

Capital Markets Trends: Biotech

June 2019

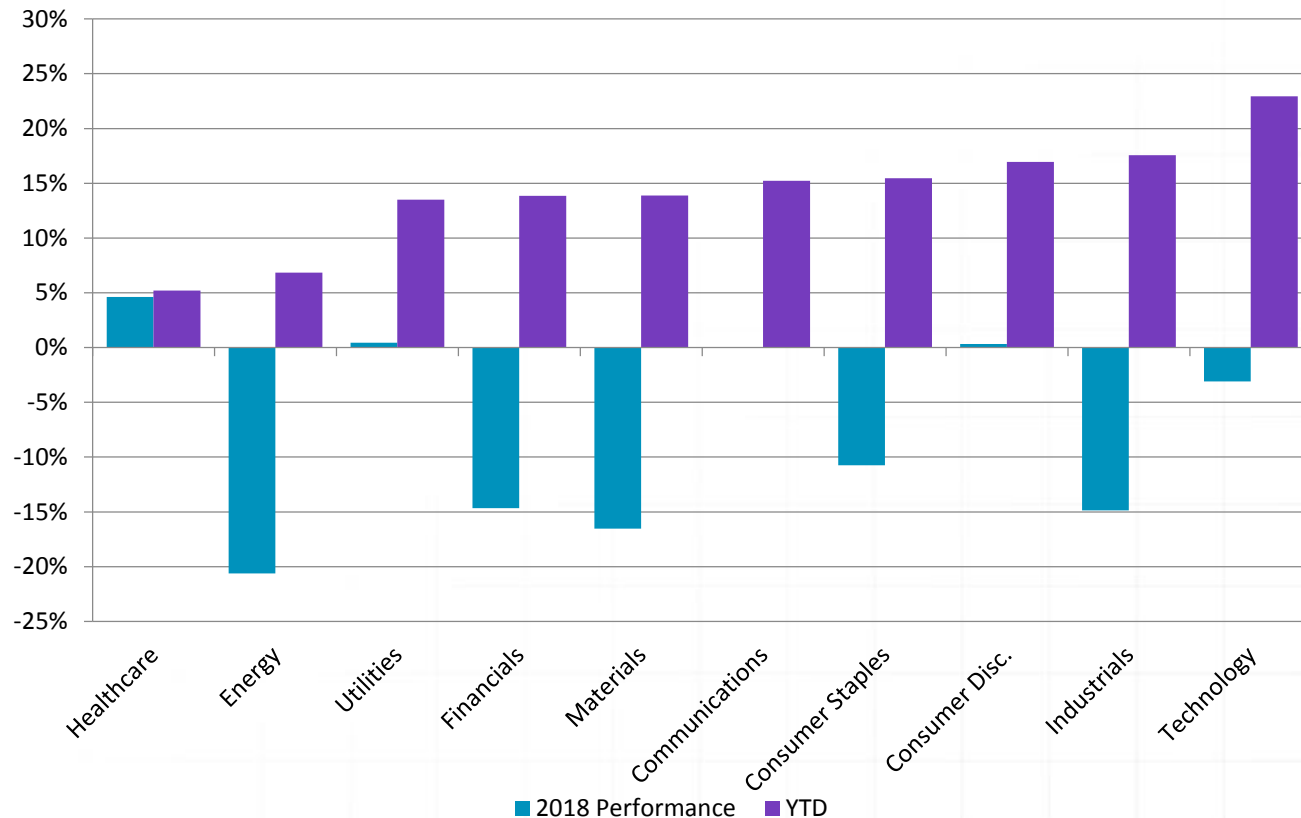
 **Nasdaq** | REWRITE TOMORROW



State of the Biotech Sector

Attracting Capital Best Practices

Healthcare: Stand Out 2018; Laggard 2019



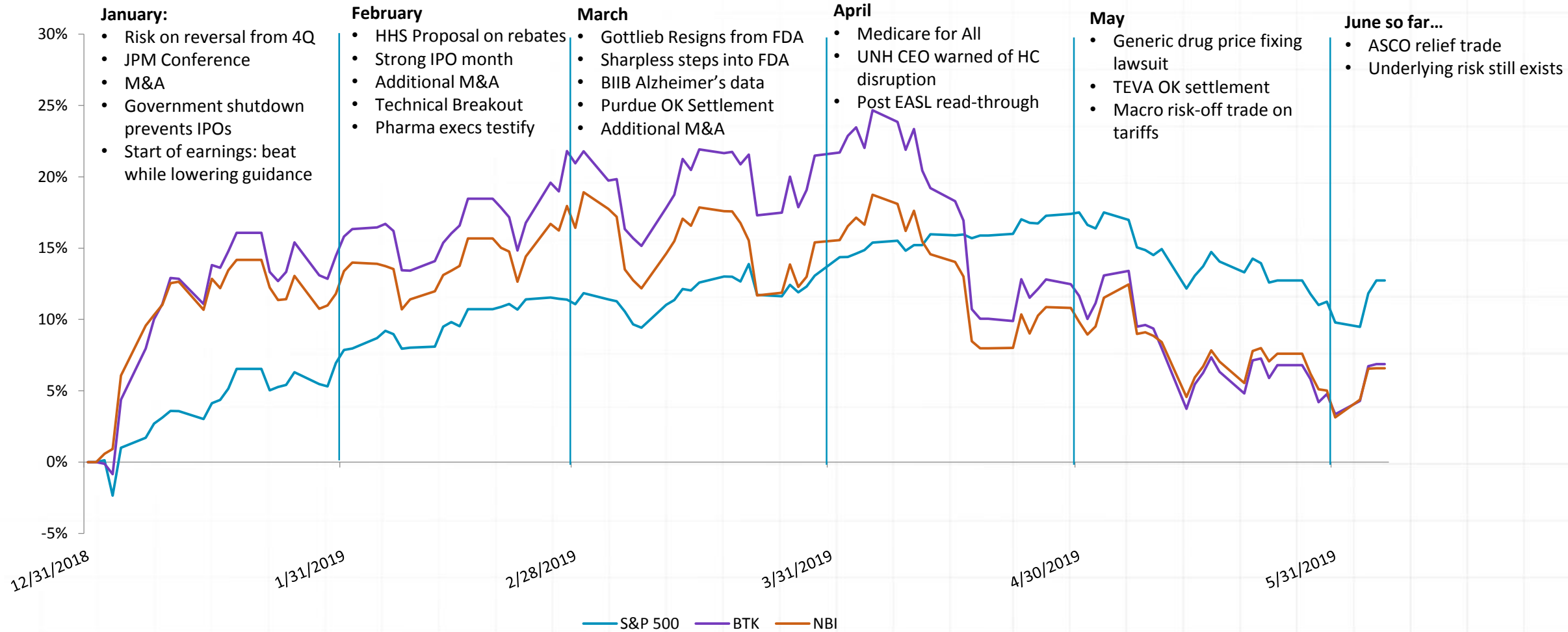
Healthcare top performer in 2018

