HMi meets... Sander Slootweg

Founder and managing partner of European venture capital firm Forbion gives HM*i* his candid insights on US and European investment trends and the impact of Brexit on the market

Forbion, one of Europe's leading venture capital firms, helps companies bridge the gap between research and development and realising the commercial potential of their efforts.

The VC firm currently manages over €1.8bn across nine closed-end funds, including its €460m Forbion V Fund, which started investing in 2021, and its €360m Forbion Growth Opportunities Fund I which began investing in 2020. As of April 2021, Forbion held 27 active portfolio companies of which four are listed and 23 are private. It has two quite distinct activities: company building and selecting assets from an existing pool of biotech companies. Activity is split between the two in the ratio of about one-third to two-thirds.

It also operates a joint venture with Bio-Generation Ventures (BGV), which looks for seed and early-stage investment opportunities in biotech companies.

Born out of ABN AMRO Capital Life Sciences and co-founded by Sander Slootweg, Martien van Osch and Bart Bergstein in 2000, its investment team has built an impressive track record of sourcing, building and guiding life-sciences companies through to many breakthrough therapies and valuable exits. The Forbion team consists of over thirty people across three offices in The Netherlands, Germany and Singapore.

A signatory to the United Nations Principles for Responsible Investment, Forbion believes its investments should positively impact the health and well-being of patients.

HM*i* caught up with founder and managing partner, Sander Slootweg, in a wide ranging, candid and hugely informative discussion on Forbion's strategy, the current trends in the US and European healthcare VC markets, the rising importance of ESG in the sector and the impact of Brexit on business.

We decided to run an extended version of the transcript as, quite frankly, it was difficult to cut it down any further.

The following transcript of HM*i*'s interview with Sander Slootweg has been edited for brevity and clarity.

HM*i* **In which markets do you operate?**
Sander Slootweg We operate in the life sciences venture space. We have a team of specialists good at picking the right opportunities from a large pool of existing companies. Either that or we will conduct company creation, setting up new companies with founders or from an existing asset sourced from a pharmaceutical company (pharma). That's an important trend in our market.

Pharmas increasingly operate under R&D and P&L constraints and are continuously reprioritising development pipelines. That means they can only afford to conduct drug development in a limited number of specific diseases, yet they still have commercial franchises that can cater to many more areas. They develop their own drugs but also buy drugs developed externally – perhaps from one of our companies. It's a two-pronged approach: for preferred disease areas they have their own R&D budgets and capabilities and for other disease areas they buy products ready to be commercialised.

It is a relatively new part of the market. We call it the growth segment, and to cater to the increasing number of later stage development investment opportunities we have raised a new strategy and a new fund, the Forbion Growth Opportunities Fund. We help companies fund development up to the market authorisation stage.

Together, with BGV, we cover everything from small university spinouts all the way through to larger start-ups. With Forbion Growth, we can also play in the public markets for companies finding it difficult to refinance themselves.

Geographically, there are two main markets for us: Europe, which dominates our activity; and North America - the US and Canada. About 25% of our investments are in North America.

HM*i* **What are the major differences between the European and North American markets?**
SS The US has become quite expensive, especially where you have big clusters. Clusters provide advantages in terms of synergy, but there are also disadvantages. When there's a lot of money and companies are well-funded, then there's a huge turnover of personnel.

Salaries and rents have gone through the roof in the US. In Europe today, not only is it about 50% cheaper to run a biotech company but entry prices for investments, pre-money valuations, are about 40% cheaper.

I look at the pricing dynamics and think to myself: if I can buy a like-for-like asset or company in Europe 40% cheaper than in the US and run it 50% cheaper then, if I can sell that company, upon conclusion of a successful clinical trial, to the highest global bidder then my multiples will be much higher.

HM*i* **It would seem a straightforward decision to invest in Europe, then.**
SS Europe is different. The pricing dynamics may be attractive but there are also certain disadvantages to operating in Europe over the US. Namely, the average size of investment team required here. Companies in Europe are generally less experienced than their US counterparts, because the biotech industry in Europe is

HM*i* meets...
Sander Slootweg

Managing partner, Forbion

Career
Co-owner and managing partner,
Forbion Capital Partner (Dec 2006–)
Director,
ABN AMRO Bank (Apr 1993–Dec 2006)

Education
Vrije Universiteit Amsterdam
MSc Economics/Finance (1989-1992)
Nyenrode Business University
BBA Business (1986-1989)
Gemeentelijk Gymnasium
Gymnasium (1980-1986)

www.linkedin.com/in/sander-slootweg-6464b1a

that much younger.

In the US you have serially successful, experienced entrepreneurs and managers, whereas companies in Europe require a lot more hand holding. That's why the Forbion team is quite large, as we really need to help our companies. It's not just a case of having a position on the board, it's also about being able to parachute a specialist in to solve manufacturing problems, set up clinical trials, or whatever is necessary.

