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A small truck races along the cobbled streets of the 14th-century English

A small truck races along the cobbled streets of the 14th-century English university town of Cambridge. Its cargo is unusually delicate: a still-beating atrial appendage, a worn-out part removed during a heart bypass operation at a local hospital.

Its destination is Pharmagene, a drug-discovery and testing laboratory based in the city of Royston, about 20 miles away. There, scientists are on call 24 hours a day, 7 days a week, ready to immediately test tissue for reactions to chemical, biological, or drug compounds.

Bioinformatics is the new alchemy of the pharmaceutical industry, and Pharmagene is one of the many small European firms that can supply this and other new technologies to the big pharmaceutical companies. Big pharma will in turn use those technologies to develop new drugs, save lives, and of course, make money.

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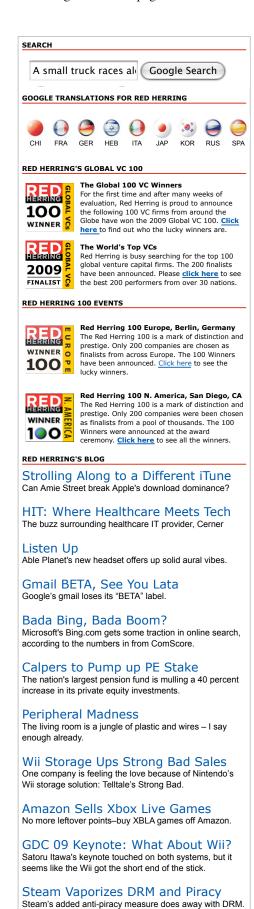
Indeed, big drug companies need small biotech firms to survive. Currently, the average wonder drug, whether it reduces blood pressure or increases sex drive (or both), costs \$20 million a year for ten years to develop. On average, the drug companies manage to bring one new drug to market per year. If they are to survive and prosper, however, they need to produce about five per year. So big pharma looks to the new biotech startups to help them speed up this process. And small biotech firms in European countries like Germany, Ireland, and the United Kingdom are determined to provide the technology.

There are nearly 1,200 biotech startups in Europe, employing over 4,000 people and investing some \$2.3 billion in research each year, according to a recent report by the consultancy Ernst & Young. The United States, in comparison, has nearly 1,300 biotech startups, employs 157,000 people, and spends \$8.3 billion on research. So Europe is small by U.S. standards, and some three to five years behind, according to most analysts' estimates. But don't overlook Europe's prospects. Much of its new technology now in development will be ready for prime time in the next three years.

"We're on the verge of some big successes in Europe," says Dr. Christopher Evans, founder of Merlin Ventures, a biotech venture-capital fund based in London (see "U.K. Biotech's Magician"). "By 2003, we'll see some very innovative science being brought to market."

But selling itself might be different. England's biotech industry hasn't produced a winner in years, despite an abundance of hype. Moreover, it's had its share of scandals. In 1998, the flagship biotech company British Biotech was accused of misleading investors about the effectiveness of its cancer treatment drug. This prompted investigations by England's houses of Parliament, the London Stock Exchange, and the U.S. Food and Drug Administration and brought about the near collapse of biotech stocks on European markets. "After 2003, the bullshit has to stop," Dr. Evans warns. "The hype will be over and investors will want to get their money out of companies that have been running at a loss."

Despite British Biotech's antics, many promising companies, like the U.K. drug- delivery firm PowderJect Pharmaceuticals (London: PJP), the French gene- therapy company Transgene, and the Swedish oral-surgery technology provider Biora have given the sector a new lease on life. In 1999, the sector recovered modestly when European biotech startups raised \$380 million from private placement and another \$300 million from IPOs. If this generation of biotech companies is to succeed, it will need to



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