

DEALMAKERS: VC Friedli Marries US Style With Swiss Money

By Antonio Ligi

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ZURICH (Dow Jones)--**Peter Friedli's** youthful adventures have put him on a somewhat unorthodox path to becoming one of Switzerland's top venture capitalists.

His model is the U.S.-style, anything-goes entrepreneur, but backing him is old, Swiss money.

Friedli, 48, oversees \$800 million in venture capital. Most sits in his investment vehicle, New Venturetec AG (Z.NEV), which has put money primarily into U.S. businesses.

His philosophy on venture capitalism is idiosyncratic: He prefers to take on companies one at a time, and as long-term plays; he eschews specialist knowledge of the sector where he's putting his money; and he reckons that weighing up management strength is close to the be-all and end-all when it comes to choosing targets.

But the unorthodox approach is working.

Friedli has invested in around 170 early-stage high technology and biotechnology companies, mostly in the U.S., and has converted 40 of his investments into initial public offerings.

New Venturetec, founded in 1997, is one of Europe's first publicly-traded venture capital funds. And though its share price has nearly halved to around CHF18 from June 2001 highs and it reported a first-half net loss of CHF11.8 million from a year earlier net profit of CHF1.6 million, New Venturetec is still generating returns for investors. The fund's average annual rate of return between its 1997 founding and the end of 2001 was 9.1%.

Friedli has come a long way since he dropped out of high school at 17 to take a trip to India.

"I had to break out of a situation where I wasn't getting any further, so I went to the train station and asked for a round trip to India," he says.

"I always did things my way, like Gauguin," he says, referring to the French painter who swapped prosperity for poverty before emerging as a successful and high-earning artist. For Friedli, life imitates art.

"I see the venture capitalist as a painter, as a creative, as someone who forms something new but is never satisfied."

In his thirties, Friedli says he came up with the idea of marrying U.S.-style venture capitalism with Swiss capital to make a lot of money. But after sketching the idea with broad brushstrokes, the masterpiece looked as if it was never going to come together.

"The first bank I asked to invest in my fund kicked me out after five minutes. I couldn't even finish my coffee," he says.

Friedli manages his fund from a modest office with only five employees in Zurich. He has some clear opinions about investments, and they don't include bailing out just because there's a quick buck to be made or because markets have turned sour.

"In the market of venture capital, responsible investors have to learn to think with a long-term perspective. I'm a long-term thinker and a long-term investor," he says.

As an example, he cites Baltimore-based biotech company Osiris Therapeutics Inc., which he helped found in 1992, but from which he doesn't expect any product launches until 2006 at the earliest. Osiris has two products at the human testing stage - one to enhance bone growth and another to grow bone marrow - to improve cancer patients' recovery.

That long lead time would be a problem for many investors, but not for Friedli. If he likes a company's management and direction, he goes for it. When scrutinizing an investment opportunity, he weights a company's management strength at 80%, the nature of its market and its technology at 15% and its finances at only 5%.

Osiris's temporary Chief Executive Alfred Seidel knows something about how Friedli operates. He took over in January after his predecessor was fired on Friedli's recommendation.

"The opportunities for Osiris's products are very good but the former management wasn't really committed, so the board of directors had to intervene," Seidel says. "The big advantage to work with Friedli is that he has a longterm view and isn't constantly planning his exit like other venture capitalists do."

Friedli's investments in other candidates for initial public offerings include Switzerland's Basilea Pharmaceuticals, in which Swiss drug giant Roche Holding AG (Z.ROC) has a stake, and U.S.-based Myriad Proteomics Inc., a joint venture with Myriad Genetics Inc. (MGYN), Hitachi Ltd. (HIT) and Oracle Corp. (ORCL).

He concedes that now isn't the best time for IPOs, but reckons the vehicle is misunderstood by investors wary of market bubbles and crashes.

"An IPO is nothing (more) than a capital increase with a certain change of ownership. It shouldn't be a cash-in. It's not a proof of technology," he says.

Companies he has successfully helped float include Myriad Genetics, best known for discovering the gene that causes breast cancer. Myriad Genetics went public in 1995 but Friedli still has a stake in the company.

Friedli says he isn't an expert in biotechnology although a lot of his investments are in that field.

Myriad Genetics' Chief Executive Peter Meldrum puts it another way.

"He may not be an expert, but he has strong ability to see the potential of upcoming products and he has the right understanding of management and a conservative approach in spending money," he says.

Friedli has a one-company-at-a-time approach. He takes months evaluating a company before deciding to invest, and always preferring to take a majority stake.

It's a lesson learned the hard way.

Friedli stumbled publicly last year when he stepped down from the board of Swiss software company Think Tools AG (Z.TTO), not having control and unhappy with the company's attitude to public relations. When he sold his stake, Think Tools' stock was around CHF30, against the CHF1,050 that was changing hands at the end of the company's first day as a listed entity.

"I would never again invest in a company where I can't control the management. With controlling, I mean to be able to say when something doesn't work: Stop. You're gone."

-By Antonio Ligi, Dow Jones Newswires; 41 1 212 21 81; antonio.ligi@dowjones.com

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