Compared to US funds of the same size, we have many more people.

HMi What advantages are there from operating in the US?

SS Financing. At some point in time, most companies will want to seek access to the US, because the US is still the largest single healthcare market in the world. And they typically do this with a Nasdaq listing.

You could list in Europe, but the market here is more fragmented and there are fewer experienced specialised healthcare investors in the European public markets. So, the typical path for a later stage European company is to do a crossover round, or mezzanine round, or pre-IPO round to attract quality US names into the investor roster. With the support of these crossover investors, the company can then move from private to public. They can list on Nasdaq but remain European.

In most cases, however, listing in the US also entails some functions shifting to the US: senior management; the latest clinical trials; a manufacturing capability. Companies may start out as European, but they typically branch out after a Nasdaq listing. Europe is catching up in terms of numbers and quality of companies, but the capital markets remain way behind the US.

HMi Are you seeing the US competition look this way?

SS More and more US funds are looking at Europe but they're a bit uncomfortable with all the different jurisdictions, cultures and languages they find here, so they typically like to team up with a local lead investor. That is how we position ourselves, as the preferred European local lead investor for big US companies or VCs.

HMi So, you prefer to be the lead or the co-lead in your investments?

SS Yes, we want to be the lead or co-lead in syndicated rounds. In the companies we build on our own, then we are more typically the sole investor up to the point when we are ready to syndicate. We prefer to syndicate with leading US investors as they can help at later stages of the company's growth.

HMi What's the typical lifecycle of your investments?

SS Well, we don't invest in a professor with a patent and take them all the way to market because that would take too long - our investors are patient, but they're not that patient. So, we typically define the appropriate entry points relative to where we expect to exit an investment. We reverse engineer it. We look at a proposition and assess what the company needs to do to become an attractive takeover candidate or go public and then work backwards. Before we invest, we speak to likely acquirers, the pharmas and the biotech companies. They tell us what kind of things they are looking for and we work from there.

> IN THE US YOU HAVE SERIALLY SUCCESSFUL, EXPERIENCED ENTREPRENEURS AND MANAGERS, WHEREAS COMPANIES IN EUROPE REQUIRE A LOT MORE HAND HOLDING

It's a reflection of the new way of working. There is a symbiotic relationship between us and the big life-science companies as we are, effectively, the externalised research engine for pharma.

There is open communication: we tell them what we are working on, and they tell us what they would like to acquire in two- or three-years' time. We incorporate their feedback into the business plan, and then the investment becomes more of an operational execution play. We know that if we deliver the clinical data that buyers are looking for, then there will be multiple buyers at the end of the road.

HMi Is it sometimes a circular process where they spin-off an asset that you sell back to them at a later stage?

SS In some cases, yes. Some later stage players may work with big private equity (PE) companies, like Blackstone, for instance. The PE tells the pharma they are happy to finance a phase three study of a drug on the condition that, if successful, if the data is positive and if it becomes an approvable drug, then the pharma buys back the asset at three, four or five-times multiples.

For us, it's more a case that any spin out we take is due to the asset not being core to the pharma's main focus area. They might still want to have the right of first refusal at a later stage but that's usually more a hedge against the fear of selling an asset too cheaply but, most often, there's never a real intention to buy it back.

The typical exit horizon for our investments is three or four years, which means there needs to be a value inflection point, or a realistic opportunity to sell or list the company within that period. If there's unlikely to be an exit in three or four years, then it is too soon for us to invest.

On the other hand, if we expect an early exit then we could invest at an early stage. That's why we also have the company creation option. If we expect an approach, a product, or a platform to generate enough excitement in the market then we will invest with a view to an early exit. Some of our exits have even been as early as the preclinical stage.

HMi What kind of average return are you after?

SS We'd like to make at least 20% IRR net after fees and expenses. That's on a portfolio basis but, in biotech, not everything pans out the way you hope. On individual investments we aim to make 5x multiples gross return, and on a portfolio basis that should translate to a 2x to 2.5x net multiple.

HMi What part does ESG play in your activities? How do you measure additionality in the healthcare sector when everything you do is focused on improving the population's health?

SS Before ESG became fashionable, we were already in an impactful industry - we're not using child labour or polluting or trading in weapons. But we're already operating on very high ESG standards in an impactful industry as our investments could be responsible for the development of a new cancer drug that treats patients

that were once untreatable. It's not just the case that we, and our investors, can make money selling a drug to a pharma, it could also really help patients.

Over the years we've made more insightful decisions and tried to better measure the impact of our actions. To help, we've developed our own methodology, scoring companies we invest in on seven criteria to calculate a Forbion Impact Score: the higher the score, the more interesting the company.

