Interview: Juerg Zuercher – EMEIA Biotech Leader & Partner, EY Switzerland



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EY's Biotech Team Leader for the EMEIA region discusses the challenges Europe's fragmented capital markets pose for biotech startups, the under-communicated benefits of doing an IPO on the Swiss stock exchange and the implications of the Actelion acquisition for the wider Swiss life sciences ecosystem.

Among other things, you are EY's head of biotech for the EMEIA region. At the European level, what would you highlight as the greatest challenges that the biotech sector faces today?

Europe lacks a large, dominant stock exchange for biotech equity financing and this has an impact on the biotech community across Europe. In the US, there are two big exchanges, the NASDAQ and NYSE. Any US biotech company looking to go public will do so on one of these two exchanges. As you would expect, the situation in Europe is more fragmented, with biotech financings taking place in many places – from the Scandinavian stock exchange, to the LSE and AIM in London, the various affiliates of Euronext and not least the Swiss Stock Exchange (SIX). Unlike in the US, this makes it very difficult for analysts to follow the biotech sector, as they have to keep track of what is happening on each individual exchange. What's more, Europe can lag behind the US by 12 to 18 months with regard to certain developments. As a consequence, the wave of 11 consecutive quarters with biotech IPOs which started in late 2013 took a while to catch on in Europe.

As such, a biotech company’s decision regarding where and how to obtain financing can be complicated, as very rarely do we see IPOs in Europe generate the big proceeds regularly seen on the NASDAQ or NYSE. Generally, French companies will go to the Euronext in Paris, and German companies to Frankfurt. Of course, there are exceptions to the rule, with the LSE, SIX, and the US exchanges all worth considering. In cases where most of the investors are US-based and the US-market is more important, many companies face pressure to move across the Atlantic.

The other pan-European challenge has to do with talent, innovation and readiness for entrepreneurship. The issue is not a lack of talent, but rather that talented individuals in Europe are less likely to take the risk of innovating and starting a company. In my experience, people on this side of the Atlantic tend to see a failed attempt at entrepreneurship as something to hide or be ashamed of. In the US with their traditional rags to riches stories, more potential entrepreneurs are willing to take the risk, and try again if they fail.

Expanding on the issue of financing, we have seen several Swiss companies – AC Immune and CRISPR Therapeutics, for example – go to the US for their IPO over the last few years. Is this a problem for the Swiss life science innovation ecosystem?

Ultimately, these companies were looking for capital and went where they needed to go to secure it. It is also worth noting that companies can collect private capital relatively easily in Switzerland. In fact, we have seen several examples of companies setting up their headquarters in Switzerland, because it is easier to sell the story of a Swiss biotech company to investors compared to some other European countries. Okairos is a good example: the vaccine startup from Naples relocated its headquarters to Switzerland, and was then bought by GSK for EUR 250 million in cash three years ago. Capital is mobile, and for the foreseeable future, even if excellent scientific and innovation activities are being carried out in Switzerland, innovators will also be able to raise capital somewhere else. But there is a long-term risk: if more and more Swiss startups end up with predominantly American investors, some of them may be pressured into relocating to the US.

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In terms of ecosystem financing, this could become problematic somewhat sooner, as the SIX risks losing some of the appeal it has no doubt had in the international biotech community in the past. This is an issue that I have discussed with relevant stakeholders at and around the SIX, and I see two main factors that have led to this situation.

The first is that compared to NASDAQ Europe, which is strongly promoting itself and trying to attract new companies as potential clients at various conferences and other events. SIX Swiss

Exchange is operating with a different approach by visiting individual IPO candidates, being in touch with bankers and venture capitalists. In addition, sponsoring conferences, like the upcoming BioEquity 2017, has also been added to their marketing activities recently. The stock exchange's representatives should actively engage with the startup community to explain its benefits. For instance, the SIX is the only exchange in Europe that accepts companies that report in accordance with both reporting standards US GAAP and IFRS as adopted by the International Accounting Standards Board (IASB), whereas all exchanges in the EU require IFRS as adopted by the EU, which is not 100 percent the same.

Moreover, the costs of an IPO in Switzerland are considerably lower. If you are ready and have the right story to attract enough capital, you can go public in only four weeks. IPOs in the US take longer and are more expensive. Finally, while larger amounts of capital might be raised on the NASDAQ, when you take into account the time, net deductions and expenses – and the potential costs of fulfilling the Sarbanes-Oxley requirements in the US – it is very likely that companies would be better off doing an IPO here in Switzerland with the SIX.

