

«Chinese inventors seek to join the club of the global elite»

Lukas Zuest, Matthias Staehelin and Stefan Kohler, Attorneys at Law at VISCHER, Zurich, discuss Chinese investments in early-stage Swiss life science companies.



Matthias Staehelin, Attorney at Law and Civil Law Notary at VISCHER, Zurich, specializes in M&A in the life sciences and IT industries. Matthias is President of BioValley Basel and a board member of the BioValley Business Angels Club (BioBAC).



Stefan Kohler, Attorney at Law LL.M. at VISCHER, Zurich, has extensive experience in IP/technology law and in regulated markets such as healthcare, pharma, MedTech, biotech, cosmetics and foodstuffs. Stefan is an associate judge at the Swiss Federal Patent Court and lecturer at the University of St. Gallen.



Lukas Zuest, Attorney at Law LL.M. at VISCHER, Zurich, is head of the VISCHER China desk. Lukas mainly practices in the areas of direct investments, transactions (mergers & acquisitions) and Swiss-Chinese trade.

by Elisabeth Tester

«In comparison to other European countries, the life science sector in Switzerland is strong and diverse, and it is much larger than IT or fintech», explains Matthias Staehelin. The Swiss biotech sector is a high-end industry and targets very sophisticated procedures. Such procedures include immunotherapy and gene therapy in challenging indications, such as cancer or orphan diseases – which makes Swiss start-ups very interesting for Chinese investors. This strong ecosystem has evolved thanks to its proximity to Switzerland's big pharma, which provides an abundance of know-how and skilled talents.

«Another important reason for Chinese investment in Switzerland is the outstanding academic institutions, where high-end technologies are created. Swiss biotech companies often emerge from a university background or are university spin-offs», says Stefan Kohler.

As the Chinese population gets older and wealthier, China faces a growing demand for healthcare and life science solutions. This is recognized by the Chinese authorities, and the government has declared life science as a key industry. Lukas Zuest elaborates: «There is a clear goal to provide enough affordable treatments for China's population. » He also points out that life science companies in China include a broad range of low-level enterprises that offer basic treatments, as well as high-level companies with a very sophisticated product shelf – a market characteristic that can also be observed in other industries. Many Chinese life science and biotech companies are founded by Chinese scientists and entrepreneurs who studied and worked overseas before returning to China to develop new treatments.

The main reason why Chinese investors and companies invest in early-stage Swiss companies is to get to know their technology. Another important motivation is learning and gathering experience on how Swiss companies approach scientific challenges. Matthias calls attention to the fact that Chinese inventors ultimately seek to join the club of global inventors, first-rate scientists, and elite entrepreneurs world-wide. In order to do so, they must understand how ecosystem innovation works, what the scientific challenges are, and which interactions and collaborations with pharma players and academic institutions are needed to thrive in a start-up ecosystem.

Why might a Swiss start-up be interested in Chinese venture capital? Stefan explains: «Swiss start-ups, like young companies all over the world, need both local and international investors. » However, the amount of Chinese venture capital in Switzerland is still low compared to the money pouring in from other countries, especially from the U.S. But there is a clear upward trend. He adds that Swiss start-ups are not only interested in Chinese investors to fund their financial needs, but also to gain access to the Chinese market, where they see great potential for their products.

In general, Chinese venture capitalists have the same goals and interests as other globally active investors. Their investments go beyond pure financing and are connected to cooperation and co-development. Chinese investors share data with the Swiss partner, contribute manufacturing components, and – very importantly – bring a Chinese and global network into the partnership. They are facilitators and can grant Swiss start-ups market entry into China.

The way Chinese venture capitalists work with their portfolio companies can generally be divided into two categories: investors who have studied and worked in the U.S., and investors who don't have this experience. «U.S.-experienced people are used to the U.S. approach and types of structures», explains Matthias. «They usually need some time to learn that in Europe and in Switzerland we do not follow the U.S. model in all respects. » On the other hand, Chinese investors without U.S. exposure have more of a hands-on approach. They sometimes struggle with the perception that things are moving slowly in Switzerland and that exits from investments take longer to materialize. Therefore, the Swiss start-up ecosystem fosters a positive selection of rather patient and long-term investors, according to Matthias.

Swiss-based entrepreneurs planning to grow their start-up in China should pay particular attention to certain points. Lukas first mentions the aspect of time: «In China, markets are moving much faster than in Switzerland. You must brace yourself for setbacks and shifting hurdles, also administrative ones, and navigating the demands of the fast-moving market is challenging. » For Stefan, the most important thing is to safeguard proprietary know-how and to protect intellectual property. «Swiss entrepreneurs need to keep control of their technology and know-how, as China is still a difficult environment regarding IP rights. » Last but not least, he advises Swiss entrepreneurs to focus on a meeting of the minds regarding the scientific strategy. «The scientific rationale is the main success driver for any collaboration; identifying the right Chinese scientific players and serious potential partners is key. »

And what is the most important advice for the Chinese investor? Lukas elaborates: «The Chinese investor should follow a holistic approach, and not just focus on the Chinese market, in order to not limit the start-up's potential. » Any investment should be about partnership, collaboration and supporting the success of the Swiss start-up – and not about taking over a company. Matthias advises: «Have a long-term view, be patient, and learn the local customs and environment. » In addition, the model of investment companies geared to the high U.S. drug prices may need to be adapted to be successful in China. Stefan concludes that it is important to anticipate the future: «Which medical topics will be relevant in China will evolve over the coming five to ten years. The medical products needed to serve the market at that time may be very different from what we see today. »

For more information about how to connect Chinese investors with Swiss start-ups please contact Lukas Zuest: lzuest@vischer.com.