

# „It has to be shown in future which biotech segment has a better risk-chance-ratio”

*Interview with Dr Marc Struhalla, CEO, c-LEcta GmbH, and Dr André Zimmermann, Partner, SHS Gesellschaft für Beteiligungsmanagement mbH*

*Industrial Biotechnology (IB) is usually classified as a cash flow financed industry. This particularly applies for service companies. But there are also product driven companies in IB. GoingPublic Magazin talked to Dr Marc Struhalla, CEO of the venture capital financed c-LEcta GmbH, and his investor Dr André Zimmermann, Partner at SHS Gesellschaft für Beteiligungsmanagement mbH about the meaning of venture capital for Industrial Biotech.*

**GoingPublic:** In contrast to Red Biotech, Industrial Biotech is a more service oriented industry with the possibility to finance a company by cash flow. Why did you decide to use Venture Capital as a means of financing?

**Struhalla:** We believe that this is not a question of color, but a question of which business model you follow. A service-based business model for a biotech startup can often be established without making use of venture capital. This is true for a Red as well as an Industrial Biotech. We at c-LEcta believe in the strategy to build the company on sustainable product business. This strategy has proven to be successful and needed a substantial venture capital investment.

**Zimmermann:** Some, but not all Industrial Biotech companies have a service oriented business model. For those companies which are developing products for different markets it is not possible to finance the product development out of their own cash flow and they need some kind of capital. In this case venture capital is in general the leading financing source. As c-LEcta has decided at an early time point to develop innovative products for attractive market segments, the decision for venture capital financing was a logical consequence.

**GoingPublic:** The investment volume in European Industrial Biotech is usually smaller than in US Biotech. Is the Industrial Biotechnology in danger of losing the competition to US companies even if they are provided with VC?

**Struhalla:** From a macroeconomic perspective this certainly is a threat. Nonetheless many of the venture capital raised by US Industrial Biotech firms today goes into ground and steel to proof their technologies in demonstration plants. Most of the companies still need to prove that this will pay off. Competition always breaks down into distinct product applications in niches, of which



Dr Marc Struhalla



Dr André Zimmermann

there are many. Especially for Industrial Biotechnology, whose applications are spread over a broad range of different markets. We believe that it is a good strategy for Europe to focus on high-value specialty products rather than jumping into the crowded shark pools for large volume commodity products, which rely more on raw material availability and costs than on technology efficiency.

**Zimmermann:** It is not only the Industrial Biotech segment where the investment-volume is usually smaller – this is the case in all venture backed segments. But the amount of money invested is not the only factor for the success of a company or a total segment, especially when one is looking at growing start-ups. If you are looking for example at the European medical device sector, this industry is fully competitive compared to the States and is not losing the competition to venture backed US companies. Exceptions are probably all those fields where huge amounts of capital and time are needed to bring a technology/product onto the market.

**GoingPublic:** What risks does the VC model hold for Industrial Biotech companies?

**Struhalla:** Venture capital is connected to the expectation of high returns in time frames of let's say five to seven years. So you are in the middle of the conflict of doing things quite fast and accurately at the same time. Spending

money is the easiest thing to do, but you need to create value. Innovation in Industrial Biotech is a quite complex challenge. There usually are competing, often non-bio alternatives, you are facing regulatory hurdles, application development and scale-up challenges. Superior technology itself doesn't make it.

**Zimmermann:** I fully agree. VC-financed companies have to create high values in a distinct time frame of several years. But this is the case for all venture backed companies. The key question here is whether the time for product development, regulatory hurdles or market entry/expansion is in line with the investment horizon of VCs. From our point of view this in general seems to be the case although there might be some exceptions. Therefore the Industrial Biotech segment is interesting for venture financing.

**GoingPublic:** How do you estimate the balance between investment in Industrial Biotechnology and return on investment, as compared to other industries?

**Struhalla:** Unfortunately especially in Europe we cannot look back on a long list of reference investment in the Industrial Biotechnology from which we could learn. We are very optimistic with regard to our own case, but also believe that some of the trade-sales we have seen in the market place did not fully meet the expectations of the VC investors. One aspect from our point of view is true for all industries: A potentially high reward is usually connected to a high risk.



The future will show which biotech segment has the better risk-chance-ratio.  
Photo: c-LEcta GmbH



Can the companies address an attractive market segment?  
Photo: c-LEcta GmbH

**Zimmermann:** With the exception of large volume commodity products, the investment amount in Industrial Biotechnology as compared to red biotechnology is significantly lower and less risky. Nevertheless, the exit potential of red biotech companies is in absolute amounts higher than for Industrial Biotech companies in case of success, but it has to be shown in future which biotech segment has a better risk-chance-ratio and if the Industrial Biotech segment is able to show relevant returns. Currently we are optimistic with regard to the Industrial Biotech segment.

**GoingPublic:** Is the variety of Industrial Biotech companies wide enough to make a choice when looking for investment opportunities?

**Struhalla:** From our point of view, the total number of Industrial Biotechs in the market place, especially in Europe, is rather small. Many ideas for new ventures for sure will not exceed the seed phase. The existing start-ups and grownups all have their distinct USPs, business models and product pipelines avoiding the overlap rather than increasing the competition.

**Zimmermann:** The main question from an investor's perspective is not whether or not the variety of Industrial Biotech companies is large enough. It is more a question of whether or not the individual companies can address an attractive market segment and in case of a successful product/technology development, attract e.g. an industrial buyer. Nevertheless, there are indeed not so many Industrial Biotechs in the market in Europe and even less exits. Therefore we have to see how the segment will develop in the future.

**GoingPublic:** Dr Struhalla, Dr Zimmermann, thank you very much for this interesting talk.

This interview was conducted by Tobias Kirchhoff.