- Driven by equipment, facilities, pharma and managed care
- Combination of defensive trade against lagging market coupled with search for growth
- Biotech underperformed – 4Q18 risk off trade

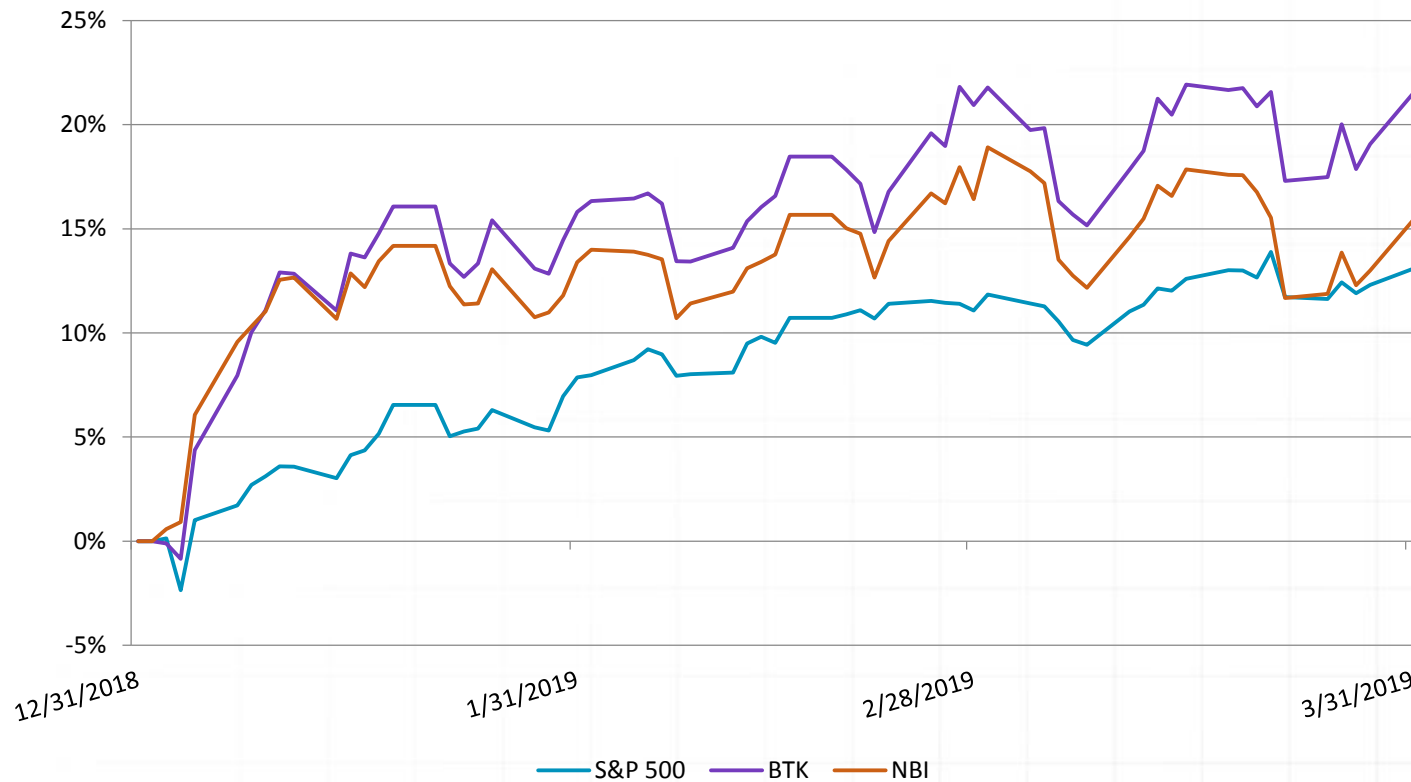
Healthcare is now an underperformer in 2019

