

Innosuisse – Schweizerische Agentur
für Innovationsförderung

Swissparks.ch Association of Swiss Technology Parks
and Business Incubators

BIOVALLEY BASEL™



Departement für Wirtschaft, Soziales und Umwelt des Kantons Basel-Stadt

Innosuisse & Basel-Stadt present new funding schemes stimulating science-based innovation mitigating the impact of Covid-19

Webinar on Wednesday, February 3, 2021, 12.30 - 14.00

Agenda

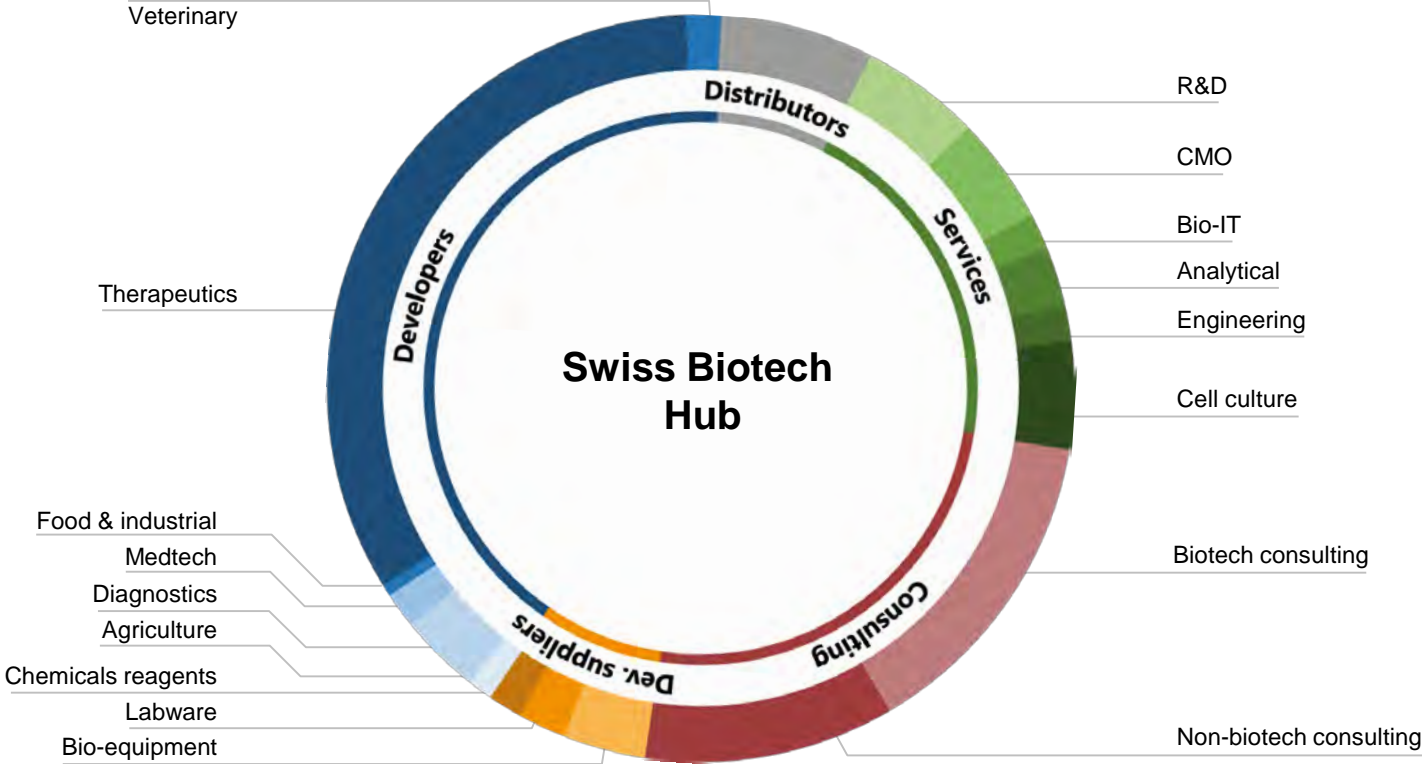
- **Impact of Covid pandemic on Swiss biotech companies**
Michael Altorfer, CEO, Swiss Biotech Association
- **Basel-Stadt subordinated loan guarantee program:**
 - **Purpose, objectives, and design**
Samuel Hess, Department of Economic, Social and Environmental Affairs, Basel-Stadt
 - **Target companies and application process**
Felix Kohlermann, Department of Economic, Social and Environmental Affairs, Basel-Stadt
 - **Legal aspects (loan & warrant agreements)**
Matthias Staehelin, President BioValley, VISCHER Anwälte
- **Federal innovation impulse program “Swiss Innovation Power”**
Stéphanie Lecaudé, Scientific Officer Life Sciences, Innosuisse
- **Value of Basel-Stadt and Innosuisse innovation programs from the perspective of other regions**
René Hausammann, President, Swissparks.ch
- **Q&A**



Covid pandemic impacts Swiss biotech companies
Science-based innovation needs support
Webinar, February 3, 2021

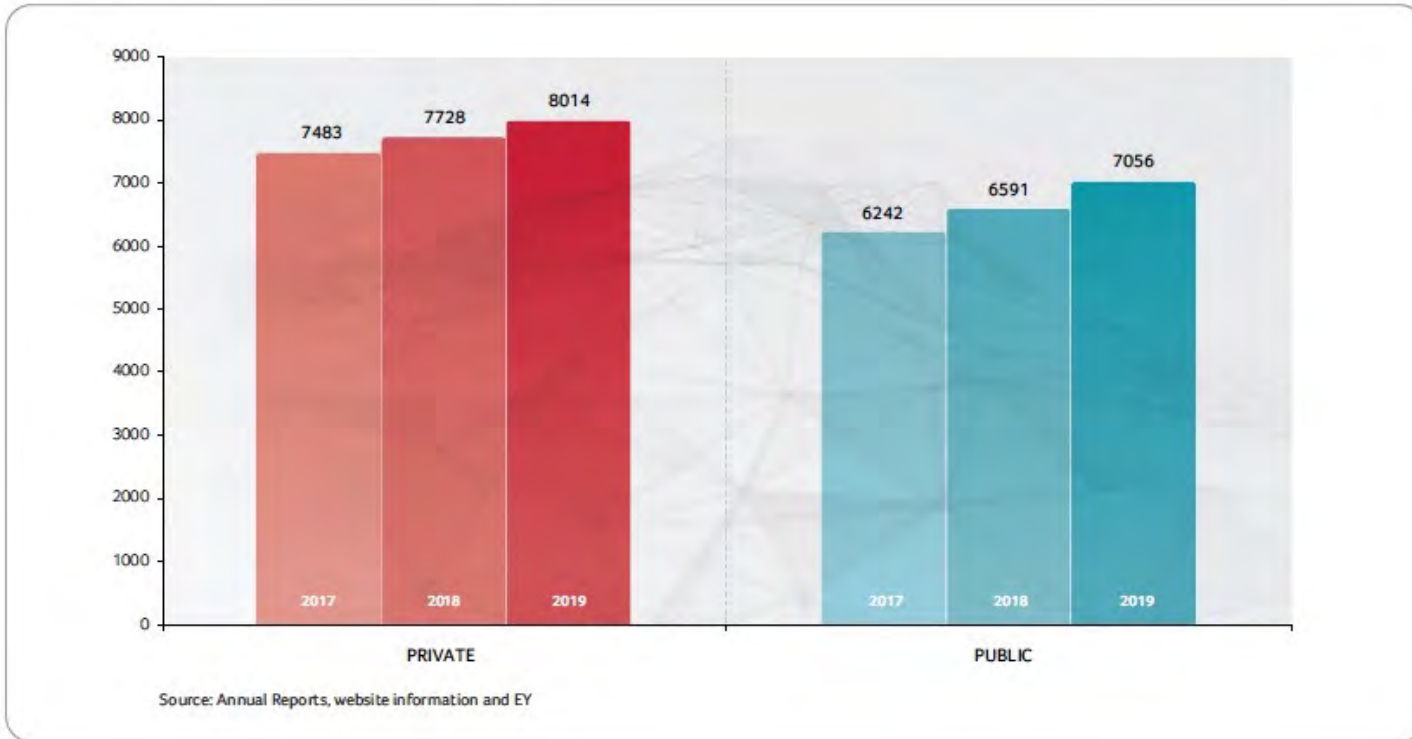
Michael Altorfer, CEO, Swiss Biotech Association

