

# The Financial Temperature of the Swedish Life Science Industry

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**swedenBIO**  
THE SWEDISH BIOTECHNOLOGY INDUSTRY ORGANIZATION

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## 1. BACKGROUND

SwedenBIO, the national biotechnology industry organization, has for the third consecutive year conducted a Financial Temperature survey among leading Swedish Life Science companies. The results provide valuable information on the financial situation for biotech and medtech companies. The study also shows trends during the period of 2002-05 and is an important input for SwedenBIO in its work with public decision makers.

The first survey in 2003 was part of the work with the national strategy report "Biotechnology in Sweden: A National Biotech Agenda for Growth". In 2005, SwedenBIO has with financial support from the Swedish Trade Council, Invest in Sweden Agency and SLF developed a strategic agenda for the medtech industry called "Focus MEDTECH Agenda: How to create a successful medtech industry in Sweden". These two publications highlight the growth potential as well as critical success factors and challenges for Sweden. The publications can be obtained via [www.swedenbio.com](http://www.swedenbio.com). SwedenBIO would like to thank all companies and investors that participated in the survey.

## 2. EXECUTIVE SUMMARY

The financial climate for Swedish Life Science companies has improved over the last years. Today 30% of the respondents say it is tough or impossible to obtain venture financing, compared to more than 60% in Sept 2004 and 70% in Sept 2003. The funding situation is improving as companies mature but there is also a general improvement of the financial climate. However, early seed funding is still extremely difficult to get from private investors according to both company executives and investors. This is unchanged or even worse than in 2004.

The company executives foresee high growth over the next three years. On average, they forecast a tripled revenue and a 38% increase in the number of employees. These numbers compare well with those of last year's result.

Investors see a continued weak market for exiting investments in life science companies via an Initial Public Offering. The market for trade sales is better although not very good. Still, the responses indicate that the exit market has improved for both the biotech and the medtech industries over the last year, and that continued improvement is expected.

The respondents see two possible governmental actions as most crucial to improve conditions for the Swedish Life Science industry: tax incentives for R&D and a public seed fund investing in early stage ventures. Other highly prioritised issues include small business innovation research grants (SBIR) and matching funds for early stage ventures where public resources match private investments.

## 3. THE SURVEY

A survey of nine questions was sent to SwedenBIO member companies as well as additional major companies and 37 responded. A similar questionnaire was sent to investors in the life science field and eight responded. The survey was conducted by electronic mail and CEOs have been the counterpart in most companies.

4. SWEDISH LIFE SCIENCE COMPANIES FORECAST STRONG GROWTH

The company executives were asked to estimate the growth in revenue and personnel over the next three years. Only complete answers were considered, i.e. with estimates for both today and in three years time. On average, the revenue was expected to triple and the number of employees to increase by 38% over the period. Last year’s answers indicated similar numbers (2.5 times increase in revenue and 40% increase in personnel).

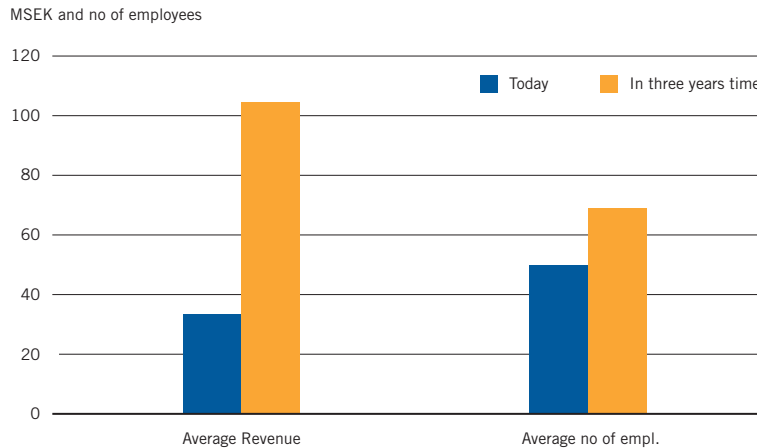


Figure 1. Where do you see your company in three years time in terms of revenue and number of employees?

