

Biotechnology

CHART: Pharma Cash Could Now Buy the Whole SMID-Cap Biotech Sector

May 6, 2022

Key Takeaway

The SMID-cap biotech sector continues to slide and we have reached a point where Big Pharma has so much cash they could basically buy the whole smid-cap universe (Ex. 1). We note M&A is tough when markets are falling fast (see Ex. 5) but eventually a few deals could catalyze things back up. We have repeatedly said we expect a challenging period in 2022 - but remain optimistic Pharma will try to go after some of the biotechs that have come way down in valuation.

Exhibit 1 - SMID-Cap Biotech (<\$5B Cap) has a Combined Market Cap of ~\$350B (as of May 2022)

Mkt Cap	2015	2016	2017	2018	2019	2020	2021	2022 YTD
<\$250M	\$19	\$19	\$21	\$23	\$22	\$20	\$30	\$30
\$250M-1B	\$62	\$60	\$74	\$75	\$86	\$96	\$112	\$95
\$1-5B	\$150	\$130	\$170	\$184	\$262	\$308	\$268	\$222
\$5-20B	\$205	\$156	\$208	\$180	\$253	\$485	\$277	\$193
\$20B+	\$2,390	\$2,110	\$2,335	\$2,313	\$2,534	\$2,679	\$3,283	\$3,151

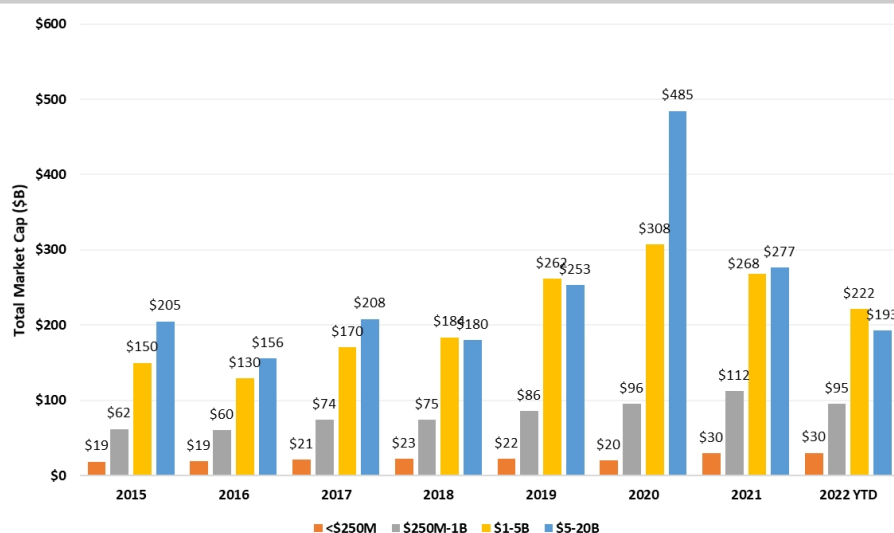
Source: Factset, Jefferies Research.

Exhibit 2 - Estimated Number of Public Biopharma Companies Over Time

Count	2015	2016	2017	2018	2019	2020	2021	2022 YTD
<\$250M	177	213	208	264	246	196	291	364
\$250M-1B	125	124	143	140	157	187	205	179
\$1-5B	72	67	81	84	109	142	126	101
\$5-20B	22	18	24	21	27	52	34	19
\$20B+	22	20	21	20	19	22	26	23
Total	418	442	477	529	558	599	682	686

Source: Company Reports, FactSet, Jefferies Research.

Exhibit 3 - Combined Valuation of SMID-Cap Biotechs, Grouped by Market Cap Size



Source: Factset, Jefferies Research.