We see more than 1,000 deals per year and there will be many companies that meet our financial return criteria, but then we apply a second filter, our Forbion Impact Score, to select companies according to the impact they would make.

It helps us assess whether an investment addresses a high unmet medical need or is a marginal improvement to a treatment that already works well. The decision to invest is based on patient numbers, the severity of the disease, whether the innovation is applicable to one disease or many different disease types, whether the curative potential offers symptomatic relief, or a true cure.

The limited partners (LP) really appreciate this approach. The impact reports we provide also link our measurements to how investors track ESG and then report on their investment portfolios. We've been working with an external consultant to make our own reporting support our investors' own requirements for transparency and measurement.

Additionality also comes from our hands-on involvement within the companies, steering them more and more into areas that are most impactful, while making sure they also adhere to ESG criteria.

ESG is still a bit of a niche area with many LPs, even now, but I think it will start to gain more ground. In north-western Europe, it's already well accepted but, in the US, they couldn't care less – except some of the university endowment funds and more liberal universities. The average US institutional investor is not yet concerned. But they will be.

HMi What part is AI playing in healthcare and are you getting involved?

SS It's playing an increasingly important role, and a lot of companies are marketing themselves as using AI tools to develop better drugs or to develop drugs quicker.

It's something we're looking at, working at how to position ourselves as we don't yet have a lot of expertise with AI in our team. You really need deep knowledge of both technology and life sciences if you are going to invest in these companies and there are not many groups that can bridge that gap.

We've also looked at digital health, which is an evolving space. We think that it pays to specialise and we're specialists on the therapeutic side, in drug discovery and development, so I don't think we'll invest in digital health any time soon. And, rather than investing in AI technologies directly, they will be something used by our portfolio companies as a tool to develop the best drugs in the fastest way.

HMi Where do you see your markets going?

SS As this later stage space is evolving, then we increasingly see more US private equity players looking at the market – the likes of Blackstone, Bain, and General Atlantic. It's different from their normal business model in that the companies they're looking at are cash burning, they're not EBITDA positive, and that requires a different approach. So, they hire specialised teams and, in essence, become more like VCs, but under the label of a private equity fund.

We go more late-stage, and they go early stage, and we meet around the phase three, clinical trials space. We've already looked at a couple of deals with Blackstone, for instance, but transactions at this stage are usually huge, requiring €300m to €400m to complete two parallel phase three studies, for example. That level of investment would normally be way beyond our means, but as a well-embedded local player that can help navigate some of the European aspects to an investment, then we are in a good position to collaborate. I think we'll see more of that in the future.

HMi Are you seeing more players from outside the sector being drawn into healthcare?

SS Not so much. The barriers to entry, especially in Europe, are too high. What you're more likely to see is entrenchment of the more-established players, the ones with a successful track record. They will be the funds attracting LP interested in this space. The smaller players will find it difficult as you need to reach critical mass in terms of supporting your investments.

The knowledge requirement is increasing exponentially, as are the modalities and the types of drugs. Besides traditional drugs like pills and antibody-based drugs, now you have for instance cell therapies, gene therapies, and RNA based therapies. That's a big matrix of thousands of diseases and modalities that need to be overseen. It needs someone to know and understand all the intricacies of the process, the manufacturing, the regulatory requirement, and the clinical trials. It's a very knowledge-intensive space, much more intensive than, say, the tech sector. In life sciences, it's about different diseases, different biology, different modalities, different manufacturing setups.

So, the smaller players will lose out over time. It's more like a "winner takes all" scenario in Europe where you see some of the larger players evolving into a one-stop shop, like us.

HMi What are the risks and what about Brexit?

SS Regulation is always a risk and there's always increased regulation coming our way. And, of course, if you're active in different jurisdictions then you must navigate different regulatory regimes and different tax requirements. There's a lot of regulation and tax changes that we need to monitor.

Geography. Europe is a pretty big area and if you want to invest in early-stage companies then it's always good to be very close to them. That's why we set up most of our companies in Germany and the Netherlands, because we want to be close to them. There's definitely merit to having people in different parts of Europe if you want to expand this type of business. Much of our team already operates out of different European countries; besides having offices in the Netherlands and Germany, we have people operating out of the UK and Switzerland.

The UK is interesting since Brexit. We manage geographically earmarked money from large public investors in Europe and mandates for funds managed by LPs like KfW, the European Investment Fund, or the Belgium Growth Fund, dictate that most investments must be in EU.

The UK is now no longer a member, so we'll need to consider how to deal with that in the future as our covenants might say we can only invest one-third of our funds outside of the EU. In the past, outside of the EU essentially meant the US and Canada, but it now also includes the UK. And the UK is still the biggest biotech marketplace in Europe and still one of the most attractive.

It hasn't stopped us doing business in the near term, but it could present us with problems in the future.