

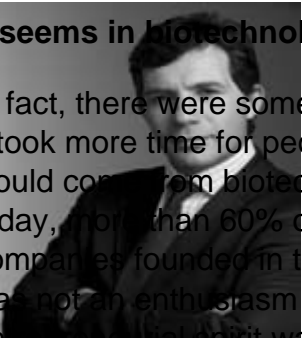
Interview with André Choulika, President, France Biotech

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pharmaceutical market, leader in Europe and number three in the world but it seems in biotechnologies, France lags behind. In your opinion, what has caused this?



In fact, there were some delays in consciousness of the biotech trend. Compared to other countries, it took more time for people in France to become aware in that the next wave of pharmaceuticals would come from biotechnologies. In France, the real biotech sector started 10 or 15 years ago and today, more than 60% of today's pharmaceuticals come from biotechnologies. We had some companies founded in the late 70's or early 80's such as Cayla or Transgene, however there was not an enthusiasm for investment towards these companies to lead them. The French entrepreneurial spirit was not focused on these groups at this time so we were not able to develop this sector.

We have been late, for sure. However, most of the companies are young and it is an extremely vigorous market today. Companies in France are strong, very inventive and compared to other markets such as Germany or England we have no shame to show a strong and dynamic biotechnology sector. We are in position to have a lead in the future and while we are not there yet we are picking up despite being late. This is the opposite scenario from Great Britain where there were many great biotech companies, such as CAT for example, but they were acquired by larger companies, so they have to re-start all their thinking again. Today, France is in the positive position Great Britain was 10 years ago. France has a good focus and a young, active biotech sector.

You mentioned the investment market, which has a varied stance in France. Etienne Barrell noted that, "while there seems to be a large number of investments in France, there is actually a downturn in the value of those investments." This year alone, there was a 79% downturn. Can you speak to this contradiction and what is being done in France?

Something happened these three past years actually: a crisis. I cannot say if this 79% downturn is necessarily linked to the French market. There was a backlash but when you look at French biotechnology companies, most of them blew up just before the crisis and raised lots of money. Plus, French companies are used to living in difficult times, which is a good thing because they are cautious with cash management. So there was not a big catastrophe up to now.

It's still possible to raise money; four companies raised more than €150 million on the public market in the fourth quarter of 2009. The fact is that the conditions have been tough today because of the total global downturn, but still there is an appetite for investment in the biotech sector. If you look at the listed companies since the beginning of year 2009, the French biotech index has been

growing tremendously and outperforming the market in an unbelievable way. Some of the companies have gained between 50 and 100 percent. What has been difficult for both private and listed companies is that there has not been much investment from venture capitalists. But when you look at the finances of the companies, they all have about 1.5 to 2 years cash ahead of them, which keeps them in a strong position. The money that had been raised this year is pretty low, but most companies have increased their top lines. Moreover, cash flows are good and balance sheets are robust with no big downturn up until now. So we are waiting for the crisis to go away, which is coming, but we are not there yet.

To take a look at financing from the government side, the OSEO cut back financing to the 2007 levels. We have seen that with the CSIS and InnoBio Fund there is increased concentration on biotechnologies. What is France Biotech's stance on these initiatives and government funding at this time?

For the first time in history in France, the French president pronounced the word biotech just the fact that he can say this makes us very happy. Some very clear direction has been given from the government to the country saying that biotech is the future which is very satisfying to people working in the industry. Plus, there were actions taken to help young, innovative companies, such as the Crédit impôt recherche, (research tax credit) aimed to help groups investing in research. Biotech companies are investing strongly in research. In the U.S. there is a similar plan, which the Americans believe to be extremely inventive, but has been going on in France since 2005.

There is one thing we are not happy about. The modification of the research tax credit has been beneficial to the large companies, or companies that don't rely that much on grants while very young companies, who have most of their funding from grants, are forced to remove the grants from the research tax credit. Therefore, the research tax credit that was high in very young companies has diminished. What we suggest is that large companies benefiting from this research tax credit at very high volumes, over a certain threshold, should take a certain percentage of this research tax credit and reinvest it into collaborations with young innovative companies. This would mean a minimal change in the law without pouring in more money while starting an encouraging circle of collaboration between large companies, who benefit from the cutting edge science and young innovative start-ups, who benefit from investment.

Another positive point is that the government has made it clear that they want to invest in the field of biotechnologies and they have started a policy of investing directly in the companies. Fortunately, they have started investing in biotech company at year end in Innate Pharama [IPH.PA] and Nicox [COX.PA]. They have dedicated a portion of the Fonds Stratégique d'Investment (FSI) to biotechnology (Inno-bio), but even €140 million, is only 8 days of research for a large company like AstraZeneca.

It's a great start, but we are not there yet. The policy of investment of this fund is to only invest in companies with two phase two products and require an aggressive return on investment, which is good but not what we expect from strategic biotech investment. Moreover, the board of this fund is comprised primarily of representatives from big pharmaceutical companies which allows for a potential conflict of interest exists with their own pharmaceutical pipeline. For instance, if they have a new cancer antibody and there is a young company, with a product in phase II competing against a board member, whose lab has a product in phase III, they could recommend not investing in the young company. It could be because they don't believe in the product but it could also be to kill the competing product.