A tight cross-functional network



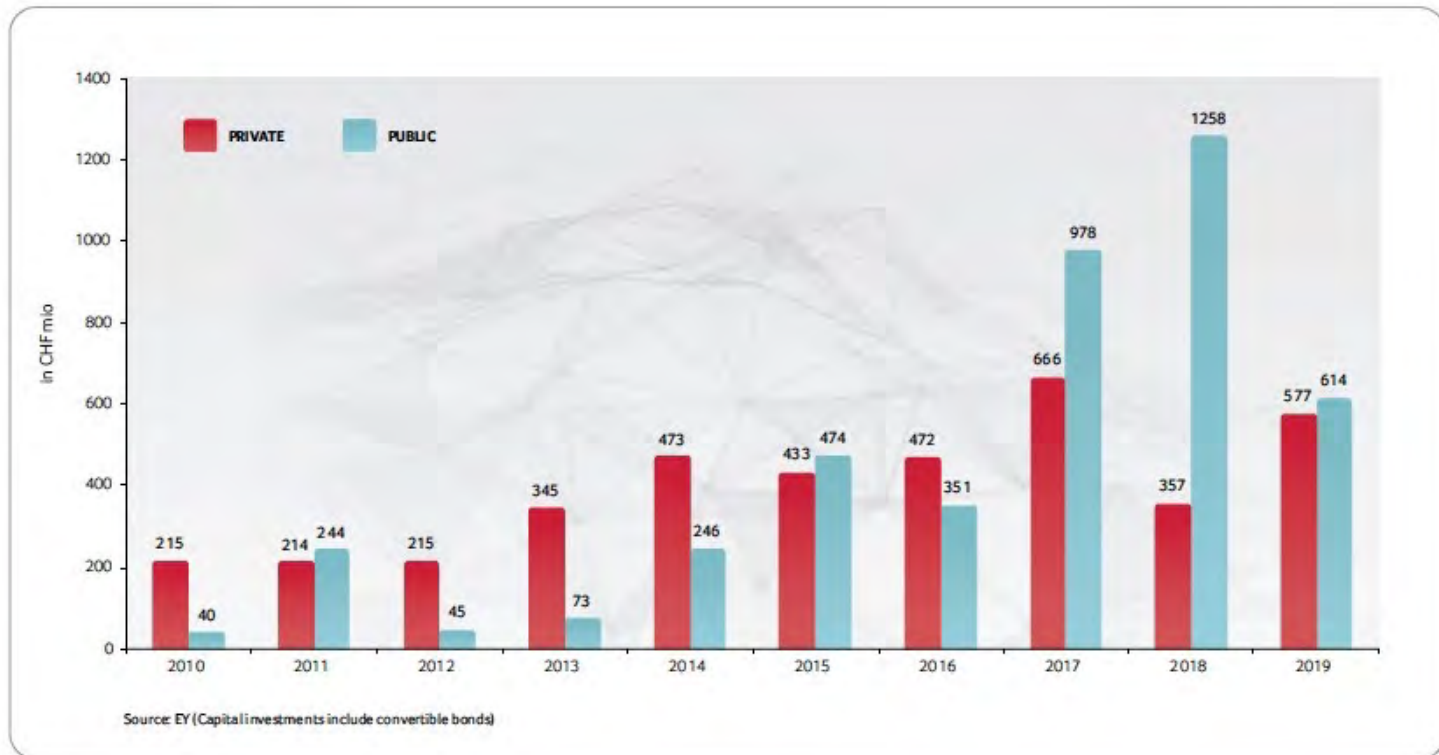
Rising number of Swiss biotech employees

Evolution 2017 - 2019



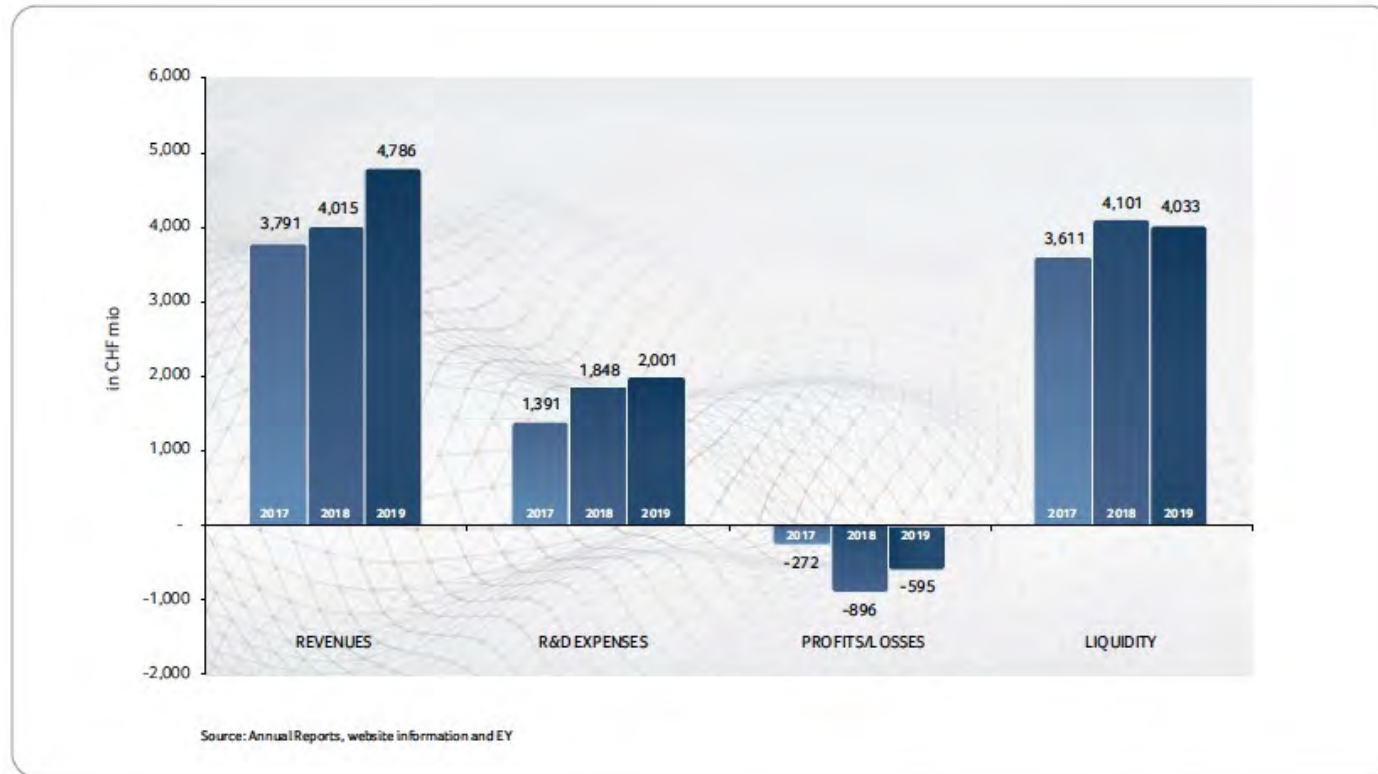
Capital investments in Swiss biotech companies