- Headline risk impacting the sector
- Reversal back to tech as the market growth engine

Biotech Movement This Year...

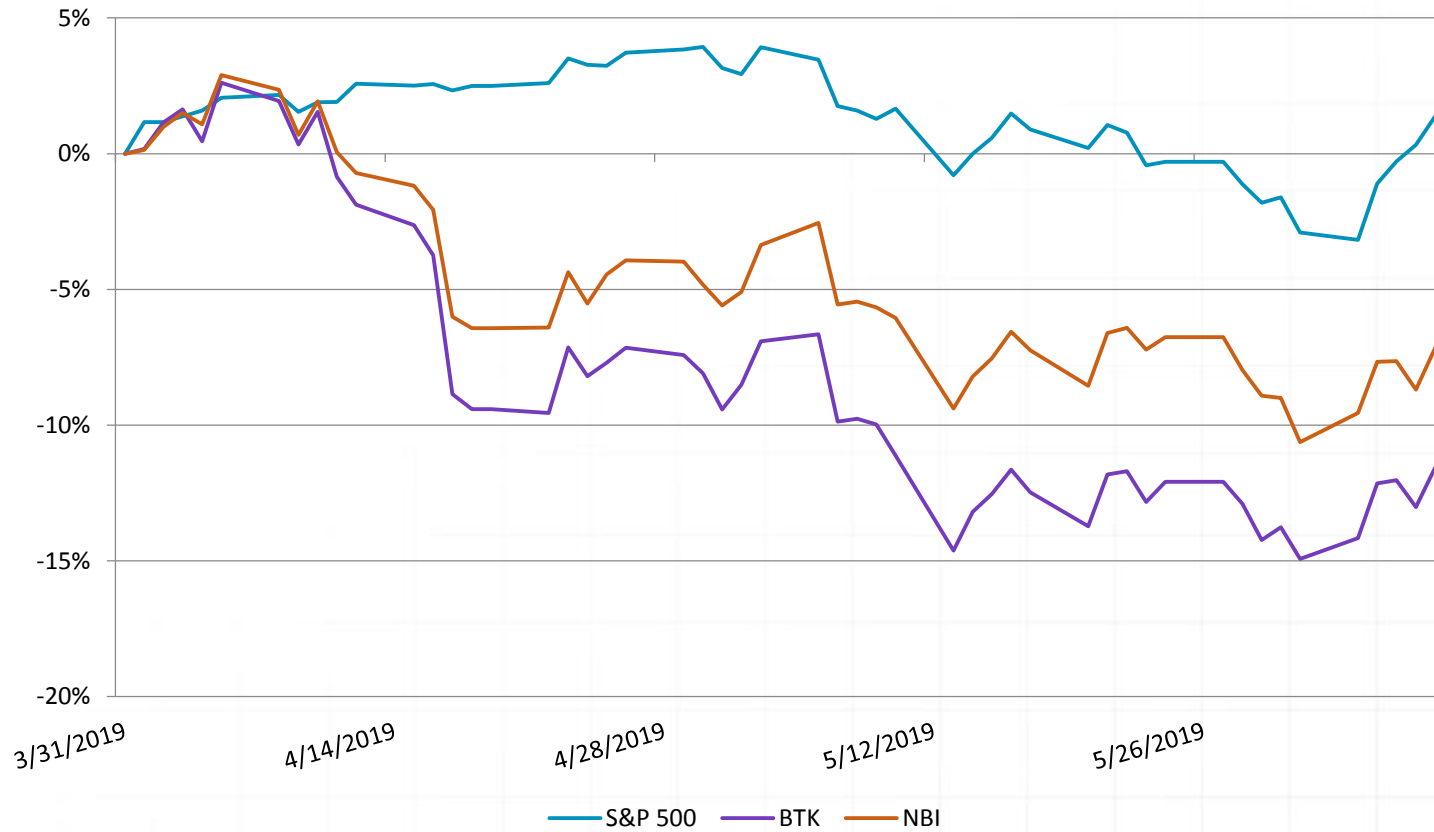


Advisory Services Trends 1Q19



- **Small Caps** had growth, hedge fund and sector specific buying – outperformers on the risk-on trade
- **Mid Caps** had value and sector specific selling while growth and hedge fund adding
- **Large caps** had big sales coming from growth offset by hedge fund and sector specific buying
