



## Questions from COVID-19: Strategic Implications on Biopharma Live Panel

1. How do you properly account for everything that has been going on when conducting valuations for many of these companies?

**Answer:** Valuations are an art but is based on science. Choosing comparable transactions and comparable companies won't change in this environment but the relative valuations of these companies of course has changed. Deals done before COVID-19 might be outdated even though they were only done a month ago. With public companies down, that will put a downdraft on relative valuations across the board, with private companies hit harder since they have less access to capital. Discounted cash flows might change by both the discount rate increasing to account for systemic risk and potential delays in development timelines will require additional capital to fund more G&A relative to development progress. The long-term sales impact, however, of the COVID-19 situation won't likely change the revenue picture. In all valuations have been and will be lower as a result. That said, both deals and company valuations are based on a market. It only takes one partner to make a good deal and one lead investor to price a private company. While you can use traditional valuation metrics as a guide, often the quality of the process that is pursued is a better predictor of the ultimate value ascribed to a program or company.

2. Let's not forget that Congress and the Administration had big targets on the entire industry - pharma, biopharma, medtech (misguided on most levels) as the cause of rising healthcare costs, price gouging, etc. This was impacting the industry. Now we are the saviors - Science and innovation will fix this problem and not money. In 12 months, the Politicians may forget and get back to their MO. Any insight on future (12+ months) reimbursement and pricing, and thereby transactions?

**Answer:** It is too early to tell how this story will shake out. If the industry does not price gauge for COVID-19 treatments then there is a good chance of hollow effect since they would be seen as good actors. If, however, companies take advantage of the COVID-19 situation to make exorbitant profits as perceived by the public and politicians, it could backfire and put additional scrutiny on the industry in a post-COVID-19 world.

Also, the COVID-19 crisis will likely put a POSITIVE spotlight on the biopharma industry and serve to highlight not only its usefulness, but also its necessity in our community. This should put the companies in a position where it's harder to criticize.

3. Is China coming back as partners / financiers now that Covid-19 under control there?

**Answer:** China is back. Partners with whom Locust Walk has been in touch are starting to get back to work and investment committees are now making decisions. We just closed a \$30M Series A financing for Regenacy, with a largely Asian syndicate. The same is true on the partnering side where partners are getting back to the table to negotiate transactions.

4. This is Tony Green from Ben Franklin Technology Partners in Philly. We work with the earliest stage companies, most out of the research institutions and where the technology still is in development, pre-revenue, living off SBIR and angel money and management teams often inexperienced and thin. We are clearly rebalancing our funding for current vs new and deals at our stage are slowing considerably, although pipeline has increased. Two questions: first, of course, is any advice you can give relevant to our portfolio companies and applicants; and 2) curious if you are seeing any shift from Pharma to "cherry pick" new, small companies for partnerships for cheap?

**Answer:** It is too early to see any difference with pharma companies looking for "cheap" technologies. Generally pharma or biotech will only do deals on assets/technologies that they like, regardless of the price. Some might increase their activity when prices get into the range where they want to act; however, in our experience, no partner will do a deal for an asset/technology that is not interesting to them just because it is cheap. Price can help get something done that is of interest but will not get a deal done if not on their shopping list.

That being said, there appear to be some smaller biotechs which have approached us to screen for interesting assets that, only a few weeks ago were less affordable. Time will tell.

5. Would starting a project that addresses COVID-19 be worth the distraction from our on-going programs? If so, how would that affect fundraising, positively or negatively

**Answer:** Most investors won't invest into a company just because it is working on a COVID-19 program. We addressed this question on the call so please see the notes.

6. Many of the clinical trials will be on hold as long as the life of the pandemic. Result in longer time to the market?

**Answer:** Yes, but only by the amount of time of the delay. Things should pick back up once the work from home measures are decreased. People still need therapies for diseases regardless of the virus' impact. It should be a one-time shock to the timelines and not be protracted unless a backlog of IRB requests come in and other capacity constraints develop with regards to starting or continuing trials.

7. Do you hear or anticipate any large Pharma/Biotech buyouts or joint partnerships of any of the very small biotechs that are part of the COVID-19 US Regional Biocontainment Laboratories testing that have agents with activity against the COVID-19 and are moving through the process?

**Answer:** We do not anticipate there to be any major pharma/biotech buyouts as a direct result of COVID-19 therapies. For now, this is a very specific situation that might not be replicated in future pandemics. As such, an M&A or takeout based on this would need to be highly accretive and derisked to justify such cost. Otherwise the rationale for the buyout would likely have to be for other reasons including for manufacturing capacity, access to certain technologies or other non-COVID-19 programs.

8. Is Locust Walk currently involved with any Biopharmas whose drugs are being considered as a treatment/vaccine for Coronavirus?

**Answer:** Yes. We have 4 current clients who have products or technologies relevant for COVID-19. We are getting several requests per day to help companies with such programs, all with different approaches. Many companies are considering that pivot but are not sure if the investment and distraction are worth the effort given there are much larger and more well-funded companies pursuing similar technologies.

9. Do you see a chilling effect of deals/partnerships where certain Biopharmas are actively engaged in Government-supported Covid-19 testing? Do you see partners holding/waiting for Government-supported testing to play out?

**Answer:** I don't think the government's involvement in COVID-19 will impact partnering outside of COVID-19. The merits of the technologies including their novelty and data generated to date are the bigger drivers of partnering deals, regardless of the macroeconomic environment. For therapies in COVID-19, I don't think there will be many more partnerships done, other than to achieve scale.

That being said, we have heard that many large pharmas are supporting promising research at biotechs. Whether or not these turn into economically valuable deals, only time will tell.

10. Would you suggest all biotech with the capabilities that can be involved with the COVID-19 aspect, should?

**Answer:** This question was answered on the call. Please see the notes from the conversation. It completely depends on the size of the company, the resources, the other programs being pursued and the likelihood of success.

11. What sectors will be "in favor" once the COVID pandemic slows? for example will lung cancer still be perceived as a more interesting market compared to repurposing assets for infectious disease and vaccine?

**Answer:** Great question. I think biotech will see a general uptrend with so much focus on the sector. Anti-infectives will certainly get more interest than in the past, where companies were going out of business all the time. There is a trend towards more novelty and new approaches to diseases rather than retrying old technologies. Interesting, much of the COVID-19 drugs being tested now are not in fact new but repurposing technologies from other areas towards COVID-19. If it does turn out that these repurposed drugs are useful, this category might also attract attention.

12. How much do initial financing or partnering conversations still rely on face to face meetings right now and into summer?

**Answer:** Investment decisions are often as much if not more about the people leading the companies than it is about the science itself. That said, deals are still getting done and virtual roadshows are already

happening both for IPOs and public offerings as well as private companies. Some investors have told us that they won't invest unless and until they meet management face-to-face. Others are taking a more aggressive approach and are willing to invest prior to meeting someone in person. Video conferences are becoming the norm of life now and I suspect people will need to adopt their investment decisions to the new reality, especially since no one knows how long we will be under lockdown and if we have to go back to this at any point later this year or next.

As for partnering, as licensors are often just getting access to the technology, the team matters less. We are seeing a lot of partnering activity involving virtual data rooms, video presentations

To further the discussion, and/or if you have additional questions, please email Geoff Meyerson, CEO & Co-Founder @ [ceo@locustwalk.com](mailto:ceo@locustwalk.com)