BioTech IPO

An offering they can't refuse

For biotech firms, the potential benefits of taking their company public on the US stock exchange are massive, but so are the challenges. Find out what you need to do for a successful #IPO launch

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"Rule number one: Don't lose money.
Rule number two: Don't forget rule number one."
– Warren Buffett

There has never been a better time to raise capital through an initial public offering (IPO).

Throughout 2021, #healthcare has been the most active IPO sector within the US (at 38% of IPOs) and closely followed by technology (30%)[1], raising over US$180 billion[2], with the biggest number of IPOs filed since the past two decades[3]. Globally, even as IPOs slowed after a massive start, Q3 2021 has been the most active third quarter by deal numbers and proceeds for the past twenty years[4].

Even throughout the coronavirus pandemic, #biotech IPOs have performed amazingly well as the industry remains fuelled by an interest in drug accelerators, therapeutics, vaccines, etc., and an increased focus on personal health. This won't change any day soon[5]. Especially when it comes to the US #StockMarket.

Of course, this isn't to say that Europe's IPOs, or overall financing in Europe, isn't dynamic. In Q2 2021, there was over $34 billion invested on 1,848 deals with corporate venture capital reaching $16.5 billion invested. But this was far less than the US's venture capital investments of $75 billion across 3,296 deals[6].

US biotech IPOs have consistently done well with a steady increase over the past five years, registering a "record-high in 2020 with EUR 15.0 billion raised in 66 IPOs [and] since the beginning of [2021], 7 European companies went public on European stock exchanges with a transaction volume of EUR 965 million, while 11 European companies have been floated in cross-border IPOs on US exchanges with a volume of EUR 1.704 billion[7]."

That's a stunning difference in raised capital and a clear reason why many private companies want to go public in the US.

The decision to launch

Gaining access to capital is just one motivator to launch an IPO. Shares become more liquid and that means they'll sell faster, which equates to easier access to money (compared to, for example, selling 'less liquid' products and solutions) – firms will then have more 'acquisition currency' if they're considering a merger or acquisition. They'll also be able to instantly increase their public profile and attract a wider range of potential investors who are genuinely optimistic about biotech's future. Today, this is seeing an increase in demand for shares (alongside a relatively small supply), and that equals higher share prices. It's also clear that public biotech firms are experiencing positive price-earnings ratios, whether at the R&D phase or by generating profit, which means investors expect earnings to keep going up.

EU versus US stock exchange

What then is driving this fundamental difference between the US and EU stock exchanges?
It can be argued that it largely came about from the July 2007 Subprime crisis[8] (and into the 2008 global recession) as countries, such as Greece, Ireland, Portugal, and Spain saw their budget deficits increase (from a range of issues including reckless public spending, lending, and borrowing, plus weak regulations, and suboptimal means of collecting taxes), which resulted in international investors losing confidence in EU banks and sovereigns being able to repay their debts.

This saw a drastic fall in the Euro during 2011. Up until then, the US and EU stock markets had performed comparably[9]. The next years would also see EU investors understandably hesitant to invest in such a bearish market.

During this time there was also a massive financial boost to the #Nasdaq[10] from US tech companies, particularly Google, Amazon, Apple, and Microsoft[11].
For many European organisations, it soon became clear that launching an IPO in the US was essential for two good reasons:

1. The US has the largest life sciences market in the world, a high number of (US-centric) investment banks that specialise in biotech, and that a US-listing provides far more visibility, credibility, and ultimately more capital than its EU counterparts, such as Euronext.
2. US investors were less risk-averse than their EU counterparts, especially when it came to biotech.

(Just a quick side note) Today things may be slowly changing. As per a CNBC news report, "The vast majority of investment banks are backing European stocks to outperform their U.S. peers through the remainder of the year and into 2022, as the region's economic recovery and historic stimulus converge."[12]

But odds are, the US market for biotech will remain bullish for years to come.

The challenges of launching an IPO and trading 'across the pond'

The US is the world's largest capital market with an extensive range of investors.

Because of this, launching an IPO in America offers big opportunities. But there are substantial challenges for European biotech firms with limited knowledge of US regulations and Federal and State Securities Laws – such as the Securities Exchange Act of 1934[13], the Sarbanes-Oxley Act of 2002 (SOX)[14], and various state-based 'blue sky'[15] laws. You may even need to directly deal with one or more regulatory organisations, including the Financial Industry Regulation Authority[16] (FINRA).

