August 2009

SHS

SHS Gesellschaft für
Beteiligungsmanagement mbH

SHS NEWSLETTER

The latest SHS fund invests in growth companies in the life sciences and health care sectors with capital requirements of 1 to 5 million Euro

Editorial

"How is venture capital handling the economic crisis ...?"

Dear readers,

Many people have asked us this question in the last several months. Of course, one could respond by joining in the prevailing lethargy caused by the financial crisis, or apply for government bailouts just in case. Some of our portfolio companies are also noticing a slowdown in new orders. At the same time, most companies were well-prepared enough to be able to ride out and even avoid these low points. Despite this extremely tough 2009, we anticipate only a small number of losses in our portfolio. Nevertheless, one will have to be extra careful in the next 12 to 18 months. This is why we work closely with the management teams in each company in order to have an effective plan B on hand if necessary.

Access opportunities to high-quality technology companies

At the same time, we think that the current prospects for venture capital funds with investment capital are very positive. Today, there are a number of opportunities to invest in top-quality technology firms with market-ready products. There are also attractive later-stage investment possibilities thanks to reluctance on the part of banks and the temporary absence of refinancing options on the stock market.

The focus of this fund, namely life sciences/health care, is marking positive performance despite the recession. Innovative companies in this sector are being rewarded with increased demand, even if the total market is declining. There are outstanding product innovations and experienced management teams in the medical technology sector today. The manageable competition among the remaining venture capitalists means realistic entry prices. Since most of our investments are not leveraged using borrowed capital, the negative impact of the credit crisis is marginal – especially when compared to buy-out funds. For this reason, we expect that the funds launched this year in Germany will perform well. Hopefully, this will help to establish venture capital as a building block of a diversified asset allocation in this country as in the United States.

Therefore our team is optimistic and looks forward to finalizing attractive investments in the next several months. In this time of crisis especially, one thing holds true: We invest in growth.

Sincerely yours,

Hubertus Leonhardt

Hubertus Leonhardt

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One billion for life sciences companies

VentureCapital Magazine published a list of 2008 life science exits in its 3/09 issue. According to these figures, holdings of German venture capital companies exited in 2008 were valuated at an estimated 1 billion Euro in 2008. This shows the positive development of the German VC industry eight years after the tech bubble burst. SHS is ranked 4th in this list with the sale of Novosis, valuated at 90 million Euro.

The return on investment of German venture capital in the life science sector is increasingly attaining levels of comparable US-investments – or even outperforming them. This is based on good technological foundations, seasoned management teams and very reasonable entry prices at German innovative growth companies.

Life sciences exits in 2008

Company	Investor	Sale proceeds
Direvo Biotech [1]	TVM Capital et al.	210.0m Euro
Jerini [1]	TVM Capital et al.	174.9m Euro
U3 Pharma [1]	Atlas Venture et al.	150.9m Euro
Novosis [3]	SHS	90.0m Euro
Hybrigenice [1]	Life Sciences Partners et al.	87.9m Euro
Panomics [2]	HBM BioVentures et al.	73.0m Euro
Elbion [1]	TVM Capital et al.	9.0m Euro
Amaxa [1]	3i et al.	n/a
CAS Innovations [2]	Ventegis Capital et al.	n/a
Gamymend Pharaceuticals [1]	Nextech Venture et al.	n/a
Lingualcare [3]	Jupiter Technologie	n/a
Orpegen GmbH [2]	High Tech Private Equity	n/a

[1] Biotechnology [2] Medical technology [3] Healthcare

Source: Deal-Monitor VentureCapital Magazin

Guest article

German venture capital funds need a functioning exit via the capital markets

by Prof. Dr. Wolfgang Blättchen, CEO of Blättchen & Partner AG, Leonberg

The current economic and financial crisis has not only led to a much-discussed "credit crunch", but has also caused reluctance among private equity investors, especially in the segment of late-stage (buy-out) funding. According to figures published by *unquote*", there were only six takeovers during the first quarter in Germany, valued at 156 million Euro, (compared to 13 takeovers totaling 1.1 billion Euro in the first quarter of 2008). In comparison, early-stage financing activities by VC companies are completely stable, with investments holding steady between 2007 and 2008. However, this market also depends on a functioning exit channel in the medium term – one which is currently unavailable.

