Locust Walk®

Survive to Thrive

Locust Walk's Approach to Navigating Implications of COVID-19 for Biopharma Companies

Strategic Implications of COVID-19 on Biopharma—Survive to Thrive!

These are challenging times for governments, public health administrations and the financial markets. While each biopharma company's primary concern is the health and safety of its team members, the industry has a responsibility to the world to take an active role in alleviating human disease and suffering. Here at Locust Walk we have a unique view into the strategic implications of COVID-19 on the fortunes of our industry's most innovative companies.

As historical context for this pandemic shock, the 9/11 attacks and the 2008 financial crisis led to some lessons learned, which can be applied here. The key approach companies should take during these challenging times is to "survive to thrive." Emerging companies need to focus less on aggressive growth investments and more on tactics to make it through to the other side of market turbulence, including conserving cash reserves to weather the storm. As valuations inevitably reset to the new reality, larger high-growth biopharma companies should be well positioned to deploy their balance sheets to build their pipelines and consolidate market positions. One need only look at the incredible run up of the global stock markets in the 10 years following the financial crisis to realize that companies came out better, stronger and more financially secure than before if they made it to the other side.

Locust Walk was born during the 2008-2009 financial crisis; in fact, the decision to start the business was made on September 15, 2008, the day that Lehman Brothers filed for bankruptcy and Merrill Lynch was acquired in a fire sale. Not surprisingly, some of the best venture capital investments were made during this era of scarcity; the phoenix rose from the ashes. It is important to remember that biopharma companies ALWAYS need capital from investors and partners. Just because the capital markets may be swooning, it does not reduce their need or sense of urgency for the biopharma industry to fund value-creating clinical or research activities.

Equally important is the fact that large pharma partners are generally protected from capital market swings relative to their smaller market cap and private biotech peers. In fact, the balance sheets of most large biopharma players remain strong and thus, as has happened during previous market shocks, these players are highly likely to want to be MORE ACTIVE on the partnering and M&A fronts than they have been in recent years, especially with the price of potential acquisition and partnering opportunities being reset. As in past cycles, we expect large biopharma companies to play a critical role in filling the program financing gap, helping to sustain high value clinical programs and enabling their strategic partners to gain a competitive edge.

In these challenging times, emerging biopharma companies need to use all the tools at their disposal to try to maintain their public or private market values and cash balances. They should look at their R&D options to drive near-term milestones in the most capital efficient way possible by prioritizing their pipelines and therapeutic applications to enable the current cash to last longer and take them further. Given the higher costs and relatively limited access to capital in times of market dislocation, companies will also need to rationalize their portfolios in order to focus on the highest value assets. Integrating a focused business development strategy that includes global and regional partnering to both raise non-dilutive capital and defray the burn from one or more programs will also help extend the runway. Japan and China partnering provide a great opportunity to sell the "sleeves off the vest" to validate a program and provide non-dilutive capital. While private financings are likely to face more challenges given the abundance of more liquid public market opportunities for investors, the better capitalized private companies with higher quality investors will still be able to raise money, albeit most likely at a slower pace and on more stringent terms. Private companies with less cash in the bank and lesser known investors will have a tougher time rising above the noise to raise capital, and accordingly may have to consider a host of other options.

We know that there are many questions and concerns relative to the prospects for success in the near term from different types of biopharma companies. We have compiled a list of recommendations by company type for management teams and boards to consider. As it has been since our founding during the last major economic crisis, Locust Walk stands prepared to help our clients through this turbulent time with actionable strategic recommendations and high-quality deal execution across strategic transactions and private placements. Please do not hesitate to reach out to discuss your specific situation further. Stay healthy, stay safe and stay strong.

Private Companies Backed by Top Tier and Deep Pocketed Investors

- In today's turbulent market, private companies may be valued at less than they were just a few weeks ago, although they do not have a publicly traded stock price to demonstrate that with clarity
- If they have an in-process round of financing ongoing, will likely need to be exposed to orthogonal or unique sources of capital to complete their round, including from Asia (it's ironic but those investors are still open for business as much as anyone else) because:
  - Often syndicate members (or even the lead) might pull out of a deal during these shocks
  - The previous "cross over round" is likely converted to an additional traditional private round since the crossover investors will likely spend more time with their already public companies as well as privates they previously funded which now may need to support
- If companies were planning on going public this year, that timeline will likely slip and might be pushed out indefinitely based upon experience from prior downturns (as the proverbial "window" which has been open for almost a decade, closes), and therefore will need to pursue additional private financing to bridge beyond the crisis
- Most of these companies previously eschewed partnerships and instead chose to go public with few if any partners preserving all that value for the public investors. That strategy should be reconsidered to expand the tools available to fund the operations and minimize the dilution of the next round of financing

