

Biotechnology

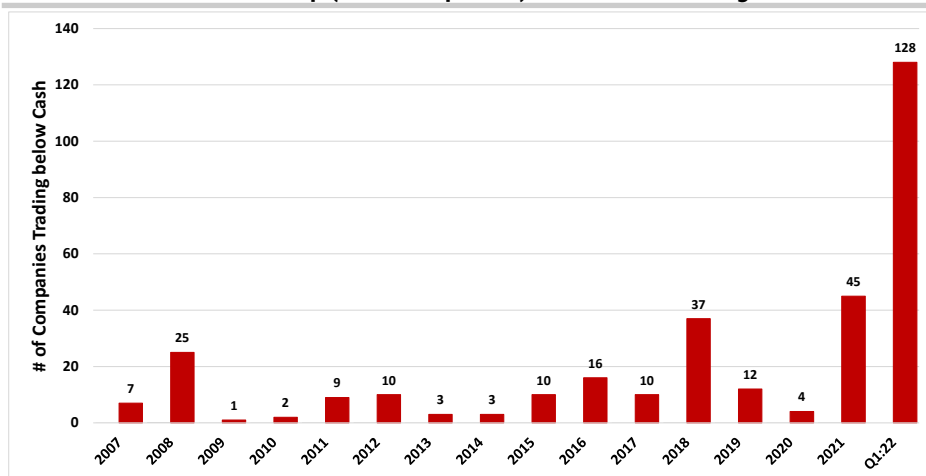
CHARTS: Over 125 biotechs now trading below cash in Q2

May 8, 2022

Key Takeaway

We have been saying 2022 will remain a tough year and an historical number of biotechs are now trading near or below cash now. We are hopeful this sentiment will improve in H2 as we sort out fundamentals and quality and good companies that can raise cash actually could end up being an overhang removed....

Exhibit 1 - Over 120 SMID cap (market cap <\$5B) biotechs are trading below cash



Source: Jefferies Research, FactSet

More SMID cap biotechs are trading below cash... Although large cap biopharma has been a strong beneficiary amidst broader macro volatility and generalist in-flow into defensive plays, investors generally agree the challenging biotech sentiment is partially reflected by how many SMID cap companies are now trading below cash.

As we pointed out in the runway analysis ([here](#)), SMID cap biotechs do have more cash than earlier years to keep up with a higher burn, however, we note a faster pace of market value contraction in SMID caps (all cap \$0-5B) with *now over 120 companies trading below cash vs ~45 in YE:21 and on average ~10-20 smids for the past 15 years...*

Of note, not only is the 128 companies the highest number we have seen, but it's also the highest percent share of the industry (25%) we have ever seen, rivaling the 2008-2009 period after the Great Financial Crisis where 15-20% were trading at or below cash. There was a much smaller number of companies 12 years ago, but a large percent of the industry were at or below cash.

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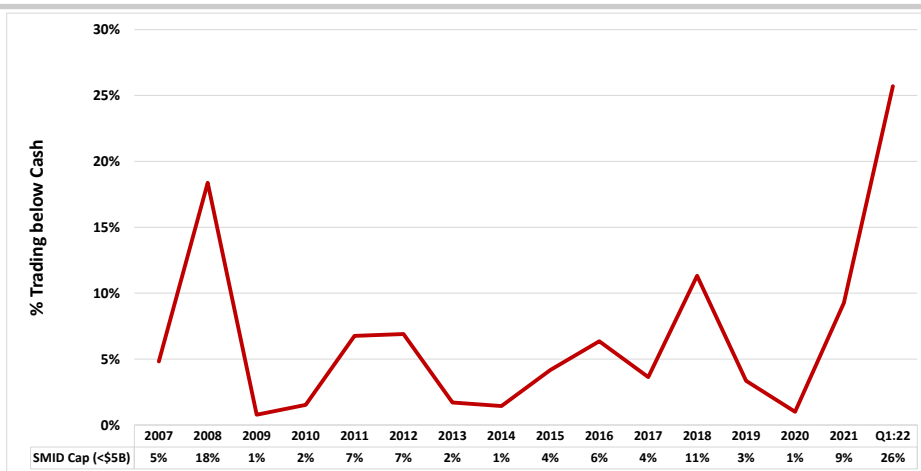
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^Prior trading day closing price unless otherwise noted.

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Exhibit 2 - Percentage of SMID biotechs in the industry trading below cash is highest ever too



Source: Jefferies Research, FactSet

We think there are three fundamental causes:

(1) Negative clinical events which can cut stock prices by 50-90% which push investors to seek a risk-off environment and stay away from binary situations. There are still 30-40 + smid-cap biotech data catalysts coming this year and if positive could improve sentiment ([here](#)).

(2) Ongoing negative FDA developments and record levels of clinical holds and FDA delays: eg recent comments by FDA on its resource constraints leading to massive number of clinical holds especially in gene/cell editing space. We don't think this issue will go away anytime soon as there likely is a backlog already, and we don't expect headcount to immediately improve.

(3) Macro environment push generalists into defensive, dividend-yielding large-cap biotech/pharma names. This can explain the strong performance for large caps and the pullback of many SMID caps without fundamental changes to the stories.

With that said, we predict: (1) IPO activity will pick up again in H2 (likely YE:22) with more conservative valuations. (2) M&A activity may pick up gradually given big pharma has the cash to buy almost the entire SMID cap biotech sector ([here](#)). However, we sense the buyer-seller spread may keep widening until the market finds bottom. Additionally, this doesn't mean the companies trading below cash are going to be taken out soon - they likely suffered from negative events. As we have repeatedly said, sentiment is unlikely to turn on a few small deals and investors are watching for big ones (at least \$5B in our view).

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

Recommendation Completion May 7, 2022 , 21:53 ET.

Recommendation Distributed May 8, 2022 , 00:00 ET.

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