Additionally, each stock exchange can have different regulations and listing standards. This is a strong reason that biotech firms specifically trade on Nasdaq – the New York Stock Exchange is seen as having more restrictive listing requirements[17] and higher annual listing fees.

Being aware of these listing requirements is essential.[18] [19]

The challenges may be many, but the potential benefits are immense. You just have to be prepared.

"You hit home runs not by chance but by preparation."
– Roger Maris

[10] *While the 'National Association of Securities Dealers Automated Quotations' ranks 2nd to the New York Stock Exchange, it is exclusively used by biotech firms to trade their stocks.*

Get ready to launch

Going public can be the biggest thing that happens to your company in its lifetime. Compared to launching in the EU, taking your IPO to the US will cost you more (if not double) and will take substantial effort. That's why we've compiled a list of 7 essential tips to help you start your journey and make it easier with minimal disruptions.

1. Be sure that you're ready

Depending on what you include in the preparation phase, launching an IPO can take as 'few as' 12 months from 'kick-off to launch', or it can take several years. You need to deeply, and honestly, assess whether you're ready. If not, you must identify readiness gaps and determine how best to get prepared. Some things to consider, include:

- Are your shareholders, board, and management teams all on the same page?
- Does everyone have the expertise you need? Do your critical managers have the right credentials? Do you have a footprint in the US with a solid professional network? Keep in mind, prospective US investors will meet with your management team.
- Is everyone prepared to deal with other cultures and ways of doing business? To handle a huge variety of exogenous factors?
- Are they prepared for changes in (or new) financial reporting requirements, accounting methods, different tax aspects, internal controls, governance, and operational processes?
- Have you consolidated, prepared, and audited your financial statements?
- How committed are you to transparency? Especially your financials?
- What plans have you made regarding executive compensation?
- Have you developed effective communication methods and strategies when it comes to investor relations?

As you can tell, a potential 'readiness checklist' can be extensive. But it is essential. For a comprehensive look at your readiness – and knowing that biotech's exclusively trade on Nasdaq – we can conduct a Nasdaq IPO Diagnostic for your firm.

2. Tell your equity story

When you're confident you're ready, it's time to focus on your equity story (in fact, the earlier the better). A solid, clear, differentiated, and accurate equity story (or 'sales pitch' if you prefer) forms the basis of why people should invest in your company. Not only does a strong story drive investor engagement it can influence how they perceive your business when compared to your competitors/peers.

Your equity story should be easily understood by investors. Clearly spell out why you're the ideal investment opportunity, display how you stand out from the crowd, and back everything up with real data – clinical and/or technical data, financial statements (in the appropriate US style), KPI's, industry data, etc.

What are your key achievements? Differentiators? Future growth prospects?

In the end, it is a key tool to ensure you maximize your business value.

3. Consider the costs and timelines

While you may have the world's greatest CFO and finance team, it's likely they can't manage your IPO alone. When tough workloads and tight deadlines hit, mistakes happen. This can severely impact your IPO readiness and even your day-to-day business. We can assist with accounting conversions, large parts of the prospectus, and with comfort letter-related procedures.

You must also consider the costs of launching an IPO in the US. Alongside the high fees your underwriters will charge[20], there are tax fees, audit fees, legal and accounting fees, and yearly fees for listing on the stock exchange. The list can be extensive – even to the point of factoring in the costs involved in printing materials and even translating your corporate materials into English.

It's also worth taking a close look at US-specific costs, including SEC registration, FINRA fees, and ensuring SOX compliance. If you need to modify your internal cost structures (such as using retained profits, selling various assets, or raising the price of your products. It's unlikely investors will pay for your general and administrative expenses) to cover any additional costs in going public, you must consider how this will impact your existing business.

4. Secure the right/best underwriters

The complexity of going public typically means most companies need assistance in preparing documentation, financial disclosures, and being prepared for increased public scrutiny. This is exactly what underwriters, usually investment banks, help you to do (plus creating syndicates and issuing shares).