Public and private companies



Revenues, R&D expenses, profit & loss, liquidity

Total Swiss biotech companies



Impact of the Corona pandemic was not visible immediately

Q1-3, 2020 were still fine from a financing perspective

The financing of biotech companies in the first 9 months of 2020 was still good, despite the pandemic:

- ADC Therapeutics implemented a very successful IPO at the NY stock exchange in the middle of the pandemic
- Many other biotech companies could close their planned financing rounds. The investors continue to be interested in Biotech investments provided that the companies presented positive R&D results
- We have also seen a number of biotech – pharma collaborations being established in 2020 as well

These successful financing rounds and partnerships have almost exclusively been based on data acquired PRIOR to the pandemic



Corona pandemic impacted most biotech companies

However, biotech companies were confronted with delays on all fronts

Delays are encountered in

- Public/private partnerships with academic partners in Switzerland and abroad
- External manufacturing, animal studies as well as screening and analytical orders with CROs
- Clinical trials are either delayed or even stopped. It is very difficult to now initiate clinical trials as planned (a matter of luck as to which clinical trial centres and countries have been selected)
- Strategic partnerships are delayed as partners wait for the result of confirmatory studies

Corona pandemic impacts closing of financing rounds

No access to emergency loan program limits available options

Biotech companies refinance in average about every 18 months:

- Annual financial need in the range of 1.2-1.5 billion CHF, or ca. 300-375 mio. CHF/quarter
- Since mid 2020, the number of companies having difficulties in closing financing rounds as planned, increased, as many did not meet their milestones as planned
- In every quarter, about 15% of the Swiss biotech companies plan a financing round. As some companies couldn't close in Q3/Q4 as planned, this means that by summer 2021 40% to 50% of all biotech companies plan to close a financing round while dealing with the delays in their R&D programs

Without access to emergency loans they can only protect their cash reserves by:

- Cutting internal costs
- Reducing investments in external R&D projects
- Selling IP rights

This weakens Swiss innovation power and harms external partners as well

Mitigating the impact of the Corona pandemic

Joint federal and cantonal support worked in some regions for start ups

Federal council offered one start-up loan program and backed 65%. However, cantons needed to sign up to the program and cover 35%.

- With the exception of ZH, most cantons that have a large number of biotech companies participated in the federal start-up program
- The program seemed to be effective in the Ticino, Zug and the Romandie but it did not working equally well in BS/BL

The cantonal program in Zurich did not work well for R&D biotech companies as the banks needed to back 15% of the risk and they do not like granting subordinated loans. In some cases, ZKB has provided a solution through discounted convertible loans

Mitigating of the Corona pandemic

Joint federal and cantonal support elapsed in Q3, 2020

We expect that the impact of the pandemic will become visible in 2021, while the federal and cantonal program have all elapsed

- No federal emergency loan program is available for R&D SME/start up companies
- The current Härtefallverordnung is again limited to companies with revenues
- The federal council views the current situation not as critical as the total funding by venture capitalist in the biotech sector has been at strong in 2020
- The SECO argues that funding for biotech companies should be provided by venture capitalists and not by the government

Innosuisse has launched its impulse program “Innovationskraft Schweiz”, which facilitates public private partnerships. Thus it will foster new science-based innovation but does not provide the emergency bridge funding that biotech companies need to reach their milestones and close financing rounds

Mitigating the impact of the Corona pandemic

Innovation program of BS is well designed and should be copied by other cantons

The innovation program of Basel Stadt is well designed:

- The program provides for subordinated loans
- A warrant agreement provides Basel Stadt with an upside option
- Applications are reviewed by a group of experts and not banks
- Together, the canton BS and the Eckstein-Geigy Foundation back the loan guarantee by 100%
- The program is available to innovative R&D companies without a restriction on the founding year of the companies
- Although the program is available to a broad range of science based industry sectors, the available funds are substantial and provide a strong and timely signal
- While funds will be provided to companies focused on R&D, they will indirectly also benefit specialized consultants and service providers which are key partners in the implementation of R&D projects



Contact us to follow up!

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Department of Economic, Social and Environmental Affairs of the Canton of Basel-Stadt

Office of Economy and Labour

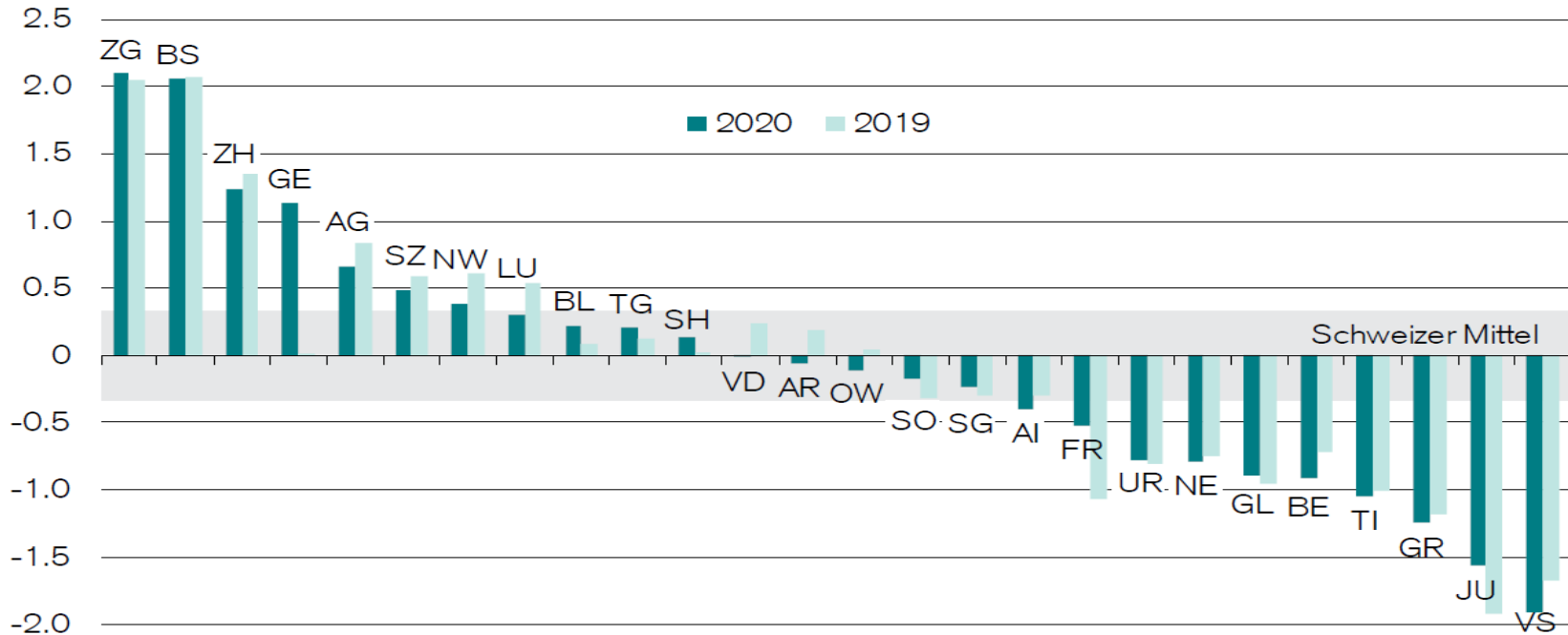
Innovation Promotion in Basel-Stadt: the SLG Programme in its Context