- **Index** adding across all market cap buckets as passive investments continue to gain traction

Advisory Services Trends 2Q19

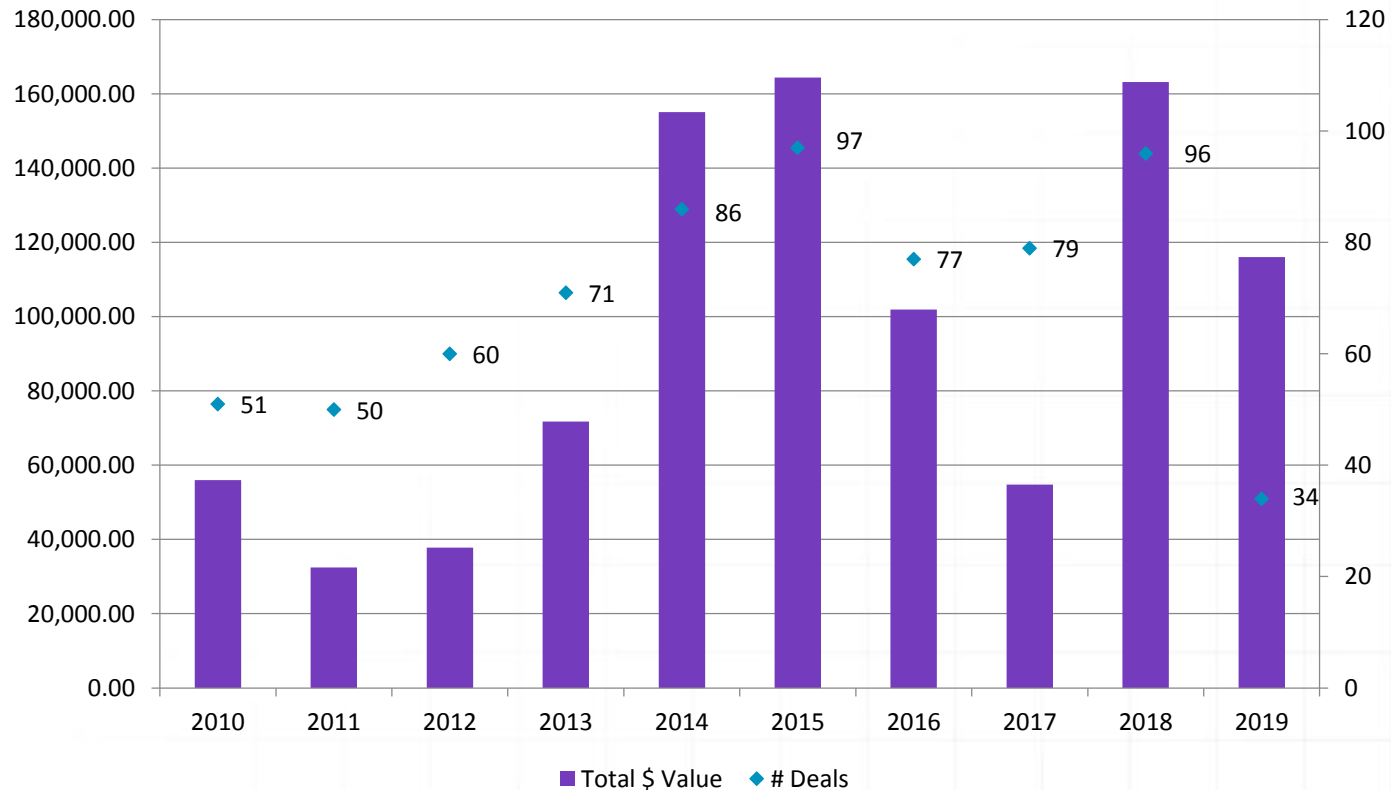


- **Small Caps** had vc/private equity selling while growth and sector specific were buyers
- **Mid Caps** had growth selling while value and hedge funds were top buyers
- **Large caps** continued to see aggressive sales from growth while hedge funds were scooping up shares