When it comes to selecting them, you must ask detailed questions, including:

- Has the potential underwriter any (recent) proven IPO success for companies like yours (in industry, size, etc)? How have their previous IPOs performed?
- What is their reputation with investors? Especially within your industry.
- Can they dedicate the necessary time and resources to your IPO?
- Your underwriter helps position your company to investors – how well does their team know your business and the biotech industry? What is their due diligence process – and are your company's management and directors prepared to candidly answer their questions?
- Have they provided a valuation and offering price range that you feel is realistic (and not overly optimistic)?
- If you have two or more underwriters, which is best placed to be lead underwriter?

Your underwriters also assist you in the preparation of your prospectus and roadshow (where you sell your story to potential investors).

Your prospectus should include information about your company's business, the securities to be issued, and where expected proceeds will be spent (basically, all information to assure investors). From this document, underwriters will prepare a 'green sheet', which summarises information from your prospectus.

Both of which can now be used alongside other marketing materials for your roadshow – a series of presentations to institutional investors and investment dealers where you present your people and company in the best light.

5. Get the right advice

An IPO is time-consuming, requires multiple resources, and needs a substantial commitment from both your people, auditors, and your external teams. It's why you need experienced advisors to help with your IPO (ideally, they'll have expertise in dealing with the US Securities and Exchange Commission). Having the right team can make a huge difference to your IPO's success.

Typically, such external advisors (including underwriters, lawyers, and auditors) will have specialised skills and knowledge to help you efficiently navigate your IPO process.

You should also be prepared to actively engage with them at every key stage of your IPO preparation. This can help you better understand your admission requirements and all legal and financial obligations.

6. Focus on your tax, accounting, documentation, and your due diligence

One of the most important things is to conduct a review of your finance department to see how ready it is to handle a range of tax and accounting issues:

- How prepared are they for initial and ongoing SEC filings[21] and the EDGAR system[22]? Additionally, how aware are they of American Depository Receipts (ADRs)[23] and the SEC filings that they require (ADRs allow foreign companies to list their shares on American stock exchanges)?
- Have any accounting and financial information gaps and needs been assessed, and have all financial reporting standards and impact areas been identified? When reporting on your financials, is your income tax-related information readily available, accurate, and up to date? If there is a need for historical audited financial statements, is it all collated and ready to go?
- Are they set up to be audited by an independent public accounting firm (that is subject to oversight by the Public Company Accounting Oversight Board[24])?
- Do they have relevant sector and capital markets experience?
- Internal controls, documentation, and compliance differ between private and public companies – particularly when it comes to complying with disclosure rules and regulations. How ready is your business to deal with those resource-heavy changes/issues?

If you're not 100 percent sure, we can help.

IPO lawyers and your underwriter(s) will conduct an extensive due diligence review of your company. You must be ready. Look at all potential areas of concern within your business, from strengths and weaknesses, victories and failures, issues (usually legal) that your company and its shareholders may be facing. Nothing should be omitted when drafting your registration statement and prospectus.

If anything can impact the image of your company – and therefore its potential to have a successful IPO and generate the capital you want – it should be quickly addressed.

7. Consider future events

It's worth considering the Latin phrase 'ceteris paribus'[25] (all other things being equal) when considering going public. Especially now that biotech IPO's are doing so well.

While your demand curve may show that it's profitable for biotech firms to launch an IPO right now (demand is certainly exceeding supply), you must look beyond what is seemingly 'fixed'. Today's public is excited about biotech because of a raised interest in personal health and the ongoing coronavirus pandemic. They can see all the good that life sciences firms are doing.

But post-Covid, attention will surely change to other issues, including the ongoing challenge of tackling climate change. In the years ahead, areas such as Agritech will jostle for lead position. It pays to prepare for every eventuality, be realistic as possible, and start as soon as you can.

These seven tips are, of course, a general overview.

Going public in the US can have huge benefits but the additional costs in meeting US accounting, reporting, and auditing standards – and potential costs of non-compliance – shouldn't be discounted. You truly need to evaluate and assess your readiness before deciding on a US IPO.

For help in developing a comprehensive and seamless strategy that identifies your needs and gaps, ensures your financial statements meet regulatory requirements, and builds the right infrastructure and controls, we can help you perform a thorough IPO readiness assessment.

That way, you'll truly be ready to launch.

If you're a German-based firm, visit us here auf Deutsch or here in English. From the Netherlands, say hello! And if you're in France, click here to see how we can help you boost your business and get you ready to explore new therapies and solutions!

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