

Germany: TVM focuses on health care opportunities

Making Two From One

By splitting its life sciences division into two, the German venture capital firm TVM is trying to lower the risk of its investments.

One of the oldest German venture capital firms, Munich-based TVM Capital, recently split its life sciences group into two. Whereas TVM's life sciences group will continue to focus on R&D-intensive early-stage ventures, such as Direvo (Cologne, Germany), Biovertis (Vienna, Austria) and Cerenis (La-bege, France), the new dedicated healthcare group will focus on later-stage European companies. The typical targets will have, according to Christoph Schröder, TVM Partner in charge of the healthcare group, annual revenues of between €20 and €200 million, positive earnings and cash flow, and be in need of equity to fund growth.

Instead of funding delicate (and often loss-making) biotech start-ups, TVM is thus making a shift to specialty pharmaceuticals, medical devices and healthcare services. In brief, Schröder and his colleagues will favour low-risk commitments in future.

Fear of risk-taking

To blame, as always these days, is the economic crisis (whatever this empty phrase may mean). Schröder, a former BASF executive member, said that, "With the credit crunch, a number of mid-sized healthcare companies cannot get sufficient debt for expansion from the banks and are being encouraged to increase their equity base". He adds that, "We think this will be an attractive space for a specialised equity investor such as TVM."

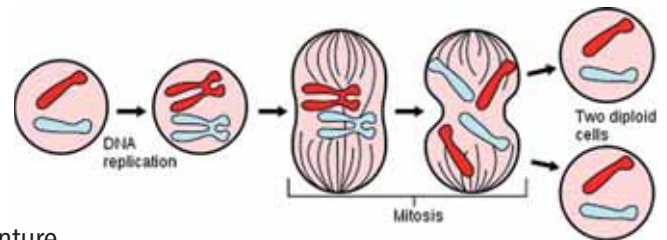
Schröder's firm also expects that continued consolidation in the health care industry, in which companies are under pressure to reduce costs, will provide opportunities. "Basically, in this field you have the hunters and the hunted – nearly every mid-sized healthcare firm must decide whether they will take an active role or be put into play in this market," the German business economist adds.

With the creation of the new group, TVM also recently added Bernie Schuler, who spent 14 years at 3i Group in various positions. Schuler was most recently a partner in the European buy-out team at 3i, leading the area of healthcare, where he was in charge of a number of pharma deals including Betapharm (Augsburg, Germany) and Axellia Pharmaceuticals (Oslo, Norway).

British 3i shipwrecked

Interestingly enough, the 3i Group announced in March 2008 that they had dismissed risk-capital financing, after having made no profits between 2002 and 2007. Nevertheless, TVM apparently thinks otherwise.

The German firm began its first foray into health care buy-outs roughly three years ago, when Schröder rejoined the firm from life sciences investment banking and advisory firm JSB Partners. Schröder was part of the TVM team from its earliest days in the 1980's, but later left to join BASF Pharma, where he served



among other things as President of Global Production and Supply Chain, as President in Charge of Corporate Marketing, and as Head of Strategy and M&A and Managing Director of BASF Pharma's operations in the UK and Ireland.

50 to 80 assessments per year

Since 2006, TVM has invested in three later-stage specialty pharmaceutical companies: EUSA Pharma (Oxford, UK), focused on in-licensing, developing and marketing late-stage oncology, pain control and critical care products; Riemser Arzneimittel AG (Greifswald, Germany), which produces anti-inflammatory, dermatological and dental drugs; and Holland's Sphepharm Holding (Amsterdam), focused on critical and supportive care drugs.

TVM reviews between 50 and 80 healthcare deals annually, but Schröder declines to speculate on how many deals the new healthcare group will invest in per year. Current healthcare deals were funded out of the TVM Life Science Ventures VI fund. But in the future, the healthcare group plans to raise its own fund, though Schröder declined to say what the target size would be. There are now three to four professionals at the firm focused on this area.

The new group will focus on companies in the German-speaking world, because, unlike in other European countries, TVM says it sees few other firms specialized in this area. Generalist investors tend to be more focused on hospital or nursing home deals, which TVM will not pursue, says Schröder. And the firm feels it has an edge over these generalists in healthcare. Says Schröder: "Generalist investors don't always speak the 'language' of the healthcare business or may be nervous about regulatory issues."

Time will tell whether TVM has more luck than 3i had in its venture capital investments.

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