WHAT NEXT FOR BIOSCIENCE BUSINESS INCUBATORS?

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Dr Glenn Crocker is CEO of BioCity Nottingham and BioCity Scotland, and author of the UK Life Science Start-up Reports. Having overseen the foundation and development of two bioscience business incubators, as well as the Mobius Life Science Fund, Dr Crocker shares some of the lessons of the past decade. He describes how a careful balance between partnership, creativity and risk management is crucial for business incubation success. He draws on the findings of the 2012 UK Life Science Start-up Report (pub. Dec 2012[1]) to reflect on the changing pressures in the bioscience market place, and where public and private sector intervention may be required.

It is ten years since BASF gifted their research facility in Nottingham to Nottingham Trent University to seed a bioscience business incubator, BioCity Nottingham; and one year since MSD handed their 23 acre site at Newhouse in Lanarkshire over to the BioCity team for the creation of BioCity Scotland. What motivated us to take on otherwise redundant buildings and equipment was a vision to build centres of life science excellence, in which new companies can thrive. BioCity is home to over 85 life science companies, by far the largest concentration in the UK, and has established a business model which provides an ecosystem for company formation and growth. We need to know what's going on with life science start-ups in the UK, and so we initiated the UK Life Science Start-up reports, designed to tell us what companies are being formed; where they are located and what the funding climate is like.

HEADLINE FINDINGS

This is the third comprehensive study of early-stage life science firms across the UK covering the period 2007-2011.

An optimistic picture of the UK life sciences sector emerges with 291 new firms launched in the study period. At the same time, shock waves from the seismic shifts in the way pharmaceutical companies operate have led to a realignment in the industry's business model. The picture is of an industry shaping up to capitalise on the strengthening UK bioscience clusters, the shift to more specialist pharma service companies, new models for R&D collaboration and the introduction of new funding initiatives.

However, there has been a reduction in the formation of university spin-out companies. Interestingly, this trend is bucked in Scotland where the increase in start-ups is entirely accounted for by increased university spin-outs, up 47% in the study period. Scotland emerges as the leading location for life science start-up companies, assisted in part by strong public sector support and investment as well as an extensive Angel investor network.

This raises the question as to where the new generation of life science companies will come from. Universities are no longer driven by government imposed spin-out metrics, and are more circumspect when it comes to determining whether to spin-out or license a technology. Too many universities jumped onto the spin-out bandwagon without the wherewithal to produce good quality businesses. Many spin-outs failed to take off or deliver any returns. However there is a balance to be struck. The pendulum may have swung too far, and the pool of innovative companies needs to be refreshed.

Reinforcing this decline has been the exhaustion over recent years of the University Challenge Funds, which invested £250,000-£500,000 in spin-outs. University Challenge Funds were a good idea but limited in what they could achieve. Rather than create a substantial fund to target investment in the best spin-outs, small, regional funds were created which had to get rid of small amounts and many sub-optimally capitalised businesses were created.

Despite the drop in university activity, the demand for physical space and business support provided by the UK network of business incubators is on the increase. Over a quarter of the most recent life science start-ups are located in a bioincubator with another 15% in bio or science parks. BioCity Nottingham, the UK's busiest bioscience start-up incubator, is at 85% capacity and by June 2013 BioCity Scotland is expected to have over 30,000 sq ft of space occupied.

A glance at the membership of UKSPA, the UK Science Parks Association, reveals a wealth of locations, configurations, management styles and service offerings. However, at BioCity we emphasise the quality of services beyond a mere landlord-tenancy agreement. Occupancy is one thing; engagement in a community of like-minded, ambitious companies surrounded by a support infrastructure capable of seeing them over the early-growth hurdles is crucial. BioCity Nottingham was gifted to Nottingham Trent University in

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2001 for the establishment of a facility dedicated to the creation and nurture of new bioscience companies. The University of Nottingham and the then Regional Development Agency emda joined NTU as Members of BioCity and a unique support 'ecosystem' was built.

Bioscience incubators need to get the tenancy offering right by understanding the often complex needs for labs, access to expensive equipment on a lease agreement, as well as offices and business support. It is possible to develop an ecosystem to nurture new companies which allows access to central services such as book-keeping and PR, catering facilities, meeting rooms, social events and clubs. In other words, building a business community others want to join.

The bioscience incubator looks and feels like the different divisions found in a global pharmaceutical giant, only made up of smaller, independent companies more adaptable and less vulnerable to shifting tides. BioCity is self-financing, including the investments it makes in start-ups; however, public sector funding support is also vital if we are going to leverage medical and life sciences innovation for the benefit of the UK.

