Valuation Lab
Financial Analysis
“Unlocking the Value in Biotechnology”

Swiss Biotech Day 2014
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Biotech is booming. What’s the problem?

Swiss Biotechnology since 2000

Number of Swiss Biotech Companies vs. SWX Healthcare Index

Source: Swiss Biotech Sector 2013, SWX ID HLTHCARE TR, valuationLAB
Drop in Investment Banking research

Head count major Swiss Investment Banks & Research

- UBS & Credit Suisse
- Investment Bank staff

AN EXAMPLE:
- Vontobel Research Team
  - 2008: 140
  - 2013: 125

Vontobel stock coverage
- 2008: 140
- 2013: 125 ↓

Coverage per analyst
- 2008: 5.4
- 2013: 10.4 ↑

Source: Article “Handelszeitung” 21 November 2013, Annual Reports, valuationLAB estimates
Boom – bust – boom, bottleneck!

Swiss Biotechnology since 2000

Number of Financial Analysts

Visibility Gap

Number of Swiss Biotech Companies vs. SWX Healthcare Index

Source: Swiss Biotech Sector 2013, SWX ID HLTHCARE TR, valuationLAB estimates
Money talks, and money walks…

Capital Investment in Swiss Biotech Companies

Number of Financial Analysts

Source: Swiss Biotech Report 2013, Ernst & Young, valuationLAB estimates
News flow determines risk attitude

Major events

Number of Financial Analysts

Positives

Negatives

Source: Company reports, valuationLAB estimates
Research before the crisis

COMPANIES
- Big Caps
- Mid Caps
- Small Caps

SELL-SIDE RESEARCH
- Investment Banks
  - Bankers
  - Research
  - Sales

INVESTORS
- Institutions
- Family Offices
- Specialist Funds
- Retail

..negative factors already appearing before the financial crisis...

Source: valuationLAB
Negative factors affecting brokers

- “Decoupling” research and commission (best research is not necessarily best transaction fee)
- “One-size-fits-all” research approach large institutions not satisfactory

Financial crisis enhanced downward trends, and

- “Drop in IB business” experienced specialist staff reductions

Financial institutions are dropping small cap Life Science coverage increasingly!!
Shift towards research “boutiques”

- **COMPANIES**
  - Big Caps
  - Mid Caps
  - Small Caps

- **SELL-SIDE RESEARCH**
  - Research
  - Sales
  - Decoupling
  - One-size-fits-all
  - Drop IB business
  - Investment Banks

- **INVESTORS**
  - Institutions
  - Family Offices
  - Specialist Funds
  - Retail

- **NEW PLAYERS**
  - VALUATIONLAB
    - Research only
    - FREE 4 ALL

Source: valuationLAB
Unlock value - Three key steps

**Analysis**
- USP
- 7P’s
- Translate
- Visualize

K.I.S.S.

**Valuation**
- Cash (life)
- Key drivers
- Risk adjust
- Sensitivity
- Catalysts

S.M.T.M.

**Research**
- Website
- Newswires
- Investors
- Conferences

USE IT!

Source: valuationLAB

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Valuation Report - Newron

Newron Pharmaceuticals (SIX)

Share price and volume graph for Newron Pharmaceuticals S.p.A from 30/12/2012 to 30/12/2013

A.A.N. Initiation Road shows

Source: Investis Ltd, valuationLAB
Valuation Report - Gentium

Gentium (NASDAQ)

Initiation
Jazz tender offer

Positive opinion

Negative opinion

Source: Yahoo, valuationLAB

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Life cycle positioning - Public Biotechs

LIFE CYCLE POSITIONING – SIX LISTED BIOTECHNOLOGY COMPANIES

RESEARCH & DEVELOPMENT PHASE

- SAFETY
- DOSE
- EFFICACY / APPROVAL

- ANIMALS
- PHASE I
- PHASE II
- PHASE III

- PRE-CLINICAL
- PHASE I
- PHASE II
- PHASE III

- REGISTRATION

RETURN PHASE

- SALES

EXPIRY

- BIO-SIMILARS
- GENERICS

COSTS

- ADDEX
- CYTOS
- SANHERA
- NEWRON

- BASILEA

SUCCESS

- <5%
- 10% - 45%
- 40% - 65%
- ~80%

RISK-ADJUSTED DISCOUNTED CASH FLOW

“STAR”
“CASH COW”
“MATURE”
“DOG”

P/E >20x
P/E ~10-15x
P/E > 6-10x
P/E ~ 15x

YEARS

~10-14
20

0

Source: valuationLAB estimates
**Life cycle positioning - Swiss NCE’s**

### Life Cycle Positioning – Drug Candidates of Swiss Biotech Companies

<table>
<thead>
<tr>
<th>RESEARCH &amp; DEVELOPMENT PHASE</th>
<th>RETURN PHASE</th>
<th>EXPIRY</th>
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<tr>
<td>SAFETY</td>
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**COSTS**

- **SUCCESS**: <5%
- **~10%**: 10% - 45%
- **~40% - 65%**: ~80%

**SALES**

- **“STAR”**: P/E >20x
- **“CASH COW”**: P/E ~15x
- **“MATURE”**: P/E >6-10x
- **“DOG”**: P/E ~15x

Source: “The Swiss Biotech Sector 2013” by SBA, valuationLAB estimates
Product wave expected to continue

- New biotech product wave just starting
  - Margin boost for already profitable companies
  - New “success stories” - 1st product revenues and profits

- Maturing private biotech pipeline
  - Broad range of innovative therapies
  - Funding of early stage products still a concern
  - Public/corporate/private ventures needed

- Cash-rich Big Pharma and Big Biotech still shopping
European biotech will participate too

- US (44% of global AUM) easier to attract funding
  - Largest single market, one language, one currency, one …
  - Dominant healthcare sector, seasoned financial specialists
  - Risk appetite, entrepreneurs

- Europe (31% of global AUM) has its strengths too
  - Lower valuations
  - Local markets, local players, local knowledge key
  - Changing risk appetite, emerging entrepreneurs
“New” capital waiting to be found

- Attractive investment opportunities abundant (but largely unknown)
- Sufficient “new” capital sources waiting to invest
  - High Net Worth Individuals
  - Family offices
  - Pension Funds
  - New EU member states

Investment fund assets by country of sales

Source: European Fund and Asset Management Association (EFAMA) “Asset Management Report 2013”
Unlocking the Value in Biotechnology

- Three key steps to unlock the value in biotechnology
  - 1) Understand (K.I.S.S.); 2) Quantify (S.M.T.M.); 3) Share (USE IT)

- Quality research coverage is key to:
  - Provide sufficient funding for innovative products
  - Help change perceived risk, find new sources of funding

- Investment Banks come and go – Boutiques filling the gap

- More co-operation desired between European governments, biotech associations, financial markets, and large biopharma companies to support innovative emerging biotechs
“We value your business”

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