Life Science companies are largely financed by venture capital and the majority of companies do not generate positive cash-flow as of today. Figure 2 shows the financing stage of the companies that responded to this survey. Among the respondents are a handful of companies that have never raised external funding.

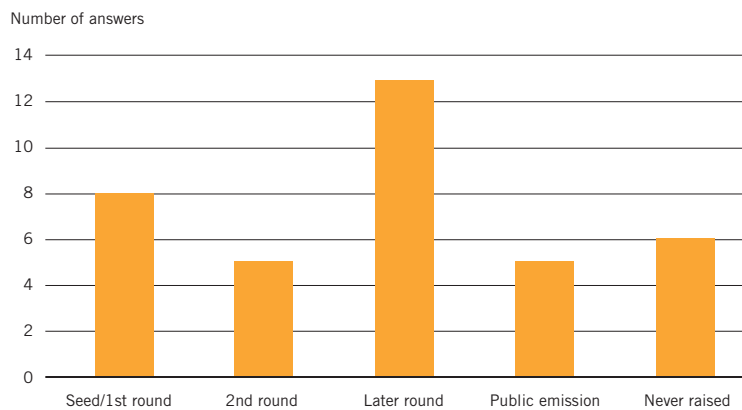


Figure 2. What type of financing did you last raise?

5. THE ACCESS TO VENTURE CAPITAL HAS IMPROVED

The companies were asked: "How difficult, in general, would you say it was/is/will be to raise venture capital?". Rather than providing an exact level, the answers indicate where the trend in the market is heading. The companies clearly see that the situation has improved compared to last year and none of the respondents reckon it impossible to attract venture funding today (Figure 3). However, further improvement for 2006 is not expected.

In comparison to the 2004 results, the current year's answers are more optimistic (Figure 3) and the trend of more feasible access to venture capital is even clearer if we look back at earlier surveys. While today 70% of the of respondents say raising venture capital is possible or easy, less than 40% thought so in 2004 and fewer than 30% in 2003. In fact, only 10% of the companies said raising money was possible in 2002, according to the 2003 year survey. Although the situation is better today, major investments in expansion capital are still a challenge.

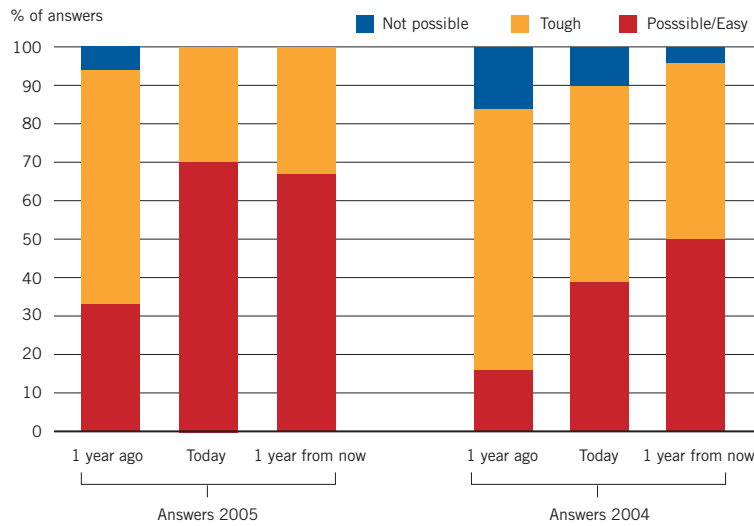


Figure 3. "How difficult, in general, would you say it was/is/will be to raise venture capital?"

### 6. MAJOR LACK OF SEED FUNDING FOR LIFE SCIENCE COMPANIES

Both companies and investors were asked to rate the access to venture funding in various stages of a company's development (Figure 4). The stages were Seed, 1st Round, 2nd Round and Later Rounds. Both investors and companies see a major lack of funding in early stages but the situation is getting better as companies mature. The lack of seed funding is particularly acute to both companies and investors. These results are fully in line with the answers of 2003 and 2004. Like last year, investors are the most negative to the access of seed funding.