The area of most concern to those of us supporting new companies is the continued lack of appropriate investment funding. Despite the introduction of the £180 million Biomedical Catalyst initiative, there remains a need for early-stage risk funding. According to the 2012 report, 24% of start-ups obtained investment in the period 2007-11, compared to 37% in the period 2005-09. This decline could reflect a greater use of funding from grants, friends and family but the largest fall in investment activity was seen in smaller-scale sub-£500k amounts, down by 23% in number and 17% in value. This is possibly caused by the end of the regional venture capital funds (RVCF) and the University Challenge Funds. Despite opportunities to invest in companies across the UK, 86% of investment into life science start-ups went to companies in London, the South East and East of England.

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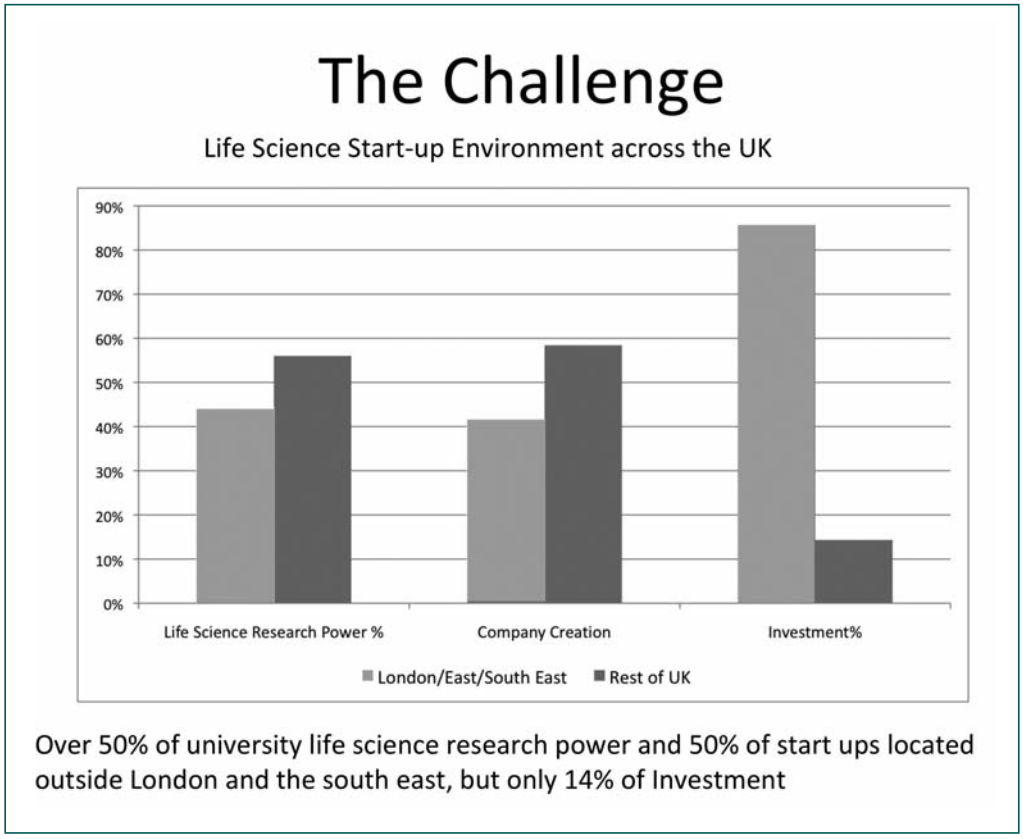

Clearly success relies on companies attracting the right level of funding; building strong management teams, and exploiting the latest technology.

We can expect more focused activity between big pharmaceutical companies and investors working together on specific projects. This will require the involvement of universities, partnerships with venture capital funds, the provision of sophisticated incubation facilities, sharing of R&D expertise and Open Innovation.

It is our role to help start-ups to spot the opportunities and to brief investors about new opportunities and the potential returns. Despite much hand-wringing in the UK, we have an excellent research base and a strong entrepreneurial ecosystem. We can be encouraged by renewed government interest in the life sciences as well as the emergence of new funding streams. We have grounds for optimism.

. . . renewed government interest in the life sciences . . .

Reference:

1 'Realignment' UK Life Science Start-up report 2012. Published by Mobius Life Sciences Fund 2012. Copies available for download from www.biocity.co.uk.