Pulse from the Street on Sector Downturn

- *“**Managed Care really bleeding** through to the rest of sector and broader rotation due to various existing themes. Many **EASL names still taking a big hit** and the wind is being taken out of the sails across the board.”*
- *“**Perfect storm for healthcare stocks** especially when it comes to pure headline risk as we get closer to the start of the election cycle as the topic of healthcare will only become increasingly in the spotlight. **Medicare For All** is causing absolute panic. **Retail pharmacy (Walgreens & Rite Aid) reimbursement** issues that they are having trouble offsetting due to slowing generic deflation and slower brand inflation. Potential actions they may take to offset reimbursement issues could have spillover effect. **Trump’s international reference pricing proposal** if it were to move forward would not be good for biopharma and innovation”*
- *“The big thing we keep hearing is that most of sector **pressure is coming from generalist money** and less from any healthcare specific fund managers. Generalist PM’s are **not comfortable with the volatility** in the sector and many of them are going to what are deemed as more defensive plays.”*
- *“I’d call **sentiment cautiously optimistic** – people haven’t forgotten Q4, but seem hopeful that if they do work and find good ideas, they will make some money. **Money will be sitting on the sidelines** right now though.”*
- *“**Opioid and generic lawsuit** hitting broader sector, even companies not directly tied to this. Hard to put money into stocks, especially **risky small-caps**, when these bigger headlines are hanging over the entire sector”*
- *“**ASCO relief trade** on positive headlines to kick off June but investors don’t know what to look forward to from here near term with all the **headline risk that still exists**. **Sector should settle in a tighter range** until after summer when things start to pick back up”*