Private Companies Backed by Family Offices or Less Deep Pocketed Institutional Investors

- A private company does not face the whiplash of publicly traded companies but capital flows away from private companies quicker than public companies, especially a company backed by lesser known investors
- Companies will need, even more than before the crisis, the "cash and cache" of a strategic partnership to fund operations and reduce the burn of development. To maximize the chance of success, companies should pursue a dual-track strategic partnership and private financing route in parallel to avoid the time and extra expense of trying one process first, failing, and then activating the second process
- While reverse mergers will become an increasingly attractive option for private companies and increasingly forced on smaller public companies, the competition for these "shells" is intense and can be distracting to a management team. In general, this can be a strategy to be pursued but a lower probability outcome should be expected.

Public Companies with Market Caps Less Than $200M

- Companies can raise capital by selling assets or equity. De facto, these companies will have lost a lot of value over the past few weeks and thus will not likely want to raise money from the public markets unless they are below one year of cash already. Many of these companies might have been worth far more than $200M a few weeks ago. Thus, they need to consider raising capital through global and regional partnering to avoid dilutive capital raises
  - Global partnering for secondary assets is the best bet to maximize value and minimize dilution since often these assets have not been appreciated by the market. See our recently released white paper on this subject (linked here)
  - Regional deals can provide needed cash and validation but will likely take longer. The data burden for regional deals is often higher, requiring clinical proof-of-concept
  - The savvier companies have maintained a regular BD dialogue across a range of topics so when they are ready to deal, they can
  - A full commercial assessment for the relevant assets in the relevant territories, scoped based on the stage of development, can accelerate a deal as well as increase deal value. Importantly, this also helps position the story against its competitors, and occasionally may lead to re-prioritizing a deal process
- In a depressed stock market, without any news, their price will likely fall every day. Deal-making can provide a catalyst for a stock in such times
- Some companies that are cash rich with a depressed stock price may become very valuable as a merger target. These companies might need to re-write their stories and "do something" to create value. Often this leads to a search for complementary assets followed by a PIPE to rebuild their shareholder base and pro forma story. Asian partnering is not usually an option since new data needs to come out first before someone would be interested in dealing and this would likely take too long to impact their situation
  - These public companies have an advantage of speed and flexibility, which many private companies who cannot go public would appreciate the liquidity of a public currency
  - Public merger of equals among small companies almost never works and is not often a good tactic unless the human relationship and strategic rationale between the two companies is compelling

Public Companies with Market Caps Between $200M and $10B

- Companies with enough market cap and cash available should view these choppy markets as a buying opportunity, especially of private companies with less access to capital. While almost every biotech company's market cap has been decreased significantly, private companies would still like access to liquid paper as part of a license or M&A even if a cash upfront isn't feasible. Stock-for-stock deals are, by definition, relative and thus a depressed stock prices should not impact such transactions. In an era where cash is key, we would encourage such deals to preserve cash for development expenses
- Some companies might be ambitious and a target on which they had their eye is now "on sale." A thorough screen of not just the usual suspects on the public side but also thorough analysis of private companies is warranted to make sure you find the best assets at the best prices, and avoid just "looking under the light"
- Execution in this market requires speed for the more interesting assets as many other people will have the same idea. For companies that might be further off the path, time might be your friend if their access to cash is not sufficient

Private and Public Companies with PoC Data

- Most companies for non-primary care products want to retain US rights yet have no plans for commercialization outside of the US. With depressed stock prices for public companies and reduced access to capital for private companies, both will likely be interested in gaining the validation and capital from an ex-US (i.e., Japan/China) deal. Our experience is that Europe regional deals are not usually enough on their own to justify a regional deal; often these partners are looking for a Global ex-US transaction to justify the European development expense
- Getting a commercial assessment on the relevant asset to help pre-answer questions from partners in the relevant major ex-US territory (Japan/China/EU5) will accelerate the deal timeline and improve deal value

We hope these thoughts help you navigate this uncertain time. Please reach out if we can be helpful in any way.

Sincerely,

The Locust Walk Team

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About Us

Locust Walk is a global life science transaction firm. Our integrated team-based approach across capabilities, geographies, and industry segments delivers the right products, the right partners, and the most attractive sources of capital to get the right deals done for biopharma and medtech companies.

Capabilities
Cohesive strategy, market analytics, and transaction capabilities

Geographies
Global footprint across all key life science geographies

Industry Segments
Comprehensive coverage across biopharma and medtech segments

For more information on Locust Walk or to contact a deal team member, please visit **www.locustwalk.com.**

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