Samuel Hess, Head of Economic Affairs

Basel, 3 February 2021



Basel-Stadt: overall location quality



Location quality indicator (SQI), synthesized index, CH = 0; Source: Credit Suisse

Basel-Stadt: prime location for tech start-ups



Edition No 9

Swiss Venture Capital Report



In cooperation with
SECA - Swiss Private Equity & Corporate Finance Association

Basel-Stadt: private start-up investment on the rise

Cantons Basel realises its potential

More than half a billion francs went into start-ups in canton Basel-Stadt in 2020. Four times more than in the previous record year. Start-up Start-ups were responsible for the sharp increase.

Swiss Venture Capital Report has analysed investment in start-ups in the past five years, with Zurich, Ticino and Valais displaying the most striking performance in most years. In 2020 for the first time it was Basel-Stadt that, with more than CHF 500 million going into start-ups in the canton, exceeded the previous record in 2019 by fourfold. Canton Basel-Stadt takes a clear second place behind Zurich, with more than a quarter of the total money invested in Swiss start-ups going to the canton. In view of the low population size of just over 300,000, the canton is also one of the international hotspots with the highest amount invested per inhabitant.

In 2020, investment in Canton Zurich was significantly less than in the previous year (CHF 813 million), due to the lack of large financing rounds. In 2019, two rounds of more than CHF 200 million took place. In total, the largest investment was CHF 100 million. Zurich start-ups provided only five of the ten largest financing rounds in 2020, in comparison with eight in 2019.

Despite this decline, the historical development in canton Zurich is still impressive. The sum invested in start-ups was more than ten times as high as in years prior to these five years. The compound annual growth rate (CAGR) in the canton was 35.7%, significantly higher than the value of Switzerland at 20.1%.

Cantons Valais and Geneva showed an able development compared with the previous year: in Valais the amount invested was slightly below the previous year, and in Geneva slightly above.

NEW RECORD IN 2020

2020 was the best year for start-up investment in Switzerland. With a CAGR of 35.7% between 2016 and 2020, the amount invested in the canton grew at an above-average rate.

The performance of canton St. Gallen is also remarkable. If local ecosystems have managed these in recent years, including start-ups, the university, tech companies, supporters and investors that is reflected in growing investment.

The development of the number of financing rounds is much more balanced than the total amount invested, with almost all cantons recording a light growth.

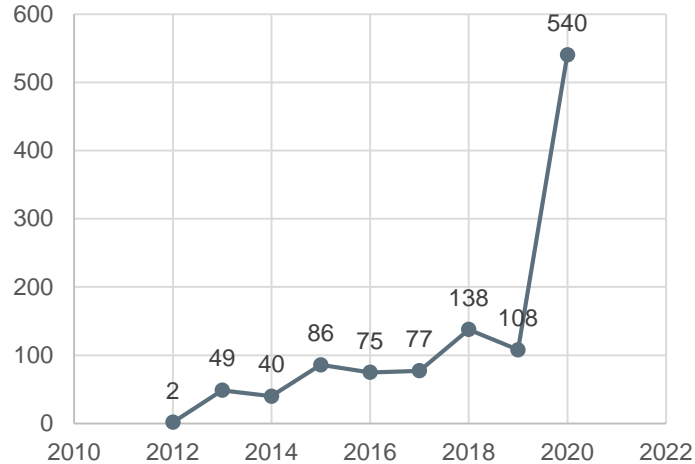
Canton Basel-Stadt achieved above-average growth here and is now in third place behind Zurich and Valais in terms of number of financing rounds in 2020, in fifth place.

BASEL AS A HOTSPOT

Basel's pharmaceutical ecosystem is in the top league worldwide and is the only ecosystem in Switzerland which two world-leading companies belong. In addition, it has good financing conditions and tailor-made support offers. Thanks to its global presence, the region is well known to international start-up investors, and in 2020 more Swiss growth funds also invested in Basel biotech companies. As a result, the great potential of the region in terms of biotech has been realised, with a total of about CHF 500 million going to biotech companies in the canton last year. The historic comparison with biotech investment throughout Switzerland shows how high the total is. Between 2017 and 2020, the total investment was in some cases well below this figure, only in 2019 was it slightly larger.

A closer look also shows not only biotech start-ups in the canton, but representation of the entire market case sector in addition to biotech companies. These include IT and low-midtech start-ups, as well as varied investment in 2020.

Biotech investment also plays an important role in Ticino and Geneva. Zurich remains a leader in ICT and biotech investment: a good half of the total money in these sectors went to Zurich start-ups. In the case of Ticino, as in previous years, the striking feature is the broad distribution of the total across various sectors.



