Michael Sidler – Co-Founding Partner, Redalpine Venture Partners, Switzerland



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Redalpine Venture Partners' Dr Michael Sidler highlights some of the key trends in the European biotech VC space, the funding and operational strategies that successful start-ups in Europe are utilising, and the Swiss innovation ecosystem.

Michael, could you recap the career journey that led you to establish Redalpine in 2006?

I am a molecular biologist by training but after my PhD I became fascinated by strategy consulting and joined the Boston Consulting Group. That was during the dotcom bubble and I was completely hooked by technology, startups, e-commerce and all that Internet stuff. That was when I started to invest in start-up companies as an angel investor. When the dotcom bubble burst, I was not discouraged in the least. I joined a start-up company in the field of diagnostics and eventually became their head of M&A. I continued doing my angel investments and eventually realized that there was huge innovation potential in Europe, which was then completely underserved by investors.

Therefore, my cofounder and I decided to invest in a more professional manner and founded Redalpine as a venture capital (VC) firm to support founders and startups in Europe. We are a seed and early-stage investor that is rather sector-agnostic, investing in all tech sectors from fintech to biotech.

Switzerland is of course very strong in biotech, specifically in areas like antibody technology, immuno-oncology, cell-based therapies as well as diagnostics applications, driven both by the universities here as well as the big corporates like Novartis, Roche, etc.

How has the European VC space evolved from 2006?

What has happened in Europe over the last couple of decades has been truly amazing. The whole field has emerged from a very embryonic stage to a vibrant and much more professional ecosystem. As a prime example, when we started, start-up entrepreneurs were viewed with suspicion in Europe. People would think they decided to start companies because they did not manage to get jobs with large corporates like Novartis or UBS or Siemens. Today, start-up founders and entrepreneurs are rock stars. There is a lot more social recognition.

This also means that some of the best and brightest students from all the universities in Europe are deciding to become start-up founders. They see it as a valuable career alternative. The quality and quantity of start-up founders has strongly increased.

Now, there are many more investors and VCs, as well as many more investment opportunities of higher quality. It has been a tremendous ride.

This has also been recognized overseas. In 90 percent of the large follow-on rounds here, we have US or Asian investors taking the lead, in recognition of the fantastic opportunities we have in Europe. At Redalpine, we have had the amazing opportunity to grow with the ecosystem and become a much more professional and fairly established player in European VC.

With this new profile of start-up CEOs fresh out of academia, do you see this lack of experience as an advantage or disadvantage?

Sometimes, the biggest innovation and change come from people who enter an industry with a fresh mind. If somebody has been in the industry for many years, sometimes they no longer believe that change is possible. If somebody comes in with a completely fresh mind, then they surprisingly make the change happen. Ultimately, it is really the combination of fresh blood and experience.

An aspect that has been lacking in Europe until a couple of years ago is serial entrepreneurs. But now we are starting to see this type of profile, which is very positive. We are now able to find very

experienced teams that know exactly what they need and what they want.

How do you see the funding ecosystem in Europe, which is still not as dynamic as in the US, for instance, with relatively smaller amounts and lower valuations for biotechs?

The funding levels of companies in Europe are still insufficient and it has been – and still is, to a certain extent – quite difficult to get proper funding. Having said that, that is changing and new teams with more professional attitudes and more global ambitions are now able to raise amounts at completely different levels. Sometimes they even attract US investors in seed or Series A rounds, which puts them on the global map immediately and helps them escape the European funding situation. An example is ADC Therapeutics.

In my opinion, one of the greatest challenges we have had in Europe is Germany during the early 2000s. There used to be a vibrant biotech ecosystem in Germany but once the German government stopped their subsidies to the industry, it collapsed. A lot of investors lost money as a result and it really stigmatized the sector. Even now, European investors are returning hesitantly.

But things are improving. Certainly, there are many factors, including culture and risk appetites. However, the innovation being generated in Europe today is world-class. Seven out of the ten most innovative countries in the world are in Europe. The investor community needs more time to catch up, and it will help that US investors and also Chinese investors are looking at Europe.

That said, I do not like to hear companies complain about the lack of funding. Ultimately, if the company is good, it will be financed. They just have to leave their comfort zone and pitch investors.