> Compared to the buy-out sector, activities of VC companies are highly stable

Exit possibility as a prerequisite for investment

When a private equity financier makes an investment, he usually requires a clear exit strategy. In recent years, the buy-out business was dominated by secondaries and tertiaries in which the companies were passed from one private equity firm to the next. In contrast, a venture capital exit by means of a secondary by potential buyers is rare. Over time, new funding needs of portfolio companies are satisfied by existing VC investors as well as any newcomers in financing rounds. In this case, the exit involves the sale of the company to a strategic investor or on the capital market. This model, which has been practiced successfully in the United States for many years, started to catch on in Germany in the early 1990s with such well-known examples as MOBILCOM and AIXTRON. Even from 2004 to 2007, VC investors enjoyed successful IPOs, including companies like INTERHYP. In this case, the original investor usually realized only a fraction of his investment during the IPO and sold his remaining shares on the market after the "lock-up period" had expired. The special charm for the portfolio company is that the successful founders can continue to determine the company's fortune when listed. But the question remains: What options are currently available on the capital markets?

Development on the IPO markets

In order to analyze the situation on the market today, it helps to take a look at past crises. While the crash of October 1987 cut offerings in half in 1988, from 0.9 to 0.4 billion Euro, the subsequent crisis in 1991/92 reduced the IPO value from 1.6 to 0.5 billion Euro, i.e. to about one-third of original levels. The worst crisis to date was the "dot.com" crisis of 2001/2002. After several years of extraordinary IPOs, volume crashed from 32 billion in 2000 to just 3.5 billion Euro in 2001/2002. While these recessive phases were limited to about a year for each of these earlier crises, this one lasted over three years and peaked in 2003 – the first year since 1968 in which there were no new offerings. The shift on the secondary markets in mid-2003 resulted in five IPOs totaling 1.8 billion Euro in 2004. Postbank was the player to "break the ice" this year with an IPO valued at 1.4 billion Euro alone. The crises show that the theoretical "lead-lag relationship" between the primary and secondary markets actually does exist. For this reason, companies generally tend to issue stocks during times of positive development on the secondary market.

In principle, companies tend to issue shares in periods of positive development of the secondary market

The current crisis has brought the German market for IPOs to a halt for nearly 11 months. The first signs of recovery in the equity capital market have been seen in the U.S., where the number of successful new issues has increased since April of this year. By mid-June, 10 IPOs worth approximately $2 billion were registered on the U.S. stock markets. Stock issue activity has also increased considerably worldwide. If one assumes the typical anticipation of economic recovery of the capital markets and takes into account the differences in economic phases between the U.S. and Europe, this successful trend should hit the German IPO market in the next six to eight months. Investors are generally willing to invest in venture capital once again. This is shown by the current boom in corporate bonds or even convertible bonds.

The lingering lull is certainly not due to a lack of suitable trading platforms. The Deutsche Börse has cost-effective options for placing smaller offerings on the regulated markets as well as the Entry Standard.
A good time to attract investor interest with issues would be once the secondary markets have stabilized. Today, one can see the offerings literally piling up as players wait for the IPO market to open up. The reasons for this development are obvious. Banks are unwilling to provide financing, there is no longer a wide range of standardized mezzanine financing programs to choose from, and financial investors are lacking exit alternatives. Usually, the first issuers get to enjoy all the media attention and are "rewarded" with the most successful IPO. For this to happen, however, the players need to be busy preparing early on, while the markets are still closed – even if this seems difficult from a psychological standpoint.