Source: Venture Capital Report 2021
mCHF invested in start-ups in Basel-Stadt

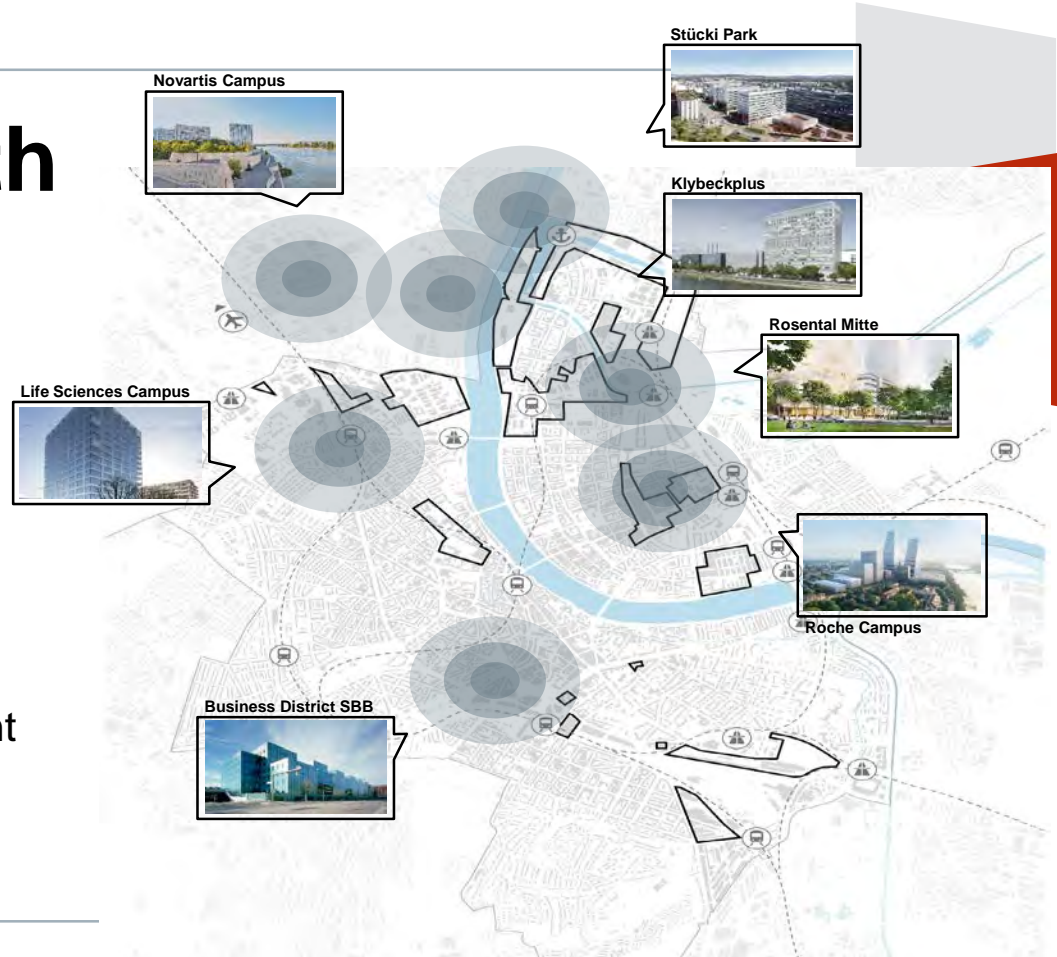
Innovation Promotion Basel-Stadt

- >10 years sustained investment in innovation promotion
- Technologiepark Basel (since 2011)
- Basel Area Business & Innovation
- BaseLaunch, DayOne
- Switzerland Innovation Park Basel Area
- Rent relief programme (expanded due to COVID-19)
- Room for growth



Room for growth

- Existing and dense cluster of sites for science- and technology-based R&D, production and HQs
- 113 ha of development sites in central locations
- Modern facilities for office, research and production available and under development
- Potential for additional 30'000 employees until 2035



Innovation Promotion Basel-Stadt

«The subordinated loan guarantee programme shall contribute to securing the ecosystem impaired by COVID-19»



Subordinated Loan Guarantee Programme: key elements

- Subordinated bank loans by BKB (currently @ 0%)
 - Canton guarantees up to 90% of loan, CHF 5m per guarantee max.
 - Track 1 / Track 2
 - Warrants
 - Thorough evaluation (Innosuisse experts, VCs)
 - Canton has discretion to approve an application or not (no legal entitlement)
-

Main Prerequisites

- Damage due to COVID-19
 - In commercial registry BS since 1 March 2020 (or major operations in BS prior to 1 March 2020)
 - > CHF 500'000 raised from independent sources since January 2019
 - No outstanding social security contributions
 - etc.
-



Warrants

- Start-up to issue warrants to canton and to sponsor (Eckenstein-Geigy-Stiftung)
 - Independent from guarantee/loan
 - Number proportional to size of guarantee/loan
 - Execution in pre-defined cases
 - Canton to sell shares obtained
 - Warrants to (partially) mitigate financial risk of Canton
-



More information

- www.wsu.bs.ch/COVID-19/covid-19-buergschaften-startup-english.html
- www.gesetzessammlung.bs.ch/app/de/texts_of_law/819.872

Thank you for your attention!



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Department of Economic, Social and Environmental Affairs of the Canton of Basel-Stadt

General Secretariat

Target companies and application process

Felix Kohlermann, Deputy Head of Finance WSU

Basel, 3. February 2021



Target Companies

- **Start-up companies with domicile and main activity in Basel-Stadt**
 - **Science- or technology-based**
 - **Innovative business model typically protected by patents or IP rights**
 - **Scalable business model with economic potential for Basel-Stadt**
 - **Start-up = ?**
 - **Cash burn due to high R&D expenditures (staff, CROs, etc.)**
 - **Focus is on developers**
 - **May be > 10 years old**
 - **Discretionary judgment needed (no black or white)**
-



Application process part 1

1. **Go to Startup Loan Guarantee programme's website (english & german)**
<https://www.wsu.bs.ch/COVID-19/covid-19-buergschaften-startup.html>
 2. **Fill out application form in PDF and send application form and all necessary documents to Covid-19_Buergschaften@bs.ch**
 3. **Check of application documents in form and content by Dept. WSU**
 4. **External in-depth check of business plan documents by Innosuisse and Venture Capital experts**
 5. **Consolidation of all reviews and final check of application, if positive:**
 6. **Signature of legally binding warrant contract (in direct contact with dept. WSU)**
-

Application process part 2

7. **Proposal to the and final decision by the Government of Canton of Basel-Stadt**
8. **If final decision by the Government is positive: Notification to applicant and foundation, put together and send dossier to bank**
9. **Signature of loan and guarantee contract (bank and dept. WSU)**



Duration: process from application to final decision by government can take around 6 weeks



Startup must report financials / major developments on a regular basis to Canton of Basel-Stadt (quarterly or bi-annually)



Departement of Economic, Social and Environmental Affairs of the Canton of Basel-Stadt

General Secretariat

Thank you for your attention!

VISCHER

Basel-Stadt subordinated loan guarantee program: Legal aspects (loan & warrant agreements).



Dr. Matthias Staehelin, President BioValley, VISCHER AG

Key Legal Points of Sponsored Program (10 Mio)

- If Canton Basel-Stadt approves application, Basler Kantonalbank (Bank) provides subordinated loans to start-ups
- Canton Basel-Stadt guarantees 90% of loan (excl. interest) granted by Bank to qualifying Start-ups and receives warrants, Sponsor guarantees 10%
- In case of success Start-Up repays plus Canton exercises warrants and delivers 10% of upside to Foundation
- In case of failure, Bank draws guarantee of Canton (90%) and Sponsor (10%); warrants are then worthless

Warrants (1/2)

- Warrants are options in certified form and represent the right to buy within the warrant period a share of the Company at a pre-defined price (also called exercise price):
 - Number of warrants fixed at an exercise price of 110% of the share price paid at the last financing round.
 - Example: A company has 500'000 shares outstanding. The last price paid was CHF 20 for a Series A share. Bank grants loan of CHF 1 million, of which CHF 900,000 are guaranteed by the Canton. Number of warrants: 1'000'000 divided by 22 (110% of 20) results in 45'454 warrants. Each warrant entitles the holder to purchase one Series A share for CHF 22 in the logical second before the exit.

Warrants (2/2)

- If warrants are exercised, new shares must be created in a logical second prior to the exit
- Option 1: Conditional share capital (in Articles of Association/Statuten)
 - Must specify maximum number of shares to be created
 - Must specify shares of certain existing share class
 - If company has outstanding employee options of 15%, cap is 35%
- Option 2: Support by shareholders representing 2/3 of the votes
 - 2/3 support must exist at the time of exit
 - In the case of capital increases prior to the exit, new investors must adhere to this obligation

What happens at the sale of the Company (Exit)?