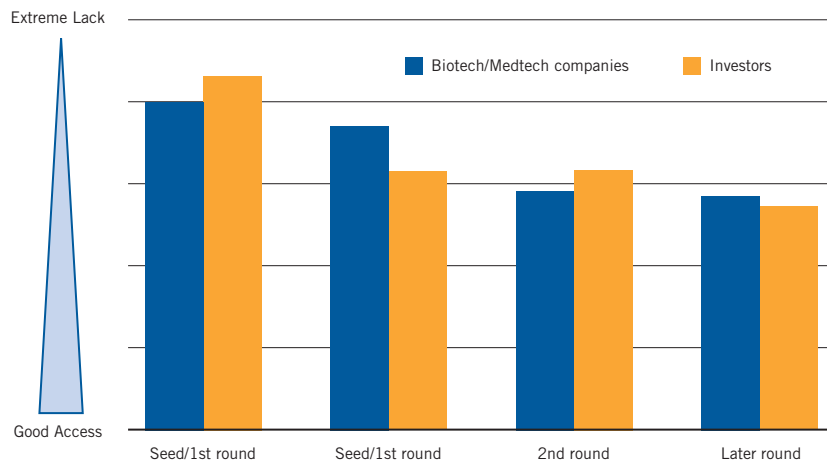


Figure 4. Please rate the general access to capital in the following stages of financing. Easy to attract=1; Extreme lack=5.

### 7. THE MAJORITY OF COMPANIES ARE DEPENDENT ON REGULAR CAPITAL IN-FLOWS SINCE BREAK-EVEN IS STILL YEARS AHEAD

The companies were asked two questions: 1) For how long do you expect that your current capital will last? and 2) When do you estimate that the company will reach break-even? Combined, the answers indicate the need to raise money over the coming years (Figure 5). The picture is that the companies are under somewhat less financial pressure this year compared to last year. In 2004, nearly 75% responded that they needed new capital within the next 12 month, while 60% gave the same answer this year. Close to 50% of the companies expect to reach break-even within the next three years, showing that several are in a commercialization phase of their projects.

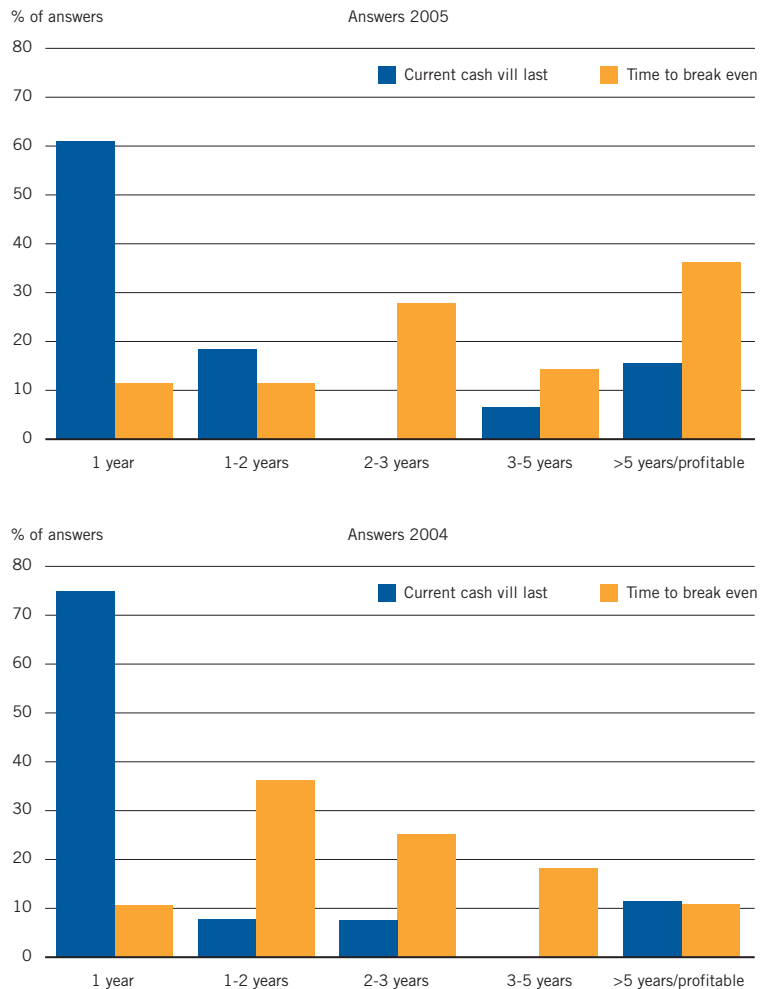


Figure 5.6. For how long will your funding last and when do you reach break-even?