Stock exchanges in Hong Kong and Shanghai have made it a lot easier for pre-profit biotech companies to list, competing with Nasdaq. Do you think Switzerland has missed the opportunity to launch a similar program?

The typical exit is still a trade sale, though this is changing a little now that there are more opportunities to list companies. The Swiss Stock Exchange is preparing a new market segment so there may be the opportunity to do something similar. At the same time, I would ask, why do Swiss companies have to list in Switzerland? I believe that Swiss companies need to have a global attitude and global ambition to succeed, so they should list where the conditions are best for them as a company, not in Switzerland just because it is Switzerland. That said, if Switzerland can attract

foreign companies to list locally, that can add value to the ecosystem.

We have seen many Big Pharma players establishing corporate venture arms. Are they bringing value to the start-up innovation space or simply jumping on the bandwagon?

I think it is a simple fact of life. When you start something new, you have to basically go through the learning curve first. These novel corporate venturing arms need to go through the learning curve. In the beginning, that means they are not very efficient. But once these organizations have learned over a couple of years what it takes to establish, help and finance a startup, they can become extremely valuable partners, essentially acting like a classical VC.

We have spoken to a number of Swiss biotechs and in general they seem more focused on technology development and even manufacturing as opposed to the products themselves. Is this a characteristic of Swiss biotechs?

I have observed that Swiss start-ups tend to focus too much on technology and not enough on sales. I would venture that could be a Germanic problem. Germanic people tend to believe that the mission is to build the best possible technology and once that is done, people will rip it out of your hands because it is so good. That is not true, obviously. As a VC, I often have to tell my start-ups that they need to hire people for marketing, communication and so on. They need people who think about the market and their equity story. Ultimately, start-ups build products that eventually have to be sold on the market – and not just the Swiss market but global markets. If they do not know what the market wants, they will not build the right product. This is an ongoing conversation I have with Swiss start-ups. I think it is a question of culture and education.

Taking manufacturing into account from the beginning is important too. For biotech companies, CMC is a very important element. Having a wonder-cure that nobody can afford is of no use. Novel therapies still have to be priced affordably, at the end of the day, and that is where manufacturing comes in.

Digital health is one of the areas you have invested in. How do you see the potential in this sector?

The potential is huge, though it is a crowded space. In particular, there are many tech entrepreneurs moving into digital health, sometimes based on the misconception that they have been successful in a certain tech space and now they can change healthcare with their technologies. It is a good attitude, but most tech entrepreneurs basically underestimate the regulatory side and the importance of obtaining the buy-in of patients and physicians. They end up developing technical solutions that often do not work in the daily life of healthcare professionals.

That said, there is huge potential. Any company that gets it right will grow very big.

You have said in the past that job growth cumulatively comes from young companies, not large companies. Can you share a little more on this?

This comes from an analysis done by the Kauffman Foundation in the US, and it is true if we look at established companies across all sectors. Basically, large companies are continuously increasing their efficiency and conducting M&A transactions, during which they look to capitalize on synergies and efficiencies, which means trimming processes and jobs.

The net result is that companies older than five years in aggregation have a very low job creation. Job creation comes primarily from young companies. That is quite an amazing finding.

What we believe is that if Switzerland and Europe in general are to maintain the same quality of life in the next decades, we absolutely have to create many more startups. These are the companies that will be driving economic growth and job creation.

Gender equality and diversity are becoming big topics in the industry, and Big Pharma companies like Novartis have been championing initiatives to promote diversity. How do you see this in the biotech space?

I am certainly aware of the inequities in the sector but I cannot explain them. By training, I am a molecular biologist and during all my studies, the gender split was more or less equal. However, very few women found companies and start-ups. Obviously, there are discriminating factors in society. That being said, this is less of a problem in life sciences than in tech.

Redalpine does have a nearly even gender split. It is not that we paid particular attention to that but clearly, we do not discriminate by gender. If there are ways to strengthen the diversity across the sector, it would be great.

A final message about the Swiss biotech innovation ecosystem?

It has been amazing to see how strong the Swiss ecosystem is. We have the large players, strong universities, investors and so on – all the different elements required to have a very vibrant ecosystem – and all without large government or public funding. I do think that is probably a good way to establish an ecosystem. If it is artificially inflated with government money or other structures, it could implode once that source ends. I am pleased in that sense that the ecosystem in Switzerland has established itself organically over the years.

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