- Loan incl. interest is repaid to Bank
- Shareholders only receive money if the loan is fully repaid to the Bank
- If the warrant is «in the money», Canton can buy shares by paying the exercise amount and sell it immediately after the acquisition in course of the exit
- Canton delivers 10% of the upside to the Sponsor
- Special Case IPO: is not an exit, but financing; conversion/exercise of warrants is postponed to the end of the customary lock-up

What happens if Warrant still outstanding after 10 years

- If no exit happens within 10 years, then Company is hopefully profitable
- Repayment of loan after 10 years at the latest
- Warrant period also ends after 10 years and warrants must now be exercised or otherwise will expire
- Value of warrant must be negotiated (absent exit or market price for shares)
- Obligation for company to buy the warrants or shares for fair market value

Key Points Procedure Track 2

- Start-Up needs to identify Sponsor (and Bank)
- Canton Basel-Stadt can guarantee loans up to CHF 30 million
- Bank or Sponsor to provide subordinated loans to start-up
- Canton Basel-Stadt guarantees 90% of loan (excl. interest) granted by Bank or Sponsor to qualifying Start-ups in return of warrants
- In case of success Start-Up repays loan plus Canton exercises warrants
- In case of failure, Bank or Sponsor draws guarantee of Canton (90%); warrants are then worthless

VISCHER

Thank you.

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IMPULSE PROGRAMME SWISS INNOVATION POWER

STÉPHANIE LECAUDÉ
SCIENTIFIC OFFICER
PROJECT FUNDING LIFE SCIENCES,
INNOSUISSE



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

**Innosuisse – Schweizerische Agentur
für Innovationsförderung**

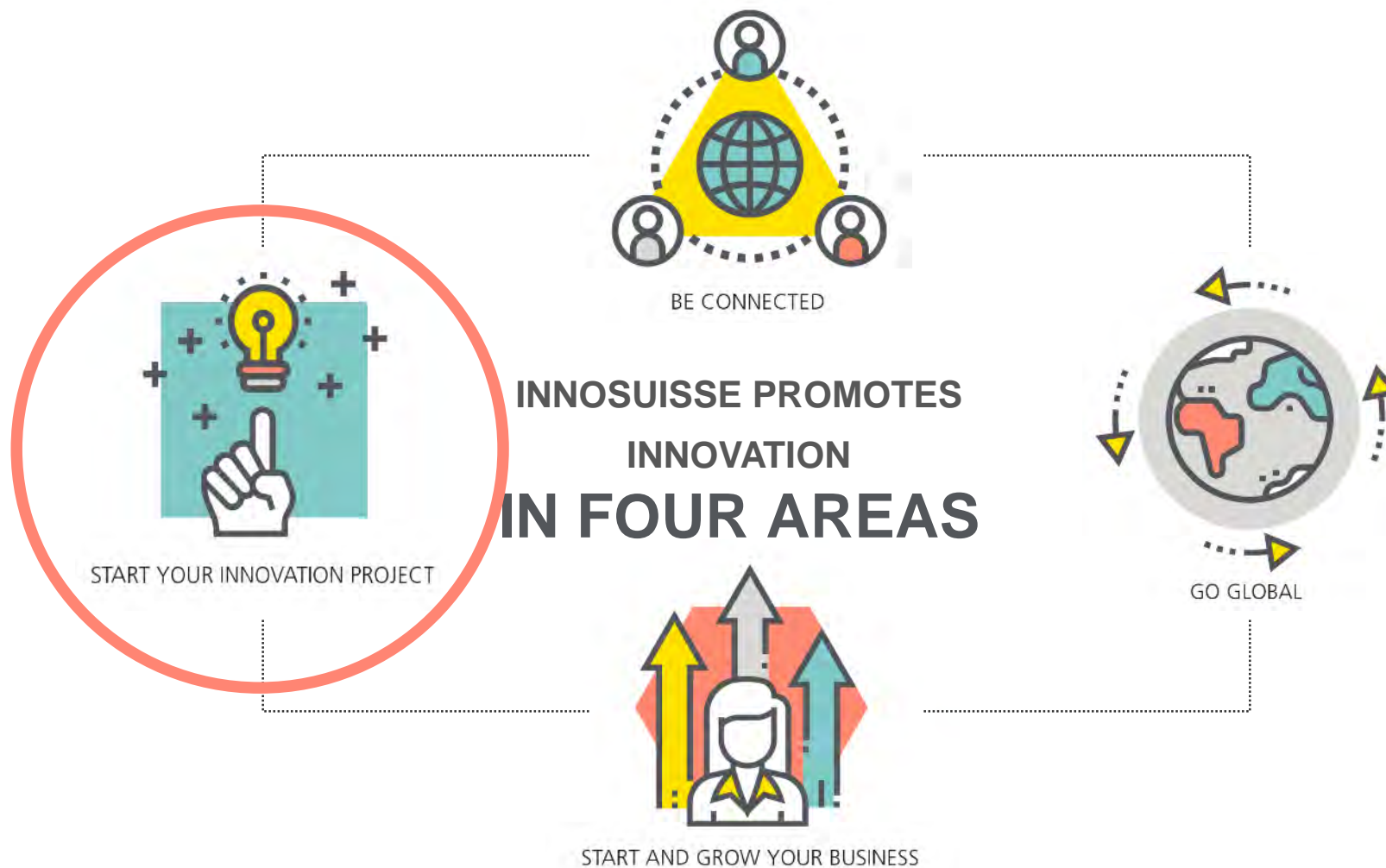
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SWISS INNOVATION AGENCY

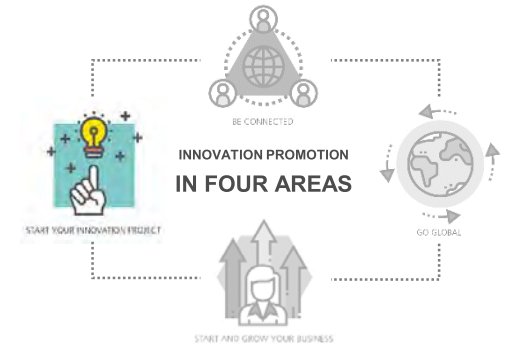
Innosuisse is the Swiss Confederation's agency for promoting innovation.

Our Mission:

Innosuisse promotes **science-based innovation in the interest of the economy and society** in Switzerland – in all disciplines.