### 8. THE EXIT MARKET FOR INVESTMENTS IN LIFE SCIENCE COMPANIES IS PERCEIVED TO DEVELOP POSITIVELY

The investors were asked of their view on the exit possibilities for investments in biotech and medtech companies today, compared to one year ago and future perspective. On average, investors regard the IPO-possibility for both biotech and medtech company as tough (Figure 7). Overall, a trade sale is judged as a better and more feasible alternative in the current market. Compared to last year's answers (Figure 8), the situation for biotech exits has somewhat improved, while for medtech exits no large difference can be seen.

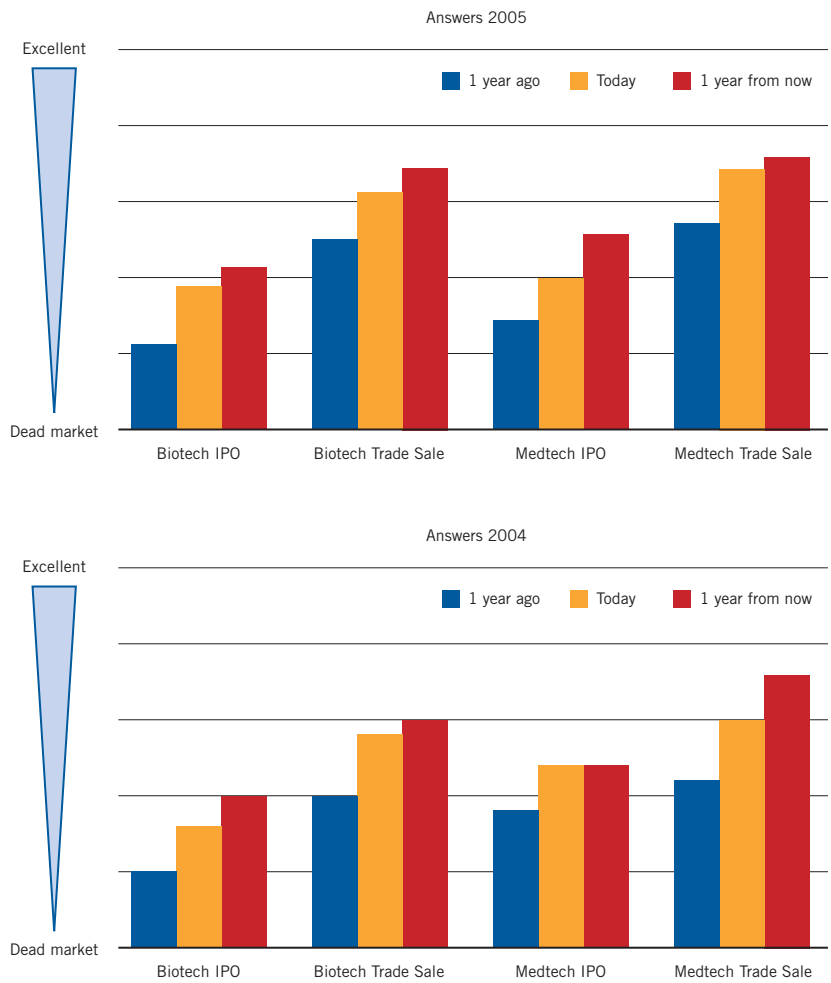


Figure 7. 8. What is your view of the exit possibilities for you portfolio today, compared to one year ago and your belief of the future? Dead market=1; Excellent=5.