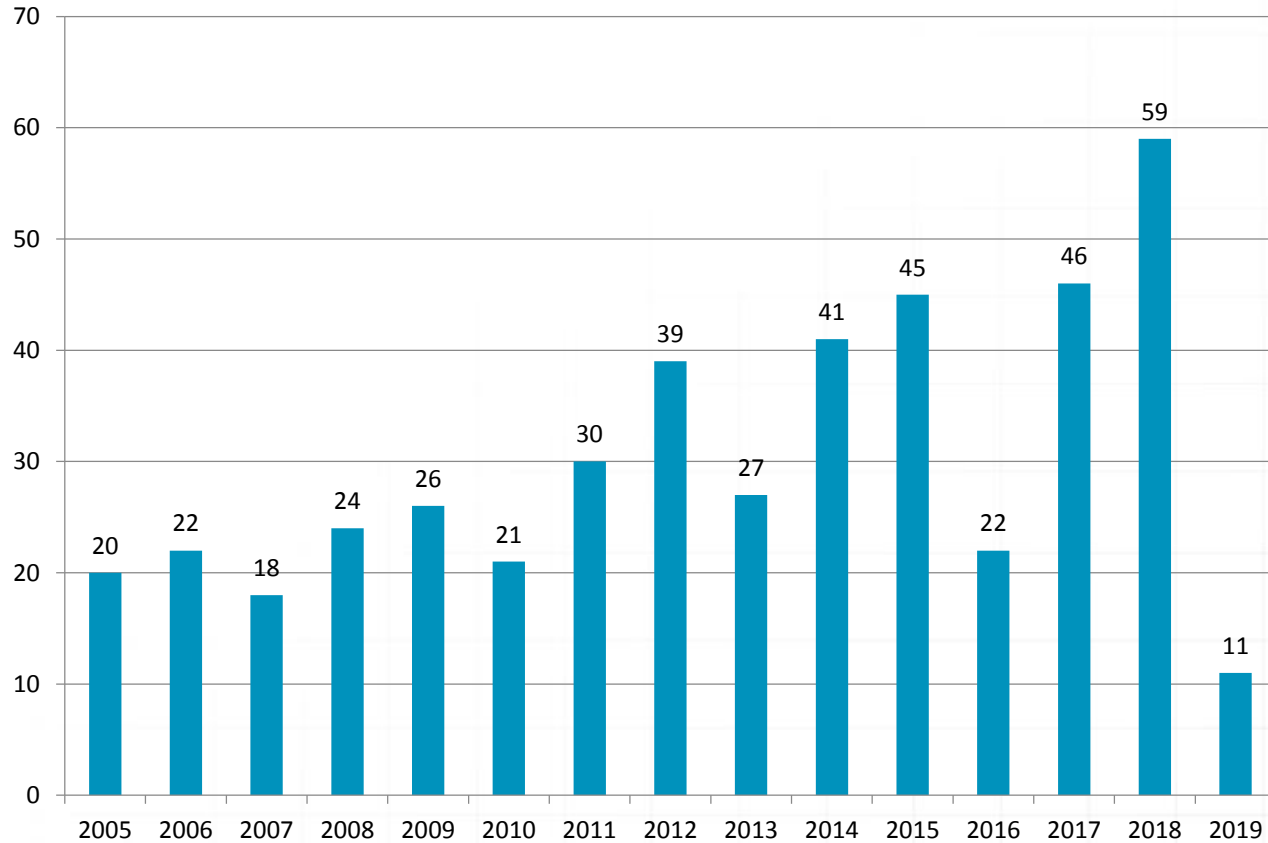
M&A Trends



**all pending / closed deals where target is in bio/pharma*

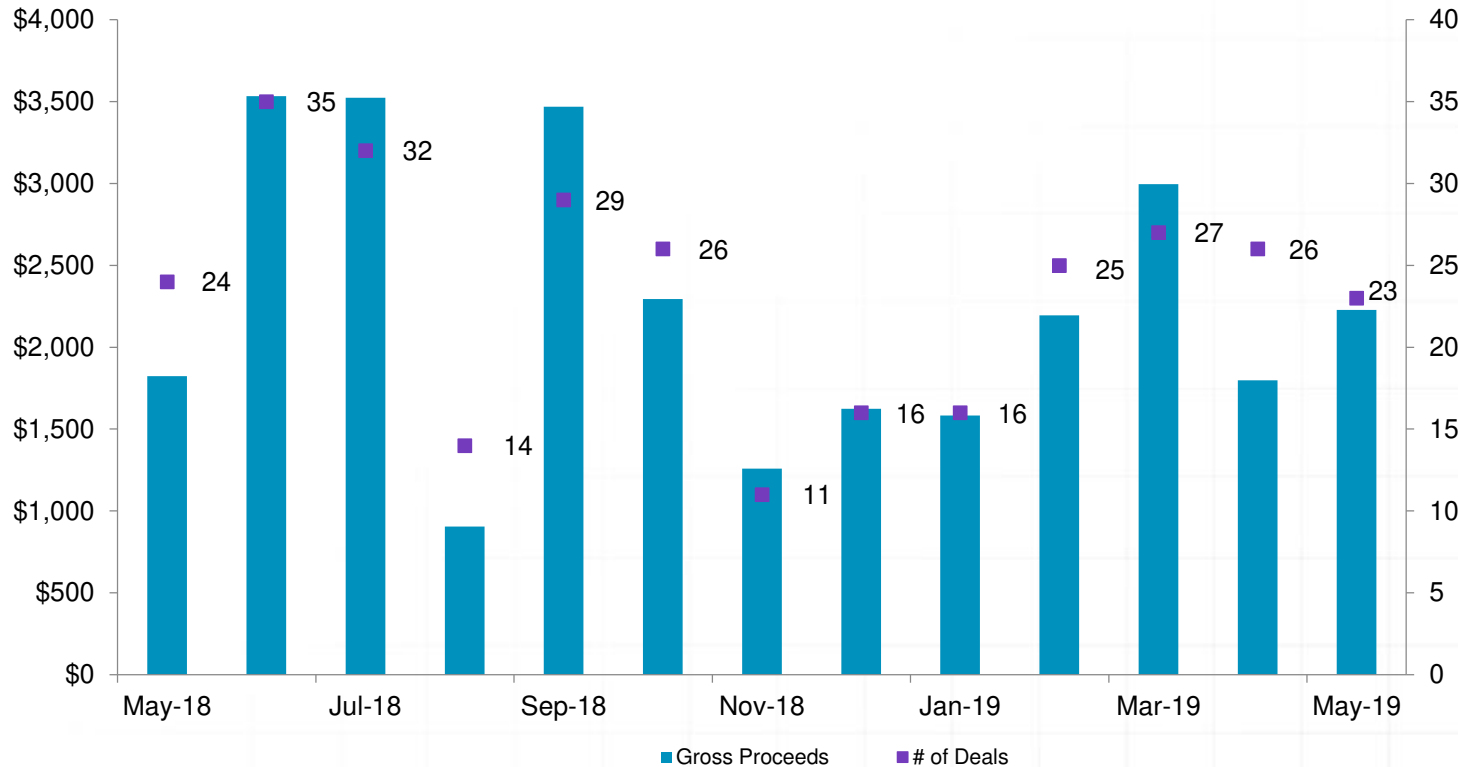
- Strong start to M&A this year but trend has slowed
- Last year had been strongest year in terms of total \$ value and average \$ deal value in the past 10 years
- Current 2019 average \$ deal value is \$3.4BN, well above 2018 of \$1.7BN
- Top deals this year include Bristol/Celgene, Lilly/Loxo, Roche/Spark