INNOVATION PROJECT BETWEEN BUSINESS AND RESEARCH

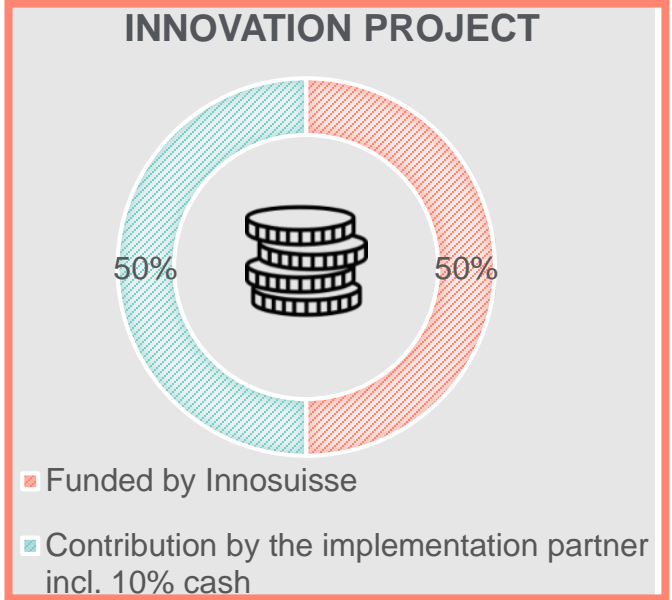


IMPLEMENTATION PARTNERS (industry partners, SMEs, NGOs, administration)

- Obtain access to scientific know-how and research and development resources
- Provide business expertise and customer perspective

RESEARCHERS

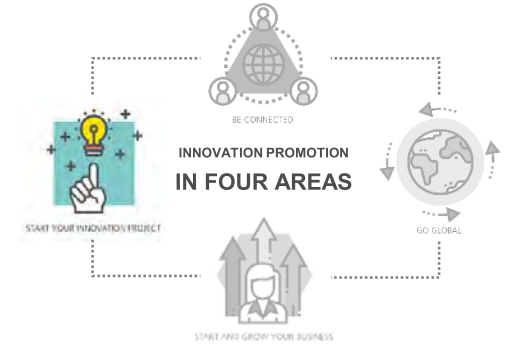
- Obtain business expertise and customer perspective
- Provide scientific skills and research infrastructure



MARKET IMPLEMENTATION OF THE INNOVATION

Submit your application online:
<https://www.innosuisse.ch/analytics>

INNOVATION PROJECTS ASSESSMENT CRITERIA



TWO INDEPENDENT EVALUATIONS

with the same weighting

Evaluation expert 1

Evaluation expert 2

ASSESSMENT CRITERIA

- ✓ Innovation degree
- ✓ Value creation and sustainability in Switzerland
- ✓ Methodology and team competences

The Innovation Council takes its independent decision on the basis of the experts' evaluation

IMPULSE PROGRAMME «SWISS INNOVATION POWER»

The federal council has approved the impulse programme in November 2020. It started on **January 7th 2021** and will run for about two years.

Goals and Objectives

The goals and objectives of the impulse programme «Swiss Innovation Power» are:

- to **stimulate the science-based innovation** activities of Swiss enterprises and to help companies to adapt and cope with **structural changes**, and
- to support the innovation strength and to secure the long-term competitiveness of Swiss enterprises in view of the COVID-19 pandemic.

Reduced funding conditions in the innovation projects will help to achieve these goals and objectives.

IMPULSE PROGRAMME «SWISS INNOVATION POWER»

Measures:

1. The cash contribution of the implementation partner can be waived and the contribution reduced from 50% to 30%.
2. For projects, which
 - have high risks and high potential reward,
 - are of a disruptive character
 - and/or help to master structural changeexternal service providers can be paid for (via the research partner) and the implementation partner's own contribution can be lowered from 50% to 20%.

START:
January 2021

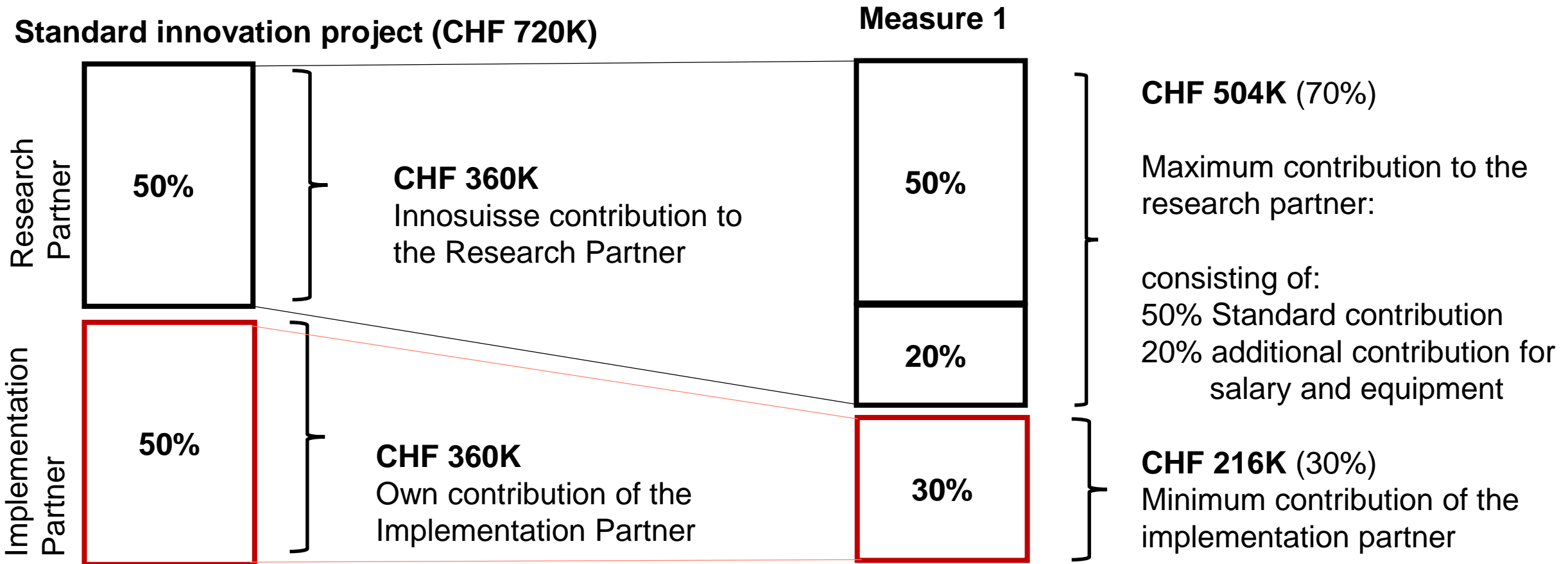
DURATION:
End of 2022

Expected results:

Significant contribution to promote additional, risky and disruptive innovations in **around 500 projects** and with a total funding volume of **CHF 226 million**

Measure 1:

The cash contribution of the implementation partner can be reduced or waived and the contribution reduced from 50% to 30%.



IMPULSE PROGRAMME «SWISS INNOVATION POWER»

Measure 2:

- For projects with **high risk and high potential reward, with disruptive character or which help with the structural change,**
- **external service** providers (e.g. research, engineering and consulting services) can be paid for (via the research partner)
- and the implementation partner's own **contribution can be lowered** from 50% to 20%.