### 9. SWEDISH CONDITIONS FOR LIFE SCIENCE BUSINESSES ARE WORSE THAN IN THE US BUT ON A GOOD EUROPEAN LEVEL

The company executives were asked to compare the conditions facing the Life Science industry in Sweden with those of the US and the EU (Figure 9). A majority believes that Sweden is at an average European level or better, while Swedish conditions are clearly lagging in comparison to the US. The investors were asked of the attractiveness of investing in Swedish Life Science businesses.

On average, investing in Swedish Life Science is viewed as more attractive than investing in other Nordic countries, on an average European level and a bit behind the US market. All answers agree well with those of last year.

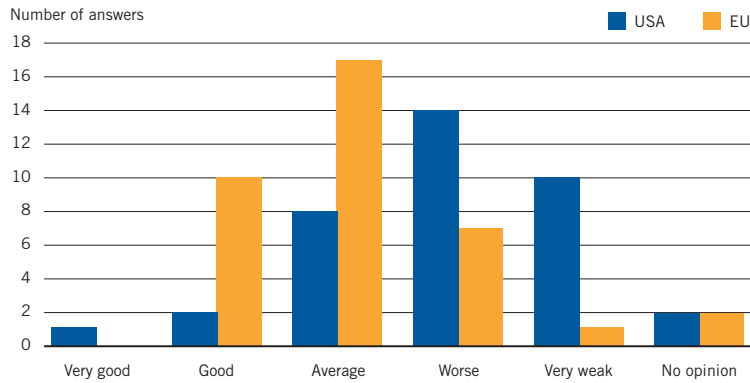


Figure 9. How attractive is Sweden as a country for conducting life science business?

### 10. WHAT ACTIONS CAN THE SWEDISH GOVERNMENT TAKE TO MAKE THE SWEDISH BIOTECH AND MEDTECH INDUSTRIES PROSPER?"

How can the Swedish government improve the conditions facing the Life Science industry and its investors? All survey participants were given nine possible actions and were asked to rate their priority (1-5). Two issues stand out as most important according to both the company and the investor answers (Figure 10). These issues are tax incentives for R&D and a publicly supported seed fund to invest in early stage ventures. The companies also see more industrial grants like SBIR as a very important measure. These are an important funding source for US biotech companies and focus on specific projects. A public matching fund where private and public financing are matched on a 50:50 basis is also viewed as an important action by both companies and investors. Tax incentives for hiring personnel and public support infrastructure for grant applications were rated relatively low, while still being important.

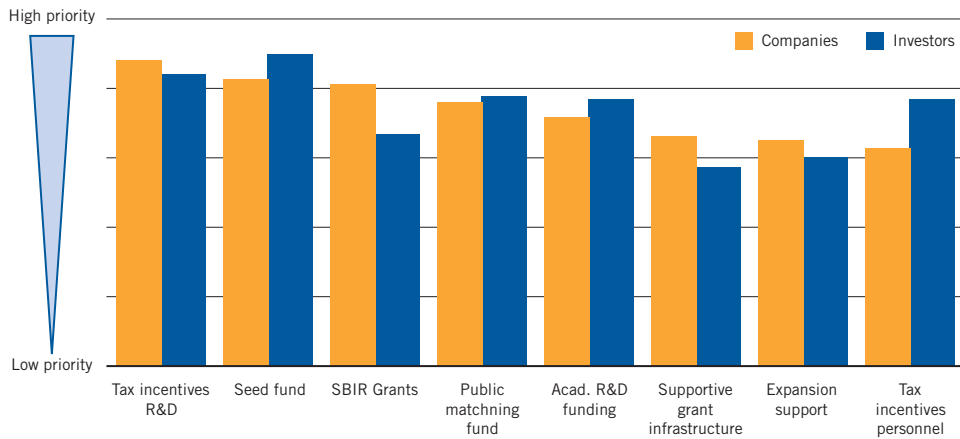


Figure 10. Prioritized governmental actions to improve business conditions for Life Science.

This report has presented the key results from the survey "The Financial Temperature of Swedish Life Science 2005". Questions and comments are most welcome to SwedenBIO. The on-going National Strategy work at Department of Industry and Trade in Oct-Nov 2005 will be among the recipients.

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