New Drug Approvals Slowing



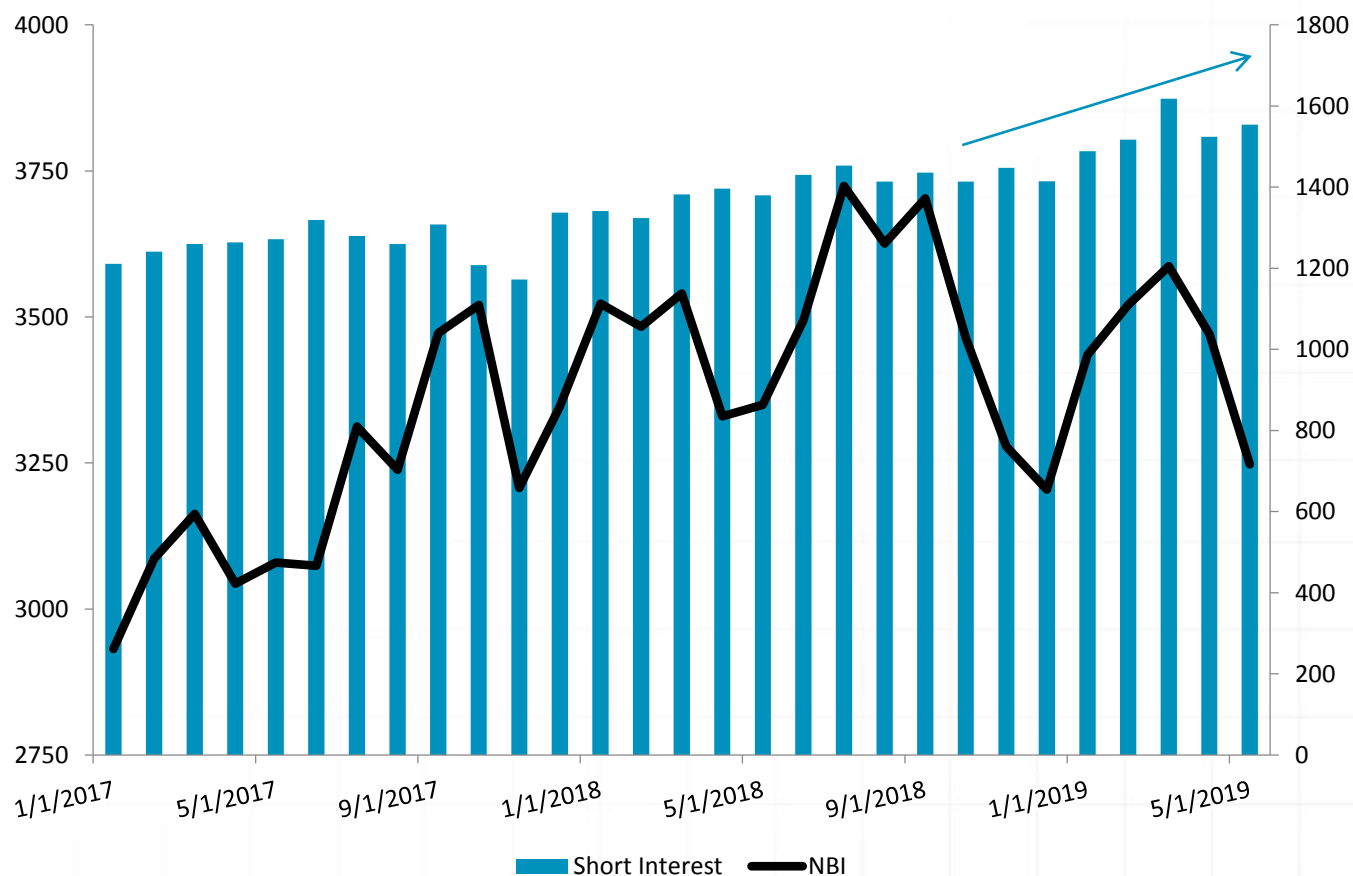
- FDA had become more accommodative under new FDA head which led to record approvals in 2017/2018
- Slow start to the year due to the government shut down in January
- Gottlieb stepping down was a concern but new appointed head is expected to follow in his footsteps
- Positive clinical data and approvals is a key area that investors need to see to remain intrigued in space

Financing Environment



- Deals have picked up after a slow start to year
- 117 offerings this year raised \$10.08BN
 - 21 IPOs for \$2.07BN
 - 96 Follow-ons for \$8.7BN
- Last year finished at 286 deals for \$30.4BN
 - 67 IPOs for \$7.1BN
 - 219 Follow-ons for \$20.5BN

NBI Short Interest Trending Higher



- Short trending mostly higher since start of since 4Q18
- Covering started in December when NBI bottomed out
- Spike in Short interest in March when NBI topped out on a solid 1Q rally; overbought conditions
- Modest pullback in April but once again trending higher in May from ongoing headline risk



State of the Biotech Industry Attracting Capital Best Practices

Setting The Stage: Biotech Investor Engagement ⁽¹⁾

Meetings
(in-person)

68

(small cap median)

Meetings
(in-person)

74

(mid cap median)

People Met
(in-person)

129

(small cap median - unique)

People Met
(in-person)

191

(mid cap median - unique)

Biotech Small Caps Are More Active...⁽²⁾

40%

more people met annually
vs. small benchmark
(in-person; '18 median)