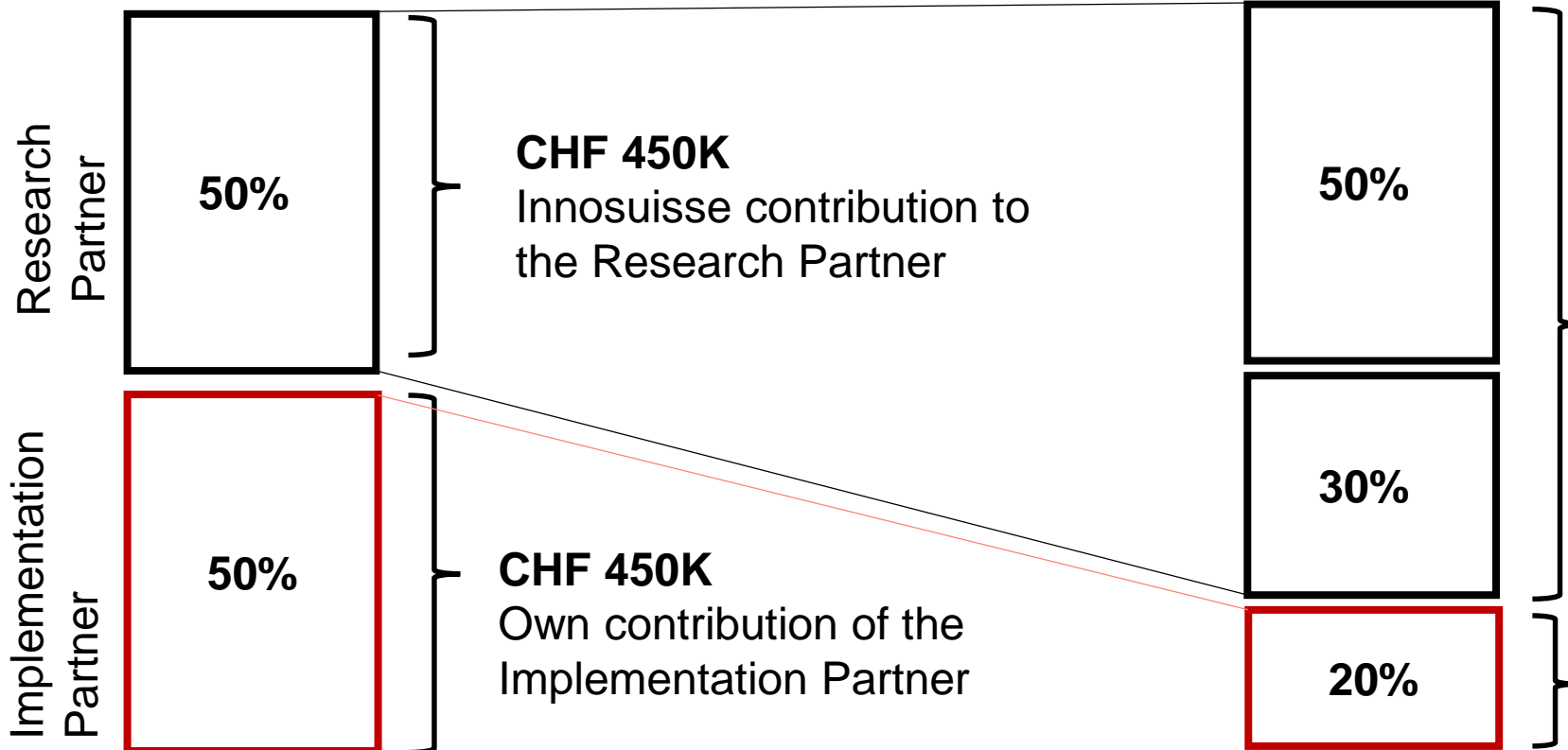
Measure 2:

Radical innovation or structural change project with support from a specialised service provider

Example of a project with total budget CHF 900K (excl. Overhead)

Standard innovation project

Measure 2



Maximum contribution to research partner:

CHF 720K (80%) of which

- **CHF 450 (50%)** can be used by the research partner and
- **CHF 270K (30%)** maximum amount which will be paid to an external service provider

CHF 180K (20%)
Minimum own contribution of the implementation partner

FACT SHEET & SUBMISSION PROCESS

All relevant information can be found on www.innosuisse.ch (Promotion initiatives → Impulse Programme). This information includes:

1. **General information** regarding innovation projects
2. **Fact sheet for impulse programme** with the following structure:
 - General objectives
 - Measure M1- stimulating new innovation projects
 - Objective M1 / Funding criteria and conditions / Submission process
 - Measure M2 – supporting structural change and disruptive or radical innovation
 - Objective M2 / Funding criteria and conditions / Submission process:
3. **Frequently asked questions (FAQ)** regarding the impulse programme

YOUR CONTACTS FOR INNOVATION PROJECTS



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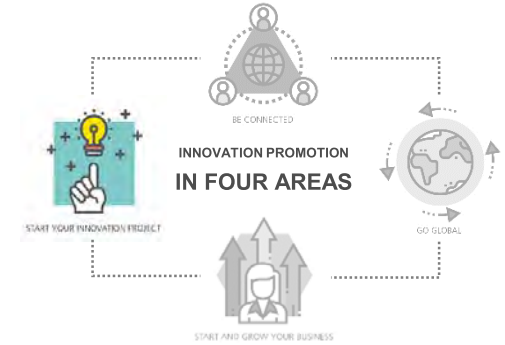


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CONCLUDING REMARKS

1. Please, don't rush to submit a proposal. The programme will run over the next 24 months and there is no need to hurry.
2. Assess carefully, if this programme suits your needs and check if you fulfil all criteria. There are several other funding instruments and funding sources available as well.
3. If you decide to submit an application:
 - Choose the right partner(s) and the appropriate measure M1 or M2
 - Prepare a sound and complete proposal with a clear focus on the innovation content, the value creation and the project setup
 - If needed, get support from the innovation mentors

DO YOU NEED SUPPORT TO DEVELOP YOUR INNOVATION PROJECT?



GET FREE SUPPORT FROM 20 MENTORS THROUGHOUT SWITZERLAND:

- Provide you easy access to technology and research
- Provide you support with the search for the right research partner
- Assess your innovation project and assist with the application
- Free offering for Swiss SMEs and other organisations with less than 250 FTEs

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<https://www.innosuisse.ch/mentoring>

MOVING FORWARD WITH INNOSUISSE



THANK YOU / YOUR QUESTIONS

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info@innosuisse.ch



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Value of BS and Innosuisse innovation programs from the perspective of other regions

René Hausammann, Swissparks.ch

General feedback quite in unison

Program Basel Stadt

- **No comparable initiative throughout Switzerland; unique and exemplary program!**
- **Players in the start-up scene of other cantons unanimously like the initiative by BS, «real cool» (from Eastern Switzerland)**
- **They would like to make it available in their own canton**
 - Typical issues and obstacles encountered**
 - **the constitutional/legal base for it is missing, e.g. Canton ZH**
 - **Evaluation is bank oriented, e.g. towards the requirement of subordination of loans**
- **Comment from GE regarding warrants (share option): What if start-up is already invested?**
- **Comment from BL: BS is a canton that can afford such program**
- **For the time being, only the federal program for «hardship cases» is available:**
 - However: conditions not suited to typical R&D intensive start-ups!**

Innosuisse Impulse Programme: Swiss Innovation Power

- **Compared to other countries, Switzerland was always very reluctant with direct funding to the private sector**
- **Now this restriction is being eased up**
 - **New program well received by all players!**
- **However:**
 - Some people do not see this program as effective Covid relief financing or not generous enough**
- **General message:**
 - Start-ups are our future – take care of them in these very challenging times!**

Q/A Some of the regional representatives are on-line!