The second issue, in which the biotech community holds little influence, is that the two big Swiss banks are not active enough in the life sciences space on the SIX. Due to their investment banking divisions being set up without any dedicated sector teams in Switzerland, they tend to focus more on doing transactions overseas. However, the investor community expects that one of them should be involved in any high potential Swiss IPO or financing. Thus, the assumption is that if these banks are not involved, the smaller banks will not be able to succeed in completing the IPO on their own. Yet, this is clearly not the case: just recently, Santhera had a convertible bond sale that sold out in only two hours, and this was led by two smaller Swiss banks.

The Swiss transaction making headlines around the world is the USD 30 billion acquisition of Actelion by Johnson & Johnson. Considering the impact of the last biotech acquisition in Switzerland on this scale was Merck's acquisition of Serono – which had a significant impact on the biotech ecosystem around Geneva – what do you believe this acquisition means for the Basel biotech cluster?

Under the disclosed terms of this deal, it is clear that Switzerland stands to benefit from the transaction. The important thing is that Actelion's R&D unit, which is heavily concentrated in Switzerland, is being spun out into a new company. This means that Jean-Paul Clozel and about 600 of his researchers will continue their innovative work in Switzerland under a new corporate structure with a new name. I would not be surprised to see this new company develop into another success story like Actelion over the next decade, but of course that depends very much on what

kind of pipeline they end up having. And needless to say, there is always a great deal of risk in the development process.

As a service provider, EY has a role in supporting the life science industry. In which areas do you think your clients will need most support going forward?

At present, the industry is undergoing a transformation as a result of the increasing focus on patient and healthcare outcomes. Several factors are driving this trend, including the very high price tags for some innovative treatments, changes in demographic structures putting pressure on healthcare payers, and the general recognition that, since the patient is the end user of healthcare services and products, they should have a say in terms of the care they receive. These developments are creating a ripple effect along the entire value chain of the life science industry: we are now seeing discussions on how to make R&D more efficient or how regulators can set framework conditions to allow for more efficient innovation.

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Life science companies are having to undergo significant changes and develop new capabilities to deal with this new healthcare environment. For example, companies are having to rethink their business models, moving from push to pull-based sales models. This means that their products need to be part of a comprehensive health solution that patients will demand in the future. More and more, companies are now in a position where they are required to collect, manage and use big data. This comes with significant legal and technical issues around patient data privacy and providing adequate data security.

Across the board, EY can help with these types of issues, because we offer true end-to-end solutions. Our advisory services provide our clients with insights into many different aspects of a challenge or proposed solution, from the tax implications for their business or their clients, to associated legal topics, the overall accounting impact and even assistance with M&A transactions. EY is also invested in acquiring talent and developing our own capabilities in a variety of “digital areas”, from cybersecurity and data encryption using block-chain technologies to predictive data analytics. This is important, because not only can we provide support to our clients on these topics, but we can also use these tools in the process of providing our clients with services in other areas.

In conclusion, given the concentration of multinational regional and global headquarters in Switzerland, and the vibrancy of the Swiss life sciences cluster, what does Switzerland mean to EY?

Switzerland and the EY Switzerland member firm have long been an important part of our global organization. As it happens, EY Switzerland is celebrating its 100th anniversary this March. With just over 2,800 employees – which is little more than one percent of the EY global organization of a quarter million people – we make a significant contribution to EY's worldwide organization in terms of bringing in work and revenue, which we are then able to spread out to our colleagues in other countries. The Swiss life science sector is certainly an important source of this work, as it has for a long time been a key branch of the Swiss economy and thus a focus sector for EY Switzerland.

That said, I would certainly like to see EY and EY Switzerland further increase our footprint in the life science industry, and strengthen our perception as a true one-stop shop for life science clients across the full range of our services. Given recently announced investments, it is clear that the global pharmaceutical industry will continue to strengthen its presence here in Switzerland with manufacturing and R&D facilities. The challenge for service providers like EY and even Switzerland as a country will be to provide the workforce and talent to support our clients. For EY, our goal is to continue providing our clients here with the excellent quality services and long-term solutions that take into account the strengths of Switzerland.

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