Usually the first issuers are rewarded the highest attention and considerable success

Prof. Dr. Wolfgang Blättchen is CEO of the Board of Management of BLÄTTCHEN & PARTNER AG, Leonberg / Stuttgart – Munich, a German management consultancy firm specialised in IPO services, financial strategies and LMBO consultancy.
In October 2002, Dr. Wolfgang Blättchen was appointed Professor of Faculty I – Taxation, Accounting and Auditing of the SRH University of Applied Sciences of Calw, Germany, as well as Head of the Finance Department. In 2006, he was appointed Assistant Dean of this faculty.

New investments of the SHS III fund

SHS invests in AMW GmbH

AMW GmbH develops and produces products for the controlled drug delivery, such as special active-ingredient patches and implants. AMW GmbH is the second company that pharmacologist Dr. Wilfried Fischer has built with the assistance of SHS.

> AMW is the second company being established by the graduated pharmacist with the help of SHS

Novosis AG, Dr. Fischer's first company, today is Europe's second-largest company in the area of transdermal and parenteral drug delivery technologies. Well-known products include patches to ease cancer pain as well as implants for fighting prostate cancer. From 2006 to 2008, Novosis AG was gradually sold to Schweizerhall AG, a specialty pharmaceutical company based in Basel.

AMW GmbH develops carriers, i.e. special patches and implants for the controlled drug delivery. The company focuses on the application of biotechnological ingredients that can typically not be administered orally. As infusions can be unpleasant for patients and may have a sub-optimal impact, the systems developed by AMW present major advantages for both patients and developers of drugs.

AMW will start its first clinical studies in 2010 and expects the first market approvals in 2012.

SHS finances the growth of Biontis GmbH

Andreas Zucker, who holds a doctorate in chemistry, founded Biontis GmbH in 2002 in the town of Geesthacht in Schleswig-Holstein. Prior to this, he established and managed the research and development operations at Bio-Rad Laboratories in Munich for over five years. Biontis has developed fully automated processes for the biochemical analysis of complex liquid mixtures, which it markets in Germany and neighboring countries.

This technology is used in water analysis and food inspection laboratories, forensic medicine and clinical diagnostics. SHS invested in the company in July 2008 in order to accelerate its continued expansion. Founder Andreas Zucker will continue to be the majority shareholder and Managing Director of Biontis GmbH. In addition to SHS, KfW Mittelstandsbank is also a co-investor in the company through the ERP Start-up Fund.

> A seasoned bioanalytics manager will lead the sales department

SHS supports c-LEcta in the marketing of innovative enzyme products

c-LEcta GmbH is a white biotechnology company specialized in supplying enzymes (biocatalysts) for industrial applications.

c-LEcta created a patented technology platform to cover the entire value chain, from the discovery and optimization of enzymes to their efficient production. The processes and products developed by c-LEcta are used in a variety of different applications within the pharmaceutical, chemical, food & feed and textile industries.

One example is the enzyme product 4-LEss Acryl®, which reduces the formation of acrylamide in foods. Acrylamide is created when foods containing carbohydrates are heated (e.g. French fries, cornflakes, baked goods and coffee) and is a suspected cause of cancer and genetic damage. Since the c-LEcta product effectively limits acrylamide production, its market potential is expected to be well over 10 million Euro.

Another c-LEcta product focuses on the field of detergent enzymes. c-LEcta collaborated with industry partner Clariant to successfully develop an enzyme formulation to remove grass stains from textiles. The company is currently discussing options for commercially marketing this technology with possible partners.

c-LEcta also cooperates with a number of other industry partners, such as BASF, Symrise and Cognis.

Industrial partnerships with companies such as BASF, Symrise or Cognis

ProBioGen signs agreement with Sanofi Pasteur

ProBioGen, a leading Berlin-based biotechnology company in cell engineering and biopharmaceutical production, announced the signing of a research and option agreement with Sanofi Pasteur in February 2009. The agreement covers ProBioGen's proprietary AGE1.CR® cell line, which among others, was developed for use in the reliable and efficient production of modern vaccines. Sanofi Pasteur, a division of the Sanofi-Aventis Group, has 11,000 employees worldwide and produces vaccines which are administered to around 500 million people each year.