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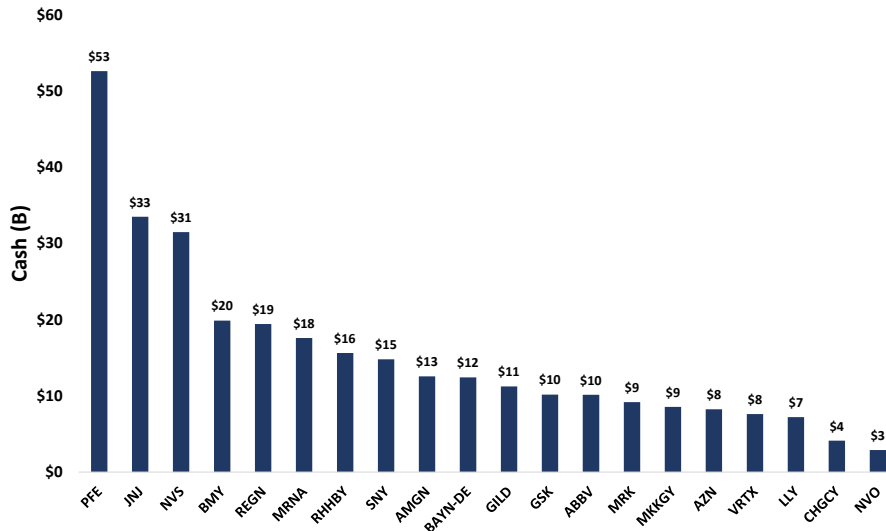
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^Prior trading day closing price unless otherwise noted.

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Exhibit 4 - Cash of Top 20 Biopharma Companies Now Over \$300B

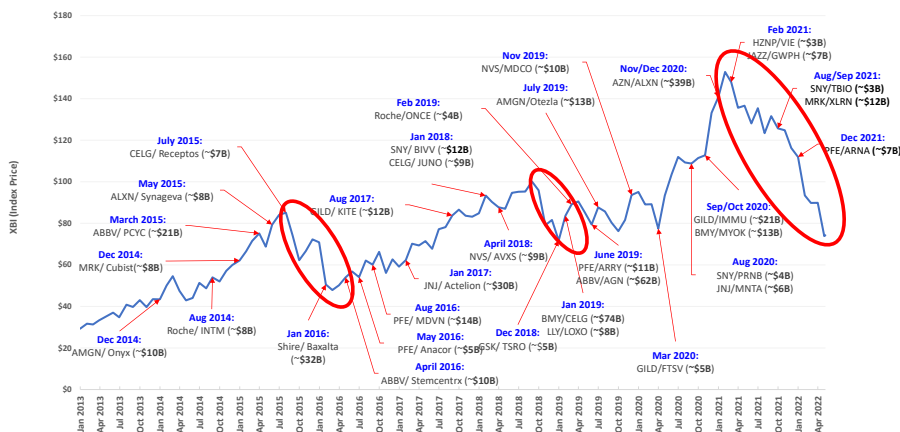


Source: Factset, Jefferies Research.

In the SMID-cap space, a huge percentage of biotechs are trading below cash and are at historically-low EV/cash (note [here](#)). We think large-cap biopharma companies are in a great position to purchase assets to fill their pipeline as their cumulative cash balance has now risen to >\$300B - particularly after PFE and others benefited from huge COVID vaccine sales and other tailwinds in the last few years. If smid-cap M&A starts happening, this could signal a couple of things:

1. **Sellers are comfortable with the "new valuation".** We've previously said we see less M&A (both smid and large cap) during market downturns due to an increasing bid/ask spread (Ex. 5). If we see more M&A, this suggests sellers have adjusted their expectations and have accepted the new valuation.
2. **Buyers more fully perceive value.** Pharma companies buying shows they are comfortable with current valuations and thus investors should feel more comfortable also stepping in and this could provide a "sentiment floor."

Exhibit 5 - Selected Large M&A Acquisitions vs XBI Performance - Large M&A Historically Picked Up as the Market Recovered



Source: Company Reports, Factset, Jefferies Research.

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(Article 3(1)e and Article 7 of MAR)

Recommendation Completion May 6, 2022 , 05:30 ET.

Recommendation Distributed May 6, 2022 , 06:00 ET.

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