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Knowledge and Evidence-based Solutions

"Creating unique equity stories – Meeting the standards of US capital markets "

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Financing Life Sciences

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Creating unique equity stories

Meeting the standards of US capital markets

When asked how to win over investors, Simon Moroney (then CEO of MorphoSys) stated in a 2019 interview that "investors want to see data".[1] Of course, a biotech seeking new sources of funding must show convincing preclinical and, if available, clinical data. This, however, is a necessary but not sufficient prerequisite to ensure successful funding. Investors need to not only be convinced of the science, but they also wish to understand a drug's commercial potential and value in order to make informed decisions. **By Dr Joachim Greuel, Dr Kerstin Bode-Greuel and Thomas Loeser**

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A biotech company that creates a unique and evidence-based equity story has a clear advantage over others. Building a unique equity story typically follows a well-structured approach describing

- the targeted disease,
- standard of care and medical need,
- science and intellectual property,
- the target product profile and anticipated drug pricing,
- the development plan,
- epidemiology,
- competitive landscape and expected market share,
- sales potential, and
- asset value and expected value evolution.

Describing the targeted disease

The description of the disease will enable the reader to appreciate its severity and will indicate how a patient's quality of life is impaired by it. This part may elaborate on the causes of disease, its pathogenesis, how it is diagnosed, and relevant patient (sub)populations.

Standard of care and medical need

Several treatment regimens may already exist. If existing therapies are not curative or have safety or tolerability issues, there is an "unmet medical need"[2], and the company needs to describe to what extent and in which way such unmet medical need is addressed by the asset to which the equity story refers.

Science and intellectual property

Ideally, the science underlying the innovation is particularly suited to satisfy the unmet need. Rational arguments, available evidence, and patent applications as well as patents already granted should be described.

The target product profile and anticipated drug pricing

The target product profile (TPP) is an essential element of the equity story. It forms the basis for the development plan and the commercial assessment. It typically covers the indication and anticipated label, patient (sub)population, the drug's targeted efficacy, safety and tolerability profile, effectiveness in comparison with established therapies, formulation, route and frequency of administration, and price. For a first estimate, prices of already marketed standard therapies may be considered as well as pharmacoeconomics and cost-effectiveness calculations in comparison with selected comparators.

Epidemiology

Patients eligible for treatment according to the TPP are either derived from incidence or prevalence, depending on the characteristics of the disease and therapy. While incidence measures the frequency at which a disease is diagnosed in a given time period, prevalence measures the proportion of cases in a population at a given point in time. The terms should not be confused with each other, as strikingly different population forecasts may result.

Competitive landscape and expected market share

A drug's competitive environment is sometimes neglected in business plans. Other therapies in development that could displace the drug being developed may get ignored. A first estimate may evaluate how many new drugs could enter the market before and shortly after the drug developed by the company asking for funds, ideally based on known attrition rates. A detailed assessment of each competing drug's mechanism of action will lead to more reliable market share estimates.

Sales potential

A drug's sales potential is not only a function of patient number, price and market share; it also depends on diagnostic as well as treatment rate and compliance. These attributes can have a significant impact on



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1) Investoren wollen Daten sehen, CHEManager 5/2019
2) Rick A.Vreman et al., Unmet Medical Need: An Introduction to Definitions and Stakeholder Perceptions, Value in Health, Volume 22, Issue 11, November 2019, Pages 1275–1282

the sales forecast. For example, compliance with treatments for asymptomatic conditions such as hypertension is only around 50%[3]. Even if such limitations apply, investors may be encouraged to proceed based on the more credible equity story.

The development plan

A development plan must be realistic, both in terms of costs and timelines. While there is always uncertainty, development plans are often so strict that it cannot be realistically expected that timelines and budgets could be met. This may signal to investors a lack of understanding of the complexities of drug development and should be avoided.

Asset value and expected value evolution

The equity story is closed by demonstrating asset value and value evolution. Asset value is typically expressed as "expected NPV" and can further be substantiated by showing valuations of comparable assets derived from published transactions or market values of public companies; the latter potentially requiring adjustments to exclude size effects.

The expected value evolution of an asset is an important element because it indicates to what extent the value of the asset will increase if development milestones are reached. Analysts can calculate the return investors may expect in the event development proceeds successfully.

The equity story – again

The European biotech sector is seeing an increasing number of investment-seeking companies that compete for funding from a declining number of investors. Therefore, it is crucial for a company to differentiate itself from the pack from day one, also in front of US and Asian investors. A unique and compelling equity story is required to approach institutional investors, analysts, financial/social media, and other stakeholders. Credibility, visibility, and sustainability are vital KPIs for European biotech companies, as they need to compete with the much larger US deal flow. Equity stories that include the elements described above would meet the professional standards of US capital markets.

Based on the authors' experience, evidence-based equity stories building on comprehensive research and consistent assumptions are crucial for successful fund raising. In the "early days" of European biotech ventures, they laid the ground for the commitment of the first major institutional US investor, Alta Partners from San Francisco, with Jean Deleage (first investor in Genentech) as a key supporter, to invest in Germany.

Highly successful companies, both public (e.g., Evotec AG) and private (e.g., SIRION BIOTECH GmbH) create their equity stories by applying a similar approach to the one presented here. The recent Nasdaq-IPO of BioNTech provides a great example of how German biotech companies can win the attention of US capital markets with such equity stories and achieve highly attractive valuations. ■

3) M. Loghman-Adham, Medication noncompliance in patients with chronic disease: issues in dialysis and renal transplantation, Am J Manag Care (2003), 9(2):155–71.