.

Another reason is that Spain does not have a well-established big pharma presence, which makes a difference when it comes to human health technologies. We have a number of local pharma companies that are doing well, but not on the same level as Roche, Sanofi or GSK, and that makes the difference. These companies have historically, now and in the last few years, focused on

servicing only the Spanish market, and although they are looking abroad now, it will take time for them to catch up and compete on that level.

### **How does this situation impact the venture capital market in Spain today for biotech?**

The situation for venture capital in the biotech and biomedical sectors is similar to that of other sectors in Spain, which is that venture capital has never been a major source of capital for companies. Banks have always been very important in Spain, and this is traditionally where capital has come from, which has meant that demand for venture capital has never been high. Added to this is a cultural quirk: entrepreneurs here often prefer to seek credit rather than investors, because they are afraid of giving up control of their companies, which leads to some fear of venture capital. However, in biotech, this is beginning to change, as companies see that they don't just get capital in return, but also institutional knowledge and corporate governance.

### **In general, how well are management teams of Spanish biotech companies doing in achieving commercial success?**

This is one of the reasons we feel that venture capital companies such as ourselves have a role here – most companies are poorly managed. You often find excellent scientists and researchers at the helm of these companies, but they tend to have very little knowledge of management, and this is why the direction of CRB is a little different from other VCs around the world – we give a lot of support to these companies. For that reason, we're looking for companies that are interested in having that extra support, that are willing to do whatever it takes to make their company profitable, to expand and internationalize rather than just thinking small. In Spain, we are still in a stage that most other countries have had to go through – many scientists believe that all it takes to make a successful product is an original idea. But slowly, they are learning.

### **What were the incentives to start CRB?**

The reason was quite simple – we knew that there was a lot of good science and technology in the country, but in most cases the only justification for it was the publication of results, instead of the transfer of this knowledge to products and services. We saw the opportunity to capitalize on this situation. We still believe in this opportunity, because the technological level of Spanish research, at least in bioscience, is no different from the level of the UK or the US in terms of quality: we have groups here that are world class in terms of their research. One of the companies here working on nanotechnology, for example, are the best in the world for nanosensors. If those groups were on the East Coast of the US, they would be inundated with resources for developing the company, but the fact of the matter is they are in Spain, where it is more difficult to find these resources.

## **How successful have your attempts to boost international interest in Spanish biotech been?**

We are now trying to find resources for our funds from international institutions and VCs, but it has proven challenging. The first issue comes back to this issue of international reputation – no one expects to find interesting biotech companies in Spain, and there are so many other opportunities in other countries. The other reason is that many of these investors are looking for national Spanish investors to go first – if there is little domestic support, why should an international company be interested? We are trying to change that state of affairs, by looking for other European projects and companies and investing, cooperating or coinvesting, in the hope that this will encourage these funds to look at Spain in turn.

We are now trying this approach for several projects in both our first and second funds, where the two current international investors are the European Investment Bank (where, on the other hand, are invested among other Spanish resources) and CAF

## **CRB launched its first fund ten years ago, and the second in 2012. What were the lessons learned between the two?**

The first important lesson we learned was that therapeutics are too risky as a first investment: we must have broken some sort of record as the first venture capital fund to take a project from basic research, through every clinical phase, right up to bringing the project to market. This wasn't our intention at first, but the reality of the situation, which was that we were struggling to find an exit for the company, led us to stick with the company for much longer than originally intended.

In general, however, we are trying to avoid regulatory phases – which means we are trying to avoid therapy in general (unless we happen to find a product or molecule that could be interesting for big pharma in a very early phase—Phase I or exceptionally Phase II), as it takes a lot of resources and requires a big financial risk, even if things are progressing well. We have some of this risk on our balance sheet now, with a product that has finished Phase I in the US – and we didn't find investors to come on board with us for Phase II.

## **Why is that?**

I don't know, because we see deals in the pre-clinical stage happening regularly. It's difficult to understand, but we learned that these types of projects are very risky for us, so we are now looking for projects closer to or already in the market, as we need more investors, and to be able to raise capital easily. We need to make successful exits, and this is increasingly unlikely the earlier we

take on projects, which means that in the future, we are investing in more mature projects. We are now working on exiting three companies in the first fund, which should be completed next year,

One of our biggest challenges now is finding exits for our companies before they hit cashflow problems – we need to walk that fine line between staying in the company long enough to negotiate a good exit, and exiting before the company reaches the end of its runway, leading to an urgent need to make a deal.

### **What would you say to the Spanish biotech sector about what their expectations should be for finding venture capital in the years to come?**

If the economy improves, and investors start to feel that things are getting better, they will be more prone to invest, either in companies directly, or in venture capital. So I tend to be optimistic. But the economic situation in Europe and Spain today is precarious, so it is difficult to say. But in the mid-term, I am optimistic. But the problem for small companies, who need to keep moving despite these uncertainties, is the worry of running out of cash before things pick up: even if the technology is good and everything is going well, one year is critical. If the economy as a whole changes, everything changes.

### **What needs to happen in the Spanish biotech sector before international investment picks up?**

That would be directly related to the situation in Spain: if the industry here is able to produce a success story or two, it would go a long way to boosting international attention. Internationally, Spain today is known as a cheap country in the European context: if we could pair that perception with the knowledge that good products are being made here, I am sure international investment would improve.

However, it is a bit of a chicken and egg scenario, not just with international investment but investment in general: success breeds success, but we need the support in order to get there in the first place. That initial success would breed domestic interest in the sector, and eventually, international investment.

To read more articles and interviews from Spain, and to download the latest free report on the country, [click here](#).

**[See more interviews](#)**