Biotech Small Caps Are More Active...⁽³⁾

5

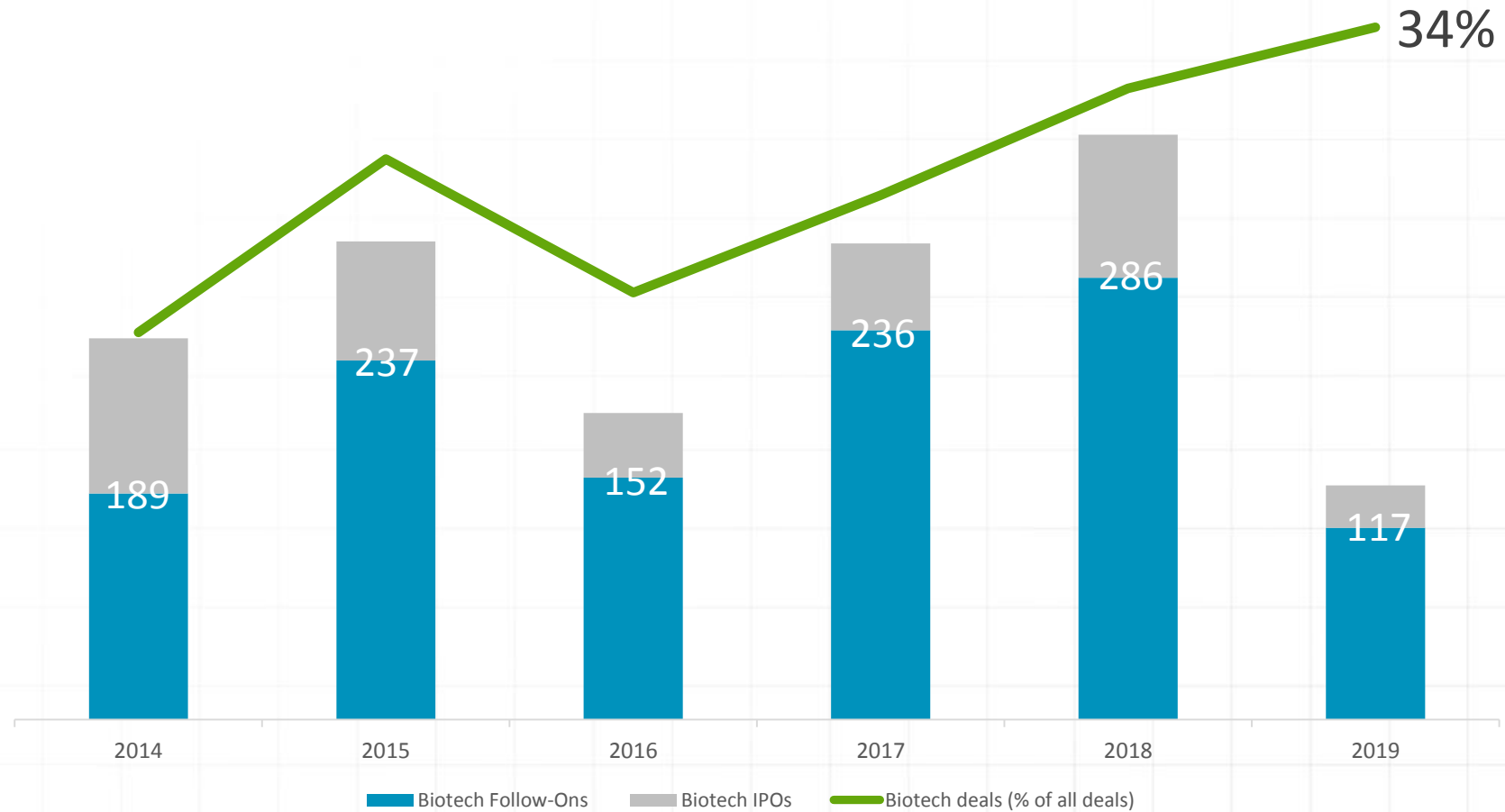
extra days on road per year
vs. small benchmark ('18 median)

Why Is Healthcare More Active Than the Average Co.?

Capital Raising...

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Capital Raising... Biotech Represents 1/3rd Of U.S. Raises⁽⁴⁾



Best Practices: Thinking Long-Term To Attract Long-Term

- 1 Take Control: Proactive vs. Reactive Approach Attracting Capital
- 2 Start Early: Identify Key Investors To Develop Relationships Ahead Of Raise
- 3 Optimize The Vehicles: Engaging Direct vs. Sell-Side Brokers

Attracting Long-term: Examples How To Engage ⁽⁵⁾

THE BAUPOST GROUP

7 meetings to investment (avg.)

\$300 initial position (avg.)

#DirectOutreach



3 meetings to investment (avg.)

\$35 initial position (avg.)



Thank You

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