In this respect, we believe it is not acceptable to have an unbalance board so we have asked the government at least to take some people from France Biotech to be a part of this board, in order to

tune it up. What was expected from the FSI, not InnoBio, was to make real, strategic investments over €20 million, in certain mid to larger sized companies. Innate as Nicox are good starts, but we are still not there yet. France biotech wants to help them structure. At the end of the day, the overall idea of the fund is good but it's too small and focused on pharmaceutical products as the only use for biotechnologies.

Another government initiative, the Grand Emprunt, has biotechnologies as potentially one of the main investments. We believe that this is also a very good move to keep France competitive in the future and the propositions of France Biotech have been taken very seriously by the government. What we don't want to do is sacrifice the future to save the past. My personal and strong belief is that France is competitive where intelligence, research and our differentiated culture are employed together. By which I mean, where science, innovation, and patents can lead to a unique and profitable technology platform in the future. Moving forward, France cannot be competitive in aspects like salaries but we can differentiate by focusing on innovation and initiating some paradigm shifts.

When we met with Jean Pierre Cassan he mentioned that historically there have been a lot of communicative barriers between MNCs, small start-ups, government advisors, and research institute which he felt were slowly diminishing. What does France Biotech think about this? It seems that through three government initiatives that people are starting to realize that biotech is there, but is there still a wall between multinational companies and biotech start-ups?

Amazingly, yes there are still barriers. It is much easier for a French biotechnology company to make an agreement with a large company in the USA, Germany, England, or for that matter anywhere in the world. Abroad, companies will only look at your technology and what kind of breakthrough you could represent for them, the kind of asset they can buy and how they can become competitive by collaborating with you. In France, they just see you as the young French start-up, trying to beg for money and they wave you out. As a result, many prefer to do the same agreement, with a similar company who has the same status outside, instead of doing this agreement domestically. This has been up to now, the reality in France and it's not good.

This needs to change and it has diminished. Most large companies are starting to make declarations that they will reconsider their view on young, innovative or start-up companies. Up until now, there has not been a real change, but I expect one in the future. For example, there is a small biotech company called Fovea, which has recently been acquired by Sanofi Aventis for €370 million. Fovea is a young company, with innovative products and nice technology, and we believe this deal represents the first example of a sizable deal between a large pharmaceutical company and a young company biotech start up. In the future, these types of moves will continue in France and we will probably see their own local market.

At the association we have workshops on industry topics like financial and legal issues in addition to facilitating meetings that allow the large companies to better know the sector and people within it. We do not say that France Biotech is at the root of such potential deals, but we are trying to make the process more fluid. The fact is that the people in France biotech are extremely excited about doing these meetings, and they are appreciated. Talking is the first step in making a good deal.

What is the position of France Biotech on the biopoles? Are these clusters the key to developing biotech? Or does more need to be done?

When they started this biopole initiative they wanted to make a world competing technology poles while putting into place 71 of them which is too much. It's like a science experiment where they pour all the bacteria onto one tiny plate, selective place the vaccine and wait to see

which survive, while the others die off.

Today, France Biotech is more enthusiastic about what is taking place. With the Grand Emprunt if there are big programs focused on biofuels or stem cells for example, then you can use these platforms involving both large and small companies and access to capital in order to steer these programs. Therefore, we already have the envelope to place these large programs.

The only thing that we should not do now is diversify the investment too much; rather we should concentrate on two or three big, unique programs for which. These poles are the right places to do that but outside of this I do not think the biopoles will make a difference. However, France has a long history of managing big programmes and becoming world leaders, for instance, high speed trains (TGV), rocket propulsion, and aeronautics. The French are capable of doing such programs and there is potential in the field of stem cells, for example. There are lots of assets and investments: we can be a leader in this field. Let's go! Let's put the people together! Let's do this!

Biotech is an industry that could drive France into the future, but what would you say is the main criteria to accomplish in order to take biotechnologies to the forefront?

It's a question of money and trust. France is missing a real understanding of how this industry works. We are not good at communicating the cycle required in this industry to the government, to the investors and to the public in general. Life science is a science that never lies because it has to be proven to work. It is very expensive, but the returns are very big. It is economically sustainable as you are not taking anything from the earth and based on biology not commodities or imports. Clearly, it has all the characteristics of something that could drive the economy for the next 100 years.

The thing that has to be understood by the government, by the investors and French public is that in order to take a drug to market it costs approximately \$750 million dollars and the attrition rate is really high, say 1 to 1,000 from discovery to new drug application. However, the return on investment grows forever. In the U.S. has a longer tradition of investing in biotechnology but it still takes approximately 15 years before a biotech company becomes profitable. We are not profitable in 2 or 3 years which means you have to pour hundreds of millions of Euros per successful company before it becomes sustainable. Any biotechnology company in the US with a market capitalization over \$1 billion has raised at least \$500 million of that sum which has yet to be understood here. Money will pour into this sector once investors begin to comprehend the cycle. If a company lasts through the beginning years and is successful, investors will note the returns and further support the sector.

France Biotech's goal is to explain to the government, investors and community, what the principles of biotechnology are and what the returns for France over the long term.

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