The cell line development is aligned exactly with the requirements of the modern vaccine industry

In addition to Sanofi Pasteur, a series of other prominent companies in the biopharmaceutical industry use ProBioGen's cell line.

"This cell line, which we developed in cooperation with IDT Biologika, is tailored specifically to the needs of today's vaccine industry. We are proud to make this important contribution to the development of tomorrow's medicines", said Dr. Volker Sandig, VP Cell & Vector Biology at ProBioGen.

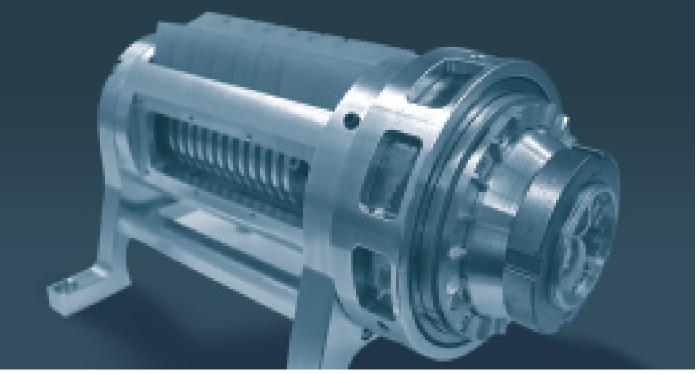
c-LEcta coordinates a European research consortium

Nine academic and industrial partners launched a joint research project for the enzymatic production of high-value chemicals at a meeting in Leipzig on March 12.

Enzymes are biological catalysts and play a key role in the production of numerous chemical products. These very diverse products range from chiral intermediates for the pharmaceutical industry to fine and specialty chemicals for the agricultural, cosmetics and food industries.

Key technologies like enzyme engineering can be used to optimize enzymes for use in industrial processes. The economic significance of such developments is immense. In the "Eng Biocat" joint research project, the consortium partners will work to develop a fully integrated enzyme engineering platform. This new system will make it possible to rapidly identify new enzymes for the biosynthesis of innovative chemical products which are highly relevant to a number of industries. The researchers will focus on the sustainability and economic benefit of the developed processes in their work.

The economical value resulting from enzyme engineering is remarkable



Micropelt: Friction-generated heat powers wireless sensor technology for condition monitoring

Bearings and other movable machine parts wear out during operation. In order to avoid defective parts, expensive machine breakdowns and production losses, many roller bearings are replaced in the course of preventative maintenance procedures including many which are still in perfect working order.

The Freiburg-based Micropelt GmbH gives bearing, gear and machine manufacturers as well as plant operators the low-cost option of switching to condition-based maintenance – allowing them to benefit from huge potential savings. The energy self-sufficient radio signal sensor is installed directly on the shaft of the bearing and is powered by thermoelectrics. It regularly records the condition of the wearing parts and sends the results to a monitoring system. This makes it possible to recognize any strain, early signs of damage and impending failures early on. The system also makes the preventative replacement of wearing parts unnecessary.

The Micropelt chip thermogenerator (TEG) provides the self-sufficient and maintenance-free energy supply for the sensor technology and wireless transmission. It converts the frictional heat of the bearing into electricity.

A radio signal sensor detects imminent malfunctions always in time

ASKION GmbH attracts its first customers in the new field of cryobiotechnology

In cooperation with the Fraunhofer Institute for Biomedical Engineering (IBMT), St. Ingbert, ASKION GmbH developed a modular system used to freeze and store biological material, such as stem cell specimens, tissue samples, etc. at low temperatures (below -100°C). This innovative system, the ASKION C-line® System, is the first comprehensive system solution on the market to guarantee a complete cold chain for samples, from the initial freezing to their removal for their respective application. The first devices have already been installed by the Fraunhofer IBMT biobank, among others at the HIV Bank on behalf of the Bill & Melissa Gates Foundation and at one of the largest European biobanks at the Medical University of Graz.

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